Local Currency Financing
Treasury

July 2020

European Bank
for Reconstruction and Development

Contents

"To stimulate and encourage the development of capital markets"

Agreement Establishing the European Bank for Reconstruction and Development

(Chapter 1, Article 2. Functions)

Rationale for Lending in Local Currency

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By LENDING in local currency, the Bank is able to:

- Improve the creditworthiness of projects which solely generate local currency income by avoiding FX risk
- Direct short-term liquidity back into the real economy
- Extend the maturity of local currency loans available in the market
- Reinforce existing market indices, or create new, transparent ones
- Stem unhedged currency mismatches on the balance sheets of both corporate and household sectors

Rationale for Borrowing in Local Currency

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By BORROWING in local currency, the Bank is able to:

- Offer an alternative triple-A benchmark to the government curve, which will increase the transparency of corporate pricing in the domestic market
- Create an opportunity for credit diversification in domestic investors' portfolios
- For international investors local currency Eurobonds can provide a AAA conduit allowing the dissociation of currency and currency allocation risks. This is often a precursor to them participating in the local government and corporate / bank market.
- Introduce innovative techniques that help to foster the overall development of the market
- Reinforce existing market indices, or create new, transparent ones

EBRD's Local Currency Asset Portfolio

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- First local currency loan - Hungarian Forint (HUF) in 1994
- Since 1994 the Banks committed loan financing in:

Albanian Lek (ALL)	Hungarian Forint (HUF)	Romanian Leu (RON)
Armenian Dram (AMD)	Jordanian Dinar (JOD)	Russian Rouble (RUB)
Azerbaijani Manat (AZN)	Kazakh Tenge (KZT)	Serbian Dinar (RSD)
Belarusian Rouble (BYN)	Kyrgyz Som (KGS)	Slovak Koruna (SKK)
Bulgarian Lev (BGN)	Macedonian Denar (MKD)	Tajikistani Somoni (TJS)
Czech Koruna (CZK)	Moldovan Leu (MDL)	Tunisian Dinar (TND)
Croatian Kuna (HRK)	Mongolian Tugrik (MNT)	Turkish Lira (TRY)
Egyptian Pound (EGP)	Moroccan Dirham (MAD)	Ukrainian Hryvnia (UAH)
Georgian Lari (GEL)	Polish Zloty (PLN)	Uzbek Sum (UZS)

- The Bank has signed 945 loans denominated in 27 local currencies for a total project value of EUR 15.1 billion as of July 2020
- The Bank has provided senior and subordinated loan financing as well as residential mortgage-backed securities in a number of local currencies

