S&P Global
Ratings

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European Bank for Reconstruction and Development

November 29, 2022

This report does not constitute a rating action.

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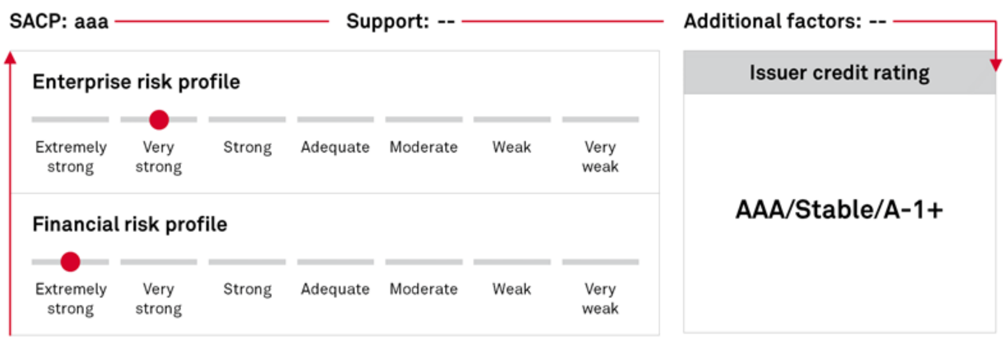
Ratings Score Snapshot



SACP--Stand-alone credit profile.

Overview

Enterprise risk profile	Financial risk profile
Strong record of fulfilling mandate while expanding the shareholder base	Highly resilient to a weakening of its exposure
-- The European Bank for Reconstruction and Development (EBRD) has been fulfilling its public policy mandate through credit cycles and building a strong presence in new areas of operations for more than three decades.	-- Capital adequacy is extremely strong despite our expectation of higher nonperforming loans (NPLs) and loss-given default (LGD) than in previous years.
-- Its shareholder base is still expanding, reaching 73 in October 2021 from the original group of 40 members.	-- The funding and liquidity position provides flexibility to increase disbursements, even during stressed market conditions.
-- The bank has a diverse and balanced group of government shareholders and robust risk management practices.	-- The EBRD holds liquidity above its minimum policy levels to allow flexibility in executing its borrowing program.

The bank's very strong enterprise profile reflects our expectation that shareholders will continue supporting the bank's operations despite the heated political environment exacerbated by the Russia-Ukraine conflict. The EBRD’s shareholders support its role as demonstrated through the investment commitment of up to €3 billion through 2023 to support Ukraine’s economy.

In addition, throughout the pandemic, the bank demonstrated its role as a countercyclical lender by swiftly approving a COVID-19 solidarity package. under which it signed new lending of close to €1.8 billion over 2020-2021 from the €4 billion of total lending approved under the package.

While we expect that asset quality is likely to deteriorate, we estimate that the EBRD will sustain a risk-adjusted capital (RAC) ratio after adjustments above 23% and an NPL ratio in line with that of peers. The bank's NPLs increased to 6.6% as of June 2022 from 4.9% at end-2021. Given its high concentration in less-developed countries, we anticipate that the pandemic's aftermath and the conflict's economic repercussions will cause EBRD's asset quality on its purpose-related exposures to remain vulnerable. However, we anticipate NPLs will remain contained below 10%.

The bank's eligible callable capital provides it with an additional buffer against any higher-than-anticipated deterioration of its capital position. The EBRD's 'aaa' stand-alone credit profile (SACP) is buttressed by €6.1 billion (35% of adjusted common equity) in subscribed callable capital from members rated 'AAA'.

Outlook

The stable outlook on the EBRD reflects our expectation that, in the next 24 months, the bank will continue receiving strong support from its shareholders, allowing it to fulfill its mandate and providing support to its countries of operation and mitigating the likely deterioration on credit quality. Our outlook is further supported by the EBRD's ample 'AAA' callable capital, which could mitigate a significant weakening of its financial profile and support the ratings at the current level.

Downside scenario

We could consider lowering the ratings if we perceive that support from shareholders has decreased or the quality of the bank's exposures deteriorates more than we currently expect.

Environmental, Social, And Governance

The EBRD has significantly ramped up lending to fund renewable energy over the past few years. As part of the agreement that established it, the bank has the mandate to promote environmentally sound and sustainable development. This mandate was further cemented in its 2006 Sustainable Energy Initiative that evolved into the 2015 Green Economy Transition (GET) five-year plan. The EBRD’s GET plan was further renewed for five years through 2025 and targets the allocation of more than half of its annual investments to the green economy by 2025, a step up from the previous 40% target. The bank achieved in the first year of this renewed plan, a green financing ratio of 51% from the total annual investments of €10.4 billion in 2021.

