**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 6 April 2022[1]

ROMANIA

CITY OF BUCHAREST BOND ISSUANCE

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

1 As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

TABLE OF CONTENTS

Page

ABBREVIATIONS / CURRENCY CONVERSIONS

ASF	Financial Supervisory Authority
BSE	Bucharest Stock Exchange
CAIL	Romanian Inter-ministerial commission of the Ministry of Finance
CAPEX	Capital Expenditure
EIB	European Investment Bank
ESG	Fitch Environmental, Social and Governance considerations
EU	European Union
EUR	Euro
FX	Foreign Exchange
GCAP	Green City Action Plan
GrCF2W2E2	EBRD Green Cities Framework 2 Window 2 Extension 2
GDP	Gross Domestic Product
IDRs	Long-Term Foreign and Local-Currency Default Ratings
IFIs	International Financial Institutions
LC2	Local Currency and Capital Markets Development
LCY	Local Currency
LED	Light-emitting diode technology
MEI	Municipal and Environmental Infrastructure
MF	Ministry of Finance
RADET	Bucharest District Heating supplier
RON	Romanian Leu
STB	Bucharest Transport Company
VAT	Value Added Tax

CURRENCY CONVERSION

Date	**RON/EUR**
Average 2021	4.9400

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the City of Bucharest (the "**City**" or "**Bucharest**"), the capital city of Romania, are submitted for consideration by the Board of Directors.

The project is designed to enable the City of Bucharest to successfully refinance its outstanding seven-year bond amounting to RON 555 million (~ EUR 112 million), launched as part of the 2015 Bond Programme in which the EBRD is an existing investor. While the Bank will seek to limit its investment to up to RON 166.5 million (~ EUR 33.7 million) and no more than 30 per cent of the total issuance, it recognises that increased market uncertainty and volatility generated by the Ukrainian crisis may have impact on the success of this upcoming local currency bond. In the event of severe market deterioration and lower than initially anticipated investors demand affected by the War on Ukraine, the Bank would scale up its investment to not more than 50 per cent of the issuance or up to RON 277.5 million (~ EUR 56 million equivalent).

The proposed operation will have two main impacts. First, it will strengthen Romania's developing municipal bond market, by supporting the City as it seeks to refinance its seven-year bond with a ten-year tenor. In the aftermath of COVID-19 and its impacts on the City, budget flexibility provided by the longer tenor will enable Bucharest to maintain and increase its infrastructure spending and prioritise green investments. Second, it will enable the Bank to continue its support for the City of Bucharest as it seeks to join EBRD Green Cities and develop a Green City Action Plan ("GCAP"), with the bond serving as its 'trigger' investment. The GCAP will be a valuable tool for the City in its effort to address pressing environmental and climate change challenges, expand the list of green investments and prepare for future sustainable bond placements.

The expected transition impact of the project will be derived primarily from the *Resilient* quality by supporting the further development and deepening of Romania's domestic municipal bond market with a long-term bond issuance. The Bank's participation in the refinancing in light of increased market volatility caused by war on Ukraine will help promote confidence in Romania's capital markets at a time of growing investor uncertainty. It will also support the *Green* quality, as the bond refinancing will provide the City with more budget flexibility to resume its investment plan, which was postponed in the last two years due to the pandemic.

Given that Romania's bond market is largely undeveloped compared to its European counterparts, the Bank remains additional particularly for longer tenor RON denominated debt. The Bank's participation in particularly needed at the current time given increased investor nervousness for emerging market risk in light of ongoing geopolitical events in the region.

I am satisfied that the project is in line with the War on Ukraine – EBRD Resilience Package endorsed by the Board. The operation is also consistent with the Bank's Municipal and Environmental Infrastructure Sector Strategy, the Bank's Strategy for Romania, the Green Economy Transition (GET) Approach 2021-2025, with the objectives of the Bank's Local Currency and Capital markets Development Initiative (the "LC2" initiative), aimed at contributing to the increased use of local currency and local capital markets and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed facility substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

