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European Bank for Reconstruction and Development

Primary Credit Analyst:
Abril A Canizares, London (44) 20-7176-0161; abril.canizares@spglobal.com

Secondary Contact:
Alexander Ekbom, Stockholm (46) 8-440-5911; alexander.ekbom@spglobal.com

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European Bank for Reconstruction and Development

Stand-alone credit profile	aaa	+	Extraordinary shareholder support	0	+	Holistic approach	0

Enterprise risk profile

Extremely strong	**Very strong**	Strong	Adequate	Moderate	Weak	Very weak

Financial risk profile

Extremely strong	Very strong	Strong	Adequate	Moderate	Weak	Very weak

Issuer credit rating
AAA/Stable/A-1+

Outlook

Issuer Credit Rating
Foreign Currency
AAA/Stable/A-1+

The stable outlook reflects our view that in the next 24 months, as it has done in past crises, EBRD will fulfil its countercyclical role by supporting its members through the economic fallout of the COVID-19 pandemic, while upholding its extremely strong financial profile. Furthermore, EBRD has ample 'AAA' callable capital that could mitigate a significant weakening of its financial profile and support the ratings at the current level.

We could consider lowering the ratings if the quality of EBRD's exposure deteriorates more than we currently expect. We could also lower the ratings if, contrary to our expectations, relations among shareholders worsened, affecting the bank's policy importance.

Environmental, Social, And Governance

EBRD has significantly ramped up its renewable energy lending over the past few years. On July 8, 2020, the Board of Directors approved the scaling up of its Green Economy Transition plan from 2015 (GET 2.1). The plan is pending approval of the Board of Governors and if approved during the October 2020 meeting would be included in the strategic capital framework. The GET 2.1 aims to allocate half of its annual investments to the green economy by 2025. In December 2018 it also announced that it would stop financing new coal projects completely.

As part of the agreement establishing EBRD, the bank has the mandate for promoting environmentally sound and sustainable development. This mandate was further cemented in its 2006 Sustainable Energy Initiative that, after evolving into the 2015 Green Economy Transition plan, set the target of increasing the bank's green financing to around 40% of new financing over 2016-2020. The bank reported exceeding this in 2019, when it achieved 46%. Its 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 those of its regional peers. However, the bank has phased out investments in new coal extraction or power projects, with the last coal-mining project signed in 2014. EBRD is also assisting its members on their transition to renewable energy. In 2019, its exposure to oil and gas investments stood at around 6% of total exposure, while investments in utilities that generate and distribute electricity and heating, including through the use of fossil fuels, totaled around 9%. Similarly, the primary consideration in EBRD's social mandate is to support economic development, and it has sufficient scale to make a significant impact. While many of its peers place greater emphasis on other social outcomes, EBRD is committed to financing projects that promote economic inclusion, gender equality, and social sustainability. We assess 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. Non-borrowing shareholder governments are in control.

Rationale

EBRD has a long record of fulfilling its public policy mandate, high governance standards, and robust financial indicators. We consider that it has a very strong enterprise risk profile supported by its large presence in its regions of operation and its expanding membership base.

We assess EBRD's financial risk profile as extremely strong, based on its ample capital and liquidity buffers, which enable the bank to mitigate instances of economic stress, like the COVID-19 pandemic, on its main borrowing members. Moreover, EBRD's eligible callable capital provides it with an additional buffer against any unexpected deterioration in its risk-adjusted capital (RAC) ratio after adjustments.

Further cementing EBRD's policy importance is the role it has fulfilled in past crises as a countercyclical lender. The current response to COVID-19 is an example of its continuous engagement with supporting member countries through the economic cycle. On March 13, 2020, EBRD shareholders agreed to a COVID-19 solidarity package, comprised of two phases, for up to €4 billion of additional lending. The bank expects activities from all of its business lines will provide total support of €21 billion across different products in 2020 and 2021.

Given its high concentration of less developed countries, it is likely that EBRD's asset quality on its purpose-related exposures will deteriorate because of COVID-19. While significant increases in provisions (by €439 million in the first quarter of this year) will impact its net income for 2020 and possibly 2021, we believe that strong risk management practices will limit the impact of the pandemic and allow the bank to maintain its extremely strong financial indicators. Net losses on the fair value movement on share investments have totalled €983 million in the first quarter of 2020.

