

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

INTERIM FINANCIAL REPORT

At 30 September 2014

(UNAUDITED)

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Income statement**For the quarter ended 30 September 2014 (unaudited) and 30 September 2013 (unaudited)**

	Quarter 3 2014 € million	Quarter 2 2014 € million	Year to date 2014 € million	Quarter 3 2013 € million	Year to date 2013 € million
Interest and similar income					
From Banking loans	274	261	778	245	741
From fixed-income debt securities and other interest	31	28	84	23	75
Interest expense and similar charges	(25)	(23)	(69)	(21)	(68)
Net interest expense on derivatives	(57)	(48)	(147)	(39)	(122)
Net interest income	223	218	646	208	626
Net fee and commission income	4	3	8	8	20
Dividend income	21	44	72	22	78
Net (losses)/gains from share investments at fair value through profit or loss	(33)	144	(11)	178	208
Net gains/(losses) from loans at fair value through profit or loss	1	12	9	(5)	(8)
Net gains from loans at amortised cost	1	1	5	-	3
Net gains/(losses) from Treasury investments held at amortised cost	1	2	3	(8)	(7)
Net (losses)/gains from Treasury activities at fair value through profit or loss and foreign exchange	(30)	4	(16)	22	101
Fair value movement on non-qualifying and ineffective hedges	(33)	18	(40)	(16)	(18)
Provisions for impairment of Banking loan investments	(52)	(67)	(223)	(52)	(58)
General administrative expenses	(78)	(81)	(232)	(74)	(221)
Depreciation and amortisation	(6)	(6)	(19)	(6)	(19)
Net profit for the period	19	292	202	277	705
Transfers of net income approved by the Board of Governors	(25)	10	(35)	-	(90)
Financial accounting net (loss)/profit after transfers of net income approved by the Board of Governors	(6)	282	167	277	615

Statement of comprehensive income**For the quarter ended 30 September 2014 (unaudited) and 30 September 2013 (unaudited)**

	Quarter 3 2014 € million	Quarter 2 2014 € million	Year to date 2014 € million	Quarter 3 2013 € million	Year to date 2013 € million
Net (loss)/profit	(6)	282	167	277	615
Other comprehensive income					
Share investment designated as fair value through other comprehensive income	7	-	5	(3)	(2)
Cash flow hedges	(3)	3	-	9	(4)
Total comprehensive income/(loss)	(2)	285	172	283	609
Attributable to:					
Equity holders	(2)	285	172	283	609

Balance Sheet**At 30 September 2014 (unaudited) and 31 December 2013 (audited)**

	30 September 2014		31 December 2013
	€ million	€ million	€ million
Assets			
Placements with and advances to credit institutions		11,671	7,266
Debt securities			
At fair value through profit or loss	128		139
At amortised cost	11,741		12,398
		11,869	12,537
Collateralised placements		126	247
		23,666	20,050
Other financial assets			
Derivative financial instruments	4,056		3,094
Other financial assets	966		304
		5,022	3,398
Loan investments			
<i>Banking portfolio</i>			
Loans at amortised cost	20,111		19,458
Less: Provisions for impairment	(983)		(817)
Loans at fair value through profit or loss	403		223
		19,531	18,864
Share investments			
<i>Banking portfolio</i>			
Share investments at fair value through profit or loss	6,068		6,490
<i>Treasury portfolio</i>			
Share investments at fair value through other comprehensive income	68		63
		6,136	6,553
Intangible assets		38	39
Property, technology and office equipment		42	44
Paid-in capital receivable		10	10
Total assets		54,445	48,958
Liabilities			
Borrowings			
Amounts owed to credit institutions	2,523		1,543
Debts evidenced by certificates	33,559		29,659
		36,082	31,202
Other financial liabilities			
Derivative financial instruments	2,323		2,475
Other financial liabilities	988		405
		3,311	2,880
Total liabilities		39,393	34,082
Members' equity			
Paid-in capital		6,202	6,202
Reserves and retained earnings		8,850	8,674
Total members' equity		15,052	14,876
Total liabilities and members' equity		54,445	48,958
Memorandum items			
Undrawn commitments		10,825	11,434

Statement of changes in equity for six months ended 30 September 2014 (unaudited) and the year ended 31 December 2013 (audited)

	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	(5)	7,730	13,950
Total comprehensive income for the period	-	-	(1)	(3)	2	922	920
Internal tax for the period	-	-	-	-	-	6	6
Capital subscriptions	72	(72)	-	-	-	-	-
At 31 December 2013	29,673	(23,471)	15	4	(3)	8,658	14,876
Total comprehensive income for the period	-	-	5	-	-	167	172
Internal tax for the period	-	-	-	-	-	4	4
Capital subscriptions	1	(1)	-	-	-	-	-
At 30 September 2014	29,674	(23,472)	20	4	(3)	8,829	15,052

Statement of cash flows for the period to 30 September 2014 (unaudited) and 30 September 2013 (unaudited)