PROJECT CLASS - DTM 53476 ROMANIA	
Transaction / Board Decision	Board approval[2] is sought to enable the City of Bucharest (the "**City**"), an existing client, to successfully refinance its upcoming bond issue (the "**Project**"). While the Bank will seek to limit its investment to up to RON 166.5 million (ca. EUR 33.7 million equivalent), and no more than 30 per cent of the total issuance, it recognises that increased market uncertainty and volatility generated by the Ukrainian crisis may have impact on the success of this proposed issuance. In the event of material market deterioration and lower demand at the time of issuance the Bank would scale up its bond investment to up to 50 per cent or RON 277.5 million (~EUR 56 million).
Client	The Municipality of Bucharest is the largest and the capital city of Romania. The City has solid fundamentals and is rated investment grade by Fitch rating agency.
Main Elements of the Proposal	• Transition Impact: The Project demonstrates the *Resilience* and *Green* transition qualities through its support for capital market development and contribution to reduction of GHG emissions. The Bank's participation in the refinancing given current market uncertainty generated by the war in Ukraine further supports the Resilience quality, by enabling the Bank to ensure a successful refinancing, thereby helping to maintain confidence in local capital markets. The Project will also serve as a trigger for the City of Bucharest to join EBRD Green Cities and the development of a Green City Action Plan ("**GCAP**"). The GCAP is expected to serve as a tool for the City to prepare for a future green or sustainable linked bond issuance. • Additionality: The Bank remains highly additional given the limited development of Romania's municipal bond market. The Bank's additionality is further demonstrated under current financial instability generated by the recent events in Ukraine, affecting investor confidence to participate in the refinancing. • Sound banking: The review of the financial projections and stress testing have demonstrated that the Project is consistent with sound banking principles
Key Risks	• **Limited investor interest**. This is mitigated by: (i) pension funds' mandatory requirement to invest in relatively stable debt instruments, as well as available liquidity after repayment of Bucharest five year bond in 2020; (ii) banking sector liquidity and lack of alternatively attractive investment options. The risk of severe decline in investors' demand in the next month, affected by the Ukrainian crisis would be further mitigated by the Bank's preparedness to support the issues, including by increasing its potential participation to up to 50 per cent, as an emergency response consistent with the goals of the EBRD Resilience Package. • **Repayment/refinancing/illiquidity risk**: The proposed ten-year maturity gives the City more flexibility in managing its cash flows. Debt servicing risk is also mitigated by the conservative debt profile of the City.
Strategic Fit Summary	The proposed investment is in line with the War on Ukraine – EBRD Resilience Package endorsed by the Board. It is also consistent with the Bank's MEI Strategy, the Bank's Strategy for Romania, with regard to capital markets and promoting green investments, and the GET Approach 2021-2025. The Project is also in line

[2] Article 27 of the AEB provides the basis for this decision.

[redacted]	with the objectives of the Bank's Local Currency and Capital markets Development Initiative (the "**LC2**" initiative).

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	Municipal bond in the amount of RON 555 million (ca. EUR 112 million) with a ten year tenor that will be issued to refinance the City's seven year bond, maturing on 4 May 2022 and representing part of the local public debt contracted by the City through the Bond Programme launched in 2015. The successful implementation of the Project, including in particular the longer tenor, will provide the City with more budget flexibility to maintain and increase its infrastructure spending and implement its ongoing investment plan focused on green and environmental challenges. The bond will be issued pursuant to a prospectus and will be publicly traded on the BSE starting May 2022. The arrangers are BRD – Groupe Societe Generale and Raiffeisen Bank (the "**Arrangers**"). The Bank proposes an investment up to RON 166.5 million (ca. EUR 33.7 million and no more than 30 per cent of the bond amount or), which will represent a rollover of its current investment in the existing seven-year bond. Given the impact of the events in Ukraine on financial market, the Arrangers have stressed the importance of EBRD's participation in the proposed issuance. While the Bank intends to limit its investment to up to 30 per cent, in the event of material market deterioration and lower than initially anticipated investors demand, the Bank would scale up its investment to up to 50%. This increased flexibility will enable the City to refinance its maturing bond and maintain confidence on the Bucharest Stock Exchange. Given that the bond tenor will be extended from seven to ten years, where investor demand is typically lower, the Bank remains additional and its involvement in the refinancing will play a key signalling role in reinforcing investor confidence in the Romanian capital market. A successful issuance will reinforce the development of a municipal yield curve, offering a valuable pricing benchmark for peer municipalities that are contemplating raising finance through the local capital market. The Bank's additionality is further demonstrated under current financial instability generated by the geopolitical developments in Ukraine, which is affecting investor confidence to participate in the refinancing.
Existing Exposure	Total outstanding exposure ~ EUR 180 million equivalent: • EUR 68 million equivalent for the Bucharest Bond Issue (DTM ID 47374) in the seven and ten years bond issuances maturing May 2022 and May 2025 respectively; TIMS Good/Negligible. • EUR 112 million equivalent outstanding loan maturing on 27 April 2023, bullet repayment for Project Mayfair (DTM ID 51825); TIMS Good/Negligible.
Maturity / Exit / Repayment	The new bond issuance will have a maturity of ten years [REDACTED]. The bonds will be traded on Bucharest Stock Exchange ("**BSE**"). The bonds can be categorised as "available for sale" following successful achievement of TI benchmarks.
Potential AMI eligible financing	n/a
Use of Proceeds	The overall proceeds of the Bond issue will be used to refinance the City's RON 555 million (ca. EUR 112 million) seven year bond issued in 2015 and maturing on 4 May 2022.