Enterprise Risk Profile: Strong Record Of Fulfilling Mandate While Increasing Shareholder Base.

- EBRD has been fulfilling its public policy mandate through credit cycles and building a strong presence in new areas of operations for more than two decades.
- Its shareholder base is still expanding, reaching 71 in July 2019 from the original group of 40 members.
- It has a diverse and balanced group of government shareholders and robust risk management practices.

Policy importance

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.

The bank has a strong record of more than two decades of operations and, even during financial crises, has posted strong growth in its lending and equity portfolio. It introduced a solidarity package in March 2020 in response to the COVID-19 crisis with an initial envelope of €1 billion for the short-term liquidity needs of its borrowers. In April 2020, the package was increased to €4 billion and, ultimately, the bank has committed to direct all of its lending in 2020 and 2021 (around €21 billion) toward the current crisis.

In the past decade, EBRD has widened its scope and has strategically expanded its mandate and built a strong presence in countries like Turkey and the Southern and Eastern Mediterranean region (SEMED), which includes Egypt, Jordan, Lebanon, Morocco, and Tunisia.

EBRD has grown substantially in SEMED, which has now become an important area for its operations. Currently in this region the bank has €3.8 billion of loans and €381 million of equity exposure. The bank started operating in SEMED in 2012 through a special fund. In November 2013, EBRD granted Jordan, Morocco, and Tunisia the status of countries of operation. Egypt then received recipient country status in October 2015.

We expect EBRD to continue to cement its role in SEMED. EBRD's strategic plan for 2020-2022 projects operating assets (loans and equity) issued of €35.1 billion at the end of 2021, up from €31.8 billion at end-2019.

During the April 2018 IMF meeting, EBRD's president announced that the bank is interested in eventually expanding into sub-Saharan Africa. Although this idea is still at an early stage and subject to internal discussions, it could come to fruition within a couple of years and be part of the bank's strategic plan after 2021.

InvestEU could prove beneficial for EBRD. The EU's current proposal is that it would guarantee about €38 billion of loans in support of EU investments through the InvestEU Fund. In addition to the main partner--EIB Group--EBRD would have direct access to the EU guarantee. The InvestEU program is still going through the legislative process and would only be adopted if it becomes part of the overall multiannual financial framework by 2020.

While private sector mobilization is a very strong emphasis for privately-focused lenders, the mobilized volumes are smaller for EBRD when compared to other MLIs because the projects are smaller. In 2019, the direct mobilization amount was equal to around 5% of the committed loans.

EBRD's increased presence in new regions became important after the EU applied sanctions to Russia, especially the European Council's decision to suspend the financing of new projects in the country. In 2014, EBRD's board of directors indicated that EBRD would not approve any new investment projects in Russia, which was then the bank's largest country of exposure. The board of directors includes all EU member states and several non-EU shareholders and this decision was endorsed by the board of governors in 2017. EBRD continues to manage its €1.4 billion of operating assets in Russia. It allows accelerated prepayments of loans to continue.

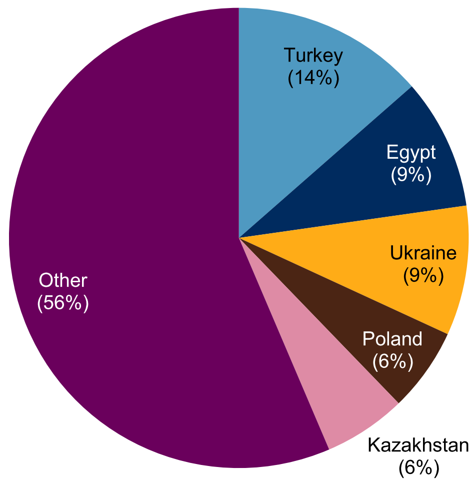
Despite the sanctions, we still expect Russia to remain a shareholder of EBRD. However, we do not expect the bank to engage in new lending in the country and, in our view, relations between shareholders are likely to remain tense.

Notwithstanding the situation in Russia, EBRD has benefited from substantial support from its shareholders since it was established. Over the past 20 years, the bank has gradually increased its number of shareholders to 71 in July 2019, from the original 40. EBRD is owned by 69 countries plus the EU and the European Investment Bank, and operates in 40 economies. In July 2019, Libya became the latest shareholder to join and in July 2020 the Board of Governors approved Algeria's application for membership. Most of its shareholders are European countries and none of them has left the bank.