The EBRD's lending and equity investments in Eastern Europe, where a significant share of energy comes from coal, oil, and gas, means that its existing portfolio is more exposed to fossil fuels than its regional peers. However, in December 2018, it announced that it would stop financing new coal projects and phased out investments in new coal extraction or power projects, with the last coal-mining project signed in 2014. The bank has further targeted a full alignment to the Paris Agreement goals by the end of this year and will no longer finance upstream oil or gas projects. The EBRD is also assisting its members to transition to renewable energy. The bank's combined direct legacy exposure to the hydrocarbon sectors decreased to €1.2 billion from €1.4 billion and representing close to 3% of the overall banking portfolio in both years from 3.5% in December 2019 as the bank completed its projects in Egypt, Kazakhstan, and Russia.

The primary consideration in the EBRD's social mandate is to support economic development, and it has sufficient scale to make a significant impact. Although many peers place greater emphasis on other social outcomes, the bank is committed to financing projects that promote economic inclusion, gender equality, and social sustainability. We assess the EBRD's governance and management as strong, based on its strong and diversified shareholder base, transparent governance, experienced senior staff, and conservative risk management policy. Nonborrowing shareholder governments are in control.

Enterprise Risk Profile

Policy importance: EBRD has been fulfilling its public policy mandate through credit cycles and building a strong presence in new areas of operations for more than three decades

The EBRD was established in 1991 to promote private and entrepreneurial initiatives and foster the transition toward open-market-oriented economies in Central and Eastern Europe and the Commonwealth of Independent States. However, it has widened its scope, strategically expanded its mandate, and built a strong presence in Turkey since 2009, and during the past decade in the Southern and Eastern Mediterranean region (SEMED) including Egypt, Jordan, Lebanon, Morocco, and Tunisia.

The bank has supported its member countries and shareholders support its mandate. In March 2022, the EBRD announced the "The Resilience and Livelihoods Framework" as an immediate response to the war in Ukraine for an initial value of €2 billion and a further commitment to increase the support to up to €3 billion by 2023. Shareholders have already committed close to €1.4 billion through donor funds for the bank to manage and mitigate risks by using these funds to guarantee about 50% of the additional investment in Ukraine and neighboring countries affected by the war.

The EBRD has a strong record of more than three decades of operations and, even during financial crises, has posted strong growth in its lending and equity portfolio, proving its countercyclical role. The bank was quick to respond to the pandemic and launched a €1 billion solidarity package in March 2020 for supporting its borrowing countries largely to address pandemic-related liquidity shortages. Later in April 2020, the EBRD strategically increased the package to €4 billion to have a more comprehensive operational response. Over 2020-2021, the bank signed new lending of close to €1.8 billion under the package and supported temporary liquidity pressure from existing borrowers by approving deferrals of up to a year of principal payments on €684 million in loans outstanding to the private sector. In first-half 2022, total operating assets reached €34.8 billion from close to €32 billion in 2019.

The EBRD has grown substantially in SEMED, which has now become an important area for its operations. As of June 2022, 14.7% of the total purpose-related exposure was toward countries in the SEMED region. The bank started operating in this region in 2012 through a special fund. In November 2013, the EBRD granted Jordan, Morocco, and Tunisia the status of countries of operation. Egypt then received that status in October 2015.

InvestEU could benefit the bank. The EU expects its proposal to guarantee about €26.2 billion of loans in support of EU investments through the InvestEU Fund would help mobilize over €372 billion of public and private investment. In addition to the main partner--EIB Group--the EBRD would have direct access to the EU guarantee.

Although private-focused lenders focus strongly on private sector mobilization, the bank's mobilized volumes are smaller compared with those of other multilateral lending institutions (MLIs) because the projects are smaller. As of Dec. 31, 2021, the direct mobilization increased to 9% of committed loans during the year from the previous year's 4%.

