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MEMORANDUM

TO: DOCUMENT CONTROL

FROM: Paul M. Dudek, Chief  
Office of International Corporate Finance  
Division of Corporation Finance

RE: INTERNATIONAL BANK RECORD DATA

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COMPANY NAME: European Bank for Reconstruction  
& Development

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**INTERIM FINANCIAL REPORT**

**At 31 MARCH 2007**

**(UNAUDITED)**

## Table of contents

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Income statement	2
Balance sheet	3
Statement of changes in members' equity	4
Statement of cash flows	5
Explanatory notes	7

## Income statement

For the quarter ended 31 March 2007 (unaudited) and 31 March 2006 (unaudited)

	Quarter to 31 March 2007 € million	Quarter to 31 March 2006 € million
Interest and similar income		
From loans	140	117
From fixed-income debt securities and other interest	166	115
Interest expense and similar charges	(174)	(133)
<b>Net interest income</b>	<b>132</b>	<b>99</b>
Net fee and commission income	4	3
Dividend income	-	4
Net gains from share investments at fair value through profit or loss	452	69
Net gains from available-for-sale share investments	39	19
Net gains from available-for-sale Treasury assets	2	8
Net (losses)/gains from dealing activities and foreign exchange	(1)	8
Fair value movement on non-qualifying hedges	(2)	6
<b>Operating income</b>	<b>626</b>	<b>216</b>
General administrative expenses	(56)	(48)
Depreciation and amortisation	(3)	(4)
<b>Operating profit before provisions</b>	<b>567</b>	<b>164</b>
Provisions for impairment of loan investments	1	(10)
<b>Net profit for the period</b>	<b>568</b>	<b>154</b>

## Balance sheet

At 31 March 2007 (unaudited) and 31 December 2006 (audited)

	€ million	31 March 2007 € million	€ million	31 December 2006 € million
<b>Assets</b>				
Placements with and advances to credit institutions	4,026		3,135	
Collateralised placements	2,082		2,573	
	<u>6,108</u>		<u>5,708</u>	
Debt securities				
Trading	1,718		1,764	
Available-for-sale	6,686		6,831	
	<u>8,404</u>	14,512	<u>8,595</u>	14,303
Other assets				
Derivative financial instruments	1,866		2,130	
Other	1,188		994	
		<u>3,054</u>	<u>994</u>	3,124
Loan investments				
Loans	8,366		8,311	
Less: Provisions for impairment	(335)		(341)	
	<u>8,031</u>		<u>7,970</u>	
Share investments				
Share investments at fair value through profit or loss	2,727		2,400	
Available-for-sale share investments	2,691		2,653	
	<u>5,418</u>	13,449	<u>5,053</u>	13,023
Intangible assets		24		21
Property, technology and office equipment		32		28
Paid-in capital receivable		189		192
<b>Total assets</b>		<b>31,260</b>		<b>30,691</b>
<b>Liabilities and members' equity</b>				
<b>Borrowings</b>				
Amounts owed to credit institutions	1,534		1,194	
Debts evidenced by certificates	15,119		15,622	
		<u>16,653</u>	<u>15,622</u>	16,816
Other liabilities				
Derivative financial instruments	494		506	
Other	1,342		1,197	
		<u>1,836</u>	<u>1,197</u>	1,703
<b>Total liabilities</b>		<b>18,489</b>		<b>18,519</b>
<b>Members' equity</b>				
Subscribed capital	19,794		19,794	
Callable capital	(14,596)		(14,596)	
Paid-in capital		5,198		5,198
Reserves and retained earnings		7,573		6,974
<b>Total members' equity</b>		<b>12,771</b>		<b>12,172</b>
<b>Total liabilities and members' equity</b>		<b>31,260</b>		<b>30,691</b>
<b>Memorandum items</b>				
Undrawn commitments		6,357		6,769

**Statement of changes in members' equity for the quarter ended 31 March 2007 (unaudited) and 31 March 2006 (unaudited)**

