CREDIT OPINION
4 October 2024

Update

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RATINGS

EBRD

	Rating	Outlook
Long-term Issuer	Aaa	Stable
Short-term Issuer	P-1	--

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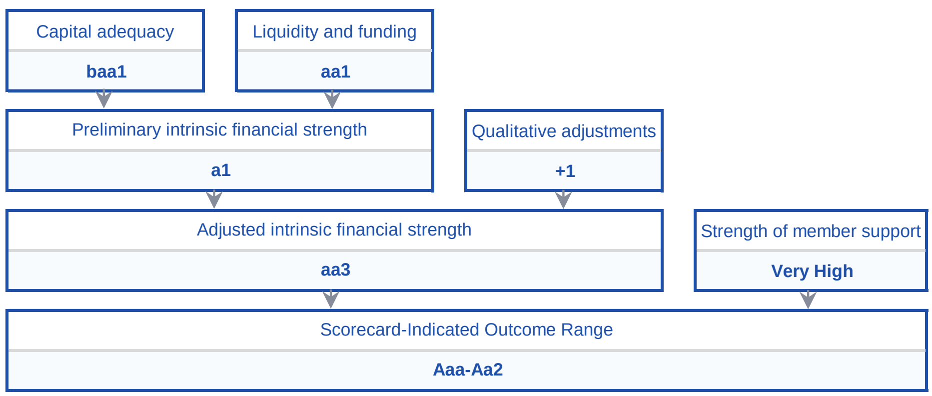
EBRD – Aaa stable

Regular update

Summary

The credit profile of the European Bank for Reconstruction and Development (EBRD) reflects moderate leverage as well as a strong liquidity profile, prudent risk management and solid shareholder support. The EBRD is a large and established issuer among multilateral development banks (MDBs), with secure market access. The size and quality of the bank's liquid asset base provide a solid cushion against macroeconomic and financial shocks. Shareholders' strong ability and willingness to provide support provides a three-notch uplift to EBRD's already solid intrinsic financial strength. The EBRD also stands out for the high share of callable capital committed by Aaa and Aa-rated shareholders.

Exhibit 1
The EBRD's credit profile is determined by three factors



Source: Moody's Ratings

Credit strengths

» High cushion of paid-in capital and relatively moderate leverage

» Strong liquidity levels and unquestioned market access, supported by conservative internal requirements

» Very strong support of shareholders

Credit challenges

» Comparatively weak asset quality and volatile asset performance, exacerbated by the impact of Russia's invasion of Ukraine (Ca stable).

Rating outlook

The stable outlook reflects our view that the bank will be able to maintain its solid financial metrics and in particular contain any further deterioration of its asset performance, helped by grants and donor funding for its Ukrainian exposure. We also expect that the bank will continue to generate profits which will support its capital buffer, following the substantial loss in 2022.

Factors that could lead to a downgrade

Downward pressure on the EBRD's rating would emerge in the unlikely event that the bank experienced a significant deterioration in asset quality and losses over several years – possibly in the context of a broadening of the current Russia-Ukraine conflict – combined with a lack of shareholder response in the form of additional paid-in capital.

Key indicators

Exhibit 2

EBRD	2018	2019	2020	2021	2022	2023
Total Assets (USD million)	70,819.6	76,617.4	85,617.2	84,688.3	76,395.1	81,683.6
Development-related Assets (DRA) / Usable Equity [1]	186.2	187.2	196.6	184.3	202.6	194.9
Non-Performing Assets / DRA	4.5	3.7	4.5	3.9	6.6	6.3
Return on Average Assets	0.4	2.2	0.4	3.5	-1.5	2.9
Liquid Assets / ST Debt + CMLTD	169.1	170.3	204.1	216.5	308.1	246.9
Liquid Assets / Total Assets	46.8	46.9	45.4	45.4	42.6	38.0
Callable Capital / Gross Debt	54.9	49.6	48.8	47.0	53.5	52.1

[1] Usable equity is total shareholder's equity and excludes callable capital

Source: Moody's Ratings

Profile

The EBRD was established in 1991 to assist the economies of Central and Eastern Europe (CEE) and the Commonwealth of Independent States (CIS) in their transition from centrally planned to market economies. Unlike many of its peers, the EBRD focuses on lending to the private sector. It also invests in equity participations and provides various technical assistance programmes to its recipients, most notably in the development of private enterprise. The EBRD's mandate stipulates that it must only work in countries that are committed to democratic principles. Over the years, the EBRD has progressively extended its operations, including to Turkiye (B1 positive) in 2009 and to the Southern and Eastern Mediterranean (SEMED) region in 2011.

We capture the Bank's development mandate and focus on strengthening private enterprise in transition economies, often acting as anchor investor or lender, in our positive social risk assessment.

The Bank ceased approving new loans in the Russian Federation since the annexation of Crimea in 2014 and later also stopped its activities in Belarus (C stable). Following Russia's invasion of Ukraine in February 2022, the EBRD's Board of Governors approved the formal suspension of access by both countries to the resources of the Bank. This has meant that further disbursements under existing projects have been stopped, as have technical assistance projects. The combined exposure to both countries has been reduced to around 1.4% of development-related assets as of December 2023. The EBRD's exposure to Ukraine stands at 6.6%, while the single-largest country exposure is to Turkiye with a share of just over 15%. The bank's total development-related loans and equity investments stood at around €40 billion as of December 2023.