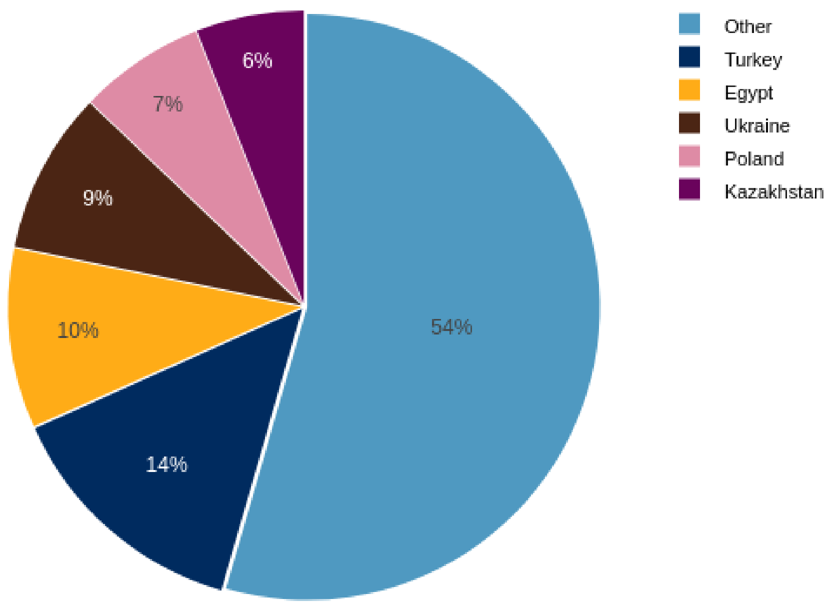
In 2020, the board of governors affirmed its interest in a potential gradual expansion into sub-Saharan Africa. We understand the bank will continue exploring this strategy, which is subject to formal approval and which we believe could further strengthen its overall policy importance. Finding new markets of operation has been one of EBRD's priorities as its exposure to Russia has declined on the back of sanctions. The EBRD decided in 2014 that Russia would no longer be a recipient country and stopped approving investments in the country, later reinforcing this decision in 2017. Furthermore, in April 2022, the bank reinforced the suspension of new investments in Russia, suspended new investments in Belarus and, on both countries, decided not continuing to disburse on existing projects or engage in any technical cooperation.

Notwithstanding the situation, Russia and Belarus have not stepped out of the bank or diluted their participation in the bank. Since inception, no shareholder has left the EBRD; in fact, over the past 20 years, the bank has gradually increased its shareholders to 73 in October 2021 from the original 40. Algeria was the most recent country to join the bank. The bank is owned by 71 countries, plus the EU and the European Investment Bank (EIB) and operates in 40 economies. It does not have private sector shareholding.

Although the EBRD has benefited from preferred creditor treatment (PCT), the bank's business portfolio and strategy are more oriented toward the private sector. We therefore consider that the PCT awarded on sovereign exposure does not substantially improve the EBRD's enterprise risk profile. Instead, we reflect it in lower risk weights in our capital framework. The bank has increased its sovereign-related exposure, representing about 33% at the end of 2021 of the total from about 15% six years ago.

However, we would reconsider this approach if the EBRD increased its sovereign exposure and had a longer record of maintaining it above 25% of its total investments under the mandate.

MLI Five Largest Countries Purpose-Related Exposures
As A Percentage Of Gross Purpose-Related Assets Plus Guarantees



Source: S&P Global Ratings.

Governance and management expertise: Diversified shareholder base, transparent governance, experienced senior staff, and conservative risk management policy

We consider that the EBRD has robust risk management principles and conducts lending cautiously. Our assessment reflects its diversified shareholder base, transparent governance, and experienced senior staff, who have considerable combined experience and expertise.

