MOODY'S
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CREDIT ANALYSIS

Black Sea Trade and Development Bank

Supranational

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This Credit Analysis provides an in-depth discussion of credit rating(s) for Black Sea Trade & Development Bank and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website.

Summary Rating Rationale and Outlook

We rate the Black Sea Trade and Development Bank's (BSTDB or the Bank) long-term debt at A3 and short-term debt at P-2 with a stable outlook. These ratings balance (1) weaknesses in a geographically-concentrated asset base and support provided by a relatively weaker member base; with (2) adequate risk management, as reflected in prudent liquidity and capital adequacy policies and practices.

To be a member state of BSTDB, and therefore to be eligible for BSTDB financing, a country must first be a member of the Black Sea Economic Cooperation (BSEC). The current member states are the governments of Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey and Ukraine. The investment-grade member governments (none of which have a Aaa or Aa rating) own a combined 49% of the Bank's subscribed capital, down from 61% following the deterioration of Greece's credit profile. The relatively weaker financial strength of the members does not afford a significant level of support that can be provided to the Bank in the event of financial distress.

Over 50% of the Bank's loan portfolio exposure is in three countries: Turkey, Russia and the Ukraine. While there has been improvement in the level of concentration, from 66% in 2008 to 53% at end-May 2012, it is likely to remain high. Concentration will remain elevated in adherence to the Bank's mandated region of operation and because the smaller member countries don't have the absorption capacity for a significant amount of borrowing. In addition, with almost 90% of the Bank's total lending exposure being to the private sector (with a focus on small- and medium-sized enterprise lending), concentration is compounded by the low creditworthiness of its borrowers. Over 90% of the Bank's loans are to entities assessed as having sub-investment grade creditworthiness. While the Bank was historically successful in keeping non-performing loans (NPL) low, 2010 and 2011 saw steady increases, peaking at 7.0% of outstanding loans at year-end 2011. This rise exemplifies the difficult economic environment in which the Bank operates.

The Bank mitigates much of the risk stemming from its mandated operations by adopting risk management policies in line with international best practices for multilateral development banks. The liquidity policy provides sufficient coverage of cash needs, though the Bank consistently holds amounts in excess of the policy. The capital policies prevent the Bank's development operations (and therefore indebtedness) from becoming oversized compared to the underlying capital base.

We have a stable outlook on BSTDB's rating despite past and potential deterioration in the credit profiles of its members which is closely related to asset performance as its loans and investments are exclusively to entities located in its member states. Several BSEC member countries were among the most badly hit by the economic downturn following the 2008-09 global financial crisis. As the European sovereign debt crisis continues and intensifies, and the risk of a Greek exit from the euro area rises,[1] the BSEC members are likely to be impacted again. Indeed signs of slowing economic growth have already manifested in many of the member countries. NPLs will likely increase further, however, the BSTDB is positioned to withstand it due to prudent risk management policies.

Organisational Structure and Strategy

Founded in 1997, the BSTDB is the financial pillar of BSEC. The charter of the BSEC, which was established in 1992 to promote peace and stability through enhanced relations among its member states, also calls for the promotion of regional cooperation "as part of the integration process in Europe." To be a member of BSTDB, and therefore to be eligible for BSTDB financing, a country must first be a member of the BSEC. Serbia is the only BSEC country that is not presently a member of the Bank.[2] Other multilateral banks and financial institutions are also eligible to be members of BSTDB.

The mandate of the BSTDB is to foster regional cooperation and promote economic growth by helping to develop member states' SME and financial sectors, expand trade flows among member countries, boost levels of intra-regional investment and increase regional economic cooperation.

Ownership

We rate all BSTDB member countries, four of which – Azerbaijan, Bulgaria, Romania and Russia – are investment grade (see Exhibit 1). The investment-grade member governments own a combined 49.2% of the Bank's capital. Greece, Bulgaria, Romania, Russia, Turkey and Ukraine are the largest shareholders and together own 91.0% of the Bank's capital base (based on subscriptions).

