**Announcement:** Moody's changes outlook on Aaa ratings of EIB and CEB to negative; maintains stable outlook on EBRD's Aaa rating

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Aaa/Prime-1 ratings of all three entities are affirmed

Frankfurt am Main, December 08, 2012 – Moody's Investors Service has today changed to negative from stable the outlook on the Aaa ratings of the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB). At the same time, Moody's has maintained the stable outlook on the Aaa rating of the European Bank for Reconstruction and Development (EBRD). As part of today’s action, Moody's has affirmed the Aaa/Prime-1 ratings of all three multilateral development banks (MDBs).

Today's rating actions conclude the assessment that Moody's initiated on 3 September 2012, when it changed the outlook on the EU’s Aaa rating to negative and announced that it would assess the extent to which the credit-enhancing features of these MDBs are sufficient to mitigate the impact on their credit standing of the weakening of the creditworthiness of key Aaa-rated member states.

The decision to change the rating outlook on the EIB and the CEB to negative was driven by the following two factors:

- The potential that low-probability but high-impact events, including the possibility of multiple exits from the euro area, would result in significant impairments to the assets of these MDBs.

- Together with the high likelihood that the credit standing of their largest shareholders, on whom the MDBs would need to rely for additional capital in such extreme scenarios, would exhibit strong correlation.

In Moody's view, the EBRD is less exposed to those risks than the EIB and the CEB, given its different geographical area of operation and its broader, less correlated shareholder structure.

RATIONALE FOR NEGATIVE OUTLOOK FOR EIB AND CEB

In assessing the credit risk profile of these Aaa-rated entities, Moody's has considered their resilience to highly stressed scenarios that could seriously impair their assets and also undermine the capacity of their shareholders to fulfil their callable capital commitments. The EIB and the CEB already face sizeable exposures to peripheral euro area countries and low probability but high-impact scenarios involving multiple exits from the euro area would therefore cause these MDBs to incur losses of a magnitude that would require them to call on their shareholders for additional capital.

Both have a broad set of very highly rated shareholders which could provide considerable strength in such scenarios. However, Moody's believes that a combination of common exposure to shocks, together with the close institutional, economic and financial linkages that prevail among major euro area sovereigns, implies that the credit standing of these MDBs' largest shareholders would exhibit a strong correlation in extreme scenarios in which they would be asked to provide capital support to these MDBs.

As a consequence, Moody's does not believe that these two MDB's shareholding structures provide sufficient diversification in capital resources to support a stable outlook on their Aaa ratings given that almost all their shareholders have Aaa ratings with negative outlooks, or carry ratings lower than Aaa.

RATIONALE FOR AFFIRMING Aaa/P-1 RATINGS FOR ALL THREE MDBs

At the same time, all three entities retain the highest possible rating (Aaa). This reflects the strength of these institutions’ balance sheets, and the strength they derive from the availability of significant amounts of callable capital, allied to the very strong economic incentives that each set of shareholders has to keep these MDBs operational. These MDBs are important public policy instruments that support economic activity in a crisis scenario. While the EIB is vital for providing long-term financing for growth-stimulating infrastructure projects, the CEB provides funding for social projects, and the EBRD provides lending and equity financing to the private sector.
In contrast to the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM), which were recently downgraded to Aa1 from Aaa, the EIB and CEB have slightly more diversified member bases, with members drawn from EU-27 countries rather than solely the euro area. In addition, in Moody's view, the much more diversified asset side of the EIB and the CEB as well as the different policy mandates are commensurate with a one-notch rating differential. The EFSF and the ESM have a highly concentrated and weak asset portfolio given that they were created to support particularly weak countries, while all other MDBs operate under very strict risk management practices. Furthermore, the EFSF and ESM were created to support the common currency project of the euro area, and its relevance would be undermined in case of a euro area break-up scenario.

Specific rationales for each rating affirmation are provided immediately following the section below.

The ratings of EIB, CEB and EBRD were assigned by evaluating factors that Moody's considers relevant to the specific characteristics of multilateral development banks, reflecting in particular their dual nature as financial institutions and vehicles of international public policy. These factors include the issuer's (i) governance and risk management policies and processes; (ii) capital adequacy, asset quality and liquidity management; and (iii) ability to rely on shareholders or members to fulfill financial commitments and for financial support. Moody's compared these attributes against other issuers with similar mandates which Moody's believes incur similar credit risks, and believes ratings of EIB, CEB and EBRD are consistent with those of other issuers with similar credit risk.

