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MODEL OF FINANCIAL REPORTING ACCORDING TO THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT AFTER THE APPROVAL OF SYNDICATED LOAN

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Abstract:

The aim of this paper is to explain the role of financial reporting to the European Bank for Reconstruction and Development (EBRD) after approval of syndicated loan for company "B". The syndicated loan is a loan between two or more banks in the role of lender, which is serviced to a single borrower (or group of affiliated persons) who arranged an agreement between all the parties to the contract. EBRD has approved syndicated loan to Company "B" in the amount of 68 million euros to finance the modernization of production. The following banks have participated in syndication: EBRD (as agent), Erste Netherlands, UniCredit Bank Serbia, EFG Eurobank Serbia and Societe Generale Bank Serbia. EBRD as an agent of the loan require the submission of quarterly financial reports of the company's operations as well as the fulfillment of certain operating ratios: Liquidity ratio, Financial Liabilities/EBITDA, Debt Service Coverage Ratio, Equity ratio.

Key words:

financial reporting,
syndicated loan,
financial position.

1. INTRODUCTION

Financial statements are the most elementary way that company reports external users of financial condition and results of operations of the company [1]. When the company intends to raise funds on the international capital market, it has to make financial reports to business partners and potential investors. Of crucial importance is that the company provide information in accordance with international accounting standards that are adopted by most countries [2].

After the process of loan approval, in the specific case of international (syndicated) loan, there is an even greater need by creditors to supervise the process of the company and to continually receive reports on the results of operations and future projections on a quarterly basis and make sure that the appropriations earmarked spending and that will be returned in due time.

2. TERM OF SYNDICATED LOAN

The syndicated loan is a loan provided by two or more first-class banks, each with its share of credit, one of them is a lead bank, known as the arranger. Arranger is the coordinator between the borrower and all participating banks, including the collection, placement and return of funds to creditors and thus enables communication between borrowers with only one bank [3].

When the requested loan is too large that one bank could provide from her credit potential, a group of banks may be required to participate in its funding on the basis of a financial arrangement with the team to determine the involvement of each bank in this financial package. Then it could be a syndicated or consortium loan [4]. Banks invest funds with the aim of working together and sharing risk and its profits. Syndicated loans are typically used for large projects (and large amounts of credit), implemented by borrowers with high credit worthiness and allow quickly and discreetly arranging financing package [5]. The loan may be in one or more currencies, and interest rates on these loans are usually variable, based on LIBOR plus a certain margin. Repayment terms of these loans usually range between 5 and 15 years and may have a grace period.

3. APPROVAL OF SYNDICATED LOAN TO COMPANY "B"

In 2011 European Bank for Reconstruction and Development approved a loan of EUR 68 million to Company "B", that the company will be used to finance the large investment program which includes the modernization of production facilities and installation of new equipment as well as construction of new plants.

EBRD has directly provided EUR 20 million of the total amount of the loan, the rest of the amout will be provided through the European branches of commercial banks: EUR 15 million Erste Netherlands, EUR 15 million UniCredit Bank Serbia, EUR 8 million Eurobank EFG Serbia and EUR 10 million Societe Generale Bank Serbia.

4. OPERATING RESULTS OF COMPANY "B" IN THE PERIOD BETWEEN 01.04. AND 30.06.2012

After approved syndicated loan to Company "B", EBRD has requested quarterly financial statements of operating results, including revenues and expenses for the scheduled period and EBITDA[1], in order to monitor the operations of the company, as the company would not further borrowing and thus came into the problem of inability to pay maturing obligations.

4.1. Example of quarterly reports - the main important features and important events in the second quarter of 2012

The total sales of Company "B" in the II quarter 2012 amounted to 5,35 billion RSD, representing a sales increase of 73% (in terms of dinar) compared to the same period last year, or 47,1 million EUR, representing a sales increase of 52% (in terms of EUR).

1 Earnings before interest, taxes, depreciation and amortization

Description	2012 Amount in 000 dinar	2012 Amount in euro	2011 Amount in 000 dinar	2011 Amount in euro	Increase in % RSD	Increase in % EUR
Sales Income	*5.349.526*	*47.085.758*	*3.099.749*	*31.050.524*	*73*	*52*

Table 1: Sales Income

Average exchange rate EUR/RSD second quarter of year 2012: 113.6214, Average exchange rate EUR/RSD second quarter of year 2011: 99.8292

The income increase is the result of several factors: 1) expansion of the offer portfolio, i.e. introduction of new products, 2) significant increase of product portfolio, 3) income increase from export of goods and 4) increase of product prices.

Operating profit (EBIT) of Company "B" in the II quarter of year 2012 amounts to 1,2 billion RSD, representing an increase of 162% compared to the same period last year in terms of RSD, i.e.130% in terms of EUR.

