

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

INTERIM FINANCIAL REPORT

At 30 June 2016

(UNAUDITED)

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European Bank for Reconstruction and Development: Interim Financial Report at 30 June 2016

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Income statement

For the quarter ended 30 June 2016 (unaudited) and 30 June 2015 (unaudited)

	Quarter 2 2016 €million	Quarter 1 2016 €million	YTD 2016 €million	Quarter 2 2015 €million	YTD 2015 €million
Interest and similar income					
From Banking loans	259	249	508	292	569
From fixed-income debt securities and other interest	24	20	44	19	40
Interest expense and similar charges	(46)	(52)	(98)	(33)	(61)
Net interest expense on derivatives	(26)	(14)	(40)	(49)	(108)
Net interest income	211	203	414	229	440
Net fee and commission income	8	5	13	5	9
Dividend income	60	1	61	47	51
Net (losses)/gains from share investments at fair value through profit or loss	(194)	(100)	(294)	130	694
Net gains/(losses) from loans at fair value through profit or loss	5	1	6	(1)	(29)
Net gains from loans at amortised cost	16	-	16	-	-
Net gains from Treasury investments held at amortised cost	3	1	4	-	3
Net gains from Treasury activities at fair value through profit or loss and foreign exchange	26	25	51	42	87
Fair value movement on non-qualifying and ineffective hedges	6	61	67	(11)	(1)
Impairment provisions on Banking loan investments	(47)	(22)	(69)	(61)	(106)
General administrative expenses	(106)	(95)	(201)	(93)	(185)
Depreciation and amortisation	(5)	(4)	(9)	(8)	(15)
Net (loss)/profit for the period	(17)	76	59	279	948
Transfers of net income approved by the Board of Governors	(181)	-	(181)	(360)	(360)
Financial accounting net (loss)/profit after transfers of net income approved by the Board of Governors	(198)	76	(122)	(81)	588

Statement of comprehensive income

For the quarter ended 30 June 2016 (unaudited) and 30 June 2015 (unaudited)

	Quarter 2 2016 €million	Quarter 1 2016 €million	Year to date 2016 €million	Quarter 2 2015 €million	Year to date 2015 €million
Net (loss)/profit	(198)	76	(122)	(81)	588
Other comprehensive income/(loss)					
Share investment designated as fair value through other comprehensive income	7	(5)	2	-	4
Cash flow hedges	(2)	(21)	(23)	(6)	7
Total comprehensive (loss)/income	(193)	50	(143)	(87)	599
Attributable to:					
Equity holders	(193)	50	(143)	(87)	599

Balance Sheet**At 30 June 2016 (unaudited) and 31 December 2015 (audited)**

	€million	30 June 2016 €million	€million	31 December 2015 €million
Assets				
Placements with and advances to credit institutions		11,473		11,724
Debt securities				
At fair value through profit or loss	986		747	
At amortised cost	<u>9,793</u>		<u>11,329</u>	
		10,779		12,076
Collateralised placements		<u>-</u>		<u>13</u>
		<u>22,252</u>		<u>23,813</u>
Other financial assets				
Derivative financial instruments	4,216		4,596	
Other financial assets	<u>443</u>		<u>335</u>	
		<u>4,659</u>		<u>4,931</u>
Loan investments				
<i>Banking portfolio</i>				
Loans at amortised cost	21,285		21,817	
Less: Provisions for impairment	<u>(1,065)</u>		<u>(1,083)</u>	
Loans at fair value through profit or loss	<u>383</u>		<u>339</u>	
		<u>20,603</u>		<u>21,073</u>
Share investments				
<i>Banking portfolio</i>				
Share investments at fair value through profit or loss	4,810		5,033	
<i>Treasury portfolio</i>				
Share investments at fair value through other comprehensive income	<u>65</u>		<u>63</u>	
		<u>4,875</u>		<u>5,096</u>
Intangible assets		67		63
Property, technology and office equipment		<u>51</u>		<u>50</u>
Total assets		52,507		55,026
Liabilities				
Borrowings				
Amounts owed to credit institutions	2,293		2,590	
Debts evidenced by certificates	<u>32,619</u>		<u>34,280</u>	
		<u>34,912</u>		<u>36,870</u>
Other financial liabilities				
Derivative financial instruments	2,345		2,993	
Other financial liabilities	<u>798</u>		<u>577</u>	
		<u>3,143</u>		<u>3,570</u>
Total liabilities		38,055		40,440
Members' equity				
Paid-in capital	6,207		6,202	
Reserves and retained earnings	<u>8,245</u>		<u>8,384</u>	
Total members' equity		14,452		14,586
Total liabilities and members' equity		52,507		55,026
Memorandum items				
Undrawn commitments		12,541		12,959