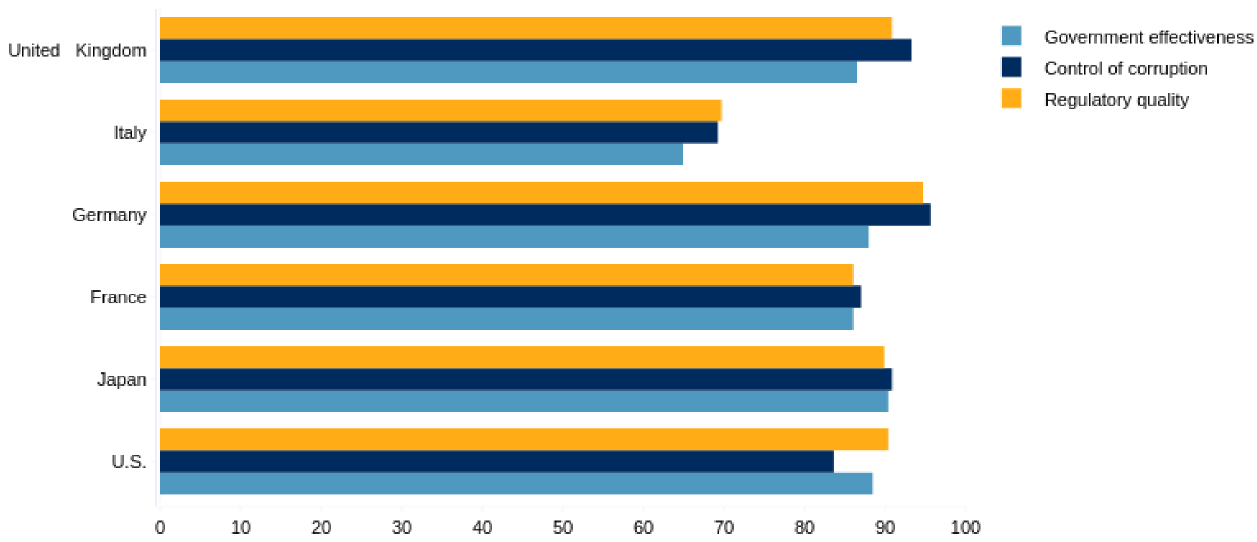
The bank has a diverse and balanced composition of government shareholders where nonborrowing members are in control. The U.S. is the largest shareholder (10.1%), followed by Japan, Germany, France, Italy, the U.K. (8.6% each), Russia (4.0%), and Spain and Canada (3.4% each). The EBRD does not have private sector shareholding. Both the European Community and the EIB are members of the bank, and each holds a 3.0% share. In addition, the borrowing members hold less than 15% shares in the ownership structure.

In our view, the EBRD has prudent risk management and liquidity policies. It is committed to a leverage ratio of 1-to-1, meaning its purpose-related exposure (not including undisbursed commitments) cannot exceed unimpaired subscribed capital, reserves, and surpluses. In addition, the bank limits its total committed loans, equity investments, and guarantees to the state sectors of its countries of operations to 40%.

The EBRD's economic capital policy, approved in 2013, limits required economic capital (REC) to 90% of available economic capital (paid-in capital, reserves, and general provisions). Under the currently agreed Strategic and Capital Framework for 2021-2025 the bank estimates a capital use of about 64% by end-2023, lower than previous projections of 68% and driven by a more moderate forecast of its business volume and well within the 90% threshold.

Five Largest Shareholders

Selected World Bank Governance Indicators



Source: S&P Global Ratings.

Financial Risk Profile

Capital adequacy: Extremely strong capital adequacy despite our expectation of higher NPLs and LGD than in previous years

As of June 2022, the EBRD maintained an extremely strong capital position, with a RAC ratio after adjustments of 27.8% as of Nov. 9, 2022. The ratio reflects the large geographical and sector diversification of the bank's exposures. The RAC ratio also benefits from the EBRD's track record of receiving PCT from sovereign borrowers and preferential treatment on private exposures.

However, the Belarus government decreed in April 2022 that it would repay debt to international financial institutions, including that owed to EBRD and to other MLIs, in local currency. While the decision was taken due to operational challenges, it constitutes a default under our definitions as well as for the EBRD. Given that repayment from Belarus under the contractual currency have not been received for more than 180 days, we deem that the bank has not been treated as preferred creditor. Because sovereign exposure to Belarus represented about 2% of the bank's total sovereign operating assets as of December 2021, our assumption of EBRD's LGD is now 20%, revised this year from 10%. The EBRD impaired the exposure to Belarus as of June 2022.

The main driver of the RAC ratio after adjustments reduction from June 2021 where it stood above 30% is the revised assumption on LGD, the lower total adjusted capital (TAC) because of increased provisions in March 2022 and the increase in risk weights following the downgrade to Turkey, one of the bank's main exposures.

In contrast to most MLIs, the EBRD has a large equity portfolio of close to 13% of its purpose related exposure as of June 2022. The equity portfolio supports and fosters the private sector's development in its target countries. Although equity investments are an important tool for achieving its policy mandate, they present a challenge on the risk side. For example, in 2014, Russian stocks plummeted with the fall of the ruble; similar falls occurred globally in first-quarter 2020. As of June 2022, the bank recorded €1.4

billion of unrealized equity losses from investments on Russia, Ukraine, and Belarus. Our RAC ratio already incorporates a very high level of stress, isolating the impact of any decrease in value.

The bank's total write-offs reached €3 million as of second-quarter 2022. At year-end 2021, write-offs had reached only €26 million after they increased significantly in 2020 to €194 million.

