Financial results

In 2016 the EBRD recorded a net realised profit of €0.6 billion before provisions, unrealised gains on share investments and other unrealised amounts (2015: €0.9 billion profit). The main contributor to realised profit is the Bank's strong net interest income with variability primarily attributable to its equity portfolio where profits on divestments were lower than the previous year.

Including provisions and unrealised amounts, the Bank's overall net profit from continuing operations of €1.0 billion showed an improvement on the €0.8 billion profit recorded for 2015. Excluding the one-off release of general provisions in 2015,[6] net profit improved by €0.5 billion, with both Banking and Treasury activities delivering improved financial performance in 2016.

Allowing for income allocations of €0.2 billion[7] net profit for the year was €0.8 billion which increased the Bank's reserves from €8.4 billion at the end of 2015 to €9.2 billion at the end of 2016.

The EBRD continues to be rated AAA, and was reaffirmed as such by all three major rating agencies in 2016.

[6] €0.3 billion of general provisions were released in 2015 following a review of the associated estimation techniques.

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

Bank operations

Operational results

Annual Bank Investment[8] amounted to €9.4 billion[9] in 2016, comprising 378 investment operations[10] and activity in 74 trade finance agreements under the 2016 trade facilitation programme (2015: €9.4 billion, 381 investment operations and 65 trade finance agreements).

The EBRD invested in 35 countries in 2016 with investment by region as follows: €1.9 billion in Turkey; €1.6 billion in south-eastern Europe; €1.4 billion in central Europe and the Baltic states; €1.4 billion in Central Asia; €1.4 billion in southern and eastern Mediterranean (SEMED); €1.2 billion in eastern Europe and the Caucasus; and €0.5 billion in Cyprus and Greece combined.

The EBRD continued to support key economic sectors in line with its operational strategy. In 2016 Annual Bank Investment in the financial sector reached close to €3.1 billion, with priority given to financing small and medium-sized enterprises (SMEs). A further €2.5 billion was invested in the diversified corporate sectors, €2.2 billion in the energy sector and €1.7 billion in the infrastructure sector.

The Bank's portfolio of investment operations (including undisbursed commitments) increased from €41.6 billion in 2015 to €41.8 billion by the end of 2016 with strong reflows from existing investment operations largely offsetting finance provided through new investment operations.

Gross disbursements reached €7.8 billion in 2016, a significant increase on the 2015 level of €6.5 billion. Loan repayments of €6.0 billion (2015: €4.4 billion) and equity divestments of €0.7 billion (2015: €1.0 billion) resulted in operating assets[11] of €29.7 billion at end 2016, up from €28.6 billion at end 2015. Operating assets comprised €23.5 billion of disbursed outstanding loans (2015: €22.5 billion) and €6.1 billion of disbursed outstanding equity investments at historic cost (2015: €6.1 billion) at 31 December 2016.

In 2016 Multilateral Development Banks (MDBs) established a Task Force to develop a joint framework and methodology to measure MDB private investment on a consistent basis, applying common definitions, and to report on their contributions to catalysing private investment for a range of development priorities, including climate change and infrastructure. The Task Force encourages MDBs to report mobilisation in their external reports, distinguishing between private direct mobilisation – private financing provided on commercial terms due to the active and direct involvement of the MDB – and other indirect mobilisation. In addition to Annual Bank Investment (own account), direct mobilisation reached €1.7 billion, of which €1.4 billion was from the private sector, principally through syndicated loans, and €0.3 billion from the public sector.

In addition, the Bank's activities remained strongly supported by donor funding, including the Special Funds programme and the 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.

Financial performance

Banking operations recorded a net gain of €0.7 billion[12] for 2016 compared with a gain of €0.8 billion for 2015. The main reason for the lower profit in 2016 was due to a one-off release of €0.3 billion of unidentified impairment provisions in 2015 following a revision to the Bank's methodology for estimating this figure. Allowing for this one-off adjustment, the results from Banking operations were higher than in 2015 with both the equity (€0.3 billion v €0.2 billion) and loan (€0.4 billion v €0.3 billion) portfolios improving their contributions.

