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European Bank for Reconstruction and Development

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European Bank for Reconstruction and Development

*(**Editor's Note:** This report was republished on March 6, 2014 to correct errors in table 4 relating to total operating assets as of March 31, 2013.)*

Major Rating Factors

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

Strengths:

- Extremely solid capital position and ample liquidity.
- Prudent financial management and policies.
- Excellent franchise value.

Weaknesses:

- A riskier portfolio of development-related exposure than most other multilateral lending institutions, due to a predominantly private-sector focus and large equity exposure.

Rationale

The ratings on the European Bank for Reconstruction and Development (EBRD) are based on its "very strong" business profile and "extremely strong" financial profile, as our criteria define these terms. Its stand-alone credit profile (SACP) is 'aaa'.

The EBRD began in 1991 with a mandate to help the countries of Central and Eastern Europe and the Commonwealth of Independent States (CIS) transition to market economies, principally through private-sector lending, making equity investments, and providing guarantees.

The EBRD has gradually increased its number of shareholders and its geographic scope of operations during the last 20 years. From 40 shareholders at origin, it now has 66 (predominantly European) countries, Kosovo having joined in December. The shareholder group also includes two supranational institutions, the European Union and the European Investment Bank, which reinforces EBRD's policy importance, in our view.

The bank has benefitted from ongoing support from shareholders since its establishment. During the fourth capital resources review in May 2010, EBRD's shareholders decided to increase the bank's authorized capital to €30 billion from €20 billion. However, this capital increase did not raise shareholders' equity: €1 billion was transferred from reserves to paid-in capital, and callable capital increased by €9 billion. Callable capital stood at €23.4 billion, and paid-in capital at €6.2 billion as of March 31, 2013. The increase in callable capital became effective in April 2011 upon receipt of more than 50% of the necessary subscriptions. As of Dec. 31, 2012, 2.2% of the callable capital shares (€0.2 billion) remain unsubscribed.

In response to the political uprisings in the Middle East and North Africa, the EBRD extended its geographical mandate into the Southern and Eastern Mediterranean countries (SEMED). In 2012, the bank granted Egypt, Jordan, Morocco, and Tunisia the status of potential recipient countries and, as of September 2013, the amendment of the Article 1 of the EBRD's Agreement becoming effective, the bank was then able to finance operations in the SEMED countries. Jordan, Morocco, and Tunisia have so far been granted the status of recipient country in November 2013. The EBRD's exposure to the new recipient countries is nevertheless still very low (0.2% of operating assets as of March 31, 2013) and we expect it to grow cautiously. As of June 2013, the EBRD's undrawn commitments and guarantees SEMED countries represented less than 1% of its total undisbursed loans and guarantees.

Our assessment of EBRD's "extremely strong" financial profile factors in its high capitalization, evidenced by Standard & Poor's risk-adjusted capital (RAC) ratio of 15% before adjustments, despite having riskier assets than most other multilateral lending institutions (MLIs). The EBRD's loan write-offs have remained stable: €85 million over the five years to 2012, compared with €90 million over the five years to 2009.

The EBRD's RAC ratio increases to 23% when we take into account adjustments specific to MLIs under our new criteria. These primarily relate to our expectations of preferred creditor treatment for sovereign borrowers (exposures), a cap on the risk weight of high-risk exposures, and the extent of geographic diversification. The cap on the risk weights ensures that EBRD's large equity portfolio in high-risk countries is not allocated capital in excess of the nominal exposure. These adjustments are partially offset by single-name concentrations resulting from direct sovereign exposures. The RAC ratio after adjustments based on June 30, 2013 data remains at 23%, when using ratings as of end-November.

EBRD has significant country concentrations in its asset portfolio, however, with its largest exposure to Russia representing 24% of its total loans and equity investments, followed by Ukraine, whose exposure was 12% of the portfolio as of March 2013, and Romania and Turkey accounting for 8% and 6% of the portfolio, respectively.

We expect EBRD to be able to finance a large part of its growth through internal capital generation due to high interest margins and the retention of most of its earnings. Despite the difficult market conditions throughout the year, the bank reported a net profit of €1 billion, before transfers of net income (approved by the board of governors). This represents a significant increase from €173 million in 2011 and is almost in line with 2010. However, net profit for first-quarter 2013 is down by 33% to €427 million compared with first-quarter 2012.

Our funding and liquidity ratios for EBRD indicate that the bank would be able to fulfill its mandate for at least one year, even under stressed market conditions, without access to the capital markets. Moreover, we estimate that it would not need to reduce the scheduled disbursements of its loan commitments, even if half of the total outstanding commitments were to be drawn in one year. The EBRD's funding benefits from the bank's strong access to capital markets, including through its global benchmark bond issuance--its €35 billion global medium-term note program--and its €4 billion commercial paper program. In 2012, the bank issued two new U.S. dollar five-year benchmark bonds of US$3.0 billion and US$1.5 billion. In 2013, EBRD expects to borrow up to €7 billion, €6.2 billion of which had been completed as of the end of September.