By design, the Bank has no non-regional member countries. All member countries of the BSTDB are both capital contributors and borrowers. This ensures that they are a "club of equals," which, in the Bank's view, minimises the politics within the organisation. This is not the case in many other multilateral development banks (MDBs), which typically have highly-rated non-regional countries as members. However, membership of the BSTDB is possible for multilateral banks and financial institutions from outside the region; up to SDR1 billion in authorised but unallocated capital is available for this option, or for other eligible members.

1 Although a Greek exit is not our central scenario, we attach a significant probability to such an event occurring.

2 Serbia has shown interest in joining.

EXHIBIT 1

Member Countries' Ratings, Shareholding and Portfolio Share

	Rating/Outlook [1]	Shareholding of Subscribed Capital (%)	Development Portfolio Share (%) [2]
Greece	C/-	16.6	6.7
Russia	Baa1/Stable	16.6	22.1
Turkey	Ba1/Positive	16.6	20.1
Romania	Baa3/Negative	14.1	6.6
Bulgaria	Baa2/Stable	13.6	10.6
Ukraine	B2/Negative	13.6	10.6
Azerbaijan	Baa3/Stable	5.0	8.3
Albania	B1/Stable	2.0	6.2
Armenia	Ba2/Negative	1.0	3.9
Moldova	B3/Stable	0.5	2.5
Georgia	Ba3/Stable	0.5	2.4

[1] Foreign currency government bond rating and outlook as of date of report.

[2] Gross loans and equity investments as of 31 May 2012.

Source: BSTDB and Moody's

BSTDB has no Aaa/Aa members…

The BSTDB has no Aaa- or Aa-rated members, which is a significant consideration as we include in our capital adequacy ratios the callable capital of Aaa- or Aa-rated members. By comparison, all Aaa-rated MDBs have a significant Aaa- and Aa-rated member presence and most other A-rated MDBs[3] have Aa-rated member participation, with the exception of the Eurasian Development Bank (EDB), which is also rated A3.

As a long-term goal, the BSTDB aims to admit a Aaa-rated shareholder. Given their current ratings, none of the member governments is likely to be upgraded to Aaa (or even Aa) for the foreseeable future and therefore a Aaa shareholder is more likely to come from the inclusion of a multilateral bank or financial institution as a new member. The addition of such a shareholder would suggest positive rating repercussions in that it would improve the Bank's capital adequacy ratios through the inclusion of callable capital pledged by Aaa- or Aa-rated members.

…But maintains close relationships with Aaa-rated IFIs

For this and other reasons, the bank has strengthened ties with the international community. For example, it signed a memorandum of understanding with the European Union (EU) to institutionalise policy dialogue with the EU and international financial institutions (IFIs), and to harmonise strategies and policies. The Bank has also established an "observer status" enabling it to invite IFIs and countries showing an interest in the Black Sea region to have a more formalised relationship with the Bank. There are currently 10 institutions to which the Bank has granted observer status, five of which are rated Aaa by Moody's: KfW, the European Bank for Reconstruction and Development, the European Investment Bank, the International Finance Corporation and the Nordic Investment Bank. Of the other five, Vnesheconombank is rated Baa1 while the Development Bank of Austria, the Association of

3 MDBs rated in the A category are: Arab Petroleum Investments Corp (APICORP/A1); Central American Bank for Economic Integration (CABEI/A2); and Eurasian Development Bank (EDB/A3).

the European Development Finance Institutions, the International Investment Bank[4], and Proparco are not rated. The observer status arrangement enhances co-financing[5] possibilities and facilitates access for investors.

Development Operations

The majority of the Bank's outstanding activities are in the private sector (around 89.5% at end-May 2012), although there are a number of sub-sovereign loans in the portfolio.[6] It aims to serve private sector entities not already served by the commercial sector and is careful not to displace the commercial sector. The Bank's products include: medium- to long-term loans; credit lines via financial intermediaries; convertible debt and other quasi-equity; equity investments, both direct and via investment funds; and guarantees.