Financing Plan	[REDACTED]
Key Parties Involved	Municipality of Bucharest; the Arrangers
Conditions to subscription / disbursement	[REDACTED]
Key Covenants	Bond documentation according to Romanian law regulations for bond issuances. Compliance with standard Bank policies and procedures (environmental and social procedures, the EBRD Performance Requirements and fraud and corruption through the Framework Agreement).
Security / Guarantees	Unsecured
Other material agreements	Bond Issue Prospectus [REDACTED].
Associated Donor Funded TC and co-investment grants/concessional finance	Following bond placement, the Bank will assist the City to prepare a GCAP and Bucharest will formally join EBRD Green Cities. The GCAP will help the City prioritise its green investments and prepare for future sustainable or green bond placements. It will also serve as template for regional peer municipalities. The estimated cost of this GCAP is EUR 350,000 to be financed from an International Donor or from the EBRD's Shareholder Special Fund ("SSF").

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

The Bank has historically financed ground-breaking projects with the City of Bucharest, such as: (i) the City's first non-sovereign loan (EUR 61 million granted in 2003, fully repaid), used to finance critical investments in municipal infrastructure including district heating, traffic management and urban rehabilitation; (ii) the City's first loan repaid from tariffs (EUR 10 million granted in 2006, fully repaid) due to a financing structure proposed by the Bank in relation the Bucharest Waste Water Treatment Plant, this way supporting an early private sector participation in a public service operation; (iii) investment of RON 333 million (ca. EUR 68 million) in the first local-currency bond issuance of the City in 2015 of RON 2.2 billion (ca. EUR 445 million), representing the first large scale municipal bond listed on the Bucharest Stock Exchange.

The Bank's investment Bond Programme launched in 2015 (iii) is of particular importance for the current proposal. At that time, the City issued four equal tranches of three, five, seven and ten-year bonds, whereby the Bank invested in the seven and ten-year tranches. The Bank's involvement in the Project remains highly additional because it further contributes to the creation of a properly functioning municipal bond market in Romania. Moreover, the bond tenor will be extended from seven to ten years, where investors' demand is lower, as seen in 2015 with the previous placements under the Bond Programme, or in 2020 in the pandemic context leading to market failure. Particularly, in April 2020, at the surge of COVID-19 pandemic and increased markets' volatility, the EBRD extended an emergency loan, a three-year facility of EUR 555 million (ca. EUR 112 million) that enabled Bucharest to fully refinance the five-year tranche of its Bond Programme; The City plans to revert to capital markets with a new RON denominated bond issuance [REDACTED] and fully repay the emergency loan.

The City did not have a specific green investment plan before the EBRD's involvement. As part of the Bank's policy dialogue with the City (discussing the benefits of becoming a Green City and developing a GCAP as well as potential participation in the bond issuance), the City identified a number of investments that are in line with the Bank's Green Economy Transition ("GET") requirements, in public transport and mobility, water/wastewater, district heating and energy efficiency. Each of these projects and their estimated Environmental & Social ("E&S") impact are prepared by EU consultants and revised by Jaspers. These investments are also in line with the Bucharest's Integrated Air Quality Plan ("IAQP") approved by the Bucharest City General Council and including mandatory measures for maintaining the air pollutant concentration limits within the legal and recommended limits.

IAQP measures include but are not limited to: decarbonising urban transportation modes by increasing cycling and integrating it with urban public transport, increasing e-mobility, enhancing energy efficiency of public buildings, as well as implementing LED lighting, along with further modernization and rehabilitation of the district heating network and introducing low pollutant boilers. These investments focused on *green* total ca. EUR 1 billion equivalent over the next five years. These GCAP follow-on investments are expected to be eligible for the inclusion in the Green Cities Framework, subject to technical due diligence and, as such, form the basis for future debt transactions, green bonds and/or sustainability linked bonds. The environmental achievements will be monitored with the annual environmental reporting of the City.

This *green* package strengthen the Bank's added value whereby the bond is freeing up finance for the investments included in the green investment Plan. Extending the bond will free up capital for the City's 2022 CAPEX plans focused on *green* transition. More budget flexibility in the aftermath of the pandemic and its heavy impacts on municipalities will help the City address its most pressing environmental challenges. Furthermore, the transaction will serve as a 'trigger' project for EBRD Green Cities and the Bank will work closely with the City of Bucharest to develop a Green City Action Plan which will identify new green investment projects.

The list of prioritised investments addressed by the GCAP will also include gender and digital components to support the City's primary focus of green impact. At the same time, the GCAP will be a valuable tool for the City in its effort to prepare for a green or sustainable linked bond issuance in the near future.

