21 July 2023

Sovereign & Public Sector

European Bank for Reconstruction and Development

SCOPE AAA STABLE OUTLOOK

Credit strengths

- Very strong mandate; ESG pioneer
- Excellent capitalisation
- Excellent access to capital markets
- Very high liquidity buffers
- Highly rated shareholders

Credit challenges

- Weaker asset quality and elevated NPLs compared to peers given high exposure to Turkey and Ukraine

Rating rationale and Outlook: The EBRD's AAA rating reflects its 'excellent' intrinsic strength and 'excellent' shareholder support. In detail:

- **Institutional profile:** The EBRD has a track record of excellent governance and a very strong mandate from its shareholders, being at the forefront of facilitating the transition to market and sustainable economies in its countries of operation. A potential capital increase to support activities in Ukraine is under consideration.

- **Financial profile:** The EBRD is highly capitalised and benefits from strong liquidity policies and conservative risk management practices. The bank's paid-in capital ratio of 21% is one of the highest among peers, while sustained profits in its core business have built its reserves. The bank's capital buffers of EUR 19.8bn fully absorb the 2022 loss of EUR 1.1bn, which was driven by the war in Ukraine. Prudent capital and liquidity management, along with excellent market access, are important mitigating factors for the EBRD's comparatively risky business profile.

  The bank's focus on the private sector in transition and EMEs, mostly via loans and equity investments, results in higher NPLs and volatile returns compared to peers. The NPL ratio rose to 7.8% as of Q1 2023 from 4.9% at end-2021. Still, at almost 60%, NPLs are well provisioned for. Finally, the bank's diversified portfolio across geographies, sectors and counterparties mitigates asset quality risk.

- **Shareholder support:** The EBRD benefits from a globally diversified, growing, highly rated shareholder base. The G7 holds more than 50% of its capital.

- **Outlook and triggers:** The Stable Outlook reflects our view that risks are balanced over the next 12 to 18 months. The ratings/Outlooks could be downgraded if, individually or collectively: i) the EBRD's asset quality deteriorated materially, resulting in sustained losses; and/or ii) liquidity buffers were significantly reduced.

Figure 1: Our assessment of the EBRD's rating drivers

Positive rating-change drivers

- Not applicable

Negative rating-change drivers

- Losses that reduce capital base
- Reduced liquidity buffers

Ratings and Outlook

Foreign currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

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Credit profile

We determine a capitalised supranational's rating by assessing its intrinsic strength based on its institutional and financial profiles and its shareholder support. We map these two assessments to determine an indicative rating range that can be adjusted by up to one notch to determine the final rating. For details, please see our methodology.

Intrinsic strength – Institutional profile: Very Strong

Scale	**Very Strong**	Strong	Moderate	Weak	Very Weak

When assessing the credit risk of supranationals, we place significant emphasis on the importance of their mandate for their shareholders and associated environmental, social and governance (ESG) considerations.

The EBRD's institutional profile is assessed as 'Very Strong'. This reflects its excellent governance and strong mandate from its shareholders, being at the forefront of facilitating the transition to market and more sustainable economies in its countries of operation.

Mandated activities

Mandate is to support transition to market economy, focus on private sector

Established in 1991 and owned by 73 shareholders, the EBRD seeks to promote the transition to a sustainable market economy and the emergence of a strong private sector through investments, policy reform and advisory projects in the nearly 40 countries it operates in across Europe, Asia and Africa. The bank's total assets amount to around EUR 71.6bn as of end-2022. It works mainly with private clients but also finances public entities that deliver essential infrastructure and services.

Environmental factors

Alignment with Paris Agreement to facilitate transition to carbon-neutral economy

The EBRD has aligned all its processes and activities with the mitigation and adaptation goals of the Paris Agreement since end-2022, reducing the risk of stranded assets and the reputational risk of pursuing activities, either directly or through counterparties, that are contradictory to its mandate and environmental objectives.

At a portfolio level, the EBRD's key climate-related target is the share of its projects classified as contributing to the Green Economy Transition (GET) initiative. The target was set at 32% of annual investment in 2016, increasing in a linear manner to reach 40% by 2020. In 2022, the GET share was again 50% in line with the revised 50% target to be reached by 2025, driven by the record amount of EUR 6.4bn invested in green projects.

Figure 2: EBRD's portfolio by maturity
EUR bn, % of total; 2021

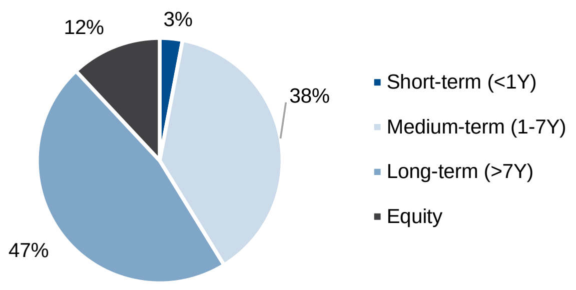
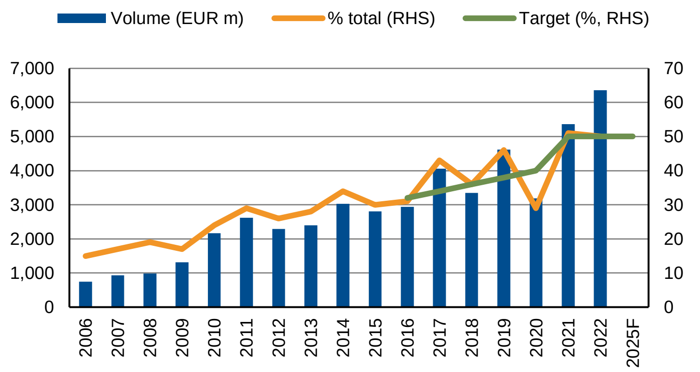


Figure 3: Green lending
EUR m (LHS); % of total operations (RHS)



Source: EBRD, Scope Ratings

Pioneering measures to integrate climate risk in its risk management and governance

The EBRD is advancing quickly and comprehensively to integrate climate risk into its risk management and governance frameworks, systematically assessing physical and transition risk for all new direct finance projects and advancing its climate stress-testing capacities using the Network for Greening the Financial System (NGFS)'s scenarios.

Climate risks assessed by time horizon, sector and geography

The EBRD uses three factors to assesses its climate-related credit risks: i) time horizon; ii) industry sector; and iii) geography. While 47% of the EBRD's portfolio is considered long-term, which could increase the bank's exposure to climate risk, 49% of these exposures are to sovereign or sovereign-guaranteed borrowers. Moreover, 89% of the long-term segment is exposure to sectors deemed to have low or moderate carbon transition risk, while the majority of the medium-term exposures is in non-EU countries, where the low carbon transition is generally expected to occur over a longer timeframe.

Physical and transition risks assessed by sector and counterparty

The EBRD also examines its portfolio exposure for climate risk via a high-level sectoral heatmap. It indicates that as of 2021 about 20% (10%) of its exposures are in sectors assessed as having 'high' or 'very high' transition (physical) risks, although the bank's sovereign exposure was not yet assessed for physical risks. Initial assessments at the counterparty level show that about 33% (20%) of the bank's counterparties have 'high' or 'very high' carbon transition (physical) risks[1].

Direct financing of fossil fuels phased out by 2025

To reduce its transition risks, the bank no longer finances the mining of thermal coal nor coal-fired electricity generation. The EBRD's coal-related exposure comprises EUR 0.9bn as of end-2021, with 95% of this exposure being indirect, which means proceeds are used to finance projects related to energy-efficiency improvements, renewables and CO_2 reduction. This exposure is mostly concentrated in Kazakhstan, Bulgaria, Serbia and Greece (totalling EUR 675m). These indirect exposures will mature by 2035, whereas the bank's EUR 49m of direct exposure to coal will mature by 2025.

Figure 4: EBRD's transition and physical risks
% of total portfolio, classified via sectors

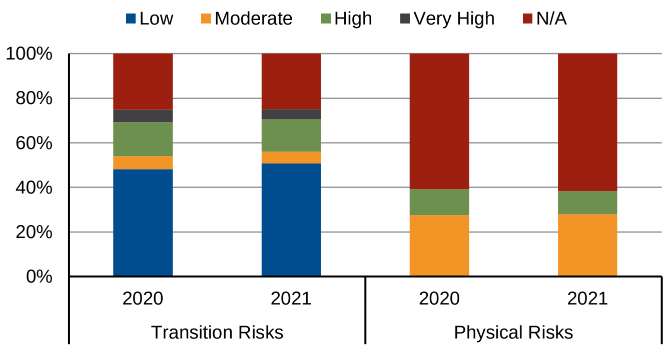
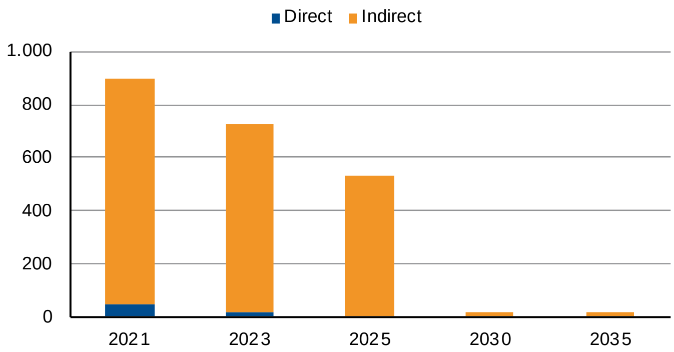


Figure 5: EBRD's declining coal exposure
EUR m



Source: EBRD, Scope Ratings

Evolving climate risk governance

Finally, the bank has established a dedicated climate risk team within the risk management department. The CRO has combined responsibility for the bank's environment and sustainability and risk management departments, climate risk assessments and verifying that projects and clients align with the Paris Agreement.

