# European Bank for Reconstruction and Development

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on www.fitchratings.com.

## Ratings

**Foreign Currency**

| | |
|---|---|
| Long-Term IDR | AAA |
| Short-Term IDR | F1+ |

**Outlooks**

| | |
|---|---|
| Long-Term Foreign-Currency IDR | Stable |

## Financial Data

| | Dec 22 | Jun 23 |
|---|---|---|
| Total assets (EURm) | 71,625 | 73,098 |
| Equity to assets (%) | 29 | 30 |
| Fitch's usable capital to risk-weighted assets (FRA, %) | 45 | 46 |
| Average rating of loans & guarantees | B+ | B+ |
| Impaired loans (% of total loans) | 7.2 | 6.3 |
| 5 largest exposures to total exposure (%) | 12 | 12 |
| Share of non-sovereign exposure (%) | 83 | 82 |
| Internal Capital Generation (%) | -6.2 | 6.3 |
| Average rating of key shareholders | AA- | AA- |

Source: Fitch Ratings, EBRD

## Key Rating Drivers

**SCP Drives Rating:** European Bank for Reconstruction and Development's (EBRD) rating reflects its Standalone Credit Profile (SCP) of 'aaa'. The SCP is based on the solvency assessment, which Fitch Ratings has revised to 'aa+' from 'aaa' due to heightened credit risk. We also revised EBRD's business environment to 'low' risk from 'medium' risk, which leads to a notching of '+1' over the lower of the solvency and liquidity assessments, to reflect the bank's increased policy importance. We expect EBRD's capital buffers will offset rising credit risks.

**Credit Risks Constrain Solvency:** We expect EBRD's non-performing loan (NPL) ratio will remain above 6% in the medium term. EBRD's NPL ratio, as adjusted by Fitch, increased to 6.6% in 1H22 from 4.9% in 2021, primarily due to the impact of the Russia-Ukraine war, and has remained above 6%, at 6.3% as of end-1H23 (end-2022: 7.2%). The average rating of loans and guarantees before preferred creditor status (PCS) was 'B+' at end-1H23, unchanged from the previous year. We expect the average rating of loans to weaken but to remain at 'B+'.

**Planned Capital Increase Supportive:** In November 2023, EBRD's board of directors formally recommended a EUR4 billion general capital increase (GCI) to further support Ukraine (CC). We expect the GCI to be approved by end-2023 and paid-in capital payments to start in 2025. Our revised assessment of the bank's business profile was primarily supported by EBRD's role in providing support to Ukraine. The expected GCI also highlights the increased policy importance.

**Increased Ukraine Exposure:** EBRD has committed up to EUR3 billion investment in Ukraine in 2022 and 2023. Recognising the heightened risk level in Ukraine, these investments benefit from shareholder guarantees covering 50% on average. Exposure to Ukraine net of shareholder guarantees remains significant at EUR2.5 billion at end-1H23, but is covered by a EUR1.1 billion expected loss provision. In 1H23, 46% of loans to Ukrainian counterparties were NPLs. A further marked increase in Ukrainian NPLs is a downside risk to EBRD's risk profile.

**Excellent Capitalisation:** The overall capitalisation assessment remains 'excellent' considering Fitch's usable capital to risk-weighted assets (FRA) ratio of 46% and an equity-to-assets (E/A) ratio of 30% at end-1H23. Fitch expects the two ratios to remain above its 'excellent' thresholds of 35% and 25%, respectively, over the medium term. Our forecasts assume EBRD remains profitable in 2024 and 2025 and prudent management of the bank's leverage. The expected increase in the bank's capital should further support capital ratios.

**Prudent Provisioning Against Ukraine Crisis**: EBRD returned to profitability in 1H23, achieving net income of EUR1.2 billion after a EUR1.1 billion loss in 2022 (2021: EUR2.5 billion net profit) driven by EUR1.4 billion impairment losses, primarily on loans based in Ukraine, Russia and Belarus and overall equity losses of EUR1.1 billion driven by a significant fall in the value of the bank's legacy equity investments in Russia. We expect EBRD's prudent reserving and valuation approach to reduce the risk of significant further losses arising from the war in Ukraine.

**Low-Risk Business Environment:** 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. The risk in EBRD's countries of operations has increased, but this is offset by rising policy importance, given the bank's role in supporting Ukraine. The operating environment reflects the moderate credit quality and political risk in countries of operations and strong operational support from member states.