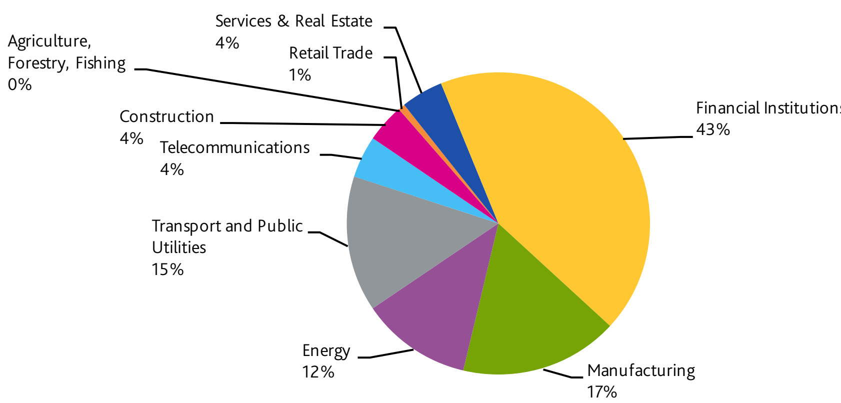
In practice, the Bank's two main lines of business are project/corporate finance and trade finance and its two main types of operations are direct and via financial intermediaries. Equity financing comprised 4.5% of operations at end-May 2012, bringing it closer to management's target of 5.0%-7.5% by year-end 2014. The intention is to use equity financing strategically to improve clients' access to financing, meet real growing demand and diversify its product portfolio. Due to the inherently riskier nature of equity investments, we view the low level and relatively low target as both prudent and manageable.

Almost 60% of the Bank's activity is in the financial and manufacturing sectors at present. This marks a shift, as the transport and public utilities sector previously held the second-largest share of the total portfolio.

EXHIBIT 2

Development Portfolio* Distribution by Sector

as of 31 May 2012



* Gross loans and equity investments.

Source: BSTDB and Moody's

4 Corrected on June 7, 2013.

5 The Bank currently has loans from the Austrian Development Bank, KfW, Nordic Investment Bank, and Proparco, which it on-lends in its region according to agreed conditions and criteria (country, sector, etc).

6 All in Turkey and with either an implicit or explicit government guarantee.

BSTDB's exposure to financial institutions is high as it uses banks to direct loans to SMEs and trade finance rather than lend directly. Nevertheless, its exposure to financials exceeded 40% when the global crisis hit and it has indicated that it will limit further increases. Indeed, the Bank has indicated that it wishes to build up its exposure to manufacturing and regional infrastructure as a proportion of its overall business and maintain the share of financial institutions at around 40%. Member countries are keen for the bank to develop regional infrastructure (particularly energy and energy transit, transport, construction and telecoms), given its development impact, particularly on intra-regional trade and investment. In practice, BSTDB tends to lend to companies involved in the project rather than finance the project itself.

Growth Plans

Members Support Shift in Growth Strategy - Focus on Preservation of Financial Strength over Growth

The Bank outlines its medium-term strategy and business plan (MTSBP) in a document covering the next four years. An objective of the 2007-10 MTSBP was to double the size of the Bank's portfolio[7] to €692 million by year-end 2010. Actual 2010 results showed the portfolio at €673 million, which, although slightly below target, was broadly in line with the plan's objectives. The shortfall was largely due to a very difficult end to 2008 and start to 2009. Lending effectively came to a halt after the Lehman crisis in October 2008 and didn't get underway again to any degree until the second half of 2009, when financial fears began to ease. As a result, the portfolio size shrunk by almost 7% between 2008 and 2009, in stark contrast to the strong year-over-year growth in 2007 and 2008 (which averaged around 44%).