On top of its 'aaa' SACP, the EBRD benefits from €8.5 billion in subscribed callable capital from members rated 'AAA', down from €9 billion after the downgrade of The Netherlands, though two shareholders out of the 13 'AAA' rated EBRD shareholders are on negative outlook, reflecting our view of the risk of further economic deterioration in the EU.

Outlook

The outlook is stable. In our view, even with increased exposure to the private sector and the EBRD's focus on financing in its countries of operations at an early and intermediary stage of transition, its capital position and liquidity appear solid enough to withstand severe financial distress. The EBRD has so far received preferential treatment from its countries of operations.

We could consider lowering the ratings if the bank's asset quality were to deteriorate markedly, beyond our current expectations, or if it were no longer afforded preferential treatment. Pressure on the ratings could also build if liquidity were to markedly deteriorate, as measured by our liquidity ratios.

Stand-Alone Credit Profile: 'aaa'

We assess the EBRD's stand-alone credit profile (SACP) at 'aaa', reflecting our assessment of its "very strong" business profile and "extremely strong" financial profile.

Business Profile: Very Strong

In our opinion, EBRD has a "very strong" business profile. This opinion relies on our assessment of the bank's governance, risk management, role, and public policy mandate.

Policy Importance Assessment

The EBRD was established to foster the transition toward open-market-oriented economies in Central and Eastern Europe and CIS. It does so by promoting private and entrepreneurial initiatives in its countries of operation that are committed to and applying the principles of multiparty democracy, pluralism, and market economics.

The bank has benefitted from unwavering shareholder support since its establishment. From 40 founding members in May 1990, the EBRD has increased the number of its shareholders to 66 as of year-end 2012. The members with the largest percentage of votes at year-end 2012 were the U.S., with 10% of the voting rights, followed by the Republic of France, the Federal Republic of Germany, the U.K., the Republic of Italy, and Japan, each with 9% of the voting rights (45% in total).

Moreover, during the fourth capital resources review in May 2010, EBRD's shareholders decided to increase the bank's authorized capital to €30 billion from €20 billion. The increase was achieved through a €1 billion transfer from reserves to paid-in capital plus an increase in callable capital by €9 billion. This partition of the equity account became effective immediately, while the increase in callable capital became effective in April 2011 upon receipt of more than 50% of the necessary subscriptions. As of June 30, 2013, 97.8% (€8.8 billion) of the callable capital increase had been subscribed.

At the next review, expected in 2015, the shareholders will assess, among other things, whether part or all of any unutilized callable capital relating to the 2010 capital increase should be redeemed, based on the assumption that the current acceleration in lending and investment is a temporary response to the global financial crisis.

In 2007, the Czech Republic graduated from new operations. This recognized the country's transition to a full market economy and democracy. The Republic of Poland, Hungary, Slovak Republic, Slovenia, Estonia, Lithuania, and Latvia could follow the Czech Republic and graduate over the next five years.

In our view, the bank has played a critical role during the economic crisis and has hence expanded its mandate and number of countries of operations. The EBRD significantly increased its lending activities, with a key focus on the financial sector, which was particularly affected. In response to the continued political turbulence in the Middle East and North Africa, the international community has called on the bank to extend its geographical mandate into the Southern and Eastern Mediterranean countries (SEMED) in order to assist in the development of the private sector of some target countries.

In our view, the bank has reinforced its mandate through the extension of its operations within the SEMED region. However we expect only a gradual build-up of investments by EBRD in the region, and that this will be offset by rising reserves from general operations, supporting EBRD's capital adequacy. In 2012, Egypt, Jordan, Morocco and Tunisia were granted the status of potential recipient countries and in May 2012, EBRD shareholders (now including the aforesaid countries) unanimously approved the extension of the EBRD's mandate. The bank could then start concluding its first operations in the SEMED region. As of year-end 2012, the EBRD's undrawn commitments and guarantees to Jordan, Morocco and Tunisia represented 1% of its total undisbursed loans and guarantees, and the bank had no exposure to Egypt. EBRD's shareholders allocated €1 billion to the SEMED Investment Special Fund to start operations in the region, and the bank planned for the volume to be able to grow up to €2.5 billion in 2015.