MOODY'S CHANGES OUTLOOK ON EIB'S Aaa RATING TO NEGATIVE; RATING AFFIRMED

Moody's Investors Service has today changed the outlook on the Aaa rating of the European Investment Bank (EIB) to negative from stable. Moody's has also affirmed the EIB's Aaa/P-1 ratings.

The key rating drivers for changing the EIB's outlook to negative are:

- The potential that low-probability but high-impact events, including the possibility of multiple exits from the euro area, would in Moody's opinion result in significant impairments to the EIB's assets;
- together with the high likelihood that the credit standing of EIB's largest shareholders, on whom it would need to rely for additional capital in such extreme scenarios, would exhibit strong correlation.

-- RATIONALE FOR EIB'S NEGATIVE OUTLOOK

In assessing the credit risk profile of the EIB, a highly rated entity, Moody's considered its resilience to highly stressed scenarios that seriously impair its assets and undermine the capacity of its shareholders to fulfill their callable capital commitments. The EIB already faces a sizeable loan exposure to peripheral euro area countries. Low-probability but high-impact scenarios, involving multiple exits from the euro area, would in Moody's opinion therefore cause the EIB to incur losses of a magnitude that would require it to call on shareholders for additional capital.

The EIB has a broad set of very highly rated shareholders that could provide considerable strength in such scenarios. However, Moody's believes that a combination of common exposure to shocks, together with the close institutional, economic and financial linkages which exist among the major euro area sovereigns, implies that the credit standing of the EIB's largest shareholders would exhibit strong correlation in extreme scenarios in which capital support would need to be extended to the EIB.

As a consequence, Moody's does not believe that the EIB's shareholding structure provides sufficient diversification in capital resources to support a stable outlook on its Aaa ratings given that almost all of its shareholders have Aaa ratings with negative outlooks, or carry ratings lower than Aaa.

-- RATIONALE FOR AFFIRMATION OF EIB'S Aaa/P-1 RATINGS

The key drivers for today's affirmation of the EIB's Aaa/P-1 ratings are:

1) Its high asset quality and strong capital buffer to absorb shocks.
2) Its sound risk management and access to ECB liquidity.
3) The very strong ability and willingness of the EIB's shareholders to provide support.

The first driver underpinning Moody's decision to affirm the EIB's Aaa rating is the very low share of impaired loans (0.1% of total disbursed loans or EUR353 million) that were reported in the EIB's loan book at the end of 2011.
Despite a challenging operating environment. At the end of 2011, 86.9% of the risk portfolio (EIB’s loan portfolio excluding the non-EU part of the portfolio that benefits from comprehensive coverage under EU or member guarantee), was backed by a borrower or obligor rated investment grade. According to the internal loan grading system, loan quality has deteriorated only very moderately over the past few years. In addition, the EIB benefits from preferred creditor status (PCS) for loans to sovereigns or guaranteed by sovereigns.

Moreover, the EIB’s capital buffer of paid-in capital and accumulated reserves provides a significant cushion to absorb potential losses in the context of the European sovereign debt crisis. In addition, the EIB can call capital from its members to meet its obligations in case of need. As of 1 December 2012, Aaa- and Aa-rated members accounted for 67% of callable capital, and 22 out of the 27 member countries were rated investment grade (representing 97% of callable capital). The end 2011 Basel II capital adequacy ratio at 24.9% remained high relative to the 8% minimum for commercial banks. The EIB has consistently generated profits, which has helped to increase its capital buffer.

The second driver of today’s affirmation is the EIB’s self-imposed governance and prudent risk management, which are in line with best banking practice and constitute a rating strength, as well as its access to ECB liquidity. Moreover, EIB benefits from a fully independent Audit Committee. Against the background of the financial crisis, the EIB has in particular strengthened its liquidity risk management, including stress tests and a contingency liquidity plan. Moody’s therefore considers liquidity risk as being very remote for the EIB.

The third driver of Moody’s affirmation of the EIB’s rating is represented by the very high ability and willingness of the EIB’s member states to offer support. This factor is in turn informed by (1) the Aa1-median-weighted rating of EIB shareholders; (2) the EIB’s significant importance in the process of European integration over more than five decades; (3) its continued profitability; (4) the recently announced increase in fully paid-in capital, which will also increase total subscribed capital, expected via a EUR10 billion cash injection; (5) the very strong legal commitment to the EIB given its statute enshrining it as an integral part of both the Treaty of the Functioning of the European Union and the Treaty on European Union; as well as (6) the very strong economic incentives to support the EIB given that the EIB would, in a stress scenario, be one of the very few sources of long-term funding for troubled sovereigns.

-- WHAT COULD CHANGE EIB’S RATING -- DOWN

A sizeable deterioration in the EIB’s asset quality would exert downward pressure on the EIB’s ratings. In addition, signs of weaker shareholder support both in terms of their ability as well as willingness could also lead to downward rating actions for the EIB.