	€ million	Period to 30 September 2014 € million	€ million	Period to 30 September 2013 € million
Cash flows from operating activities				
Net profit for the year	167		615	
Adjustments for:				
Unwinding of the discount relating to impaired identified assets	(11)		(13)	
Interest income	(851)		(803)	
Interest expense and similar charges	216		190	
Net deferral of fees and direct costs	(142)		58	
Internal tax	5		4	
Realised gains on share investments and equity derivatives	(245)		(345)	
Unrealised losses on share investments and equity derivatives at fair value through profit or loss	224		137	
Unrealised losses from loans at fair value through profit or loss	16		8	
Realised gains on Banking loans	(5)		(3)	
Realised gains on Treasury investments	(1)		(11)	
Fair value movement on hedges	40		18	
Unrealised mark-to-market movement	91		520	
Foreign exchange gains	(3)		-	
Depreciation and amortisation	19		19	
Profit on disposal of property, technology and office equipment	-		(1)	
Provisions for impairment of debt securities at amortised cost	-		(8)	
Gross provisions charge for Banking loan losses and guarantees	223		58	
	(257)		443	
Interest income received	965		756	
Interest expense and similar charges paid	(159)		(171)	
Increase in operating assets:				
Prepaid expenses	(14)		13	
Proceeds from repayments of Banking loans	5,798		5,168	
Funds advanced for Banking loans	(6,190)		(5,411)	
Proceeds from sale of Banking share investments and equity derivatives	1,154		882	
Funds advanced for Banking share investments	(702)		(335)	
Increase in operating liabilities:				
Accrued expenses	14		(9)	
Net cash from operating activities		609		(1,354)
Cash flows from/(used in) investing activities				
Net placements from credit institutions	3,208		(2,391)	
Proceeds from debt securities at amortised cost	12,415		13,150	
Purchases of debt securities at amortised cost	(10,892)		(12,634)	
Proceeds from sale of debt securities held at fair value through profit or loss	163		435	
Purchases of debt securities held at fair value through profit or loss	(167)		(434)	
Proceeds from sale of property, technology and office equipment	-		3	
Purchase of intangible assets, property, technology and office equipment	(16)		(21)	
Net cash from/(used in) investing activities		4,711		(1,892)
Cash flows from financing activities				
Capital received	-		2	
Issue of debts evidenced by certificates	7,104		8,533	
Redemption of debts evidenced by certificates	(5,911)		(7,912)	
Net cash from financing activities		1,193		623
Net increase in cash and cash equivalents		6,513		85
Cash and cash equivalents at beginning of the year		4,147		5,892
Cash and cash equivalents at 30 September¹		10,660		5,977

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 September 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 30 September 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 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

	30 September 2014 Sovereign loans € million	30 September 2014 Non-sovereign loans € million	30 September 2014 Total loans € million	31 December 2013 Sovereign loans € million	31 December 2013 Non-sovereign loans € million	31 December 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	-	12	12	-	(34)	(34)
Disbursements	289	5,659	5,948	484	7,105	7,589
Repayments and prepayments	(327)	(5,397)	(5,724)	(380)	(6,509)	(6,889)
Reclassification from loan investment at fair value	-	4	4	-	-	-
Foreign exchange movements	57	389	446	(31)	(529)	(560)
Movement in net deferral of front end fees and related direct costs	6	34	40	38	(6)	32
Written off	-	(73)	(73)	-	(13)	(13)
Total	2,826	17,285	20,111	2,801	16,657	19,458
Portfolio provisions for the unidentified impairment of loan investments	(19)	(519)	(538)	(18)	(417)	(435)
Specific provisions for the identified impairment of loan investments	-	(445)	(445)	-	(382)	(382)
Total operating assets net of provisions for impairment	2,807	16,321	19,128	2,783	15,858	18,641

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 September 2014 the Bank categorised 76 loans as impaired, with operating assets totalling €741 million (31 December 2013: 68 loans totalling €655 million). Specific provisions on these assets amounted to €445 million (31 December 2013: €382 million).

Banking loan investments at fair value through profit or loss

	30 September 2014 € million	31 December 2013 € million
Non-sovereign loans		
At 1 January	223	247
Movement in fair value revaluation	12	(1)
Disbursements	242	67
Repayments and prepayments	(65)	(85)
Reclassification to loans held at amortised cost	(4)	-
Foreign exchange movements	(2)	(5)
Written off	(3)	-
Fair value	403	223