Although EBRD clearly benefits 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 EBRD's enterprise risk profile. Instead, we reflect it in lower risk weights in our capital framework. We could reconsider this approach if EBRD increased its sovereign exposure and developed a longer record of maintaining sovereign-related assets at more than 25% of the total.

Chart 1

European Bank for Reconstruction and Development: Five Largest Countries Purpose-Related Exposures
As a % of gross purpose-related assets plus guarantees including undisbursed commitments as of December 2019



Source: S&P Global Ratings.

EBRD has increased its sovereign-related exposures to about 25% of the total from about 15% some six years ago.

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

We consider that 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 aggregate experience and expertise.

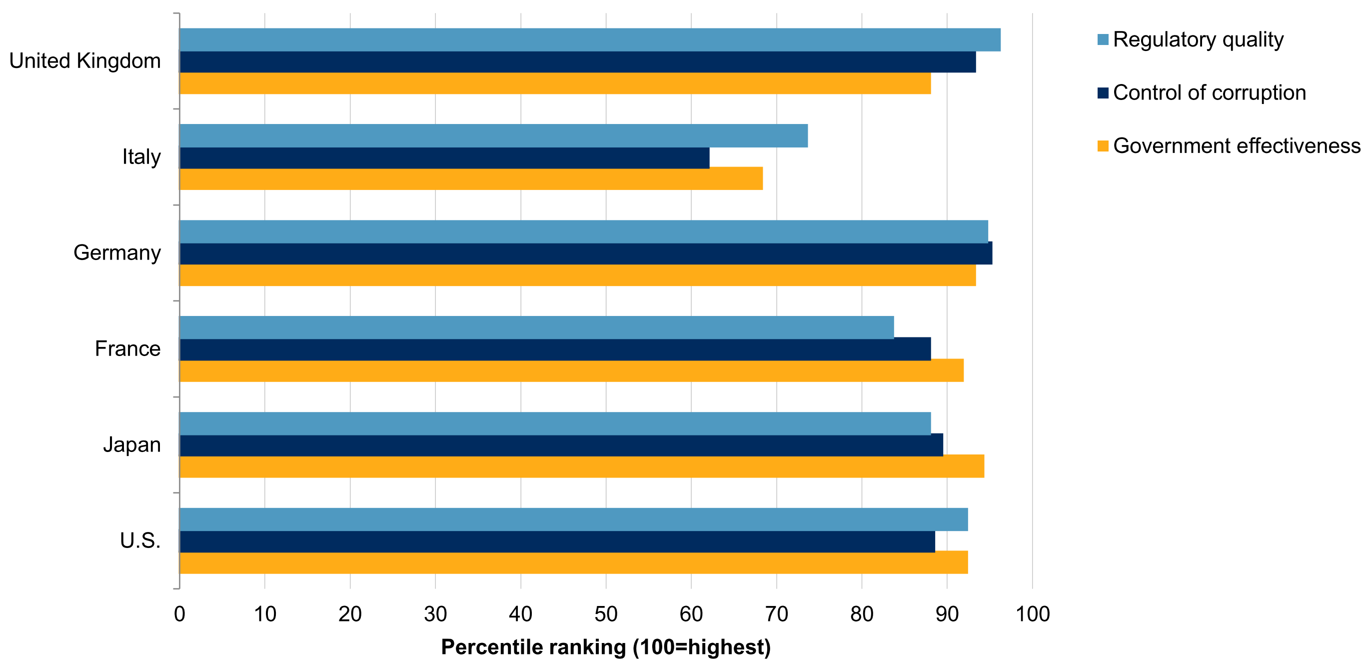
EBRD has a diverse and balanced composition of government shareholders where nonborrowing members are in control. The U.S. is the largest shareholder (10.1%), followed by Japan, Germany, France, Italy, the U.K. (all 8.6%), Russia (4.0%), and Canada (3.4%). EBRD does not have private sector shareholding.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

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

In terms of treasury policy, the liquidity requirement is coverage of at least 75% of the next two years' projected net cash requirements, without recourse to accessing funding markets (121% as of end-2019). 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). Currently, EBRD is operating at 64%-66% since end-2019.

Chart 2

European Bank for Reconstruction and Development: Six Largest Shareholders
Selected World Bank Governance Indicators



Source: S&P Global Ratings.