The EBRD's NPL loans increased to 6.6% as of June 2022 from 4.9% at end-2021 but still lower than banks operating in the same regions and in line with 'AAA' rated peers also focusing on the private sector. General and specific loan loss provisions have more than doubled to over €2 billion as of June 2022, from €955 million as of end-2021, covering close to 60% of NPLs. This excludes provisions on fair value through other comprehensive income loans and does not include a debt fair value adjustment. Therefore, the general and specific provisions, together with the loan loss and special reserves, increased to 1.4x the gross value of the impaired loans from 1.1x at the end of 2021. The largest contributors to NPLs as of June 2022 were Turkey (31%), Ukraine (17%), Belarus (10%) and Lebanon (7%).

As part of its COVID Solidarity Package, for supporting existing borrowers experiencing temporary liquidity stress because of the pandemic, over 2020 and 2021 the bank agreed that clients in the private sector could defer loan payments. Deferred loans as of March 31, 2022, totaled €684 million of which 84% are making scheduled principal repayments and 14% impaired. The EBRD decided to classify these clients at stage 2 under International Financial Reporting Standard 9. We do not expect this to meaningfully weaken the bank's credit quality because it has granted this support only to borrowers that had good credit standing before the pandemic, and whose liquidity pressures were temporary and pandemic-related.

While the conflict in Ukraine has weakened EBRD's asset quality and one of the bank's main exposures is to Turkey, which is still subject to rising risks, we consider that the EBRD will uphold extremely strong capital adequacy levels thanks to earnings capacity and robust risk management policies.

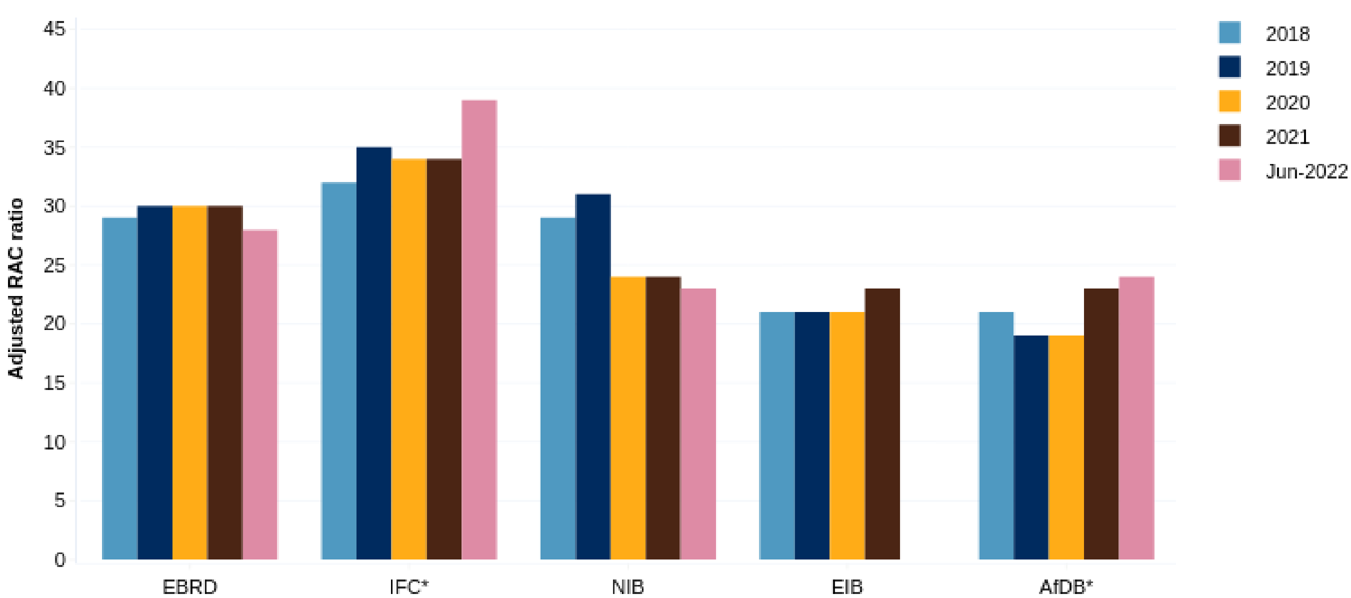
Table 1 EBRD Risk-Adjusted Capital Framework (RACF) As Of June 2022, parameters as of 9 Nov. 2022