Detailed credit considerations

Our determination of a supranational's rating is based on three rating factors: capital adequacy, liquidity and funding, and strength of member support. For Multilateral Development Banks (MDBs), the first two factors combine to form the assessment of intrinsic financial strength, as shown on the cover page graphic. Additional factors can affect the intrinsic financial strength, such as risks stemming from the operating environment or the quality of management. The strength of member support is then incorporated to yield a rating range. For more information, please see our Multilateral Development Banks and Other Supranational Entities Methodology, published in February 2024.

FACTOR 1: Capital adequacy score: baa1

We score the EBRD's capital adequacy at "baa1", which balances the Bank's moderate leverage against a stable but relatively low development asset credit quality and comparatively weak and volatile asset performance.

Moderate leverage based on high level of paid-in capital and retained earnings and supported by prudent capital management...

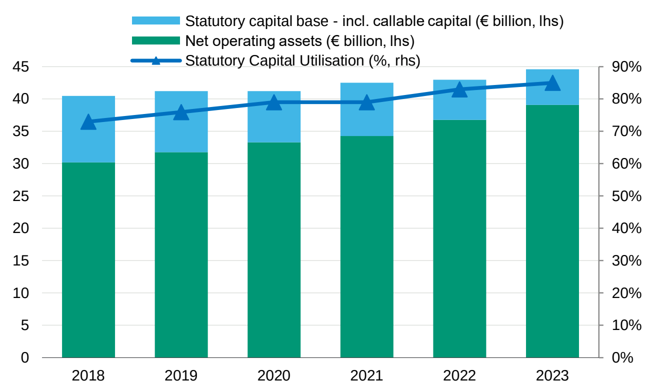
The EBRD has a high level of paid-in capital of €6.2 billion, augmented by significant retained earnings and reserves of around €16 billion accumulated up to 2023, which provides the bank with a large cushion to absorb losses. Following the recovery in profitability in 2023, the EBRD's leverage – defined as development-related assets and treasury assets rated A3 or lower in relation to useable equity – declined from 213% in 2022 to 205% in 2023, somewhat higher than the ratio of 193% in 2021 but similar to its leverage in 2019-2020. This compares to a median leverage ratio of 242% for Aaa-rated MDBs. The leverage score of "a1" incorporates a one-notch uplift for EBRD's strong profitability.

The high capital level provides a solid buffer against the higher credit risks from its private sector focus and its sizeable equity investments which are prone to volatility in mark-to-market valuations. The EBRD also operates with a range of prudential limits, including a maximum gearing ratio of 92% of operating assets and also limits to risk-weighted economic capital usage set at 90% of available economic capital. Actual capital usage has historically been materially lower than the thresholds. The statutory capital utilisation was 85% in 2023, higher than the 83% level in 2022 and 79% in 2021 but comfortably below the ceiling. The bank's current 2024-26 Strategy Implementation Plan (SIP) expects the ratio to rise to 87% by the end of 2026. Economic capital utilisation stood at 62% in 2023, broadly similar to the previous three years but lower than in prior years when the ratio was generally at or above 70%. The ratio is expected to remain at 62% by the end of 2026, as per the current SIP.

Exhibit 3

Capital utilisation is well within the 92% statutory capital limit...

Statutory capital base in EUR billion and capital utilisation in %...



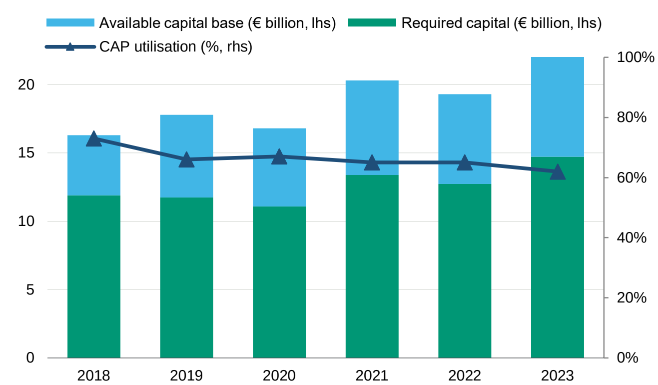
Additional buffer of 2% was introduced for 2021 onward

Source: EBRD, Moody's Ratings

Exhibit 4

...and also below the limit of 90% for economic capital

Available economic capital (EUR billion), CAP utilisation (%)



Sources: EBRD, Moody's Ratings

...mitigate EBRD's relatively risky business profile

Strong capitalisation, moderate leverage and prudential capital management are key mitigating factors for EBRD's comparatively risky business profile given its focus on private-sector lending and equity investments. In H1 2024, 58% of operating assets were private-sector loans and 12% were equity investments, with the remainder sovereign and other public-sector loans.

The EBRD's business profile is captured by our assessment of the credit quality of its development-related assets. The DACQ score of “baa” is primarily anchored by the EBRD’s stable but low weighted average borrower rating of “b2”, which reflects the higher credit risk inherent in the bank's private-sector focus. However, we also take account of the EBRD's high-quality exposures in its markets of operation and its significant experience in operating within transition economies. The high degree of country and sector diversification is a further strength, with only the energy and banking sectors accounting for more than 20% of development-related exposure in 2023. Other concentration metrics such as the share of the top 10 exposures and single largest exposures are also strong.