Table 1

European Bank For Reconstruction And Development Summary Balance Sheet					
Assets (Mil. €)	**2012**	**2011**	**2010**	**2009**	**2008**
Placements with and advances to credit institutions	7,515	5,172	2,974	3,247	3,344
Collateralized placements	600	851	1,179	1,171	1,163
Debt securities	12,410	11,538	9,692	2,473	3,633
Loan investments	19,580	18,327	15,464	18,609	16,741
Of which banking portfolio	19,333	18,088	15,243	13,125	10,930
of which treasury portfolio*	-	-	-	5,484	5,811
Loans at fair value through profit or loss	247	239	221	-	-
Provisions for impairment of loan investments and debt securities**	(736)	(672)	(630)	(882)	(361)
Of which treasury portfolio	-	-	-	(163)	(134)
Share investments	6,713	6,095	5,854	4,791	4,406
Of which treasury portfolio	64	58	56	57	42
Provisions for share investments	-	-	-	-	-
Paid-in capital receivable	12	15	16	17	44
Derivative financial instruments	4,671	5,111	4,168	2,538	2,849
Other assets	437	599	610	575	1,228
Total assets	51,202	47,036	39,327	32,539	33,047

Table 1

European Bank For Reconstruction And Development Summary Balance Sheet (cont.)					
Liabilities					
Borrowings, of which:	34,910	31,805	24,947	19,844	18,436
Portion of gross debt maturing during the next year (this is based on undiscounted figures as opposed to the discounted figures presented on the balance sheet)	12,604	10,952	7,279	7,877	8,573
Derivative financial liabilities	1,752	1,643	1,070	803	1,519
Other liabilities	530	415	333	377	1,342
Total liabilities	37,192	33,863	26,350	21,024	21,297
Capital					
Paid-in capital	6,202	6,199	6,197	5,198	5,198
Other capital	7,808	6,974	6,780	6,317	6,552
Shareholders' equity	14,010	13,173	12,977	11,515	11,750
Memo item:					
Guarantees	627	553	465	325	262
Development related exposure	26,920	24,975	21,783	23,725	21,409

*Reclassification of debt securities from available-for-sale to loans and receivables in 2008. **Debt securities issued by non-sovereign entities domiciled in countries of operations.

Governance And Management Expertise

The EBRD is established by the Agreement, which limits membership to European countries, non-European countries that are members of the International Monetary Fund (not rated), and--unusually--two institutions: the EU and EIB. The Agreement requires that a majority of the capital stock be held by EU member countries, the EU, and the EIB.

The Agreement Establishing the European Bank for Reconstruction and Development (the Agreement) calls for at least an annual review of the EBRD's strategy in each country of operation, encompassing the country's progress on decentralization, de-monopolization, and privatization. In cases where a member might be implementing policies that are inconsistent with these objectives, the board of directors may recommend to the board of governors that access to EBRD resources be suspended or otherwise limited. A qualified majority of two-thirds of the board of governors, representing not less than three-quarters of the voting rights, is required for any such action. However, the EBRD has never taken such a course of action.

All powers of the EBRD are vested in its board of governors, with each shareholder appointing one governor. The most important powers (including admitting and suspending members, increasing the capital of the EBRD, and electing the president) are retained by the governors, while others are delegated to the board of directors.

The board of directors consists of 23 members, none of whom may be governors. As of July 2013, the EU, EIB, and the six largest shareholder countries each had their own director, with the other 15 directors representing multi-country constituencies. Directors serve three-year terms, to which they may be reappointed or reelected.

The board of governors elects EBRD's president for a four-year term, for which he or she may be reelected. The president may be removed at any time by a two-thirds majority vote of governors representing two-thirds of the total voting rights. Suma Chakrabarti took office in July 2012, succeeding Thomas Mirow.

We assess that EBRD has an experienced senior staff and a sufficiently numerous key personnel; senior staff possesses considerable aggregate experience and expertise. As of December 2012, EBRD employed 1,649 people, most of whom work at its head office in London; the rest work in 35 regional offices across EBRD's countries of operations.

The bank benefits from comprehensive tax exemptions pursuant to its establishing Agreement.

We expect EBRD to be able to finance a large part of its growth through internal capital generation, mainly through high interest margins and the retention of most of its earnings. EBRD's paid-in capital is buttressed by its reserves and retained earnings, which totaled €7.8 billion at year-end 2012--up from 2011's value of €7.0 billion, reflecting net profit for the year--but down from the €8.7 billion reported in 2007. Accordingly, EBRD's adjusted shareholders' equity at year-end 2012 was €14.0 billion, in line with the 2007 level.

In our view, EBRD has a prudent risk management and liquidity policy. Under its Agreement, EBRD is committed to a leverage ratio of 1:1. The interpretation of this ratio has been changed twice. In March 2009, the board of directors approved a change to an operating assets basis, meaning that development-related exposure (DRE) at cost (not including undisbursed commitments) cannot exceed EBRD's unimpaired subscribed capital, reserves, and surpluses. In April 2008, the board had already decided to change the interpretation to include 70% of undrawn commitments, whereas before that total undrawn commitments were included in the calculation.

In addition, the EBRD limits its total committed loans, equity investments, and guarantees to the state sectors of its countries of operations to 40% of total loans, equity investments, and guarantees.

The bank's treasury policy also calls for liquidity to cover 75% of all committed but undisbursed project financing plus one year's debt service and at least 45% of the net cash requirement over a three-year horizon. Moreover, the EBRD has set a medium-term operating target of 90% liquidity over a three-year period.