	Subscribed capital € million	Callable capital € million	Special reserve € million	Loan loss reserve € million	General reserve		Total reserves and retained earnings € million	Total members' equity € million
					Other reserves € million	Retained earnings € million		
<b>For the period ended 31 March 2007</b>								
At 31 December 2005	19,790	(14,593)	188	292	2,296	1,908	4,684	9,881
Internal tax for the quarter	-	-	-	-	1	-	1	1
Qualifying fees and commissions	-	-	18	-	-	(18)	-	-
Net fair value movement of available-for-sale assets for the quarter	-	-	-	-	353	-	353	353
Reserves transfer	-	-	-	-	-	-	-	-
Net profit for the quarter	-	-	-	-	-	154	154	154
<b>At 31 March 2006</b>	<b>19,790</b>	<b>(14,593)</b>	<b>206</b>	<b>292</b>	<b>2,650</b>	<b>2,044</b>	<b>5,192</b>	<b>10,389</b>
<b>At 31 December 2006</b>								
At 31 December 2006	19,794	(14,596)	215	293	2,204	4,262	6,974	12,172
Internal tax for the quarter	-	-	-	-	1	-	1	1
Qualifying fees and commissions	-	-	4	-	-	(4)	-	-
Net fair value movement of available-for-sale assets for the quarter	-	-	-	-	30	-	30	30
Reserves transfer	-	-	-	9	-	(9)	-	-
Net profit for the quarter	-	-	-	-	-	568	568	568
<b>At 31 March 2007</b>	<b>19,794</b>	<b>(14,596)</b>	<b>219</b>	<b>302</b>	<b>2,235</b>	<b>4,817</b>	<b>7,573</b>	<b>12,771</b>

Reserves increased from €7.0 billion at the end of 2006 to €7.6 billion at 31 March 2007, primarily as a result of the net profit for the quarter. €3.5 billion of the Bank's total reserves at 31 March 2007 represented unrealised gains from share investments, equity derivatives and Treasury assets, €302 million represented the loan loss reserve and €219 million represented the special reserve, leaving €3.6 billion unrestricted general reserves.

# Statement of cash flows for the quarter ended 31 March 2007 (unaudited)

	€ million	Period to 31 March 2007 € million	Period to 31 March 2006 € million
<b>Cash flows from operating activities</b>			
Operating profit for the period <sup>1</sup>	568		154
Adjustments for:			
Interest income	(306)		(232)
Interest expense and similar charges	174		133
Fair value movement on capital receivable and associated hedges	(4)		(1)
Fair value movement on net Treasury assets	196		(209)
Net deferral and amortisation of fees and direct costs	3		1
Internal taxation	1		1
Realised gains on share investments	(131)		(25)
Unrealised gains on share investments and equity derivatives	(357)		(62)
Impairment on share investments	(3)		(1)
Unrealised gains on dealing securities	(2)		(7)
Realised gains on available-for-sale securities	(2)		(2)
Foreign exchange gains	(1)		(1)
Depreciation and amortisation	3		4
Impairment losses/(recoveries) on available-for-sale debt securities	9		(7)
Gross provisions (release)/charge for loan losses	(1)		11
	<u>147</u>		<u>(243)</u>
Interest income received	310		202
Interest expense and similar charges paid	(206)		(143)
(Increase)/decrease in operating assets:			
Interest receivable and prepaid expenses	(244)		(257)
Proceeds from repayments of loans	652		583
Proceeds from prepayments of loans	109		244
Funds advanced for loans	(864)		(995)
Proceeds from sale of share investments	282		124
Funds advanced for share investments	(116)		(72)
Net placements to credit institutions	(15)		352
Increase/(decrease) in operating liabilities:			
Interest payable and accrued expenses	<u>21</u>		<u>(78)</u>
<b>Net cash from/(used in) operating activities</b>		<b>76</b>	<b>(283)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of available-for-sale securities	548		1,086
Purchases of available-for-sale securities	(392)		(1,801)
Purchase of property, technology and office equipment	<u>(11)</u>		<u>(6)</u>
<b>Net cash from/(used in) investing activities</b>		<b>145</b>	<b>(721)</b>

**Cash flows from financing activities**

Capital received	7	7
Issue of debts evidenced by certificates	1,759	1,755
Redemption of debts evidenced by certificates	<u>(1,941)</u>	<u>(1,248)</u>
Net cash (used in)/from financing activities	<u>(175)</u>	<u>514</u>
Net increase/(decrease) in cash and cash equivalents	46	(490)
Cash and cash equivalents at beginning of the period	<u>3,338</u>	<u>4,278</u>
Cash and cash equivalents at 31 March*	<u><u>3,384</u></u>	<u><u>3,788</u></u>

\*Cash and cash equivalents comprise the following amounts maturing within three months:

	2007	2006
	<u>€ million</u>	<u>€ million</u>
Placements with and advances to credit institutions	4,019	3,100
Collateralised placements	899	1,884
Amounts owed to credit institutions	<u>(1,534)</u>	<u>(1,196)</u>
Cash and cash equivalents at 31 March	<u><u>3,384</u></u>	<u><u>3,788</u></u>

<sup>1</sup> Operating profit includes dividends of €3,000 received for the period to 31 March 2007 (31 March 2006: €4 million).