Our assessment of asset performance at “ba1” reflects the bank’s relatively high share of non-performing assets (NPAs) which includes non-performing loans (NPLs), losses on equity investments and called guarantees, with most of the NPAs resulting from the loan portfolio. The overall NPA ratio was 6.3% of total development-related assets in 2023, similar to 6.6% in 2022 and up from 3.9% in 2021, predominantly driven by the war in Ukraine. While a significant increase, the NPA ratio is lower than it was in 2014, the last time of a major crisis in Ukraine and Russia. We follow the EBRD's audited financials for the amount of non-performing loans which we incorporate in our NPA ratio. The EBRD takes a conservative approach by including current and less than 90 day exposures, including €802 million of loans related to Ukraine at the end of 2023 which are performing. Without these performing loans in Ukraine, the NPA ratio in 2023 would be lower at 4.5%.

The NPA numbers do not incorporate the impact of the substantial guarantees and donor commitments even though those will materially reduce any losses that the EBRD might incur on its lending to Ukraine. The bank committed up to €3 billion of new investments in 2022-2023 to help Ukraine continue to function (around €3.8 billion has been deployed by year end 2023) with shareholders agreeing to provide support to cover around half of this commitment. In addition, EBRD's strong risk management and prudent provisioning policies should help to limit the impact of its volatile asset performance on the overall credit profile. Provisions for impairments and loan loss reserves stood at 7.1% of total loan operating assets as of H1 2024 equivalent to 1.1x gross value of impaired assets.

Underlying profitability has remained relatively stable, despite volatility in equity valuations

We assign a positive adjustment to the leverage ratio due to EBRD's strong underlying profitability. Headline financial results are heavily affected by valuation changes in its equity portfolio. At the same time, underlying realised income – excluding valuation changes – has been robust and much more stable in recent years.

In 2023, the EBRD recorded a net profit of €2.1 billion according to its audited financial accounts, supported by strong underlying income across all business segments. Net interest income rose by €0.7 billion to €1.8 billion, while fair value gains on equity investments made a sizeable positive contribution to financial performance. This follows the EBRD recording a loss of €1.1 billion in 2022 driven by a revaluation of equity investments in Russia, Ukraine and Belarus and an increase in provisions for expected credit losses in these countries. Despite the volatility in headline profits, reserves and retained earnings continue to grow, standing at around €16.1 billion at year end 2023, up from around €11.7 billion at the end of 2020, adding to the already sizeable capital buffer.

While profitability considerations are generally not a key determinant of MDB ratings, the EBRD's financial performance matters more than is the case for most peers. Shareholders have provided a solid buffer of paid-in capital, with the expectation that the bank will manage to grow its operations through retained earnings. The bank works with a Net Income Allocation Framework under which aggregate allocations from net income on an annual basis are not expected to exceed 1.2%±0.2% of EBRD’s accumulated reserves (retained earnings). In 2023, EBRD’s paid-in capital of €6.2 billion helps to supplement cumulative retained earnings.

FACTOR 2: Liquidity and funding score: aa1

The EBRD’s liquidity and funding score of “aa1” incorporates its very strong and lengthy track record of access to market funding, as well as the strong liquidity levels supported by conservative internal requirements.

EBRD benefits from a sizeable liquid asset buffer which helps to absorb shocks

We score the EBRD's liquid resources sub-factor at “aa3”, reflecting the size and quality of its liquid asset base, which provides a substantial cushion to cope with macroeconomic and financial shocks. The bank's liquid assets stood at €28 billion in 2023. The credit quality of the treasury portfolio is high, with the vast majority of the assets rated single A or higher. Asset holdings are well diversified across mostly advanced economies. As a rule, the EBRD targets an average credit rating of its treasury investment portfolio (greater than 1 year) of Aa2 or better. The average maturity has declined somewhat since 2018, standing at 1.1 years as of December 2023.

Our assessment of EBRD's liquidity is also supported by its prudent liquidity policies, with operational targets set comfortably above the policy minimum. Under its internal guidelines, net liquid assets must cover a minimum of 75% of projected net cash requirements over the next two years, and the bank must be able to meet its obligations for at least 12 months under an extreme stress test scenario (1 in 100-year event based on EBRD stress tests). As of December 2023, net liquid assets represented 117% (2022: 137%) of requirements, significantly above the 75% limit.

Our own liquidity coverage calculations differ somewhat from the EBRD's internal guidelines but equally show very prudent levels of liquidity. We compare the size of the available liquid assets to cash outflows in a stressed scenario over the coming 18 months, in which the EBRD has no access to markets but continues its normal business operations. EBRD's liquid assets ratio stands at close to 140% of net cash outflows as of end-2023, which is down slightly on the previous year due to a lower level of treasury liquid assets held at the end of December 2023, but still remains a very comfortable buffer to absorb shocks.

Strong market access provides a consistent and stable source of funding

The EBRD's quality and structure of funding is assessed at “aaa”, given its strong market access which provides a consistent and stable source of funding for its operations, as reflected by the frequency and diversity of issuances. The EBRD has a long-established presence in international bond markets. It issues in a variety of markets and currencies, as well as in diverse formats and at consistently low costs. Its investor base is very diversified across both regions and types of investors, including a large share of buy-and-hold investors and central banks. The majority (67.5% as of end-2023) of its investor base is located in EMEA, with a further 17.5% and 15.0% in the Americas and Asia respectively as of end-2023, demonstrating the EBRD's ability to obtain funding in different markets.

