Financial results

The EBRD recorded a net profit from continuing operations of €340 million, a reduction from the €772 million profit recorded for 2017. Of this total profit, the largest contributory factor was net interest income of €751 million, roughly in line with 2017.

Two factors were the biggest contributors to the reduction in profits. Equity gains of €28 million in 2018 were lower than the €332 million gain recorded in 2017, and the provisioning charge of €192 million in 2018 was higher than the €1 million charge recorded in 2017. As a significant proportion of these differences were due to unrealised factors, the realised profit in 2018 of €606 million was comparable with that recorded in 2017.

The lower performance of the Bank's equities was driven by adverse conditions across equity markets in the economies in which the Bank invests together with a decline in the value of some of the underlying currencies of such investments (predominantly the Russian rouble and the Turkish lira). Events in Turkey were the most significant driver in the increase in provisions, also contributing to the increase in the proportion of non-performing loans to 4.7 per cent from 3.9 per cent in 2017.

Allowing for income allocations of €130 million[7] and movements recorded in the statement of other comprehensive income, the Bank's reserves increased by €0.1 billion to €10.1 billion at the end of 2018. The EBRD continues to be rated AAA with a stable outlook, and was reaffirmed as such by all three major rating agencies in 2018.

[7] Income allocations are approved by the Bank's Board of Governors.

The Bank's activities are primarily Banking and Treasury. Banking activities represent investments in projects that, in accordance with the Agreement Establishing the Bank, are made for the purpose of assisting the economies in which the Bank invests in their transition to open, market economies whilst fostering sustainable and inclusive growth and 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.

Banking operations

Operational results

Annual Bank Investment amounted to €9.5 billion[8] in 2018, comprising 395 investment operations[9] and activity in 71 trade finance agreements under the Trade Facilitation Programme (2017: €9.7 billion, 412 investment operations and 76 trade finance agreements).

The EBRD invested in 37 economies in 2018 with investment by region as follows: €2.0 billion in the southern and eastern Mediterranean (SEMED) including Lebanon where the Bank started its operations in 2018; €1.6 billion in eastern Europe and the Caucasus; €1.0 billion in Turkey; €1.7 billion in south-eastern Europe; €1.3 billion in central Europe and the Baltic states; €1.1 billion in central Asia; and €0.9 billion in Cyprus and Greece combined.

The EBRD continued to support key economic sectors in line with its operational strategy. In 2018, Annual Bank Investment in the financial sector reached over €3.2 billion, with the majority of financing directed via partner banks to small and medium-sized enterprises, to projects supporting environmental sustainability, to facilitating international trade and to projects developing capital markets. A further €1.9 billion was invested in the infrastructure sector, €2.2 billion in the diversified corporate sectors, and €2.2 billion in the energy sector.

The Bank's portfolio of investment operations (including undisbursed commitments) increased from €41.4 billion in 2017 to €43.3 billion by the end of 2018. In addition to the strong level of new investments, the Bank's portfolio, which is reported in euros, was impacted by the strengthening of the US dollar during 2018 (€/\$1.20 at end-2017 compared with €/\$1.15 at end-2018) resulting in an increase in the euro value of the Bank's US dollar denominated assets.

Gross disbursements increased to €7.2 billion in 2018 from the 2017 level of €6.2 billion. Loan repayments of €5.0 billion (2017: €4.5 billion) and equity divestments of €0.7 billion (2017: €1.0 billion) resulted in operating assets[10] of €30.2 billion at end-2018, up from €28.7 billion at end-2017 reflecting the level of disbursements in 2018 and the variation in the €/\$ exchange rate. Operating assets comprised €24.8 billion of disbursed outstanding loans (2017: €23.2 billion) and €5.4 billion of disbursed outstanding equity investments at historic cost (2017: €5.5 billion) at 31 December 2018.