Local Currency Loans arranged by EBRD

Portfolio by Currency (EUR 15.1 billion)*

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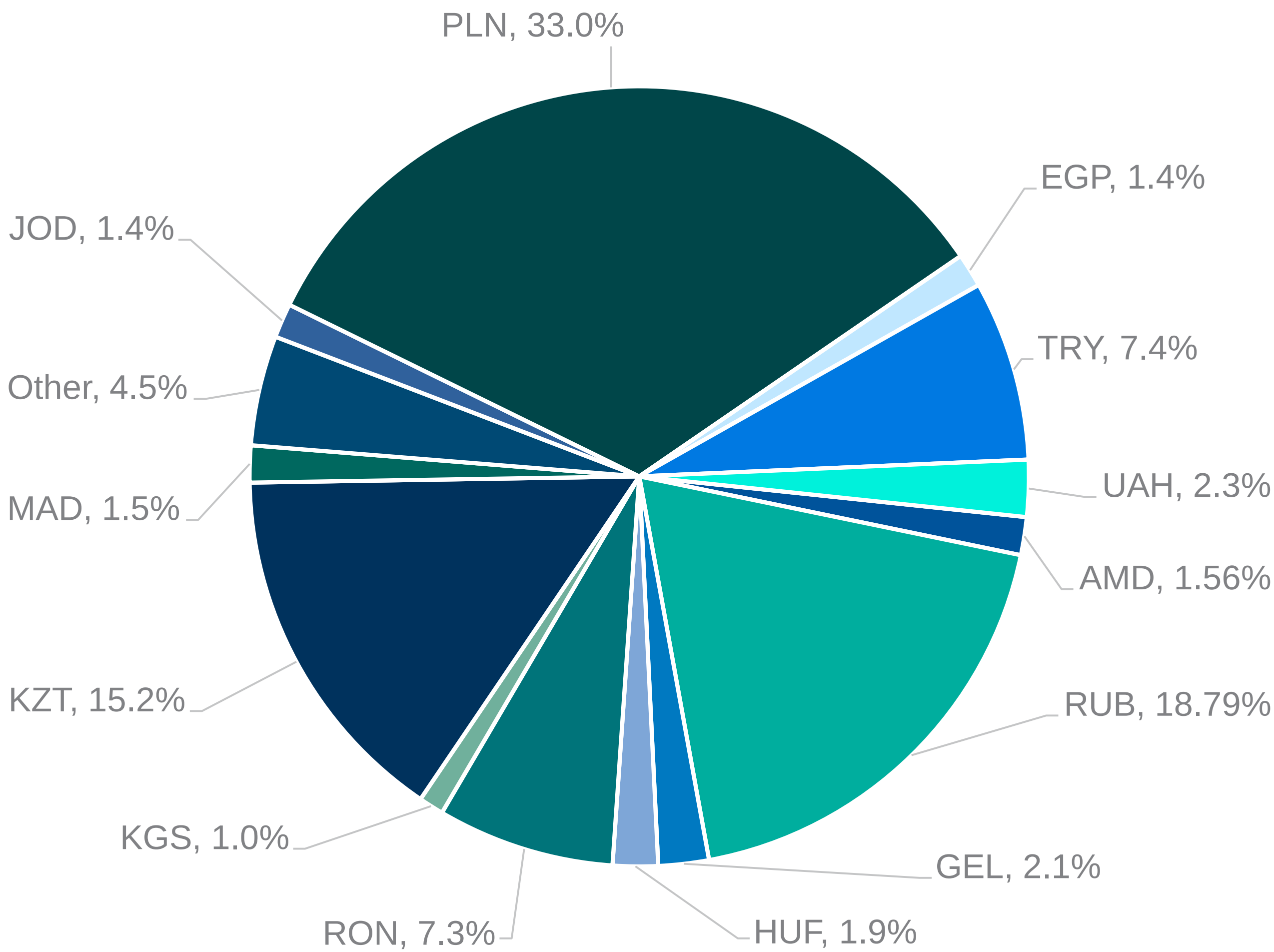

Other Currencies	
CZK	0.8%
AZN	0.7%
HRK	0.5%
RSD	0.5%
MNT	0.5%
BYN	0.4%
MDL	0.40%
TND	0.4%
TJS	0.3%
UZS	0.3%
SKK	0.3%
BGN	0.2%
ALL	0.1%
MKD	0.03%

