Highlights

The EBRD[1] recorded a net profit of €0.3 billion after having posted a €1.4 billion profit in 2019. This profit was achieved in the context of extremely challenging economic and financial conditions affecting all of the regions in which the Bank operates, stemming from the impact of the Covid-19 pandemic.

Against that extraordinarily adverse context, the equity investments of the Bank were an important contributory factor for this profit with equity gains of €0.3 billion. While falling short of the €1.1 billion gain in 2019, the continuing profitability of these investments demonstrated their resilience, despite significant volatility during 2020.

In addition, the Bank's loan investments also continued to provide a stable flow of revenue despite the pandemic. The Bank recorded net interest income of €0.8 billion, in line with 2019. However, the deterioration of the risk environment led to a €0.5 billion provisioning charge on the Bank's loan investments becoming the other main driver of the reduction in profitability compared with 2019, when no significant charge was recorded. This was predominantly caused by an increase in non-performing loans (NPLs) partly driven by the pandemic but also due to other specific factors. The proportion of NPLs increased to 5.5 per cent from 4.5 per cent in 2019.

Allowing for income allocations of €115 million and movements recorded in the statement of other comprehensive income, the Bank's reserves increased by €0.1 billion to €17.9 billion at the end of 2020. The EBRD continues to be rated AAA (stable) by Standard & Poor's, Aaa (stable) by Moody's and AAA (neg.) by Fitch.

Financial results 2016-20

€ million	2020	2019	2018	2017	2016
Net profit	290	1,432	340	772	992
Transfers of net income approved by the Board of Governors	(115)	(117)	(130)	(180)	(181)
Net profit after transfers of net income approved by the Board of Governors	175	1,315	210	592	811
Paid-in capital	6,217	6,217	6,215	6,211	6,207
Reserves and retained earnings	11,674	11,613	10,068	9,961	9,351
Total members' equity	17,891	17,830	16,283	16,172	15,558

Operational results 2016-20

	2020	2019	2018	2017	2016
Number of projects[2]	411	452	395	412	378
Annual Bank Investment[3] (€ million)	10,995	10,092	9,547	9,670	9,390
Annual mobilised investment[4] (€ million)	1,240	1,262	1,467	1,054	1,693
of which private direct mobilisation[5]	411	460	1,059	669	1,401
Total project value[6] (€ million)	27,224	34,884	32,570	38,439	25,470

[1] The European Bank for Reconstruction and Development (the Bank).
[2] The number of projects to which the Bank made commitments in the year.
[3] Volume of commitments made by the Bank during the year. This includes (i) new commitments (less any amount cancelled or syndicated within the year); (ii) restructured commitments; and (iii) trade finance (TFP) amounts issued during the year and outstanding at year-end.
[4] Annual mobilised investment is the volume of commitments from entities other than the Bank made available to the client that is explicitly due to the Bank's direct involvement.
[5] Financing from a private entity on commercial terms due to the Bank's active involvement.
[6] Total project value is the total amount of finance provided to a project, including both EBRD and non-EBRD finance, and is reported in the year in which the project first signs. EBRD financing may be committed over more than one year with "Annual Bank Investment" reflecting EBRD finance by year of commitment. The amount of finance to be provided by non-EBRD parties is reported in the year the project first signs.

The Bank engages primarily in Banking and Treasury activities. 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 €11.0 billion[7] in 2020, comprising 411 investment operations and activity in 85 trade finance agreements under the Trade Facilitation Programme (2019: €10.1 billion, 452 investment operations and 81 trade finance agreements).

The EBRD invested in 37 economies in 2020 with investment by region as follows: €2.1 billion in the southern and eastern Mediterranean (SEMED); €1.9 billion in eastern Europe and the Caucasus; €1.8 billion in south-eastern Europe; €1.7 billion in Turkey; €1.4 billion in central Europe and the Baltic states; €1.1 billion in central Asia; and €0.9 billion in Cyprus and Greece combined.