Furthermore, the Project is consistent with:

- Bank's Strategy for Romania. With regard to capital markets the strategy for Romania underlines that: "*The Bank's recent assessment of Romania in the context of the EBRD Local Capital Markets Initiative has revealed a number of shortcomings. Romanian capital markets have been slow to develop with effectively no local bond market in place";*
- The Municipal and Environmental Infrastructure Sector Strategy ("MEI"), stressing out the need for innovative approaches *"to complement traditional sources of finance"* and that the Bank "*will seek to mobilise finance from alternative commercial sources";*
- Bank's GET Approach 2021-2025, noting that the Bank can play a crucial role in supporting green low-carbon transition focusing on supporting *"cities decarbonising and improve efficiency of municipal utilities (incl. energy efficiency of public buildings, e-mobility, smart cities and electrification of urban transport) promoting innovation through the Green Cities Programme (Cities and Environmental Infrastructure)";*
- Bank's Local Currency and Capital markets Development Initiative (the "LC2" initiative) aimed at contributing to the increased use of local currency and local capital markets. The broader strategic objectives of the Bank during the Capital Resources Review 4 ("CRR4") include: *"contribute actively to the stability and development of the financial sector in support of the real economy, including the build-up of local financial markets"*

1.2 TRANSITION IMPACT

Primary Quality: Resilient

Obj. No.	Objective	Details
1.1	The transaction contributes to capital market development by having a longer maturity than the previous longest-tenor issuance in the market in the past year (debt instrument).	The transaction is the only municipal bond being issued on the Romanian capital market in the last two years. Issuance will result in a long-term bond, in a market where 10-year maturities are not common for municipal bonds. The issuance is also one of the largest in the local market. Issuance will confirm the viability of tapping sizeable funds on long term from the local capital market.
1.2	At least 80 per cent of the issuance is expected to be placed with private non-IFI investors.	EBRD is interested to participate in the private placement and limit its investment to 30 per cent. The Bank is prepared to scale down its investment to 20 per cent, if there is a strong market demand and the offer is oversubscribed. However, due to market volatility caused by the War on Ukraine, the EBRD participation may go up to 50 per cent. The bonds will be publicly traded on the BSE.
1.3	The issuance will be publicly offered and listed on a national exchange. It either has a credit rating from a rating agency other than "Big Three" (including local credit rating agencies) or it is not rated but the issuer is rated by at least one of the "Big Three".	The issuance will be traded on the BSE. The issuance will not be rated, but the issuer is rated by Fitch.

Secondary Quality: Green

Obj. No.	Objective	Details
2.1	The percentage of EBRD use of proceeds that supports a green economy transition and therefore qualifies as GET finance is 15% or higher.	The GET allocation for the Project is 50%. Ongoing and future investments are structured around ambitious goals to reduce carbon intensity of the City and are hence expected to be in line with decarbonisation priorities for the municipal sector such as the modernization of public transport, creation of a light rail system, construction of more bike lanes, and installing smart traffic lights in the City.
2.2	The project entails a package of policy dialogue, which fulfils the following conditions: a) The dialogue covers one or more green topics related to the GET approach; b) The dialogue aims to achieve a clear policy outcome (e.g. regulatory change); c) A relevant counterparty (normally Governmental authorities), which is in a position to implement the policy reform, is part of the dialogue; d) The policy outcome has a systemic and long term	The Framework Agreement which is part of the Bank's investment will require the City to develop a Green City Action Plan. The GCAP will support the City in identifying its environmental challenges, address relevant climate action and help promote the Green transition quality for sustainable cities through inclusive, resilient, well-governed and smart urban development actions and projects.

	impact beyond project boundaries so it will influence other stakeholders and result in structural change; e) The dialogue is new in the context of the market/country/industry and is aligned with international best practices, and where relevant, the reform priority areas identified by EBRD's country strategy; and f) The dialogue has a well-defined budget, resources, work plan and timeline as well as appropriate benchmark indicators that monitor success in implementation.	

Transition risks:

- **Limited investor interest:** The size of the issuance RON 555 million (ca. EUR 112 million) is one of the largest in the local market, more customary for corporate bonds issues, while municipal bonds' amounts vary between RON 8 million to RON 100 million, except for the Bucharest tranches. This is mitigated by: (i) pension funds' mandatory requirements to invest in relatively stable debt instruments, as well available liquidity after repayment of Bucharest five year tranche in 2020; (ii) banking sector liquidity and lack of alternatively attractive investment option. The risk of severe decline in investors' demand in the next month, affected by the Ukrainian crisis would be further mitigated by the Bank's preparedness to support the issue, including by increasing its potential participation to up to 50 per cent, as an emergency response consistent with the goals of the EBRD Resilience Package.
- **Repayment/refinancing/illiquidity risk:** Repayment/refinancing risk will depend on the City's capacity to manage repayments and match its cash flows, and the capital market state at time of maturity. The proposed ten year maturity gives the City more flexibility in managing its cash flows. Debt servicing risk is also mitigated by the conservative debt profile of the City.

1.3 ADDITIONALITY

Transaction: An investment by the Bank in up to 50 per cent of the City's bond, which extends the tenor from seven to ten years, will send a strong confirming signal to the market as the City tests market demand for longer tenors. The Bank's additionality is further demonstrated under current markets uncertainty generated by the geopolitical developments in Ukraine, affecting investor confidence and willingness to invest in longer tenor RON denominated debt. A successful refinancing will increase confidence in Romania's capital market and the Bucharest Stock Exchange.