(mil. €)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	15,808	20,578	130
Institutions	38,542	16,597	43
Corporate	18,095	24,219	134
Securitization	1,532	382	25
Other assets	987	2,864	290
Total credit risk	74,963	64,640	86
Credit valuation adjustment			
Total credit valuation adjustment	---	---	---
Market risk			
Equity in the banking book	3,679	12,921	351
Trading book market risk	---	---	---
Total market risk		12,921	
Operational risk			
Total operational risk		4,723	
RWA before MLI adjustments		82,284	100
Diversification and concentration MLI adjustments			
Single name (on corporate exposures)		2,163	9
Sector (on corporate portfolio)		(2,279)	(9)

Geographic	(12,826)	(17)
Preferred creditor treatment (on sovereign exposures)	(9,235)	(45)
Preferential treatment (on FI and corporate exposures)	(4,274)	(10)
Single name (on sovereign exposures)	7,334	36
Total MLI adjustments	(19,117)	(23)
RWA after MLI adjustments	63,166	77
	Total adjusted capital	**S&P Global Ratings RAC Ratio (%)**
Capital ratio before adjustments	17,553	21.3
Capital ratio after adjustments	17,553	27.8

MLI--Multilateral lending institutions. RW--Risk weight. RWA--Risk-weighted assets.

Risk-Adjusted Capital Ratio Peer Comparison



Source: S&P Global Ratings. *Financial year end is June 30.

Funding and liquidity: The funding and liquidity position provides flexibility to increase disbursements, even during stressed market conditions

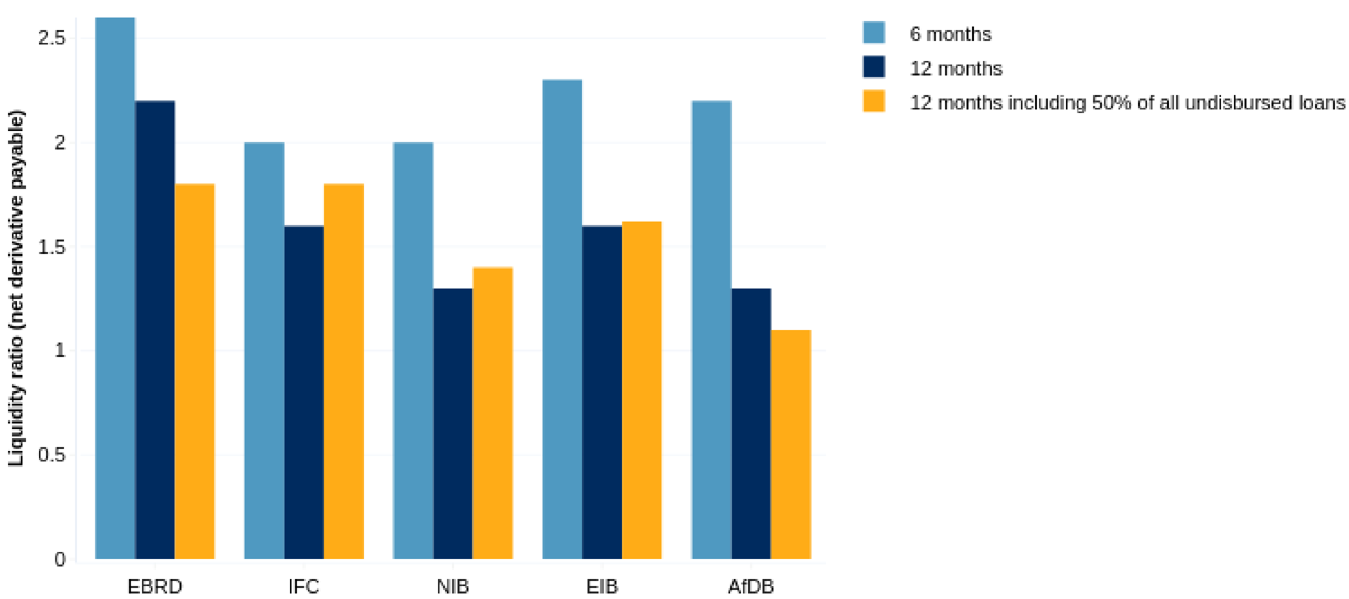
Funding. Our funding and liquidity ratios for EBRD indicate that the bank would fulfill its mandate for at least one year, even under extremely stressed market conditions and without access to capital markets.

EBRD's funding benefits from the bank's strong access to capital markets, including through its global benchmark bond issuance, its €45 billion global medium-term note program, and its €8 billion commercial paper program. The investor base is broad (22% Americas, 68% EMEA, and 10% Asia-Pacific as of June 2022) and the EBRD is a regular benchmark issuer. As of end-June 2022, the static funding gap at one year without loan disbursements was 2.4x.

