Financial results

The European Bank for Reconstruction and Development (the Bank) recorded a net realised profit of €1.2 billion before provisions, unrealised losses on share investments, other unrealised amounts and transfers of net income (2012: €1.0 billion). Including provisions and unrealised amounts, net profit before transfers approved by the Board of Governors was €1.0 billion for 2013, unchanged from 2012. The net realised profit of €1.2 billion is primarily attributable to net interest income of €0.8 billion (€0.9 billion in 2012) and net realised gains, including dividends, of €0.5 billion on the equity portfolio (2012: €0.3 billion). This portfolio, inclusive of associated derivatives, is valued at €0.3 billion above cost. The contribution from share investments to the Bank's income statement is expected to continue to show significant variability from year to year, given the volatility of equity markets and the timing of exits.

The Bank's reserves increased to €8.7 billion at the end of 2013 (2012: €7.7 billion), attributable to the net profit for the year after transfers approved by the Board of Governors.

The Bank continues to be rated AAA or equivalent, with a stable outlook, by all three major rating agencies. It maintains a robust capital position, high levels of liquidity and enjoys the strong support of its members.

2013 was the EBRD's first full year of activity in the southern and eastern Mediterranean (SEMED) region. The Bank opened permanent offices in Tunisia and Jordan while the opening of permanent offices in Egypt and Morocco is planned for 2014. It appointed heads of office and recruited staff for all four countries. In November 2013 the EBRD Board of Governors granted country of operations status to Jordan, Morocco and Tunisia. Egypt continues to have a potential country of operations status which is expected to be reviewed in 2014. The Bank continues to invest in Egypt through the Bank's SEMED Investment Special Fund.

Bank operations

Operational results

Annual Bank investment amounted to €8.5 billion in 2013. This comprised 392 operations and 72 outstanding balances under the 2013 trade facilitation programme (2012: €8.9 billion, 393 projects and 72 trade finance balances). This total included six commitments in Egypt for €152 million funded through the SEMED Investment Special Fund. This fund was created in support of the membership decision in 2012 to expand the Bank's region of operations to include the Southern and Eastern Mediterranean region and to enable financing of projects within the region until such time as they become full countries of operations.

Excluding investments in the SEMED region, annual business investment by region was as follows: Central Asia accounted for 7 per cent, Turkey 11 per cent, Eastern Europe and the Caucasus 19 per cent, south-eastern Europe 20 per cent, Central Europe and the Baltic states 20 per cent and Russia 23 per cent. The Bank continued to support key economic sectors in line with its operational strategy. Operations in the diversified corporate sectors accounted for 31 per cent of 2013 Bank investment, the financial sector accounted for 28 per cent, with priority given to the financing of SMEs, and the energy and infrastructure sectors accounted for the remaining 41 per cent.

The Bank's portfolio of investment operations increased marginally to €37.8 billion by the end of 2013, a 1 per cent increase on the 2012 year-end level of €37.5 billion. Portfolio reflows[5] increased by 20 per cent from €4.9 billion in 2012 to €5.9 billion in 2013 reflecting strong repayments supported by low impairment levels and divestment of around €0.7 billion from the Bank's equity portfolio.

Gross disbursements reached €5.9 billion in 2013 (2012: €6.0 billion) and, with reflows equalling disbursements, the Bank's operating assets remained broadly constant at €26.4 billion at end 2013. Operating assets comprised €20.0 billion of disbursed outstanding loans (2012: €20.0 billion) and €6.4 billion of disbursed outstanding equity investments at historic cost (2012: €6.6 billion).

The Bank's projects included additional financing of approximately €13.5 billion during 2013 (2012: €17.4 billion) with the Bank directly mobilising €0.8 billion of syndicated loans (2012: €1.0 billion). In addition the Bank's activities continued to be strongly supported by donor funding, including the Special Funds programme and technical and cooperation funds.

Financial performance

Banking operations recorded a net profit of €791 million for 2013 (2012: €750 million).

The Banking profit for the year is primarily due to net interest income of €743 million.

Excluding unrealised fair value movements on the share investments portfolio and provisions charged against the loans portfolio, Banking operations returned a profit of €0.9 billion (2012: €0.8 billion).

The contribution from share investments to the Bank's income statement is expected to continue to show significant variability from year to year, given the volatility of equity markets and the timing of exits. Exits are mainly linked to the completion of the Bank's transition role in the specific operation and the opportunity, in the market or otherwise, to sell its holding.

Treasury operations

Portfolio

The value of assets under Treasury management at 31 December 2013 was €20.1 billion (2012: €20.5 billion). This comprised debt securities of €12.5 billion (2012: €12.4 billion), €7.3 billion of placements with credit institutions (2012: €7.5 billion) and collateralised placements of €0.3 billion (2012: €0.6 billion).

Financial performance

Treasury operations reported an operating profit of €176 million for 2013 before hedge accounting adjustments (2012: €202 million). The portfolio primarily generates profit through net interest income which was €102 million in 2013 (2012: €133 million), reflecting lower margins for Treasury's liquid asset portfolio.

Capital

At the 2010 Annual Meeting, the Board of Governors approved an increase to the Bank's authorised capital of €10.0 billion, for which €1.0 billion was capitalised from the Bank's reserves while the other €9.0 billion was callable. The €9.0 billion of callable capital became effective in April 2011 when the level of subscriptions reached 50 per cent of the number of newly authorised shares. At 31 December 2013 this figure was 99 per cent, with subscribed capital at €29.7 billion (2012: €29.6 billion).