Overall, these pioneering measures – complementing the bank's environmental and social safeguards and general due diligence requirements – significantly reduce the risk of financing projects with high transition and physical risks. In addition, they further support the EBRD's role in mobilising private capital to achieve its environmental goals.

[1] Counterparty transition risks based on assessment of EUR 17.1bn of exposures (85% of corporate debt portfolio). Physical risk based on top 200 counterparties.

Social factors

Activities contribute to 14 of 17 SDGs

The EBRD's activities seek to make economies more competitive, well-governed, green, inclusive, resilient and integrated, contributing directly to 14 of the 17 UN Sustainable Development Goals.

Critical role for Ukraine reconstruction effort

Since the invasion of Crimea in 2014, the bank has suspended all new lending to Russia. More recently, since the outbreak of the Russia-Ukraine war, activities have also been suspended in Belarus, and the bank has committed an initial EUR 2bn resilience package to support businesses and public services in Ukraine and neighbouring countries.

Once conditions allow, we expect the EBRD to play an important role in the financing of the reconstruction of Ukraine. The bank committed to disburse up to EUR 3bn over 2022-23 (including the initial EUR 2bn) to support the functioning of Ukraine's economy and businesses, although the final disbursement may be lower. Given the high level of risk in the country, the EUR 3bn envelope will be prudently guaranteed at an average of 50% of total investment by shareholder donor funds.

Potential capital increase to support activities in Ukraine

The bank's expertise in the region is likely to underpin its critical role to support the international reconstruction effort of Ukraine over coming years. While this will absorb significant resources of the bank, its capital adequacy policies and prudential limits, including on concentration risks per country, constrain the bank's direct support to Ukraine. For this reason, reflecting the Board of Governors' full commitment to provide shareholder support for Ukraine, a proposal for a paid-in capital increase will be submitted for a final decision by the end of 2023.

Finally, we note positively that the bank administers several funds on behalf of donors (with inflows at record highs of EUR 2.1bn in 2022, up from EU 1.2bn in 2021) to provide technical assistance and grants to beneficiaries.

Governance

Globally diversified shareholder base

The EBRD is owned by 71 countries, the EU and the EIB. Voting rights correspond to each shareholder's respective share of the EBRD's subscribed capital (see Annex I). Compared to peers rated AAA, the bank benefits from a unique global distribution of shares, with G7 countries accounting for more than 50% of its share capital. The remainder is distributed evenly, resulting in low shareholder concentration overall with no single shareholder able to dominate strategic or operational activities.

Excellent governance, with strong internal and external controls

Each shareholder has an individual representative on the EBRD's board of governors, which has full authority over the bank and its strategic direction. The board of directors, comprising 22 directors representing one or more members and chaired by the bank's president, approves the bank's high-level policies, its country, sectoral and thematic strategies, and project operations. Most decisions require a two-thirds quorum of the total voting power of members and a simple majority (policy strategies require a two-thirds majority). The board of directors is assisted by an audit committee (responsible for financial statements, disclosures, internal controls, governance and ethics), a budget and administrative affairs committee and a financial and operations policies committee.

The annual accounts are reviewed by the bank's external auditor, and the bank's activities are verified to conform with best banking practices. Indeed, capital and liquidity are managed with comfortable buffers relative to self-imposed targets and internal policy requirements, underlining our overall positive assessment.

Intrinsic strength – Financial profile: Very Strong

We assess a capitalised institution's financial profile along three rating factors: i) capitalisation; ii) asset quality; and iii) liquidity and funding.

Scale	Excellent	Very Strong			Strong			Adequate			Moderate			Weak			Very Weak		
		+		-	+		-	+		-	+		-	+		-	+		-

The EBRD's financial profile is assessed as 'Very Strong'. This reflects its: i) 'excellent' capitalisation and ability to generate and retain capital; ii) 'adequate' portfolio quality with high NPLs and material equity exposure compared to peers; and iii) its 'excellent' liquidity coverage and 'strong' funding profile.

Capitalisation

Scale	+6	+5	+4	+3	+2	+1	0	-1	-2	-3

Our analysis focuses on the supranational's capacity to absorb losses, taking into account the long-term and counter-cyclical nature of its operations and its ability to generate and retain capital.

Agreement limits leverage to 1:1 ratio to available capital

Our assessment reflects the EBRD's conservative capital framework and its track record of generating and retaining capital. We use an implied leverage ratio as the cornerstone of our capitalisation assessment, which assumes that the EBRD operates at maximum leverage per Article 12 of its Establishing Agreement. This stipulates a 1:1 gearing ratio limiting the total amount of outstanding loans, share investments and guarantees to the total amount of the bank's unimpaired subscribed capital, reserves and surpluses. This Article will be amended, removing the statutory leverage limit going forward.

Very strong capitalisation

For now, for the numerator of this ratio, we include paid-in capital (EUR 6.2bn) and accumulated reserves and retained earnings (EUR 13.1bn) at end-2022. Together, these resources amount to EUR 19.3bn, slightly lower compared to EUR 20.3bn buffer at end-2021, due to the losses incurred in 2022 as a direct consequence of the war in Ukraine. For the denominator, we use the bank's total capitalisation, which amounted to EUR 43bn at end-2022 (EUR 42.5bn at end-2021), up from EUR 41.4bn in 2020.

The resulting capitalisation ratio remains very high after accounting for the impact of the Ukraine war, at 45% based on end-2022 figures, one of the highest among supranationals. We also note that the EBRD operates at a slightly higher actual capitalisation level of more than 49%, based on total disbursed loans of about EUR 30bn, guarantees (EUR 2.3bn) and share investments (EUR 4.9bn) as of end-2022.

Figure 6: Capitalisation vs peers
%, 3Y weighted-average

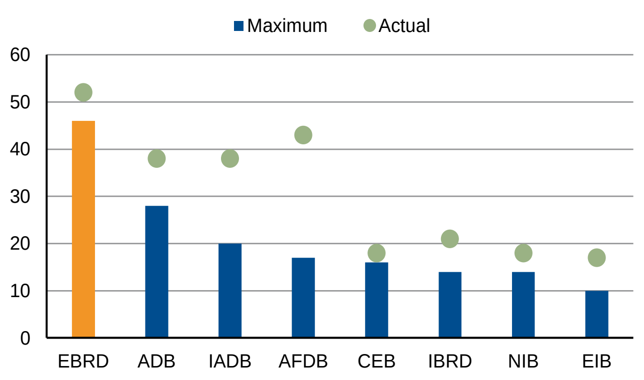
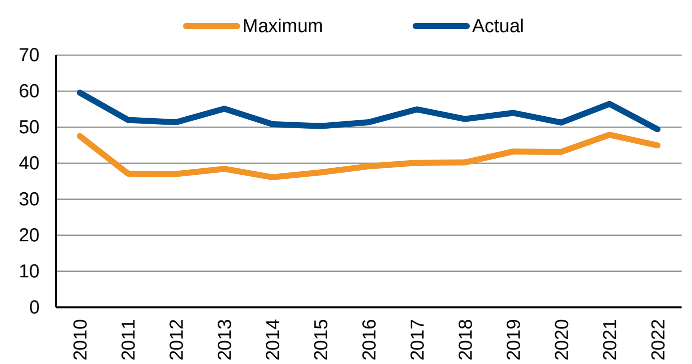


Figure 7: Capitalisation over time
%



Source: EBRD, Scope Ratings.

Capitalisation in line with self-imposed targets and policies

We note that the bank's self-reported gearing ratio based on disbursed assets stood at 83% as of end-2022. This is up from 71% in 2015 but still well below its policy threshold of 92%. Similarly, the bank's self-reported risk-based capital requirement ratio stood at 65%, down from 80% in 2015 and well below its policy threshold of 90%. We expect the bank to continue to adhere to its targets and policies, which will be reviewed next in 2025.