** EBRD's local currency loan portfolio ("A" loans): EUR 14 billion*

Local Currency Loans arranged by EBRD

Portfolio by Sector Business Groups

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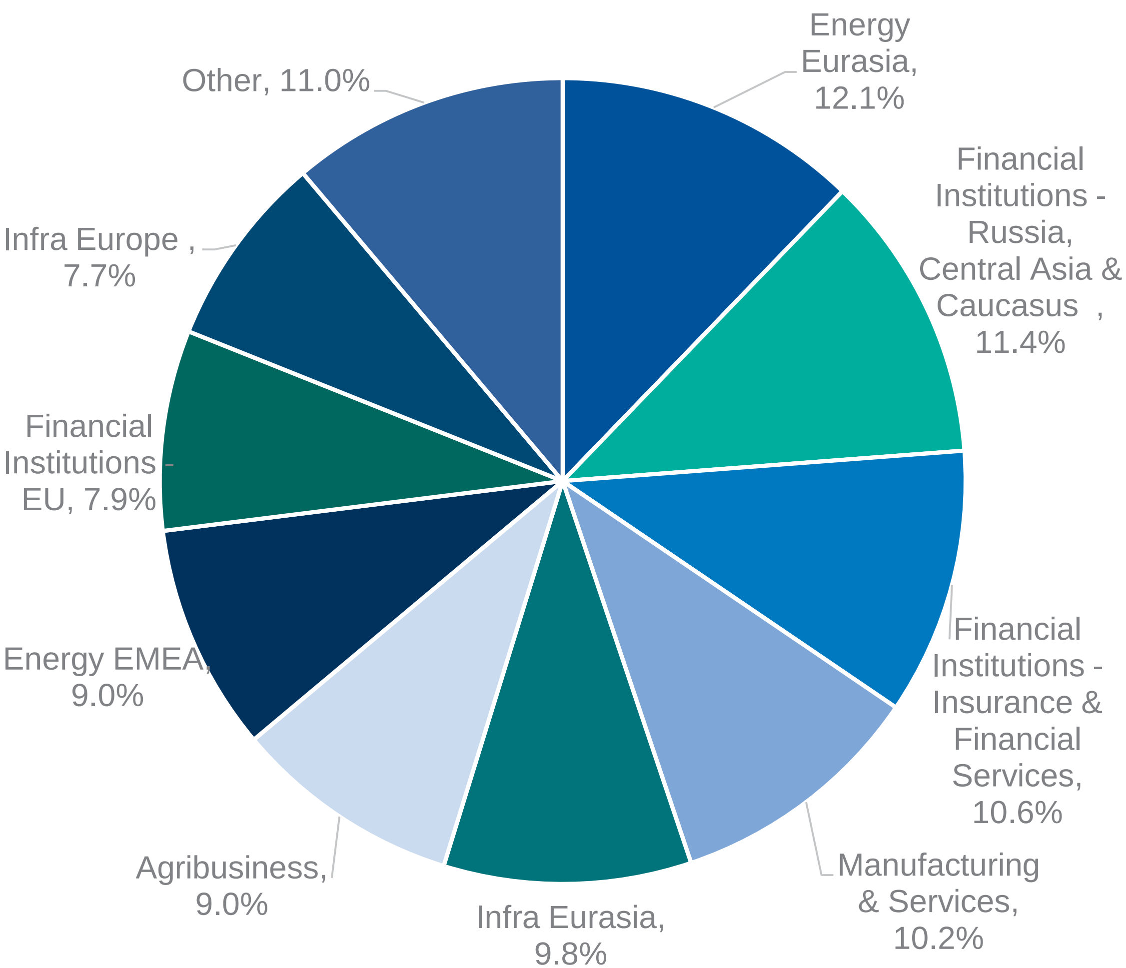

Other	
Information & Communication Tech	4.1%
FI - WB, Belarus, Moldova & Uk	2.1%
FI - SEMED	1.7%
Infrastructure - TMEA	1.6%
Property & Tourism	0.7%
Natural Resources	0.7%
FI - Turkey	0.1%

Local Currency Loans arranged by EBRD

Maturity Profile

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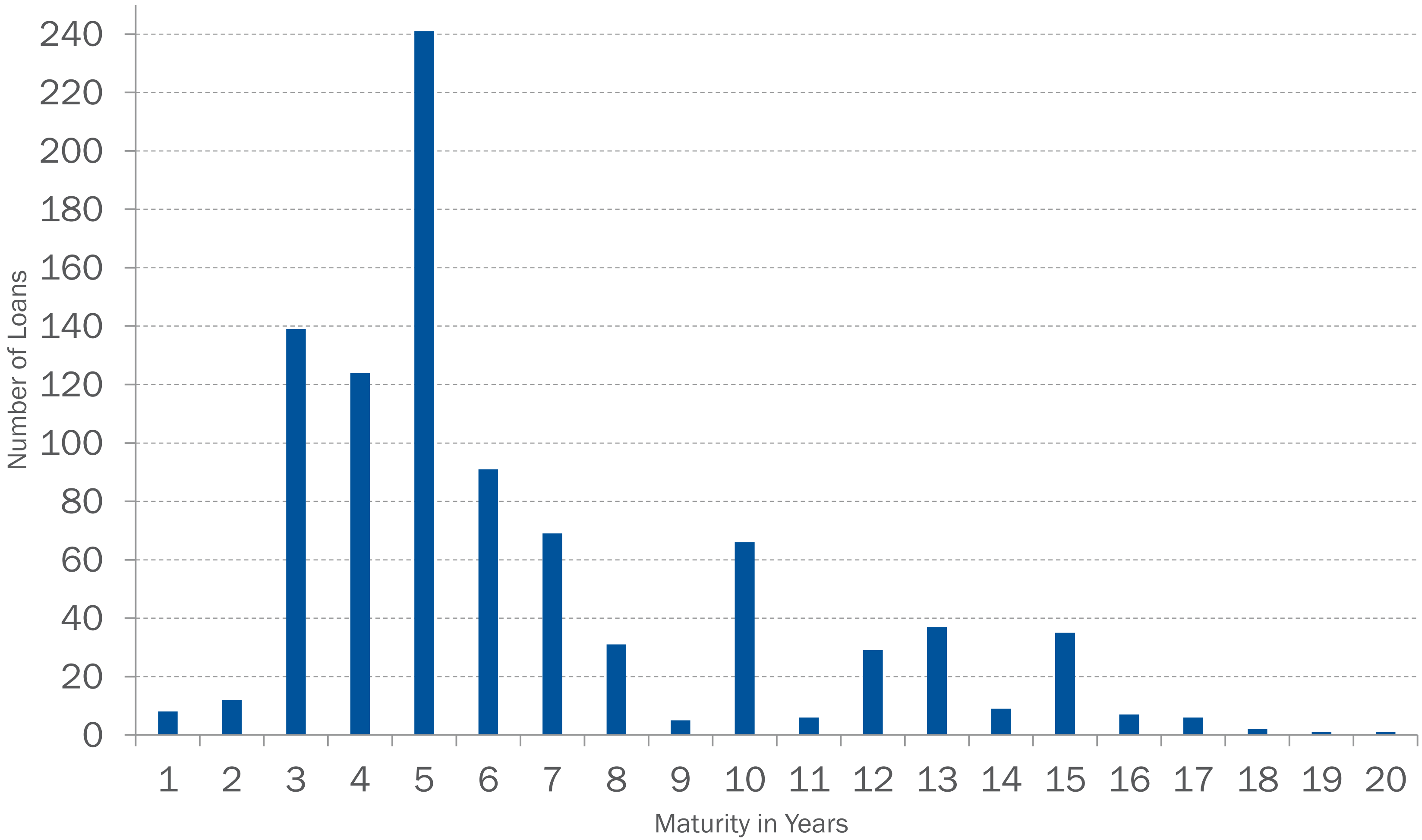