The economies in which the Bank invests were affected by the Covid-19 pandemic in 2020. The Bank continued to support key economic sectors through an investment package dedicated to helping those economies respond to the pandemic. In 2020, Annual Bank Investment in the financial sector reached €4.4 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 €3.9 billion was invested in the sustainable infrastructure sector and €2.7 billion in the diversified corporate sectors.

The Bank's portfolio of investment operations[8] increased from €46.1 billion in 2019 to €48.4 billion by the end of 2020. The growth in the Bank's portfolio reflected the strong level of new investments but was partially offset by the weakening of the US dollar during 2020 (€/$1.12 at end-2019 compared with €/$1.23 at end-2020) resulting in a decrease in the euro value of the Bank's US dollar-denominated assets.

Gross disbursements[9] reached €7.6 billion in 2020, above the €7.2 billion disbursed in 2019. Loan repayments of €4.1 billion (2019: €4.8 billion), equity divestments of €0.5 billion (2019: €1.0 billion) and a reduction of the euro value of US dollar-denominated assets resulted in operating assets[10] of €33.3 billion at end-2020, up from €31.8 billion at end-2019.

Operating assets comprised €28.8 billion of disbursed outstanding loans (2019: €27.1 billion) and €4.5 billion of disbursed outstanding equity investments at historic cost (2019: €4.7 billion) at 31 December 2020.

In addition to Annual Bank Investment, annual mobilised investment reached €1.2 billion, comprising €0.4 billion of direct mobilisation from the private sector, principally through syndicated and parallel loans and a further €0.5 billion of unfunded risk participations the Bank attracted on its own projects. In addition, the Bank mobilised €0.3 billion from public sector sources.

Total external financing (finance directly mobilised by the EBRD plus additional investment attracted by projects the Bank invested in) on signed EBRD projects reached €17.2 billion in 2020 compared with €25.1 billion in 2019, largely reflecting a substantial decrease in external financing from private non-bank sources.

The Bank's activities in 2020 remained strongly supported by donor funding, including the Special Funds, the Cooperation Funds and the Trust Funds to support the economic development of the West Bank and Gaza. These broad-based results reflect an ongoing commitment to the transition of members within the EBRD regions as they build and strengthen sustainable, inclusive, open market economies.

Financial performance

Banking operations recorded a net gain of €0.1 billion[11] for 2020, compared with the gain of €1.5 billion for 2019. The Banking profit for the year is primarily attributable to €0.3 billion in gains from equity investments and €0.8 billion of net interest and fee income, offset by €0.4 billion of expenses and depreciation and €0.5 billion of provisioning charges. In comparison to 2019, gains from equity investments fell by €0.8 billion, and provisioning charges increased by €0.5 billion, there being no significant provisioning charge in 2019. 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 2020 was €31.7 billion (2019: €32.0 billion) and borrowings were €48.2 billion (2019: €47.5 billion). The size of Treasury's balance sheet is primarily driven by the requirements of the Bank's internal liquidity policies. The 2020 funding programme was completed as planned with the Bank raising medium- and long-term debt of €13.1 billion (2019: €9.9 billion).

[7] 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.
[8] The Bank's loans and equity investments at cost together with undrawn commitments.
[9] Principal outflows from the Bank to a client or other agreed third parties.
[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 60 for further detail.

Financial performance

Before allowing for the impact of non-qualifying and ineffective hedges, Treasury returned a profit of €155 million in 2020 compared with the €140 million gain in 2019. Treasury's performance is internally evaluated before the impact of non-qualifying and ineffective hedges, which is considered to represent an accounting mismatch rather than an underlying economic gain or loss.[12] After allowing for hedge accounting adjustments Treasury's operating profit for 2020 was €152 million (2019: €95 million loss). Treasury's performance is primarily driven by the generation of net interest income and the fair 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 €29.8 billion and paid-in capital €6.2 billion. This is unchanged from 31 December 2019.

The calculation of capital for gearing purposes under the Agreement Establishing the Bank is explained in the "Capital management" section of this report on page 54.

