REPORT OF THE BOARD OF DIRECTORS TO THE BOARD OF GOVERNORS

AMENDMENT TO ARTICLE 1 OF THE AGREEMENT ESTABLISHING THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT IN ORDER TO ENABLE THE LIMITED AND INCREMENTAL EXPANSION OF THE GEOGRAPHIC SCOPE OF THE BANK'S OPERATIONS TO SUB-SAHARAN AFRICA AND IRAQ

At the EBRD's Annual Meeting in May 2022, the Board of Governors approved Resolution No. 248 entitled "*Toward a Limited and Incremental Expansion of the Geographic Scope of the EBRD's Operations to Sub-Saharan Africa and Iraq*". The Resolution contains a decision to approve, in principle, a limited and incremental expansion of the geographic scope of the Bank's operations to sub-Saharan Africa and Iraq. This decision was taken soon after the war of the Russian Federation on Ukraine began. Accordingly, the Board of Governors recognised the Bank's most urgent priority as supporting Ukraine and other countries of operations in the face of the impact of this war. Nevertheless, through this Resolution, the Board of Governors advanced the Bank's continued strategic interest in a limited and incremental expansion to sub-Saharan Africa and Iraq set out in the Strategic and Capital Framework (SCF) 2021-2025. This strategic interest reflected the importance of sub-Saharan Africa and Iraq to achieving the international community's geopolitical and development priorities, the growing economic links between these countries and current EBRD countries of operations and the relevance and applicability of the Bank's skills and competencies in sub-Saharan Africa and Iraq.

The Bank's most urgent immediate priority remains to support Ukraine and other countries of operations affected by the war on Ukraine. At the EBRD's Annual Meeting in May 2023, Governors will consider the most effective means for enabling the Bank to play its full role for resilience and reconstruction of Ukraine [BG32/3]. However, the wide-ranging and detrimental impact of the Russian invasion of Ukraine has reinforced the importance of supporting shareholders' strategic objectives toward sub-Saharan Africa and Iraq in parallel.

Resolution No. 248 endorsed the conclusions of the Report of the Board of Directors to the Board of Governors[1] which accompanied the Resolution, among others that:

i. *The value which the EBRD can add in sub-Saharan Africa and Iraq is validated. The EBRD's mandate and business model can be deployed to complement the activities of existing development partners and increase transition and development impact in countries in sub-Saharan Africa and Iraq, ensuring that the impact of the development system as a whole is enhanced;*

ii. *The assessment of the current capital capacity of the Bank suggests that the Bank retains the ability to support its existing countries of operations and accommodate all the objectives in the current SCF – including a limited and incremental expansion to sub-Saharan Africa and Iraq – noting however the current level of uncertainties concerning the crisis impact and the scale of reconstruction needs;*

iii. *Any expansion into sub-Saharan Africa and Iraq must be limited and incremental. The limited and incremental expansion of the geographic scope of the Bank's operations to sub-Saharan Africa and Iraq should be enabled through an amendment of Article 1 of the Agreement and supported by the mechanisms set out in the report of the Board of Directors; and*

[1] Update on the EBRD's Possible Limited and Incremental Expansion to sub-Saharan Africa and Iraq: Report of the Board of Directors and Resolution - BG31/4.

iv. *The utmost priority of the Bank is currently supporting Ukraine and other countries of operations in the face of deep and widespread consequences and the destabilising impact of the war on Ukraine, and consequently it would be prudent to reconfirm that any limited and incremental expansion to sub-Saharan Africa and Iraq would not in itself impair the Bank's ability to support its existing countries of operations, compromise the Bank's triple-A credit rating, or lead to a request for additional capital contributions.*

The Resolution also sets out a sequence of actions to be followed toward a limited and incremental expansion of the geographic scope of the EBRD's operations to Sub-Saharan Africa and Iraq. Accordingly, the Resolution calls on the Board of Directors:

> *'taking into consideration the impact of the war on Ukraine and the Bank's response, to reconfirm that any limited and incremental expansion to sub-Saharan Africa and Iraq would not in itself impair the Bank's ability to support its existing countries of operations, compromise the Bank's triple-A credit rating, or lead to a request for additional capital contributions'; and*
> *'upon and subject to the reconfirmation described above, to submit for decision by the Board of Governors an amendment to Article 1 of the Agreement, generally consistent with the Report of the Board of Directors, no later than at the 2023 Annual Meeting.'*

In accordance with the provisions of Resolution No. 248, the Board of Directors has reassessed the capital and financial implications of any limited and incremental expansion to sub-Saharan Africa and Iraq, in the context of the overall assessment of the Bank's financial standing. This report presents the outcome of this reassessment and the consequent recommendation of the Board of Directors to the Board of Governors on the limited and incremental expansion of the geographic scope of the EBRD's operations to sub-Saharan Africa and Iraq.

PART I – CAPITAL AND FINANCIAL REASSESSMENT

The reassessment of the capital and financial implications of any limited and incremental expansion of the geographic scope of the EBRD's operations to sub-Saharan Africa and Iraq took the analysis presented in the Board of Directors Report to the Board of Governors accompanying Resolution No. 248 as its foundational basis. That analysis had considered the implications of any limited and incremental expansion for the Bank's capital and financial sustainability, including an initial assessment of the impact of the war on Ukraine on the Bank's capital capacity.[2] It showed that within the period of the current SCF until 2025 and then to the end of 2030, the impact of any expansion on the Bank's capital position would be small and would not, in itself, impair the Bank's ability to support its existing countries of operations, jeopardise the Bank's triple-A credit rating or lead to a capital increase. It also showed that the impact on the Bank's profitability was marginal, notwithstanding moderate levels of cumulative losses following the initial cost outlay. Estimates showed that, in a number of different scenarios, any expansion could make a positive contribution to the Bank's financial sustainability in the long term.

To enable the Board of Directors to assess whether this conclusion remains valid, the capital and financial analysis has been repeated and updated as appropriate. The remainder of this section presents the approach underpinning the analysis undertaken and its findings.

[2] Preparatory Work for an Update on the EBRD's Possible Limited and Incremental Expansion to Sub Saharan Africa and Iraq - Capital Capacity Assessment/Phase 2; Financial impact of the war on Ukraine on the EBRD's operational capacity: Preliminary assessment.

Scope and methodology

The methodology for the financial analysis is the same as that taken in 2022. First, a stylised approach is taken, through which country types are defined. These groupings of countries with similar characteristics such as size, potential investment opportunities and risk profile provide the basis for illustrative estimates of the Bank's potential work in new countries of operations. Building on the work of the Bank's potential value proposition in sub-Saharan Africa and Iraq (CS/FO/22-01), three different 'types' of countries were analysed and the results combined to support the assessment of different scenarios for limited and incremental expansion of the Bank's geographic scope. The three types of country are:

- Type 1 countries correspond to the least developed or "early transition" African economies where – in line with the analysis in the value proposition – the Bank's activities might be limited in the long-run.

- Both Type 2 and Type 3 countries correspond to the "developing" African economies identified in the value proposition analysis. The difference between the two is the potential scale of activities with greater levels of activity expected in Type 3 than Type 2.