Liquidity. As of June 2022, the EBRD posted robust S&P Global Ratings-stressed liquidity ratios with loan disbursements: 2.4x at six months and 1.9x at 12 months. Moreover, we estimate that the bank would not need to reduce the scheduled disbursements of its loan commitments, even if half of the total commitments were to be drawn in one year.

The EBRD holds liquidity above its minimum policy levels to allow flexibility in the execution of its borrowing program. As of June 2022, its key medium-term liquidity metrics remain robust. Net treasury liquid assets represented 181% (compared with 2020's 152% and 2019's 121%) of the next two years' net cash requirements against a minimum 75% coverage in the policy. Treasury liquid assets (after haircuts) represented 169% (125% and 107%, respectively) of one-year debt service plus 50% of undrawn commitments, against the minimum coverage of 100% set by the bank's policy.

Liquidity Stress Test Ratios Peer Comparison

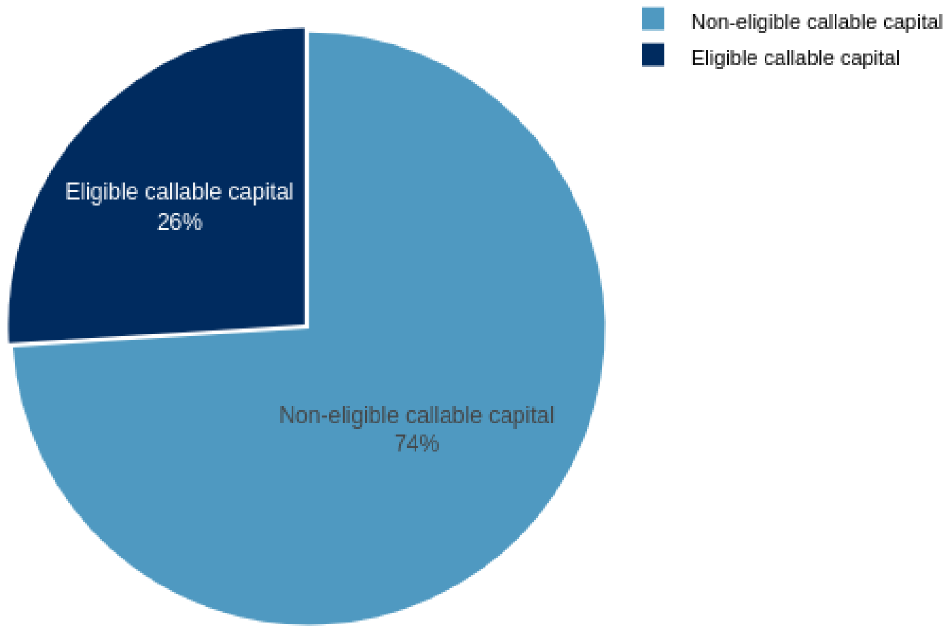


Source: S&P Global Ratings. *Data as on June 2022 for EBRD, IFC, NIB and AfDB; Data as on June 2021 for EIB. *Financial year end is June 30 for IFC.

Extraordinary Shareholder Support

EBRD's 'aaa' SACP is buttressed by €6.1 billion (35% of adjusted common equity) in subscribed callable capital from members rated 'AAA'. Therefore, even if we revised down our assessment of EBRD's SACP to 'aa+' or 'aa' because of a weaker cash capital position, it would probably not affect the issuer credit rating on the bank. In such a scenario, we could factor in shareholder support from eligible callable capital provided by members rated above the SACP, all other things equal.

Callable Capital
As A Percentage Of Total Callable Capital



Source: S&P Global Ratings.

Table 2 - European Bank for Reconstruction and Development--Selected Indicators

	2021	2020	2019	2018	2017
ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure (loans, equity, etc.) (mil. €)	37,492	35,173	33,383	30,318	27,913
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)*	32.0	32.0	22.0	20.7	22.0
Private-sector loans/purpose-related exposures (%)	68.0	68.0	78.0	79.3	78.1
Gross loan growth (%)	3.8	5.9	9.8	7.0	-1.4
PCT ratio	0.0	0.0	0.0	0.0	0.0
Governance and management expertise					
Share of votes controlled by eligible borrower member countries (%)	14.5	14.5	14.5	14.5	14.5
Concentration of top two shareholders (%)	18.7	18.7	18.7	18.7	18.7
Eligible callable capital (mil. €)	6,088	6,088	6,088	6,088	6,088
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio	30	30	30	29	30
Net interest income/average net loans (%)	3.2	2.9	3.3	3.3	3.4
Net income/average shareholders' equity (%)	12.7	1.0	7.7	1.3	3.7
Impaired loans and advances/total loans (%)	4.9	5.5	4.2	4.6	3.7
Funding and liquidity					

