FitchRatings

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Fitch Affirms EBRD at 'AAA'; Outlook Stable

Fitch Ratings - London - 24 Nov 2022: Fitch Ratings has affirmed European Bank for Reconstruction and Development Bank's (EBRD) Long-Term Issuer Default Rating (IDR) at 'AAA' with a Stable Outlook.

Key Rating Drivers

Standalone Credit Profile Drives Rating: EBRD's Long-Term IDR reflects its Standalone Credit Profile (SCP) of 'aaa'. The SCP is driven by the bank's liquidity and solvency assessments of 'aaa'. The solvency assessment balances the bank's 'excellent' capitalisation and 'low' risk profile. Thanks to its well-managed capital buffers, the bank has absorbed significant losses in relation to the Russia-Ukraine war, while still maintaining 'excellent' capital ratios under Fitch's criteria. Despite rising credit risk in its countries of operations, Fitch expects the bank will maintain solvency metrics consistent with a 'aaa' assessment over the medium term.

Prudent Provisioning Against Ukraine Crisis: EBRD reported a net loss of EUR2.2 billion in 1H22 (2021: EUR2.5 billion net profit). The loss was driven by a EUR1.4 billion revaluation of equity investments based in Russia, Ukraine and Belarus, and a EUR1.4 billion increase in the bank's expected credit loss reserve against loans based in those countries (driven by a EUR1.2 billion post model adjustment to impairment models). Fitch expects this prudent approach to reduce the risk of significant further losses arising from the Russia-Ukraine war.

Excellent Capitalisation: The overall capitalisation assessment remains 'excellent' considering Fitch's usable capital to risk-weighted assets (FRA) ratio of 39% at end-1H22 (end-21: 40%) and an equity-to-assets (E/A) ratio of 26% at end-1H22 (end-21: 28%). After the deterioration linked to the Russia-Ukraine crisis, we expect the two ratios to remain above Fitch's 'excellent' thresholds of35% and 25%, respectively, over the medium term. Our forecasts assume EBRD returns to profitability in 2023 and prudent management of the bank's leverage.

Rising Credit Risks: The weighted average rating of loans and guarantees is unchanged at 'B+' ('BB-' after preferred creditor status uplift) compared with a year ago. The share of loan exposures in countries where the Outlook on the sovereign is Negative increased to 32% of the total at end-1H22 from 11% at end-1H21. This reflects the worsening macroeconomic conditions in the bank's countries of operations. Overall, we expect the average rating of loans to weaken but to remain at 'B+' over the forecast horizon. The non-performing loan (NPL) ratio, increased to 6.6% in 1H22 from 4.9% in 2021, primarily due to the impact of the Russia-Ukraine war. We expect the NPL ratio to remain above but close to 6%.

Increased Exposure to Ukraine: EBRD has committed an envelope of up to EUR3 billion new investments in Ukraine in 2022 and 2023, reflecting the strong commitment from shareholders to support the country. In recognition of the heightened level of risk in Ukraine, the EUR3 billion envelope of new investments will benefit from guarantees by shareholders covering 50% on average. Nevertheless, EBRD's exposure to the country net of shareholder guarantees remains significant, at EUR2.0 billion or 5.5% of the bank's total banking exposure at end-9M22. The Ukrainian credit exposure is covered by a EUR1.1 billion loss provision. In 3Q22, 28% of loans to Ukrainian counterparties were non-performing. A potential marked increase in Ukrainian NPLs is a downside risk to EBRD's risk profile.

Excellent Liquidity and Market Access: EBRD's liquidity is assessed at 'aaa'. The bank's coverage of short-term debt by liquid assets was 2.7x at end-1H22. EBRD operates with a higher level of treasury assets (48% of total assets at end-1H22) than comparable peers and this weighs positively on our assessment on liquidity. The quality of treasury assets is 'strong', with the share of treasury assets rated 'AAA'-'AA' at 58% as of end-1H22. Fitch expects the liquidity ratio to remain above the 1.5x 'excellent' threshold but to weaken as a consequence of EBRD's reduced borrowing plans, which will reduce the overall amount of treasury assets. In Fitch's view, EBRD has 'excellent' access to capital markets.

Medium Risk Business Environment: The assessment of EBRD's business profile balances the high share of non-sovereign financing and an increased focus on less advanced economies with the high quality of governance and the importance of its public mandate. While the risk in EBRD countries of operations has increased, this is partly offset by rising policy importance given the role played by the bank in supporting Ukraine in line with the objectives of its shareholders. The operating environment is also assessed as 'medium risk', reflecting the moderate average credit quality and political risk in most countries of operations, as measured by the World Bank governance indicators, and strong operational support from member states.

No Support Uplift: Fitch assesses shareholders' support at 'aa-', which is based on the weighted average rating of key shareholders as its medium-term forecast for coverage of net debt by callable capital is expected not fall below this level by end-2024 (full coverage from shareholders rated at least 'AA-' at end-1H22). Fitch views shareholders' propensity to support the bank as 'strong'.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The rating is at the highest level on Fitch's scale and cannot be upgraded.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Solvency (Capitalisation): A decline in capitalisation metrics with an equity to assets and guarantees ratio sustained at a level below 25% or a FRA ratio below 35%. This would affect our 'excellent' capitalisation assessment. This could be driven by further losses, faster-than expected growth, and/or a significant increase in risk-weighted assets.

- Solvency (Risk): A decline in the average rating of loans and guarantees below 'B+'. An NPL ratio markedly above 6% over the medium term, leading to significant additional credit losses relative to what the bank has already provisioned.

- Liquidity (Liquidity Buffer): A decline in the liquidity ratio to a level below 150%. This would affect our 'excellent' liquidity assessment. This could be driven by lower amounts of treasury assets and/or a decline in the credit quality of treasury assets.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

EBRD has an ESG Relevance Score of '4' for 'Exposure to Social Impacts'. In order to provide temporary liquidity support, the bank has allowed payment deferral for some of its borrowers affected by the coronavirus crisis but that had not experienced payment delays before the deferral was granted. 'Exposure to Social Impacts' has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

EBRD has an ESG Relevance Score of '4' for 'Rule of Law, Institutional and Regulatory Quality'. All supranationals attract a score of '4' as they are neither subject to bank regulation nor supervised by an external authority. Instead, supranationals comply with their own set of prudential limits. Fitch pays particular attention to these internal prudential policies, including the bank's compliance with them. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

The ESG Relevance Score for 'Labour Relations and Practices' has changed to '2' from '3' as Fitch no longer considers restrictions on recruitment based on nationality or quotas relevant to multilateral development banks' ratings.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
European Bank for Reconstruction and Development	LT IDR	AAA	Affirmed		AAA
	ST IDR	F1+	Affirmed		F1+
• senior unsecured	LT	AAA	Affirmed		AAA

ENTITY/DEBT		RATING		RECOVERY	PRIOR
• senior unsecured	ST	F1+	Affirmed		F1+

RATINGS KEY **OUTLOOK** **WATCH**

	OUTLOOK	WATCH
POSITIVE	⊕	◆
NEGATIVE	⊖	◆
EVOLVING	○	◆
STABLE	○	

Applicable Criteria

Supranationals Rating Criteria (pub.11 Apr 2022) (including rating assumption sensitivity)

Additional Disclosures

Solicitation Status

Endorsement Status

European Bank for Reconstruction and Development	UK Issued, EU Endorsed

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