## Applicable Criteria

Supranationals Rating Criteria (April 2023)

## Related Research

Fitch Affirms EBRD at 'AAA'; Outlook Stable (November 2023)

Click here for more Fitch Ratings content on European Bank for Reconstruction and Development

## Analysts

Khamro Ruziev
+44 20 3530 1813
khamro.ruziev@fitchratings.com

Ralf Ehrhardt
+49 69 768076 163
ralf.ehrhardt@fitchratings.com

## Rating Derivation Summary

| | Standalone Credit Profile (SCP) | | | | | Support | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Solvency | Liquidity | Lower of solvency and liquidity | Business environment (+3/-3 notches) | Final SCP | Capacity | Propensity (+1/-3 notches) | Support adjustment (up to 3 notches) | Final rating |
| EBRD | aa+ | aaa | aa+ | +1 | aaa | AA- | 0 | 0 | AAA |

Source: Fitch Ratings

## Rating Sensitivities

### 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 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 revision of our assessment of the bank's credit risk to 'high', which could be driven by a decline in the average rating of loans and guarantees below 'B+' and/or an increase of the NPL ratio markedly above the 6% threshold for 'high' risk over the medium term. This would, for example, be the case if EBRD's entire exposure to Ukraine (including to the sovereign) went into default.
- **Business Environment (Operating Environment Risk):** Rapid expansion into 'high' risk countries in sub-Saharan Africa or a larger number of sovereign downgrades of EBRD's countries of operations that affect our assessment of the bank's operating environment.

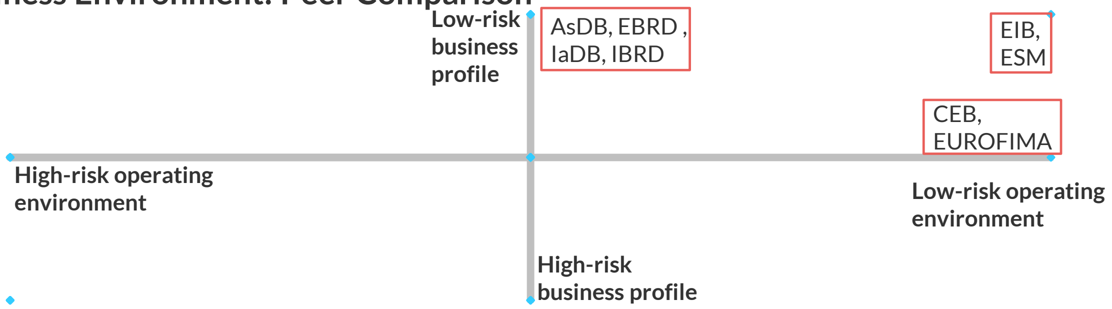
### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

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

## Business Environment

Fitch considers EBRD's business environment as 'Low' risk, an assessment that combines its 'Low' risk business profile and 'Medium' risk operating environment, and does include a one-notch upward rating adjustment over the lower of the bank's solvency and liquidity assessments.

### Business Environment: Peer Comparison




AsDB: Asian Development Bank; CEB: Council of Europe Development Bank.; EBRD: European Bank for Reconstruction and Development; ESM: European Stability Mechanism; IaDB: Inter American Development Bank; IBRD: International Bank for Reconstruction and Development
Source: Fitch Ratings

## Brief Issuer Profile

EBRD is a multilateral development bank (MDB) established in 1991, with a mandate to provide financing to the economies of central and eastern Europe, and the Commonwealth of Independent States (CIS). It has also expanded its operations into Mongolia (in 2006), Turkiye (in 2009) and the southern and eastern Mediterranean (SEMED) region (in 2012). From 2014, EBRD disbursed financing to Greece and Cyprus, albeit on a temporary basis until 2020. In December 2018, the bank's board of governors approved the extension of its mandate in Greece to 2025. In 2014, following the invasion of Crimea, it halted all new investments in Russia, then the largest recipient of EBRD's resources, following the directives of its shareholders. EBRD stopped approving new public-sector projects in Belarus in 2020, new private-sector commitments in 2021, and disbursements for existing commitments in April 2022.

The bank is based in London, United Kingdom, and has more than 40 offices worldwide. As a supranational institution, it is exempt from direct taxes and benefits from immunities and privileges in its member countries.

### Business Profile

The 'Low' risk business profile mainly reflects the factors outlined below.

Fitch considers the size of the banking portfolio as a 'Low' risk, reflecting EBRD's total banking exposure of EUR40 billion, exceeding the USD30 billion threshold outlined in the criteria.

EBRD's quality of governance is considered a 'Low' risk. The bank's governing body is the board of governors, which includes a representative from each shareholder. It retains overarching responsibility for the bank, including changes in capital structure, the admission or suspension of member countries, and the approval of financial statements. The board of governors has delegated non-executive supervisory responsibility to the board of directors and day-to-day management to the executive committee, both of which are led by the President. Fitch expects the bank to preserve its long-standing culture of conservative risk management and underwriting.

In our view, risks associated with the strategy followed by EBRD are 'Medium', reflecting the share of its exposures to countries with medium credit quality and given the political risk in some of its countries of operation, such as Turkiye and SEMED, and the heightened level of risk in Ukraine. These risks are in part offset by EBRD's conservative risk management policies, including prudent underwriting and reserving practices, and large capital buffers.

Fitch assesses the involvement of EBRD in private-sector financing as 'High' risk, reflecting non-sovereign exposures totalling 82% of EBRD's total banking exposure at end-1H23.

We consider the importance of the public mandate a 'Low' risk. EBRD's policy response to the war in Ukraine and the Covid-19 crisis provided evidence of its role as a counter-cyclical lender and highlighted its institutional importance within its countries of operations and for its shareholders. The planned capital increase further highlights the increasing policy importance of EBRD for its shareholders.