Local Currency Financing Platform

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- Single currency revolving facilities
- Cross currency interest rate swaps
- Domestic bonds
- Eurobonds
- Promissory notes
- TCX

Single Currency Revolving Facilities

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- Committed floating rate financing through 1 year extendible back up lines
- First facilities negotiated in RUB in 2001
- Have signed facilities in BGN, KZT, RON and UAH
- Not currently most cost-effective route

Advantages	Drawback
• Cost efficient source of financing, especially with low disbursement levels of project financing • Straightforward to negotiate • Does not create excess cash, as drawdowns only occur upon project disbursements • Endorses existing money market index or creates a new one	• Refinancing risk owing to short tenor of the facilities

Cross Currency Interest Rate Swaps and NDFs

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- Optimal means of matching loan features (size, tenor, amortisation) when the FX regime and legal enforceability of derivatives contracts permit
- The EBRD has established pools of liquidity through swaps in AZN, CZK, EGP, GEL, HRK, HUF, JOD, KZT, MAD, PLN, RON, RSD, RUB, TRY and UAH

Advantages	Drawback
• Timing, size and tenor requirements can be matched more closely • Allows flexibility to offer fixed or floating loans	• Poor pricing transparency where markets lack liquidity and depth • May limit activity with local banks/subsidiaries when requirement to use local counterparty

Domestic Bonds

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- Issued under local laws and regulations via local infrastructure
- The EBRD issued domestic HUF bonds in 1994 and 1996, and domestic RUB bonds since 2005
- Since 2014 the Bank has issued AMD and GEL floating rate notes
- The Bank issued RSD 2.5 billion FRN linked to 3-month BELIBOR in 2016

Advantages	Drawback
• Contributes to capital markets' development • Can lengthen maturity of liabilities • Create an opportunity for credit diversification in domestic investors' portfolios • Reinforce existing market indices or create new, transparent ones	• Onerous and sometimes inchoate legal and regulatory requirements • Loan disbursement patterns may give rise to cash management needs, utilising bank credit lines and potentially increasing costs • Triple-A rating not valued appropriately • Exposure to payment and clearing systems

Domestic Bonds

EBRD's Inaugural AMD Floating Rate Note

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EBRD's Objectives

- Creating funding base through the Armenian bond market
- Using domestic auction mechanism means efficient price discovery, access to wider investor base as well as price transparency
- Listing the notes and applying for them to be repo-eligible with the Central Bank of Armenia
- Contribute to the further development of the capital market by introducing regulatory amendments and technical modifications
- Rechannelling AMD proceeds to the real economy

