DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

INTERIM FINANCIAL REPORT

At 31 March 2016

(UNAUDITED)

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European Bank for Reconstruction and Development: Interim Financial Report at 31 March 2016

Income statement

For the quarter ended 31 March 2016 (unaudited) and 31 March 2015 (unaudited)

	Quarter to 31 March 2016 € million	Quarter to 31 March 2015 € million
Interest and similar income		
From Banking loans	**249**	277
From fixed-income debt securities and other interest	**20**	21
Interest expense and similar charges	**(52)**	(28)
Net interest expense on derivatives	**(14)**	(59)
Net interest income	**203**	211
Net fee and commission income	**5**	4
Dividend income	**1**	4
Net (losses)/gains from share investments at fair value through profit or loss	**(100)**	564
Net gains/(losses) from loans at fair value through profit or loss	**1**	(28)
Net gains from Treasury investments held at amortised cost	**1**	3
Net gains from Treasury activities at fair value through profit or loss and foreign exchange	**25**	45
Fair value movement on non-qualifying and ineffective hedges	**61**	10
Impairment provisions on Banking loan investments	**(22)**	(45)
General administrative expenses	**(95)**	(92)
Depreciation and amortisation	**(4)**	(7)
Net profit for the period	**76**	669

Statement of comprehensive income

For the quarter ended 31 March 2016 (unaudited) and 31 March 2015 (unaudited)

	Quarter to 31 March 2016 € million	Quarter to 31 March 2015 € million
Net profit	**76**	**669**
Other comprehensive income		
Share investment designated as fair value through other comprehensive income	**(5)**	**4**
Cash flow hedges	**(21)**	**13**
Total comprehensive income	**50**	**686**
Attributable to:		
Equity holders	**50**	**686**

Balance Sheet
At 31 March 2016 (unaudited) and 31 December 2015 (audited)

	€ million	**31 March 2016 € million**	€ million	31 December 2015 € million
Assets				
Placements with and advances to credit institutions		**10,438**		11,724
Debt securities				
At fair value through profit or loss	**959**		747	
At amortised cost	**9,964**		11,329	
		10,923		12,076
Collateralised placements		**13**		13
		21,374		23,813
Other financial assets				
Derivative financial instruments	**3,970**		4,596	
Other financial assets	**487**		335	
		4,457		4,931
Loan investments				
Banking portfolio				
Loans at amortised cost	**21,345**		21,817	
Less: Provisions for impairment	**(1,017)**		(1,083)	
Loans at fair value through profit or loss	**344**		339	
		20,672		21,073
Share investments				
Banking portfolio				
Share investments at fair value through profit or loss	**4,964**		5,033	
Treasury portfolio				
Share investments at fair value through other comprehensive income	**58**		63	
		5,022		5,096
Intangible assets		**64**		63
Property, technology and office equipment		**53**		50
Total assets		**51,642**		55,026
Liabilities				
Borrowings				
Amounts owed to credit institutions	**2,290**		2,590	
Debts evidenced by certificates	**31,376**		34,280	
		33,666		36,870
Other financial liabilities				
Derivative financial instruments	**2,733**		2,993	
Other financial liabilities	**600**		577	
		3,333		3,570
Total liabilities		**36,999**		40,440
Members' equity				
Paid-in capital	**6,207**		6,202	
Reserves and retained earnings	**8,436**		8,384	
Total members' equity		**14,643**		14,586
Total liabilities and members' equity		**51,642**		55,026
Memorandum items				
Undrawn commitments		**12,275**		12,959

Statement of changes in equity for the quarter ended 31 March 2016 (unaudited) and 31 March 2015 (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 2014	29,674	(23,472)	14	-	(8)	7,941	14,149
Total comprehensive income for the period	-	-	4	13	-	669	686
Internal tax for the period	-	-	-	-	-	2	2
At 31 March 2015	29,674	(23,472)	18	13	(8)	8,612	14,837
At 31 December 2015	29,674	(23,472)	7	-	(14)	8,391	14,586
Total comprehensive income for the period	-	-	(5)	(21)	-	76	50
Internal tax for the period	-	-	-	-	-	2	2
Capital subscriptions	29	(24)	-	-	-	-	5
At 31 March 2016	**29,703**	**(23,496)**	**2**	**(21)**	**(14)**	**8,468**	**14,643**