### Operating Environment

Fitch assesses EBRD's operating environment as 'Medium' risk, considering the credit quality, political risk and business climate of the countries in which it operates.

The credit quality of the countries of operations is a 'high' risk reflecting the fairly low ratings of some of the countries EBRD operates in.

Income per capita in the countries of operations is a 'medium' risk. The average GDP per capita in EBRD's countries of operations was about USD11,800 under the World Bank's Development's Indicators released in September 2023.

Fitch assesses political risk in EBRD's countries of operations as a 'medium' risk based on the World Bank's Governance Indicators.

Fitch regards the operating environment in the UK, where the bank is headquartered, as a 'low' risk.

The bank benefits from a very high level of operational support provided by member states' authorities, as indicated by shareholder guarantees provided for EBRD's Ukraine exposures and the fact that loan repayment has been protected against foreign currency controls and general moratoriums.

## Solvency

EBRD's 'aa+' solvency is driven by the bank's 'Excellent' capitalisation and 'Low' risk profile.

### Capitalisation

The 'Excellent' assessment of capitalisation is driven by the 'Excellent' FRA and E/A ratios.

EBRD's E/A ratio remained 'Excellent' and improved in 1H23, to 30% from 29% at end-2022, after it had weakened to 25% in 1H22 (end-2021: 28%) due to reduced equity following the bank's net loss in 1H22. The improvement in 2H22 reflected EBRD reducing its outstanding debt while the improvement in1H23 reflected the bank's return to profitability.

The bank's FRA ratio is also 'Excellent' and improved in 1H23 to 46% from 45% at end-2022 due to the increase in the bank's capital base.

We expect the two ratios to remain above our 'Excellent' thresholds of 35% and 25%, respectively, over the medium term. Fitch's forecasts assume EBRD remaining profitable in 2024 and 2025 and prudent management of the bank's leverage.

EBRD returned to profitability in 1H23 achieving net income of EUR1.2 billion after it reported a EUR1.1 billion loss in 2022 (2021: EUR2.5 billion net profit) mainly driven by EUR1.4 billion impairment losses, primarily on loans based in Ukraine, Russia and Belarus. The war in Ukraine also led to a significant fall in the value of the bank's legacy equity investments in Russia, resulting in overall equity losses of EUR1.1 billion in 2022. Fitch expects EBRD's prudent reserving and valuation approach to reduce the risk of significant further losses arising from the war in Ukraine.

## Peer Comparison: Capital Ratios and Profitability

| | EBRD (AAA) | | AsDB (AAA) | IDB Invest (AAA) | IsDB (AAA) |
|---|---|---|---|---|---|
| | Jun-2023 | Projection[a] | End 2022 | Sept 2022 | End 2022 |
| Equity/adjusted assets (%) | 30 | 29-31 | 29 | 33 | 37 |
| Usable capital/risk-weighted assets (FRA, %) | 46 | 40-43 | 59 | 43 | 45 |
| Internal Capital Generation (%) | 6.3 | 4-7 | 3.1 | 4.1 | 1.7 |

[a] Medium-term projections, forecast range
Source: Fitch Ratings, MDBs

### Risks

## Risks Assessment

| Indicative value | Risk level |
|---|---|
| Credit risk | Moderate |
| Concentration | Very low |
| Equity risks | Moderate |
| Market risks | Very low |
| Risk management policies | Excellent |

Source: Fitch Ratings

Fitch assesses the overall risk profile of the bank as 'Low'. The assessment reflects the following factors.

The average rating of loans and guarantees before PCS was 'B+' at end-1H23, unchanged from the previous year. The share of loan exposures in countries with a Negative Outlook decreased to 3% of the total at end-1H23 from 32% at end-1H22. This reflects stabilised macroeconomic conditions in the bank's countries of operations. Overall, we expect the average rating of loans to remain at 'B+' over the forecast horizon.

EBRD benefits from 'Moderate' PCS given the limited size of its sovereign exposures (18% of the total banking portfolio at end-1H23) and various episodes when the bank benefited from preferred creditor treatment, including when it was excluded from the debt restructuring of a Ukrainian government-related bank in 2015. The default by the Belarusian sovereign (0.8% of total banking exposure at end-1H23) in 2022 was the first sovereign default of the bank's history. EBRD also benefits from PCS on its non-sovereign exposure with its charter protecting loan repayments against foreign currency embargo. The PCS adjustment provides a one-notch uplift to the average rating of the loans to 'BB-'.

The NPL ratio increased to 6.6% in 1H22 from 4.9% in 2021, primarily due to the impact of the Russia-Ukraine war, and has remained above 6% at 6.3% end-1H23 (end-22: 7.2%). We expect the NPL ratio to remain above 6% due to the increased exposure to Ukraine. EBRD committed an envelope of up to EUR3 billion new investments in Ukraine in 2022 and 2023, reflecting the strong commitment from its shareholders to support the country. In recognition of the heightened level of risk in Ukraine, the EUR3 billion envelope of new investments benefits from pari passu or first-loss guarantees by shareholders covering 50% on average. EBRD reached the EUR3 billion target of new investment in Ukraine in October 2023. In November 2023, EBRD's board of directors formally recommended a EUR4 billion GCI to further support Ukraine.

