

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

INTERIM FINANCIAL REPORT

At 30 June 2012

(UNAUDITED)

Table of contents

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 2012 (unaudited) and 30 June 2011 (unaudited)**

	Quarter to 30 June 2012 € million	Actual Year to date 2012 € million	Quarter to 30 June 2011 € million	Actual Year to date 2011 € million
Interest and similar income				
From Banking loans	259	522	198	387
From fixed-income debt securities and other interest	35	46	36	62
Interest expense and similar charges	(79)	(132)	(41)	(74)
Net interest income	215	436	193	375
Net fee and commission income	2	4	1	6
Dividend income	49	58	36	36
Net (losses)/gains from share investments at fair value through profit or loss	(331)	66	97	262
Net gains/(losses) from loans at fair value through profit or loss	8	17	(6)	(4)
Net gains from loans at amortised cost	-	4	-	-
Net losses from Treasury investments held at amortised cost	-	-	(3)	-
Net gains from dealing activities at fair value through profit or loss and foreign exchange	16	57	17	28
Fair value movement on non-qualifying and ineffective hedges	61	77	(4)	(9)
Provisions for impairment of Banking loan investments	(8)	(7)	(89)	(62)
General administrative expenses	(67)	(124)	(62)	(117)
Depreciation and amortisation	(6)	(12)	(5)	(10)
Net (loss)/profit for the period	(61)	576	175	505

Statement of comprehensive income

For the quarter ended 30 June 2012 (unaudited) and 30 June 2011 (unaudited)

	Quarter to 30 June 2012 € million	Actual Year to date 2012 € million	Quarter to 30 June 2011 € million	Actual Year to date 2011 € million
Net (loss)/profit	(61)	576	175	505
Other comprehensive income/(loss)				
Share investment designated as fair value through other comprehensive income	2	4	(1)	(3)
Cash flow hedges	4	3	(1)	(10)
Total comprehensive (loss)/income	(55)	583	173	492
Attributable to:				
Equity holders	(55)	583	173	492

Balance Sheet**At 30 June 2012 (unaudited) and 31 December 2011 (audited)**

	€ million	30 June 2012 € million	€ million	31 December 2011 € million
Assets				
Placements with and advances to credit institutions	8,306		5,172	
Debt securities				
At fair value through profit or loss	332		411	
At amortised cost	11,844		11,161	
Less: Provisions for impairment	(10)		(34)	
	<u>12,166</u>		<u>11,538</u>	
Collateralised placements	<u>861</u>		<u>851</u>	
		<u>21,333</u>		<u>17,561</u>
Other financial assets				
Derivative financial instruments	5,291		5,111	
Other financial assets	676		517	
		<u>5,967</u>		<u>5,628</u>
Loan investments				
<i>Banking portfolio</i>				
Loans at amortised cost	18,515		18,088	
Less: Provisions for impairment	(681)		(672)	
Loans at fair value through profit or loss	<u>259</u>		<u>239</u>	
		<u>18,093</u>		<u>17,655</u>
Share investments				
<i>Banking portfolio</i>				
Share investments at fair value through profit or loss	6,454		6,037	
<i>Treasury portfolio</i>				
Share investments at fair value through other comprehensive income	<u>62</u>		<u>58</u>	
		<u>6,516</u>		<u>6,095</u>
Intangible assets		43		44
Property, technology and office equipment		40		38
Paid-in capital receivable		15		15
Total assets		52,007		47,036
Liabilities				
Borrowings				
Amounts owed to credit institutions	3,758		2,610	
Debts evidenced by certificates	<u>31,946</u>		<u>29,195</u>	
		<u>35,704</u>		<u>31,805</u>
Other financial liabilities				
Derivative financial instruments	1,957		1,643	
Other financial liabilities	<u>587</u>		<u>415</u>	
		<u>2,544</u>		<u>2,058</u>
Total liabilities		38,248		33,863
Members' equity				
Paid-in capital		6,199		6,199
Reserves and retained earnings		<u>7,560</u>		<u>6,974</u>
Total members' equity		13,759		13,173
Total liabilities and members' equity		52,007		47,036
Memorandum items				
Undrawn commitments		10,397		10,034