Statement of changes in equity for the quarter ended 30 June 2016 (unaudited) and 30 June 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	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
At 31 December 2015	29,674	(23,472)	7	-	(14)	8,391	14,586
Total comprehensive income for the period	-	-	2	(23)	-	(122)	(143)
Internal tax for the period	-	-	-	-	-	4	4
Capital subscriptions	29	(24)	-	-	-	-	5
At 30 June 2016	29,703	(23,496)	9	(23)	(14)	8,273	14,452

Statement of cash flows for the period to 30 June 2016 (unaudited) and 30 June 2015 (unaudited)

	Six months to 30 June 2016	Six months to 30 June 2015
	€million	€million
Cash flows from operating activities		
Net (loss)/profit for the period	(122)	588
Adjustments for:		
Unwinding of the discount relating to impaired identified assets	(15)	(15)
Interest income	(537)	(594)
Interest expense and similar charges	138	169
Net deferral of fees and direct costs	51	46
Dividend Income	(61)	(51)
Internal tax	4	3
Realised losses on share investments and equity derivatives	49	9
Unrealised losses/(gains) on share investments and equity derivatives at fair value through profit or loss	244	(517)
Unrealised (gains)/losses from loans at fair value through profit or loss	(6)	27
Realised (gains)/losses on Banking loans	(16)	3
Realised gains on Treasury investments at amortised cost	(4)	(3)
Fair value movement on hedges	(67)	1
Unrealised mark-to-market movement	(247)	80
Foreign exchange gains	(2)	(2)
Depreciation and amortisation	9	15
Gross provisions charge for Banking loan losses and guarantees	69	106
Movement in net income allocations payable	141	-
	<u>(373)</u>	<u>(135)</u>
Interest income received	538	548
Interest expense and similar charges paid	(177)	(116)
Dividend income received	63	51
Increase in operating assets:		
Prepaid expenses	33	23
Proceeds from repayments of Banking loans	4,581	3,375
Funds advanced for Banking loans	(4,302)	(3,326)
Proceeds from sale of Banking share investments and equity derivatives	347	749
Funds advanced for Banking share investments	(279)	(347)
Net movement in placements with credit institutions	1,196	(475)
Net proceeds from settlement of derivatives	297	569
Increase in operating liabilities:		
Accrued expenses	98	87
Net cash from operating activities	<u>2,022</u>	<u>1,003</u>
Cash flows from investing activities		
Proceeds from debt securities at amortised cost	7,375	7,500
Purchases of debt securities at amortised cost	(5,784)	(5,864)
Proceeds from sale of debt securities held at fair value through profit or loss	246	886
Purchases of debt securities held at fair value through profit or loss	(448)	(607)
Purchase of intangible assets, property, technology and office equipment	(11)	25
Net cash from investing activities	<u>1,378</u>	<u>1,940</u>
Cash flows (used in)/from financing activities		
Issue of debts evidenced by certificates	5,760	7,612
Redemption of debts evidenced by certificates	(7,954)	(7,098)
Net cash (used in)/from financing activities	<u>(2,189)</u>	<u>514</u>
Net increase in cash and cash equivalents	<u>1,211</u>	<u>3,457</u>
Cash and cash equivalents at beginning of the year	<u>7,533</u>	<u>6,435</u>
Cash and cash equivalents at 30 June¹	<u>8,744</u>	<u>9,892</u>

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.

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 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

	30 June 2016 Sovereign Loans €million	30 June 2016 Non-sovereign loans €million	30 June 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	-	33	33	-	(14)	(14)
Disbursements	570	3,700	4,270	519	7,163	7,682
Repayments and prepayments	(689)	(3,847)	(4,536)	(485)	(6,289)	(6,774)
Foreign exchange movements	(24)	(212)	(236)	71	496	567
Movement in net deferral of front end fees and related direct costs	1	(5)	(4)	8	49	57
Written off	-	(59)	(59)	-	(59)	(59)
Total	2,891	18,395	21,285	3,033	18,784	21,817
Portfolio provisions for the unidentified impairment of loan investments				(32)	(252)	(284)
Specific provisions for the identified impairment of loan investments	(31)	(242)	(273)	-	(799)	(799)
	-	(792)	(792)			
Net book value	2,860	17,361	20,221	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 30 June 2016 the Bank categorised 92 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 amounted to €792 million (31 December 2015: €799 million).