Nevertheless, EBRD's exposure to the country net of shareholder guarantees remains significant, at EUR2.5 billion or 6.3% of the bank's total banking exposure at end-1H23. On top of the guarantees, the Ukrainian credit exposure is covered by a EUR1.1 billion loss provision. In 1H23, 46% of loans to Ukrainian counterparties were non-performing (1H22: 28%). A further marked increase in Ukrainian NPLs is a vulnerability to EBRD's risk profile.

Concentration risk is very low, in our view, with the five largest banking exposures accounting for 12% of the total at end-1H23.

Equity risk is 'Moderate', reflecting equity participations totalling 13% of EBRD's total banking exposure at end-1H23, unchanged from end-1H22 (end-2021: 16%), which is higher than for most regional MDBs. The decrease in 1H22 was mainly driven by a EUR1.4 billion revaluation of equity investments based in Russia, Ukraine and Belarus.

Market risks are 'Very Low'. Exposure to interest-rate and foreign-exchange risks is hedged through derivatives. Currency and interest-rate features of assets and liabilities are broadly aligned, with only small deviations allowed.

We assess EBRD's risk management policies as 'Excellent', primarily based on the bank's track record of prudent risk management. EBRD's self-calculated gearing ratio was well below its prudential maximum of 92%, at 81% at end-1H23. EBRD's Basel III-derived liquidity guidelines are very conservative: while the bank must maintain a minimum of 75% of its next two years' cash requirements, this coverage reached 139% at end-1H23. EBRD also monitors credit rating agency metrics and the bank's policies and day-to-day management is informed by them, given EBRD's intention to maintain its 'AAA' rating.

### Peer Comparison: Risks

| | EBRD (AAA) | | AsDB (AAA) | IDB Invest (AAA) | IsDB (AAA) |
|---|---|---|---|---|---|
| | Jun-2023 | Projection[a] | End 2022 | Sept 2022 | End 2022 |
| Estimated average rating of loans & guarantees | B+ | B+ | BBB | BB | B |
| Impaired loans/gross loans (%) | 6.3 | 6-9 | 0.5 | 0.5 | 4.6 |
| Five largest exposures/total banking exposure (%) | 12 | 10-15 | 55 | 11 | 29 |
| Equity stakes/total banking exposure (%) | 13 | 11-15 | 1 | 5 | 7 |

[a] Medium-term projections, forecast range
Source: Fitch Ratings, MDBs

## Liquidity Analysis

### Liquidity Assessment

| Indicative value | Risk level |
|---|---|
| Liquidity buffer | Excellent |
| Quality of Treasury Assets | Strong |
| Access to capital markets & alternative sources of liquidity | Excellent |

Source: Fitch Ratings

EBRD's 'aaa' liquidity assessment reflects its 'Excellent' liquidity buffers, 'Strong' credit quality of its treasury portfolio and its 'Excellent' access to capital markets.

### Liquid Assets to Short-Term Debt

Fitch estimates that 98% of EBRD's treasury assets (EUR31 billion at end-1H23) were investment grade. The bank's coverage of its short-term debt by liquid assets is substantially above the 1.5x threshold for an assessment as 'Excellent', at 3.0x at end-1H23. Fitch expects the liquidity ratio to remain above the 1.5x 'Excellent' threshold but to weaken to around 2.5x, reflecting slower projected growth of treasury assets than of the bank's loan portfolio.

### Quality of Treasury Assets

At end-1H23, the share of treasury assets rated 'AA-' and above totalled 62%, highlighting the bank's conservative investment management. When considering the robustness of its liquidity buffer and treasury assets credit quality, EBRD's liquidity profile is in line with other 'AAA' rated institutions.

The average rating of treasury assets was 'AA-' at end-1H23, and 77% had a maturity of less than one year.

### Access to Capital Market, Alternative Source of Liquidity

Fitch considers the bank's access to capital markets or alternative sources of liquidity to be 'Excellent'. The bank raised EUR7 billion in 2022 after EUR12 billion in 2021 and 2020. The reduced borrowing in 2022 was supported by EBRD's excellent liquidity position. For 2023, EBRD's borrowing programme is up to EUR10 billion, including funding needs of EUR8 billion and EUR2 billion of potential pre-funding of the bank's 2024 borrowing programme. EBRD has issued bonds in euros, sterling, US dollars and other currencies.

The bonds issued by EBRD are eligible for 0% risk-weight and Level 1 high-quality liquid assets for the liquidity coverage ratio calculation under the Basel framework.

### Peer Comparison: Liquidity

| | EBRD (AAA) | | AsDB (AAA) | IDB Invest (AAA) | IsDB (AAA) |
|---|---|---|---|---|---|
| | Jun-2023 | Projection[a] | End-2022 | Sept 2022 | End-2022 |
| Liquid assets/short-term debt (%) | 296 | 230-255 | 182 | 212 | 493 |
| Share of treasury assets rated AA- & above (%) | 62 | 60-65 | 63 | 86 | 8 |

[a] Medium-term projections, forecast range
Source: Fitch Ratings, MDBs

## Shareholder Support

Our assessment of members' extraordinary support is 'aa-', which results in no rating uplift to EBRD's SCP.