Financial Risk Profile: EBRD Is Highly Resilient To The Quality Of Its Exposures Weakening.

- Extremely strong capital adequacy reflects EBRD's high levels of capital, which have benefited from strong internal capital generation.
- The funding and liquidity position provides flexibility to increase disbursements, even during stressed market conditions.

Capital adequacy

After we adjusted EBRD's RAC ratio to account for it being a multilateral lending institution (MLI), it was 30.3% at the end of 2019. This is well above our highest threshold of 23%. The ratio reflects the high adjustment for single-name concentration in the corporate and sovereign portfolio. EBRD's strong internal capital generation also supports its capital position--return on equity has averaged 4.4% over the past five years.

In contrast to most other MLIs, EBRD has a very large equity portfolio, which it uses to support and foster the development of the private sector in its target countries. Although equity investments are an important tool for achieving its policy mandate, they present a challenge on the risk side. (This was the case in 2014 when Russian stocks plummeted with the fall of the ruble and can be seen again in the first quarter of 2020). However, our RAC ratio already incorporates a very high level of stress, isolating the impact from any decrease in value.

To cater to the current difficult circumstances, EBRD increased its provisions by €439 million during the first quarter of 2020 which includes a €200 million management overlay within general provisions. This strategy highlights EBRD's conservative risk management policies and we believe this will help EBRD to manage the expected increase in NPLs, especially in Turkey. In our view, EBRD's earnings capacity and capital levels are robust enough to navigate this stressed market situation.

Additionally, EBRD has granted requests for restructuring loans from borrowers financially distressed as a consequence of the pandemic. Management has decided to classify these clients at stage 2 under IFRS9 and, in our view, the bank will be capable of containing the impact on its financial indicators.

Although further asset quality issues may still emerge mainly as a consequence of the pandemic-related economic crisis, we consider that EBRD will be able to uphold extremely strong capital adequacy levels thanks to earnings capacity and robust risk management policies. That said, we consider that EBRD's exposure to Turkey is subject to rising risks, mainly from the deterioration in economic conditions.

NPLs as of the first quarter of 2020 were geographically diversified, with a large concentration in Turkey (36%), Lebanon (12%), Mongolia (9%), and Egypt (8%). The economic deterioration in Turkey has affected EBRD's portfolio and has led to a significant increase of NPLs from €60 million at end-2017 to €529 million at end-March 2020 (€450 million at end-2019; €360 million at end-2018).

NPLs historically average about 5% and cumulative write-offs are below 1%. In 2017, write-offs increased to 0.6% as a result of EBRD's first NPL portfolio sale. It sold a portfolio of corporate NPLs in Ukraine. As of March 2020, impaired loans constituted 5.5% of EBRD's total loan operating assets, higher than 4.5% as of end-2019 and were provisioned at 56%.

The RAC ratio benefits from the EBRD's excellent track record of receiving PCT from sovereign borrowers. For example, EBRD, like other MLIs, was excluded from the bond restructuring of the Export-Import Bank of Ukraine, Ukreximbank. EBRD also benefited from PCT in 1998, when Russia excluded private-sector obligations to EBRD from restrictions on access to foreign exchange needed for debt service.

The bank has conservative risk management policies, which are reflected in its asset quality metrics. The private sector portfolio has enjoyed preferential treatment and its asset quality track record is in line with its major peers.