In December 2009, EBRD also introduced an economic capital policy that limits DRE to 90% of available economic capital (AEC), with DRE stressed at a 99.99% confidence level over a one-year horizon, and AEC excluding all callable capital and unrealized gains. The AEC managed by the bank consists of paid-in capital, reserves, and general provisions. This capital base amounted to €14.0 billion at end-2012 (2011: €13.1 billion). At end-2012, the required economic capital (REC) to AEC was 74% (2011: 75%).

Financial Profile: Extremely Strong

The EBRD's financial profile is assessed as "extremely strong" in view of our calculation of the organization's capital adequacy, as well as its funding and liquidity profiles.

Capital Adequacy

Table 2

EBRD RAC Ratio As Of December 2012

(Mil. €)	Exposure	Standard & Poor's RWA	Average Standard & Poor's RW (%)
Credit risk			
Government and central banks	11,537	6,205	54
Institutions	27,486	8,151	30
Corporate	10,215	14,574	143
Securitization	821	834	102
Other assets	479	973	203
Total credit risk	50,538	30,738	61
Market risk			
Equity in the banking book	6,186	59,615	838
Trading book market risk		-	
Total market risk		59,615	
Operational risk			
Total operational risk		2,314	
RWA before MLI adjustments		92,666	100
MLI adjustments			
Industry and geographic diversification		(7,056)	(8)
Preferred creditor treatment		(683)	(1)
Single-name concentration		8,965	10
High-risk exposure cap		(33,188)	(36)
Total MLI adjustments		(31,962)	(34)
RWA after MLI adjustments		60,704	66
		Adjusted common equity	**Standard & Poor's RAC ratio (%)**
Capital ratio before adjustments		13,998	15
Capital ratio after adjustments		13,998	23

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

Table 3

EBRD RAC Ratio As Of June 2013

(Mil. €)	Exposure	Standard & Poor's RWA	Average Standard & Poor's RW (%)
Credit Risk			
Government and Central banks	11,478	7,352	64
Institutions	26,844	7,671	29
Corporate	10,276	14,831	144
Securitization	910	765	84
Other Assets	483	1,039	215
Total credit risk	49,991	31,658	63
Market Risk			
Equity in the Banking Book	5,842	63,166	1,081

Table 3

EBRD RAC Ratio As Of June 2013 (cont.)		
Trading Book Market Risk		
Total market risk	63,166	
Operational Risk		
Total operational risk	2,314	
RWA before MLI adjustments	97,137	100
MLI Adjustments		
Industry and geographic diversification	(6,966)	(7)
Preferred creditor treatment	(829)	(1)
Single-name concentration	9,721	10
high-risk exposure cap	(37,399)	(39)
Total MLI adjustments	(35,474)	(37)
RWA after MLI adjustments	61,664	63
	Adjusted Common Equity	**Standard & Poor's RAC ratio (%)**
Capital ratio before adjustments	14,327	15
Capital ratio after adjustments	14,327	23

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

Capital and Earnings

The EBRD benefits from a very high capitalization, leading to a Standard & Poor's risk-adjusted capital (RAC) ratio of 15% before adjustments, despite having riskier assets than most other MLIs. Three quarters of EBRD's portfolio is in the private sector; most other MLIs have a majority of loans to sovereign or sovereign-guaranteed entities. The EBRD's RAC ratio increases to 23% when we take into account adjustments specific to MLIs under our criteria. These are primarily our expectation for PCT for sovereign borrowers, a cap on the risk weight of high-risk exposures, and the geographic diversification of the EBRD exposures. The cap on the risk weights is particularly relevant to EBRD, due to the large equity portfolio in high-risk countries, which are otherwise allocated capital in excess of nominal exposure in the unadjusted RAC ratio. These adjustments are partially offset by single-name concentration resulting from direct sovereign exposures.

The RAC ratio after adjustments based on June 30, 2013 data remains at 23% with the ratings as of the end of November. The increase in risk-weighted assets resulting from the downgrade of our rating on Ukraine on Nov. 1, 2013, the second EBRD largest exposure, is indeed offset by a €329 million increase in shareholders' equity along with a slight decrease in the amount of outstanding equity investments and exposures to sovereigns and financial institutions.

At the end of 2012, liquid assets represented 85% of undisbursed banking investments and the one-year debt service (88% in 2011 on a comparable calculation). EBRD could therefore potentially increase its DRE and the risk in its portfolio, while remaining within its internal Agreement limits. This partly reflects the relatively high levels of liquidity maintained by EBRD. The change in the calculation of the leverage ratio (approved in March 2009) and the capital increase (approved in May 2010) further extended this capacity to increase DRE.

On Standard & Poor's measures of gross debt as a proportion of adjusted shareholder equity and the broader measure, which also includes 'AAA' callable capital in the denominator, EBRD has less room for manoeuvre. The 2012 ratios on these measures were 249% and 151%, respectively (compared to 242% and 128% in 2011).