The 2011-14 MTSBP set out three scenarios (high, base and low) for the Bank's growth based on global economic and financial market conditions. The Bank was originally following a base case scenario that targeted annual growth of 13.7% to reach a portfolio of €1.15 billion by end-2014. However, at the board of directors meeting in June 2012, the Board considered switching to the low case scenario in order to account for the continuing adverse global and regional conditions resulting from the prolonged euro area crisis. Switching scenarios would lower targeted annual portfolio growth to 7.5% in order for the outstanding portfolio to reach €900 million – and total balance sheet size to be around €1 billion – by end-2014. While the bank wants to grow, it has stated that it won't compromise its asset quality in doing so, and the low case scenario allows it to grow while focusing more on the monitoring of loans rather than on the aggressive growth of loans.

Opportunities in Black Sea Region Remain Strong

The importance of an MDB in terms of shareholder support is a key credit consideration. The BSTDB has a vital role to play in the financing of the Black Sea region. Although the rate of commercial bank lending prior to 2009 was very high on average for the region, there remains a large unsatisfied demand as financial penetration is still low by developed country standards, particularly in the smaller members. There is, and most likely will continue to be, a strong need for additional financing that the BSTDB can help satisfy. The Bank believes that the drop in foreign direct investment from Europe into the region because of the crisis has led to a higher potential for domestic demand for financing and intra-regional financing. This is an especially pertinent development for the Bank as its mandate stresses intra-regional cooperation and development.

[7] Gross loans and equity investments.

Governance and Risk Management

An MDB's ability to mitigate its vulnerability to shocks via sound governance structure, internal policies and compliance with best practices across its peer group is an important factor because there is no regulatory body for MDBs. The BSTDB follows international best practices for MDBs. The Bank sets exposure limits to help diversify its risk by country and by sector, in light of its geographically concentrated portfolio. The Bank has three levels of concentration limits with (1) the first (institutional) limit coming from the establishing agreement; (2) the second (operational) limit from the portfolio risk management and investment policy, which can be amended by the Board of Directors; and (3) the third limit coming from the Credit Committee, which cannot be in conflict with the institutional or operational limits. The limits are similar to other MDBs and include:

» A gearing ratio of 150% institutionally and 100% operationally[8]

» An individual country risk exposure limited to 30% of approved commitments (defined as Board of Directors approved less repayments and cancellations)

» An individual sector risk exposure targeted at 40% of approved commitments

» Single project limits of 33% for equity exposure, 35% for greenfield project finance and 100% for corporate or trade finance

» An institutional equity limit whereby disbursed equity investments will never exceed total unimpaired paid-in subscribed capital, surpluses and reserves. Operationally, equity investments cannot be above 50% of paid-in capital.

» A single obligor limit of 5.0%[9] of paid-in capital, reserves and surpluses (≤ 3% paid in capital for individual equity investments), with the aggregate of the first five not to exceed 40% of the BSTDB's outstanding commitments

Around two-thirds of the Bank's total loan portfolio is collateralised. Certain exceptions have been made on a case-by-case basis for outstandingly strong corporations with established borrowing records and/or dominant market positions located in countries with investment-grade-rated sovereigns. Of the total exposure to financial institutions, 40% of the portfolio is secured.