In order to estimate the capital demands for each country type, operational and financial projections are assessed over time. Capital requirements are projected using estimates of operating assets, while the impact on capital resources (members' equity) is established using profitability projections. The aggregate then provides the expected impact on capital utilisation, across both nominal (statutory) and risk-based policies.

Key assumptions

A number of assumptions were made in order to conduct this profitability and capital analysis, including operational projections, financial and risk assumptions and administrative costs. These assumptions provide a conservative basis to project the Bank's activity under each type of countries over the period under consideration. They have been maintained for this year's analysis, except for the administrative costs, which have been increased by 10 per cent to account for inflation in the intervening period. The remainder of this section sets out the key underlying assumptions used for the analysis.

<u>Operational assumptions</u>

From the work on the Bank's potential value proposition in sub-Saharan Africa and Iraq – including the experience of development partners already present in these regions – and an assessment of the Bank's own experience, especially in countries less advanced in transition, two detailed profiles of investment activity and costs were built for each type of country:

- A **moderate** case where ABI was assumed to rise to a steady state level of €20 million in Type 1 countries; €100 million in Type 2 countries and €280 million in Type 3 countries. This steady state level was anticipated to be reached over seven years. Projections also took into account different product mixes and project sizes in different countries, as well as assumptions about the split of investment between the public and private sectors.
- An **accelerated** case in which the steady state level of ABI was taken to be 20 percent higher than the moderate case and the steady state level reached in five years.

The "moderate" case is assessed to be the most likely path, with the "accelerated" level of activity providing a conservative case with respect to assessing the possible impact on capital ratios as the pace of asset growth exceeds profits and capital accumulated over the scenario horizon.

In both cases, project numbers – the key driver of the Bank's costs – are assumed to be the same with project size increased in the accelerated case. Consequently, the detailed cost estimates are the same in both instances. In each case, the steady state of costs was assumed to be reached in five years.

Risk profiles

Assumed Probability of Default (PD) ratings

Risk assumptions (sovereign and non-sovereign PD rating) are unchanged from the 2022 analysis and are recalled below.

Table 1: Risk ratings by country type

	Sovereign PD	Non-Sovereign PD	EBRD CoO Comparator
TYPE 1	6.3	6.7	BiH, Kyrgyz Republic, Moldova, Mongolia, Türkiye
TYPE 2	5.7	6.3	Armenia, Jordan, Montenegro
TYPE 3	6.3	6.7	BiH, Kyrgyz Republic, Moldova, Mongolia, Türkiye

As in the 2022 analysis, non-sovereign PD ratings are assumed to be two notches below sovereign PD ratings.

Impairment

Non-Performing Loans (NPLs) are projected using the annual default rates associated with the average PD ratings assigned to each country type. Whilst this determines the projections for the impairment flow each year, the unimpaired balance also increases across the planning horizon as activity in the region grows, resulting in a broadly neutral impact on the NPL ratio (impaired loans divided by total assets) when consolidated with the EBRD balance sheet. The projected exposure in sub-Saharan Africa and Iraq is estimated to account for around 3 per cent of the Bank's total stock of impaired loans by the end of the projection period.

Administrative costs

Indicative estimates for total administrative expenses and staff resources were used in the calculations. These estimates build on assumptions for total cost of a regional hub, local resident offices, HQ resources and other project related activities, mainly reflecting experience in the current SEMED region, preliminary benchmarking with peer IFIs and allowance for additional region specific costs. As noted above, the cost totals calculated in 2022 have been increased by 10 per cent in line with average inflation in sub-Saharan Africa and Iraq.

Key findings

Profitability and capital implications

The financial and capital implications of a possible limited and incremental expansion to sub-Saharan Africa and Iraq have been reassessed, repeating the approach described above and focusing on the central case of an expansion to a combination of one Type 1 country, four Type 2 countries and two Type 3 countries.

Tables 2 and 3 show the operational impact in both the 'moderate' and 'accelerated' cases with ABI, portfolio and the stock of operating assets over time. It also shows the marginal financial impact by presenting the income, administrative costs and consequent net profit and loss for the period.

As expected in any start-up phase, costs in the short to medium term would exceed revenues in the potential new countries of operations. However, the initial negative contribution to the Bank's finances are modest in the context of the Bank's overall financial performance. Initial cost estimates of expansion are expected to increase the Bank's cost to debt income ratio by approximately 1 percentage point in early years. Activity in these countries would be expected to make a positive contribution to the Bank's profitability in the long term. The projections under the moderate activity scenario show that on an annual basis a profit would start to be generated seven years after beginning operations, with a cumulative contribution to the Bank's income statement of €30 million net loss by the end of the projection period. Under the accelerated activity scenario, an annual profit would start to be generated five years after beginning operations and the cumulative contribution to the Bank's income statement would be a net profit of around €20 million.

Cumulative capital utilisation under both the statutory capital policy and the Bank's risk based capital adequacy policy (CAP) are also shown, as well as key rating agencies ratios. As the tables show, in both scenarios, the pace of asset growth and size of operations arising from such an expansion is small in the context of the Bank's overall activities. As a result, the scale of the capital impact remains limited and, on this standalone basis, would not warrant a capital increase, impair the Bank's capacity to support its countries of operations or jeopardise its credit rating.

Table 2: Scenario analysis – Moderate activity

SSA & Iraq- Moderate	Yr1	Yr2	Yr3	Yr4	Yr5	Yr6	Yr7	Yr8
€billion								
ABI	0.1	0.2	0.6	0.7	0.9	0.9	1.0	1.0
Portfolio	0.1	0.3	0.8	1.3	2.0	2.7	3.4	4.0
Operating assets	0.1	0.2	0.3	0.6	0.9	1.3	1.7	2.1
€million								
Operating income (after impairment)	2.0	4.8	11.8	17.6	25.7	34.1	43.4	52.8
Administrative costs	(13.7)	(19.1)	(23.0)	(26.4)	(29.6)	(34.5)	(38.2)	(39.1)
Net profit/(loss)	**(11.7)**	**(14.3)**	**(11.2)**	**(8.8)**	**(3.9)**	**(0.4)**	**5.2**	**13.7**
Impact of SSA & Iraq on capital ratios:								
Statutory capital utilisation	0.2%	0.4%	0.8%	1.3%	2.0%	2.7%	3.5%	4.3%
CAP utilisation	0.1%	0.2%	0.4%	1.6%	1.8%	2.0%	2.2%	2.4%
Fitch equity to assets ratio (%)	0.0%	-0.1%	-0.2%	-0.2%	-0.4%	-0.5%	-0.6%	-0.7%
FRA ratio (%)	-0.1%	-0.1%	-0.2%	-0.3%	-0.4%	-0.6%	-0.7%	-0.8%
Moody's leverage ratio (x)	0.00	0.01	0.02	0.03	0.04	0.05	0.06	0.08
S&P RAC ratio (%)	-0.1%	-0.1%	-0.2%	-0.4%	-0.5%	-0.7%	-0.8%	-0.9%