Reserves

The Bank's reserves increased by €0.1 billion to €11.7 billion at the end of 2020.

Expenses

General administrative expenses for 2020, inclusive of depreciation and amortisation, were €466 million (2019: €435 million). The pound sterling equivalent of this figure was £394 million (2019: £388 million).

Outlook for 2021

This document was approved for issue by the Board of Directors on 14 April 2021. At this point it was clear that the Bank's outlook for 2021 might continue to be heavily influenced by the ongoing impact on the global economy of the Covid-19 pandemic.

The main elements contributing to volatility in the Bank's net earnings are the valuations of its equity portfolio and the level of expected credit losses within its loan book. The economic impact of the crisis could result in depressed profitability for the Bank in 2021 due to both downward pressure on the Bank's equity valuations and increases in loan impairment.

Nevertheless the Bank expects its capital strength and liquidity to remain ample to support its operations throughout 2021 and beyond.

[12] See note 9 on page 63 for a more detailed explanation.

Impact of Covid-19 in 2020

In 2020 it became clear that the Covid-19 pandemic would have a profound effect on the Bank and on all the economies in which it invests. The social and financial impacts of the pandemic had a significant impact on the Bank's operations, its financial performance, and its risks.

Operational impact

The Bank was the first international financial institution to approve a comprehensive series of response and recovery measures through its Solidarity Package. The Solidarity Package was first unveiled on 13 March 2020 with an initial €1 billion aimed at providing short-term liquidity, trade finance and working capital support for existing clients. The Bank later increased the size of this package to €4 billion and set out the parameters for a more comprehensive operational response. Given the rapid spread of the pandemic, the Bank decided to repurpose all of its planned lending for 2020 and 2021 of up to €21 billion to respond to the crisis and support the recovery in the economies in which it invests.

In addition, in the course of 2020, the Bank granted principal payment deferrals on 102 operations (with operating assets of €0.8 billion) to customers that were experiencing cash flow issues owing to the pandemic but for which there were no objective indicators of credit-impairment prior to the crisis.

Financial impact

The financial consequences of the Covid-19 pandemic had a significant impact on the Bank's financial performance during 2020. This impact was predominantly felt through volatility in the valuations of the Bank's equity investments, and through increases in the level of provisioning for loan impairment.

Global equity markets suffered a great deal of volatility throughout 2020 as changing expectations about the economic consequences of the pandemic affected market values and foreign exchange rates. The Bank's equity investments were exposed to the same market effects and fell sharply in value during the first quarter of the year. The remainder of the year saw these investments gradually recover, with the portfolio returning to profitability in the fourth quarter, making gains of €0.3 billion for 2020 as a whole.

Although not its sole cause, the impact of the pandemic also weakened certain exposures in the debt portfolio, contributing to an increase in non-performing loans from €1.2 billion at the end of 2019 to €1.6 billion at the end of 2020. Furthermore, those clients that had been granted principal payment deferrals were deemed, whilst remaining performing loans, to have suffered a significant increase in credit risk, and consequently the level of impairment recognised on their loans increased. As a result the Bank recognised a sizeable provisioning charge of €0.5 billion for the year. Nevertheless, other debt portfolio quality metrics have remained largely stable, as the relatively good credit quality of transactions signed in 2020 offset credit downgrades in most impacted sectors.

Risk impact

The Bank took a number of measures to monitor, mitigate and manage the effects of the pandemic on its operations, including health and safety steps protecting staff and clients and adjusting ways of working and methods of engaging with clients to the new reality, taking into account travel restrictions and social distancing measures.

The Bank increased its monitoring activities and the frequency of client interaction, especially for vulnerable exposures. It performed detailed sensitivity analysis on its large country portfolios with a focus on the key risks (liquidity, market, exchange rate and macro risks), to determine the appropriate courses of action with respect to liquidity support and new lending. Furthermore, by performing an enterprise-bank wide stress test especially calibrated to the crisis conditions, the Bank confirmed the adequacy of its strong capital buffer and substantial liquidity reserves to implement the business plan going forward.