Notes Terms

• *Issue Date:*	31 January 2014
• *Size:*	AMD 2 billion
• *Coupon rate:*	Linked to 6-month T-bill rates
• *Exchange:*	NASDAQ OMX Armenia
• *Custody:*	Central Depository of Armenia
• *Repo Eligibility*	Central Bank of Armenia

Domestic Bonds

EBRD's Inaugural Public Bond Issuance in GEL

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Transaction Overview

- The Bank placed its inaugural public listed bond in the Georgian domestic market in June 2016
- This five-year pioneering issuance has a floating rate coupon linked to the three-month certificates of deposit (CD) rate issued by the National Bank of Georgia
- The bond totalling 107 million Georgian Lari (EUR 43.9 million) was lead-managed by Galt & Taggart
- The bond was priced flat to the rate for 3-month CD issued by the National Bank of Georgia
- The bonds issuance was documented under domestic standalone documentation

Notes Terms

• *Issue Date:*	17 June 2016
• *Size:*	GEL 107 million
• *Coupon rate:*	3-months CD
• *Exchange:*	Georgian Stock Exchange
• *Custody:*	Central Depository of Georgia
• *Repo Eligibility*	National Bank of Georgia

Domestic Bonds

EBRD's Inaugural Public Bond Issuance in RSD

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Transaction Overview

- Over the years, EBRD has engaged in regular discussions with the Ministry of Finance, National Bank of Serbia and the Securities Commission in relation to the EBRD issuing bonds in local currency
- Since 2010, the regulators have supported issuance by the EBRD in Serbian Dinar to help build a domestic yield curve
- After 10 years in working on the legal and regulatory prerequisites, EBRD issued its inaugural Serbian dinar issue
- The three-year 2.5 billion Serbian dinar ($20.29 million) bond was listed on the Belgrade Stock Exchange and was linked to a 3-month BELIBOR (the rate on dinar deposits in the interbank market) plus 40 basis points.

Notes Terms

- *Issue Date:* 5 December 2016
- *Size:* RSD 2.500 billion
- *Coupon rate:* 3-months-BELIBOR plus 40 basis points
- *Exchange:* Belgrade Stock Exchange
- *Custody:* Central Depository of Serbia
- *Repo Eligibility* National Bank of Serbia

Domestic Bonds

Ukrainian Debt Capital Market development

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Market Development

- Over the years, EBRD held an ongoing discussion with MoF, NBU and Securities Commission on the legal changes required for IFIs to be able to issue bonds on the local market
- In July 2013, the Securities Market Law has been amended to allow IFIs' local bond issuance
- In February 2016, EBRD obtained a confirmation from NBU that IFIs' bonds can be used as a collateral for O/N loans and direct repo transactions by local market players
- In March 2016, EBRD obtained the market and currency consent from the Ministry of Finance of Ukraine
- In April 2020, the Securities Commission approved a new resolution on IFIs' bonds issuance and circulation in Ukraine
- In June 2020, the Securities Market Law was further amended to introduce the provisions on the bondholders' meeting

Next steps

- Sign an agreement with National Depositary of Ukraine and appoint lead managers

Eurobonds

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- Having one of the strongest credit profiles among supranationals, EBRD funds itself at the most competitive levels available in local currencies - through government curves and other options like TCX
- EBRD has issued Eurobonds with exposure to AMD, BYR, CZK, EEK, EGP, GEL, HRK, HUF, KZT, LBP, MDL, PLN, RON, RSD, RUB, SKK, TJS, TND, TRY, UAH and UZS.

Advantages	Drawback
• Can contribute to capital markets development • Possible access to longer term funding • Easy to document in MTN format	• Loan disbursement patterns may give rise to cash management needs, utilising credit lines and potentially increasing costs • Sporadic international investor interest

Eurobonds

*EBRD's Inaugural RUB Note linked to ROISfix**

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EBRD's Objectives

- Developing local capital markets: ROISfix is a benchmark based on unsecured o/n trades entered into by banks with high credit quality
- Promoting and participating in creation of competitive and transparent benchmark supported by Central Bank of Russia (CBR)
- Creating structurally less volatile funding base for EBRD
- Offering investors triple-A liquidity and interest rate management instrument eligible for repurchase operations with the CBR
- Rechanneling RUB Eurobond proceeds to the real economy