Treasury operations

Portfolio

The value of assets under Treasury management at 31 December 2016 was €24.0 billion (2015: €23.8 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 profit of €0.3 billion in 2016 compared to nil in 2015. However Treasury's performance is internally evaluated before the hedge accounting adjustment which is considered an accounting technicality.[13] On that basis Treasury's operating profit for 2016 was comparable with 2015.[14] Treasury's 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, subscribed capital €29.7 billion and paid-in capital €6.2 billion. This is unchanged from 31 December 2015.

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.

[8] 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.

[9] As region/sector amounts and disbursements/repayments are individually reported to 1 decimal point, the sum of these amounts may create a rounding difference with the Annual Bank Investment total.

[10] The Bank's loans and equity investments at cost together with undrawn commitments.

[11] 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.

[12] See note 2 on page 55 for further detail.

[13] See note 9 to the financial statements on page 58 for a full explanation.

[14] €130 million in 2016 compared with €164 million in 2015.

Reserves

The Bank's reserves increased from €8.4 billion at the end of 2015 to €9.2 billion at the end of 2016.

Expenses

General administrative expenses for 2016, inclusive of depreciation and amortisation, were €467 million (2015: €431 million). The increase is mainly due to the higher conversion rate from pound sterling, in which expenses are predominantly incurred, into euro, reflecting the rate at which the Bank hedged its 2016 budget at the end of 2015. The pound sterling equivalent of this figure was £343 million (2015: £332 million).

Outlook for 2017

The Bank expects the level of realised profit generated in 2016 to be a better indicator of expectations for 2017 than the trend of higher realised profits enjoyed in previous years. 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.

Key financial indicators 2012-16

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 MDBs 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 5.5 per cent over the last five years (2011-2015: an average of 5.7 per cent). The Bank's non-performing loan ratio decreased to 5.5 per cent at 31 December 2016 from 5.9 per cent a year earlier.

In terms of cost efficiency, the cost-to-income ratio has increased to 42 per cent in 2016 compared with 31 per cent a year earlier. This mainly reflects lower realised profit, in particular from the Bank's equity investments.

Leverage -- debt divided by members' equity – remained stable at 2.5 times at 31 December 2016 (2015: 2.5 times), reflecting the growth in the Bank's reserves.

The Bank's capital strength is illustrated by the level of members' equity, which represented 27.5 per cent of total assets at 31 December 2016 (2015: 26.5 per cent), including Treasury assets with an average risk rating between AA and AA- with an average maturity of 1.3 years, unchanged from 2015. Members' equity represented 56.3 per cent of Banking assets ('development related exposure') at 31 December 2016 (2015: 55.8 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 2016.

	2016	2015	2014	2013	2012
Financial performance					
1. Return on members' equity – net profit basis	7.0%	5.6%	(3.8%)	7.2%	7.8%
2. Return on members' equity – realised after provisions	4.6%	4.9%	3.1%	8.1%	7.0%
Efficiency					
3. Cost-to-income ratio	42.1%	31.2%	27.7%	22.8%	21.6%
Portfolio quality					
4. Non-performing loans ratio	5.5%	5.9%	5.6%	3.3%	3.4%
5. Average rating of Treasury liquid assets	2.3	2.2	2.3	2.3	2.3
6. Average maturity of Treasury liquid assets (tenor)	1.3	1.3	1.5	1.2	1.0
Liquidity and leverage					
7. Liquid assets/undisbursed Banking investments plus one-year debt service	93.5%	92.5%	103.1%	93.5%	85.0%
8. Debt/members' equity: leverage ratio	246.3%	252.8%	250.6%	209.7%	250.3%
Capital strength					
9. Members' equity/total assets	27.5%	26.5%	26.9%	30.3%	27.3%
10. Members' equity/Banking assets	56.3%	55.8%	57.6%	58.6%	54.9%

Explanatory notes on ratios above

1. (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.
2. (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.
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.
5. Represents the average credit rating weighted by Treasury liquid assets for 2012 to 2016, 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.
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 (ABS) 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. From 2016, debt redemptions have been based on expected rather than contractual maturity.
8. Total borrowings divided by total members' equity.
9. Total members' equity divided by total assets.
10. Total members' equity divided by total net book value of Banking assets.