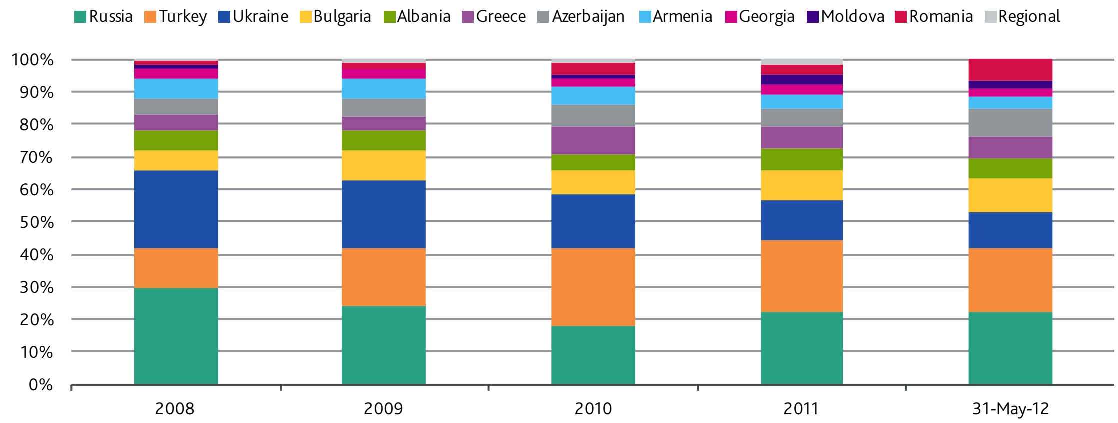
The country limits are obligatory while the sectoral limits are advisory guidelines. All countries are within their 30% limit. One constraint is the absorptive capacity of the smaller member states, given their lower level of economic development. This limited capacity leads to a heavily concentrated portfolio in the larger, more economically-advanced countries among BSTDB's members. This concentration has been moderating as the Bank is careful to expand its operations in the smaller member countries and plans to keep the share of small shareholding members at 20% of the total portfolio. However, this strategy will not be able to significantly alleviate the heavy geographical concentration of its portfolio (52.7%) in three countries (Turkey, Russia and Ukraine), although there has been mild improvement, as shown in Exhibit 3.

[8] The gearing ratio is the ratio of outstanding loans, equity investments and guarantees to equity. The institutional limit sets a maximum for development operations based on subscribed capital (which includes the entire portion of callable capital) while the operational limit is more conservative and sets a lower maximum based on paid-in capital, reserves, retained earnings, and a smaller portion of callable capital.

[9] Reduced from 7.5% in 2012.

EXHIBIT 3

Evolution of Development Portfolio* Distribution by Country



* Gross loans and equity investments.
Source: BSTDB and Moody's

Liquidity

Over-Compliance with Relatively Weaker Liquidity Policy a Credit Strength

The Bank has a liquidity policy in place that sets the minimum level of liquid assets held at 50% of the next 12 months net cash requirements.[10] This is not the strongest policy in the MDB universe as many require holding 100% of net cash needs over the next 12 or more months. However, the breadth of cash requirement coverage is adequate as it includes not just debt service but also undisbursed loans and administrative expenses. The Bank could prioritise debt service over loan disbursements if it needed to. In addition, the Bank has consistently held liquid assets in excess of the amount required by the policy. From 2000-10, the average year-end holding was 152% of net cash requirements; at end-2011, it was 88%; and most recently, at end- May it was 81%. We note the importance of this over-compliance in light of the Bank's very young record of bond issuance.

The Bank's liquid assets are maintained in short-term placements and negotiable securities. Deposits have to be invested with institutions having a long-term rating of at least A2 and euro commercial paper (ECP) holdings must be rated at least P-2 (short term). Currently, most of the liquid assets are in ECP from core European banks.

[10] Where net cash requirements equal liabilities maturing within the next 12 months + signed and undisbursed loan facilities + next 12 months administrative expenses - repayments due on loans in the next 12 months.

Exposure to Greek Government Impacts Treasury Portfolio

In March 2012, the Greek government announced a private sector involvement (PSI) debt exchange. In anticipation of the PSI, by year-end 2011 the BSTDB made provisions against 70.8% of €20 million exposure to Greek government bonds. According to the Bank, it was included in the PSI based on the activation of certain Collective Action Clauses that were legislated into the bonds by the Greek state prior to, and with a view to the completion of, the restructuring. This remains the only exposure to the Greek government, as the Bank continues to have no development-related loans to it (exposure is to the Greek private sector).

The BSTDB was created via international treaty that was entered into by its founding members states (including Greece). According to the Bank, there are certain provisions of its constitutive international treaty[11] which render impairment of its assets by the member states, including via legislative action, impermissible. The Bank has indicated that its Board is pursuing the issue with the Greek member state with the view of resolving it in a satisfactory way under the provisions and processes envisaged in the BSTDB treaty.

