Summary Rating Rationale

» Credit strengths underpinning EDB’s Baa1 rating include: (1) very strong asset coverage by paid-in capital, (2) very low leverage, and (3) very high coverage of debt service by liquid assets.

» The credit challenges facing EDB are: (1) a challenging operating environment, (2) relatively weak access to market funding, (3) high concentration of members and assets, and (4) high economic linkages among members.

Exhibit 1
EDB’s Baa1 stable supranational rating is determined by three factors

Source: Moody’s Investors Service
Key Indicators

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Total Assets (USD million)</td>
<td>2,838</td>
<td>3,884</td>
<td>4,594</td>
<td>3,915</td>
<td>2,881</td>
<td>3,255</td>
</tr>
<tr>
<td>Return on Average Assets (%)</td>
<td>0.9</td>
<td>0.4</td>
<td>-1.7</td>
<td>0.4</td>
<td>-4.2</td>
<td>5.3</td>
</tr>
<tr>
<td>Usable Equity/Gross Loans Outstanding + Equity Operations (%) [1]</td>
<td>102.3</td>
<td>76.0</td>
<td>59.0</td>
<td>67.3</td>
<td>87.5</td>
<td>97.2</td>
</tr>
<tr>
<td>Gross NPLs/Gross Loans Outstanding (%) [2]</td>
<td>0.0</td>
<td>0.0</td>
<td>4.6</td>
<td>4.5</td>
<td>4.0</td>
<td>4.7</td>
</tr>
<tr>
<td>ST Debt + CMLTD/Liquid Assets (%) [3]</td>
<td>7.2</td>
<td>3.1</td>
<td>29.4</td>
<td>17.2</td>
<td>21.8</td>
<td>7.0</td>
</tr>
<tr>
<td>Total Debt/Discounted Callable Capital (%) [4]</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>46.2</td>
<td>81.7</td>
<td>94.1</td>
</tr>
</tbody>
</table>

[1] Usable equity is total shareholder’s equity and excludes callable capital
[2] Non performing loans
[3] Short-term debt and currently-maturing long-term debt
[4] Callable capital pledged by members rated Baa3 or higher, discounted by Moody’s 30-year expected loss rates associated with ratings

Summary Rating Rationale (continued)

The first factor underlying EDB's rating is our assessment of "Medium" capital adequacy. This is supported by a high ratio of usable equity to gross loans outstanding and equity operations of 97% at end-2016, and by a low total debt as a percentage of usable equity of 94%. However, the operating environment remains challenging in 2017. We continue to forecast low GDP growth in the Commonwealth of Independent States (CIS) region, where almost 100% of EDB’s loan book is located, albeit somewhat higher than in recent years. The recovery is mainly accounted for by Russia exiting recession.

In addition, in 2016, EDB reported a net profit of $168 million (from a net loss of $139 in 2015) due mostly to net interest income of $109 and a release of loan loss provisions of $55 million.

The second factor in support of the rating is a "Medium" liquidity assessment. At 7% at the end of 2016, EDB had a very low ratio of short-term and currently maturing long-term debt to liquid assets. However, the bank’s Ba2 average bond-implied rating over the past 5 years, indicates constrained funding options and weighs on our assessment or EDB’s funding situation. In addition, although EDB prudently raises debt in several currencies to match the distribution of currencies in its loan portfolio, its funding profile is exposed to conditions in local markets. For instance, obtaining long-term funds in Russia often requires issuing bonds with put options, which increases EDB’s liquidity risk. In Kazakhstan, the investor base is narrow, and in 2015 a shortage of tenge liquidity due to expectations of tenge depreciation increased funding problems.

The third factor we consider in our rating analysis is "Low" strength of member support. This is supported by a large coverage of EDB’s outstanding debt by callable capital, which was introduced in July 2014, although callable capital by investment-grade members declined by 70% to $1.8 billion from $5.5 billion, due to the downgrade of Russia’s government bond rating to Ba1 from Baa3 in February 2015. In addition, our assessment of strength of member support assumes a high willingness by its shareholders to provide extraordinary support. Member support was evidenced when EDB was tasked with the management of the Eurasian Fund for Stabilization and Development, which was established in 2009 in response to the global economic downturn.

