European Bank
for Reconstruction and Development

IEvD
Independent Evaluation Department

THEMATIC EVALUATION

ANNEX

Forging Resilience: Evaluation of Transition Impact and Additionality of the EBRD's MREL & Bail-in-Able Products (2016-2023)

IEvD ID: SS23-191

EBRD INDEPENDENT EVALUATION DEPARTMENT • July 2024

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This report was prepared by IEvD independently and is circulated under the authority of the Chief Evaluator, Véronique Salze-Lozac'h. It was prepared under the guidance of Gabriele Fattorelli, IEvD Director, by IEvD staff: Natalia Kryg, and Theo Sands with the support of Sofia Keenan, Natalia Lakshina, Nikolina Balta, Martin Schunk and the independent consultant, Bostjan Jazbec. The report has been peer-reviewed internally.

The External Reviewer is Dr Aron Gereben, Evaluation Expert at the European Investment Bank Group. Prof Stephen G Cecchetti, the Barbara and Richard M Rosenberg Professor of Global Finance at Brandeis International Business School, Chair of the Advisory Scientific Committee of the European Systemic Risk Board, Research Associate at the National Bureau of Economic Research, and Research Fellow at the Centre for Economic Policy Research offered an external opinion.

Visual design by Keisuke Taketani.

Five Bank Street
London E14 4BG
United Kingdom

Web site: www.ebrd.com

Contents

Abbreviations

ASB	Advice for Small Businesses
ATQ	Assessment of Transition Qualities
BFG	Bank Guarantee Fund
BPN	Business Performance Navigator
BRRD	Bank Recovery and Resolution Directive
CBJ	Central Bank of Jordan
CBR	Combined Buffer Requirements
CEE	Central and Eastern Europe
CO2	Carbon Dioxide
DCM	The Debt Capital Market
DFI	Development financial institution
D-SIBs	Domestic Systemically Important Banks
DTM	Deal Tracking Module
EBA	The European Banking Authority
EBRD	The European Bank for Reconstruction and Development
ECB	The European Central Bank
ETI	Expected Transition Impact
EU	European Union
EUR	Euro
GET	Green Economy Transition
GLP	The Green Loan Principles
ICMA	International Capital Market Association
IEvD	Independent Evaluation Department
IFI	International Financial Institution
IFC	International Finance Corporation
IMF	International Monetary Fund
LGD	Loss Given Default
MPE	Multiple Point of Entry
MREL	The Minimum Requirement for Own Funds and Eligible Liabilities
MSME	Micro, Small and Medium-Sized Enterprises
NPL	Non-Performing Loans
OGBI	Operational Guidelines for Bailin-able Instruments
OCR	Operational Change Report
PD	Probability of Default
PLN	Polish zloty
PoNV	the Point of Non-Viability
PTI	Portfolio Transition Impact
RAROC	Risk-Adjusted Return on Capita
RWA	Risk-Weighted Asset
SD	Sub-Debt
SEE	South-Eastern Europe
SEMED	The Southern and Eastern Mediterranean
SME	Small and Medium-Sized Enterprise
SNP	Senior Non-Preferred
SPE	Single Point of Entry
SRB	Single Resolution Board
SSF	Shareholder Special Fund
TFP	Trade Facilitation Programme
TIMS	Transition Impact Monitoring System
TOMS	Transition Objectives Measurement System
TC	Technical Cooperation
TQ	Transition Quality
WiB	Women in Business

Annex 1. Evaluation framework

Box 1: In-Depth Evaluation Framework

Evaluation Question [Evaluation criteria]	Methodology	Criteria
EQ 1 [Relevance; Internal Coherence]	Analysis of strategic documents, portfolio review, and interviews with stakeholders (internal and external)	Assess how well MREL investments align with EBRD's strategic priorities and country strategies. • Understanding the underlying strategic rationale of projects within the EBRD's MREL portfolio – taking a bottom up approach to understanding why the Bank has supported MREL projects on a project by project basis • Assessing relevance using a country-lens basis – and examining whether MREL investments are in countries where the EBRD has identified that support is necessary • Examining MRELs in light of other EBRD initiatives - including GET, local currency financing, and operating counter-cyclically • Looking at the importance of MRELs to achieve the Bank's strategic priorities – in relation to other instruments that the Bank uses in the FI sector in countries with large MREL portfolios
EQ2 [Additionality]	Detailed case studies, portfolio analysis, and interviews to identify EBRD's unique role and value added.	Determine the extent of EBRD's unique contribution beyond what private sector and other stakeholders could provide. • Shifting from private to public issuances • Making room for others – scaling back EBRD participation • Changing maturities • Providing guidance and reassurance on MREL transactions
EQ3 [Early Effectiveness]	Case studies, portfolio mapping, and stakeholder interviews to link investments to transition outcomes.	Evaluate the direct and indirect impacts of MREL investments on market development and strategic objectives such as resilience and inclusion. • Achieving regulatory compliance: supporting an individual client to achieve MREL regulatory compliance • Supporting capital system development • Channelling finance towards SMEs and women in Business • Mobilising green finance
EQ4 [Efficiency]	Review of operational practices, project delivery timelines, and resource allocation.	Measure the timeliness and resource efficiency of EBRD's involvement in MREL markets. • Balancing risk and reward – the degree of variation between estimated RAROC and actual RAROC, as well as the divergence on RAROC between different projects within the MREL portfolio, raises questions for the Bank as to how efficient this process is. • Delegated authority and promoting scrutiny – and whether the current process of providing three year headroom is adequate given how quickly MREL markets are evolving • Exposure management – highlighting efficient use of Unfunded Risk Participation (URPs) and secondary market sales to manage exposure. • Exposure limits; local currency exposure and investment pacing

Source: IEvD analyses (2024).

Annex 2. Desk research

Table 1: The evolution of the MREL market and its delivery within the EU banking sector.