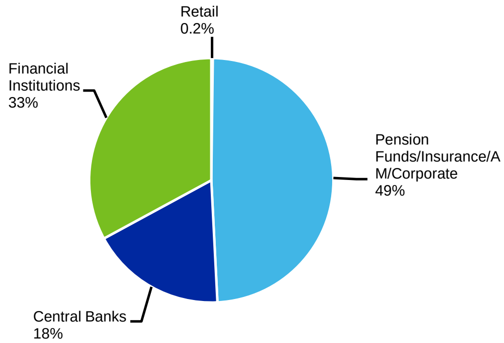
Apart from benchmark issuances in core currency markets, the EBRD also focuses on developing capital markets in its countries of operations, issuing regularly in their local currencies. In addition, the EBRD actively uses buybacks to offer its investors a secondary market bid for all its bonds. The bank also uses private placements and innovative structures to meet specific investor demands, including exotic currencies and equity-linked structures, and the frequency of issuance allows the bank to tap existing issuances. In 2023, the bank issued €9.6 billion. The 2024 borrowing programme envisages up to €13.5 billion, with around €11 billion issues in the first half of 2024. The borrowing programme has risen in recent years, up from €6-€8 billion, and is expected to remain at similar levels going forward. As of June 2024, total outstanding debt stands at €46.4 billion, of which around half is denominated in US dollars (before swaps).

In addition to maintaining a conservative debt maturity profile, the EBRD matches its assets and liabilities by: (1) hedging foreign-currency and interest-rate risks through swaps and derivatives; and (2) borrowing and lending in a wide range of currencies and interest-rate structures. Its local-currency issuances also support its efforts to develop the private sector and capital markets in emerging and recipient economies. As of June 2024, around 23% of the EBRD's outstanding bonds were denominated in emerging market currencies, most significantly in Turkish lira and Kazakhstani tenge. After swaps, the exposure to emerging market currencies is typically considerably smaller. Currently, EBRD has several Russian rouble-denominated bonds outstanding, accounting for less than 1% of outstanding bonds. According to the bonds' terms & conditions EBRD would repay in US dollars in the event of a settlement disruption event. There is therefore no risk of an EBRD default because the bank cannot obtain rouble.

Exhibit 5

EBRD investor base is diversified in terms of type

Issuance by investor type, 2023 (% of total)

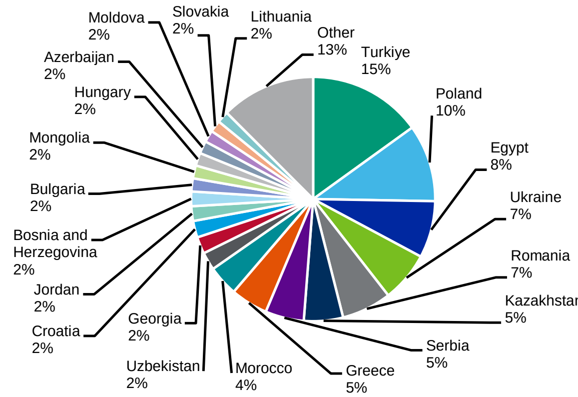


Sources: EBRD and Moody's Ratings

Exhibit 6

EBRD's portfolio is well diversified geographically

Country exposure, % of total loans + equities, 2023



Sources: EBRD, Moody's Ratings

Qualitative adjustments to intrinsic financial strength

Quality of management

We apply a "+1" adjustment to the EBRD's intrinsic financial strength on account of the high quality of management and particularly risk management, consistent with assessments for other large, well-established MDBs, including the International Bank for Reconstruction and Development (IBRD, Aaa stable). The adjustment reflects the EBRD's very prudent risk management framework and practices, as well as conservative treasury management policies, which have allowed the institution to successfully navigate periods of acute stress in large countries of operation and respond swiftly to shocks, as seen during the pandemic and currently in the Russia-Ukraine conflict.

More specifically, capital and liquidity are managed such that the bank preserves at all times some distance between its actual operational targets and minimum policy requirements. Its governance structures are solid and include a dedicated chief risk officer. The EBRD's policies have also been enhanced in recent years, including changes to the bank's liquidity policies in 2015 which linked liquidity requirements to the bank's own severe stress tests.

Operating environment

We do not assign a qualitative adjustment for the EBRD's operating environment. While several of its countries of operation are heavily affected by the conflict, EBRD's wide portfolio diversification across countries and sectors is an important mitigant . Also, the bank benefits from substantial guarantees and donor support for its lending to Ukraine, which is and will remain its highest-risk large exposure.

FACTOR 3: Strength of member support score: Very High

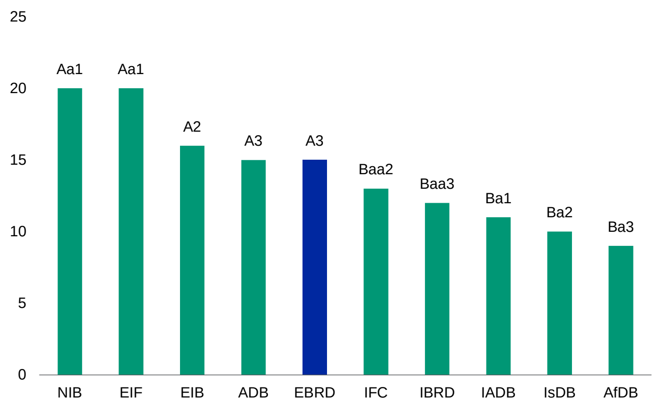
Our "Very High" assessment of the strength of member support provides three notches of uplift from the bank's "aa3" adjusted standalone intrinsic financial strength. The score reflects a combination of the strong ability of shareholders to provide support, a moderate buffer of callable capital and our assessment of "Very High" non-contractual willingness to support. The final score is one notch above the initial score, similar to other large Aaa-rated MDBs, to reflect our view that the support from highly rated shareholders is stronger than what the pure metrics would suggest.