EBRD's activities may be separated into treasury and development activities. Treasury activities result in holdings of cash and investments, borrowings, and risk-management products. Development-related activities result in loans, equity investments, and/or guarantee exposure.

Development-related exposure

The bulk of EBRD's risk lies in its DRE.

EBRD's statutory policies restrict its activities to specific and well-defined projects, and policy-based lending is not permitted. Aside from this constraint, the range of EBRD's activities encompasses virtually every kind of enterprise and financial institution and several financial instruments.

EBRD does not have a soft-loan window, as some MDFIs do. Nonetheless, it had DRE in all 35 countries of operations at year-end 2012.

The bank's Agreement requires it to focus its activities on the private sector, much of which is lent to smaller companies in member states using local financial institutions as intermediaries (known as second-floor lending). The state sector includes the national governments, their agencies, and enterprises owned or operated by governments or agencies. However, we don't consider loans made to state-owned enterprises undergoing privatization and to public financial intermediaries for on-lending to the private sector to be loans to the state sector.

As of end of March 2013, 63% of the portfolio was composed of non-sovereign loans, stable since year-end 2011, 20% equity (down from 25% in 2011) and 17% of sovereign debt. In addition, of EBRD's total operating assets, approximately 20% comprised loans and equity investments to financial institutions at the end of March 2013, in line with the first-quarter 2012, 19% were to the infrastructure sector, and 17% were to the energy sector.

Table 4

European Bank for Reconstruction and Development

Operating assets by country and type as of March 2013

	Sovereign		Non-sovereign				Total	
			Outstanding Debt		Outstanding equity			
	Mil.€	%	Mil.€	%	Mil.€	%	Mil.€	%
Russian Federation	248	9	4,487	26	2,358	36	7,094	27
Ukraine	485	17	1,903	11	272	4	2,660	10
Turkey	-	-	1,913	11	76	1	1,989	7
Romania	242	9	1,479	9	183	3	1,904	7
Poland	-	-	991	6	596	9	1,587	6
Serbia	353	13	692	4	204	3	1,250	5
Kazakhstan	154	6	782	5	268	4	1,204	5

Table 4

European Bank for Reconstruction and Development (cont.)								
Croatia	254	9	397	2	345	5	996	4
Bulgaria	11	0	852	5	14	0	878	3
Bosnia & Herzegovina	366	13	116	1	2	0	485	2
Azerbaijan	189	7	188	1	24	0	401	2
FYR Macedonia	67	2	88	1	10	0	165	1
Other countries	421	15	3,369	20	2,161	33	5,952	22
Total	2,791	100	17,260	100	6,514	100	26,564	100

Loans account for most of EBRD's exposure, having rebounded to almost 80% of total operating assets as of the end of March 2013, after declining to 58% at year-end 2007. Equity investments have exhibited an opposing trend. The decline is partly the result of a change in accounting policies. Before 2005, the EBRD valued its unlisted share investments at historic cost, less any provisions for impairment. These investments have been assessed at fair value since year-end 2005. However, the more recent declines in equity valuations are related to the difficult market situation resulting from the global financial crisis.

Table 5

EBRD Operating Assets By Sector				
	Operating assets Q1 2013		**Operating assets Q1 2012**	
	Total assets		**Total assets**	
	Mil. €	**%**	**Mil. €**	**%**
Financial institutions	5,171	20	5,068	20
Infrastructure	4,934	19	4,636	19
Energy	4,584	17	4,444	18
Manufacturing and services	3,382	13	2,849	11
Agribusiness	2,763	10	2,556	10
Other sectors	5,731	21	5,626	22
Total	26,565	100	25,179	100

Furthermore, EBRD's guarantees include both those representing standby letters of credit supporting the risk of banks in its countries of operations and direct guarantees of nonbank entities. Total payouts under EBRD's guarantees in the past five years have been around €6 million.

Treasury-related risk

Treasury activities are intended to provide the necessary funding and liquidity support for EBRD's overall purposes as well as to preserve its capital. Consistent with this objective, they also aim to produce an appropriate return on EBRD's capital, retained earnings, and borrowed funds.

Credit risk

EBRD has a prudent approach to credit risk in its treasury portfolio. The bank's €20.5 billion of treasury assets (at year-end 2012) consisted mostly of highly rated instruments. As of Dec. 31, 2012, 27.8% (25% in 2011) of its treasury exposure was in the 'AAA' category, 37.4% (43% last year) in 'AA', 29% (compared to 26% in 2011) in the 'A' category, and 2% (1% in 2011) in the 'BBB' category. About 4% of treasury exposure carried speculative-grade ratings ('BB+' or lower).