When	Phase	Context
2014	Introduction & Legislation	• The MREL framework was introduced as part of the Bank Recovery and Resolution Directive (BRRD) in 2014, which set the foundation for the establishment of resolution mechanisms and requirements across EU member states.
2015-2016	Implementation & Calibration	• Initial years focused on the implementation of MREL, with national resolution authorities determining specific requirements for institutions within their jurisdiction. • These requirements took into account the size, business model, risk profile, and systemic footprint of the institutions. The calibration of MREL targets was a complex process, involving negotiations between banks and resolution authorities to ensure targets were both challenging and achievable.
2017-2019	Market Development	• As banks started to issue debt to meet their MREL requirements, a new market for eligible liabilities developed. This period saw an increase in the issuance of MREL-eligible debt instruments, including senior non-preferred (SNP) debt, which was specifically designed to meet MREL criteria. The growth of this market was supported by investor demand for these new instruments, driven by their higher yields compared to traditional senior debt.
2020-Onwards	Revision and Tightening	• The regulatory framework for MREL has been subject to ongoing review and adjustment. The Single Resolution Board (SRB) and other resolution authorities have periodically revised MREL targets to reflect changes in banks' risk profiles and developments in the regulatory landscape. This includes the integration of the Total Loss-Absorbing Capacity (TLAC) standard for globally systemically important banks (G-SIBs), which aligns with MREL requirements but sets higher standards for international banks. • Within the EU banking union, the MREL deadlines have been broadly met as of the deadline of January 2024. • As of January 2024, the banks in the banking union are required to disclose their MREL resources, including composition and sources of support. This will provide clarity on the extend to which MDBs have been involved in reducing MREL shortfalls.
Today – Tomorrow	Challenges and Future Directions	• Banks and regulators continue to face challenges in the MREL market, including the need for banks to refinance maturing debt and manage the costs of issuing eligible liabilities. The ongoing evolution of the MREL framework reflects efforts to balance financial stability objectives with the operational and financial realities faced by banks. Future directions may include further harmonization of MREL with international standards, and considerations of sustainability and ESG factors in resolution planning.

Source: IEvD analysis based on publicly available information (2024).

Table 2: Comparing references to MREL across different country strategies

Country Strategy	Country Strategy references to MREL	IEvD comment
Romania 2015 Strategy (BDS/RO/15-1)	No. Strategy does emphasise developing capital markets, whilst noting that the Romanian FI sector is adequately capitalised.	Reference to capital markets development without a direct link to MREL mechanisms.
Romania 2020-2025 Strategy (BDS/RO/20-01)	No. Strategy does prioritise expanding financial intermediation and capital markets, as well as strengthening resilience of the financial sector through capitalisation and funding structure support, whilst noting that banks are well capitalised.	No explicit reference, but some indirect connections to MREL investments.
Poland 2018-2023 Strategy	Yes – called for the Bank to "enhance the capital base of the Polish banking sector, including via MREL-eligible financial and risk-sharing instruments"	Explicit reference to MREL investments
Poland 2013 Strategy (BDS/PO/13-1)	No – however prioritised providing support to the FI sector, noting that banks still face a number of systemic vulnerabilities, including on balance sheet, and called for the EBRD to participate in bank bonds and other structured instruments.	Strong indirect link.
Greece 2016 Strategy (BDS/GR/16-1)	No; however, the strategy noted the ongoing recapitalisation process at Greek Banks, and the importance of the EBRD of acting as a key investor in FI bond issuances.	Strong indirect link to MRELs through focus on FI capitalisation and bond issuances.
Greece 2020-2025 Strategy (BDS/GR/20-01)	Yes; called for the Bank to support developing FI clients' capital base through support to MREL issuances	Explicit reference to EBRD providing MREL support

Croatia Strategy 2017 (BDS/CR/17-1)	No, but did prioritise "Deepening financial markets to broaden access to finance with focus on capital markets developments", as well as providing financial support in line with the EU's Banks' Recovery and Resolution Directive ("BRRD")	Strong indirect references to support MREL-like markets.
Slovenia Country Strategy 2019-2024 (BDS/SL/18-1)	No, but did call for the Bank to "Where additional, support banks with long-term funding and provide policy advice on banking regulation and supervision" as part of the wider strategic priority on Competitiveness.	Weak indirect link
Hungary Country Strategy 2021-2026 (BDS/HU/20-01)	Yes – stated that a reform area agreed with authorities was to provide "support for banks to meet MREL requirements".	Explicitly mentioned.
Slovak Country Strategy 2017-2022 (BDS/SK/17-01)	No, although did prioritise development of "capital markets including through covered bonds and other capital instruments.	Indirect references.

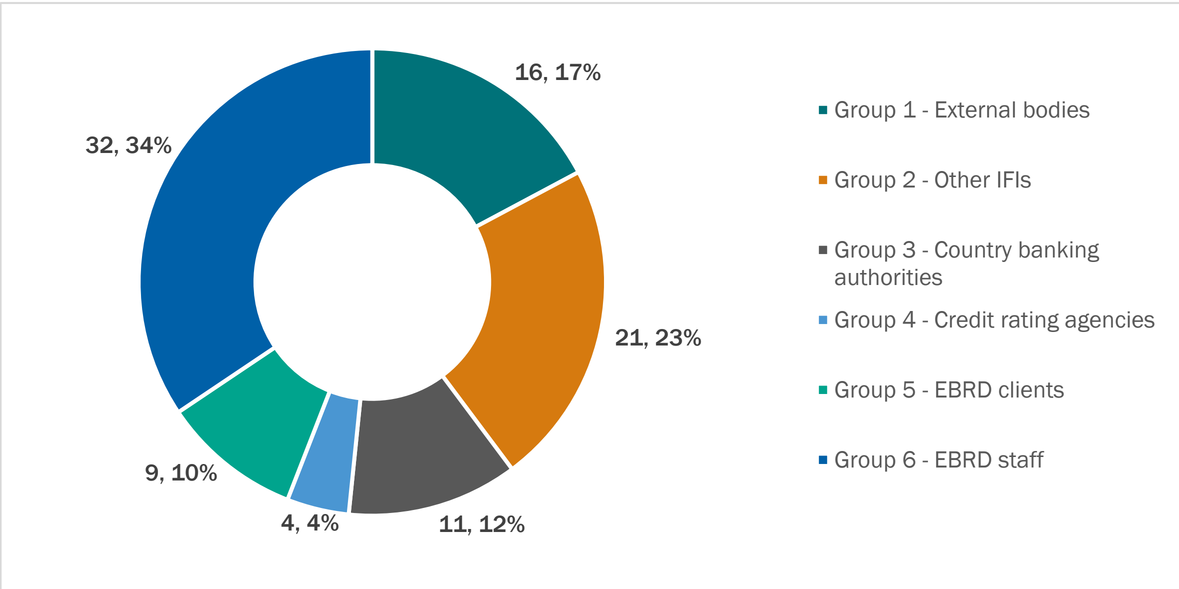
Annex 3. Interviews – methodological approach

- **Background:** IEvD carried out an extensive number of interviews to collect the full spectrum of views on MREL among the key stakeholders both internal and external. The goal was to take stock of all the perspectives on the MDB's involvement in MREL market at various levels, (cross)-institutional-, country-, sectoral-, client- as well as from the angle of financial stability in general.

