Financial results

The EBRD recorded a net profit from continuing operations of €772 million, a reduction from the €992 million profit recorded for 2016.[7] The main contributing factors behind this profit were interest income of €754 million, roughly in line with 2016; and equity gains of €332 million, a reduction on the €423 million recorded in 2016 owing to lower unrealised fair value gains. The other key difference to 2016 was also due to unrealised factors, with a net loss of €20 million from net hedge ineffectiveness in 2017 compared with gains of €131 million in 2016. These movements are attributable to an accounting adjustment so are not considered to have economic substance and will reverse over time.[8] As the main differences to the Bank's 2016 profits were due to unrealised factors, the realised profit in 2017 of €634 million was comparable with that recorded in 2016.

There were no net provisioning losses in the year, and the volume of non-performing loans improved to 3.9 per cent of total loans, from 5.5 per cent in 2016 as a result of repayments, write-offs, and the return of some loans to performing status.

Allowing for income allocations of €180 million[9] the Bank's reserves increased from €9.4 billion at the end of 2016 to €10.0 billion at the end of 2017. The EBRD continues to be rated AAA, and was reaffirmed as such by all three major rating agencies in 2017.

[7] 2016 balances are restated as explained in note 32 on page 80.

[8] See note 9 on page 61 for a more detailed explanation.

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

Bank operations

Operational results

Annual Bank Investment[10] amounted to a record level of €9.7 billion,[11] in 2017, comprising 412 investment operations,[12] another record, and activity in 76 trade finance agreements under the Trade Facilitation Programme (2016: €9.4 billion, 378 investment operations and 74 trade finance agreements).

The EBRD invested in 36 countries in 2017 with investment by region as follows: €2.2 billion in the southern and eastern Mediterranean (SEMED); €1.8 billion in eastern Europe and the Caucasus; €1.5 billion in Turkey; €1.4 billion in south-eastern Europe; €1.2 billion in central Europe and the Baltic states; €0.9 billion in central Asia; and €0.7 billion in Cyprus and Greece combined.

The EBRD continued to support key economic sectors in line with its operational strategy. In 2017, Annual Bank Investment in the financial sector reached close to €2.9 billion, with priority given to financing small and medium-sized enterprises (SMEs). A further €2.5 billion was invested in the infrastructure sector, €2.2 billion in the diversified corporate sectors, and €2.0 billion in the energy sector.

The Bank's portfolio of investment operations (including undisbursed commitments) decreased from €41.8 billion in 2016 to €41.4 billion by the end of 2017. In addition to reflows on existing investment operations, the Bank's portfolio which is reported in euros was impacted by the strengthening of the euro during 2017 (€/$1.06 at end 2016 compared with €/$1.20 at end 2017) resulting in a decrease in the euro value of the Bank's US dollar denominated assets.

Gross disbursements reached €6.2 billion in 2017, a decrease on the 2016 level of €7.8 billion. Loan repayments of €4.6 billion (2016: €6.0 billion) and equity divestments of €1.0 billion (2016: €0.7 billion) resulted in operating assets[13] of €28.7 billion at end 2017, down from €29.7 billion at the end of 2016 due in large part to the variation in the €/$ exchange rate. Operating assets comprised €23.2 billion of disbursed outstanding loans (2016: €23.5 billion) and €5.5 billion of disbursed outstanding equity investments at historic cost (2016: €6.1 billion) at 31 December 2017.

In addition to Annual Bank Investment (own account), direct mobilisation reached €1.1 billion, of which €0.7 billion was from the private sector, principally through syndicated loans, and €0.4 billion from the public sector. The Bank also attracted a further €0.2 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 increased from €17.4 billion in 2016 to €29.2 billion in 2017. The increase in external financing was driven by bilateral/multilateral financing and non-Bank financiers.

The Bank's activities in 2017 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 €703 million[14] for 2017, roughly equivalent to the gain of €731 million for 2016. The Banking profit for the year is primarily attributable to €754 million gains from net interest income and €332 million gains from the Bank's equity investments. In comparison to 2016, a €54 million reduction in provisioning charges on Banking loans was offset by a €92 million reduction in gains from equity investments. The contribution from share investments is expected to continue to show significant variability from year to year, given the volatility of equity markets.