EBRD mitigates its counterparty credit risk by restricting its dealings to highly rated counterparties (ordinarily those with internal ratings equivalent to 'A' or higher) and negotiating documentation that facilitates close-out netting and the provision of collateral if exposure exceeds certain limits. At year-end 2012, 99% of EBRD's gross credit exposure to derivatives counterparties was to counterparties with which a collateral agreement had been completed. This allowed EBRD to receive collateral in the form of cash or liquid 'AAA' and 'AA+' rated government securities.

Foreign-exchange-rate risk

The bank aims to issue in local currency to avoid foreign-exchange risk and also uses derivatives to minimize this type of risk.

Interest rate risk

EBRD's interest rate risk arises principally from potentially adverse interest rate movements. EBRD seeks to limit and manage this risk through active asset-liability management, mainly through hedging with derivatives. In doing so, it employs a variety of limits, based primarily on value-at-risk models, as well as stress tests.

Earnings

As a development institution, EBRD does not attempt to maximize income, but rather to earn sufficient profits to ensure its financial strength and support its development efforts. Absent further (paid-in) capital increases, growth in EBRD's risk-bearing capacity over the longer term will be determined almost entirely by EBRD's net income and the portion of the net income that it retains.

Under its Agreement, the EBRD is barred from paying a dividend to its members until its unrestricted general reserve is equal to at least 10% of its authorized capital stock (€30 billion in 2012). EBRD surpassed this level as of year-end 2006, but has so far not paid a dividend. In 2012 the board of governors approved €1.0 billion of net income allocation to the SEMED Investment Special Fund, under the Article 36.1 of the Agreement.

Prior to the transfer of net income approved by the Board of Governors, EBRD reported a net operating profit of €1.0 billion in 2012, after a profit of €173 million in 2011 and losses of €746 and €602 million in 2009 and 2008. This significant increase in net operating profit resulted from a change in unrealized equity fair values, which stood at €57 million as of year-end 2012, compared with a loss of €586 million the previous year.

In line with previous years, EBRD's net profitability in 2013 is likely to be closely linked to the performance of its equity portfolio. Equity valuations appear to have been volatile throughout the year and at least in part shaped by externalities such as U.S. quantitative easing. We expect 2013 results to be similar to 2012.

We expect the contribution of share investments to the EBRD's net operating profit to remain substantially variable, due to the high volatility of the equity markets.

Table 6

EBRD Summary Income Statement					
	--Year end Dec. 31--				
(€ mil., unless otherwise indicated)	**2012**	**2011**	**2010**	**2009**	**2008**
Interest and similar income from loans	1,040	859	645	648	668

Table 6

EBRD Summary Income Statement (cont.)					
Interest and similar income from fixed-income debt securities and other interest	166	187	131	240	632
Interest expense and similar charges	(155)	(145)	(159)	(306)	(633)
Net interest income	875	901	617	582	667
Provisions for impairment of banking loan investments*	(120)	(46)	94	(535)	(105)
Provisions for impairment of treasury loan investments and activities	1	(27)	9	(32)	(127)
Net interest income after provisions for losses on loans and treasury activities	1,051	901	617	582	435
Net fee and commission income	32	20	19	14	6
Dividend income from share investments	87	115	66	40	68
Net (losses)/gains from share investments at fair value through profit or loss	274	(424)	850	(547)	(892)
Net (losses)/gains from available for sale share investments	0	0	0	(241)	(265)
Net losses from loans at fair value through profit or loss	11	5	(7)	0	
Net gains from Treasury assets held at amortised cost	(16)	(34)	10	0	
Net losses from Treasury investments	0	0	0	(9)	(2)
Net gains from loans at amortised cost	1	2			
Net (losses)/gains from dealing activities at fair value through profit or loss	103	57	40	95	(70)
Other losses/gains	69	(35)	(62)	124	361
Provisions for impairment of Banking loan investments	(120)	(46)	94	(535)	
Provisions for impairment of Treasury loan investments	0	0	0	(32)	
General administrative expenses	(271)	(249)	(228)	(220)	(227)
Depreciation and amortization	(25)	(21)	(22)	(17)	(16)
Operating profit for the year	1,020	173	1,377	(746)	(602)
Transfers of net income approved by the Board of Governors	(190)	0	(150)	(165)	
Net profit/loss after transfers of net income approved by the Board of Governors	830	173	1,227	(911)	
Memo items:					
Return on average adjusted assets + guarantees (%)	2.1	0.4	3.8	(2.3)	(1.8)
Return on average adjusted shareholders' equity (%)	7.5	1.3	11.3	(6.4)	(4.7)

N.A. Not available. *Includes provisions for guarantees prior to 2005.