### Capacity to Provide Extraordinary Support

The bank's members' capacity to support is 'aa-' based on the weighted average rating of key shareholders – the US (AA+/Stable, 10.1% shareholding), France (AA-/Stable), Germany, (AAA/Stable), Italy (BBB/Stable), Japan (A/Stable) and the UK (AA-/Negative), each with a 8.6% shareholding. The WARKS would remain 'AA-' if the UK were downgraded by one notch.

EBRD's callable capital (EUR23.5 billion) does not exceed the bank's total debt (EUR45.1 billion at end-1H23). However, taking into account eligible treasury assets rated at least 'A' reduces net debt to EUR15.2 billion. At end-1H23, EBRD's net debt was covered by its callable capital rated at least 'A+'. However, we expect this coverage to reduce to 'BBB' over the forecast period.

### Propensity to Provide Extraordinary Support

Fitch views EBRD member states' propensity to provide support as 'Strong', given the important role played by EBRD in the financing of the private sector and for certain sovereigns.

EBRD's role in providing support to Ukraine and the guarantees from its member countries to mitigate the increase in risk highlight EBRD's policy importance for its shareholders. EBRD's shareholders agreed in May 2023 to provide the bank with additional paid-in capital to allow the bank to provide further support to Ukraine while maintaining its 'excellent' capitalisation. We expect a decision about the capital increase by end-2023. EBRD is the only MDB not to have received an injection of paid-in capital over the past 25 years because of historically strong profitability that has supported internal capital generation.

The 'Strong' support propensity means that the support capacity and the overall support rating are equalised (no notching up or down), translating into a support rating of 'AA-'.

### Peer Comparison: Shareholder Support

| | EBRD (AAA) | | AsDB (AAA) | IDB Invest (AAA) | IsDB (AAA) |
|---|---|---|---|---|---|
| | Jun-2023 | Projection[a] | End 2022 | Sept 2022 | Jun 2022 |
| Coverage of net debt by callable capital | A+ | BBB | BBB+ | NC | A+ |
| Average rating of key shareholders | AA- | AA- | A+ | BBB | BBB- |
| Propensity to support | 0 | 0 | 0 | 0 | 0 |

[a] Medium-term projections. AsDB – Asian Development Bank; IDB Invest - Inter-American Investment Corporation; IsDB – Islamic Development Bank
Source: Fitch Ratings, MDBs

# ESG Relevance Scores

FitchRatings

## European Bank for Reconstruction and Development

**Supranational ESG Navigator**
**Supranational**

### Credit-Relevant ESG Derivation

European Bank for Reconstruction and Development has 2 ESG rating drivers and 5 ESG potential rating drivers

- European Bank for Reconstruction and Development has exposure to social pressure to provide support at times of crisis which, in combination with other factors, impacts the rating.
- European Bank for Reconstruction and Development has exposure to lack of supervision by an external authority and is not subject to banking regulation which, in combination with other factors, impacts the rating.
- European Bank for Reconstruction and Development has exposure to borrowers with limited access to external funding sources and/or extend concessional loans but this has very low impact on the rating.
- European Bank for Reconstruction and Development has exposure to risk around the execution/predictability of its strategy but this has very low impact on the rating.
- European Bank for Reconstruction and Development has exposure to board independence and effectiveness, ownership composition but this has very low impact on the rating.
- European Bank for Reconstruction and Development has exposure to quality of financial reporting and medium-term financial forecasts but this has very low impact on the rating.

Showing top 6 issues

| | | | ESG Relevance to Credit Rating |
|---|---|---|---|
| key driver | 0 | issues | 5 |
| driver | 2 | issues | 4 |
| potential driver | 5 | issues | 3 |
| not a rating driver | 2 | issues | 2 |
| | 6 | issues | 1 |

### Environmental (E) Relevance Scores

| General Issues | E Score | Sector-Specific Issues | Reference | E Relevance |
|---|---|---|---|---|
| GHG Emissions & Air Quality | 1 | n.a. | n.a. | 5 |
| Energy Management | 1 | n.a. | n.a. | 4 |
| Water & Wastewater Management | 1 | n.a. | n.a. | 3 |
| Waste & Hazardous Materials Management; Ecological Impacts | 1 | n.a. | n.a. | 2 |
| Exposure to Environmental Impacts | 2 | Impact of extreme weather events and climate change on assets and corresponding risk appetite and management | Asset Quality; Risk Management | 1 |

### Social (S) Relevance Scores

| General Issues | S Score | Sector-Specific Issues | Reference | S Relevance |
|---|---|---|---|---|
| Human Rights, Community Relations, Access & Affordability | 3 | Lending to borrowers with limited or no access to other external sources of finance; extension of concessional loans or grants; credit protection schemes | Importance of the Public Mandate; Credit Risk; Propensity to Support | 5 |
| Privacy & Data Security | 1 | n.a. | n.a. | 4 |
| Labour Relations & Practices | 2 | Restriction on recruitment based on nationality and quotas | Governance | 3 |
| Employee Well-being | 1 | n.a. | n.a. | 2 |
| Exposure to Social Impacts | 4 | Counter-cyclical mandate and development role; social pressure to provide support at times of crisis | Credit Risk; NPLs; Capitalisation; Strategy | 1 |