## **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 2007 the Bank's shareholders comprised 61 countries, together with the European Community 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 (IFRS) as issued by the International Accounting Standards Board (IASB) and the overall principles of the European Community's Council Directive on Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, 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.

#### **ii Financial statements presentation**

The financial statements are presented in a manner consistent with the Bank's audited financial statements as of and for the year ended 31 December 2006. 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 2006. The results of operations for interim periods are not necessarily indicative of results to be expected for the year ending 31 December 2007.

### 3. Loan investments

	2007	2007	2007	2006	2006	2006
	Sovereign	Non-sovereign	Total	Sovereign	Non-sovereign	Total
	loans	loans	loans	loans	loans	loans
Operating assets	€ million	€ million	€ million	€ million	€ million	€ million
At 1 January	1,977	6,334	8,311	2,037	5,782	7,819
Movement in fair value revaluation	-	-	-	-	(2)	(2)
Disbursements	71	793	864	58	938	996
Repayments and prepayments	(86)	(675)	(761)	(84)	(743)	(827)
Foreign exchange movements	(11)	(32)	(43)	(30)	(69)	(99)
Movement in net deferral of front end fees and related direct costs	(1)	(2)	(3)	-	(1)	(1)
Written off	-	(2)	(2)	-	(2)	(2)
<b>At 31 March</b>	<b>1,950</b>	<b>6,416</b>	<b>8,366</b>	<b>1,981</b>	<b>5,903</b>	<b>7,884</b>
Impairment at 31 March	(15)	(320)	(335)	(14)	(314)	(328)
<b>Total operating assets net of impairment at 31 March</b>	<b>1,935</b>	<b>6,096</b>	<b>8,031</b>	<b>1,967</b>	<b>5,589</b>	<b>7,556</b>

At 31 March 2007 the Bank categorised seven loans as impaired, totalling €17 million (31 December 2006: nine loans totalling €19 million). Specific provisions on these assets amounted to €15 million (31 December 2006: €18 million).

#### 4. Share investments

	Fair value through profit or loss unlisted share investments € million	Fair value through profit or loss listed share investments € million	Fair value through profit or loss total share investments € million	Available-for-sale unlisted share investments € million	Available-for-sale listed share investments € million	Available-for-sale total share investments € million	Total share investments € million
<b>Outstanding disbursements</b>							
At 31 December 2005	1,030	126	1,156	593	423	1,016	2,172
Disbursements	20	-	20	50	2	52	72
Disposals	(66)	-	(66)	(19)	(5)	(24)	(90)
Written off	(9)	-	(9)	-	-	-	(9)
At 31 March 2006	975	126	1,101	624	420	1,044	2,145
At 31 December 2006	1,035	240	1,275	659	489	1,148	2,423
Transfer between classes	-	-	-	(63)	63	-	-
Disbursements	46	-	46	70	-	70	116
Disposals	(79)	-	(79)	(28)	(44)	(72)	(151)
Written off	-	-	-	(1)	-	(1)	(1)
At 31 March 2007	1,002	240	1,242	637	508	1,145	2,387
<b>Fair value adjustment</b>							
At 31 December 2005	242	152	394	704	909	1,613	2,007
Movement in fair value revaluation	(7)	69	62	(18)	373	355	417
Impairment losses on available-for-sale investments	-	-	-	1	-	1	1
At 31 March 2006	235	221	456	687	1,282	1,969	2,425
At 31 December 2006	558	567	1,125	103	1,402	1,505	2,630
Transfer between classes	(5)	-	(5)	23	(18)	5	-
Movement in fair value revaluation	6	359	365	88	(55)	33	398
Impairment of available-for-sale share investments	-	-	-	3	-	3	3
At 31 March 2007	559	926	1,485	217	1,329	1,546	3,031
<b>Fair value at 31 March 2007</b>	<b>1,561</b>	<b>1,166</b>	<b>2,727</b>	<b>854</b>	<b>1,837</b>	<b>2,691</b>	<b>5,418</b>
Fair value at 31 March 2006	1,210	347	1,557	1,311	1,702	3,013	4,570

## 5. Borrowings

During the quarter ended 31 March 2007 €427 million was issued under the Bank's authorised medium- to long-term borrowing programme at an average cost of Libor less 37 basis points, with an average life of 2.5 years.