Statement of cash flows for the period to 31 March 2016 (unaudited) and 31 March 2015 (unaudited)

	€ million	Year to 31 March 2016 € million	€ million	Year to 31 March 2015 € million
Cash flows from operating activities				
Net profit for the period	**76**		669	
Adjustments for:				
Unwinding of the discount relating to impaired identified assets	**(7)**		(7)	
Interest income	**(262)**		(291)	
Interest expense and similar charges	**66**		87	
Net deferral of fees and direct costs	**18**		19	
Dividend Income	**(1)**		(4)	
Internal tax	**2**		2	
Realised gains on share investments and equity derivatives	**(21)**		(18)	
Unrealised losses/(gains) on share investments and equity derivatives at fair value through profit or loss	**118**		(544)	
Unrealised (gains)/losses from loans at fair value through profit or loss	**(1)**		28	
Realised gains on Banking loans	**-**		-	
Realised gains on Treasury investments	**(1)**		(3)	
Fair value movement on hedges	**(61)**		(10)	
Unrealised fair value movement	**(172)**		195	
Foreign exchange gains	**(1)**		(3)	
Depreciation and amortisation	**4**		7	
Gross provisions charge for Banking loan losses and guarantees	**22**		45	
	(222)		172	
Interest income received	**251**		249	
Interest expense and similar charges paid	**(96)**		(34)	
Dividend income received	**3**		4	
Increase in operating assets:				
Prepaid expenses	**46**		(10)	
Proceeds from repayments of Banking loans	**1,964**		1,804	
Funds advanced for Banking loans	**(1,937)**		(1,833)	
Proceeds from sale of Banking share investments and equity derivatives	**172**		155	
Funds advanced for Banking share investments	**(112)**		(194)	
Net placements from credit institutions	**993**		10	
Net proceeds from settlement of derivatives	**325**		851	
Increase in operating liabilities:				
Accrued expenses	**(54)**		(23)	
Net cash from operating activities		**1,333**		1,151
Cash flows from investing activities				
Proceeds from debt securities at amortised cost	**4,727**		4,342	
Purchases of debt securities at amortised cost	**(3,378)**		(3,550)	
Proceeds from sale of debt securities held at fair value through profit or loss	**169**		137	
Purchases of debt securities held at fair value through profit or loss	**(358)**		(265)	
Purchase of intangible assets, property, technology and office equipment	**(6)**		(9)	
Net cash from investing activities		**1,154**		655
Cash flows (used in)/from financing activities				
Issue of debts evidenced by certificates	**3,117**		4,553	
Redemption of debts evidenced by certificates	**(5,602)**		(3,164)	
Net cash (used in)/from financing activities		**(2,480)**		1,389
Net increase in cash and cash equivalents		**7**		3,195
Cash and cash equivalents at beginning of the year		**7,533**		6,435
Cash and cash equivalents at 31 March[1]		**7,540**		9,630

[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 2016 balance is €10 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 2016 the Bank's shareholders comprised 65 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 2015.

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 2016.

3. Banking loan investments at amortised cost

	31 March 2016 Sovereign Loans € million	**31 March 2016 Non-sovereign loans € million**	**31 March 2016 Total loans € million**	31 December 2015 Sovereign loans € million	31 December 2015 Non-sovereign loans € million	31 December 2015 Total Loans € million
Operating assets						
At 1 January	**3,033**	**18,784**	**21,817**	2,920	17,438	20,358
Movement in fair value revaluation[1]	**-**	**22**	**22**	-	(14)	(14)
Disbursements	**473**	**1,458**	**1,931**	519	7,163	7,682
Repayments and prepayments	**(360)**	**(1,602)**	**(1,962)**	(485)	(6,289)	(6,774)
Foreign exchange movements	**(36)**	**(380)**	**(416)**	71	496	567
Movement in net deferral of front end fees and related direct costs	**2**	**4**	**6**	8	49	57
Written off	**-**	**(53)**	**(53)**	-	(59)	(59)
Total	**3,112**	**18,233**	**21,345**	3,033	18,784	21,817
Portfolio provisions for the unidentified impairment of loan investments	**(32)**	**(245)**	**(277)**	(32)	(252)	(284)
Specific provisions for the identified impairment of loan investments	**-**	**(740)**	**(740)**	-	(799)	(799)
Net book value	**3,080**	**17,248**	**20,328**	3,001	17,733	20,734