Description	2012 Amount in 000 dinar	2012 Amount in euro	2011 Amount in 000 dinar	2011 Amount in euro	Increase in % RSD	Increase in % EUR
Operating profit	*1.183.271*	*10.414.981*	*451.837*	*4.526.101*	*162*	*130*

Table 2: Operating profit

The net profit rate for the II quarter of 2012 was increased for 33% in RSD, i.e. 17% in EUR.

Description	2012 Amount in 000 dinar	2012 Amount in euro	2011 Amount in 000 dinar	2011 Amount in euro	Increase in % RSD	Increase in % EUR
Profit before taxation	*334.300*	*2.942.461*	*251.303*	*2.517.330*	*33*	*17*

Table 3: Net profit

Operating expenses of Company "B" in the second quarter 2012 amount to 4,2 million RSD, representing an increase of 55% compared to the same period last year in terms of RSD, i.e. 36% in terms of EUR.

Item No.	Description	2012 Amount in 000 dinar	2012 Amount in euro	2011 Amount in 000 dinar	2011 Amount in euro	Increase in % RSD	Increase in % EUR
	OPERATING EXPENSES	*4.201.120*	*36.977.654*	*2.711.095*	*27.157.335*	*55%*	*36%*
1	*Cost of Goods Sold*	*1.638.820*	*14.424.658*	*1.061.243*	*10.630.587*	*54%*	*36%*
2	*Material Costs*	*1.736.233*	*15.282.073*	*1.152.731*	*11.547.032*	*51%*	*32%*
3	*Costs of salaries, wages and other personal expenses*	*236.537*	*2.081.965*	*158.839*	*1.591.108*	*49%*	*31%*
4	*Costs of amortization and reservation*	*46.980*	*413.511*	*42.560*	*426.328*	*10%*	*-3%*
5	*Other operating expenses*	*542.550*	*4.775.447*	*295.722*	*2.962.280*	*83%*	*61%*

Table 4: *Structure of operating expenses*

The increase of operating expenses has occurred due to production increase and the increase of marketing expenses. The marketing costs have increased in the monitored period for 83%, due to the support of new products on the market.

The company was sending detailed reports on quarterly basis, which were made according to the model that is required by the EBRD. In the specific case of a syndicated loan granted to Company "B", the EBRD has set certain criteria.

Company "B" was obliged to fulfill the following ratios:

1. *Current Ratio* (The Borrower shall, at all times, maintain a ratio of Current Assets, to Current Liabilities, of not less than 1,3:1,0)
2. *Financial Debt to EBITDA Ratio* (The Borrower shall, at all times, maintain a ratio of Financial Debt to EBITDA of not more than: (I) 3,5:1,0 for the Financial Year ending on 31 December 2011; (II) 3,25: 1,0 for the Financial

Year ending on 31 December 2012; (III) 3,0: 1,0 for the Financial Year ending on 31 December 2013 and (IV) thereafter, for preceding the date of calculation, of not more than 2,5:1,0)

3. *Debt Service Coverage Ratio – DSCR* (The Borrower shall, at all times, maintain a ratio of Cash Flow Available for Debt Service for the twelve months preceding the date of calculation to Debt Service, of not less than 1,3:1,0, except for the last quarter of each Financial Year when the covenanted value shall not be less than 1,2:1,0)
4. *Liabilities to Equity Ratio* (The Borrower shall, at all times, ensure that its ratio of equity to liabilities is minimum 30%)

For EBRD is very important that company realize the required ratio, because only in this way bank can provide detailed insight into the company's operations. From this point of view, the company has met the expectations of the EBRD, as can be seen from the following.

Relevant period: 1.04-30.06.2012.

Previous period: 1.04-30.06.2011.

Current ratio = 2,01

Financial debt/EBITDA = 2,66

Debt Service Coverage Ratio = 1,47

Equity to liabilities = 0,37

Current ratio	**2,01**
Current assets	9.400.684.000 RSD
Current liabilities	4.685.379.000 RSD

Current ratio not less than 1,3

Financial debt/EBITDA	**2,66**
Financial debt	12.843.465.000 RSD
Long term debt	10.791.469.000 RSD
Short term debt	1.774.246.000 RSD
Lease	277.750.000 RSD
EBITDA	4.819.516.000 RSD
Operating income	4.536.966.000 RSD
Depreciation and amortization	282.550.000 RSD

Financial debt/EBITDA not more than 3,5 in 2011; not more than 3,25 in 2012; not more than 3.00 in 2013 and not more than 2,5 afterwards