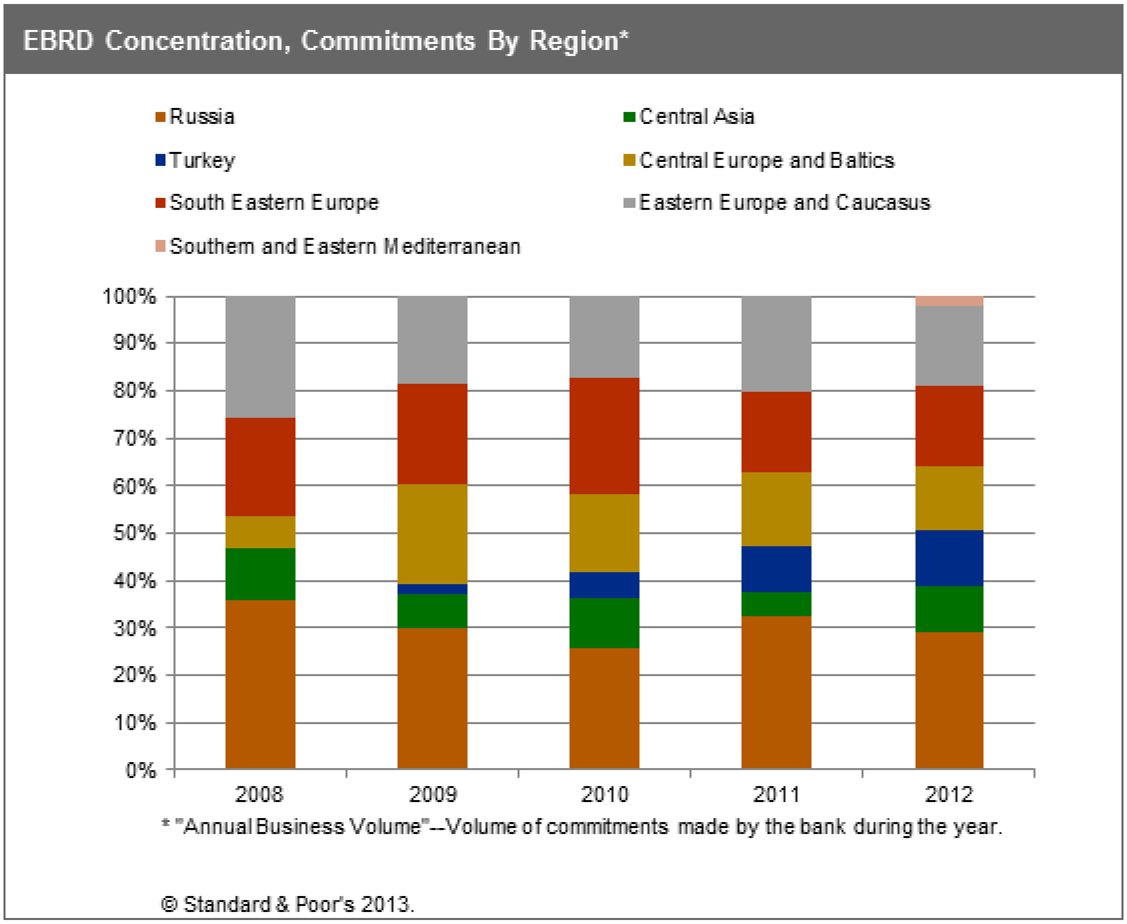
Risk Position

EBRD's RAC ratio is one of the cornerstones of the bank's financial profile. Despite having riskier assets than most other MLIs, the RAC was 15% before adjustments as of year-end 2012. Most of EBRD's loans and all its equity investments are in the private sector; most other MLIs have a majority of loans to sovereign or sovereign-guaranteed entities. The EBRD's RAC ratio increases to 23% when we take into account adjustments specific to MLIs under our new criteria. These are primarily our expectation for PCT for sovereign borrowers, a cap on the risk weight of high-risk exposures, and the geographic diversification of the EBRD exposures. These adjustments are only partially offset by single-name concentration resulting from direct sovereign exposures.

Exposure concentrations

When looking at the breakdown of exposures by geographic region, EBRD exhibits some concentrations, with its largest aggregate exposures to Russia representing 24% of its total loans and equity investments, followed by Ukraine, whose exposure was 12% of the portfolio as of March 2013, and Romania and Turkey accounting for 8% and 6% of the portfolio, respectively.

Chart 1



Loan loss experience

At year-end 2012, the EBRD maintained provisions for the impairment of 3.8% of its total loan portfolio. Because of accounting changes, EBRD no longer maintains a reserve against losses on its guarantees.