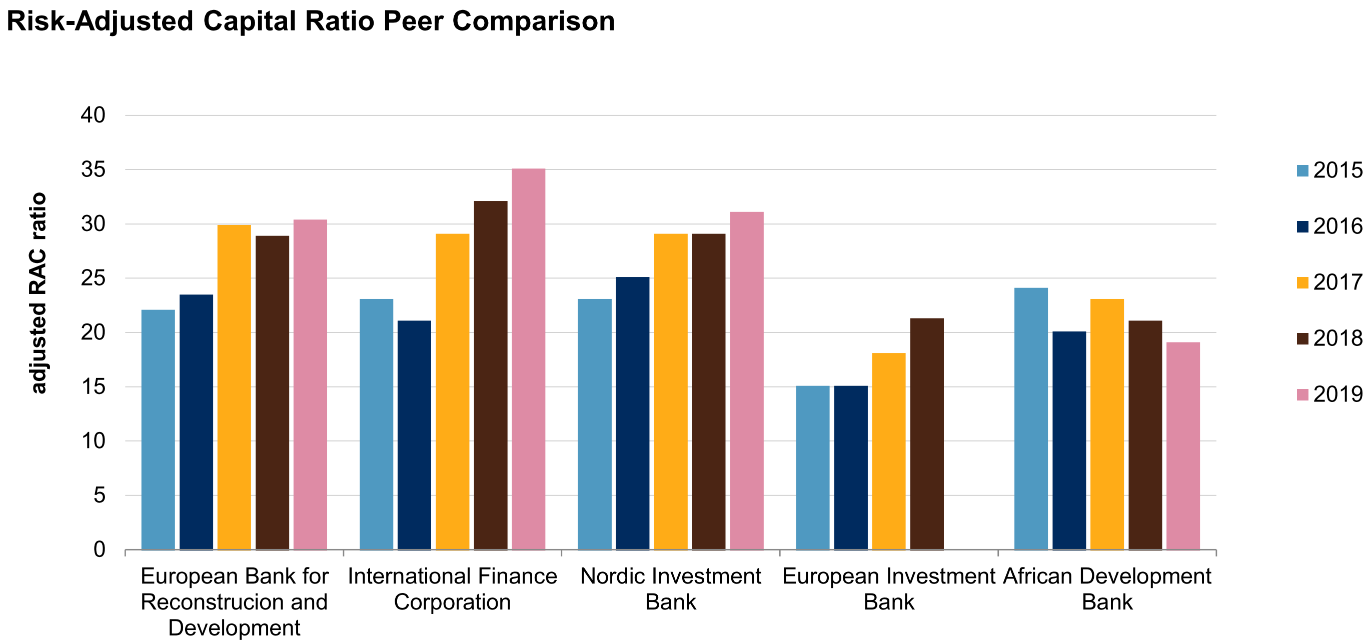
Table 1

European Bank for Reconstruction and Development--Risk-Adjusted Capital Framework Data: 2019

(Mil. €)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	16,563.3	15,887.9	95.9
Institutions	32,853.7	15,685.5	47.7
Corporate	17,364.2	25,478.6	146.7
Retail			
Securitization	1,897.8	462.4	24.4
Other assets	760.1	1,701.6	223.8
Total credit risk	69,439.1	59,215.9	85.3
Market risk			
Equity in the banking book	3,996.6	12,959.4	324.3
Trading book market risk			
Total market risk	--	12,959.4	--
Operational risk			
Total operational risk	--	3,146.3	--
Risk transfer mechanisms			
Risk transfer mechanisms RWA			
RWA before MLI Adjustments	--	75,321.6	100.0
MLI adjustments			
Single name (on corporate exposures)	--	1,842.2	7.2
Sector (on corporate portfolio)	--	(2,600.8)	(9.5)
Geographic	--	(11,446.1)	(16.0)
Preferred creditor treatment (on sovereign exposures)	--	(7,460.0)	(47.0)
Preferential treatment (on FI and corporate exposures)	--	(4,907.0)	(11.9)
Single name (on sovereign exposures)	--	5,455.8	34.3
Total MLI adjustments	--	(19,115.9)	(25.4)
RWA after MLI adjustments	--	56,205.8	74.6
		Total adjusted capital	**S&P Global Ratings RAC Ratio (%)**
Capital ratio before adjustments	--	17,003.8	22.6
Capital ratio after adjustments	--	17,003.8	30.3

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

Chart 3



RAC--Risk-adjusted capital. Source: S&P Global Ratings.

Funding and liquidity

Funding.

Our funding and liquidity ratios for EBRD indicate that the bank would be able to fulfil its mandate for at least one year, even under extremely stressed market conditions and without access to the 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 (13% U.S.; 66% EMEA; and 21% Asia-Pacific, as of end-May 2020) and EBRD is a regular benchmark issuer. As of end-2019, the static funding gap at one year with loan disbursements was robust at 1.21x; without loan disbursements, it was 1.41x.

EBRD was able to pre-fund in 2019 a large part of its €12 billion approved funding program for 2020. This reduced the bank's need to issue during the market volatility in the first quarter of 2020.

Liquidity.