[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 2016 the Bank categorised 88 amortised cost loans as non-performing, with operating assets totalling €1.2 billion (31 December 2015: 85 loans totalling €1.2 billion). Specific provisions on these assets amounted to €740 million (31 December 2015: €799 million).

Banking loan investments at fair value through profit or loss

Non-sovereign loans	**31 March 2016 € million**	31 December 2015 € million
At 1 January	**339**	338
Movement in fair value revaluation	**-**	(44)
Disbursements	**6**	61
Repayments and prepayments	**(2)**	(44)
Foreign exchange movements	**1**	-
Reclassification from Equity to FVTPL	**-**	28
Fair value	**344**	339

At 31 March 2016 the Bank categorised seven fair value through profit or loss loans as non-performing, with operating assets totalling €65 million (31 December 2015: 7 loans totalling €69 million). Net fair value losses on these assets amounted to €51 million (31 December 2015: €53 million).

4. Share investments

	31 March 2016 Fair value Unlisted € million	**31 March 2016 Fair value Listed € million**	**301March 2016 Fair value Total € million**	31 December 2015 Fair value Unlisted € million	31 December 2015 Fair value Listed € million	31 December 2015 Fair Value Total € million
Outstanding disbursements						
At 1 January	**4,162**	**1,966**	**6,128**	4,120	2,065	6,185
Transfer between unlisted and listed	**-**	**-**	**-**	(77)	77	-
Disbursements	**111**	**1**	**112**	665	417	1,082
Disposals	**(146)**	**(5)**	**(151)**	(466)	(593)	(1,059)
Reclassification	-	-	-	(28)	-	(28)
Written off	-	-	-	(52)	-	(52)
Total	**4,127**	**1,962**	**6,089**	4,162	1,966	6,128
Fair value adjustment						
At 1 January	**(1,068)**	**(27)**	**(1,095)**	(1,165)	49	(1,116)
Transfer between unlisted and listed	**-**	**-**	**-**	39	(39)	-
Movement in fair value revaluation	**8**	**(38)**	**(30)**	58	(37)	21
Total	**(1,060)**	**(65)**	**(1,125)**	(1,068)	(27)	(1,095)
Fair value	**3,067**	**1,897**	**4,964**	3,094	1,939	5,033
Equity derivatives	**322**	**3**	**325**	408	4	412

5. Primary segment analysis

Business segments

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

Primary reporting format - business segment

	At 31 March 2016			At 31 March 2015		
	Banking	**Treasury**	**Aggregated**	Banking	Treasury	Aggregated
	€ million	**€ million**	**€ million**	€ million	€ million	€ million
Interest income	**249**	**20**	**269**	277	21	298
Other income	**(93)**	**26**	**(67)**	544	48	592
Total segment revenue	**156**	**46**	**202**	821	69	890
Less interest expense and similar charges	**(63)**	**11**	**(52)**	(82)	53	(29)
Net interest expense on derivatives	**-**	**(14)**	**(14)**	-	(59)	(59)
Allocation of the return on capital	-	-	-	1	-	1
Less general administrative expenses	**(89)**	**(6)**	**(95)**	(86)	(6)	(92)
Less depreciation and amortisation	**(4)**	**-**	**(4)**	(7)	-	(7)
Segment result before provisions and hedges	**-**	**37**	**37**	647	57	704
Fair value movement on non-qualifying and ineffective hedges	**-**	**61**	**61**	-	10	10
Provision for impairment of loan investments	**(22)**	**-**	**(22)**	(45)	-	(45)
Net(loss)/profit for the year	**(22)**	**98**	**76**	602	67	669
Segment assets	**26,276**	**25,366**	**51,642**	**27,083**	**32,331**	**59,414**
Segment liabilities	**315**	**36,684**	**36,999**	**260**	**44,317**	**44,577**