Aside from treaty considerations, this situation raises the question of the scope of preferred creditor status (PCS) in protecting MDB assets. We do not consider PCS to protect the treasury portfolio of MDBs. In general, a member's pledge of preferential debt service to MDBs stems from the MDB's mandate to make development-related loans to them, in some cases exclusively. MDB mandates do not typically encompass investment decisions for treasury assets. As such, we do not expect the PCS pledge to protect those assets. Therefore, we do not consider the inclusion of the BSTDB in the PSI to be an indication of weak support by the Greek government. According to the Bank, representatives of the Greek government have stated to the Board that PSI-related issues do not indicate any intention to dispute or put in doubt the PCS of BSTDB.

The bonds were rated A2 at the time of purchase (2009 and 2010). However, we note that using the treasury portfolio to increase exposure to members hampers the diversification of assets, which is an especially pertinent consideration for the BSTDB due to the inherent concentration risk of operations. The Asset Liability and Financial Risk Management Manual sets forth the guidelines for the Member State Bonds Investment Portfolio, in which any member state bond is eligible for investment. The Bank also holds Albanian government bonds with total nominal value of €10 million.

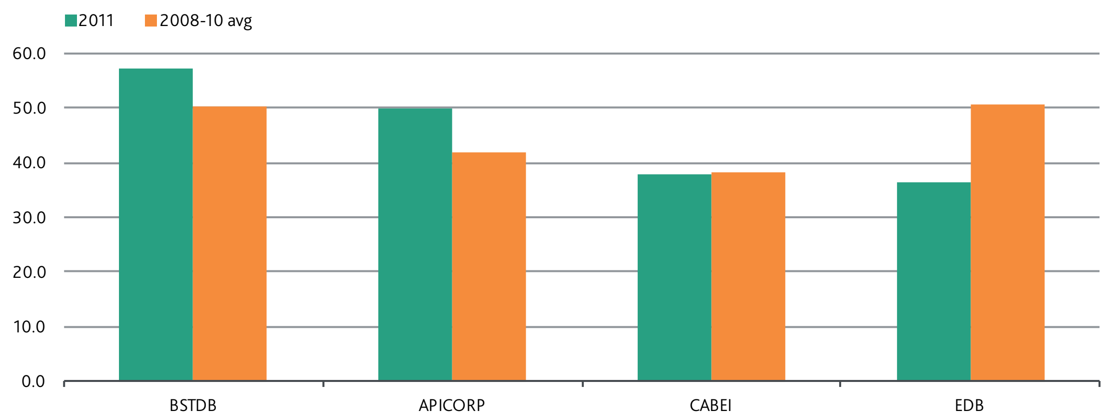
At the end of 2011, liquid assets amounted to 18% of total assets and 57% of total borrowings, down from 22% and 59%, respectively, in 2010. Exhibit 4 shows how BSTDB's position compares favourably to its peers.

[11] Primarily articles 46 and 48 of the Establishing Agreement.

EXHIBIT 4

Liquid Assets % Total Borrowings

Comparison with MDBs Rated in the A-Category



Note: For APICORP, total borrowings includes deposits.

Source: Respective MDB financial statements and Moody's

Diversification of Funding Progresses at Slow Pace due to Unfavourable Market Conditions

In May 2012, the Bank paid off its debut bond issue which was placed in May 2009 and raised $125 million with a three-year maturity. The Bank aims to become a regular issuer but retains flexibility to manage market conditions via undrawn credit lines from IFIs totalling €60 million. It delayed a second international bond issue to refinance the original one due to unfavourable pricing resulting from European aversion[12] in H2 2011 and H1 2012, but intends to try again in 2013. So far in 2012, the Bank has diversified its funding base by issuing ECP and considering a ruble-denominated domestic issue[13] after being recognised by the Russian government as an international financial institution. In addition, it is considering a Swiss franc issuance.