Figure 8: Capitalisation vs self-imposed limits
EUR bn; %

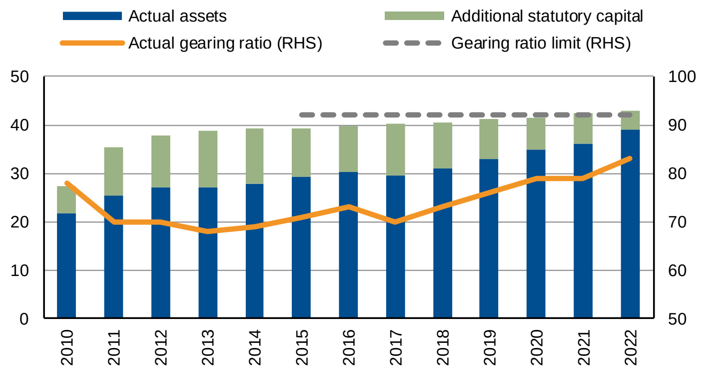
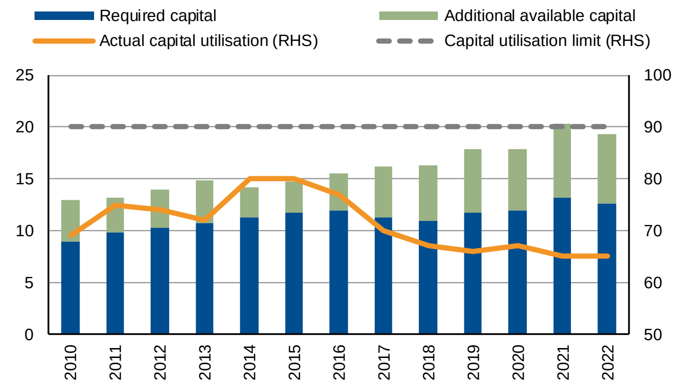


Figure 9: Risk-based capital utilisation
EUR bn; %



Source: EBRD, Scope Ratings.

Sustained underlying profits but volatile earnings due to equity valuations

In addition, we note positively the EBRD's ability to generate and retain profits, which further supports our overall capitalisation assessment. While the EBRD's returns are volatile, primarily driven by mark-to-market valuation changes in its equity portfolio, the realised equity gains in the past 10 years amount to EUR 1.9bn. The EBRD has thus demonstrated a continued ability to record strong and stable underlying profits over the past decade, supporting our positive assessment.

War in Ukraine led to loss in 2022

The bank has been profitable every year since 2010, except for 2014 and 2022. The war in Ukraine drove a revaluation of equity investments in Russia, Ukraine and Belarus, and a significant increase in stage 1 and 2 expected credit losses, resulting in a net loss of EUR 1.1bn for 2022. While this was the largest loss in the bank's history, its capital base remains very high at EUR 19.8bn, also driven by Q1 2023 profits of EUR 278m, supported by strong underlying operating income across all business segments and a gradual impairment release on its loans. We expect the bank to return to full-year profits this year, which we capture with a positive adjustment in our scorecard.

Figure 10: EBRD's return on equity
EUR bn; %

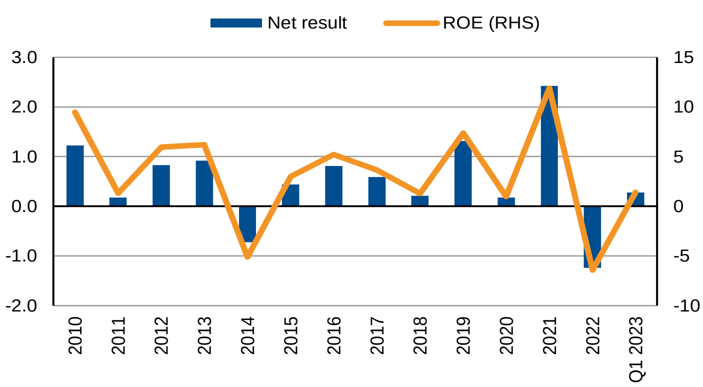
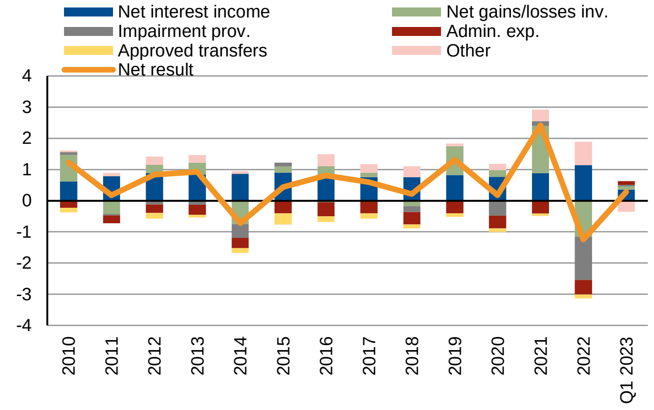


Figure 11: EBRD's retained net result
EUR bn



Source: EBRD, Scope Ratings

Asset quality

Scale	+5	+4	+3	+2	+1	0	**-1**	-2	-3

Our analysis is structured around a forward-looking qualitative assessment of the supranational's portfolio quality, including an evaluation of possible credit enhancements, and a quantitative assessment of the portfolio's past asset performance.

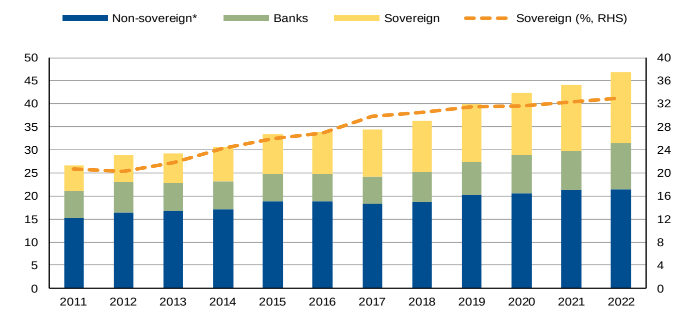
Weaker asset quality reflects challenging operating environment and mostly private sector exposures

The EBRD's 'adequate' asset quality reflects its relatively risky business profile, driven by its focus on private sector lending and equity investments in transition economies that are usually rated non-investment grade. The bank's NPL ratio and equity exposure are thus higher than most peers. We positively account for its widely diversified portfolio across geographies, sectors and counterparties.

Portfolio quality

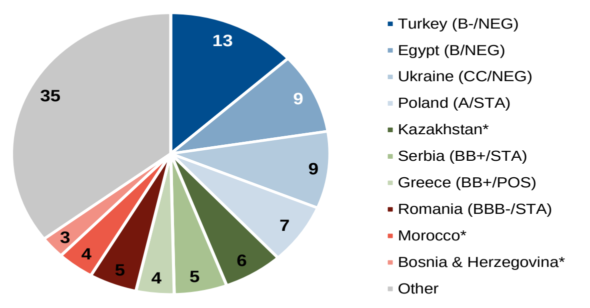
As of end-2022, the bank's total signed loan portfolio and guarantees increased to about EUR 46.9bn from EUR 44.1bn in 2021, markedly above the EUR 25bn seen in 2010. Of this, about 33% relates to sovereigns directly (up from 20% in 2011), 21% relates to banks and 46% to corporates. In terms of geographical exposure, we note that the EBRD's top 10 country exposures constitute around 65% of its total loans, with Turkey (B-/Negative), Egypt (B/Negative) and Ukraine (CC/Negative) comprising about one third of total exposures since 2017. The exposure to Russia has dramatically declined to less than 0.1% of total exposures as of end-2022, down from about 23% in 2010, while that to Ukraine is stable around 9% since 2018 and likely to grow near term.

Figure 12: EBRD's portfolio by type
EUR bn, %



*Excluding banks and sovereign exposures. Sovereign includes direct exposures and sovereign guaranteed exposures.

Figure 13: EBRD's portfolio by geographic exposure
%, 2022



*Assessed based on internal estimate.
Source: EBRD, Scope Ratings. Figures may not add up due to rounding.

We estimate the average borrower quality of the overall portfolio at around 'b', which corresponds to a 'weak' assessment per our methodology. We use the average sovereign rating and credit estimates of the top 10 country exposures as our starting point. Based on our sovereign ratings and internal estimates, the weighted average rating of these sovereign exposures is assessed 'bb'. We then adjust the average borrower quality for the private sector exposures downwards by one category for banks and, conservatively, two categories for corporates.

Figure 14: EBRD's estimated average borrower quality, 2022

Portfolio	EUR bn	%	Est. avg. quality
Sovereigns	15.5	33.0	bb
Banks	10.0	21.3	b
Corporates	21.4	45.7	b/ccc
Overall estimated portfolio quality	46.9	100.0	b

Source: EBRD, Scope Ratings. Estimated borrower qualities in lower case.

