
Financial results

In 2015 the EBRD recorded a net realised profit of €0.9 billion before provisions, unrealised losses on share investments and other unrealised amounts (2014: €0.9 billion profit). The main contributor to realised profit is the Bank's strong net interest income.

Including provisions and unrealised amounts, the Bank recorded a net profit, before income allocations, of €0.8 billion for 2015 (2014:€0.6 billion net loss). The turnaround was due primarily to the return to profitability of the Bank's equity investment portfolio together with a strong operating profit from Treasury and a net release of general provisions following a review of the associated estimation techniques.

The net profit, after income allocations of €360 million approved by the Bank's Board of Governors (2014: €155 million), resulted in reserves of €8.4 billion at the end of 2015, up from €7.9 billion at the end of 2014.

The EBRD continues to enjoy a AAA rating, reaffirmed by all three major rating agencies in 2015.

Bank operations

Operational results

Annual Bank investment⁵ amounted to €9.4 billion⁶ in 2015, comprising 381 investment operations⁷ and activity in 65 trade finance agreements under the 2015 trade facilitation programme (2014: €8.9 billion, 377 investment operations and 80 trade finance agreements).

The EBRD invested in 35 countries in 2015 with investment by region as follows: €1.9 billion in Turkey; €1.7 billion in eastern Europe and the Caucasus; €1.5 billion in southern and eastern Mediterranean; €1.4 billion in Central Asia; close to €1.3 billion in south-eastern Europe; €1.2 billion in central Europe and the Baltic states; and €0.4 billion in Cyprus and Greece combined. In addition the Bank supported three existing operations in Russia with €0.1 billion of investment.

The EBRD continued to support key economic sectors in line with its operational strategy. In 2015 annual Bank investment in the financial sector reached close to €3.0 billion, with priority given to financing small and medium-sized enterprises (SMEs). A further €2.6 billion was invested in the energy sector, €2.1 billion in the diversified corporate sectors and €1.8 billion in the infrastructure sector.

The Bank's portfolio of investment operations (including undisbursed commitments) increased from €38.7 billion in 2014 to €41.6 billion by the end of 2015 with finance provided through new investment operations significantly exceeding reflows from existing investment operations and cancellations of unutilised amounts.

Gross disbursements reached €6.5 billion in 2015, equivalent to the 2014 level. Loan repayments of €4.4 billion (2014: €4.7 billion) and equity divestments of €1.0 billion (2014: €1.2 billion) resulted in operating assets⁸ of €28.6 billion at end 2015, up from €27.2 billion at end 2014. Operating assets comprised €22.5 billion of disbursed outstanding loans (2014: €21.0 billion) and €6.1 billion of disbursed outstanding equity investments at historic cost (2014: €6.2 billion) at 31 December 2015.

The Bank's projects included additional non-EBRD finance of approximately €21.8 billion in 2015 (2014: €13.9 billion). Of this, the Bank directly mobilised €2.3 billion of investment from co-financiers, principally through €1.6 billion of syndicated loans using the Bank's A/B loan structure (2014: €0.9 billion) with the balance representing arranged finance. In addition, the Bank's activities remained strongly supported by donor funding, including the Special Funds programme and the technical cooperation funds. These broad-based results reflect an ongoing commitment to the transition of countries in the EBRD region as they build and strengthen open market economies.

⁵ Commitments made by the Bank in the year to finance investment operations, including to restructured operations, less cancellations or sales of such commitments with the same year.

⁶ As region/sector amounts are individually reported to 1 decimal point, the sum of these amounts may create a rounding difference with the portfolio total.

⁷ Investment operations refers to the Bank's loans and equity portfolios at cost together with undrawn commitments.

⁸ Operating assets are the total amounts disbursed less reflows. They do not include accounting fair value adjustments or the deferral of fees associated with the origination of amortised cost assets.

Financial performance

Banking operations recorded a net gain of €809 million⁹ for 2015 (2014: loss of €614 million), with the improved performance primarily due to the return to profitability of its equity portfolio. Inclusive of dividend income the equity portfolio contributed a profit of €279 million compared with a loss of €639 million in 2014.

Banking's result also benefitted from a revision to the Bank's methodology for estimating unidentified impairment provisions¹⁰ which resulted in a one-off release of €329 million in provisions which, combined with provision charges, returned an overall net release of €120 million for the year (2014: net charge of €440 million).

The loan book continued to generate strong net interest income, returning €827 million against €772 million in 2014.

Treasury operations

Portfolio

The value of assets under Treasury management at 31 December 2015 was €23.8 billion (2014: €22.5 billion). The size of Treasury's balance sheet is primarily driven by the requirements of the Bank's internal liquidity policies while fluctuations in foreign exchange rates, in particular the euro against the United States dollar, also has an impact on stated figures.

Financial performance

After allowing for the impact of hedge accounting adjustments, Treasury returned a loss of €7 million (2014: a profit of €46 million). For performance measurement purposes, Treasury is internally evaluated on its performance excluding hedge accounting, which is considered an accounting technicality.¹¹

Treasury's operating profit for 2015 –before hedge accounting adjustments – was €164 million (2014: €80 million). Treasury's strong performance is primarily driven by the generation of net interest income and the mark-to-market 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 (2014: €30.0 billion). At 31 December 2015, subscribed capital was €29.7 billion (2014: €29.7 billion). Paid-in capital was €6.2 billion at 31 December 2015 (2014: €6.2 billion), of which €12 million was overdue (2014: €11 million).¹²

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 49.