Triggers: yes

Identified triggers	Description
A significant share (at least 30%) of the project is for refinancing purposes.	100 per cent of the EBRD use of proceeds will be to refinance the seven years tranche of the City's 2015 Bond Programme. Given the extension of tenor to ten years, where investor interest is anticipated to be lower, the Bank's involvement remains additional.
A subsequent/consecutive transaction with the same client/group with the same use of proceeds (repeat transaction).	Bucharest Bond Issue DTM ID 47374 (2015, EUR 68 million). Project Mayfair DTM ID 51825 (2020, EUR 112 million).
A similar issue by the client/group or a closely related transaction was successfully placed in the past two years.	In 2018, the City successfully refinanced its three years maturing bond part of the Bond Programme. On a different front, in 2020, at the surge of COVID-19 pandemic the Bank fully refinanced the five-year tranche via an emergency loan that is to be repaid

	exclusively from a new bond issuance [REDACTED]. The current issuance will test market demand for longer tenors. The Bank's involvement remains additional, as it is expected to send a confirming signal to potential investors, while the City is testing market demand for longer tenors.
Financial additionality	**Description**
Crisis response: EBRD financing effectively bridges a financing gap due to adverse market conditions.	Both the City and its Arrangers recognised that the current financial markets uncertainty generated by the recent Ukrainian crisis will have an impact on investor interest and willingness to participate in the refinancing of a long term RON denominated bond. The Bank's participation in the refinancing will increase confidence in Romania's capital market and the Bucharest Stock Exchange.
EBRD offers a **tenor**, which is above the market average and is necessary to structure the project.	The Bank is supporting the issuance of new ten years municipal bonds in a market where long maturities are not common, particularly in such large amounts. The longer bonds tenor will provide the City with more budget flexibility.
EBRD investment is needed to close a **funding gap**. At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them.	Investors' demand might not be insufficient for this long-term bond, as this is still a novelty for Romania's municipal bond market. EBRD's participation will help close any funding gap.
EBRD offers **local currency** financing on terms not readily available in the market	The Project offers a significant amount of financing of RON 555 million for Bucharest, as an alternative to traditional loans, which is of a large size for the LCY bond market.
Non-financial additionality source	**Description**
Client seeks EBRD expertise on governance improvements, including for higher financial transparency	The City is interested to continue working with the Bank, in seeking expertise with further governance improvements to prepare for a future green/sustainability linked bonds issuance.

1.4 SOUND BANKING - KEY RISKS

Risks	**Probability / Effect**	**Comments**
Macroeconomic context	Medium/ High	Moody's credit rating for Romania was last set at Baa3 with negative outlook. Fitch's credit rating for Romania was last reported at BBB- with negative outlook, while S&P reaffirmed BBB- with negative outlook. The Romanian economy is expected to grow [REDACTED].
Sponsor risk	Low/ Medium	Bucharest is Romania's capital and largest city and operates within a predictable institutional framework. Fitch last rated Bucharest at "BBB-", with negative outlook, which reflects the City' continuing sound operating performance, moderate debt levels relative to the City's operating balance and current revenue, and sound debt ratios.
Completion/ Demand risk ***(Lack of investor interest)***	Medium/ High	The proposed bond refinancing amount is substantial, especially when compared with the current size of the municipal and corporate bond markets. Such bonds at longer maturities are still new in the Romanian market. The Bank's participation will increase the probability of the placement being successful and will send a confirming signal to other investors.
Exit risk	Low/High	Refinancing/repayment risk will depend on the state of the market at the time of maturity of the issue, as well as on the City's capacity to properly manage repayments and match cash flows.

(Refinancing/ repayment/ illiquidity risk)		The proposed refinancing creates a longer, more balanced ten years maturity than the existing one, and better matches the City's cash flows. Listing on the BSE means the bonds can be re-acquired/divested, limiting refinancing/repayment risk at maturity. Debt servicing risk is also mitigated by the conservative debt profile of the City.

2. MEASURING / MONITORING SUCCESS

Primary Quality: Resilient

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	TC
1.1	Maturity of the New Issuance or Average Tenor of the Portfolio	New bonds with 10 years maturity	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Volume of new capital market activity raised	New RON 555million valued bonds (ca. EUR 112 million equivalent)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Issuance listed on a national or/and international exchange	Issuance listed on Bucharest Stock Exchange in May 2022	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Secondary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	TC
1.1	New or updated GET technology or product leading to pollution prevention control introduced	The City has approved the Integrated Air Quality Plan 2018-2022 (IAQP) that includes 20 mandatory measures, including electric transport services	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	CO2e emissions reduced (t/year)	Greenhouse gas emissions reduced in result of the implementation of IAQP measures, to stay within max legal and recommended limits	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

1.3	NOx reduced (tonnes/year)	NOx reduced in result of the implementation of IAQP measures, to stay within max legal and recommended limits	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.4	Client engages in policy dialogue: mobilising other stakeholders	The Project will support the City with development of GCAP aiming to identify environmental challenges, facilitate better coordination and buy-in among stakeholders and help to prioritise and develop the best ways to address the environmental challenges through targeted investments, services and policy instruments.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Additional Indicators

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	Clients or companies benefit from improved product or terms on listing in capital markets	Tenor extension, from seven to ten years, of RON denominated municipal bond	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

The City of Bucharest is the capital and largest city of Romania, with around 1.8 million inhabitants. It is also the political and economic hub of the country, generating over 20 per cent of the country's GDP, more than three times the national average. The unemployment rate is 0.9 per cent, the lowest of the national level. Almost one third of the national taxes are paid by Bucharest's citizens and companies.