The ability of the bank's shareholders to provide support is strong

We assess shareholder's ability to support at "a3" in line with the weighted average shareholder rating of A3. The recent upgrades of shareholders such as Greece (Ba1 positive), Portugal (A3 stable) and Albania (B1 positive) have brought the weighted average shareholder rating back to A3 after it fell to Baa1 as a result of Belarus and Ukraine. 91% of the shareholder capital is held by investment-grade issuers, while 64% of subscribed capital is provided by shareholders that are rated Aaa or Aa. Also, the shareholder base is broad and regionally diverse, limiting correlation between shareholders' creditworthiness. The single-largest shareholder is the United States (USA, Aaa negative, 10.1%), with France (Aa2 stable), Germany (Aaa stable), Italy (Baa3 stable), Japan (A1 stable) and the

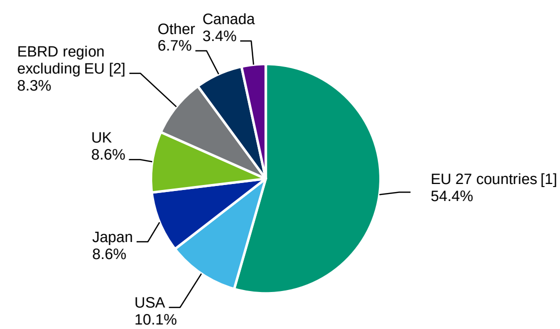
United Kingdom (Aa3 stable) each holding a share of 8.6%, while borrowing members account for just 14.5% of the total. The EBRD continues to attract new shareholders, with Benin (B1 stable) becoming the latest member in April 2024 and the first Sub-Saharan African country to complete the membership process.

Exhibit 7
EBRD's shareholder base is highly-rated
Weighted average shareholder rating by MDB (September 2024)



Source: ***Moody's Ratings***

Exhibit 8
...with large shareholdings of EU countries and the US
% of subscribed capital



[1] Includes European Community and European Investment Bank each at 3.0%; France, Germany, Italy each at 8.6%.
[2] Includes Russia at 4.0%.
Source: EBRD, Moody's Ratings

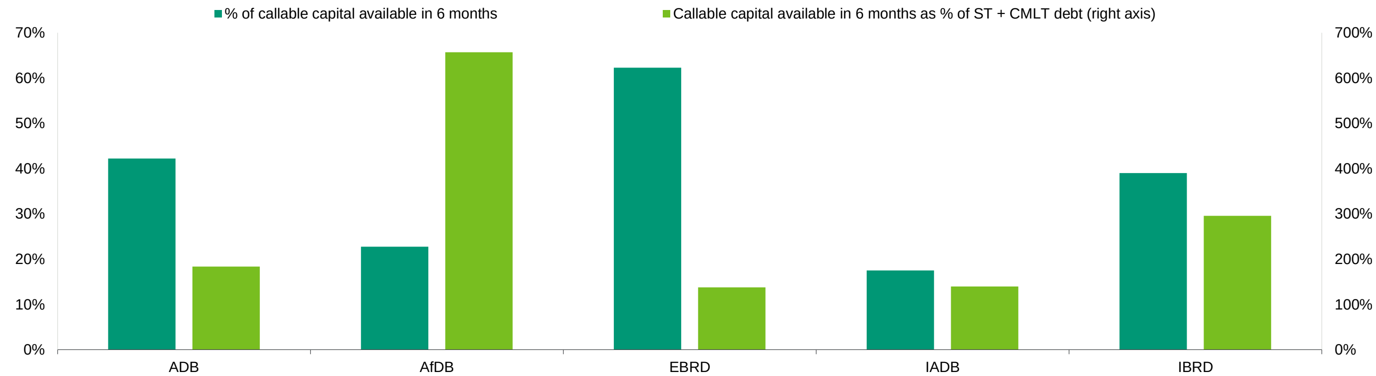
Moderate callable capital buffer is balanced by high paid-in capital...

Our key metric for assessing contractual willingness to provide support is the ratio of callable capital to the stock of debt. The EBRD has €23.5 billion of callable capital, a contractual obligation of each shareholder to provide additional equity in the unlikely event that the EBRD encounters difficulties repaying its borrowings. The relatively low callable capital coverage reflects the EBRD's high level of paid-in capital, which is significantly higher than peers to buffer against the risks of the bank's private sector exposure.

We provide a one-notch uplift for strong enforcement mechanism to our assessment of shareholders' contractual willingness to support EBRD. In line with recommendations from the independent review of their capital adequacy frameworks, five of the world's largest MDBs, including the EBRD, published reports on their callable capital in April 2024 which set out (1) the legal and governance framework and the process for making a call; (2) reverse stress test analysis on how a situation could emerge in which the MDB needs to make a call; and (3) details on the shareholders' processes for responding to a capital call, including the share of callable capital that would be available on short notice.

The additional transparency provides useful details on the time frame in which shareholders would honour a capital call, the precise amounts that have already been appropriated by shareholders and therefore need no further parliamentary approval as well as descriptions from other shareholders on their processes that give confidence that a call could be honoured within a short time frame. We consider such strong enforcement mechanisms to be particularly important, since - by definition - the environment under which capital has to be called is a highly disrupted one. According to our analysis, we expect around 62% of EBRD's callable capital would be available within 6 months, which is the highest share among the five MDBs covered in the report.