- **Coverage and overall response rate:** 107 individuals were approached as part of the interview process, of which 14 declined to participate (87% response rate). The highest rejection rate came from the officials from International Monetary Fund (IMF).

- **Interview groups:** beside EBRD staff taking the largest share of the interviewed cohort, the focus has been placed on officials from other IFIs (23% of total) to ensure the full spectrum of fragmented positions on MREL exposure by MDBs equally covering the views from WBG/IFC and EIB. Second in importance was the emphasis on external stakeholders from bodies such as IMF, Bank for International Settlements (BIS), Single Resolution Board (SRB), European Commission, among others. This was intentional due to polarised views on the MDB presence in MREL market within the MDBs and their Boards of Directors. The wider context and independent perspective on the matter helped to contextualise the findings of this evaluation. See Annex 1 for further details.

Figure 1: Distribution of the number of interviewees by the group.



Source: IEvD (2024).

Institution	Interviewed	Declined	Total
Group 1 – Wider context	16	8	24
International Monetary Fund	3	6	9
Single Resolution Board	1	-	1
Bank for International Settlements	1	-	1
European Stability Mechanism	3	-	3
European Commission – DG Competition	2	1	3
European Commission – DG FISMA	3	-	3
European Central Bank	-	1	1
Academia (multiple universities)	3	-	3
Group 2 – Other IFIs	21	3	24
European Investment Bank	8	1	9
International Finance Corporation	9	2	11
World Bank Group	4	-	4
Group 3 – Banking authorities/Central Banks	11	-	11
Central Bank of Jordan	2	-	2
French Treasury	2	-	2
National Bank of Georgia	5	-	5
National Bank of Romania	1	-	1
Polish Bank Guarantee Fund	1	-	1
Group 4 – Credit Rating agencies	4	3	7
Moody’s	-	2	2
Standard and Poor’s	4	1	5
Group 5 – EBRD Clients	9	-	9
Group 6 – EBRD	32	-	32
Total	**93**	**14**	**107**

Annex 4. Interviews – selected insights

Box 2: Tracking and assessing MREL-eligible investments at MDBs

- **EBRD and IFC as the only two MDBs active in MREL market vary in how they track and assess the results from the MREL-eligible investments. EBRD conducted its first MREL investment in December 2016, while for IFC it was in 2018.**
- While EBRD reports on all three MREL products (i.e., senior preferred, senior non-preferred, Tier 2 sub-debt), IFC reports Tier 2 sub-debt product separate from MREL. IFC's country concentration overlaps with EBRD within the EU with Romania and Poland taking a large share of the portfolio. Outside of the EU, IFC has a high concentration in Latin America, namely in Colombia and Peru.
- **Rationale for investment:**
  - At IFC, MREL investment is based on use of proceeds – e.g. green or social financing.
  - At EBRD, there is a wide range of the objectives behind the use of proceeds on MREL issuances - green, social, market expansion, regulatory support.
- **Visibility to the Board of Directors:**
  - There is no separate reporting on MREL at IFC, and interviews with Board constituency offices suggest there is less visibility on the MREL portfolio at IFC compared to EBRD.
  - In comparison, at EBRD there is a quarterly reporting on MREL at the portfolio level.
  - IFC reports on Basel II complaint Tier 2 sub-debt separate to other MREL products (SP and SNP). At EBRD, the MREL portfolio includes all three together.
- **Reporting on associated technical assistance/ policy work:**
  - At EBRD there is no consolidated reporting on the TC/policy work that relates to MREL. There are instances of MREL related TC and policy, but those are not aligned to the sequential investments that follow. The same applies to IFC.
  - At EBRD, the most relevant TCs that can be associated to MREL investments are those that help the client with the bank recovery planning. EBRD is currently carrying out more TC and policy work on MREL in the Western Balkans to help those countries in their EU accession process by bringing the banks on the pathways of regulatory requirements in line with the EU banking sector.
- **MDB participation rate:**
  - A participation rate that is too high can distort the market.
  - EBRD does not exceed 30% participation rate and scale backs. During the Covid-19 pandemic, the rule was relaxed due to limited investor appetite.
  - IFC's participation rate is much higher, 50% cap as per a recent increase.

Source: IEvD stocktake (2024).

Table 3: Analysis of MDB role in MREL market based on the interview stocktake – details

Opportunities	Threats
Catalyst for market development: MDBs can be influential in market developments, especially in building capital markets for MREL issuances. Frequently noted by various organizations including the European Commission, IMF, and BIS as seeing the EBRD (and often IFC) as pivotal in facilitating access to capital markets, especially for smaller banks • European Commission: Positive about MDBs increasing market access (3 mentions) • IMF: Noted the developmental impact of EBRD investments on capital markets (2 mentions) • BIS: Acknowledged the role of MDBs in supporting medium-sized banks in accessing capital market for MREL issuances (2 mentions)	**Risk of market distortion:** Concerns about potential competition distortions due to MDB's significant role were notably expressed by the EU and EIB (3 sources): • European Commission: Concerns about crowding out private investors, inefficiency in scaling back practices of MDB (3 mentions) • EIB and European Commission: Worries about market distortion and reliance on institutional investors (3 mentions)
Positive signalling effect: MDB's market presence is consistently regarded positively for stabilizing the MREL market. MDB can act as an anchor investor, particularly in shallow markets, thus bringing comfort to other investors and encouraging private investment (3 sources): • Banking authorities and EBRD clients: Positive impact on market confidence (5 mentions) • Other MDBs: important role of MDBs in bringing comfort to other investors and market participants (3 mentions)	**Dependence on institutional support:** Dependency highlighted by market analysts and academic perspectives noting that continuous support might inhibit market independence (3 sources) • European Commission, BIS: Concerns about creating market dependencies (2 mentions) • Academic Opinions: Critiques of long-term dependency effects (2 mentions)
Support for green and social agendas: MDB integrates ESG criteria into its MREL investments, highlighted by both EU regulatory bodies and EBRD itself (3 sources): • EU Regulatory Bodies: Support for EBRD's ESG integration into MREL (3 mentions) • EBRD clients and other MDBs: Explicit focus on green and SME-linked MREL products seen favourably (3 mentions)	**Regulatory and Policy Uncertainties:** The role of MDBs in MREL can sometimes lead to policy issues, such as the use of taxpayers' money and bail-in risks, which might affect public perception and regulatory acceptance (2 sources): • EIB, BIS: concerns regarding the use of public money in bail-in process of failing banks (3 mentions)
Support for Financial Stability: a role in addressing MREL shortfalls by MDBs, particularly for banks with multi-point entry MREL requirements and those operating in smaller or emerging market (4 sources) • EU Regulatory Bodies, EBRD clients, national regulatory authorities, BIS: contribution towards reduction of MREL shortfalls • - BIS, other MDBs: strengthen banking resilience by supporting banks' capital base, which helps in meeting financial stability goals	**Variability in MDB Risk Appetites and Mandates:** Differences in risk tolerance and strategic focus among MDBs (e.g., EIB vs. EBRD) can lead to inconsistent approaches in the MREL market • Academic Critiques, EIB (2 mentions)
Expansion to non-EU markets: Potential for growth outside the EU, especially in emerging markets, highlighted by EBRD clients and supported by IMF reviews (3 sources): • EBRD clients: need for support with meeting capital requirements in non-EU countries with a high transition potential (4 mentions) • - IMF: positive view on potential for MDBs in emerging markets outside of EU (2 mentions)	**Regulatory and political changes:** The potential impact of EU regulatory changes and political instability, frequently noted by EU policymakers and regulatory bodies (4 sources): • EU Policymakers: Concerns about regulatory impacts (3 mentions) • Regulatory Bodies (both EU and national) and EBRD clients: Warnings about political changes affecting market conditions (3 mentions)
Enhanced financial stability: MDB's contributions to financial stability in emerging markets, often highlighted in discussions with financial sector regulators and EBRD reports (3 sources): • Regulatory Bodies (both EU and national): Recognition of stability contributions (3 mentions) • EBRD staff: Documentation of stability impact through Resilience Transition Quality (3 mentions)	**Economic downturns:** Concerns about the global economic environment affecting MREL markets (3 sources): • Regulatory Bodies (both EU and national), IMF, EBRD clients: Concerns about downturn risks (3 mentions)
Development of local capital markets: EBRD and other MDBs can play significant roles in developing capital markets, especially in countries with underdeveloped financial systems (4 sources): • EBRD staff and other MDBs: Focus on local capital market initiatives (3 mentions) • EBRD clients, IMF and credit rating agencies: Support for developing local markets (2 mentions)	**Reputational risks:** Risks related to MDBs being too interventionist or investments failing to yield expected benefits, noted by academic critiques and internal reviews (3 sources): • Academic Critiques, other MDBs: Concerns about over-intervention (2 mentions) • EU officials: Risks of failing to meet market expectations (3 mentions)
Support for Banks in Volatile Markets: MDBs can provide crucial support in unstable or uncertain markets, helping banks navigate through periods of economic distress or market volatility (4 sources) • IFC, EBRD, BIS, IMF (5 mentions)	