Table 3: Scenario analysis – Accelerated activity

SSA & Iraq- Accelerated	Yr1	Yr2	Yr3	Yr4	Yr5	Yr6	Yr7	Yr8
€billion								
ABI	0.2	0.3	0.7	0.8	1.2	1.2	1.2	1.2
Portfolio	0.1	0.4	0.9	1.6	2.5	3.4	4.2	5.0
Operating assets	0.1	0.2	0.4	0.7	1.1	1.6	2.2	2.7
€million								
Operating income (after impairment)	2.4	5.8	14.2	21.1	33.5	43.7	55.2	66.9
Administrative costs	(13.7)	(19.1)	(23.0)	(26.4)	(30.5)	(34.8)	(38.2)	(39.1)
Net profit/(loss)	**(11.3)**	**(13.3)**	**(8.8)**	**(5.3)**	**3.0**	**8.9**	**17.0**	**27.8**
Impact of SSA & Iraq on capital ratios:								
Statutory capital utilisation	0.2%	0.5%	0.9%	1.6%	2.5%	3.4%	4.4%	5.3%
CAP utilisation	0.2%	0.6%	1.1%	1.7%	2.5%	3.2%	3.9%	4.4%
Fitch equity to assets ratio (%)	0.0%	-0.1%	-0.2%	-0.3%	-0.4%	-0.6%	-0.8%	-0.9%
FRA ratio (%)	-0.1%	-0.2%	-0.3%	-0.4%	-0.6%	-0.7%	-0.9%	-1.0%
Moody's leverage ratio (x)	0.00	0.01	0.02	0.03	0.05	0.06	0.08	0.09
S&P RAC ratio (%)	-0.1%	-0.2%	-0.3%	-0.4%	-0.6%	-0.8%	-1.0%	-1.2%

The impact was also assessed in the context of different scenarios for the Bank's support for resilience and reconstruction in Ukraine over the ten year period to 2032. Tables 4 to 7 below provide a consolidated view of projected capital ratios, incorporating both the 'moderate' and 'accelerated' expansion into the reconstruction scenario and the prolonged war scenario presented in the report of the Board of Directors to the Board of Governors "EBRD's Support for Resilience and Reconstruction in Ukraine: the Way Forward" [BG32/3]. Tables 4 and 5 set out combined scenarios which are more capital intensive than the ones presented in Tables 6 and 7. This showed that by the end of the period, the level of the Bank's operating assets in new countries of operations would be lower than the growth of operating assets in existing countries of operations outside Ukraine and lower still when compared to the growth of operating assets in Ukraine. This shows that the Bank can maintain its strong support for existing countries of operations.

On a consolidated basis, the need for capital and the risks to the Bank's credit rating stem almost entirely from the level of potential losses estimated from the Ukraine portfolio. The Bank's potential activity in new countries of operations alone is immaterial to this conclusion and neither jeopardises the Bank's credit rating nor requires a capital increase to facilitate it.

Table 4: Consolidated scenario – Reconstruction including moderate expansion scenario

Operational projections

€billion	2021 Act	2022 Act.	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
ABI	**10.4**	**13.1**	**12.5**	**12.5**	**13.6**	**14.2**	**15.6**	**15.7**	**16.4**	**16.4**	**16.5**	**16.5**
Out of which:												
- Ukraine	1.1	1.5	1.5	1.5	2.5	2.5	3.5	3.5	4.0	4.0	4.0	4.0
- Other COOs	9.3	11.6	11.0	11.0	11.0	11.5	11.5	11.5	11.5	11.5	11.5	11.5
- SSA and Iraq					0.1	0.2	0.6	0.7	0.9	0.9	1.0	1.0
Portfolio	**50.2**	**53.5**	**54.9**	**57.3**	**59.8**	**62.3**	**64.8**	**67.4**	**70.0**	**72.4**	**74.6**	**76.0**
Out of which:												
- Ukraine	4.3	4.7	5.7	6.1	7.4	8.4	10.3	11.9	13.6	14.9	16.0	16.9
- Other COOs	45.9	48.8	49.1	51.1	52.3	53.6	53.7	54.2	54.4	54.8	55.2	55.2
- SSA and Iraq					0.1	0.3	0.8	1.3	2.0	2.7	3.4	4.0
Operating assets	**34.3**	**36.8**	**38.3**	**40.7**	**42.9**	**44.8**	**46.3**	**48.3**	**50.1**	**52.1**	**54.1**	**55.5**
Out of which:												
- Ukraine	2.4	2.4	3.7	3.8	4.4	5.2	6.3	7.5	8.7	9.8	10.7	11.6
- Other COOs	31.9	34.4	34.7	36.9	38.4	39.4	39.7	40.2	40.6	41.1	41.6	41.8
- SSA and Iraq					0.1	0.2	0.3	0.6	0.9	1.3	1.7	2.1

Note: Actuals are at reported rate; projections from 2023 onwards at planning rate.

Key capital ratios

		Actual	Est.	SIP period										
Consolidated Moderate scenario		**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
NPL ratio	6/10%	4.9%	7.9%	8.5%	8.0%	7.8%	7.7%	7.9%	8.0%	8.2%	8.5%	8.8%	9.3%
Statutory capital utilisation	92%	79%	82%	84%	88%	91%	94%	96%	98%	101%	103%	105%	105%
CAP utilisation	90%	65%	66%	64%	67%	68%	69%	72%	73%	75%	75%	75%	75%
Fitch equity to assets ratio (%)	>25%	28%	29%	30%	29%	28%	29%	28%	28%	28%	28%	29%	29%
FRA ratio (%)	>35%	40%	41%	42%	41%	40%	40%	39%	38%	38%	37%	37%	37%
Moody's leverage ratio (x)	<2.5x	2.0	2.2	2.1	2.2	2.2	2.2	2.2	2.3	2.3	2.3	2.3	2.3
S&P RAC ratio (%)	>23%	30%	30%	30%	28%	27%	27%	25%	24%	24%	24%	23%	23%
1:25 stress test													
NPL ratio	6/10%	4.9%	7.9%	17%	17%	13%	14%	15%	17%	18%	19%	20%	21%
Statutory capital utilisation	92%	79%	82%	83%	87%	91%	94%	96%	99%	101%	104%	106%	106%
CAP utilisation	90%	65%	66%	83%	85%	82%	84%	89%	92%	96%	98%	100%	100%
Fitch equity to assets ratio (%)	>25%	28%	29%	24%	23%	24%	24%	23%	23%	22%	22%	22%	22%
FRA ratio (%)	>35%	40%	41%	39%	37%	38%	37%	36%	34%	33%	33%	32%	32%
Moody's leverage ratio (x)	<2.5x	2.0	2.2	2.7	2.8	2.6	2.7	2.8	2.9	3.0	3.1	3.2	3.2
S&P RAC ratio (%)	>23%	30%	30%	21%	19%	19%	19%	17%	16%	15%	14%	13%	13%
1:25 stress test Capital increase €5.0 billion from 2024													
NPL ratio	6/10%	4.9%	7.9%	17%	17%	13%	14%	15%	17%	18%	19%	20%	21%
Statutory capital utilisation	92%	79%	82%	83%	78%	82%	85%	86%	89%	91%	93%	95%	96%
CAP utilisation	90%	65%	66%	83%	76%	75%	77%	81%	84%	87%	89%	91%	91%
Fitch equity to assets ratio (%)	>25%	28%	29%	24%	29%	29%	29%	28%	27%	27%	26%	26%	26%
FRA ratio (%)	>35%	40%	41%	39%	47%	47%	45%	44%	42%	41%	39%	39%	39%
Moody's leverage ratio (x)	<2.5x	2.0	2.2	2.7	2.2	2.1	2.1	2.2	2.3	2.4	2.5	2.5	2.5
S&P RAC ratio (%)*	>23%	30%	30%	21%	25%	25%	24%	22%	21%	20%	19%	18%	18%

Note:

* RAC ratio above 23% represents 'Extremely Strong' stand-alone assessment, however the consideration of callable capital can allow the ratio to drop to 15% and support an Extremely Strong assessment.