Banking loan investments at fair value through profit or loss

Non-sovereign loans	30 June 2016 €million	31 December 2015 €million
At 1 January	339	338
Movement in fair value revaluation	5	(44)
Disbursements	32	61
Repayments and prepayments	(29)	(44)
Foreign exchange movements	11	-
Reclassification from Equity to FVTPL	25	28
Fair value	383	339

At 30 June 2016 the Bank categorised seven loans at fair value through profit or loss as non-performing, with operating assets totalling €67 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

	30 June 2016 Fair value Unlisted €million	30 June 2016 Fair value Listed €million	30 June 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	(175)	175	-	(77)	77	-
Disbursements	241	38	279	665	417	1,082
Disposals	(184)	(212)	(396)	(466)	(593)	(1,059)
Reclassification	(25)	-	(25)	(28)	-	(28)
Written off	-	-	-	(52)	-	(52)
Total	4,018	1,968	5,986	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	69	(69)	-	39	(39)	-
Movement in fair value revaluation	(90)	9	(81)	58	(37)	21
Total	(1,089)	(87)	(1,176)	(1,068)	(27)	(1,095)
Fair value	2,929	1,881	4,810	3,094	1,939	5,033
Equity derivatives	202	50	252	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 30 June 2016			At 30 June 2015		
	Banking €million	Treasury €million	Aggregated €million	Banking €million	Treasury €million	Aggregated €million
Interest income	508	44	552	569	40	609
Other (loss)/income	(198)	55	(143)	725	90	815
Total segment revenue	310	99	409	1,294	130	1,424
Less interest expense and similar charges	(128)	30	(98)	(166)	104	(62)
Net interest expense on derivatives	-	(40)	(40)	-	(108)	(108)
Allocation of the return on capital	-	-	-	1	-	1
Less general administrative expenses	(189)	(12)	(201)	(174)	(11)	(185)
Less depreciation and amortisation	(8)	(1)	(9)	(14)	(1)	(15)
Segment result before provisions and hedges	(15)	76	61	941	114	1,055
Fair value movement on non-qualifying and ineffective hedges	-	67	67	-	(1)	(1)
Provision for impairment of loan investments	(69)	-	(69)	(106)	-	(106)
Net(loss)/profit for the first six months	(84)	143	59	835	113	948
Segment assets	25,970	26,537	52,507	26,086	30,418	56,504
Segment liabilities	446	37,609	38,055	443	41,309	41,752

6. Fair value of financial assets and liabilities**Classification and fair value of financial assets and liabilities**

Financial Assets at 30 June 2016	Carrying amount €million	Fair value €million
Financial assets measured at fair value through profit or loss:		
Debt securities	986	986
Derivative financial instruments	4,216	4,216
Banking share investments	4,810	4,810
Treasury share investments	65	65
Banking loan investments	383	383
	10,460	10,460
Financial assets measured at amortised cost:		
Placements with and advances to credit institutions	11,473	11,473
Debt securities	9,793	9,775
Other financial assets	443	443
Banking loan investments	20,220	21,274
	41,929	42,965
Total	52,389	53,425

Financial Liabilities at 30 June 2016	Carrying amount €million	Fair value €million
Amounts owed to credit institutions	(2,293)	(2,293)
Debts evidenced by certificates	(32,619)	(32,458)
Derivative financial instruments	(2,345)	(2,345)
Other financial liabilities	(798)	(798)
Total financial liabilities	(38,055)	(37,894)

Fair Value Estimation Techniques

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

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

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

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

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

Fair value hierarchy

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

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

The table below provides information at 30 June 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 30 June 2016			
	Level 1 €million	Level 2 €million	Level 3 €million	Total €million
Debt securities	-	986	-	986
Derivative financial instruments	-	3,899	317	4216
Banking loans	-	-	383	383
Share investments (Banking portfolio)	1,702	-	3,108	4810
Share investments (Treasury portfolio)	-	65	-	65
Total financial assets at fair value	1,702	4,950	3,808	10,460
Derivative financial instruments	-	(2,290)	(55)	(2,345)
Total financial liabilities at fair value	-	(2,290)	(55)	(2,345)

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 2016.

	Level 3 financial assets and financial liabilities					
	Period ended 30 June 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 (loss)/profit	(56)	16	(219)	(259)	23	23
Purchases/issues	-	32	248	280	-	-
Sales/settlements	(125)	(29)	(107)	(261)	-	-
Reclassification from equity to loan	-	25	(25)	-	-	-
Net transfers out of Level 3	-	-	(3)	(3)	-	-
Balance as at 30 June 2016	317	383	3,108	3,808	(55)	(55)
Total (losses)/gains for the period included in net profit from assets and liabilities held at 30 June 2016	(74)	1	(220)	(293)	24	24

The transfers into and out of Level 3 for Banking share investments relate to listed investments that switch from/(to) an actively traded market. Transfers into and out of Level 3 for derivatives financial instruments relate to whether a model used to value a derivative is based on unobservable market inputs or otherwise.

Level 3 – sensitivity analysis

The table below presents the level 3 financial instruments carried at fair value at 30 June 2016, 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 2016		
		Carrying amount €million	Favourable change €million	Unfavourable change €million
	Main valuation models/techniques			
Treasury derivative financial instruments	Discounted cash flow models	10	1	-
Banking loans	Discount cash flow and option pricing models	383	13	(18)
Banking share investments & associated derivatives	NAV and EBITDA multiples, discount cash flow models, compounded interest and option pricing models	3,360	316	(351)
At 30 June 2016		3,753	330	(369)

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