One goal of the bond program is to increase the maturity on its paper to five and eventually 10 years, its market access permitting. Such longer maturities would allow it to better match its assets and liabilities. Although an overall asset/liability maturity mismatch does not currently exist, the average final maturity (at signing) of its projects is 7.1 years, but infrastructure projects can be much longer than the average. The average life of its total loan portfolio is 3.8 years while that of borrowings is 1.4 years. However, the Bank's leverage is low[14] and therefore its loans are primarily funded by capital with a life of at least five years.[15]

12 Given the Bank's location in Thessaloniki, Greece and 16.6% ownership by the Greek government.

13 Swapped to dollar.

14 Ratio of debt-to-useable equity was 53.5% at end May 2012 and averaged 85.5% over the four-year period 2008-11.

15 Article 39, section 3b of the Bank's Establishing Agreement allows for settlement of accounts on cessation of membership of the Bank within a period not exceeding five years from notice of withdrawal.

Capital Adequacy

Capital Structure

Last Year's Minor Difficulties in Collecting the Recent Capital Increase…

BSTDB's authorised capital currently stands at SDR3 billion,[16] which is an increase from SDR1 billion in December 2007. Subscribed capital was initially SDR1 billion, of which SDR300 million was paid-in. This is a relatively high ratio for paid-in capital as many MDBs rated by Moody's have ratios of 4%-10%. An additional SDR1 billion was subscribed in October 2008 and maintained the same proportion of paid-in to callable. Of the 30% (SDR300 million) that will be paid in, SDR104 million was paid-in by the end of 2011, taking total paid in capital to SDR404 million. The remaining payable portion is to be paid-in in annual instalments of SDR25 million, which started in 2011 and will complete in 2018. The capital increase will allow for the continued expansion of operations.

We note that all of our measures of capital adequacy used in MDB analysis include only the portion of capital that is paid in, it does not include payable capital. For the BSTDB, in particular, this is important to note as there is uncertainty regarding the timeliness of the scheduled payments from members. During 2011, Moldova, which had originally subscribed to the general capital increase (GCI), decided to cancel its subscription to the GCI, thereby eliminating its payable capital owed to the Bank and halving its subscribed and callable capital back to pre-GCI levels. As such, its shareholding fell to 0.5% from 1.0% and the shares that it relinquished remain unsubscribed. Furthermore, Albania and Ukraine are in arrears regarding the payable capital. The Ukraine recently made a payment and will possibly clear its arrears by the end of the year. We note that Greece is current in its payments and made the 2011 instalment on time.

…Reflect Members' Weak Financial Positions, Rather than Weak Support for the Bank

In our opinion, the minor difficulties the GCI faced in 2011 do not reflect members' lack of support for the BSTDB, rather they exemplify the difficult financial status of some of its members – a factor already embedded in the Bank's A3 rating. This is not the first time that a member country has decided not to continue with an MDB GCI, as was the case recently with the US and the Inter-American Investment Corporation.[17] In addition, Moldova and Albania own a very small share of the Bank at 0.5% and 2.0%, respectively. Therefore, the reduced increase in paid-in capital does not materially impact the Bank's ability to expand its operations. While the Ukraine is a larger shareholder at 13.6%, it looks to be on the path to clearing the arrears. In all, 83.9% of the first instalment came in by the 31 December 2011 due date, signalling strong continuing support for the Bank.

Callable capital is an unconditional full faith and credit obligation of each member country and provides a substantial financial cushion that could be called upon in the event that the Bank encounters difficulties honouring its debt obligations. The credit standing of the member countries is an important determinant of the quality of callable capital. In the case of BSTDB, the low weighted median member rating[18] of Baa3 and the absence of Aaa- and Aa-rated members makes its callable capital weaker when compared to other MDBs and precludes its inclusion in our capital adequacy ratios.[19] Therefore, the Bank's relatively higher paid-in capital structure weighs particularly favourably from a rating perspective.