6. Fair value of financial assets and liabilities

Classification and fair value of financial assets and liabilities

Financial Assets at 31 March 2016	**Carrying amount € million**	**Fair value € million**
Financial assets measured at fair value through profit or loss:		
Debt securities	959	959
Derivative financial instruments	3,970	3,970
Banking share investments	4,964	4,964
Treasury share investments	58	58
Banking loan investments	344	344
	10,295	10,295
Financial assets measured at amortised cost:		
Placements with and advances to credit institutions	10,438	10,438
Collateralised placements	13	13
Debt securities	9,964	9,936
Other financial assets	487	487
Banking loan investments	20,328	21,046
	41,230	41,920
Total	**51,525**	**52,215**

Financial Liabilities at 31 March 2016	**Carrying amount € million**	**Fair value € million**
Amounts owed to credit institutions	(2,290)	(2,290)
Debts evidenced by certificates	(31,376)	(31,258)
Derivative financial instruments	(2,733)	(2,733)
Other financial liabilities	(600)	(600)
Total financial liabilities	**(36,999)**	**(36,881)**

Fair Value Estimation Techniques

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

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

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

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

Banking loan investments whereby the objective of the Bank’s business model is to hold these investments to collect the contractual cash flow, and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest, are recognised at amortised cost. The fair value of these loans was calculated using Level 3 inputs by discounting the cash flows at a year-end interest rate applicable to each loan and further discounting the value by an internal measure of credit risk.

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

Fair value hierarchy

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

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

The table below provides information at 31 March 2016 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 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
	€ million	**€ million**	**€ million**	**€ million**
Debt securities	-	959	-	959
Derivative financial instruments	-	3,567	403	3,970
Banking loans	-	-	344	344
Share investments (Banking portfolio)	1,736	-	3,228	4,964
Share investments (Treasury portfolio)	-	58	-	58
Total financial assets at fair value	**1,736**	**4,584**	**3,975**	**10,295**
Derivative financial instruments	-	(2,664)	(69)	(2,733)
Total financial liabilities at fair value	**-**	**(2,664)**	**(69)**	**(2,733)**

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

The table below provides a reconciliation of the fair values of the Bank's level 3 financial assets and financial liabilities for the period ended 31 March 2016.

	Level 3 financial assets and financial liabilities Period ended 31 March 2016					
	Derivative financial instruments € million	**Banking loans € million**	**Banking share investments € million**	**Total level 3 assets € million**	**Derivative financial instruments € million**	**Total liabilities € million**
Balance as at 31 December 2015	498	339	3,214	4,051	(78)	(78)
Net profit/(loss)	30	1	(107)	(76)	9	9
Purchases/issues	-	6	112	118	-	-
Sales/settlements	(125)	(2)	(39)	(166)	-	-
Net transfers in/(out) of Level 3	-	-	48	48	-	-
Balance as at 31 March 2016	**403**	**344**	**3,228**	**3,975**	**(69)**	**(69)**
Unrealised fair value changes on assets and liabilities held at 31 March 2016 included in net profit/(loss)	21	2	(113)	(94)	8	8

The transfers into and out of level 3 for Banking share investments relates to a decline in market activity for certain listed investments which have resulted in their valuations now being based on unobservable inputs.

Level 3 – sensitivity analysis

The table below presents the level 3 financial instruments carried at fair value at 31 March 2016, 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 2016	
		Carrying amount	**Favourable change**	**Unfavourable change**
	Main valuation models/techniques	**€ million**	**€ million**	**€ million**
Treasury derivative financial instruments	Discounted cash flow models	9	1	-
Banking loans	Discount cash flow and option pricing models	344	11	(16)
Banking share investments & associated derivatives	NAV and EBITDA multiples, discount cash flow models, compounded interest and option pricing models	3,553	374	(401)
At 31 March 2016		**3,906**	**386**	**(417)**

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