⁹ See note 2 on page 55 for further detail.

¹⁰ See Accounting Policies Section C on page 24 for more details.

¹¹ See note 9 to the financial statements on page 58 for a full explanation.

¹² The increase in paid-in capital overdue during 2015 is solely attributable to the weakening of the euro versus the United States dollar.

Reserves

The Bank's reserves increased from €7.9 billion at the end of 2014 to €8.4 billion at the end of 2015.

Expenses

General administrative expenses for 2015, inclusive of depreciation and amortisation, were €431 million (2014: €355 million). The increase reflects the weakening of the euro versus the pound sterling which is the currency in which expenses are predominantly incurred. The pound sterling component of this figure was £332 million (2014: £300 million).

Outlook for 2016

The Bank expects its net realised profit before impairment to remain relatively stable. However geopolitical uncertainty in the Bank's region of operations is likely to continue to contribute to volatility in the Bank's earnings. This volatility will typically be hardest felt in the valuations of the Bank's equity portfolio and the level of provisioning against its Banking loan book.

Key financial indicators 2011-15

Key financial indicators are presented for the Bank over the last five years. These ratios are influenced by the growth in portfolio and annual Bank investment over 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 a high degree of volatility due, in particular, to movements in the valuations of share investments. Excluding these movements – together with unrealised fair value movements on Banking loans also measured at fair value – the Bank has continued to grow its members' equity despite overall difficult market conditions achieving an average return on equity of 5.7 per cent over the last five years (2010-2014: an average of 6.3 per cent). The Bank's non-performing loan ratio increased marginally to 5.9 per cent at 31 December 2015 from 5.6 per cent a year earlier.

In terms of cost efficiency, the cost-to-income ratio has increased to 31 per cent in 2015 compared with 28 per cent a year earlier. This mainly reflects the increase in general administrative expenditure which was adversely affected by the weakening of the euro against the pound sterling, the currency in which the Bank's expenses are predominately incurred (see notes to financial statements on page 59).

Leverage – debt divided by members' equity – has remained relatively stable at 2.5 times at 31 December 2015 (2014: 2.5 times).

The Bank's capital strength is illustrated by the level of members' equity, which represented 26.5 per cent of total assets at 31 December 2015 (2014: 26.9 per cent), including Treasury assets with an average risk rating between AA and AA- with an average maturity of 1.3 years. Members' equity represented 55.8 per cent of Banking assets ('development related exposure') at 31 December 2015 (2014: 57.6 per cent).

The Bank's capital strength is further underpinned by its AAA rating with a stable outlook affirmed by all three major rating agencies in 2015.

	2015	2014	2013	2012	2011
Financial performance					
1. Return on members' equity – net profit basis	5.6%	(3.8%)	7.2%	7.8%	0.4%
2. Return on members' equity – realised after provisions	4.9%	3.1%	8.1%	7.0%	5.1%
Efficiency					
3. Cost-to-income ratio	31.2%	27.7%	22.8%	21.6%	25.2%
Portfolio quality					
4. Non-performing loans ratio	5.9%	5.6%	3.3%	3.4%	2.6%
5. Average rating of Treasury liquid assets	2.2	2.3	2.3	2.3	2.2
6. Average maturity of Treasury liquid assets (tenor)	1.3	1.5	1.2	1.0	1.3
Liquidity and leverage					
7. Liquid assets/undisbursed Banking investments plus one-year debt service	92.5%	103.1%	93.5%	85.0%	88.0%
8. Debt/members' equity: leverage ratio	252.8%	250.6%	209.7%	250.3%	241.4%
Capital strength					
9. Members' equity/total assets	26.5%	26.9%	30.3%	27.3%	28.0%
10. Members' equity/Banking assets	55.8%	57.6%	58.6%	54.9%	54.0%

Explanatory notes on ratios above

- (Total closing members' equity minus total opening members' equity) divided by total opening members' equity. The total closing members' equity is before net income allocations accounted for during the year.
- (Total closing members' equity minus total opening members' equity) divided by total opening members' equity. The unrealised Banking fair value reserves are excluded from both the total closing and opening members' equity. The total closing members' equity is also adjusted for net income allocations accounted for during the year.
- Total operating expenses divided by total operating income before net movements in equity valuations and Banking and Treasury loan provisions.
- Total non-performing loans as a percentage of total loan operating assets.
- Represents the average credit rating weighted by Treasury liquid assets for 2015 to 2012, based on the Bank's internal rating scale. The rating methodology for covered bonds changed in 2015, improving the ratio from 2.4 to 2.2 as disclosed within the Risk Management: credit risk section of this report on page 34. For 2011 the average credit rating was weighted by peak future exposure.
- 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 (ABS) whose final maturity is approximated by the average life of the transaction.
- 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.
- Total borrowings divided by total members' equity.
- Total members' equity divided by total assets.
- Total members' equity divided by total net book value of Banking assets.