Table 5: Consolidated scenario – Reconstruction including accelerated expansion scenario

Operational projections

€billion	2021 Act	2022 Act.	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
ABI	**10.4**	**13.1**	**12.5**	**12.5**	**13.7**	**14.3**	**15.7**	**15.8**	**16.7**	**16.7**	**16.7**	**16.7**
Out of which:												
- Ukraine	1.1	1.5	1.5	1.5	2.5	2.5	3.5	3.5	4.0	4.0	4.0	4.0
- Other COOs	9.3	11.6	11.0	11.0	11.0	11.5	11.5	11.5	11.5	11.5	11.5	11.5
- SSA & Iraq					0.2	0.3	0.7	0.8	1.2	1.2	1.2	1.2
Portfolio	**50.2**	**53.5**	**54.9**	**57.3**	**59.9**	**62.4**	**65.0**	**67.7**	**70.6**	**73.1**	**75.4**	**77.0**
Out of which:												
- Ukraine	4.3	4.7	5.7	6.1	7.4	8.4	10.3	11.9	13.6	14.9	16.0	16.9
- Other COOs	45.9	48.8	49.1	51.1	52.3	53.6	53.7	54.2	54.4	54.8	55.2	55.2
- SSA & Iraq					0.1	0.4	0.9	1.6	2.5	3.4	4.2	5.0
Operating assets	**34.3**	**36.8**	**38.3**	**40.7**	**42.9**	**44.8**	**46.4**	**48.4**	**50.4**	**52.5**	**54.6**	**56.1**
Out of which:												
- Ukraine	2.4	2.4	3.7	3.8	4.4	5.2	6.3	7.5	8.7	9.8	10.7	11.6
- Other COOs	31.9	34.4	34.7	36.9	38.4	39.4	39.7	40.2	40.6	41.1	41.6	41.8
- SSA & Iraq					0.1	0.2	0.4	0.7	1.1	1.6	2.2	2.7

Note: Actuals are at reported rate; projections from 2023 onwards at planning rate.

Key capital ratios

		Actual	Est.	SIP period									
Consolidated Accelerated scenario	**Thresholds**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
NPL ratio	6/10%	4.9%	7.9%	8.5%	8.0%	7.8%	7.7%	7.9%	8.0%	8.2%	8.5%	8.9%	9.4%
Statutory capital utilisation	92%	79%	82%	84%	88%	91%	94%	96%	99%	101%	104%	106%	106%
CAP utilisation	90%	65%	66%	64%	67%	69%	70%	72%	74%	76%	77%	77%	77%
Fitch equity to assets ratio (%)	>25%	28%	29%	30%	29%	28%	29%	28%	28%	28%	28%	28%	29%
FRA ratio (%)	>35%	40%	41%	42%	41%	40%	40%	39%	38%	37%	37%	37%	37%
Moody's leverage ratio (x)	<2.5x	2.0	2.2	2.1	2.2	2.2	2.2	2.3	2.3	2.3	2.3	2.3	2.3
S&P RAC ratio (%)	>23%	30%	30%	30%	28%	27%	27%	25%	24%	24%	23%	23%	23%
1:25 stress test													
NPL ratio	6/10%	4.9%	7.9%	17%	17%	13%	14%	15%	17%	18%	19%	20%	21%
Statutory capital utilisation	92%	79%	82%	83%	87%	91%	94%	96%	99%	102%	105%	107%	107%
CAP utilisation	90%	65%	66%	83%	85%	83%	85%	89%	93%	97%	100%	102%	102%
Fitch equity to assets ratio (%)	>25%	28%	29%	24%	23%	24%	24%	23%	22%	22%	22%	21%	22%
FRA ratio (%)	>35%	40%	41%	39%	37%	38%	37%	36%	34%	33%	32%	32%	32%
Moody's leverage ratio (x)	<2.5x	2.0	2.2	2.7	2.8	2.7	2.7	2.8	2.9	3.0	3.1	3.2	3.2
S&P RAC ratio (%)	>23%	30%	30%	21%	19%	19%	19%	17%	15%	14%	14%	13%	13%
1:25 stress test Capital increase €5.0 billion from 2024													
NPL ratio	6/10%	4.9%	7.9%	17%	17%	13%	14%	15%	17%	18%	19%	20%	21%
Statutory capital utilisation	92%	79%	82%	83%	78%	82%	85%	86%	89%	92%	94%	97%	97%
CAP utilisation	90%	65%	66%	83%	76%	76%	78%	81%	85%	88%	90%	92%	93%
Fitch equity to assets ratio (%)	>25%	28%	29%	24%	29%	29%	29%	28%	27%	27%	26%	26%	26%
FRA ratio (%)	>35%	40%	41%	39%	47%	47%	45%	44%	42%	41%	39%	39%	39%
Moody's leverage ratio (x)	<2.5x	2.0	2.2	2.7	2.2	2.1	2.2	2.2	2.3	2.4	2.5	2.5	2.5
S&P RAC ratio (%)*	>23%	30%	30%	21%	25%	25%	24%	22%	20%	19%	18%	18%	18%

Note:
* RAC ratio above 23% represents 'Extremely Strong' stand-alone assessment, however the consideration of callable capital can allow the ratio to drop to 15% and support an Extremely Strong assessment.

Table 6: Consolidated scenario – Prolonged war scenario including moderate expansion scenario

Operational projections

€billion	2021 Act	2022 Act.	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
ABI	**10.4**	**13.1**	**12.5**	**12.5**	**12.6**	**13.2**	**13.6**	**14.7**	**14.9**	**15.9**	**16.0**	**16.5**
Out of which:												
- Ukraine	1.1	1.5	1.5	1.5	1.5	1.5	1.5	2.5	2.5	3.5	3.5	4.0
- Other COOs	9.3	11.6	11.0	11.0	11.0	11.5	11.5	11.5	11.5	11.5	11.5	11.5
- SSA and Iraq					0.1	0.2	0.6	0.7	0.9	0.9	1.0	1.0
Portfolio	**50.2**	**53.5**	**54.9**	**57.3**	**58.9**	**60.6**	**61.6**	**63.7**	**65.6**	**68.2**	**70.7**	**72.8**
Out of which:												
- Ukraine	4.3	4.7	5.7	6.1	6.4	6.7	6.9	8.2	9.3	11.0	12.4	14.1
- Other COOs	45.9	48.8	49.1	51.1	52.4	53.6	53.8	54.2	54.3	54.6	54.9	54.7
- SSA and Iraq					0.1	0.3	0.8	1.3	2.0	2.7	3.4	4.0
Operating assets	**34.3**	**36.8**	**38.3**	**40.7**	**42.5**	**43.9**	**44.6**	**46.1**	**47.4**	**49.3**	**51.3**	**52.9**
Out of which:												
- Ukraine	2.4	2.4	3.7	3.8	4.1	4.3	4.6	5.3	6.1	7.0	8.1	9.2
- Other COOs	31.9	34.4	34.7	36.9	38.4	39.5	39.7	40.2	40.5	41.0	41.6	41.6
- SSA and Iraq					0.1	0.2	0.3	0.6	0.9	1.3	1.7	2.1

Note: Actuals are at reported rate; projections from 2023 onwards at planning rate.