Paid-in capital totalled €6.2 billion at 31 December 2013 (2012: €6.2 billion), of which €10 million was overdue (2012: €12 million).

The calculation of capital for gearing purposes under the Agreement Establishing the Bank is further explained under the Capital Management section of this report.

[5] "Reflows" refers to reductions in the portfolio through the repayment or prepayment of loan principals and the divestment of share investments at cost. It also includes cancellations of committed but undisbursed amounts.

Reserves

The Bank's reserves increased from €7.7 billion at the end of 2012 to €8.7 billion at the end of 2013, primarily reflecting the net profit for the year. Unrestricted general reserves increased by €1.1 billion before net income allocations (2012: an increase of €859 million). After a net income allocation of €65 million,[6] unrestricted general reserves stood at €5.0 billion at 31 December 2013 (2012: €3.9 billion).

Expenses

The Bank continues to focus on budgetary discipline, effective cost controls and a proactive cost-recovery programme. The Bank's general administrative expenses for 2013, including depreciation and amortisation, totalled €345 million (2012: €295 million). Sterling general administrative expenses for 2013, including depreciation and amortisation, totalled £295 million (2012: £260 million).

Outlook for 2014

The Bank expects its net realised profit to remain relatively stable. However its overall profitability will remain vulnerable to volatility in financial markets, with the fair value of its share investments portfolio and the level of specific debt impairment having particular influence on its profits.

[6] In the "income statement" the figure for transfers of net income allocations is €90 million. Only €65 million had an impact on unrestricted general reserves in 2013 as €25 million came from restricted reserves set aside in 2012 for the SEMED Investment Special Fund.

Key financial indicators 2009-13

Key financial indicators are presented for the Bank over the last five years. These ratios are influenced by the growth in portfolio and annual business investment of the five-year period in line with the Bank's strategy. This business growth utilises the Bank's capital capacity in pursuit of its mandate objectives, while underlying ratios remain at prudent levels broadly consistent with the upper quartile among international financial institutions (IFIs) in terms of capital strength and cost efficiency.

The Bank's profits and reserves show volatility due to movements in the valuations of share investments. Excluding these movements, the Bank has continued to grow its members' equity in a challenging and complex environment, with an average return on equity of 6 per cent over the last five years (2008-12: an average of 5 per cent). The performance of the Bank's loan assets still remains strong with a non-performing loan ratio at 31 December 2013 of 3 per cent (2012: 3 per cent).

The strong growth in members' equity in 2013 has allowed the Bank to sustain a high level of investment across its region of operations while improving key balance sheet indicators.

Leverage - debt divided by members' equity - has decreased to 2.1 times at 31 December 2013 (2012: 2.5 times) reflecting the growth in the Bank's reserves and exchange rate movements on the debt currency (prior to associated swaps).

The Bank's capital strength is illustrated by the level of members' equity, which has increased to 30 per cent of total assets at 31 December 2013 (2012: 27 per cent), including Treasury assets with an average risk rating between AA and AA-. Members' equity was 59 per cent of Banking assets ('development related exposure') at 31 December 2013 (2012: 55 per cent) mainly reflecting the growth in the Bank's overall reserves.

The Bank's capital strength is further underpinned by its 'triple-A' rating with a stable outlook affirmed by all three major rating agencies in the second half of 2013.

	2013	2012	2011	2010	2009
Financial performance					
1. Return on members' equity – IFRS basis	7%	8%	0%	12%	(2%)
2. Return on members' equity – Realised basis	8%	7%	5%	8%	2%
Efficiency					
3. Cost-to-income ratio	23%	22%	25%	24%	25%
Portfolio quality					
4. Non-performing loans ratio	3%	3%	3%	3%	2%
5. Average rating of Treasury liquid assets	2.2	2.2	2.2	2.4	2.5
6. Average maturity of Treasury liquid assets (tenor)	1.2	1.0	1.3	1.5	1.9
Liquidity and leverage					
7. Liquid assets/undisbursed Banking investments plus one-year debt service	93%	85%	88%	82%	74%
8. Debt/members' equity: leverage ratio	210%	248%	241%	192%	172%
Capital strength					
9. Members' equity/total assets	30%	27%	28%	33%	35%
10. Members' equity/Banking assets	59%	55%	54%	61%	64%

Explanatory notes on ratios above

1. (Total closing members' equity minus total opening members' equity) divided by total opening members' equity – members' equity before net income allocations.
2. (Total closing members' equity minus total opening members' equity) divided by total opening members' equity with unrealised Banking fair value adjustments excluded from members' equity. Members' equity before net income allocations.
3. Total operating expenses divided by total operating income before net movements in equity valuations and Banking and Treasury loan provisions.
4. Total non-performing loans as a percentage of total loan operating assets.[7]
5. Represents the average credit rating weighted by peak counterparty exposure, based on the Bank's internal rating scale as disclosed within the Risk Management: credit risk section of this report.
6. The average tenor of Treasury assets in years is derived from the weighted average time to final maturity, with the exception of asset-backed securities whose final maturity is approximated by the average life of the transaction.
7. Treasury liquid assets divided by total Banking undrawn commitments (undisbursed but committed investments), plus one year's debt service, which comprises debt due for redemption within one year and one year's estimated interest expense.
8. Total borrowings divided by total members' equity.
9. Total members' equity divided by total assets.
10. Total members' equity divided by total Banking assets at fair value.

[7] Operating assets are before accounting adjustments such as fair value adjustments and amortisation of deferred fees and costs.