### Governance (G) Relevance Scores

| General Issues | G Score | Sector-Specific Issues | Reference | G Relevance |
|---|---|---|---|---|
| Management Strategy (Operational Execution) | 3 | Lack of predictability and/or risk around the execution of strategy | Business Profile; Strategy; Governance | 5 |
| Governance Structure | 3 | Board independence and effectiveness, ownership composition, degree of political or external influence, control of one member state over the management of the institution | Business Profile; Strategy; Governance | 4 |
| Rule of Law, Institutional & Regulatory Quality | 4 | Supranationals are neither subject to bank regulation nor supervised by an external authority; all supranationals attract a score of '4' | Risk Management Policies; Governance | 3 |
| Financial Transparency | 3 | Quality and frequency of financial reporting and auditing processes, detail and scope of information, medium-term financial forecasts | Minimum Data Requirement | 2 |
| Policy Status and Mandate Effectiveness | 3 | Inherent obligor risk concentration; effectiveness of preferred creditor status; access to liquidity support from central bank | Concentration; Credit Risk; Access to Central Bank Refinancing | 1 |

**How to Read This Page**
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.
**The Environmental (E), Social (S) and Governance (G) tables** break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.
**The Credit-Relevant ESG Derivation** table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.
**Classification** of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

**CREDIT-RELEVANT ESG SCALE**

**How relevant are E, S and G issues to the overall credit rating?**

| | |
|---|---|
| 5 | Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. |
| 4 | Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. |
| 3 | Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. |
| 2 | Irrelevant to the entity rating but relevant to the sector. |
| 1 | Irrelevant to the entity rating and irrelevant to the sector. |

## Data Tables

### Balance Sheet

| | 30 Jun 23 | | 31 Dec 22 | | 31 Dec 21 | |
|---|---|---|---|---|---|---|
| | 6 months - interim (EURm) Original | As % of Assets Original | Year End (EURm) Original | As % of Assets Original | Year End (EURm) Original | As % of Assets Original |
| **A. Loans** | | | | | | |
| 1. To/guaranteed by sovereigns | 7,319 | 10.0 | 6,797 | 9.5 | 5,583 | 7.4 |
| 2. To/guaranteed by public institutions | n.a. | - | n.a. | - | n.a. | - |
| 3. To/guaranteed by private sector | 25,015 | 34.2 | 25,065 | 35.0 | 24,107 | 32.3 |
| 4. Trade financing loans (memo) | n.a. | - | n.a. | - | n.a. | - |
| 5. Other loans | n.a. | - | n.a. | - | n.a. | - |
| 6. Loan loss reserves (deducted) | 1,937 | 2.6 | 2,075 | 2.9 | 963 | 1.3 |
| **A. Loans, total** | **30,397** | **41.6** | **29,787** | **41.6** | **28,727** | **38.4** |
| **B. Other earning assets** | | | | | | |
| 1. Deposits with banks | 21,769 | 29.8 | 21,402 | 29.9 | 22,619 | 30.3 |
| 2. Securities held for sale & trading | 869 | 1.2 | 714 | 1.0 | 1,050 | 1.4 |
| 3. Investment debt securities (including other investments) | 8,001 | 10.9 | 8,275 | 11.6 | 10,304 | 13.8 |
| 4. Equity investments | 5,406 | 7.4 | 5,165 | 7.2 | 6,141 | 8.2 |
| 5. Derivatives (including fair-value of guarantees) | 5,126 | 7.0 | 5,069 | 7.1 | 4,960 | 6.6 |
| **B. Other earning assets, total** | **41,171** | **56.3** | **33,985** | **56.7** | **45,074** | **60.3** |
| **C. Total earning assets (A+B)** | **71,568** | **97.9** | **63,772** | **98.3** | **73,801** | **98.7** |
| **D. Fixed assets** | **578** | **0.8** | **581** | **0.8** | **502** | **0.7** |
| **E. Non-earning assets** | | | | | | |
| 1. Cash and due from banks | n.a. | - | n.a. | - | n.a. | - |
| 2. Other | 952 | 1.3 | 632 | 0.9 | 470 | 0.6 |
| **F. Total assets** | **73,098** | **100.0** | **71,625** | **100.0** | **74,773** | **100.0** |
| **G. Short-term funding** | | | | | | |
| 1. Bank borrowings (< 1 year) | 606 | 0.8 | 571 | 0.8 | 1,000 | 1.3 |
| 2. Securities issues (< 1 year) | 9,736 | 13.3 | 12,847 | 17.9 | 14,690 | 19.6 |
| 3. Other (including deposits) | n.a. | - | n.a. | - | n.a. | - |
| **G. Short-term funding, total** | **10,342** | **14.1** | **13,418** | **18.7** | **15,690** | **21.0** |
| **H. Other funding** | | | | | | |
| 1. Bank borrowings (> 1 year) | n.a. | - | n.a. | - | n.a. | - |
| 2. Other borrowings (including securities issues) | 34,776 | 47.6 | 30,571 | 42.7 | 34,436 | 46.1 |
| 3. Subordinated debt | n.a. | - | n.a. | - | n.a. | - |
| 4. Hybrid capital | n.a. | - | n.a. | - | n.a. | - |
| **H. Other funding, total** | **34,776** | **47.6** | **30,571** | **42.7** | **34,436** | **46.1** |
| **I. Other (non-interest bearing)** | | | | | | |
| 1. Derivatives (including fair value of guarantees) | 5,745 | 7.9 | 7,063 | 9.9 | 3,133 | 4.2 |
| 2. Fair value portion of debt | n.a. | - | n.a. | - | n.a. | - |
| 3. Other (non-interest bearing) | 1,408 | 1.9 | 1,237 | 1.7 | 1,169 | 1.6 |
| **I. Other (non-interest bearing), total** | **7,153** | **9.8** | **8,300** | **11.6** | **4,302** | **5.8** |
| **J. General provisions & reserves** | **n.a.** | **-** | **n.a.** | **-** | **n.a.** | **-** |
| **L. Equity** | | | | | | |
| 1. Preference shares | n.a. | - | n.a. | - | n.a. | - |
| 2. Subscribed capital | 29,759 | 40.7 | 29,759 | 41.5 | 29,759 | 39.8 |
| 3. Callable capital | -23,542 | -32.2 | -23,542 | -32.9 | -23,542 | -31.5 |
| 4. Arrears/advances on capital | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| 5. Paid in capital (memo) | 6,217 | 8.5 | 6,217 | 8.7 | 6,217 | 8.3 |
| 6. Reserves (including net income for the year) | 14,592 | 20.0 | 13,017 | 18.2 | 14,085 | 18.8 |
| 7. Fair-value revaluation reserve | 18 | 0.0 | 102 | 0.1 | 43 | 0.1 |
| **K. Equity, total** | **20,827** | **28.5** | **19,336** | **27.0** | **20,345** | **27.2** |
| **M. Total liabilities & equity** | **73,098** | **100.0** | **71,625** | **100.0** | **74,773** | **100.0** |