Key capital ratios

		Actual	Est.	SIP period									
Consolidated Moderate scenario		**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
NPL ratio	6/10%	4.9%	7.9%	8.5%	8.0%	7.9%	7.8%	8.0%	8.0%	8.2%	8.2%	8.4%	8.7%
Statutory capital utilisation	92%	79%	82%	84%	88%	90%	92%	92%	94%	95%	98%	100%	101%
CAP utilisation	90%	65%	66%	64%	67%	67%	66%	67%	68%	68%	70%	70%	71%
Fitch equity to assets ratio (%)	>25%	28%	29%	30%	29%	29%	29%	29%	29%	30%	30%	30%	30%
FRA ratio (%)	>35%	40%	41%	42%	41%	40%	41%	41%	40%	40%	40%	40%	40%
Moody's leverage ratio (x)	<2.5x	2.0	2.2	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
S&P RAC ratio (%)	>23%	30%	30%	30%	28%	27%	28%	28%	27%	27%	26%	26%	26%
1:25 stress test													
NPL ratio	6/10%	4.9%	7.9%	17%	17%	18%	18%	19%	15%	16%	17%	18%	19%
Statutory capital utilisation	92%	79%	82%	83%	87%	90%	92%	92%	94%	95%	98%	100%	101%
CAP utilisation	90%	65%	66%	83%	85%	86%	86%	86%	82%	83%	86%	89%	90%
Fitch equity to assets ratio (%)	>25%	28%	29%	24%	23%	23%	23%	23%	25%	25%	24%	24%	24%
FRA ratio (%)	>35%	40%	41%	39%	37%	36%	36%	37%	38%	38%	37%	36%	35%
Moody's leverage ratio (x)	<2.5x	2.0	2.2	2.7	2.8	2.9	2.9	2.8	2.6	2.6	2.7	2.8	2.8
S&P RAC ratio (%)	>23%	30%	30%	21%	19%	18%	18%	18%	19%	19%	18%	17%	16%
1:25 stress test Capital increase €5.0 billion from 2024													
NPL ratio	6/10%	4.9%	7.9%	17%	17%	18%	18%	19%	15%	16%	17%	18%	19%
Statutory capital utilisation	92%	79%	82%	83%	80%	83%	84%	84%	86%	88%	90%	92%	93%
CAP utilisation	90%	65%	66%	83%	75%	76%	76%	77%	75%	76%	79%	81%	82%
Fitch equity to assets ratio (%)	>25%	28%	29%	24%	28%	27%	27%	27%	28%	29%	28%	28%	28%
FRA ratio (%)	>35%	40%	41%	39%	45%	44%	44%	44%	45%	44%	43%	42%	41%
Moody's leverage ratio (x)	<2.5x	2.0	2.2	2.7	2.3	2.3	2.3	2.3	2.2	2.2	2.3	2.4	2.4
S&P RAC ratio (%)*	>23%	30%	30%	21%	24%	23%	23%	22%	23%	23%	22%	21%	20%

Note:
* RAC ratio above 23% represents 'Extremely Strong' stand-alone assessment, however the consideration of callable capital can allow the ratio to drop to 15% and support an Extremely Strong assessment.

Table 7: Consolidated scenario – Prolonged war including accelerated expansion scenario

Operational projections

€billion	2021 Act	2022 Act.	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
ABI	**10.4**	**13.1**	**12.5**	**12.5**	**12.7**	**13.3**	**13.7**	**14.8**	**15.2**	**16.2**	**16.2**	**16.7**
Out of which:												
- Ukraine	1.1	1.5	1.5	1.5	1.5	1.5	1.5	2.5	2.5	3.5	3.5	4.0
- Other COOs	9.3	11.6	11.0	11.0	11.0	11.5	11.5	11.5	11.5	11.5	11.5	11.5
- SSA & Iraq					0.2	0.3	0.7	0.8	1.2	1.2	1.2	1.2
Portfolio	**50.2**	**53.5**	**54.9**	**57.3**	**58.9**	**60.7**	**61.7**	**64.0**	**66.1**	**69.0**	**71.5**	**73.8**
Out of which:												
- Ukraine	4.3	4.7	5.7	6.1	6.4	6.7	6.9	8.2	9.3	11.0	12.4	14.1
- Other COOs	45.9	48.8	49.1	51.1	52.4	53.6	53.8	54.2	54.3	54.6	54.9	54.7
- SSA & Iraq					0.1	0.4	0.9	1.6	2.5	3.4	4.2	5.0
Operating assets	**34.3**	**36.8**	**38.3**	**40.7**	**42.5**	**44.0**	**44.7**	**46.2**	**47.7**	**49.7**	**51.8**	**53.5**
Out of which:												
- Ukraine	2.4	2.4	3.7	3.8	4.1	4.3	4.6	5.3	6.1	7.0	8.1	9.2
- Other COOs	31.9	34.4	34.7	36.9	38.4	39.5	39.7	40.2	40.5	41.0	41.6	41.6
- SSA & Iraq					0.1	0.2	0.4	0.7	1.1	1.6	2.2	2.7

Note: Actuals are at reported rate; projections from 2023 onwards at planning rate.

Key capital ratios

		Actual	Est.	SIP period									
Consolidated Accelerated scenario	**Thresholds**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
NPL ratio	6/10%	4.9%	7.9%	8.5%	8.0%	7.9%	7.8%	8.0%	8.0%	8.1%	8.2%	8.4%	8.8%
Statutory capital utilisation	92%	79%	82%	84%	88%	90%	92%	93%	95%	96%	99%	101%	102%
CAP utilisation	90%	65%	66%	64%	67%	67%	67%	67%	69%	70%	71%	72%	73%
Fitch equity to assets ratio (%)	>25%	28%	29%	30%	29%	29%	29%	29%	29%	30%	30%	30%	30%
FRA ratio (%)	>35%	40%	41%	42%	41%	40%	41%	41%	40%	40%	40%	39%	39%
Moody's leverage ratio (x)	<2.5x	2.0	2.2	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
S&P RAC ratio (%)	>23%	30%	30%	30%	28%	27%	28%	28%	27%	27%	26%	26%	25%
1:25 stress test													
NPL ratio	6/10%	4.9%	7.9%	17%	17%	18%	18%	19%	15%	16%	17%	18%	19%
Statutory capital utilisation	92%	79%	82%	83%	87%	91%	92%	92%	94%	96%	99%	101%	102%
CAP utilisation	90%	65%	66%	83%	85%	86%	87%	86%	83%	85%	88%	90%	92%
Fitch equity to assets ratio (%)	>25%	28%	29%	24%	23%	23%	23%	23%	25%	25%	24%	24%	24%
FRA ratio (%)	>35%	40%	41%	39%	37%	36%	36%	37%	38%	38%	37%	36%	35%
Moody's leverage ratio (x)	<2.5x	2.0	2.2	2.7	2.8	2.9	2.9	2.8	2.6	2.6	2.7	2.8	2.9
S&P RAC ratio (%)	>23%	30%	30%	21%	19%	18%	18%	17%	19%	18%	17%	16%	16%
1:25 stress test Capital increase €5.0 billion from 2024													
NPL ratio	6/10%	4.9%	7.9%	17%	17%	18%	18%	19%	15%	16%	17%	18%	19%
Statutory capital utilisation	92%	79%	82%	83%	80%	83%	84%	84%	87%	88%	91%	94%	94%
CAP utilisation	90%	65%	66%	83%	75%	76%	77%	77%	75%	77%	80%	82%	84%
Fitch equity to assets ratio (%)	>25%	28%	29%	24%	28%	27%	27%	27%	28%	28%	28%	28%	27%
FRA ratio (%)	>35%	40%	41%	39%	45%	44%	44%	44%	45%	44%	43%	42%	41%
Moody's leverage ratio (x)	<2.5x	2.0	2.2	2.7	2.3	2.3	2.3	2.3	2.2	2.2	2.3	2.4	2.4
S&P RAC ratio (%)*	>23%	30%	30%	21%	24%	23%	23%	22%	23%	23%	21%	20%	20%