4. Share investments

	30 September 2014 Fair value Unlisted € million	30 September 2014 Fair value Listed € million	30 September 2014 Fair value Total € million	31 December 2013 Fair value Unlisted € million	31 December 2013 Fair value Listed € million	31 December 2013 Fair Value Total € million
Outstanding disbursements						
At 1 January	4,410	1,949	6,359	4,871	1,696	6,567
Transfer between unlisted and listed	(248)	248	-	(202)	202	-
Disbursements	364	338	702	348	183	531
Disposals	(494)	(411)	(905)	(590)	(132)	(722)
Written off	(4)	-	(4)	(17)	-	(17)
Total	4,028	2,124	6,152	4,410	1,949	6,359
Fair value adjustment						
At 1 January	228	(97)	131	145	(63)	82
Transfer between unlisted and listed	(425)	425	-	5	(5)	-
Movement in fair value revaluation	(343)	128	(215)	78	(29)	49
Total	(540)	456	(84)	228	(97)	131
Fair value	3,488	2,580	6,068	4,638	1,852	6,490
Equity derivatives	88	96	184	144	73	218

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

	30 September 2014			30 September 2013		
	Banking € million	Treasury € million	Aggregated € million	Banking € million	Treasury € million	Aggregated € million
Interest income	778	84	862	741	75	816
Other income	83	(13)	70	301	94	395
Total segment revenue	861	71	932	1,042	169	1,211
Less interest expense and similar charges	(225)	130	(95)	(201)	124	(86)
Net interest expense on derivatives	-	(147)	(147)	-	(122)	(122)
Allocation of the return on capital	23	3	26	16	2	18
Less general administrative expenses	(218)	(14)	(232)	(207)	(14)	(221)
Less depreciation and amortisation	(18)	(1)	(19)	(18)	(1)	(19)
Segment result before provisions and hedges	423	42	465	623	158	781
Fair value movement on non-qualifying and ineffective hedges	-	(40)	(40)	-	(18)	(18)
Provision for impairment of loan investments	(223)	-	(223)	(58)	-	(58)
Net profit for the period	200	2	202	565	140	705
Transfers of net income approved by the Board of Governors			(35)			(90)
Net profit after transfers approved by the Board of Governors			167			615
Segment assets	26,215	28,230	54,445	25,740	23,913	49,653
Segment liabilities	313	39,080	39,393	254	34,776	35,030

Interest expense and similar charges, net of the allocation of the return on capital, is €69 million (YTD 2013: €68 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 September 2014	Carrying amount € million	Fair value € million
Financial assets measured at fair value through profit or loss:		
Debt securities	128	128
Derivative financial instruments	4,056	4,056
Banking share investments	6,068	6,068
Treasury share investments	68	68
Banking loan investments	403	403
	10,723	10,723
Financial assets measured at amortised cost:		
Placements with and advances to credit institutions	11,671	11,671
Collateralised placements	126	127
Debt securities	11,741	11,773
Other financial assets	966	966
Banking loan investments	19,128	20,149
Paid in capital	10	10
	43,642	44,696
Total	54,365	55,419

Financial Liabilities at 30 September 2014	Carrying amount € million	Fair value € million
Amounts owed to credit institutions	(2,523)	(2,523)
Debts evidenced by certificates	(33,559)	(33,450)
Derivative financial instruments	(2,323)	(2,323)
Other financial liabilities	(988)	(988)
Total financial liabilities	(39,393)	(39,284)

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 30 September 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 30 September 2014			
	Level 1 € million	Level 2 € million	Level 3 € million	Total € million
Debt securities	-	128	-	128
Derivative financial instruments	-	3,715	341	4,056
Banking loans	-	-	403	403
Share investments (Banking portfolio)	2,000	-	4,068	6,068
Share investments (Treasury portfolio)	-	68	-	68
Total financial assets at fair value	2,000	3,911	4,812	10,723
Derivative financial instruments	-	(2,168)	(154)	(2,323)
Total financial liabilities at fair value	-	(2,168)	(154)	(2,323)

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 30 September 2014.

Level 3 financial assets and financial liabilities							
Nine months ended 30 September 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 30 September 2014 in:							
Net (loss)/profit	-	21	10	(423)	(392)	(57)	(57)
Purchases/issues	-	-	242	471	713	-	-
Sales/settlements	-	-	(65)	(493)	(558)	-	-
Transfers in/(out) of Level 3	-	-	(4)	(4)	(8)	-	-
Write offs	-	-	(3)	(665)	(668)	-	-
Balance as at 30 September 2014	-	341	403	4,068	4,812	(154)	(154)
Unrealised fair value changes on assets and liabilities held at 30 September 2014 included in net profit/(loss) above	-	86	(3)	267	350	(100)	(100)

The transfers out of level 3 for Banking share investments relates to the listing of a previously unlisted investment and Banking loans relates to the reclassification between fair value through profit and loss and amortised cost loans.

Level 3 – sensitivity analysis

The table below presents the level 3 financial instruments carried at fair value at 30 September 2014, 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 2014		
		Carrying amount € million	Favourable change € million	Unfavourable change € million
Main valuation models/techniques				
Treasury derivative financial instruments	Discounted cash flow models	3	1	(1)
Banking loans	Discount cash flow and option pricing models	403	17	(21)
Banking share investments & associated derivatives	NAV and EBITDA multiples, discount cash flow models, compounded interest and option pricing models	4,252	499	(458)
At 30 September 2014		4,658	517	(480)

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