Bucharest has a financial performance with a large revenue base of EUR 800 – 900 million equivalent in every year. The City has stable revenue sources, with growth prospects in line with national GDP growth. Based on its capital status, Bucharest is less dependent on central government transfers, its revenues largely stemming from redistributed VAT, and transfers accounts for a low share of the City's revenue.

In November 2021, Fitch reaffirmed ratings for Bucharest City at "BBB-", with negative outlook. The negative outlook reflects the one of Romania, as the City's IDR are constrained by sovereign ratings. The ESG consideration are neutral to Fitch credit rating, either due to their nature or the way are being managed by the City. Fitch quotes that the reaffirmation of the rating reflects Bucharest's operating performance and moderate debt levels relative to the City's operating balance and current revenue.

The new Mayor, Mr. Nicusor Dan, was elected in September 2020. His agenda for the "New Bucharest" is focused on areas such as urban mobility, environment, economy, education, health, culture and safety. He has also engaged in projects to reduce air pollution and expand the capital's green areas, including a "green belt" around the City and, as such, is a prime target for EBRD Green Cities. An ambitious investment plan, estimated at almost EUR 2 billion, is ongoing with significant EU funds contribution; this includes energy efficiency projects, acquisition of electric transport vehicles, wastewater treatment network extension, rehabilitation and modernization of district heating network with less pollutant technologies, smart traffic management.

4. MARKET CONTEXT

The municipal debt market is regulated by the Ministry of Finance and there are strict restrictions in the fiscal code on how much debt a municipality may contract, although there is greater flexibility on debt contracted to co-finance EU funded projects.

Romania's municipal bond market remains underdeveloped [REDACTED]. The proposed investment in a LCY denominated municipal bond with a longer tenor of ten years is expected to help shape a more coherent municipal bond market with a liquid issuance of a larger amount. The refinancing of Bucharest seven-year bonds, including in particular a tenor extension to ten years will become a proper benchmark for future municipal bonds issuances, for both municipalities and investors.

Recent market developments

The conflict in Ukraine is having a serious impact on countries receiving refugees, among which Romania. To date, Romania had already welcomed over 600,000 Ukrainian refugees, with influx of thousands more expected to come. Displaced Ukrainians are heading the capital city of Bucharest, justified by social ties, better hospitality and sanitation services, food security, as well as access to emergency medical services and generally free healthcare.

With the country still recovering from the impact COVID-19, an immediate, direct consequence of the war in Ukraine could be the overburdening of Romania's budget, in particular healthcare system. When referring to municipalities, in the absence of additional liquidity, one can expect postponement of capex investments, as funds are prioritised towards areas directly affected by the crisis.

At the same time, the conflict in Ukraine is generating an increased market uncertainty and volatility, altering investors' appetite to invest on the capital markets in the affected region. During this period it is vital that Bucharest City, an investment grade client of the Bank, has adequate access to funds to repay its maturing bond.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

FINANCIAL HIGHLIGHTS:
The analysis is based on the publicly available financial results of the City as of 2021 year end and Bank projections up to 2031.

Financial Summary (EUR million)	2018	2019	2020	2021	2022	2023	…	2026	…	2028	2029	…	2031
Current revenues	811	792	826	903	962	1,001		1,101		1,168	1,203		1,276
Current expenditures	819	641	755	829	850	882		958		960	1,035		1,094
Interest Paid	24	30	32	31	30	30		30		30	30		30
Current surplus (deficit)	17	180	102	105	142	149		173		237	198		212
Current Surplus / Current Revenues	2%	23%	12%	12%	15%	15%		16%		20%	16%		17%
Financial Debt / Current Revenues (max 2.5x)	0.7	0.8	0.8	0.8	0.7	0.8		0.8		0.8	0.7		0.7
Debt Service/ Own Revenues (max 30%)	5.1%	6.0%	6.4%	5.3%	5.6%	5.4%		6.9%		10.9%	8.2%		7.8%
Current Surplus/ Debt Service (min 1.2x)	1.0	4.0	2.7	2.9	3.4	3.6		2.9		1.9	2.1		2.2

Historic: Bucharest has stable revenue sources, with growth prospects in line with national GDP growth. Based on its capital status, Bucharest is less dependent on central government transfers, its revenues largely stemming from redistributed VAT, and transfers accounts for a low share of the city's revenue. The City financial performance historically has been solid; between 2012 – 2021 it generated current surplus ratios averaging 25 per cent. The City's expenditure burden remained on subsidies to municipal companies RADET (district heating supplier) and STB (public transport company), together accounting for 52 per cent of total current expenses as of 2021 year end.