Note:
* RAC ratio above 23% represents 'Extremely Strong' stand-alone assessment, however the consideration of callable capital can allow the ratio to drop to 15% and support an Extremely Strong assessment.

On the basis of this analysis, the conclusions of the 2022 Board of Directors Report, which accompanied Resolution No. 248, are reaffirmed.

Rating agencies

The analysis described above showed that a limited and incremental expansion would not in itself materially impact the various quantitative financial metrics considered by rating agencies. As a result, any potential changes in the assessment of the ratings agencies are unlikely to be driven by activity in the potential new countries of operations.

In addition, a limited and incremental expansion may offer qualitative benefits to rating assessments as shareholders expand the Bank's region of operations, demonstrating the continuing value attached by shareholders to the Bank and providing a degree of diversification benefiting the Bank's overall risk profile. In their most recent EBRD rating report,[3] S&P stated that: "*The European Bank for Reconstruction and Development (EBRD) has been fulfilling its public policy mandate through credit cycles and building a strong presence in new areas of operations for more than three decades.*" In addition, Moody's latest EBRD rating report noted that: *"Credibility of [the EBRD's risk] management and its track record are very strong, reflected among others in the continuing expansion of the bank's membership and successive endorsement by the board to extend the geographical remit of the bank."*[4] Fitch consider growth into risky sectors/regions in assessing business profile. In doing so, they assign a lower risk score where the growth is considered to be slow or moderate relative to the Bank's resources as would be the case with a limited and incremental expansion. In addition, as seen above, the analysis shows that the risk rating of potential new countries is overall no higher than that of the Bank's existing countries of operations.

Budget and resource implications

To avoid the risk of impairing the Bank's ability to support its existing countries of operations, incremental budgetary and human resources will be needed to support the Bank's activities in new countries of operations in the expanded region. The estimates of the required resources used in the analysis have been calibrated to allow the Bank to be fully equipped to deliver in any new countries of operations. The estimates of costs used in the analysis are based on plausible, but stylised assumptions providing a sound indication of the order of magnitude of any costs. Precise cost estimates of working in new countries of operations would be a complement to the country assessment process undertaken in the event of an application for recipient country status and would be part of the annual review by the Board of Directors of Bank's Strategic Implementation Plan.

The Bank remains committed to continuing efforts to increase efficiency and rigorous prioritisation across all its activities and would ensure that processes are in place to ensure cost effectiveness and control of any approved expansion.

Donor resources

The 2022 analysis outlined that donor resource needs, from both bilateral and internal sources, would be expected to be greater than in the Bank's existing region on average, given the emphasis on upstream/policy work, project preparation, capacity building, support for SMEs, higher levels of blended finance, and first loss and guarantees mechanisms. The Bank could also have access to new potential sources of donor funds which are not available in its current region. The availability of donor resources and opportunities for new donor relationships will be further explored, bearing in mind the demand for donor and internal funds supporting the Bank's engagement in its existing countries of operations, including in the context of its support for resilience and reconstruction in Ukraine.

[3] European Bank for Reconstruction and Development Credit Report, S&P, 29 November 2022.
[4] Moody's credit opinion – EBRD, 3 February 2023.

PART II – RECOMMENDATION

Part I presented the outcomes of the reassessment of the capital and financial implications of any limited and incremental expansion to Sub-Saharan Africa and Iraq, in the context of the overall assessment of the Bank's financial standing. In light of this analysis, the Board of Directors reconfirms that taking into consideration the impact of the war on Ukraine, the Bank's response to date and the plans for continued support of Ukraine, any limited and incremental expansion to sub-Saharan Africa and Iraq would not in itself impair the Bank's ability to support its existing countries of operations, compromise the Bank's triple-A credit rating, or lead to a request for additional capital contributions.

Consequently and in accordance with the provisions of Resolution No. 248, the Board of Directors recommends that the Board of Governors approves the draft Resolution set out in Annex 1, notably endorsing this Report and enabling the EBRD to undertake a limited and incremental expansion to countries in sub-Saharan Africa and Iraq through an amendment to the EBRD's geographic scope under Article 1 of the Agreement Establishing the Bank ("the Agreement").

This section describes how a limited and incremental expansion in countries of sub-Saharan Africa and Iraq will be enacted in the event of an approval and the approach to communication at the 2023 Annual Meeting. It is consistent with the proposal already set out in the 2022 Board of Directors Report which accompanied Resolution No. 248.

The Board of Directors strongly emphasises that the immediate priority of the Bank remains supporting Ukraine and other countries of operations in the face of the impact of the war on Ukraine. The recommended approach will ensure that, in the current uncertain circumstances, the pace of implementation of a limited and incremental expansion will be gradual and will not dilute the Bank's strong focus on its response to the impact of the war on Ukraine. Notably, applications for recipient country status from any country in sub-Saharan Africa, or Iraq, will not be considered until the amendment to Article 1 enters into force and no material incremental resources are anticipated to be committed until such time. No investments in any new countries of operations are envisaged before 2025 and the projected levels of investment will not impede the Bank's ability to support Ukraine and other existing countries of operations.

The Board of Directors also recalls the importance that, if approved, the expansion should respect fully the key principles identified in Resolution No. 240,[5] namely that it must not impair the Bank's ability to support its current countries of operations; compromise the Bank's triple-A rating; lead to a request for additional capital contributions; or deviate from the Bank's mandate to support transition and its operating principles of additionality and sound banking, and that such expansion should be complementary and additional to the activities of other multilateral or bilateral development actors already present in the region.

As stated in the 2022 Report[6], the Bank will need to take steps in a number of areas to ensure that the operationalisation of any approved expansion is effective and efficient. These include governance and representation, results and learning, collaborating with other development partners, and cost efficiency which will be further examined to inform and guide the Bank's approach as the expansion process evolves.

[5] Resolution No. 240 entitled 'Preparatory work for an update on the EBRD's possible limited and incremental expansion to sub-Saharan Africa and Iraq – Governors' direction' approved by the Board of Governors at the Bank's Annual Meeting in July 2021.