EDB’s strength of member support is negatively affected by a relatively low average median weighted shareholder rating, at Ba1. Other credit weaknesses in this area include the high correlation of the bank’s members and assets as well as a high members concentration and high economic and financial linkages between the shareholders. This may, in highly stressed scenarios, constrain members’ capacity to fulfill their callable capital commitments. There is also no joint and several support in place given that each member state is only liable for its own share of callable capital.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.
Rating Outlook
The outlook on EDB’s Baa1 rating is stable, reflecting solid capital adequacy and liquidity ratios at the end of 2016, balanced by a challenging operating environment, which poses risks to EDB’s asset portfolio. The stable outlook is also supported by our assessment of the continued high willingness of EDB’s two main shareholders, Russia and Kazakhstan, to provide extraordinary support (even with a lower estimated ability to provide support by Russia).

Factors that Could Change the Rating - Up
Upward rating pressure could come from our assessment of an increase in the strength of member support; a reduction in risks to asset quality, due to an observed improvement in asset quality data or improved growth prospects in the CIS region; or a longer track record of sound financial management at the EDB, particularly in keeping NPLs under control while staying within the leverage limit of 300%.

Factors that Could Change the Rating - Down
Conversely, downward pressure on EDB’s Baa1 rating could come from a significant deterioration in liquidity or capital adequacy, which could, for instance, be caused by a weakening of loan or treasury asset quality, a significant weakening of the credit profiles of EDB’s major borrowers or shareholders; or a reduction in the likelihood of capital infusions from shareholders in case of stress.

Recent Developments
EDB’s balance sheet expanded by 13% in 2016, mostly due to the stabilization of the Russian ruble and Kazakhstani tenge, and stood at $3.3 billion at year-end, following a contraction of 26% in 2015. Gross loans (to banks and customers) amounted to around $1.7 billion at the end of 2016, roughly the same level as in 2015.

At end-2016, EDB’s loan book was dominated by loans to the mining and metal sector (28% of gross loans), an increase from 19% in 2015. Loans to the energy sector and transport sectors remained roughly at the same proportion as the previous year, at 21% and 19% of gross loans respectively.

In 2016, EDB reported a comprehensive net profit of US$168 million, following a net loss of US$139 million in 2015. The roughly $300 million improvement in net profit was mostly the result of a release of loan loss provisions of $55 million in 2016 compared to provision expenses of $150 million in 2015, a sign that EDB’s operating environment in the CIS region has stabilized after deteriorating in 2015. In addition, non-interest income increase to $30 million from a loss of $52 million in 2015, mostly due to better return performance with EDB’s treasury portfolio.

In terms of asset quality, at end-2016, NPLs amounted to $80 million (4.7% of gross loans) while total impaired loans, which includes loans not over due or overdue less than 90 days, were US$155 million (9.2% of gross loans).

The establishment of callable capital in 2014 increased EDB’s subscribed capital to $7 billion. However, in February 2015, due to the downgrade of Russia’s government bond rating to Ba1 from Baa3, EDB’s callable capital from investment-grade rated shareholders declined by 70% to $1.8 billion from $5.5 billion.
### Rating Methodology and Scorecard Factors

#### Rating Factors - Eurasian Development Bank

<table>
<thead>
<tr>
<th>Rating Factors</th>
<th>Factor Weight</th>
<th>Factor Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor 1: Capital Adequacy</td>
<td>60%</td>
<td>Medium</td>
</tr>
<tr>
<td>Factor 2: Liquidity</td>
<td>40%</td>
<td>Medium</td>
</tr>
<tr>
<td>Intrinsic Financial Strength (F1 + F2)</td>
<td>Preliminary Rating Range</td>
<td>Medium</td>
</tr>
<tr>
<td>Factor 3: Strength of Member Support</td>
<td>+3, +2, +1, 0 notches</td>
<td>Low</td>
</tr>
<tr>
<td>Rating Range (F1 + F2 + F3)</td>
<td></td>
<td>A2-Baa1</td>
</tr>
<tr>
<td>Assigned Rating</td>
<td></td>
<td>Baa1</td>
</tr>
</tbody>
</table>

**Note:** While the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the rating range. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the indicative rating range.

For more information please see our Multilateral Development Banks and Other Supranational Entities rating methodology.

**Footnotes:**

(1) Rating Range: Factor 1, Capital Adequacy, and Factor 2, Liquidity, combine according to the weights indicated into a construct we designate as Intrinsic Financial Strength (IFS). A notching system combines IFS and Factor 3, Strength of Member Support.

(2) 5 Ranking Categories: Very High, High, Medium, Low, Very Low.
Moody's Related Research

» Credit Analysis: Eurasian Development Bank, 23 November 2016

» Sector Focus: Global Funding From Multilateral Development Banks Will Continue To Increase, 28 September 2015

» Rating Methodology: Multilateral Development Banks and Other Supranational Entities, 29 March 2017

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.
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