Source: IEvD interview stocktake (2024).
Note: The table does not contain official views taken by these institutions.

Annex 5. Internal survey

- **Background:** IEvD carried out a survey with banking colleagues (mainly operation leaders, OLs) who worked with the Bank's clients on the MREL-eligible investments. The objectives of the survey were to capture voices of all OLs working on MREL, not just directors and business leaders to capture a full range of perspectives on EBRD's experience with MREL-eligible investments so far.

- **Coverage and overall response rate:** the target audience of the survey were 23 operation leaders (OLs) from the EBRD Banking departments, both in HQ and ROs. This was the entire population of the OLs who worked on the MREL-eligible investments that the Bank ever initiated since the introduction of this instrument at the end of 2016 till the end of the evaluation period, i.e. 31st September 2023. Out of those 23 OLs, 19 took part in the survey, 82% response rate.

- **HQ vs RO distribution:** majority of answers came from OLs based in HQ – 14 (74%) and 5 (26%) from 4 based in regional offices (ROs) (i.e., Warsaw, Sofia, Bucharest and Zagreb).

- **Seniority level distribution:** in terms of seniority of the OLs that responded to the survey, those consisted mostly of Associate Director level colleagues, 8 OLs (42%), followed by 7 OLs as the Principal level (37%). 4 OLs (21%) were at the Associate level.

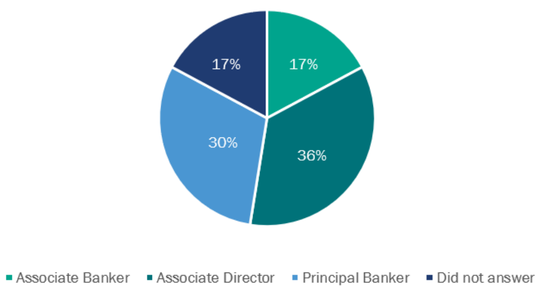
- **Team distribution:** the respondents came from 7 departments, but a fast majority came from the EU Banks & Structured Finance (83%). There were a couple or solo responses from the departments of: FI SEMED, Warsaw (Poland - FI coordination), Sofia (Bulgaria), Bucharest (Romania), Zagreb (Croatia), and FI Western Balkans and Eastern Europe.

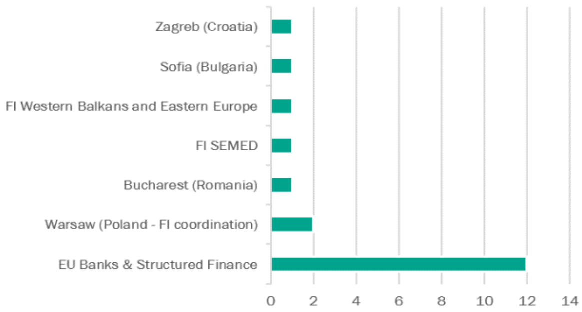
- **Survey format:** in order to increase efficiency and minimise the time spent by OLs on responding to the survey, the survey was conducted online via SmartSurvey. The respondents were required to choose the degree of agreement or disagreement with 10 statements that were carefully worded in order to avoid biases on the response. Those statements related to the evaluation questions as to feed directly into the pull of evaluation evidence. The OLs were also asked to provide mandatory justification to their selection of statement agreement/disagreement. This could not be skipped. The statements could be grouped into four categories: two related to the strategic fit of the EBRD MREL bail-in-able products, three were about design and implementation of the MREL-eligible investments at EBRD, three touched upon the topic of client's capacity to meet MREL requirements. Lastly, two related to the MREL market in the broader context.

- **Survey window:** the survey was opened from 2 January until 15 January for the total of 10 working days, which was later extended by 4 additional days till 19 January 2024 to accommodate colleague's annual leave, absence and hence unavailability to respond to the survey on time. The survey was designed not to take too much time, allowing bankers to complete it in 4 minutes.

- **EBRD Management support in survey implementation:** the support of the Head of EU Banks & Structured Finance Department was vital. There were three reminders sent by the Head of this department to all OLs stressing the importance of responding to this survey request. As a result, the majority responded, with only 17% not being able to send their answers. Most of the answers came from Associate Director level colleagues and from EU Banks and Structured Finance department, which makes sense as most of the transactions were initiated by the senior bankers based in HQ, FI team.