This conservative estimate is supported by the EBRD's internal grading system, according to which about 63% of its exposures are classified as 'weak' ('b') or worse and only about 13% are assessed as investment grade. The EBRD's weighted average probability of default rating has remained fairly constant, in the high 'b' category.

Figure 15: EBRD's portfolio by credit risk
%

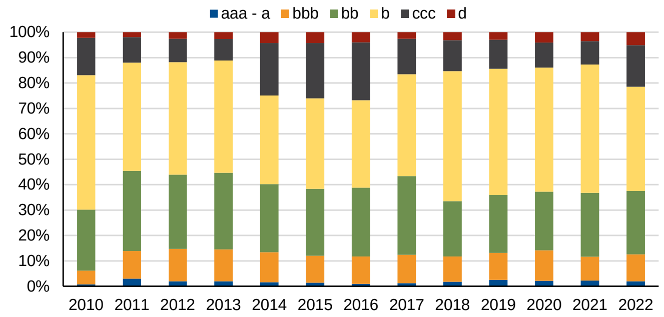
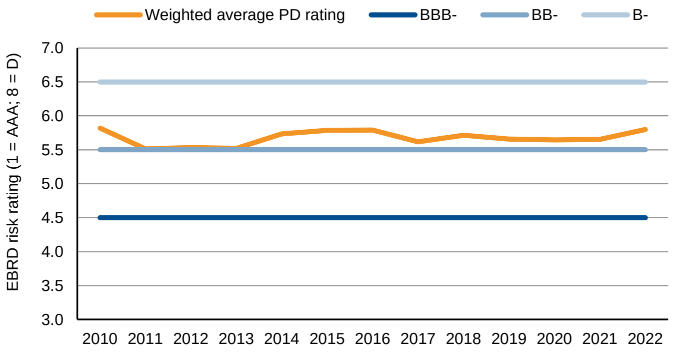


Figure 16: EBRD's weighted average PD rating
1 = AAA; 8 = D



Source: EBRD, Scope Ratings

Portfolio quality – credit enhancements

We provide some uplift to our initial estimate given the EBRD's credit enhancements, which improve our final assessment of portfolio quality to 'adequate' from 'weak' (see Annex III). This balances the EBRD's preferred creditor status, protection of its private sector exposures and well-diversified portfolio across regions, sectors and individual counterparties with its relatively high equity exposure.

Consistent record of benefiting from preferred creditor status

Specifically, for the EBRD's **sovereign and public sector exposures**, which comprise a 33% of the portfolio, we acknowledge the bank's track record of being exempt from debt restructuring. This was seen during the 1998 Russian crisis, the restructuring of Ukreximbank, and defaults by sovereign-guaranteed municipal borrowers in Tajikistan. We assess the EBRD's sovereign exposures as benefiting from preferred creditor status and expect this treatment to be confirmed during the current Russia-Ukraine crisis.

20%-40% of portfolio assessed as well protected

Moreover, the bank has security arrangements for about EUR 8bn (or 17%) of its loans. However, the fair value of this collateral is unknown and difficult to estimate as it closely correlates with the performance of underlying assets. Still, it may support the bank's negotiation leverage and thus help reduce overall credit risk. The EBRD has also EUR 1.6bn assets in unfunded risk participation agreements, which in the event of a client default, allow the bank to claim against the highly-rated insurance company. Overall, we thus estimate that about 20%-40% of the EBRD's portfolio is well protected.

Equity exposure

Elevated equity exposure in line with mandate

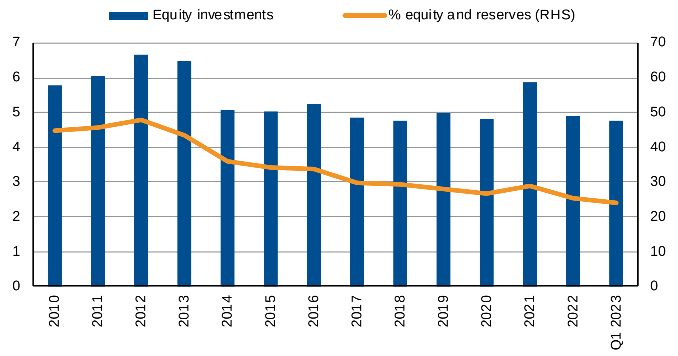
The EBRD's equity investments of about EUR 4.7bn as of Q1 2023 – of which about 33% are held via diversified equity funds – are elevated compared to peers but have remained broadly stable relative to its capital position. Given the lower valuations since the Russia-Ukraine war, these investments are just below 25% of available capital, the level at which we would conservatively adjust our final asset quality assessment.

Portfolio diversification

Highly diversified loan portfolio

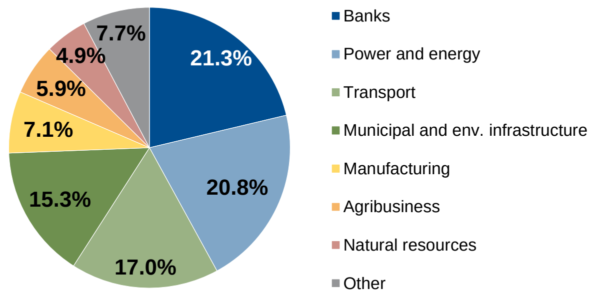
The EBRD's portfolio is highly diversified given its mandate to lend mostly to the private sector across several sectors and jurisdictions. Its lending policies establish counterparty and sector limits to ensure sufficient diversification of the loan portfolio. As a result, the top 10 nominal exposures amount to 18% of the EBRD's portfolio.

Figure 17: EBRD's equity exposure
EUR bn; % of equity and reserves



Note: Equity and reserves includes paid-in capital and reserves.

Figure 18: EBRD's loan portfolio split by sector
% total, end-2022



Note: Incl. guarantees and undrawn commitments. Source: EBRD, Scope Ratings

Asset performance

High non-performing loans…

Non-performing loans increased to around 7.8% of total loans in Q1 2023 (about EUR 2.3bn) from 4.9% as of end-2021 (EUR 1.5bn) on account of the war in Ukraine. This is above the bank's five-year average of about 6% and that of most of its peers. The majority of the EBRD's outstanding exposure in Russia (EUR 0.2bn), Belarus (EUR 0.4bn) and Ukraine (EUR 2.1bn) has been moved onto the watchlist and Stage 2, thus requiring provisioning.

Ukraine and Turkey key challenge; limited exposure in Russia and Belarus

In addition, Turkey also remains a key challenge for the EBRD's credit quality, comprising 20% of NPLs, after Ukraine (42%), and followed by Belarus (9%), and Lebanon (5%). Looking ahead, we expect the NPL ratio to remain high but stable in coming quarters, depending on developments in Ukraine, Turkey and Egypt. Still, if the full Ukraine portfolio were to become non-performing, which is not our baseline, the NPL ratio would likely exceed 10%.

…are well provisioned for; additional reserves further strengthen own resilience

Finally, we note positively that while Stage 3 provision cover has fallen from above 70% in 2017, it remains high at about 60% as of end-2022, up from 51% in 2021. Moreover, the EBRD's special and additional loan loss reserves total EUR 684m as of Q1 2023. Thus, while total coverage of NPLs via provisions and reserves has declined to slightly below 100% from around 250% in 2017, it remains very high, supporting the EBRD's resilience.

Figure 19: Elevated NPL ratio...
EUR bn; % of total loans

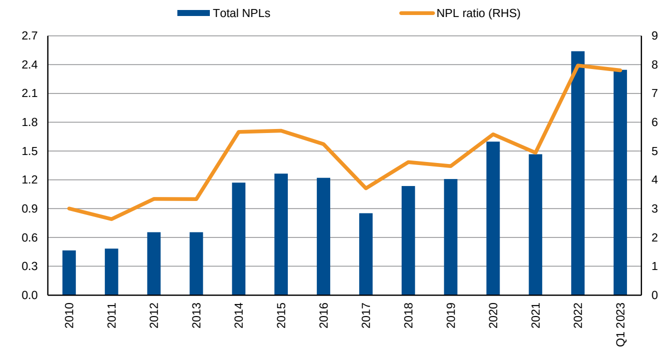
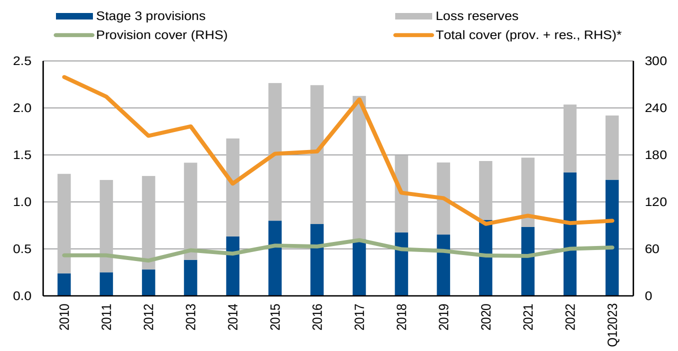


Figure 20: …but well provisioned for
EUR bn; %



* Provisions prior to 2018 relate to 'specific provisions for identified impairment' Loss reserves includes 'special' and 'loan loss reserve'. Source: EBRD, Scope

Liquidity and funding

Scale	+8	**+7**	+6	+5	+4	+3	+2	+1	0	-1	-2	-3	-4

Our analysis focuses on the supranational's: i) available liquid assets to meet financial obligations and expected disbursements over an extended period; and ii) funding operations, including the stability and diversification of its market access.