Notes Terms

Issue Date:	30 January 2013
Size:	RUB 7.5 billion
Coupon rate:	Linked to 3-month ROISfix rate
Exchange:	London
Repo Eligibility:	Central Bank of Russia
Governing Law	English

**European Landmark Deal of 2013 (MTN-i Awards)*

Eurobonds

Pioneering Inflation-Linked Eurobond in KZT

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Transaction Overview

- In November 2016, EBRD issued KZT 34 billion (€92 mn) pioneering inflation-linked Eurobond
- The Notes have a five-year maturity and pay a coupon of 3-month Consumer Price Index (CPI) rate plus 10 basis points per annum.
- The coupon rate is floored at 0% and payable quarterly
- The Notes are listed on the Kazakhstan Stock Exchange (KASE) and are accepted by the National Bank of Kazakhstan (NBK) for their repurchase operations (REPO) with banks
- To date the Banks has issued KZT 584 bn (EUR 1,416 mn) worth of KZT linkers to finance KZT loan portfolio

Notes Terms

- *Issue Date:* 21 November 2016
- *Size:* KZT 34 billion
- *Coupon rate:* 3-months CPI
- *Maturity:* 21 November 2021
- *Custody:* Euroclear / Clearstream
- *Exchange:* London Stock Exchange / KASE

Promissory Notes

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- These are typically short-term instruments issued in countries which were signatories to the Geneva Convention on Bills of Exchange and Promissory Notes of 1930
- Generally there are no prospectus and registration requirements
- EBRD issued promissory notes in RUB in 2001-2003

Advantages	Drawback
• Can contribute to capital markets' development • Simplicity of documentation	• Short-term liquidity management tool creates refinancing risk • Surrogate cash instruments can create reputational risk

The Currency Exchange Fund (TCX)

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- Designed to hedge currency and interest rate risks associated with long-term borrowing in less liquid local currencies
- TCX's pricing policy is based on market prices and the application of state-of-the–art valuation methods
- EBRD has hedged, via TCX, loans in ALL, AMD, AZN, BYN, EGP, GEL, KGS, MKD, MDL, MNT, TND, TJS, UAH
- No minimum formal/maximum loan size in line with its support of micro-finance institutions. EBRD's loans using TCX have maturities of up to 6 years.

Advantages	Drawback
• Mitigates FX and interest rate exposure for borrowers whose revenues are denominated in local currency • Risks are transferred to TCX by using non-deliverable forward transactions • Offers long term maturity of loans not provided by financial markets	• There must be a short–term benchmark rate available for pricing • More expensive than EBRD's own funding

Credible Inter-bank Indices

Key to Successful Local Currency Lending

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- EBRD has been working with local banks and authorities in some of its Countries of Operations on creation of money market indices - Armenia (ongoing), Azerbaijan (ongoing), Belarus (ongoing), Egypt (CONIA), Georgia (TIBR), Kazakhstan (TONIA, KazPrime), Morocco (ongoing), Romania (ROBOR), Russia (MosPrime, RUONIA, ROISfix) , Turkey (TLRref), Ukraine (ongoing) and Uzbekistan (ongoing)
- The development of a credible money-market index allows:
  - greater pricing transparency and consistency in the pricing of all index-linked loans
  - the pricing of derivatives (including futures and interest rate swaps)
  - the interbank money-market to develop greater liquidity, increasing efficiency, and lengthening the maturity of interbank activity

Credible Inter-bank Indices
MosPrime

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- MosPrime is the yield for money-market time deposits offered by first-tier banks in the Russian market to financial institutions of comparable credit standing
- MosPrime is calculated daily for O/N, 1W, 2W,1M, 2M, 3M, and 6M tenors with rates provided by eleven contributor banks
- The MosPrime calculation procedure is based on international standards: the arithmetic average of quoted rates after rejecting the highest and the lowest offers
- EBRD has arranged significant number of MosPrime-linked loans to corporates, municipal borrowers and financial institutions including mortgage lenders

Credible Inter-bank Indices

Rouble Overnight Index Average (RUONIA)