Figure 2: Distribution of survey responses by the respondent's seniority level and office location.





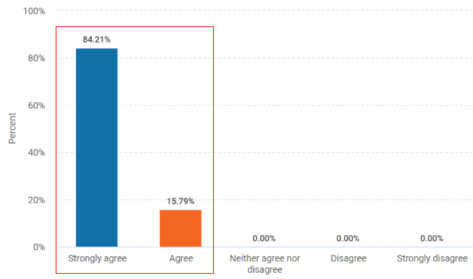
Source: IEvD (2024).

- **Results:**

The summary of results is presented in order of the survey questionnaire – available in Annex 1. This will be issued to triangulate the evaluation evidence together with findings other sources into the IEvD report. It is important to note that the views and opinions expressed in the survey responses below are solely those of the individual responders and do not represent or reflect the official policy or position of the EBRD.

Question 1 (Relevance): *I believe EBRD's participation in the MREL market does not go against the spirit of post-global financial crisis reforms, which aimed to enhance bank resolvability without relying in full on taxpayer funds*.

All of the respondents agreed with this statement, majority of them strongly - 84.21 % strongly – see Figure.



Majority of respondents justified their agreement with the statements in reference to the role that EBRD can play in capital markets though its participation in the MREL in **mobilising private institutional investors (10 responses)**. For instance:

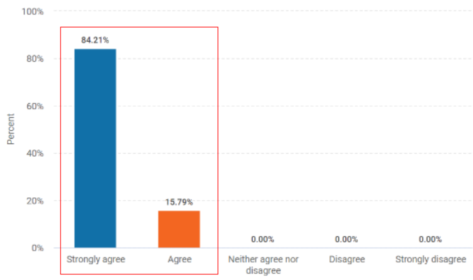
- *"EBRD's participation in MREL issuances helps to bring private institutional investors to the market, especially in places where the market would find it difficult to develop on its own."*
- *"In EBRD's CoOs where capital markets are very shallow and underdeveloped, EBRD's participation provides comfort to local investors, and thereby mobilises the institutional investor base"*
- The second most frequent justification in support of the MREL's participation referred to the EBRD's role **in reducing MREL shortfalls** (6 responses). For instance:
- *"(…) the impact [of EBRD] on the closing the [MREL] funding gaps is substantial in my view."*

Three respondents justified their supportive answers with reference to the role EBRD plays **in contributing towards financial sector resilience.**
No respondents refer to the role EBRD could play in promoting green financing through its participation on MREL market.

Question 2 [Relevance and Internal Coherence]: I am confident that the EBRD's involvement in the MREL market aligns well with the Bank's mandate and its core strategic objectives.

All of the respondents agreed with the statement, majority of them strongly - 84.21 % - see Figure.
Majority of respondents justified their agreement with the statements in reference **Resilient TQ through stable financial/banking sector solely or jointly in the context of capital market development.** For instance:

- *"EBRD's MREL market presence contributes to strengthening financial sector's resilience and access to capital markets."*
- *"Support of resilience of banking sector in parallel to development of local capital markets."*



- *"Investment in MREL instruments strengthen resilience through expanded and diversified equity and debt capital markets."*

4 respondents refer to the **Green TQ or more broadly green objectives** in their justifications solely or in conjunction with other reasoning. For instance:

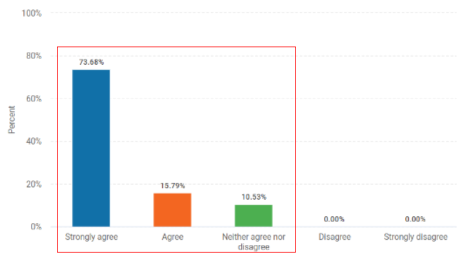
- *"Stemming from building resilience in the banking sector while at the same time promoting development of private markets and the Bank's green/sustainable agenda."*
- *"MREL projects are driven by two TI qualities - resilience and green - both are the ultimate goals for the financial systems in the EU region."*
- *"(...) continuous lending to the real economy which requires healthy financial sector, with the focus on green lending particularly in the EU region, thereby promoting greening financial intermediation in the region and respective best market standards in the respective countries (...)"*

Some refer to the **EBRD principles of investments, in particular sound banking principle**. Others decided to refer to **EBRD strategic documents such as EBRD Country Strategies or EBRD Financial Sector Strategy**. For instance:

- *"EBRD's involvement in MREL is in line with its strategy for the financial sector, the country strategies and also local capital market development strategy."*
- *"[Investments in MREL are] fully in line with the Bank's strategy and the strategies for given countries of operations, e.g. for Poland."*
- *"It does align well with the Bank's mandate as it promotes market principles, the Bank adheres to sound banking, the investments have well defined transition impact and the additionality of the Bank in these investments is proven by the results."*
- *"For EU countries, the EBRD's involvement in the MREL market is included as a core product in the EBRD's Financial Sector Strategy 2021-2025. It is also in line with the country strategies and local capital market development strategy (...)"*

Question 3 [early effectiveness]: Without the MREL bail-in-able products, I would have not been able to make a meaningful contribution to the delivery of transition impact with my client(s) using other financial products on offer.

Most of the respondents agreed with the statement: either strongly (73.68%) or just agreed (15.79%). 10.53% of respondents neither agreed nor disagreed with this statement. See Figure.



Although the justifications for the respondents' answers were quite heterogeneous among each other, they tend to point towards demand-driven nature of MREL-eligible investments to support MREL as required by the client. For instance:

- *"Especially in the EU region, bank clients predominantly raise financing via MREL products therefore there would be no interest for other senior unsecured financial products (like loans)"*
- *"In the recent period of over liquidity, MREL instruments were the only funding the banks were interested in due to the requirements on the regulatory compliance."*
- *"As a Bank, we are responsive to our clients' needs and adapt to current market dynamics. In EU countries, dealing with MREL requirements has become a primary concern for banks."*
- *"Overall in the environment of over liquid banking sector, banks are looking predominantly for mid-long term funding in MREL format. Senior unsecured lending is limited to facilities supported by TC or grant element, which is scarce in the EU region."*

Six of the respondents explicitly refer to **the need to meet green targets** in their justifications for support of MREL investments. For instance:

- *"Most of MREL investments bear ambitious green targets imposed to EBRD clients. This would have not been likely in the absence of MREL (albeit considering the limited appetited for funded products in recent couple of years, given a very liquid Romanian banking sector)."*
- *"Delivering impact, especially related to green agenda and green capital market instruments (i.e. innovative Green Bonds, or Sustainable Bonds) is in some countries strongly linked to supporting MREL issuances as sometimes the only financial products placed by CEE banks on the market."*
- *"(...) through MREL instruments, we effectively deliver our transition impact, encompassing green use of proceeds, capital market developments, and the RLF framework, among others. This approach underlines the importance of MREL bail-in-able products in our portfolio, as without them, it would have been challenging to achieve a significant impact in our work with clients using other financial products available to us.*

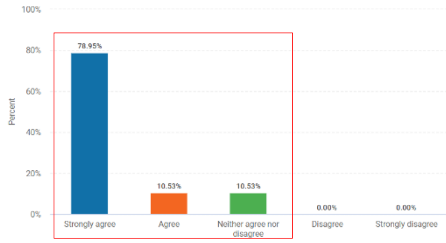
Two of the respondents who could neither agree nor disagree with the statements points the following justifications:

- *"My project is counted as MREL only temporarily due to technical glitch of national regulation until the next law is in place sometime this year. In my market, there are a lot of other products which can contribute to a meaningful transition impact."*

- *"I believe MRELs, with their regulatory nature, are well-suited for the Resilient TI pillar. However, all structured finance products leading to capital optimization, as well as any other products with limited market activity, are similarly valuable in this regard. Additionally, the FI sector can significantly contribute to the green transition under the Green TI pillar. The Competitive and Inclusive TI pillars are also highly relevant. Overall, while MREL products are not irreplaceable, they are excellent for building market resilience."*

Question 4 [early effectiveness]: By participating in the MREL issuances, I believe EBRD provides comfort to local investors, and thereby mobilises the institutional investor base and contributes to the development of the capital market.

Most of the respondents agreed with the statement: 78.95 % strongly, 10.53% just agreed and the same percentage 10.53% were neutral – see Figure.



The justifications of respondents support this statement were heterogenous. However, some reoccurring storylines appeared. For instance, some highlighted **the signalling and comforting role EBRD plays in the cases of first MREL issuances on the market**. For instance:

- *"I could not agree more. In the years where first MREL issuance were coming to the market, we were often contacted by other local institutional investors (employees from insurance companies or pension funds), seeking for advice how to assess these types of instruments, and wanted to learn more about our experience and know-how in such investments."*
- *"Nothing to add, as it's simply true. We've had investments in issuances that were delayed providing us time to invest. This was necessary because there wasn't enough demand in the local market without our presence and our signalling effect."*
- *"Absolutely, on a few of my deals this was a case - private investors put their bids AFTER they see EBRD has joined. there have been numerous issuance that would have failed had it not been for EBRD and its signalling effect on private investors"*
- *"Indeed, EBRD's presence sends strong positive signal to other investors (not only local but also international), regarded as a stamp of credibility/quality, helping order books to grow and issuers managing to raise funding in capital markets. As one of the issuers recently put it, "EBRD is a well known real money account, so signal to the market is very strong..""*

Others went further **seeing a role for EBRD even in the subsequent issuances due to the market volatility and uncertainty**. For instance:

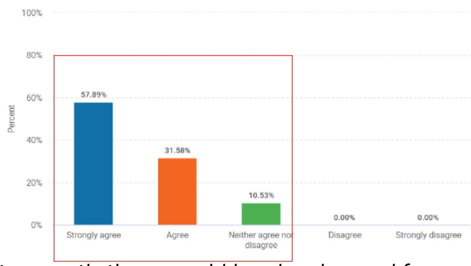
- *"I strongly agree. The Bank's role in supporting MREL issuances on the local markets and mobilising local investors was paramount. Now, MREL instrument is more established and local investors are more comfortable with these instruments, still the behaviour of local investors depends on the macro and geo-political environment and interest today is not indicative for an interest tomorrow."*

Some pointed towards **tangible results steaming from the existing transactions**. For instance:

- *"Based on examples from various investments made over the last 12 months, I've heard number of feedback and confirmations about the above."*
- *"This has been evidenced by numerous MREL transactions in the CSEE over the past several years."*

Question 5 [efficiency]: I believe that the maturity profile under my deal(s) that is dictated by the market dynamics and client's needs is long enough to ensure the best possible transition impact delivery through my MREL-eligible investment(s).

Most of the respondents agreed with the statement: either strongly (57.89%) or agree (31.58%). Minority, 10.53% of respondents, remained neutral with neither agreement nor disagreement with the statement – see Figure.



Most respondents refer to **the market sentiments as the major factor driving the maturity of the MREL transactions**. For instance:

- *"In recent years, the market dictated a demand for shorter tenors (for example up to 3 years maturity), which I consider as somewhat short maturity. I understand the market has been changing recently, and that currently there would be also demand for somewhat longer maturities (4 - 5 years), for which I believe it might further positively impact EBRD's transition impact."*
- *"In the capital markets investments, the EBRD, as a minority investor, does not have the authority to decide the maturity of the bonds. Instead, the maturity of these investments is determined by a combination of market conditions, overall investor appetite, client needs, and pricing factors."*

- *"The maturity of MREL instruments have been driven by the heightened volatility of capital markets and hence clients have to compromise between the maturity/price which is desired and which is available in the market with the prospects of earlier need of re-financing."*

Three respondents refer explicitly to **the green transition delivery** in their justifications. For instance:

- *"I agree, as even with shorter terms issuances EBRD attaches ambitious transition targets in terms of green / sustainability agenda. And shorter-term issuances continue to support capital market activity and have demonstration effect for the wider bank / corporate market in CEE region. This is even more so the case for medium and long-term maturities – helping with the maturity profile of issuers, diversifying the offering for investors and extending the SNP/SP pricing curve."*

Few respondents decided to focus on **the delivery of TI through framework agreements** with the client. For instance:

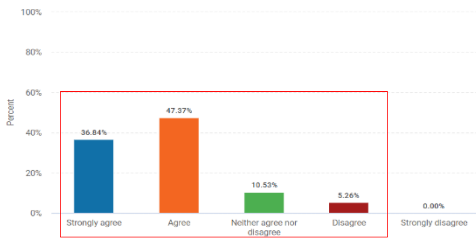
- *"TI delivery is also secured through framework agreements that could extend the duration of delivery beyond the maturity of an issuance. So, for example even if an issuance has say a 3 year tenor the client is still committed to deliver of green targets beyond those 3 years as long as EBRD holds other bonds of the same client."*

Lastly, a couple of respondents refer to **the delivery of TI objectives already at the issuance stage**. For instance:

- *"Yes, most resilient indicators are generally achieved at issuance, including the size of the issuance, participation of private investors, and compliance with MREL regulatory requirements."*
- *"Indeed, large part of transition objectives are met at the time of an issuance/ investment, i.e. by virtue of the issuer managing to place bonds in the market. Given the specifics of the eligibility criteria, majority of the issuances have min tenor of three years with call option after two years, which provides sufficient period also to originate green sub-projects. As part of investment limits, EBRD also invests in a few issuances, where tenors vary, which also facilitates achieving the targeted green objectives."*

Question 6 [Relevance]: My client(s) would have not reached their MREL requirements without EBRD support.