[6] Section 2 'Supporting Actions' of Part II in 'Update on the EBRD's Possible Limited and Incremental Expansion to sub-Saharan Africa and Iraq: Report of the Board of Directors and Resolution' (BG31/4)

1. A limited and incremental expansion

The Board of Directors recommends that, if approved, a limited and incremental expansion is implemented through a set of interrelated measures:

- A precise amendment to Article 1 to enable the EBRD to approve recipient countries in sub-Saharan Africa and the addition of Iraq to the Bank's definition of SEMED through provision in the Governors Resolution;
- A clear approach to limiting the number of new countries of operations within sub-Saharan Africa; and
- A provision through which an incremental expansion of the number of countries of operations in sub-Saharan Africa could be approved through a new decision by the Board of Governors only after consideration of a comprehensive review of the expansion and any additional analysis as necessary.

1.1. Amending Article 1 of the Agreement Establishing the Bank

The Board of Directors proposes that Article 1 is amended to read as follows:

In contributing to economic progress and reconstruction, the purpose of the Bank shall be to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics. Subject to the same conditions, the purpose of the Bank may also be carried out in (i) Mongolia; ~~and in~~ (ii) member countries of the Southern and Eastern Mediterranean; and (iii) a limited number of member countries of sub-Saharan Africa; in each case under (ii) and (iii) as determined by the Bank upon the affirmative vote of not less than two-thirds of the Governors, representing not less than three-fourths of the total voting power of the members. Accordingly, any reference in this Agreement and its annexes to "Central and Eastern European countries", "countries from Central and Eastern Europe", "recipient country (or countries)" or "recipient member country (or countries)" shall refer to Mongolia and each of such countries of the Southern and Eastern Mediterranean and sub-Saharan Africa as well.

The Board of Directors proposes that the sub-Saharan Africa region will, for the purposes of the Agreement, mean the region so categorised by the World Bank.[7] These countries are listed in Annex 2.

Iraq is closely integrated with the countries which form the Bank's Southern and Eastern Mediterranean region. The Board of Directors consequently proposes that the definition of the Southern and Eastern Mediterranean region will be revised to incorporate Iraq. As a result, the Southern and Eastern Mediterranean region will, for the purposes of the Agreement, comprise of countries that have a shoreline on the Mediterranean, as well as Jordan and Iraq, which are closely integrated into this region.[8]

Finally, the Board of Directors proposes that the limit on the number of member countries of sub-Saharan Africa in which the Bank may carry out its purpose shall be understood by reference to the mechanisms set out under this Part II, sections 1.2 and 1.3 below, to enable a limited and incremental expansion of the Bank's operations in sub-Saharan Africa and Iraq.

[7] See https://datahelpdesk.worldbank.org/knowledgebase/articles/906519.

[8] For the avoidance of doubt, the revised definition of the Southern and Eastern Mediterranean region will become effective at the same time as the proposed amendment to Article 1 becomes effective.

The foregoing understandings will establish special meanings for the terms set out under Article 1.[9]

1.2. A limited expansion in sub-Saharan Africa

In order to ensure that any approved expansion of the Bank's countries of operations is limited, the Board of Directors recommends that the EBRD only accept up to six countries in sub-Saharan Africa as new countries of operations until the end of the next SCF period in 2030.

The approach to managing the process by which up to six countries might become countries of operations needs to balance country ownership and the demand driven nature of any application process with the need to avoid raising expectations which may be difficult to manage politically. In addition, in the event of an approved expansion, any potential countries of operations should meet a number of prerequisites. That is, that a country should:

- Be judged on a preliminary analysis to be committed to and applying the principles of multiparty democracy, pluralism and market economics as set out in Article 1;
- Have particular relevance and linkages to the Bank's existing countries of operations; and
- Have economic and political conditions which are supportive to the EBRD's mandate and business model.

These filters were analysed within the Bank and those countries which fit most appropriately with the criteria identified, namely Benin, Côte d'Ivoire, Ghana, Kenya, Nigeria and Senegal.

In the event that the Board of Governors approves an amendment to Article 1, following such an approval, these six countries and Iraq will be formally notified by the President of the Bank of the Board of Governors' decision with a view to enabling them to take a decision about whether or not they may wish to apply for recipient country status once the amendment to Article 1 enters into force. It will be made clear that the Bank does not envisage to invest in any new countries of operations before 2025. Any applications received would be assessed through the Bank's established governance procedures.

No applications for recipient country status from any other country in sub-Saharan Africa be considered until the end of the current SCF period in 2025. As from 2026, it would be open to the Board of Directors to recommend to the Board of Governors that applications for recipient country status from other countries could be considered, provided that, at that time, fewer than six sub-Saharan countries have become countries of operations. In that eventuality, a robust process to underpin such recommendation would be developed and approved by the Board of Directors before end of 2025.

1.3. An incremental expansion

In the event that a limited and incremental expansion of the geographic scope of the Bank's operations to sub-Saharan Africa and Iraq is approved, the Board of Directors proposes to review comprehensively the Bank's expansion into sub-Saharan Africa, with a view to considering whether an additional increment of the expansion might be warranted. This comprehensive review of the Bank's expansion into sub-Saharan Africa will be carried out five years after the approval by the Board of Governors of the amendment to Article 1.

[9] In accordance with Article 31 of the 1969 Vienna Convention on the Law of Treaties, a 'special meaning shall be given to a term if it is established that the parties so intended'.

The comprehensive review of the Bank's initial experience would be expected to consider the outcome and impact of the Bank's work and the lessons learned, including evaluation findings, the strength and effectiveness of its collaboration and partnership with other development actors, and the feedback of stakeholders in the private and public sectors. It would also consider the efficiency and cost effectiveness of the Bank's expansion.

On the basis of the outcome of this review, the Board of Directors might seek additional analysis to determine whether and, if so, how an incremental expansion to further additional countries operations in the region should be pursued by the Bank. This work can could include analysis of the Bank's prevailing financial and capital position, governance arrangements, country examination and the management of the increment to the expansion.

This review and any additional analysis will enable the Board of Directors to determine whether or not an incremental expansion should be recommended to the Board of Governors in the context of the SCF 2031-2035. If the Board of Directors concludes to propose that the Bank undertake an additional increment of its expansion, to a further limited number of countries within sub-Saharan Africa, a new decision by the Board of Governors will be required. Having considered the outcomes of the review and any conclusions and recommendations by the Board of Directors, the Board of Governors might, at its discretion, decide to approve an additional increment to the Bank's expansion into sub-Saharan Africa, on such terms and conditions as it might deem appropriate. For the avoidance of doubt, such terms and conditions could include different limits and conditions applicable to the selection of any further round of potential recipient countries in the region. This could include consideration of how to reflect within the processes the principles of potential recipient country agency and a demand led response.

To ensure that any incremental expansion is controlled by shareholders and enjoys the widest possible support, it is proposed that any decision by the Board of Governors in this respect should be taken upon the affirmative vote of not less than three-fourths of the Governors, representing not less than four-fifths of the total voting power of the members.