Conversely, the rating outlook could be moved back to stable if the risk of severe financial and economic disruptions in the euro area were to ease significantly.

MOODY’S CHANGES OUTLOOK ON CEB’S Aaa RATING TO NEGATIVE; RATING AFFIRMED

Moody’s Investors Service has today changed the outlook on the Aaa rating of the Council of Europe Development Bank (CEB) to negative from stable. Moody's has also affirmed the CEB’s Aaa/ Prime-1 ratings.

The key rating drivers for changing the CEB’s outlook to negative are:

- The potential that low-probability but high-impact events, including the possibility of multiple exits from the euro area, would result in significant impairments to the CEB’s assets;

- together with the high likelihood that the credit standing of CEB’s largest shareholders, on whom it would need to rely for additional capital in such extreme scenarios, would exhibit strong correlation.

-- RATIONALE FOR CEB’S NEGATIVE OUTLOOK

In assessing the credit risk profile of CEB, a highly rated entity, Moody’s has considered its resilience to highly stressed scenarios that would seriously impair the CEB’s assets and undermine the capacity of its shareholders to assist the CEB by fulfilling their callable capital commitments. The CEB has a sizeable loan exposure to peripheral euro area countries. Low-probability and high-impact scenarios involving multiple exits from the euro area would cause the CEB to incur losses of a magnitude that would require it to call on shareholders for additional capital.

In such scenarios, the CEB has a broad set of very highly rated shareholders which provides considerable strength. However, Moody’s believes that a combination of common exposure to shocks together with the close
institutional, economic and financial linkages which exist among the major euro area sovereigns, implies that the credit standing of CEBs' largest shareholders would exhibit a strong correlation in extreme scenarios that require capital support to be extended to the CEB.

As a consequence, Moody's does not believe that the CEB's shareholding structure provides sufficient diversification in capital resources to support a stable outlook on its Aaa ratings given that almost all of its shareholders have Aaa ratings with negative outlooks, or carry ratings lower than Aaa.

-- RATIONALE FOR AFFIRMATION OF CEB'S Aaa/ Prime-1 RATINGS

The key drivers for today's affirmation of the CEB's Aaa/P-1 ratings are:

1) The bank's prudent risk management framework and excellent asset quality track record despite a challenging operating environment.

2) Very high liquidity levels that outperform Aaa-rated MDB peers.

3) A strong capital base although slightly weaker than that of other Moody's Aaa-rated MDBs.

The primary driver of Moody's decision to affirm the CEB's Aaa/P-1 ratings is the fact that it does not have a significant history of underperforming assets. The excellent quality of its portfolio should be underlined given that, since its inception in 1956, the CEB has only experienced one default worth EUR1.8 million on its operational assets in 2009 (it was a loan to Icelandic financial institutions that were 100% provisioned by the CEB). The CEB relies on a very stringent risk management and monitoring framework that has been relatively successful. In particular, the CEB does not extend any credit line and budget support loans but only co-finances projects. At the end of November 2012, the CEB's overall credit risk profile of its loan portfolio had an average weighted rating of Ba1, which is very high in relative terms. In addition, the overall exposure to sovereign states continues to increase, reaching 66% of the total. The CEB's rating is further underpinned by its preferred creditor status, which, in Moody's view, reduces the expected loss on assets in the event of the default of a sovereign counterparty.

The second driver underpinning the rating affirmation is the CEB's robust liquidity position as an important factor that underpins its Aaa rating given that it is one of the most liquid Moody's Aaa-rated MDBs. Despite its ease in issuing on international markets, the bank follows a conservative liquidity framework, under which its available liquidity (i.e. its cash position, which consists of deposits and available-for-sale financial assets with a maturity lower than 18 months) is not allowed to fall below 50% of its net liquidity requirements over the next three years. In this respect, the CEB also operates well above its self-imposed limit, with a strengthened liquidity ratio in the vicinity of 134% at the end of October 2012. In Moody's opinion, the CEB's very high level of liquidity provides it with ample scope to accommodate even the most severe scenario of market-access shutdown lasting three years. However, in this scenario, the CEB could also draw upon support from its shareholders by calling unpaid capital. Its liquidity would then be more than sufficient to meet cash requirements, until called capital is effectively paid-in, which means that the risk of the CEB running out of money is remote.