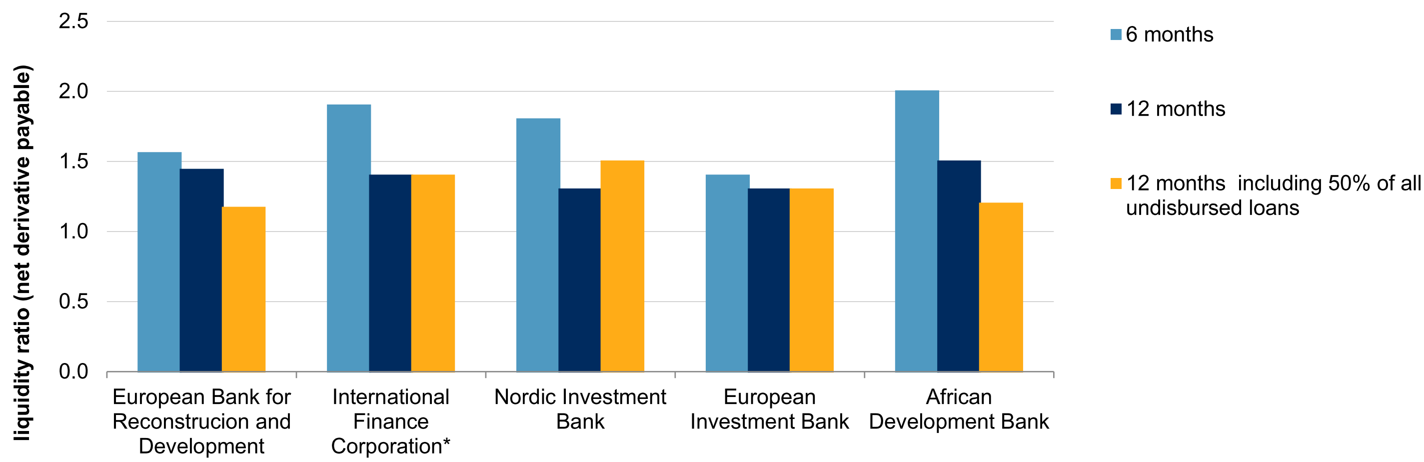
EBRD also posted robust stressed liquidity ratios in FY2019: 1.4x at six months and 1.24x at 12 months. Moreover, we estimate that EBRD would not need to reduce the scheduled disbursements of its loan commitments, even if half of the total commitments were to be drawn in one year.

The bank holds liquidity above its minimum policy levels to allow flexibility in the execution of its borrowing program.

At end-2019, the bank's key medium-term liquidity metrics remain robust. Net treasury liquid assets represented 121% (2018: 113%, 2017: 148%) of the next two years' net cash requirements against a minimum 75% coverage in the policy and, treasury liquid assets (after haircuts) represented 107% (2018: 110%, 2017: 106%) of one-year debt service plus 50% of undrawn commitments, against the minimum coverage of 100% set by the bank's policy.

Chart 4

Liquidity Stress Test Ratios Peer Comparison



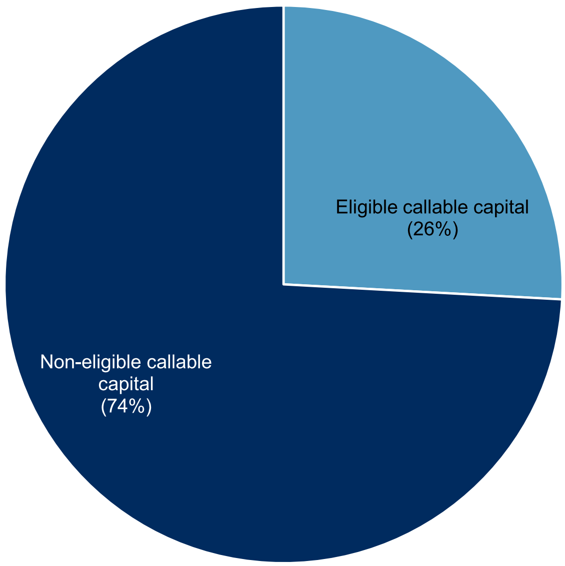
*As of June 2019. Source: S&P Global Ratings.

Extraordinary Shareholder Support

EBRD's 'aaa' stand-alone credit profile (SACP) is buttressed by €6.1 billion (36% of total adjusted capital) 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 weakening in its 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 being equal.

Chart 5

Callable Capital
As a percentage of total callable capital



Source: S&P Global Ratings.

