

## **Fitch Downgrades Eurasian Development Bank to 'BBB'; Outlook Negative**

Fitch Ratings-London/Paris/Moscow – 10 February 2009: Fitch Ratings has today downgraded Eurasian Development Bank's (EDB) Long-term Issuer Default Rating (IDR) to 'BBB' from 'BBB+' and the Short-term IDR to 'F3' from 'F2'. The Outlook is Negative.

This follows the recent downgrade by Fitch of Russia's IDRs to 'BBB'/'F3' from 'BBB+'/'F2'.

The ratings of EDB are mainly driven by support from Russia and the Republic of Kazakhstan, which are the two founding member countries of EDB and respectively own one third and two thirds of the bank's share capital. Based on comfort letters signed by the Deputy Finance Minister of Russia and Finance Minister of Kazakhstan, and on the strong privileges and immunities the institution was granted at inception by its founding member states, Fitch believes support would be provided in case of need. This opinion has been reinforced by both Russia and Kazakhstan paying their remaining share of capital of the bank ahead of schedule in 2008.

In conforming with its mission, the EDB is open to membership from the Eurasian Economic Community (EurAsEC) countries. In 2008, Armenia, Belarus and Tajikistan submitted their application to join the bank, and the Council of the bank approved their accession in December 2008. The stake amount is likely to be modest, with the two founding member states maintaining a majority stake in EDB's capital. Belarus and Tajikistan are both members of the EurAsEC, which also includes Russia and Kazakhstan, as well as the Kyrgyz Republic and the Republic of Uzbekistan. As a result of the financial crisis, the EurAsEC multilateral institutions will play a greater role in financing the region's economies. This has been evidenced by the decision of the EurAsEC countries, in January 2009, to create an anti-crisis fund endowed with USD10bn; its goal will be to provide mutual assistance within the EurAsEC and finance multilateral economic projects.

The ratings of EDB are also supported by a number of privileges provided to EDB. Its charter establishes its preferred creditor status, protecting the bank's assets from any restriction or foreign currency moratoria and giving it priority of repayment over other creditors in the case of a sovereign default. Given that the bank's operations are likely to be extended to countries or projects carrying a fairly low credit quality, such treatment should provide EDB's financing with strong protection against credit losses. In recognition of its potential exposure to risk, and although not subject to national banking regulations, the bank has set a comprehensive risk management framework governing liquidity, funding and capital requirement; in particular, the bank treasury portfolio does not include asset-backed securities and it has no exposure to the US sub-prime market. The bank also benefits from a large capital base, which is entirely invested in treasury assets, governed by conservative guidelines.

Established as an MDB in 2006, the bank's mission is to foster the development of a market economy in member states and to facilitate the regional integration of the EurAsEC. It is headquartered in Almaty (the Republic of Kazakhstan) and had 181 staff at end-December 2008.

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