Exhibit 9
EBRD has callable capital that is available swiftly
Coverage of callable capital available within 6 months



Sources: MDBs and Moody's Ratings

...and non-contractual willingness to support is very high

Our assessment of shareholders' non-contractual willingness to support the EBRD has been changed to "Very High" from "High" in early 2023, to reflect the evidence of strong shareholder support. Shareholders have committed to provide substantial funding so that EBRD can increase its lending to Ukraine. Around half of the EBRD's €3 billion financial support commitment to Ukraine and neighbouring countries will be covered by grants and guarantees from highly-rated shareholders, thus limiting the EBRD's own exposure and risk of losses, a very strong signal of support. Around half of donor funding comes from the European Union (EU, Aaa stable) alongside other highly rated donors such as the USA and Norway (Aaa stable).

Furthermore, the Board of Governors have agreed to increase the bank's paid-in capital by €4 billion. The increase, which will take effect on 31 December 2024, is further evidence of the commitment by the bank's shareholders to its continued role in supporting Ukraine. The additional capital will strengthen the EBRD's already high level of paid-in capital of €6.2 billion which, along with its sizeable retained earnings, will provide a large buffer to absorb losses. The additional capital will allow the bank to continue providing €1.5 billion in annual investment support during the war, while also paving the way for a step-up in support to €3 billion annually once the reconstruction begins. Our view that the EBRD will remain one of the key financiers of Ukraine's reconstruction once hostilities end is supported by the bank's long-established presence in Ukraine and private-sector expertise in the region, which is also raising the bank's already high profile among key shareholders. Overall, the EBRD's strategic importance for its shareholders is supported by its proven expertise in regions of political importance to shareholders.

ESG considerations

European Bank for Reconstruction & Devlpmnt.'s ESG credit impact score is CIS-1

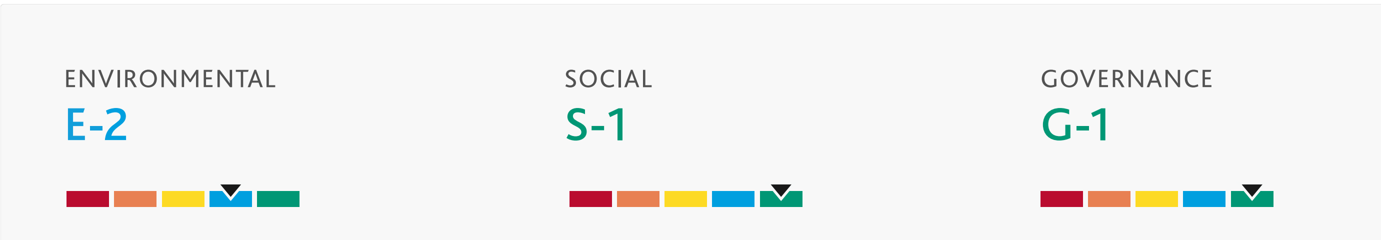
Exhibit 10
ESG credit impact score

ESG considerations have a positive impact on the current rating which is higher than it would have been in the absence of ESG considerations.

Source: Moody's Ratings

The EBRD's positive credit impact score (**CIS-1**) indicates that the credit rating is higher than it would have been in the absence of ESG considerations. EBRD has low exposure to environmental risks, a strong social profile which benefits from the EBRD's support for private enterprises in transition economies and a very strong governance profile as exemplified by conservative financial management and high management credibility, further supported by strong shareholder support.

Exhibit 11
ESG issuer profile scores



Source: Moody's Ratings

Environmental

EBRD's environmental issuer profile score (**E-2**) reflects that, while some of its countries of operation have high exposure to physical climate and carbon transition risk, the EBRD is one of the leaders in 'green' financings to date, with total green economy financing amounting to 50% of total business volumes in 2023. The EBRD has also achieved its commitment to align its new financings with the Paris Agreement by the end of 2022.

Social

The positive impact from social considerations on EBRD's issuer profile (**S-1**) reflects strengths in the area of responsible production as well as benefits from demographic & societal trends, supporting private enterprise in transition economies, often acting as anchor investor or lender. The EBRD has developed a comprehensive set of policies and strategies which steer investment towards socially beneficial projects, in areas such as economic inclusion and gender equality. Use of public consultation processes contributes to ensure buy-in from key stakeholders which supports the effectiveness of its operations. EBRD does not face any issues attracting highly skilled personnel and there are no health & safety considerations that would negatively or positively affect the issuer profile.

Governance

The EBRD's positive issuer profile score for governance (**G-1**) reflects prudent and very strong risk management, including liquidity management. The EBRD has a very prudent risk management policy and governance structures, as demonstrated by its conservative treasury management policy and having a dedicated chief risk officer. Credibility of 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 to Sub-Saharan Africa. It has a very high level of transparency and quality of reporting on a timely basis, with financials published on a quarterly basis.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