Our assessment reflects the EBRD's 'excellent' liquid assets coverage and market access, given its global benchmark issuer status and diversified funding base.

Liquidity coverage

Conservative liquidity policies; high liquid assets

Our assessment reflects the EBRD's conservative liquidity management, particularly its medium-term liquidity requirements for: i) net treasury liquid assets to cover at least 75% of the next two years' projected net cash requirements; and ii) the bank to meet its obligations for at least 12 months under extreme stress. Actual coverage stood at 160% and 145% as of Q1 2023, significantly above its 75% and 100% policy limits.

We note that the bank's prudent liquidity management results in a stable level of liquid assets, which we estimate at around EUR 29.7bn for YE 2022, slightly below the EUR 32.1bn figure for 2021. We include assets that are the least sensitive to sudden market or interest rate changes, specifically, cash and cash equivalents (EUR 6.6bn), deposits (EUR 14.8bn) and highly rated debt securities (EUR 8.3bn)[2].

Moderate liabilities due within the next 12 months

Conversely, liabilities maturing within a 12-month period amounted to EUR 13.8bn (2021: EUR 12.0bn), while gross disbursements for 2023 are estimated at EUR 7.5bn (2022: EUR 8.8bn). This brings our proxy of total liabilities due within one year to around EUR 21bn at YE 2022. We include disbursements to reflect the EBRD's mandate to continue its activities when economic and financial circumstances deteriorate.

Figure 21: EBRD liquid assets, liabilities and disbursements

EUR bn, %

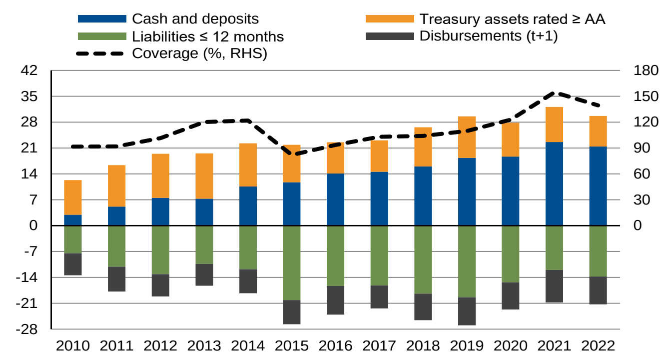
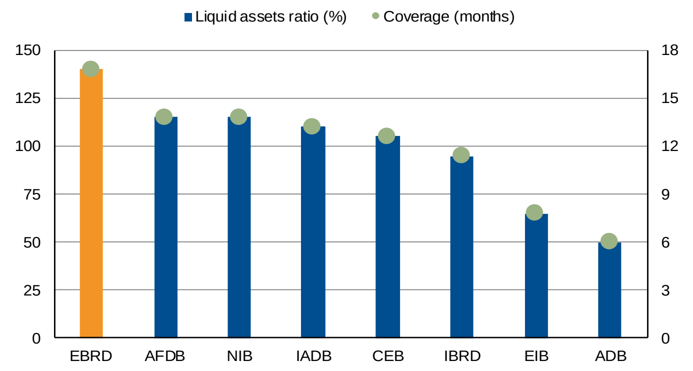


Figure 22: Liquid assets ratio and coverage of obligations

%, coverage without market access months (RHS), 2020-22



NB. 50% implies coverage of all obligations for a period of six months without the need to access capital markets. Weighted three-year average 2019-21.
Source: EBRD, Scope Ratings

Excellent liquidity coverage

On this basis, reflecting the EBRD's conservative liquidity management, we calculate a three-year weighted average liquid assets ratio of around 140% for 2020-22. This ratio implies that all outstanding liabilities and all committed disbursements due within a year can be financed for about 18 months using available liquid assets, without needing to access capital markets. This ratio is exceptionally strong, even compared to peers, and it has remained above 100% every year since 2017.

[2] We include debt securities with an EBRD internal rating of 'excellent' or 'very strong', which correspond to ratings above the AA- threshold of our methodology.

Funding

Regulatory preference but not included in ECB's bond purchase programmes

The EBRD's excellent market access reflects its global benchmark and frequent issuer status as well as its highly diversified funding strategy in terms of currencies and instruments, providing the bank with a stable source of funding for its operations. EBRD bonds are designated as high-quality liquid assets under the Basel Framework but are not included in the ECB's asset purchase programmes.

Global benchmark issuer, mostly in US dollars but also euros and British pounds

The EBRD's annual funding volume has increased markedly over the past few years, peaking at EUR 13.1bn in 2020, before declining to EUR 6.7bn in 2022 (EUR 9.6bn in 2021), in line with the 2010-19 average. However, it remains below that of some of its peers, such as the EIB, the IBRD and the ADB. As of Q1 2023, the EBRD had already funded EUR 5.2bn of its targeted EUR 10bn borrowing programme for the year.

Leading green bond issuer

As a leading supranational green and social bond issuer, the EBRD issues green and social bonds in accordance with the Green Bond Principles (GBP) and Social Bond Principles (SBP). The EBRD issues three types of green bonds: Environmental Sustainability Bonds (EUR 5.7bn since 2010), Climate Resilience Bonds (EUR 1.2bn since 2019) and Green Transition Bonds (EUR 1.6bn since 2019). Social bonds (EUR 1.1bn) finance the EBRD's microfinance portfolio and operations in the health sector.

As of 2022, about 16% of the bank's outstanding issuance was related to green and social bonds. We expect this share to increase further as the bank aims for a green lending share of at least 50% of annual new lending by 2025. Moreover, green issuance is linked (and limited to 90% for ESBs and 80% for CRBs and GTBs) to the bank's green asset portfolio.

Figure 23: Annual funding volume vs peers
EUR bn, three-year average 2020-22

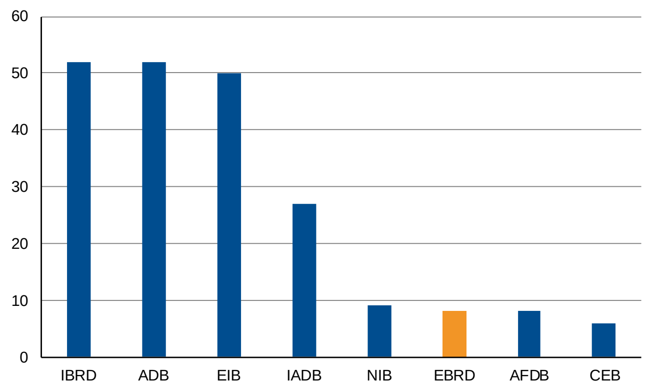
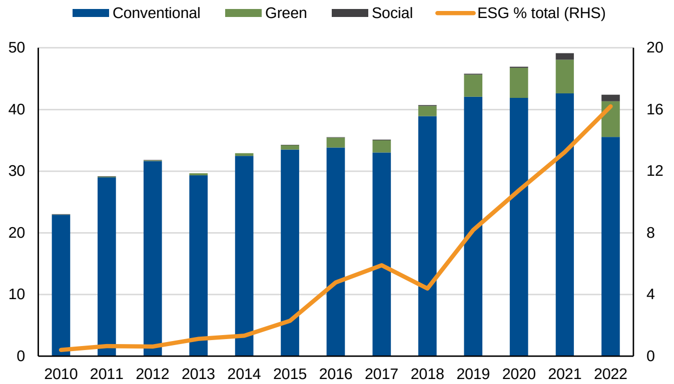


Figure 24: Outstanding issuance, including ESG-related
EUR bn; % total (RHS)



Source: Scope Ratings, EBRD, respective supranationals

Globally diversified investor base

In addition, reflecting its appeal to global investors, the EBRD benefits from a broad and very diversified investor base led by investors in the EMEA region (64%), followed by the Americas (24%) and Asia (13%) per Q1 2023. Most of them are fund managers, pension and insurance funds (44%), bank treasuries (30%) or central banks (25%) per Q1 2023.

Diversified currency mix and leading emerging-market currency issuer

The EBRD's funding activities combine the issuance of large liquid benchmarks in US dollars with issuances in euros, British pounds and several other currencies (62 since inception). Total outstanding debt was EUR 40.5bn as of Q1 2023, of which about half was in US dollars before swaps. The EBRD provides local currency financing to clients, demonstrating its agency and ability to develop capital markets. As of Q1 2023, about 20% of its outstanding debt before swaps was in emerging market currencies, with the largest shares in Turkish lira (4.2% of total) and the Kazakh tenge (3.6%).