The third driver underlying the CEB's affirmed Aaa rating is the fact that it operates under stringent capital adequacy regulations that ensure that it has sufficient resources of its own to absorb any losses related to its lending activities. Moody's believes that the CEB operates well within these constraints despite the negative effect of the ongoing European debt crisis. Moody's own measure of capital adequacy - the risk asset coverage ratio, which is defined as the ratio of paid-in capital and reserves plus callable capital contributed by Aaa/Aa shareholders to the total amount of investments in non-investment-grade countries - stood at 141.2% at the end of 2011. Although this is much lower than it was in 2010 (385%) following the European sovereign downgrades, it is still high in absolute terms. Although this percentage is weaker than that of most Aaa-rated MDBs, it is mitigated by the fact that the true riskiness of the CEB's portfolio, given its project-based nature, is much lower, as evidenced by its excellent performance track record. With close to 48% of its callable capital potentially coming from Aaa/Aa-rated sovereigns, CEB's contractual support is very strong. It is also worth noting that the CEB has demonstrated stable profitability over the past decade, averaging at almost EUR100 million annually. The CEB's net income has always been one of the less volatile within Moody's-rated MDB universe and especially during the current crisis. This has allowed the CEB to add more than EUR1.7 billion to its reserves since 1994, demonstrating its ability to strengthen its capital base.

-- WHAT COULD CHANGE THE CEB'S RATING - DOWN

A sizeable deterioration in the CEB's asset quality would exert downward pressure on the ratings. In addition, signs of weaker shareholder support both in terms of their ability as well as willingness could also lead to downward
rating actions.

Conversely, the rating outlook could be moved back to stable if the risks of severe economic and financial disruptions in the euro area were to ease significantly.

MOODY’S AFFIRMS EBRD’S Aaa/P-1 RATINGS AND STABLE OUTLOOK

Moody’s Investors Service has today affirmed the Aaa/Prime-1 ratings of the European Bank for Reconstruction and Development (EBRD). The outlook remains stable.

The key drivers for today’s affirmation are:

1) The bank's solid financial performance despite a challenging operating environment.

2) Very high liquidity levels that outperform ‘Aaa’-rated Multilateral Development Bank (MDB) peers.

3) A strong capital base and a diversified shareholder structure.

-- RATIONALE FOR EBRD’S RATINGS AFFIRMATION

The first driver of Moody’s affirmation of the EBRD’s Aaa/P-1 ratings is represented by the continued solid financial results, which highlight prudent operational policies and a very strong balance sheet. Despite a very challenging operating environment, the effect of the European debt crisis on the EBRD’s credit profile has been very limited. This is because the EBRD’s exposure is mainly to non-core European countries, as well as to Russia, Turkey and Central Asia. Moreover, the EBRD’s strong standalone financial strength is able to sufficiently absorb increased risks before needing to rely on members for support. While asset quality might deteriorate due to the secondary effects of the crisis on the real sector outside the EU, the effect should be manageable given the bank’s resilience and financial strength.

Realised profit before unrealised fair value adjustments to share investments, provisions and other unrealised amounts has remained extremely stable at just under EUR1.0 billion since 2007, with fluctuations in net profit being mostly attributed to share investment valuation. As part of the EBRD’s development mandate, the banking portfolio carries out equity share investments in private sector companies within its operating region. These investments are prone to a great deal of mark-to-market valuation volatility based on operating conditions. Nevertheless, the share investment portfolio remains valued above cost.

The second driver of today’s rating affirmation is the EBRD’s conservative internal liquidity requirements, which make it one of the most liquid Moody’s-rated Aaa MDBs. Ample liquidity provides the EBRD with a cushion to cope with macroeconomic and financial shocks and enables it to rapidly adopt countercyclical measures, as it did during the 2008-09 global economic crisis. The bank continues to provide countercyclical financing to the private sector to mitigate the effect of the euro area crisis on recipient countries, while maintaining a prudent risk management framework.

As of the end of the third quarter of 2012, more than 20% of its EUR29.5 billion in subscribed capital is ‘paid in’, a share that is high relative to other MDBs. Over 90% of the bank’s callable capital is committed by investment-grade countries, including 71% by a diversified group of Aaa- and Aa-rated member sovereigns. Moreover, the EBRD is able to absorb a deterioration of member ratings because its own rating is based on more than just the strength of member support. The bank maintains and continues to build financial buffers, including EUR7.9 billion in reserves, with which to absorb shocks.

-- WHAT COULD CHANGE THE EBRD’S RATING - DOWN

Downward pressure on the EBRD’s rating would occur in the unlikely event of substantial upward pressure on the bank’s gearing ratios, combined with a significant deterioration in asset quality. These trends could stem from a further weakening of global economic conditions and the challenges of extending the bank’s mandate to the southern and eastern Mediterranean (SEMED) region, a new and potentially volatile operating environment.

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