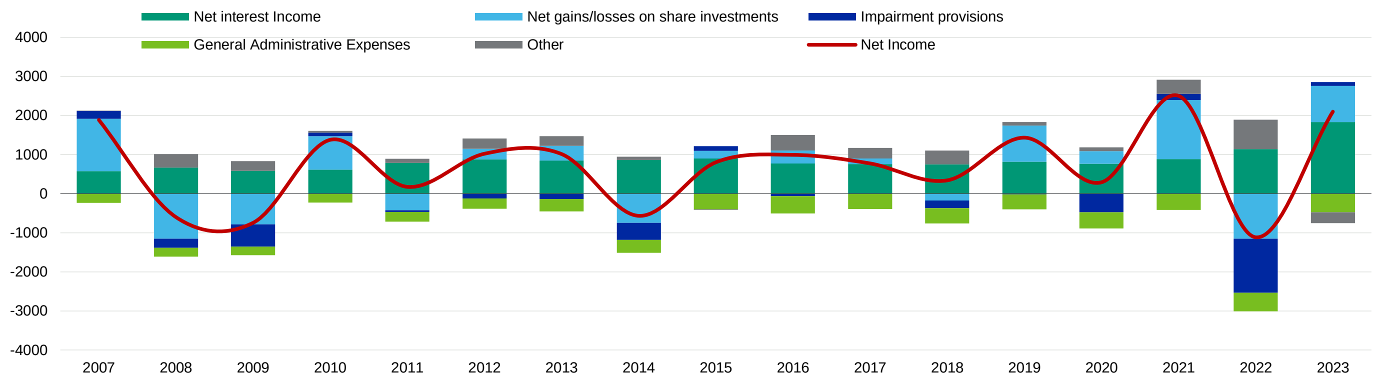
All of these considerations are further discussed in the “Detailed credit considerations” section above. Our approach to ESG is explained in our cross-sector methodology General Principles for Assessing ESG risks. Additional information about our rating approach is provided in our Supranational Rating Methodology.

Recent developments

EBRD's financial metrics improved in 2023 after the substantial loss in 2022 resulting from the Russia-Ukraine conflict

The EBRD's financial metrics have stabilised following the significant adverse impact on the EBRD's financial results and asset performance driven by the Russia-Ukraine conflict. The Bank reported a net profit of €2.1 billion in 2023 and €1.26 billion in the first half of 2024, as per its 2023 audited financial report and its quarterly unaudited financial reports. This follows one of its largest losses ever of €1.1 billion in 2022. The profit was driven by an increase in net interest income arising from the high interest rate environment, as well as supported by strong underlying operating income across all business segments.

Exhibit 12
The EBRD's profitability improved in 2023
€ million



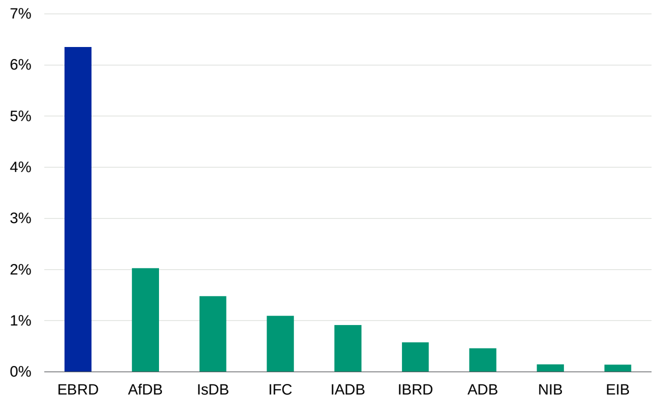
Sources: EBRD, Moody's Ratings

Despite the recent substantial loss, the bank's capital base remains strong. EBRD's capital base stood at €22.3 billion in 2023, compared to €19.3 billion in 2022 and €20.3 billion in 2021. The current level is still higher than useable equity in 2020, when it stood at €17.9 billion, providing a still solid capital buffer to absorb future losses, including in Ukraine.

The EBRD's reported NPL ratio fell to 6.3% in the first half of 2024, down from 7.9% at the end of 2022 and 2023, with the decline supported by repayments on revolving facilities in Ukraine as well as the sale of its €128 million holding in the Russian Railways Eurobond which incurred a write-off of €47 million. Following this sale, EBRD has no material debt exposure left in Russia. Furthermore, following a revision of the country valuation share of an equity fund, Russia is no longer among the top 7 country exposures for EBRD in terms of equity fair value.

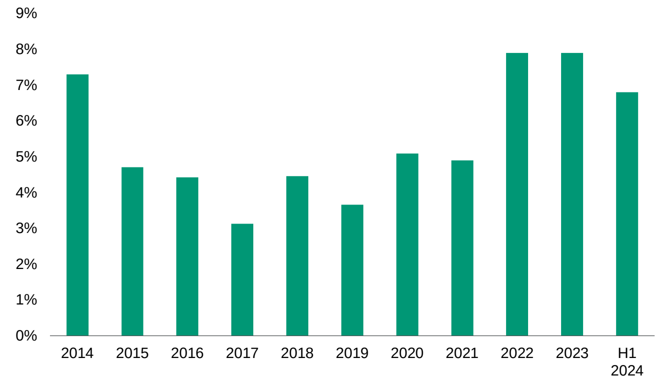
Our definition of non-performing assets differs somewhat because we also take into account the equity investments of around €5.7 billion (13.1% of development-related assets) and €2.8 billion in guarantees (6.5% of development-related assets). According to our definition the NPA ratio stands at 6.3% as of end 2023, broadly in line with 2022. However, these ratios do not incorporate the benefit from the substantial shareholder guarantees and donor support provided for EBRD's Ukraine exposures which will materially reduce the EBRD's potential losses.