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- EBRD supports RUONIA through participation in the NVA's Expert Council and was the first to execute overnight indexed swaps linked to RUONIA
- RUONIA is an effective overnight interest rate computed by the Central Bank of Russia (CBR) as a weighted average of overnight unsecured lending transactions entered into by banks with high credit quality
- The Index calculation methodology is developed together by NVA and CBR and is based on international standards
- The participant Banks are selected by NVA and are approved by the CBR. The list currently consists of 30 leading domestic and international names
- RUONIA is used by the CBR for internal benchmarking purposes as well as by market participants as a reference rate for pricing of Overnight Index Swaps

Credible Inter-bank Indices

Overnight Interest Rate Swap (ROISfix)

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- ROISfix is an index of fixed interest rates against the Russian Central Bank's RUONIA. It is calculated on a daily basis by Russia's National Foreign Exchange Association (NFEA) and the rate is quoted daily by seven Russian banks
- It gives market participants the possibility to hedge the interest rate exposure on their liabilities
- The index is an indicator of the expected cost of overnight money and should be in line with the CBR's monetary policy expectations
- Given the importance of a credible money-market index for capital market development, the EBRD, has been actively promoting ROISfix by both extending loans and issuing bond linked to ROISfix

Barriers to Local Currency Lending

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- Exchange rate policy
  - focus by central bank on exchange rate targeting, rather than monetary policy
  - macroeconomic instability and the lack of a transparent and credible policy framework
  - political rhetoric and/or commitment (incl. ERM II) to replace domestic currency
  - adoption of currency board (Bulgaria, Bosnia and Herzegovina, Estonia and Lithuania)
- Poorly regulated and/or capitalised banking system
  - lack of a lender of last resort (with guaranteed access to central bank repo facility)
  - term deposits that can be withdrawn with little (or no) notice
- Lack of credible market indices, liquid money markets and secured instruments (Repo)
- High domestic interest rates
- Inadequate market infrastructure
  - conflicting or unclear legal and regulatory environment, bureaucratic processes
  - imposition of new taxes, currency restrictions and other controls
  - poor payment and settlement systems
  - high domestic costs including listing fees and taxes
  - lack of institutional investor base and credit culture

Capital Markets Development
EBRD's Role in Accessing Local Currency

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EBRD has been successful in enhancing local currency usage:

- Improving existing and/or helping to develop new money-market indices (including has stimulated activity in local currency
- Leading syndications in AMD, KGS, MDL, PLN, RON and RUB of loans that are up to 15 years in maturity
- Acting as an anchor investor in local currency bonds, including securitisations
- Working on clearing and settlement to establish bridge between systems:
  - EBRD worked to establish a bridge between international clearing and depository systems ("ICSDs") and the Latvian Central Depository and the Romanian Central Depository and to get currencies accepted by ICSDs including Latvian Lat, Hungarian Forint and Russian Rouble
- Directing donor funding for technical assistance to stock exchanges, and to the pension and insurance sectors
- Supporting local investors

Capital Markets Development

EBRD's Role in Reforming Legal/Regulatory Environment

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- Helping to improve capital market legislation and regulation (Armenia, Azerbaijan, Czech Republic, Hungary, Kyrgyz, Mongolia, Morocco, Romania, Russian Federation, Serbia, Tajikistan, Tunisia and Ukraine)
  - Securities market laws
  - Disclosure requirements
  - Listing regulations
  - Secondary trading
  - Broadening eligible instruments for institutional investors
  - Facilitating the development of secondary mortgage markets
- Working to clarify derivatives' environment with ISDA (Czech Republic, Hungary, Kazakhstan, Poland, Russia, Slovakia, Tunisia and Ukraine)
  - Recognition of swaps
  - Netting opinions
- Improving investor friendly practices (CIS Regional, Kyrgyz Republic and Russian Federation)
  - Regional CIS Model Investor Protection Law
  - Russia Corporate Governance Code
  - Working on Kyrgyz Corporate Governance rules
- Upgrading joint stock companies laws (Russian Federation)
- Supporting Green Bond issuance

Capital Markets Development

EBRD Role in Supporting a Local Investor Base

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EBRD has focused on the development of a local investor base through:

- Making equity investments in local banks, pension funds and insurance companies
- Improving the regulatory environment for investors, including through pension reform
- Channelling donor funding for technical assistance to the pension and insurance sector
- Providing guidance towards standardising mortgage loans to facilitate the development of secondary mortgage markets
- Facilitating the restructuring of bank balance sheets through co-investing in facilities to purchase non-performing loans
- Supporting local brokerage houses' market-making activities in mid-tier corporate bonds

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