Limited risks from longer-term liabilities coming due

Finally, we also note positively that the EBRD has a stable redemption profile over the coming years. Medium-term liabilities (EUR 42.8bn; 2021: EUR 45.0bn) are almost fully covered by assets with the same maturity horizon (EUR 37.1bn; 2021: EUR 36.6bn), reducing sudden funding needs. This coverage is among the highest among its peers.

Figure 25: Distribution by currency
% total outstanding

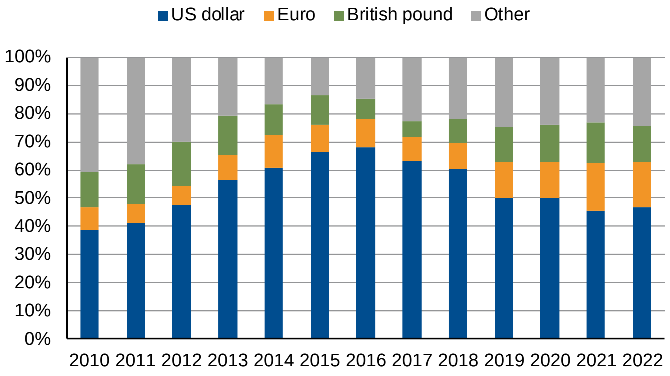
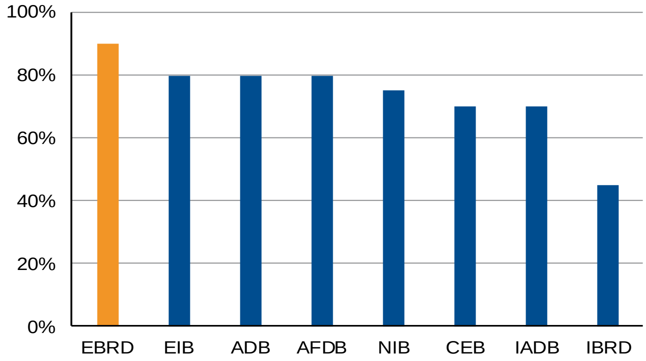


Figure 26: Coverage of medium-term liabilities
%, three-year average 2020-22



Source: EBRD, Scope Ratings, respective supranationals

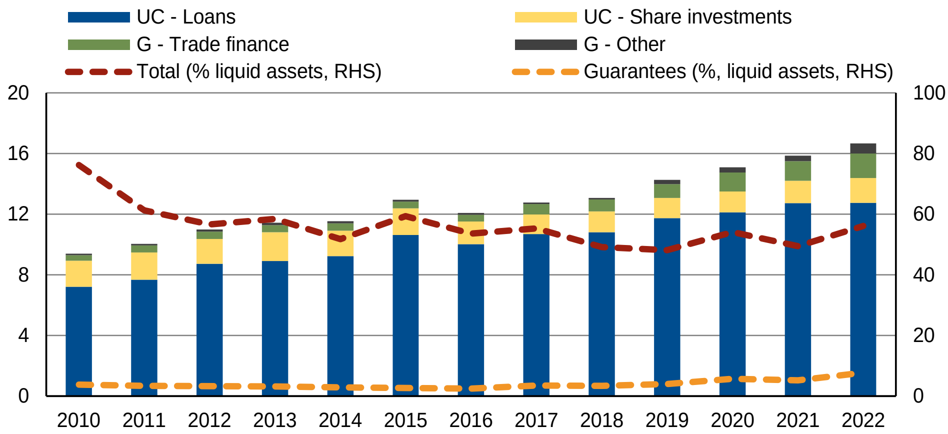
Additional liquidity considerations

To complete our liquidity assessment, we look at contingent liabilities, interest rate and foreign exchange rate risks, derivatives and collateral management practices.

No adjustment for rising contingent liabilities

The risk from the EBRD's guarantees and undrawn commitments, which have grown to EUR 16.7bn in 2022 (or about 56% of our estimate of the bank's liquid assets) from EUR 9bn in 2010, is curtailed by the fact that most of these commitments relate to public sector loans, not guarantees that can be readily drawn. As these constitute only about 8% of liquid assets, we have made no negative adjustment to our liquidity assessment.

Figure 27: Undrawn commitments and guarantees
EUR bn; %



UC = Undrawn commitments; G = guarantees.
Source: EBRD, Scope Ratings

No adjustments for interest rate, foreign exchange or derivatives exposures

The EBRD's main source of interest rate risk stems from movements in funding or lending spreads. Currency operations are only conducted for lending operations or commitments arising from loans or guarantees. Derivative instruments are mainly used for asset and liability management of these exposures, not for trading.

Shareholder support: Excellent

We assess an institution's shareholder support primarily via the weighted average rating of its key shareholders. This may be adjusted in case of a meaningful overlap between the key shareholders providing support and the countries of operation, as well as for any extraordinary support measures.

Scale	**Excellent**	Very High	High	Moderate

The EBRD's shareholder support is assessed as 'Excellent'. This reflects its key shareholders' ability and demonstrated willingness to provide financial support in case of need.

Key shareholder rating

Highly rated key shareholders

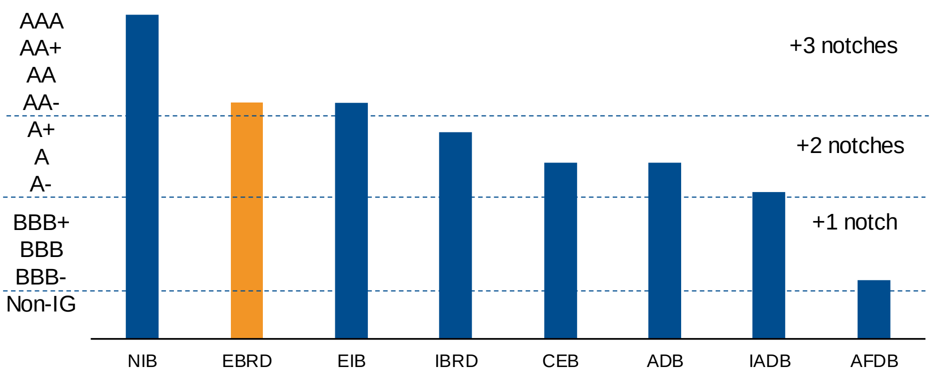
The EBRD's highly rated shareholders include the United States (AA/Negative), Japan (A/Negative), the UK (AA/Stable) and all EU-27 member states (weighted average rating of AA-). This is one of the highest key shareholder ratings among supranationals, which drives our assessment of EBRD shareholders' ability to provide support if ever needed. We also note that 24 of the bank's 73 shareholders are rated AA- or above[3], constituting around 64% of its capital subscription. This provides additional confidence about shareholders' ability to provide support.

Figure 28: Key shareholders

Key shareholders	Rating	Capital subscription (%)	
		Original	Adjusted
United States	AA/Negative	10.1	12.3
France	AA/Negative	8.6	10.5
Germany	AAA/Stable	8.6	10.5
Italy	BBB+/Stable	8.6	10.5
Japan	A/Negative	8.6	10.5
UK	AA/Stable	8.6	10.5
Russia		4.0	4.9
Other*	AAA	24.6	30.1
		81.7	**100.0**
Key shareholder rating			**AA-**

*Includes Canada, Spain (A-), EIB, EU, Netherlands, Austria, Sweden, Switzerland (all AAA) and Belgium (AA-). Russia withdrawn in line with EU regulations. Source: EBRD, Scope Ratings. Figures may not add up due to rounding.

Figure 29: EBRD's key shareholder rating vs peers



Source: Scope Ratings, respective supranationals

[3] We rely on internal estimates for sovereigns not publicly rated.

No overlap between key shareholders and countries of operation

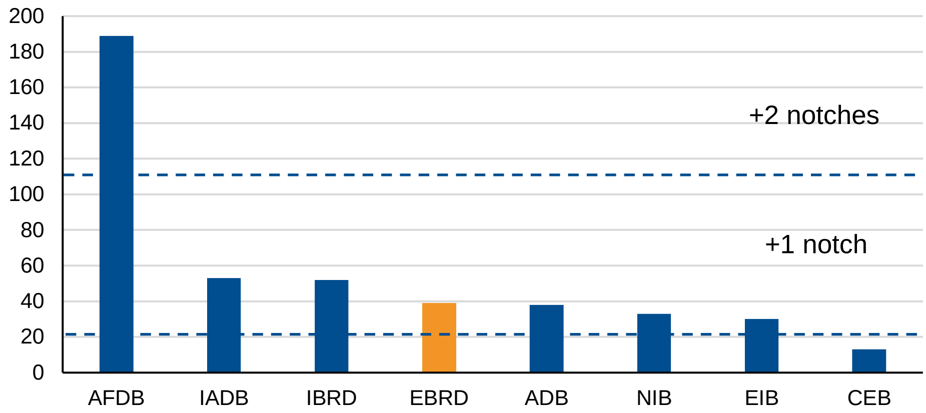
We also note positively that, contrary to its peers, the EBRD's key shareholders are not the main countries of its operations, particularly since the bank's loan exposure to Russia has markedly declined from above 20% in 2012 to below 0.4% in 2022. Hence, there is no risk that material credit deterioration could arise simultaneously in the countries that are expected to provide support if ever needed.