Statement of changes in equity for the six months ended 30 June 2012 (unaudited) and 30 June 2011 (unaudited)

	Subscribed capital € million	Callable capital € million	Fair value through other comprehensive income reserve € million	Cash flow reserves € million	Retained earnings € million	Total equity € million
At 31 December 2010	20,793	(14,596)	8	-	6,772	12,977
Total comprehensive income for the period	-	-	(3)	(10)	505	492
Internal tax for the period	-	-	-	-	2	2
2011 Capital Increase	6,858	(6,858)	-	-	-	-
At 30 June 2011	27,651	(21,454)	5	(10)	7,279	13,471
At 31 December 2011	28,380	(22,181)	10	15	6,949	13,173
Total comprehensive income for the period	-	-	4	3	576	583
Internal tax for the period	-	-	-	-	-	3
Capital subscriptions	1,120	(1,120)	-	-	-	-
At 30 June 2012	29,500	(23,301)	14	18	7,525	13,759

Statement of cash flows for the six months ended 30 June 2012 (unaudited) and 30 June 2011 (unaudited)

	€ million	Year to 30 June 2012 € million	Year to 30 June 2011 € million
Cash flows from operating activities			
Net profit for the year	576		505
Adjustments for:			
Unwinding of the discount relating to impaired identified assets	(6)		(5)
Interest income	(562)		(444)
Interest expense and similar charges	132		74
Net deferral of fees and direct costs	38		50
Internal tax	3		2
Realised gains on share investments and equity derivatives	(167)		(130)
Unrealised losses/(gains) on share investments and equity derivatives at fair value through profit or loss	101		(132)
Unrealised (gains)/losses from loans at fair value through profit or loss	(13)		4
Realised gains on Banking loans	(9)		-
Fair value movement on hedges	(77)		9
Unrealised mark-to-market movement	57		(355)
Foreign exchange gains	(1)		(2)
Depreciation and amortisation	12		10
Gross provisions release for Banking loan losses	7		62
	<u>91</u>		<u>(352)</u>
Interest income received	540		418
Interest expense and similar charges paid	(89)		(67)
Decrease/(increase) in operating assets:			
Prepaid expenses	84		(14)
Proceeds from repayments of Banking loans	2,923		1,861
Funds advanced for Banking loans	(3,149)		(2,864)
Proceeds from sale of Banking share investments and equity derivatives	360		259
Funds advanced for Banking share investments	(714)		(253)
Net placements from credit institutions	(559)		22
Movement in amounts owed to credit institutions	1,147		(166)
Decrease in operating liabilities:			
Accrued expenses	(12)		(8)
Net cash from/(used in) operating activities		<u>622</u>	<u>(1,164)</u>
Cash flows used in investing activities			
Proceeds from debt securities at amortised cost	6,225		4,904
Purchases of debt securities at amortised cost	(6,683)		(5,954)
Proceeds from sale of debt securities held at fair value through profit or loss	548		708
Purchases of debt securities held at fair value through profit or loss	(462)		(883)
Purchase of intangible assets, property, technology and office equipment	(13)		(9)
Net cash used in investing activities		<u>(385)</u>	<u>(1,234)</u>
Cash flows from financing activities			
Issue of debts evidenced by certificates	7,323		9,386
Redemption of debts evidenced by certificates	(4,976)		(5,868)
Net cash from financing activities		<u>2,347</u>	<u>3,518</u>
Net increase in cash and cash equivalents		<u>2,584</u>	<u>1,120</u>
Cash and cash equivalents at beginning of the year		<u>4,450</u>	<u>3,316</u>
Cash and cash equivalents at 30 June		<u>7,034</u>	<u>4,436</u>
		30 June 2012	30 June 2011
Cash and cash equivalents¹		€ million	€ million
Placements with and advances to credit institutions		7,034	4,445
Collateralised placements		-	(9)
Cash and cash equivalents at 30 June		<u>7,034</u>	<u>4,436</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. Within the 30 June 2012 balance is €19 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 2012 the Bank's shareholders comprised 63 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 Accounting convention

These financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. 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 and 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. The financial statements have been prepared on a going concern basis.