Source: Fitch Ratings, Fitch Solutions

**Income Statement**

| | 30 Jun 23 | | 31 Dec 22 | | 31 Dec 21 | |
|---|---|---|---|---|---|---|
| | 6 months - interim (EURm) Original | As % of Earning Assets | Year End (EURm) Original | As % of Earning Assets | Year End (EURm) Original | As % of Earning Assets |
| 1. Interest received | 1,875 | 5.2 | 2,270 | 3.6 | 1,264 | 1.7 |
| 2. Interest paid | 812 | 2.3 | 1,131 | 1.8 | 381 | 0.5 |
| **3. Net interest revenue (1. - 2.)** | **1,063** | **3.0** | **1,139** | **1.8** | **883** | **1.2** |
| 4. Other operating income | 501 | 1.4 | -530 | -0.8 | 1,867 | 2.5 |
| 5. Other income | -171 | -0.5 | 229 | 0.4 | 62 | 0.1 |
| 6. Personnel expenses | 175 | 0.5- | 339 | 0.5 | 309 | 0.4 |
| 7. Other non-interest expenses | 82 | 0.2 | 199 | 0.3 | 165 | 0.2 |
| 8. Impairment charge | -71 | -0.2 | 1,390 | 2.2 | -161 | -0.2 |
| 9. Other provisions | n.a. | - | 27 | 0.0 | -3 | -0.0 |
| **10. Pre-derivative operating profit (3. + 4. + 5.) - (6. + 7. + 8. + 9.)** | **1,207** | **3.4** | **-1,117** | **-1.8** | **2,502** | **3.4** |
| 11. Net gains/(losses) on non-trading derivative instruments | n.a. | - | n.a. | - | n.a. | - |
| **12. Post-derivative operating profit (10. + 11.)** | **1,207** | **3.4** | **-1,117** | **-1.8** | **2,502** | **3.4** |
| 13. Other income and expenses | n.a. | - | n.a. | - | n.a. | - |
| **14. Net income (12. + 13.)** | **1,207** | **3.4** | **-1,117** | **-1.8** | **2,502** | **3.4** |
| 15. Fair value revaluations recognised in equity | 284 | 0.8 | -396 | -0.6 | 32 | 0.0 |
| **16. Fitch's comprehensive net income (14. + 15.)** | **1,491** | **4.2** | **-1,513** | **-2.4** | **2,534** | **3.4** |