Table 2 - European Bank for Reconstruction and Development--Selected Indicators

	2021	2020	2019	2018	2017
Liquidity ratios					
Liquid assets/adjusted total assets (%)	45.4	45.4	46.9	46.8	44.5
Liquid assets/gross debt (%)	69.2	67.5	69.8	71.1	71.2
Liquidity coverage ratio (with planned disbursements):					
Six months (net derivate payables)	2.4	1.8	1.4	1.5	2.0
12 months (net derivate payables)	1.9	1.5	1.2	1.2	1.3
12 months (net derivate payables) including 50% of all undisbursed loans	1.5	1.3	1.2	1.0	1.3
Funding ratios					
Gross debt/adjusted total assets (%)	65.7	67.3	67.2	65.9	62.5
Short-term debt (by remaining maturity)/gross debt (%)	29.9	30.2	37.4	36.9	35.2
Static funding gap (without planned disbursements)					
12 months (net derivate payables)	2.4	1.9	1.4	1.4	1.6
SUMMARY BALANCE SHEET					
Total assets	74,773	69,772	68,201	61,851	56,193
Total liabilities	54,428	51,881	50,371	45,568	40,021
Shareholders' equity	20,345	17,891	17,830	16,283	16,172

*Excluding committed undrawn loans. PCT--Preferred creditor treatment. RAC--Risk-adjusted capital. N.A.--Not available. Source: S&P Global Ratings.

European Bank for Reconstruction and Development--Peer Comparison

	EBRD	IFC	NIB	EIB	AfDB
Total purpose-related exposure (mil. €)	37,492	47,383	22,049	449,440	27,980
PCT (%)	2.0	N.A.	0.0	0.2	1.2
RAC (%)	28	39	23	23	24
Liquidity ratio, 12 months (net derivate payables) (x)	2.2	1.6	1.3	1.6	1.3
Funding gap, 12 months (net derivate payables) (x)	3.0	1.7	1.2	1.6	1.2

Note: For EBRD and NIB: PRE as of end-December 2021. All other data as of end-June 2022. For IFC: All data are as of end-June 2022. Year-end for IFC is June 30. For EIB: PRE and RAC ratio are as of year-end December 2021. F&L ratios are as of end-June 2021. For AfDB: PRE and PCT as of December 2021. RAC and F&L ratios as of end-June 2022. PCT--Preferred creditor treatment. RAC--Risk-adjusted capital. N.A.--Not available. Source: S&P Global Ratings.

Rating Component Scores

Enterprise Risk Profile	Extremely strong	**Very strong**	Strong	Adequate	Moderate	Weak	Very weak
Policy Importance	Very strong	**Strong**	Adequate	Moderate	Weak		
Governance and Management	**Strong**	Adequate	Weak				
Financial Risk Profile	**Extremely strong**	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Capital Adequacy	**Extremely strong**	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Funding and Liquidity	**Very strong**	Strong	Adequate	Moderate	Weak	Very weak	

Related Criteria

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Jan. 31, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- A Closer Look At The G-20 Expert Panel Review Of MLIs' Capital Adequacy Frameworks, Oct. 11, 2022
- Introduction To Supranationals Special Edition 2022, Oct. 10, 2022
- Supranationals Edition 2022: Comparative Data For Multilateral Lending Institutions, Oct. 10, 2022
- Turkiye Ratings Lowered To 'B' From 'B+'; Outlook Stable, Sept. 30, 2022
- How The Russia-Ukraine Conflict May Affect Multilateral Lenders, June 16, 2022

Ratings Detail (as of November 29, 2022)*

European Bank for Reconstruction and Development	
Issuer Credit Rating	
Foreign Currency	AAA/Stable/A-1+
Commercial Paper	

Ratings Detail (as of November 29, 2022)*

Foreign Currency		A-1+
Senior Unsecured		AAA
Short-Term Debt		A-1+
Issuer Credit Ratings History		
25-Sep-1991	*Foreign Currency*	AAA/Stable/A-1+
18-Jun-1991		AAA/--/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.