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 2011. 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 2011. The results of operations for interim periods are not necessarily indicative of results to be expected for the year ending 31 December 2012.

3. Banking loan investments at amortised cost

	2012 Sovereign loans € million	2012 Non-sovereign loans € million	2012 Total loans € million	2011 Sovereign loans € million	2011 Non-sovereign loans € million	2011 Total loans € million
Operating assets						
At 1 January	2,440	15,648	18,088	2,341	12,902	15,243
Movement in fair value revaluation ¹	-	2	2	-	(2)	(2)
Disbursements	216	2,909	3,125	138	2,691	2,829
Repayments and prepayments	(182)	(2,712)	(2,894)	(169)	(1,667)	(1,836)
Foreign exchange movements	16	174	190	(68)	(424)	(492)
Movement in net deferral of front end fees and related direct costs	1	3	4	(4)	(22)	(26)
Written off	-	-	-	-	(5)	(5)
At 30 June	2,491	16,024	18,515	2,238	13,473	15,711
Portfolio provisions for the unidentified impairment of loan investments	(13)	(397)	(410)	(11)	(414)	(425)
Specific provisions for the identified impairment of loan investments	-	(271)	(271)	-	(230)	(230)
Total operating assets net of provisions for impairment at 30 June	2,478	15,356	17,834	2,227	12,829	15,056

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 2012 the Bank categorised 58 loans as impaired, with operating assets totalling €512 million (31 December 2011: 58 loans totalling €484 million; 30 June 2011: 50 loans totalling €451 million). Specific provisions on these assets amounted to €271 million (31 December 2011: €250 million; 30 June 2011: €230 million).

Banking loan investments at fair value through profit or loss

	2012 Non-sovereign loans € million	2011 Non-sovereign loans € million
Operating assets		
At 1 January	239	221
Disbursements	24	35
Repayments and prepayments	(20)	(25)
Movement in fair value revaluation	13	(3)
Foreign exchange movements	3	4
At 30 June	259	232

4. Share investments

	2012 Fair value through profit or loss unlisted share investments € million	2012 Fair value through profit or loss listed share investments € million	2012 Fair value through profit or loss total share investments € million	2011 Fair value through profit or loss unlisted share investments € million	2011 Fair value through profit or loss listed share investments € million	2011 Fair value through profit or loss total share investments € million
Outstanding disbursements						
At 1 January	4,444	1,627	6,071	3,908	1,529	5,437
Disbursements	659	55	714	178	51	229
Disposals	(190)	(3)	(193)	(84)	(21)	(105)
Written off	(1)	-	(1)	-	-	-
At 30 June	4,912	1,679	6,591	4,002	1,559	5,561
Fair value adjustment						
At 1 January	141	(175)	(34)	12	349	361
Movement in fair value revaluation	(118)	15	(103)	329	(148)	181
At 30 June	23	(160)	(137)	341	201	542
Fair value at 30 June	4,935	1,519	6,454	4,343	1,760	6,103
Equity derivatives at 30 June	294	60	354	271	224	495

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

	First 6 months 2012			First 6 months 2011		
	Banking € million	Treasury € million	Aggregated € million	Banking € million	Treasury € million	Aggregated € million
Interest income	522	46	568	387	62	449
Other income	149	57	206	300	28	328
Total segment revenue	671	103	774	687	90	777
Less interest expense and similar charges	(213)	15	(198)	(128)	(23)	(151)
Allocation of the return on capital	59	7	66	69	8	77
Less general administrative expenses	(116)	(8)	(124)	(110)	(7)	(117)
Less depreciation and amortisation	(12)	-	(12)	(9)	(1)	(10)
Segment result before provisions and hedges	389	117	506	509	67	576
Fair value movement on non-qualifying and ineffective hedges	-	77	77	-	(9)	(9)
Provision for impairment of loan investments	(7)	-	(7)	(62)	-	(62)
Net profit for the period	382	194	576	447	58	505
Segment assets	25,416	26,591	52,007	22,340	20,005	42,345
Segment liabilities	257	37,991	38,248	200	28,674	28,874

Interest expense and similar charges, net of the allocation of the return on capital, is €132 million (H1 2011: €74 million). This is the Bank's "interest expense and similar charges" as reported in the income statement.