Majority of the respondents agreed with the statement: 36.84% strongly, 47.37% just agreed, 10.53% remained neutral. A small minority 5.26% disagreed.



Those who supported the statements provided a strong justification of **EBRD playing an instrumental role in helping the Bank's clients in meeting their MREL requirements.** For instance:

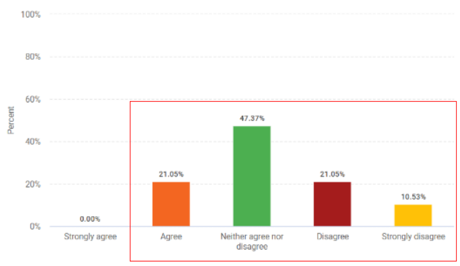
- *"In the MREL projects on which I have worked over the past several years, EBRD participation has been instrumental in the client's effort to meet MREL targets."*
- *"EBRD was instrumental in many issuances of MREL instruments. EBRD's participation varied from 10-30% of each investment, which confirms high additionality in each transaction."*
- *"Several reasons for this: (i) EBRD supported innovative instruments for clients in its CoOs, first of this kind in the respective markets. EBRD's presence instilled confidence and overcame the uncertainties; (ii) several external shocks market the past recent years (Covid-19, war on Ukraine), which took a tall on financial markets in general and on investors' appetite. EBRD's presence. (iii) local investors base (in case of local issuances) remains fairly underdeveloped."*
- *"The clients in the CoO that I cover definitely needed the support from EBRD in reaching their MREL targets."*

Those who disagree with the statements provided the following justifications:

- *"All of my clients have sufficient capital buffer."*
- *"EBRD participation additional to a certain extend only"*
- *"Hypothetical situation. Not in a position to predict what would have happened."*

Question 7 [multiple evaluation criteria]: Going forward, I believe that my client(s) is able to sustain its compliance with the MREL requirements without EBRD support.

Most of the respondents either disagreed with the statement or remained neutral: 47.37% were neutral, 21.05% disagreed, 10.53% strongly disagreed. Only a minority agreed 21.05% - see Figure



Those who disagreed with the statement justified their position with either on the **still underdeveloped markets as well as market conditions**. For instance:

- *"For most clients raising MREL represents the main fund-raising activity and at present the markets do not seem to be able to fully meet the MREL needs without IFIs participation."*

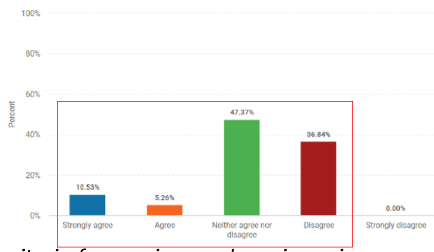
- *"In many of our CoOs the markets still remain inefficient or shallow for our clients to easily access funding without the support of EBRD"*
- *"The EBRD's approach to engaging in MREL issuances has been, and will continue to be, selective and countercyclical. Given the current scenario in EU countries, where banks are expected to refinance a portion of their existing MREL bonds in the next two to three years – with an average requirement of around EUR 6 billion per year for the next three years in the CEE – the market conditions play a crucial role. These conditions are still marked by significant volatility due to heightened geopolitical risks, including conflicts in Ukraine and the Middle East, as well as political risks stemming from elections in various democracies. This backdrop makes the issuers' ability to achieve successful issuance unclear. Considering these factors, the belief that clients will be able to maintain adequate MREL levels without EBRD support in the near future may be optimistic, especially in light of the uncertain market conditions and substantial refinancing requirements in the coming years."*
- *To summarize, many clients will be refinancing their MREL, and while some have established a presence in the market and are familiar with the process, there are still many who are infrequent issuers, having issued just enough bail-in-able bonds for MREL compliance. It's also important to consider that in the event of market turmoil, similar to what was experienced in the past few years until early 2023, the EBRD's support in issuances may again become crucial.*
- *Given the turbulences on the global market, the risk appetite from investors towards CEE issuers is still limited. We still keep receiving the feedback of EBRD's importance and additionality in future investments.*

Those who agreed with the statement provided the following justifications that related to **lack of demand for the MREL support from their clients and access to wider range of sources other than EBRD**.

- *"My clients do not need MREL desperately. When the MREL product becomes available in the market, their parent banks should have more flexible funding strategy across the group. At the subsidiary bank level, it can diversify funding source and increase financial independence (if it is a group strategy)."*
- *As more and more investors start participating in such instruments, my clients will have access to a wide range of sources for its capital needs without solely relying on EBRD's support*
- Those who neither agreed nor disagreed pointed in vast majority to the **market uncertainties**. For instance:
- *"It will depend on the market conditions in the future which we are currently unable to predict."*
- *"This is hard to predict. All depends on the market and the market environment and the CoO. Maintaining MREL compliance relying on local markets is hard to achieve as the local capital markets are illiquid and do not have the necessary investors' base to absorb the needs. The larger portion of the banks are still to build name on the international markets and the Bank's support in this regard might be needed. Some of the countries are in close proximity to the Ukraine-Russia conflict and the geopolitical aspect remains a strong consideration for investors, which determines the need for IFIs support. Therefore, we cannot make the conclusion that EBRD's clients will be able to sustain compliance on their own."*
- *"It varies on the geography and market (economic) situation."*

Question 8 [additionality]: I do not see a need for the participation of other IFIs in the MREL market to support my clients in meeting MREL regulatory requirements

Most of the respondents either disagreed (36.84%) with the statement or were neutral (47.37%). 10.53% strongly agreed while a small minority agreed - 5.26% - see Figure.