Exhibit 13
EBRD tends to have weaker asset performance than peers due to its private-sector focus
NPA ratio 3-year average or latest, %



(1) The three-year average refers to the period 2021-2023, and is used for AfDB, IFC and NIB. The NPA ratio includes non-performing loans, called guarantees and write-offs on equity investments.
Sources: EBRD and Moody's Ratings

Exhibit 14
EBRD's non-performing loan ratio has decreased after a peak at the outbreak of the Russia-Ukraine conflict
Non-performing loans, % of total loans



Source: EBRD

EBRD's shareholders continue to demonstrate a strong commitment to the bank's operations in Ukraine

The EBRD has continued to support Ukraine and deployed more than €3 billion since Russia's invasion in February 2022. Shareholder support has been forthcoming as expected with donor support from shareholders covering on average 50% of new commitments. Shareholders have signed €1,750 million in donor support as at May 2024 including €549 million in grants, a very strong signal of support.

Furthermore, the Board of Governors have agreed to increase the bank's paid-in capital by €4 billion. The decision to increase the capital base is a further demonstration of the commitment by the bank's shareholders to its continued role in supporting Ukraine. The additional capital will strengthen the EBRD's already high level of paid-in capital of €6.2 billion which, along with its sizeable retained earnings, will provide a large buffer to absorb losses.

The additional capital will allow the bank to continue providing €1.5 billion in annual investment support during the war, while also paving the way for a step-up in support to €3 billion annually once the reconstruction begins. The capital increase, which is the third in the bank's history, concludes the formal process following the November 2023 recommendation by the board to expand the capital base. This increase will take effect on 31 December 2024, with annual payments from shareholders to take place over five equal annual instalments. The first instalment is expected to be paid by April 2025.

Our view that the EBRD will remain one of the key financiers of Ukraine's reconstruction once hostilities end is supported by the bank's long-established presence in Ukraine and private-sector expertise in the region. Overall, the EBRD's strategic importance for its shareholders is supported by its proven expertise in regions of political importance to shareholders.

The EBRD is also continuing its plans for a gradual expansion to Sub-Saharan Africa and Iraq (Caa1 stable). Benin became the first SSA country to become a member of the EBRD in April 2024 and its request to become a recipient country will be considered once the amendments to the Agreement Establishing the Bank are in force, likely in early 2025. A further five SSA countries (Côte D'Ivoire (Ba2 stable), Ghana (Ca stable), Kenya (Caa1 negative), Senegal (Ba3 stable) and Nigeria (Caa1 positive)) are planning to follow a similar process. Iraq also became a member in November 2023.

The EBRD's forthcoming operational plan will outline its limited and incremental expansion to these new areas which was approved by the EBRD's governors at its 2023 Annual Meeting. We expect the expansion will remain a slow process and in any case focus on countries which are closely integrated with the bank's current countries of operations. While a rapid and sizeable ramping up of lending in a higher risk region in which the EBRD lacks expertise would likely be negative for the bank's credit profile, it is a highly unlikely scenario.

Shift towards green, low carbon financing and investment continues

The EBRD continues its shift towards more “green” financing with its latest Green Economy Transition (GET) plan, which sets out a target of increasing green financing to over 50% of its annual business volumes by 2025. As of end-2023, the Bank achieved its “green” financing target and also achieved its commitment to align all of its new financings with the Paris Agreement - one of the factors underpinning our neutral to low environment issuer profile score (E-2). As of end-2023, the bank had financed €21.9 billion in green investments under the GET initiative.

In December 2023, the Board of Governors of the EBRD approved a new Energy Sector Strategy 2024-28, which outlines a strategy for the Bank to leverage its operations to accelerate the decarbonization of energy. The framework focuses on decarbonization through the scaling up of renewable energy sources, as well as enhancement of power grids, storage and the promotion of zero-carbon fuels. Under the strategy, the bank will also prioritise the phase out of unabated fossil fuel.

Rating methodology and scorecard factors: EBRD - Aaa stable

Factor / Subfactor	Metric	Initial score	Adjusted score	Assigned score
Factor 1: Capital adequacy (50%)			baa1	baa1
Capital position (20%)			a1	
	Leverage ratio	a2		
	Trend	0		
	Impact of profit and loss on leverage	+1		
Development asset credit quality (10%)			baa	
	DACQ assessment	baa		
	Trend	0		
Asset performance (20%)			ba1	
	Non-performing assets	ba1		
	Trend	0		
	Excessive development asset growth	0		
Factor 2: Liquidity and funding (50%)			aa1	aa1
Liquid resources (10%)			aa3	
	Availability of liquid resources	aa3		
	Trend in coverage outflow	0		
	Access to extraordinary liquidity	0		
Quality of funding (40%)			aaa	
Preliminary intrinsic financial strength				a1
Other adjustments				+1
Operating environment		0		
Quality of management		+1		
Adjusted intrinsic financial strength				aa3
Factor 3: Strength of member support (+3,+2,+1,0)			High	Very High
Ability to support (50%)			a3	
	Weighted average shareholder rating	a3		
Willingness to support (50%)				
	Contractual support (25%)	a3	a2	
	Strong enforcement mechanism	+1		
	Payment enhancements	0		
	Non-contractual support (25%)		Very High	
Scorecard-Indicated Outcome Range				Aaa-Aa2
Rating Assigned				Aaa

Note: Our ratings are forward-looking and reflect our expectations for future financial and operating performance. However, historical results are helpful in understanding patterns and trends of an issuer's performance as well as for peer comparisons. Additional considerations that may not be captured when historical metrics are used in the scorecard may be reflected in differences between the adjusted and assigned factor scores. Furthermore, in our ratings we often incorporate directional views of risks and mitigants in a qualitative way. For more information please see our Multilateral Development Banks and Other Supranational Entities rating methodology.

Related websites and information sources

» [Moody's Supranational web page]

» [Moody's Sovereign and supranational rating list]

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