Table 7

EBRD Development-Related Exposure Quality And Accumulated Provisions For Losses

	--Year end Dec. 31--				
(Mil. €, unless otherwise indicated)	**2012**	**2011**	**2010**	**2009**	**2008**
Loan portfolio					
Loan write-offs	38	6	7	29	5
For sovereign loans	0	0	0	0	0
For nonsovereign loans	38	6	7	29	5
Impaired loans	624	484	465	305	127
Accumulated provisions for losses on loans*	736	672	630	719	227
For sovereign loans	17	13	12	12	5

Table 7

EBRD Development-Related Exposure Quality And Accumulated Provisions For Losses (cont.)					
For nonsovereign loans	719	659	618	707	222
Accumulated provisions as a % of impaired loans	118	139	135	236	179
Accumulated provisions as a % of total loans	3.8	3.7	4.1	5.5	2.1
Equity investment portfolio					
Equity investment writeoffs	11	0	27	21	14
Accumulated provisions for losses on equity investments	0	0	0	0	0
For unlisted securities	0	0	0	0	0
For listed securities	0	0	0	0	0
Accumulated provisions as a % of equity investments	0	0	0	0	0
For unlisted securities	0	0	0	0	0
For listed securities	0	0	0	0	0
Guarantee portfolio					
Guarantees called	0	0	0	6.3	0.1
Accumulated provisions for losses on guarantees	0	0	0	0	0
Accumulated provisions as a % of total guarantees	0	0	0	0	0
Memo item					
Total accumulated provisions for losses on DRE	736	672	630	719	227

*Banking portfolio only. DRE-Development related exposure.

Table 7 shows that EBRD has not written-off any sovereign or sovereign-guaranteed loans, but has had to write-off private-sector loans totaling €85 million over the past five years, including €38 million in 2012. EBRD's impaired loans (all of which are private sector) increased further to €624 million at year-end 2012, up by 29% since 2011, following a sharp increase in 2010.

As a result of the international economic and financial crisis, EBRD has made sizable provisions on its loan portfolio. The level of general and specific provisions increased with the growth of the portfolio to €736 million at year-end 2012, a 10% rise since year-end 2011 and a substantial increase from the €124 million in provisions observed in 2007. The loan loss provisions and additional loan loss reserves far exceeded impaired loans at year-end 2012; we expect credit-impaired loans and provisions to rise at a moderate pace in 2013.

EBRD's provisions for impairment on its loan portfolio were buttressed by €13.998 billion in shareholders' equity, adjusted for the €12 million in receivables from members carried as an asset.

During 2005, the EBRD started carrying all equity investments at fair value on the balance sheet, resulting in the elimination of the accumulated provision for losses on equity investments and a greater potential for reported losses on these investments. The deterioration of EBRD's equity portfolio in 2008 and 2009 therefore directly affected its profitability and capitalization. In 2012, EBRD's equity portfolio was €0.4 billion above cost, including derivatives (2011 €0.3 billion above cost, including derivatives).

Funding and Liquidity

Funding

Our funding ratios indicate that EBRD is structurally able to cover its scheduled short-term debt repayments without recourse to new issuance.

The EBRD's funding benefits from the bank's strong access to capital markets, including through its global benchmark bond issuance, its €35 billion global medium-term note program, and its €4 billion commercial paper program.

In 2012, the bank borrowed €6.3 billion of long-term funding in 12 different currencies. The bonds had an average maturity of 4.1 years and U.S. dollar accounted for more than 60% of the issuance including two new U.S. dollar five-year benchmark bonds (of US$3 billion and US$1.5 billion). In 2013, EBRD expects to borrow up to €7 billion, €6.2 billion of which had been completed as of September end.

At September 2013 there was €26.7 billion in medium- and long-term outstanding debt, with an average remaining maturity of 3.8 years. Nearly half of the outstanding debt was issued in U.S. dollar, the remainder being split across 22 different currencies.

Liquidity

Our liquidity ratio indicates that the EBRD will be able to meet its financial obligations and continue disbursing its scheduled loans over a one-year period. Our liquidity ratio factors in stressed market conditions, under which we assume the bank would not have access to the capital markets.

The bank's treasury policy also calls for liquidity to cover 75% of all committed but undisbursed project financing plus one year's debt service and at least 45% of the net cash requirement over a three-year horizon. EBRD exceeded the minimum requirement on its two key liquidity policies at end-2012. In practice, the EBRD has set a medium-term operating target of 90% liquidity over a three-year period, which means that it could in principle continue operating normally for almost three years without accessing capital markets.

Likelihood Of Extraordinary Shareholder Support

We assess EBRD's SACP at 'aaa', therefore we do not assign any uplift for extraordinary shareholder support. However, should a deterioration in capital adequacy lead to a lower SACP, the EBRD could benefit from €8.5 billion of callable capital subscribed by members that we currently rate 'AAA'.

Related Criteria And Research

- How An Erosion Of Preferred Creditor Treatment Could Lead To Lower Ratings On Multilateral Lending Institutions, Aug. 26, 2013
- Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Nov. 26, 2012
- Principles of Credit Ratings, Feb. 16, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Ratings Detail (As Of December 20, 2013)		
European Bank for Reconstruction and Development		
Counterparty Credit Rating		
Foreign Currency		AAA/Stable/A-1+
Commercial Paper		
Foreign Currency		A-1+
Senior Unsecured *Greater China Regional Scale*		cnAAA
Senior Unsecured		AAA
Counterparty 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. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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