Extraordinary support

Adequate, high-quality callable capital coverage of mandated assets

To complement our assessment of shareholder support, we also look at the quality of the EBRD's callable capital in relation to its mandated outstanding assets. Here, we note that about EUR 15bn in callable capital is provided by sovereigns rated above AA-, which covers about 40% of the EBRD's mandated assets of about EUR 39bn. This coverage is in line with peers.

Figure 30: Adequate coverage of mandated assets by high-quality callable capital
%, callable capital rated ≥ AA-/mandated assets



Source: Scope Ratings, respective supranationals

High paid-in capital share demonstrates willingness to provide financial resources

We also note that, in addition to the indirect support provided by shareholders' political and economic strength, the shareholders have paid in about 21% of share capital, the highest such ratio among development banks rated AAA.

Moreover, the EBRD has a proven track record of increasing its authorised, paid-in and callable capital stock. In 1996, its board of governors approved a doubling of its authorised capital stock to EUR 20bn from the original EUR 10bn.

Track record of successful capital increases

More recently, in May 2010, the board approved a 50% increase in authorised capital to EUR 30bn, consisting of EUR 1bn in paid-in capital via the conversion of existing reserves and EUR 9bn in callable capital. The increase in callable capital became effective on 20 April 2011, when subscriptions were received for at least 50% of the newly authorised callable capital. Subscriptions were originally scheduled to be received on or before 30 April 2011, but the board of directors extended this date three times, first to 30 June 2012, then to 31 December 2012 and finally to 11 May 2014.

In 2015, the board of governors agreed that no callable capital shares would be redeemed and that the redemption and cancellation provisions would be removed. This resulted in a permanent increase in subscribed capital, strengthening the bank's capital base and demonstrating its strong shareholder commitment.

Potential capital increase to support activities in Ukraine

Finally, in 2023, the board of governors stated their full commitment to support Ukraine, both at war and in the reconstruction phase. A proposal, including a potential EUR 3-5bn paid-in capital increase will be submitted for a final decision by the board of governors by the end of 2023, which would further bolster the bank's very strong shareholder support.

Indicative rating: AAA

We first map the assessments for the institutional and financial profiles to determine the supranational's intrinsic strength. In a second step, we map this assessment against shareholder support to determine the indicative rating.

Figure 31a: Mapping institutional and financial profiles for the EBRD

	Intrinsic Strength	Institutional Profile				
		Very Strong	Strong	Moderate	Weak	Very Weak
Financial Profile	*Excellent*	Excellent	Excellent	Excellent	Very Strong (+)	Very Strong
	Very Strong (+)	Excellent	Excellent	Very Strong (+)	Very Strong	Very Strong (-)
	Very Strong	Excellent	Very Strong (+)	Very Strong	Very Strong (-)	Strong (+)
	Very Strong (-)	Very Strong (+)	Very Strong	Very Strong (-)	Strong (+)	Strong
	Strong (+)	Very Strong	Very Strong (-)	Strong (+)	Strong	Strong (-)
	Strong	Very Strong (-)	Strong (+)	Strong	Strong (-)	Adequate (+)
	Strong (-)	Strong (+)	Strong	Strong (-)	Adequate (+)	Adequate
	Adequate (+)	Strong	Strong (-)	Adequate (+)	Adequate	Adequate (-)
	Adequate	Strong (-)	Adequate (+)	Adequate	Adequate (-)	Moderate (+)
	Adequate (-)	Adequate (+)	Adequate	Adequate (-)	Moderate (+)	Moderate
	Moderate (+)	Adequate	Adequate (-)	Moderate (+)	Moderate	Moderate (-)
	Moderate	Adequate (-)	Moderate (+)	Moderate	Moderate (-)	Weak (+)
	Moderate (-)	Moderate (+)	Moderate	Moderate (-)	Weak (+)	Weak
	Weak (+)	Moderate	Moderate (-)	Weak (+)	Weak	Weak (-)
	Weak	Moderate (-)	Weak (+)	Weak	Weak (-)	Very Weak (+)
	Weak (-)	Weak (+)	Weak	Weak (-)	Very Weak (+)	Very Weak
	Very Weak (+)	Weak	Weak (-)	Very Weak (+)	Very Weak	Very Weak (-)
	Very Weak	Weak (-)	Very Weak (+)	Very Weak	Very Weak (-)	Very Weak (-)
	Very Weak (-)	Very Weak (+)	Very Weak	Very Weak (-)	Very Weak (-)	Very Weak (-)

Figure 31b: Mapping intrinsic strength and shareholder support for the EBRD

	Indicative Rating		Shareholder Support			
			Excellent	Very High	High	Moderate
Intrinsic Strength	Excellent		AAA	AAA	AAA / AA	AA+ / AA-
	Very strong	+	AAA	AAA / AA	AA+ / AA-	AA / A+
			AAA / AA	AA+ / AA-	AA / A+	AA- / A
		-	AA+ / AA-	AA / A+	AA- / A	A+ / A-
	Strong	+	AA / A+	AA- / A	A+ / A-	A / BBB+
			AA- / A	A+ / A-	A / BBB+	A- / BBB
		-	A+ / A-	A / BBB+	A- / BBB	BBB+ / BBB-
	Adequate	+	A / BBB+	A- / BBB	BBB+ / BBB-	BBB / BB+
			A- / BBB	BBB+ / BBB-	BBB / BB+	BBB- / BB
		-	BBB+ / BBB-	BBB / BB+	BBB- / BB	BB+ / BB-
	Moderate	+	BBB / BB+	BBB- / BB	BB+ / BB-	BB / B+
			BBB- / BB	BB+ / BB-	BB / B+	BB- / B
		-	BB+ / BB-	BB / B+	BB- / B	B+ / B-
	Weak	+	BB / B+	BB- / B	B+ / B-	B / CCC
			BB- / B	B+ / B-	B / CCC	B- / CCC
		-	B+ / B-	B / CCC	B- / CCC	CCC
	Very Weak	+	B / CCC	B- / CCC	CCC	
			B- / CCC	CCC		
		-	CCC	CCC		

Source: Scope Ratings.

Additional considerations

We acknowledge the heterogeneity of supranationals and include in our assessment idiosyncratic factors that may affect the creditworthiness of the supranational.

In the case of the EBRD, we have not made an adjustment to our indicative rating.

Rating history

Date	Rating Action	Outlook
10 July 2020	AAA	Stable

Source: Scope Ratings

I Shareholders: European Bank for Reconstruction and Development

EUR m

EBRD shareholders	Paid-in capital	Callable capital	Subscribed capital	Key (%)	Rating	Callable capital ≥ AA-
United States	626.04	2,375.44	3,001.48	10.09	AA	2,375.44
France	533.23	2,023.28	2,556.51	8.59	AA	2,023.28
Germany	533.23	2,023.28	2,556.51	8.59	AAA	2,023.28
Italy	533.23	2,023.28	2,556.51	8.59	BBB+	
Japan	533.23	2,023.28	2,556.51	8.59	A	
United Kingdom	533.23	2,023.28	2,556.51	8.59	AA	2,023.28
Russian Federation	250.41	950.17	1,200.58	4.03		
Canada	212.85	807.64	1,020.49	3.43		807.64
Spain	212.85	807.64	1,020.49	3.43	A-	
European Investment Bank	187.81	712.63	900.44	3.03	AAA	712.63
European Union	187.81	712.63	900.44	3.03	AAA	712.63
Netherlands	155.25	589.10	744.35	2.50	AAA	589.1
Austria	142.73	541.59	684.32	2.30	AAA	541.59
Belgium	142.73	541.59	684.32	2.30	AA-	541.59
Sweden	142.73	541.59	684.32	2.30	AAA	541.59
Switzerland	142.73	541.59	684.32	2.30	AAA	541.59
Key shareholders*	**5,070.09**	**19,238.01**	**24,308.10**	**81.68**	**AA-**	**13,433.64**
Other 57 shareholders	1,147.36	4,303.28	5,450.64	18.32		1,878.97
Total	6,217.5	**23,541.3**	**29,758.7**	**100.0**		**15,312.6**

We include shareholders whose cumulative capital share, starting from the largest shareholder, comprises at least 75% of the supranational's capital. We add all marginal shareholders with identical capital subscription to calculate the key shareholder rating.