For 2007 the authorised medium- to long-term borrowing programme was €1.5 billion supplemented by early redemptions, buy-backs and issues called by or put to the Bank. At 31 March 2007, the unused medium- to long-term borrowing authority stood at €1.8 billion. After taking into account early redemptions and buy-backs, outstanding medium- to long-term debt at the end of the year stood at €11.0 billion (at historical exchange rates) at an average cost of Libor less 34 basis points and with an average life of 8.0 years.

The table below gives quarterly and cumulative details of medium- to long-term debt issues.

During the Period	Quarter to March 2007			Quarter to March 2006		
	€ million	Basis Points below LIBOR	Avg. Life to Maturity	€ million	Basis Points below LIBOR	Avg. Life to Maturity
Outstanding at period start	11,366	35	7.8	12,509	34	7.8
Issued	427	37	2.5	279	34	6.2
Redemptions	(807)	44		(228)	45	
Buybacks	(28)	41		(73)	42	
Outstanding at period end	10,958	34	8.0	12,487	34	7.6
Outstanding during period	11,243	34		12,483	34	

For 2007 the authorised local currency borrowing programme was €500 million, supplemented by an unutilised amount from the 2006 programme of €132 million giving a total borrowing availability of €632 million. Total issuances during the first quarter amounted to RUB 2.0 billion (€58 million at historical exchange rates). At 31 March 2007 there was €574 million unused from the local currency borrowing authority for 2007.

At 31 March 2007 outstanding debt under the local currency borrowing programme stood at €426 million (at historical exchange rates) with an average life of 4.4 years.

## 6. 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.

### Primary reporting format - business segment

€ million	31 March 2007			31 March 2006		
	Banking € million	Treasury € million	Aggregated € million	Banking € million	Treasury € million	Aggregated € million
Interest income	140	164	304	117	115	232
Other income	495	1	496	94	16	110
Fair value movement on paid-in capital receivable and associated hedges	2	-	2	1	-	1
<b>Total segment revenue</b>	<b>637</b>	<b>165</b>	<b>802</b>	<b>212</b>	<b>131</b>	<b>343</b>
Less interest expenses and similar charges	(110)	(152)	(262)	(79)	(103)	(182)
Allocation of the return on capital	79	9	88	44	5	49
Fair value movement on non-qualifying hedges	-	(2)	(2)	-	6	6
Less general administrative expenses	(51)	(5)	(56)	(44)	(4)	(48)
Less depreciation and amortisation	(3)	-	(3)	(4)	-	(4)
<b>Segment result before provisions</b>	<b>552</b>	<b>15</b>	<b>567</b>	<b>129</b>	<b>35</b>	<b>164</b>
Provisions for impairment of loan investments	1	-	1	(10)	-	(10)
<b>Net profit for the period</b>	<b>553</b>	<b>15</b>	<b>568</b>	<b>119</b>	<b>35</b>	<b>154</b>
<b>Segment assets</b>	<b>13,747</b>	<b>17,324</b>	<b>31,071</b>	<b>12,354</b>	<b>16,961</b>	<b>29,315</b>
Paid-in capital receivable			189			320
<b>Total assets</b>			<b>31,260</b>			<b>29,635</b>
<b>Segment liabilities</b>						
<b>Total liabilities</b>	<b>129</b>	<b>18,360</b>	<b>18,489</b>	<b>145</b>	<b>19,129</b>	<b>19,274</b>
Capital expenditure	10	1	11	6	-	6

For the first quarter of 2007, the fair value movement on paid-in capital receivable and associated hedges amounted to €2 million (2006: €1 million) and the allocation of the return on capital amounted to €88 million (2006: €49 million). Together, these total €90 million (2006: €50 million), which is the Bank's return on net paid-in capital used in segmental results.

Interest expenses and similar charges and the allocation of the return on capital total €174 million (2006: €133 million). This is the Bank's "interest expenses and similar charges" as reported in the income statement.