In addition to Annual Bank Investment (own account), annual mobilised investment reached €1.5 billion, of which €1.1 billion was from the private sector, principally through syndicated loans, and €0.4 billion from the public sector. The Bank also attracted a further €0.3 billion of unfunded risk participations to its projects from the private sector.

Total external financing (finance directly mobilised by the EBRD plus additional investment attracted by projects the Bank invested in) on signed EBRD projects reached €24.3 billion in 2018 compared with €29.3 billion in 2017, largely reflecting a reduction in private non-bank financing.

The Bank's activities in 2018 remained strongly supported by donor funding, including the Special Funds programme, the Cooperation Funds and a trust fund to support the economic development of the West Bank and Gaza. These broad-based results reflect an ongoing commitment to the transition of members of the EBRD region as they build and strengthen sustainable, inclusive, open market economies.

Financial performance

Banking operations recorded a net gain of €223 million[11] for 2018, compared with the gain of €703 million for 2017. The Banking profit for the year is primarily attributable to €761 million gains from net interest and fee income, offset by a provisioning charge of €192 million and €399 million of expenses and depreciation. In comparison to 2017, gains from equity investments fell by €304 million to €28 million, and provisioning charges increased by €191 million. The contributions from both share investments and provisioning are expected to continue to show significant variability from year to year, given the volatility of markets in which the Bank invests.

Treasury operations

Portfolio

The value of assets under Treasury management at 31 December 2018 was €29.0 billion (2017: €25.0 billion) and borrowings were €43.0 billion (2017: €37.8 billion). The size of Treasury's balance sheet is primarily driven by the requirements of the Bank's internal liquidity policies. The Bank increased the size of Treasury's balance sheet during 2018 in order to maintain a high level of liquidity. The funding programme of 2018 was completed as planned with the Bank raising medium- and long-term debt of €8.7 billion (2017: €8.2 billion).

[8] As region/sector amounts and disbursements/repayments are individually reported to one decimal point, the sum of these amounts may create a rounding difference with the Annual Bank Investment total.
[9] The Bank's loans and equity investments at cost together with undrawn commitments.
[10] Operating assets are the total amounts disbursed less reflows. They do not include accounting fair value adjustments or effective interest rate adjustments associated with amortised cost assets.

[11] See note 2 on page 58 for further detail.

Financial performance

Before allowing for the impact of hedge accounting adjustments, Treasury returned a profit of €96 million in 2018 compared with the €89 million gain in 2017. Treasury's performance is internally evaluated before the impact of non-qualifying and ineffective hedges, which is considered not to have economic substance.[12] After allowing for hedge accounting adjustments Treasury's operating profit for 2018 was €117 million (2017: €69 million profit). Treasury's performance is primarily driven by the generation of net interest income and the mark-to-market valuations of derivatives used to manage interest rate and currency risks in the Bank's balance sheet.

Capital

The Bank's authorised share capital is €30.0 billion, of which subscribed capital amounts to €29.7 billion and paid-in capital €6.2 billion. This is materially unchanged from 31 December 2017.

The calculation of capital for gearing purposes under the Agreement Establishing the Bank is explained under the Capital Management section of this report on page 52.

Reserves

The Bank's reserves increased by €0.1 billion to €10.1 billion at the end of 2018.

Expenses

General administrative expenses for 2018, inclusive of depreciation and amortisation, were €420 million (2017: €421 million). The decrease is due to the lower conversion rate from pound sterling, in which expenses are predominantly incurred, into euro, reflecting the rate at which the Bank hedged its 2018 budget at the end of 2017. The pound sterling equivalent of this figure was £371 million (2017: £362 million).

Outlook for 2019

The Bank expects its net realised profit to remain relatively stable. However geopolitical uncertainty in the Bank's region of operations will continue to contribute to volatility in the Bank's earnings, particularly in the valuations of its equity portfolio and the level of provisioning against its loan book.

[12] See note 9 on page 60 for a more detailed explanation.