Source: EBRD, Scope Ratings. Figures may not add up due to rounding.

II Scope's supranational scorecard: European Bank for Reconstruction and Development

		Risk factors		Variables	Unit	+4	+3	+2	+1	0	-1	-2	EBRD Value	EBRD Assessment	EBRD Notches
Intrinsic Strength	Institutional Profile	Mandate & ESG (-2; +2)	Mandate	Importance of mandate	Qualitative	--	--	--	Very High	High	Declining	--	--	Very High	1
				Social factors	Qualitative	--	--	--	Strong	Medium/ N/A	Weak	--	--	Strong	
				Environmental factors	Qualitative	--	--	--	Strong	Medium/ N/A	Weak	--	--	Strong	
			Governance	Shareholder concentration	HHI	--	--	--	--	≤ 1500	> 1500	--	600.0	Strong	1
				Shareholder control	%	--	--	--	--	≤ 25	> 25	--	10.0	Strong	
				Strategy and internal controls	Qualitative	--	--	--	Strong	Medium	Weak	--	--	Strong	
	Institutional Profile													**Very Strong**	
	Financial Profile	Capitalisation (-3; +6)		Capital/ Potential assets	%	≥ 30	< 30; ≥ 20	< 20; ≥ 15	< 15; ≥ 10	< 10; ≥ 7.5	< 7.5; ≥ 5	< 5	46.0	Excellent	4
				Capital/ Actual assets*	%	--	--	--	≥ 30	< 30	--	--	52.0	Excellent	1
				Profitability (Return on equity)	%	--	--	--	≥ 3	< 3; ≥ 0	< 0	--	0.0	Moderate	0
		Trend (-1; +1)													1
		Asset quality (-3; +5)	Portfolio quality	Incl. risk mitigants	Qualitative	--	--	Very Strong	Strong	Adequate	Moderate	Weak	Adequate	Adequate	0
			Asset performance	NPLs	% total loans	--	≤ 0.5	> 0.5; ≤ 1	> 1; ≤ 3	> 3; ≤ 5	> 5	--	6.8	Weak	-1
		Trend (-1; +1)													0
		Liquidity & funding (-4; +8)		Liquid assets ratio	%	> 100	≤ 100; > 75	≤ 75; > 50	≤ 50; > 25	≤ 25; > 15	≤ 15; > 10	≤ 10	140.0	Excellent	4
			Funding	Maturity gap	Multiple	--	--	--	≥ 0.75	< 0.75; ≥ 0.5	< 0.5	--	0.9	Strong	1
				Funding volume	EUR or USD bn	--	--	≥ 25	< 25; ≥ 5	< 5; ≥ 2	< 2	--	8.0	Strong	1
				Currency diversification	Top 1 share	--	--	--	≤ 70	> 70	--	--	47.0	Strong	1
		Trend (-1; +1)													0
	Financial Profile													**Very Strong**	
Intrinsic Strength														**Excellent**	
Shareholder Support		Shareholder strength (0; +3)		Weighted average rating of key shareholders	Avg. rating	--	≥ AA-	≥ A-	≥ BBB-	< BBB-	--	--	--	AA-	3
				Share of portfolio related to key shareholders	%	--	--	--	--	≤ 50	> 50	--	0.0	Low / No adjustment	
				Adjusted key shareholder rating	Avg. rating	--	--	--	--	--	--	--	--	AA-	
		Extraordinary Support (0; +2)		Callable capital [rated ≥ AA-]/ Actual assets	%	--	--	≥ 100	< 100; ≥ 20	< 20	--	--	41.0	Strong	1
				Additional support mechanisms	Qualitative	--	--	Very Strong	Strong	N/A	--	--	N/A		
Shareholder Support														**Excellent**	
Indicative Rating														**AAA**	
Additional considerations (-1; +1)														Neutral	
Final Rating														**AAA**	

Figures in the financial profile relate to a weighted three-year average for 2020-22.

Source: Scope Ratings

III Asset quality assessment

Portfolio quality (initial assessment)	Very Strong	Strong	Adequate	Moderate	Weak
Indicative borrower quality	aaa/aa	a	bbb	bb	b/ccc
Notches	+2	+1	0	-1	-2

Adjustments		Indicator	Assessment/ Thresholds								
Points			+5	+4	+3	+2	+1	0	-1	-2	-3
Credit Protection	Sovereign PCS Private sector secured	*% of loan portfolio*	100	≥ 80	≥ 60	≥ 40	≥ 20	< 20			
Diversification	Geography	*HHI*				≤ 1000	≤ 2000	> 2000			
	Sector	*HHI*					≤ 2000	> 2000			
	Top 10 exposures	*% of loan portfolio*				≤ 25	≤ 75	> 75			
Equity Exposure		*% of equity*						≤ 25	> 25	> 50	> 75

Total points	+6
Adjustments	+2 categories

Portfolio quality (final assessment)	Very Strong	Strong	Adequate	Moderate	Weak
Notches	+2	+1	0	-1	-2

Source: Scope Ratings. Three points usually correspond to one assessment category. In the case of the EBRD, this implies up to two higher categories from the initial portfolio quality assessment based on the estimated average borrower quality.

IV Statistical tables

	2017	2018	2019	2020	2021	2022
Capitalisation (EUR m)						
Mandated potential assets	40,300.0	40,500.0	41,200.0	41,400.0	42,500.0	43,000.0
Mandated (disbursed) assets	29,425.0	31,120.0	33,026.0	34,900.0	35,994.0	39,120.0
Capitalisation ratio, potential (%)	40.1	40.2	43.3	43.2	47.9	45.0
Capitalisation ratio, actual (%)	55.0	52.3	54.0	51.3	56.5	49.4
Profitability (EUR m)						
Net income (incl. transfers)	592.0	210.0	1,315.0	175.0	2,422.0	- 1,240.0
Return on equity (%)	3.7	1.3	7.4	1.0	11.9	- 6.4
Asset quality (EUR m)						
Total gross loans	23,002.0	24,610.0	27,021.0	28,615.0	29,690.0	31,862.0
of which in Turkey, Egypt and Ukraine (%, total)	35.6	34.6	34.0	32.4	32.6	31.3
Non-performing loans / gross loans (%)	3.7	4.6	4.5	5.6	4.9	8.0
Stage 3 provisions (%, NPLs)	71.0	59.5	57.3	51.5	51.0	60.0
Equity investments	4,834.0	4,745.0	4,991.0	4,796.0	5,850.0	4,885.0
Equity investments (% equity and reserves)	29.9	29.1	28.0	26.8	28.8	25.3
Liquidity (EUR m)						
Liquid assets and undrawn credit facilities	23,082.0	26,605.0	29,599.0	27,864.0	32,099.0	29,696.0
Cash and deposits	14,605.0	16,014.0	18,368.0	18,681.0	22,619.0	21,402.0
Treasury assets rated AA- or above	8,477.0	10,591.0	11,231.0	9,183.0	9,480.0	8,294.0
Liabilities ≤ 12 months and disbursements	22,385.0	25,596.0	26,972.0	22,658.0	20,758.0	21,295.0
Liabilities ≤ 12 months	16,185.0	18,396.0	19,372.0	15,358.0	11,958.0	13,795.0
Disbursements over the next 12 months	6,200.0	7,200.0	7,600.0	7,300.0	8,800.0	7,500.0
Liquid assets ratio (%)	103.1	103.9	109.7	123.0	154.6	139.5
Funding (EUR m)						
Issuance outstanding	35,116.0	40,729.0	45,821.0	46,926.0	49,126.0	42,418.0
USD (%)	63.2	60.4	50.1	50.1	45.7	46.9
EUR (%)	8.5	9.3	12.8	12.9	16.7	16.0
GBP (%)	5.7	8.6	12.4	13.1	14.6	12.7
ESG issuance outstanding	2,072.8	1,787.7	3,751.7	5,048.7	6,503.4	6,873.0
% total	5.9	4.4	8.2	10.8	13.2	16.2
Equity (EUR m)						
Paid-in capital	6,211.0	6,215.0	6,217.0	6,217.0	6,217.0	6,217.0
Retained earnings and reserves	9,961.0	10,068.0	11,613.0	11,674.0	14,128.0	13,119.0
Total equity	16,172.0	16,283.0	17,830.0	17,891.0	20,345.0	19,336.0
Key shareholders						
Average capital-key weighted rating	AA-	AA-	AA-	AA-	AA-	AA-
Shareholders rated at least AA- (%)	64.0	64.0	63.9	64.0	65.0	65.0
Callable capital [rated ≥ AA-] / Mandated assets (%)	51.1	48.4	45.6	43.2	42.5	39.1

Source: EBRD, Scope Ratings.

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