Debt service coverage ratio (DSCR)	**1,47**
Cash flow available for debt service	1.086.961.000 RSD
Cash flow from operating activities	2.157.551.000 RSD
Interest, commitment charges and other fees and expenses falling due and payable in respect of the senior debt during that period	225.402.000 RSD
Any value added tax recovered	160.548.000 RSD
Capital expenditures	1.456.540.000 RSD
Cash flow from operating activities	2.157.551.000 RSD
Net income after tax	1.619.662.000 RSD
Depreciation and amortisation	282.550.000 RSD
Non-cash expenses	925.650.000 RSD
Change in working capital	-670.311.000 RSD
Relevant period 01.04. – 30.06.2012	
Current assets	9.400.648.000 RSD
Short term financial placements	469.755.000 RSD
Current liabilities	4.685.379.000 RSD
Short term financial liabilities	1.774.246.000 RSD
Working capital of the relevant period	6.019.796.000 RSD
Previous period 01.04. – 30.06.2011	
Current assets	8.040.681.000 RSD
Short term financial placements	310.483.000 RSD
Current liabilities	3.529.474.000 RSD
Short term financial liabilities	1.148.761.000 RSD
Working capital of the relevant period	5.349.485.000 RSD
Debt service	738.526.000 RSD
Principal and interest of financial liabilities (including lease) that were due in the last 3 months	1.130.256.000 RSD
Fees based on financial liabilities that were due in the last 3 months	428.560.000 RSD
Financial debt and lease that were drawdown in the period of last 3 months	820.560.000 RSD

Debt service coverage ration not less than 1,3, except for the last quarter when it shall not be less than 1,2

Equity to liabilities	**37%**
Total liabilities	15.786.764.000 RSD
Total equity	5.911.885.000 RSD
Goodwill	0.000 RSD

Equity/liabilities ratio not less than 30%

Current ratio of 2,01 indicates that accounts receivable, cash and promissory notes received on account are two times higher than the obligation for short term loans, leases that mature within one year, suppliers, advances received, liabilities to net earnings. The relationship between inflows and outflows from operating activities is aligned and the company is out of the danger zone of liquidity.

Financial debt/EBITDA =2,66 indicates that the company may from ordinary activities and from EBITDA regularly service their loan obligations. The company was able to increase its debt through new loans only if they increase their operating profits, and this can be done in two ways: either by increasing revenue or reducing expenses.

Debt service coverage ratio (DSCR) 1,47 shows the company's ability to meet its obligations regularly.

Equity to liabilities of 37%, indicates the stability of the company, ie. it has its own capital, not just borrowed sources of funds.

5. CONCLUSION

High-quality financial statements are containing relevant and reliable information about the assets, liabilities, results and net cash of the companies. It is essential that in the process of preparation and presentation of financial statements approaches extremely responsibly and in accordance with good accounting practices. Company "B" was sending detailed financial reports on a quarterly basis to the European Bank for Reconstruction and Development, according to the requirements set by the bank when granting a syndicated loan. According to the data presented for the second quarter of 2012 the Company "B" has met the required ratios by the EBRD. To protect in future against risk, the Bank is sending an auditor on annual basis, who will give their independent opinion on the truthfulness and credibility of the presented financial statements and the required coefficients. This is an important factor for creditors to assess the actual situation in the company and to prevent capital outflows and further borrowing, which would result in the inability to restore maturing borrowings.

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MODEL FINANSIJSKOG IZVEŠTAVANJA PREMA EVROPSKOJ BANCI ZA OBNOVU I RAZVOJ NAKON ODOBRAVANJA SINDICIRANOG KREDITA

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Apstrakt:

Cilj ovog rada je da objasni ulogu finansijskog izveštavanja prema Evropskoj banci za obnovu i razvoj (EBRD) nakon odobrenog sindiciranog kredita kompaniji "B". Sindicirani kredit je kredit zaključen između dve ili više banaka u ulozi zajmodavca, servisiran jednom korisniku kredita (ili grupi povezanih lica) koji je uređen jednim ugovorom između svih ugovorenih strana. EBRD je odobrila sindicirani kredit Kompaniji "B" u vrednosti od 68 miliona evra za finansiranje modernizacije proizvodnje. U sindiciranju su učestvovale: EBRD (kao agent), Erste Holandija, UniCredit Banka Srbija, EFG Eurobanka Srbija i Societe Generale Banka Srbija. EBRD kao agent kredita zahtevala je dostavljanje kvartalnih finansijskih izveštaja o poslovanju kompanije kao i ispunjenje određenih koeficijenata poslovanja: Racio likvidnosti, Finansijske obaveze/EBITDA, Racio pokrića kamate gotovinskim tokom iz poslovanja, Obaveze prema kapitalu.

Ključne reči:

finansijsko izveštavanje, sindicirani kredit, finansijski položaj.