As of December 2021 the City's total debt amounted to EUR 709 million. Most of the debt is in RON, which alleviates the forex risk for the City.

Based on 2021 financial results, the covenanted financial indicators for the Bank's existing loan were met:

- Financial debt to current revenues was constant at 0.8x, below the maximum covenanted level of 2.5x;
- Debt service to total revenue amounted to 5.3 per cent, below the maximum covenanted level of 30 per cent;
- Current surplus to debt service was 2.9 x, above the minimum covenanted level of 1.2x.

The City's financial perspectives are stable with all financial covenants expected to be met in the medium and long terms. This outlook is further strengthened by Fitch's re-affirming the City's BBB-/ negative outlook rating in November 2021. [REDACTED]

5.2 SENSITIVITY ANALYSIS
[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK
[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT AND SOCIAL

Categorised B (ESP 2019) this is a capital market transaction with due diligence being limited to publicly available information. The proceeds of the new bonds would be used to refinance the City's existing municipal bonds (initially issued in 2015 under Opid 47374 as a refinancing of an existing Eurobond), and are not envisaged to be directed at specific physical assets or any new CAPEX investments. Therefore, Environmental and Social Due Diligence ("ESDD") is focussed on assessing the risks and impacts associated with the Bucharest City's existing E&S management systems, practices and compliance record, and review of the risks associated with the existing operations. This has been done through review of documentation and the reporting which the client has produced on previous Projects. Past annual E&S reporting from Bucharest City has been satisfactory. Overall, the City has capacity and capability to implement the PRs and operates an integrated management system, with ISO 14001 certification for environmental management in place. Further corrective measures required at the corporate level, such as management of occupational health and safety in line with international best practice to meet EBRD Performance Requirements ("PRs"), will be addressed through the Framework Agreement. Based on the information from the Client and the bond issue prospectus, the indicative portfolio of Enabled GET investment projects of the City is likely to be driven by their long-term sustainability plan, focused on green investments with ambitious environmental targets (in particular public transport). The Framework Agreement with the client will clearly specify that the Client will implement these enabled GET investments in compliance with the PRs and the Enabled GET Checklist in the GET Handbook. The timeline for this project approval is short with exposure expected to start from April 2022. This bond will be listed/issued on the Bucharest Stock Exchange that is currently gearing up to introduce best practice ESG reporting guidelines with EBRD support in April 2022. Given the anticipated focus of the City on predominantly green investments, this bond project is expected to become a 'trigger' project to develop a GCAP and enable Bucharest to join the EBRD Green Cities. The proposed 'enabled GET' investments are considered Paris aligned. They are also subject to review of ESDD reports to be supplied by the Client, addressing any gaps with EBRD PRs through the Framework Agreement, and future monitoring to allow the Bank verify the GET impacts.