Treasury operations

Portfolio

The value of assets under Treasury management at 31 December 2017 was €25.0 billion (2016: €24.0 billion) and borrowings were €37.8 billion (2016: €38.0 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. The funding programme of 2017 was completed as planned with the Bank raising medium- and long-term debt of €8.2 billion (2016: €5.6 billion).

Financial performance

Before allowing for the impact of hedge accounting adjustments, Treasury returned a profit of €89 million in 2017 compared with the €130 million gain in 2016. Treasury's performance is internally evaluated before the hedge accounting adjustment which is considered an accounting technicality.[15] After allowing for hedge accounting adjustments Treasury's operating profit for 2017 was €69 million (2016: €261 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.

[10] 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.

[11] 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.

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

[13] 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.

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

[15] See note 9 on page 61 for a more detailed explanation.

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 materially unchanged from 31 December 2016.

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 from €9.4 billion at the end of 2016 to €10.0 billion at the end of 2017.

Expenses

General administrative expenses for 2017, inclusive of depreciation and amortisation, were €421 million (2016: €467 million). The decrease is mainly 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 2017 budget at the end of 2016. The pound sterling equivalent of this figure was £362 million (2016: £343 million). £13 million of the increased expenditure relates to costs under the Bank's Operational Effectiveness and Efficiency Programme, with the remainder mostly related to increases in staff costs.

Outlook for 2018

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.

Key financial indicators 2013-17

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 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 continues to grow its members' equity, achieving an average return on equity of 5.3 per cent over the last five years (2012-16: an average of 5.7 per cent). The Bank's non-performing loan ratio decreased to 3.9 per cent at 31 December 2017 from 5.5 per cent a year earlier.

In terms of cost efficiency, the cost-to-income ratio has increased to 35.3 per cent in 2017 compared with 30.7 per cent a year earlier. This mainly reflects lower profit, in particular, from share investments and fair value movements on non-qualifying and ineffective hedges. The Bank monitors this metric on a five-year rolling average basis due to the high degree of volatility in the valuations of share investments. The 2017 five-year rolling average was 36.4 per cent (2016: 32.7 per cent).

Leverage – debt divided by members' equity – has decreased to 2.3 times at 31 December 2017 (2016: 2.4 times), reflecting the growth in the Bank's reserves.

The Bank's capital strength is illustrated by the level of members' equity, which represented 28.8 per cent of total assets at 31 December 2017 (2016: 27.6 per cent), including Treasury assets with an average risk rating between AA and AA- with an average maturity of 1.4 years (2016: 1.3 years). Members' equity represented 60.0 per cent of Banking assets (development-related exposure) at 31 December 2017 (2016: 56.4 per cent). The Bank's capital strength and strong liquidity position is further reflected in its AAA rating with a stable outlook affirmed by all three major rating agencies in 2017.

	2017	Restated 2016	Restated 2015	2014	2013
Financial performance					
1. Return on members' equity – net profit basis	5.1%	7.0%	6.5%	(3.8%)	7.2%
2. Return on members' equity – realised after provisions	4.8%	4.7%	5.7%	3.1%	8.1%
Efficiency					
3. Cost-to-income ratio	35.3%	30.7%	38.8%	157.8%	23.1%
Portfolio quality					
4. Non-performing loans ratio	3.9%	5.5%	5.9%	5.6%	3.3%
5. Average rating of Treasury liquid assets	2.3	2.3	2.2	2.3	2.3
6. Average maturity of Treasury liquid assets (tenor in years)	1.4	1.3	1.3	1.5	1.2
Liquidity and leverage					
7. Liquid assets/undisbursed Banking investments plus one-year debt service	91.6%	91.4%	92.5%	103.1%	93.5%
8. Debt/members' equity: leverage ratio	233.7%	244.5%	250.9%	250.6%	209.7%
Capital strength					
9. Members' equity/total assets	28.8%	27.6%	26.7%	26.9%	30.3%
10. Members' equity/Banking assets	60.0%	56.4%	56.3%	57.6%	58.6%

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 and capital subscriptions 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 and capital subscriptions accounted for during the year.
3. Total administrative expenses (including depreciation and amortisation) divided by total operating income before provisions for impairment but including all fair value movements on both Banking and Treasury investments.
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 2013 to 2017, based on the Bank's internal rating scale on page 29. 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 (adjusted for paid-in capital receivable) divided by total assets.
10. Total members' equity (adjusted for paid-in capital receivable) divided by total net book value of Banking assets.