Those who disagreed provided a range of explanations. For instance,

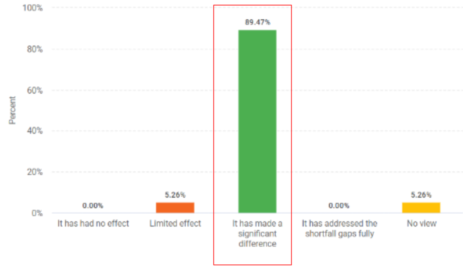
- *"In many cases issuers have managed to successfully raise the needed MREL funds through investments by EBRD alongside other IFIs. In some cases there isn't sufficient private investor interest and by applying the EBRD's criteria for maximum share in an issuance, etc., the participation of other IFIs is actually necessary."*
- *"Other IFIs were generally required for SNP/SP bonds issued by Romanian banks."*
- *"The current situation in the regions we operate in clearly indicates the need for IFIs to play a more active role in supporting banks. The absence of strong local capital markets, coupled with the limited capacity of many banks to attract investors in international markets due to their size or track record, is a significant challenge. This challenge is further compounded by the substantial refinancing needs of MREL instruments. Given these conditions, it becomes evident that more IFIs, adopting a strategy similar to the EBRD's, should involve themselves in MRELs to address these gaps."*
- *"I think at the early stages of development, the participation of other IFIs in the market will have the benefit of encouraging other private investors to follow"*

Those who agreed also provided heterogenous range of explanation. For instance,

- *"In my market, I don't think we need to cooperate with other IFIs in the near future."*
- *"For some of the large banks MREL needs are quite sizable , therefore, other IFIs support is required to help them with meeting regulatory requirements. One of the partner banks has recently reached out to a new IFI ,*

AIIB, which is currently considering establishing an MREL limit. EBRD also has its internal single obligor limits which restrict in some cases larger/ continuous participations."

Question 9 [multiple evaluation criteria]: What is your perspective on whether EBRD participation in the MREL market has addressed MREL market shortfalls.



Most of the respondents think that EBRD's participation made significant difference in the MREL market - 89.47% - see Figure.

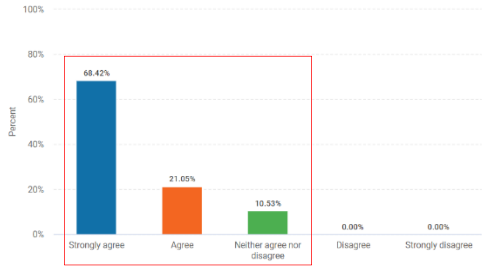
Some other interesting remarks include:

- *"This is recognised by regulators, issuers and EU-wide banking groups. Capital markets in CEE are still underdeveloped and shallow as compared to Western Europe and EBRD has significantly contributed to filling the market gap and funding shortfall, especially when it comes to MREL instruments."*
- *"EBRD's participation has certainly been conducive in enabling banks to access markets/ raise eligible funding when they needed, supporting first time issuers, launching debut instruments, being in standby for the clients at most challenging market cycles."*
- *"In the SEMED region for example, private participation is still falling short of the needs, so EBRD's participation is high additional"*
- *"I'd be tempted to say it fully addresses the gaps, but it's not a simple yes-or-no question. EBRD's necessity indicates a market shortfall, and its involvement is more remedial than preventative, so it doesn't entirely close the gap. However, EBRD's role in attracting other institutional investors and highlighting the safety and importance of MREL instruments will gradually enhance and diminish the gaps in the MREL market over the long term."*

Some highlited the fact that **more could have been done in closing the MREL shortfalls if the EBRD participation limits were different.** For instance:

- *"With the objective of mobilisation of private investors of 70-80% EBRD is not always able to breach the market gaps. There have been several cancelled deals in Poland due to complete lack of demand for the size/product."*

Question 10 [relevance and internal coherence]: I believe EBRD should support clients in meeting MREL requirements in non-EU countries as they move to resolution regimes similar to BRRD.



Most of the respondents strongly agreed with the statement: 68.42 %. Only a minority (10.53%) remained were neutral. No responded disagree – see Figure.

Those in agreement with this statement provided justifications often referring to **the market inefficinies and the need to address clients' needs**. For instance

- *"Similarly to EU CoOS, clients in non-EU CoOs face capital market inefficiencies hence EBRD's support in meeting any future MREL requirements"*
- *"Absolutely. In countries outside EU debt capital markets are (practically) non existent, so EBRD's (and generally IFIs) role in helping those banks to meet MREL requirements will be of paramount importance. In those cases, more bilateral facilities shall be expected."*
- *"The EBRD is responsive to its clients' needs. Should there be a requirement for the EBRD to engage in MREL products in countries outside the EU, it is imperative that we seriously consider this after completing all the necessary regulatory and analytical assessments. Additionally, leveraging the approach of policy dialogue could be immensely beneficial in establishing regulations that govern MRELs in non-EU countries. This could lead to the development of clearer and more effective frameworks, drawing upon our experience in EU countries."*

Annex 6. External data

Data source	Coverage	Variables
Single Resolution Board MREL Dashboard	• Country-level: both case study and portfolio • Bank-level: case study banks only	• Time-series (Q12016 – YTD) of MREL targets and shortfalls for resolution (external MREL) and non-resolution entities (internal MREL) as well as the level and composition of resources of resolution entities in the quarter.
Individual banks' websites	• Bank-level: case study banks only	• MREL targets and delivery stats [might vary by bank), In general: • the amount of own funds and eligible liabilities counting towards the requirement; • the amount of 'other bail-inable liabilities'; • for the above, their composition, including maturity profile, their ranking in insolvency proceedings and whether they are governed by third-country law and, if so, which third-country law and whether they contain bail-in recognition clauses pursuant to Article 55 of the BRRD.
S&P Capital IQ Pro	• Country-level: both case study and portfolio • Bank-level: case study banks only	• [KeyField: 364645, 'MIN_MREL_REQUIREMENT] Minimum requirement for own funds and eligible liabilities [Financials] / [SNL Financial Fundamentals] / [Banks - Global Summary] / [Industry Supplemental] / [Regulatory Capital] / [Minimum MREL Requirement • [KeyField: 330712, SNL_MIN_REQ_ELIGIBLE_LIAB_RATIO] Minimum requirement for own funds and eligible liabilities as a percent of risk weighted assets (RWA) or total liabilities and own funds (TLOF), as reported by the company [Financials] / [SNL Financial Fundamentals] / [Banks - Non-U.S.] / [Industry Supplemental] / [Regulatory Capital] / [Min Req Eligible Liability Ratio]
BIS Data Portal	• Country-level: both case study and portfolio • *Bank-level: case study banks only*	• Global liquidity indicators • Key stats from the recent impact assessment report here
EBA reporting	• Country-level: both case study and portfolio • *Bank-level: case study banks only*	• Liquidity coverage ratio (LCR)
Dealogic	• Country-level: both case study and portfolio • *Bank-level: case study banks only*	• Weekly gross bond issuances volume of Banking Union banks • Time series of MREL securities for case study banks
Bloomberg	• Country-level: both case study and portfolio • *Bank-level: case study banks only*	• iTraxx indexes on subordinated and senior financial debt • time series of MREL securities for case study banks

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