6.2 INTEGRITY

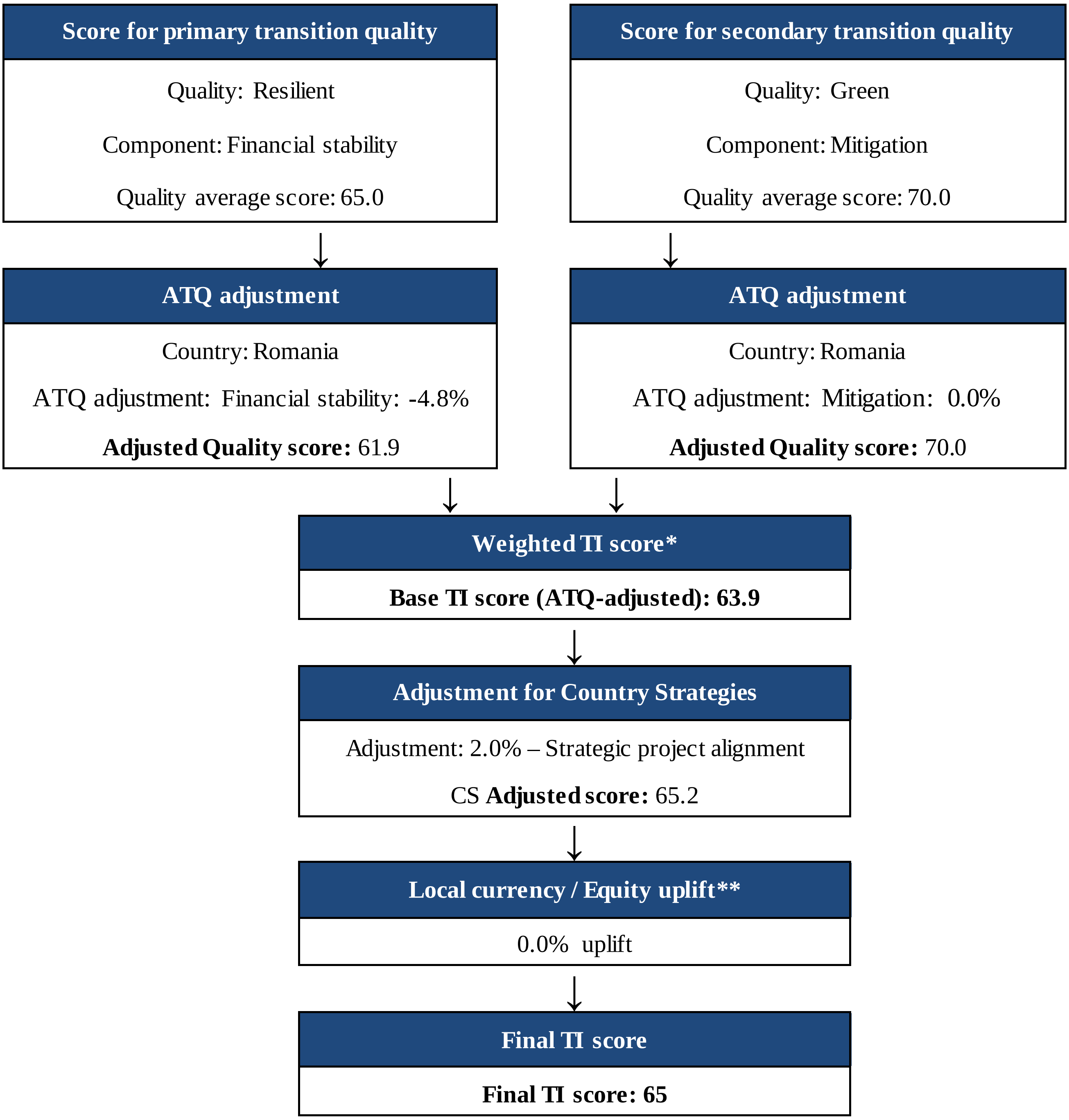
In conjunction with OCCO, updated internal integrity due diligence was undertaken on Municipality of Bucharest (the issuer), the Mayor, Deputy-Mayors and key management directly involved in the implementation of the Project, as well as on the mandated Arrangers (BRD and Raiffeisen Bank) engaged for this bond issuance. No negative information was identified on the City, its mayor or management. [REDACTED]. It was therefore concluded that this transaction does not present an unacceptable reputational or integrity risk to the Bank. [REDACTED].

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the project and the project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the project.

ANNEXES TO OPERATION REPORT

ANNEX 1	Transition Impact Scoring Chart	
ANNEX 2	Green Assessments	

ANNEX 1: TRANSITION IMPACT SCORING CHART



*The Primary Quality score is weighted 75% for the calculation of the Base TI Score. The Secondary Quality is weighted 25%.
** Please remove this box if the financing uplifts are not applicable.

ANNEX 2: GREEN ASSESSMENTS

Introduction

This is a new municipal bond transaction that will fully refinance an existing one, while extending the tenor from seven to ten years. The successful implementation of the Project, including in particular the 10 years longer tenor, will provide the City with more budget flexibility to implement its ongoing investment plan focused on green and environmental challenges. Ongoing investments are structured around ambitious goals to reduce the carbon intensity of the City and are hence expected to be in line with decarbonisation priorities for the municipal sector in Romania. The City is measuring GHG emissions and, as part of their sustainability strategy, intends to reduce its emissions in line with EU targets by 2030.

Paris alignment assessment

The Team has worked with EPG and Green Cities teams and have reviewed the list of investments updated and approved by the City in February 2022. Thus, the teams have identified investments with explicit green benefits, which with a total investment value of ~ EUR 1,163 million, exceed the value of the Bank's participation of maximum EUR 56 million equivalent. Identified projects are in transport sub-sectors and the team has used available information from the City for indicatively assessing climate change mitigation benefits. Transport projects to benefit from the fiscal headroom created by the bond refinancing include replacement of 100 tram wagons with newer and more efficient ones, replacement of 100 old buses with electric buses and rehabilitation of 1km of two-way tram line.

The bond refinancing has no immediate use of proceeds and so Paris Alignment is not directly applicable. The proposed enabled investments in the transport sector are considered Paris aligned for mitigation and adaptation. They are also subject to review of ESDD reports to be supplied by the Client, addressing any gaps with EBRD PRs through the Framework Agreement and future monitoring of some specific indicators (e.g. number of busses/ trams purchased, passengers transported, annual km run) to allow the Bank verify the GET impacts.

GET attribution

- GET allocation is based on the 'enabled GET finance' by Bucharest City into the public transport improvements (primarily acquisition of new electric buses and trams).
- The 'enabled GET' allocation is 50% on the basis that the refinancing will allow the City to invest the equivalent percentage from the bank participation in the refinancing in electrified transport