Source: Fitch Ratings, Fitch Solutions

## Ratio Analysis

| | 30 Jun 23<br>6 months - interim<br>(%)<br>Original | 31 Dec 22<br>Year end<br>(%)<br>Original | 31 Dec 21<br>Year end<br>(%)<br>Original |
|---|---|---|---|
| **I. Profitability level** | | | |
| 1. Net income/equity (average) | 12.0 | -5.6 | 13.1 |
| 2. Cost/income ratio | 16 | 105 | 17 |
| **II. Capital adequacy** | | | |
| 1. Usable capital/risk-weighted assets (FRA ratio) | 46 | 45 | 40 |
| 2. Equity/adjusted total assets + guarantees | 30 | 29 | 28 |
| 3. Paid-in capital/subscribed capital | 21 | 21 | 21 |
| 4. Internal capital generation after distributions | 6.3 | -6.2 | 12.8 |
| **III. Liquidity** | | | |
| 1. Liquid assets/short-term debt | 296 | 227 | 216 |
| 2. Share of treasury assets rated 'AAA'-'AA' | 62 | 63 | 55 |
| 3. Treasury assets/total assets | 49 | 50 | 45 |
| 4. Treasury assets investment grade + eligible non-investment grade/total assets | 49 | 50 | 45 |
| 5. Liquid assets/total assets | 49 | 50 | 45 |
| **IV. Asset quality** | | | |
| 1. Impaired loans/gross loans | 6.3 | 7.2 | 4.9 |
| 2. Loan loss reserves/gross loans | 6 | 7 | 3 |
| 3. Loan loss reserves/Impaired loans | 97 | 95 | 66 |
| **V. Leverage** | | | |
| 1. Debt/equity | 217 | 227 | 246 |
| 2. Debt/callable capital | 192 | 187 | 213 |

Source: Fitch Ratings, Fitch Solutions

Annex

| | 30 Jun 23 (EURm) Original | 31 Dec 22 (EURm) Original | 31 Dec 21 (EURm) Original |
|---|---|---|---|
| **1. Lending operations** | | | |
| 1. Loans outstanding | 32,334 | 31,862 | 29,690 |
| 2. Disbursed loans | 4,106 | 8,215 | 6,783 |
| 3. Loan repayments | 3,774 | 6,034 | 5,658 |
| 4. Net disbursements | 332 | 2,181 | 1,125 |
| Memo: Loans to sovereigns | 7,319 | 6,797 | 5,224 |
| Memo: Loans to non-sovereigns | 25,015 | 25,065 | 24,166 |
| **2. Other banking operations** | | | |
| 1. Equity participations | 5,102 | 4,885 | 6,010 |
| 2. Guarantees (off balance sheet) | 2,350 | 2,283 | 1,661 |
| Memo: Guarantees to sovereigns | 0 | 0 | 0 |
| Memo: Guarantees to non-sovereigns | 2,350 | 2,283 | 1,661 |
| **3. Total banking exposure (balance sheet and off balance sheet)** | | | |
| 1. Total banking exposure (loans + equity participations + guarantees (off balance sheet)) | 39,786 | 39,030 | 37,361 |
| 2. Growth in total banking exposure | 4 | 5 | 7 |
| Memo: Non-sovereign exposure | 25,015 | 25,065 | 31,968 |
| **4. Support** | | | |
| 1. Share of 'AAA'/'AA' shareholders in callable capital | 64 | 64 | 64 |
| 2. Rating of callable capital ensuring full coverage of net debt | A+ | A+ | A |
| 3. Weighted average rating of key shareholders | AA- | AA- | AA- |
| **5. Breakdown of banking portfolio** | | | |
| 1. Loans to sovereigns/total banking exposure | 23 | 21 | 15 |
| 2. Loans to non-sovereigns total banking exposure | 77 | 79 | 64 |
| 3. Equity participation/total banking exposure | 13 | 13 | 16 |
| 4. Guarantees covering sovereign risks/total banking exposure | 0 | 0 | 0 |
| 5. Guarantees covering non-sovereign risks/total banking exposure | 6 | 6 | 4 |
| Memo: Non sovereign exposure (2. + 3. + 5.)/total banking exposure | 82 | 83 | 85 |
| **6. Concentration measures** | | | |
| 1. Largest exposure/equity (%) | 1,394 | 1,315 | 1,245 |
| 2. Five largest exposures/equity (%) | 4,664 | 4,793 | 4,261 |
| 3. Largest exposure/total banking exposure (%) | 4 | 3 | 3 |
| 4. Five largest exposures/total banking exposure (%) | 12 | 12 | 11 |
| **7. Credit risk** | | | |
| 1. Average rating of loans & guarantees (after PCS) | BB- | BB- | BB- |
| 2. Loans to investment-grade borrowers/gross loans | 15 | 16 | 13 |
| 3. Loans to sub-investment grade borrowers/gross loans | 85 | 84 | 87 |
| **8. Liquidity** | | | |
| 1. Treasury assets | 30,791 | 30,531 | 33,973 |
| 2. Treasury assets of which investment grade + eligible non-investment grade | 30,214 | 29,934 | 33,338 |
| 3. Unimpaired short-term trade financing loans | 700 | 970 | 802 |
| 4. Unimpaired short-term trade financing loans - discounted 40% | 420 | 582 | 481 |
| 5. Liquid assets (2. + 4.) | 30,634 | 30,516 | 33,819 |

Source: Fitch Ratings, Fitch Solutions

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