Table 2

European Bank for Reconstruction and Development--Selected Indicators					
	--Fiscal year ended Dec. 31--				
	2019	**2018**	**2017**	**2016**	**2015**
ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure (loans, equity, etc.)	33,383.0	30,318.0	27,912.8	28,665.6	27,252.6
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)*	20.6	20.7	22.0	18.6	18.7
Private-sector loans/purpose-related exposures (%)	79.5	79.3	78.1	81.4	81.3
Gross loan growth (%)	9.8	7.0	(1.4)	5.3	7.1
Governance and management expertise					
Share of votes controlled by eligible borrower member countries (%)	10.5	10.6	10.6	10.6	10.5
Concentration of top two shareholders (%)	18.7	18.7	18.7	18.7	18.7
Eligible callable capital	6,087.6	6,088.0	6,088.0	6,085.0	7,397.0

Table 2

European Bank for Reconstruction and Development--Selected Indicators (cont.)

	--Fiscal year ended Dec. 31--				
	2019	2018	2017	2016	2015
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio	30.3	28.9	30.0	23.0	22.0
Net interest income/average net loans (%)	3.3	3.3	3.4	3.6	4.4
Net income/average shareholders' equity (%)	7.7	1.3	3.7	5.4	3.1
Impaired loans and advances/total loans (%)	4.2	4.6	3.7	5.2	5.6
Funding and liquidity					
Liquidity ratios					
Liquid assets/adjusted total assets (%)	46.9	46.8	44.5	42.7	43.3
Liquid assets/gross debt (%)	69.8	71.1	71.2	67.6	69.5
Liquidity coverage ratio (with planned disbursements):					
Six months (net derivate payables)	1.4	1.5	2.0	1.4	1.8
12 months (net derivate payables)	1.2	1.2	1.3	1.2	1.4
12 months (net derivate payables) including 50% of all undisbursed loans	1.2	1.0	1.3	1.2	1.4
Funding ratios					
Gross debt/adjusted total assets (%)	67.2	65.9	62.5	63.2	62.3
Short-term debt (by remaining maturity)/gross debt (%)	37.4	36.9	35.2	32.9	25.4
Static funding gap (without planned disbursements)					
12 months (net derivate payables)	1.4	1.4	1.6	1.5	1.8
SUMMARY BALANCE SHEET					
Total assets	68,201.0	61,851.0	56,193.0	56,277.0	55,026.0
Total liabilities	50,371.0	45,568.0	40,021.0	40,719.0	40,440.0
Shareholders' equity	17,830.0	16,283.0	16,172.0	15,558.0	14,586.0

RAC--Risk-adjusted capital. *Not including committed disbursements.

Table 3

European Bank for Reconstruction and Development--Peer Comparison

(Mil. €)	European Bank for Reconstruction and Development	International Finance Corp.	Nordic Investment Bank	European Investment Bank	African Development Bank
Total purpose-related exposure	33,383.0	41,755.4	18,840.0	446,708.7	28,038.2
PCT	--	N.A.	--	0.1	1.7
RAC	30.3	35.0	31.0	21.2	19.0
Liquidity ratio 12 months (net derivate payables)	1.4	1.4	1.3	1.3	1.5
Funding gap 12 months (net derivate payables)	1.4	1.2	1.4	1.2	1.4

PCT--Preferred creditor treatment. RAC--Risk-adjusted capital. N.A.--Not available. *RAC, funding and liquidity ratios for EIB are as of end 2018. Year end for IFC is June.

Ratings Score Snapshot

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, Dec. 14, 2018
- 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: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- How Multilateral Lending Institutions Are Responding To The COVID-19 Pandemic, June 9, 2020
- Can Multilateral Lenders' Capital Bases Hold Up Against COVID-19?, June 9, 2020
- Abridged Supranationals Interim Edition 2020: Comparative Data For Multilateral Lending Institutions, May 8, 2020
- ESG Industry Report Card: Supranationals, Feb. 11, 2020
- Supranationals Special Edition 2019: Report Says MLIs Are Focusing On Sustainable Development Goals, Oct. 25, 2019
- Supranationals Special Edition 2019: Comparative Data For Multilateral Lending Institutions, Oct. 17, 2019
- Introduction To Supranationals Special Edition 2019, Oct. 17, 2019

Ratings Detail (As Of August 6, 2020)*		
European Bank for Reconstruction and Development		
Issuer Credit Rating		
Foreign Currency		AAA/Stable/A-1+
Commercial Paper		
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.