2. Approach to communication at the 2023 Annual Meeting

The primary focus of the Bank's Annual Meeting and its immediate operational priority remains on the impact of the war on Ukraine within Ukraine and other countries of operations. A decision by Governors to approve a limited and incremental expansion of the geographic scope of the Bank's operations to sub-Saharan Africa and Iraq by amendment to Article 1 of the Agreement would be communicated in a way that does not dilute that focus. As such, endorsement of this report and the approval would be presented as balancing appropriately the immediate priorities of the Bank on its response to the impact of the war on Ukraine with moving forward in a measured and contained way with the implementation of expansion. It will be made clear that no applications for recipient country status from any country in sub-Saharan Africa, nor from Iraq, will be considered until the acceptance of the amendment of Article 1 by members and its entry into force and that the Bank does not envisage to make any investment before 2025. This sequence will emphasise the length of time before the Bank will be investing in any of these countries. The compatibility of the expansion with the Bank's immediate and continuing strategic response to the wider implications of the war on Ukraine will also be emphasised.

The Bank will actively monitor media reports of the Governors decision to be in a position to react if appropriate and will update the Board of Directors as appropriate.

Conclusion

The Board of Directors recommends that the Board of Governors approves the draft Resolution *'Amendment to Article 1 of the Agreement Establishing the European Bank for Reconstruction and Development to enable a limited and incremental expansion of the geographic scope of the Bank's operations to sub-Saharan Africa and Iraq'* set out in Annex 1.

Annex 1:

(DRAFT)
RESOLUTION NO.___

AMENDMENT TO ARTICLE 1 OF THE AGREEMENT ESTABLISHING THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT TO ENABLE A LIMITED AND INCREMENTAL EXPANSION OF THE GEOGRAPHIC SCOPE OF THE BANK'S OPERATIONS TO SUB-SAHARAN AFRICA AND IRAQ

THE BOARD OF GOVERNORS,

Recalling Resolution No. 248, by which the Board of Governors approved, in principle, a limited and incremental expansion of the geographic scope of the Bank's operations to sub-Saharan Africa and Iraq;

Emphasising the importance of sub-Saharan Africa and Iraq to achieving the international community's geopolitical and development priorities, the growing links between many countries in sub-Saharan Africa and Iraq and current EBRD countries of operations, and the relevance and applicability of the Bank's mandate, business model, private sector focus and competencies in sub-Saharan Africa and Iraq;

Stressing that the most urgent priority of the Bank remains to support Ukraine and other countries of operations affected by the war on Ukraine;

Recognising that the war on Ukraine has reinforced the parallel relevance of continuing to address shareholder objectives in sub-Saharan Africa and Iraq;

Underlying that any possible limited and incremental expansion to new countries of operations must not: impair the Bank's ability to support its current countries of operations, compromise the Bank's triple-A rating, lead to a request for additional capital contributions, or deviate from the Bank's mandate to support transition and its operating principles of additionality and sound banking;

Emphasising the importance of complementarity and collaboration amongst development partners already active in sub-Saharan Africa and Iraq; and

Having considered the report of the Board of Directors to the Board of Governors "*Amendment to Article 1 of the Agreement Establishing the European Bank for Reconstruction and Development in order to enable the limited and incremental expansion of the geographic scope of the Bank's operations to sub-Saharan Africa and Iraq"* and being in agreement with its conclusions, amongst others, that:

i) The analysis of the capital and financial implications reconfirms that a limited and incremental expansion to Sub-Saharan Africa and Iraq will not in itself impair the Bank's ability to support its existing countries of operations, compromise the Bank's triple-A credit rating, or lead to a request for additional capital contributions;

ii) Such limited and incremental expansion of the geographic scope of the Bank's operations to sub-Saharan Africa and Iraq should be enabled through an amendment of Article 1 of the Agreement Establishing the European Bank for Reconstruction and Development ('the Agreement'); and

iii) The implementation of the expansion must be carried out in a way that will not dilute the focus of the Bank in supporting Ukraine and other countries of operations affected by the war on Ukraine.

RESOLVES THAT:

1. Article 1 of the Agreement shall be amended to read as follows:

   "*In contributing to economic progress and reconstruction, the purpose of the Bank shall be to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics. Subject to the same conditions, the purpose of the Bank may also be carried out in (i) Mongolia; ~~and in~~ (ii) member countries of the Southern and Eastern Mediterranean; and (iii) a limited number of member countries of sub-Saharan Africa; in each case under (ii) and (iii) as determined by the Bank upon the affirmative vote of not less than two-thirds of the Governors, representing not less than three-fourths of the total voting power of the members. Accordingly, any reference in this Agreement and its annexes to "Central and Eastern European countries", "countries from Central and Eastern Europe", "recipient country (or countries)" or "recipient member country (or countries)" shall refer to Mongolia and each of such countries of the Southern and Eastern Mediterranean and sub-Saharan Africa as well.*"

   a. The term "*sub-Saharan Africa*" as set out under Article 1 of the Agreement shall be understood to mean the sub-Saharan Africa region as defined by the World Bank Group.

   b. The limitation on the number of member countries of sub-Saharan Africa in which the Bank may carry out its purpose as set out under Article 1 of the Agreement shall be understood so as to enable a limited and incremental expansion of the geographic scope of the Bank's operations, in accordance with the measures and mechanisms set out in the report of Board of Directors "*Amendment of the Agreement Establishing the European Bank for Reconstruction and Development in order to enable the limited and incremental expansion of the geographic scope of the Bank's operations to sub-Saharan Africa and Iraq*". In this context, an affirmative vote of not less than three-fourths of the Governors, representing not less than four-fifths of the total voting power of the members shall be required to approve any further increment to the expansion.

   c. Iraq shall be incorporated into the Southern and Eastern Mediterranean region for the purposes of the Agreement, and consequently the term "*Southern and Eastern Mediterranean*" as set out under Article 1 of the Agreement shall be understood to mean the region consisting of the countries that have a shoreline on the Mediterranean as well as Jordan and Iraq, which are closely integrated into this region.

2. Members of the Bank shall be asked whether they accept the said amendment by (a) executing and depositing with the Bank an instrument stating that such member has accepted the said amendment in accordance with its law and (b) furnishing evidence, in form and substance satisfactory to the Bank, that the amendment has been accepted and the instrument of acceptance has been executed and deposited in accordance with the law of that member.

3. The said amendment shall enter into force three (3) months after the date on which the Bank has formally confirmed to its members that the requirements for accepting the said amendment, as provided for in Article 56 of the Agreement, have been met.

(Adopted ___________2023)

ANNEX 2 – List of sub-Saharan African countries as used by the World Bank

Angola
Benin
Botswana
Burkina Faso
Burundi
Cabo Verde
Cameroon
Central African Republic
Chad
Comoros
Congo, Dem. Rep.
Congo, Rep
Côte d'Ivoire
Equatorial Guinea
Eritrea
Eswatini
Ethiopia
Gabon
Gambia, The
Ghana
Guinea
Guinea-Bissau
Kenya
Lesotho
Liberia
Madagascar
Malawi
Mali
Mauritania
Mauritius
Mozambique
Namibia
Niger
Nigeria
Rwanda
São Tomé and Principe
Senegal
Seychelles
Sierra Leone
Somalia
South Africa
South Sudan
Sudan
Tanzania
Togo
Uganda
Zambia
Zimbabwe