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[16] Despite changing the Bank's functional and presentation currency from SDRs to euros as of 1 January 2011, the Bank continues to denominate its share capital in SDR in accordance with Article 4 of the Establishing Agreement, which sets SDR as the unit of account for authorised capital. Members are in the process of adopting an amendment to officially change the capital denomination to euros.

[17] See Inter-American Investment Corporation Credit Analysis, 13 March 2012 for more details.

[18] Foreign currency government bond rating.

[19] Our standard practice is to include the callable capital pledged by members rated Aa3 or higher in capital adequacy ratios.

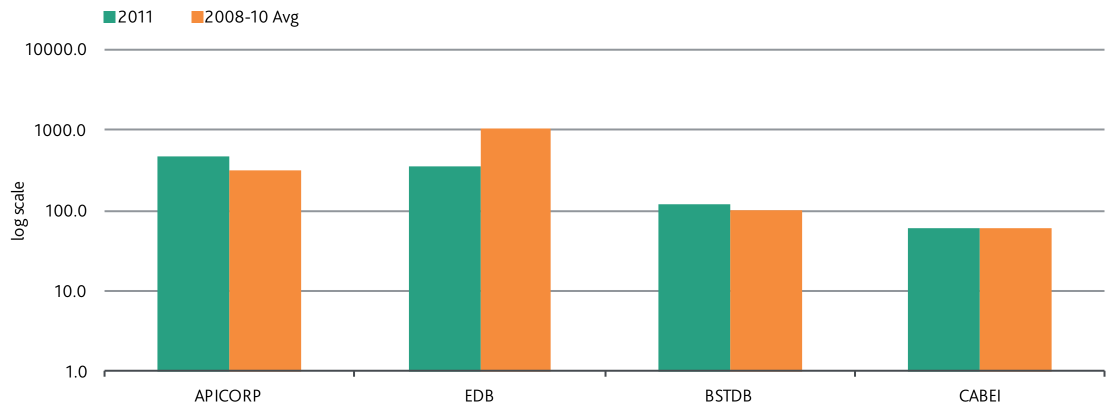
Capitalisation Ratios Somewhat Weaker than Peers

At year-end 2011, the Bank's useable equity (paid-in capital plus reserves and retained earnings) was 75.2% of its total gross loan and equity portfolios. We also look at useable equity in relation to high-risk assets, defined as loans extended to entities rated below investment grade (Ba1 or lower). Exhibit 5 shows the Bank's risk asset coverage ratio of 106.8% in comparison with other MDBs.

EXHIBIT 5

Risk Asset Coverage Ratio*

Comparison with MDBs Rated in the A-Category



* Useable equity + CC of Aaa/Aa-rated members % Loans to non-investment grade-rated entities.

Source: Respective MDB financial statements and Moody's

The Eurasian Development Bank (EDB) and Arab Petroleum Investments Corporation (APICORP) score particularly well here due to their member and asset bases. As the EDB's majority members, investment-grade Russia and Kazakhstan receive the bulk of loans, thus keeping the denominator of this ratio very low.[20] Similarly, APICORP's ratio is very high as its member/loan base is relatively highly rated (Aa- and A-rated countries). Moreover, APICORP is not restricted to operations in member countries and has even extended loans in Aaa-rated countries. As discussed above, the BSTDB's members are relatively low rated and, therefore, in fulfilment of its mandate, it will necessarily have a larger denominator until such time that its members experience upward ratings movement.

Asset Quality

Increase in NPLs Reflects Difficult Operating Environment

Given the speculative ratings of the member countries and the nature of operational risk, perceived asset quality is generally poor. During the first decade of the Bank's operations, it seemed that this perception would not materialise. Indeed, prior to the start of the 2008-09 crisis, the Bank experienced only two non-performing loans from the time it started operations in 1999.[21] However, the global crisis has turned the perception into reality, with eight loans restructured or in the process of being restructured from 2009 to 31 May 2012. As shown in Exhibit 6, the Bank's ratio of NPLs to total loans is historically comparable, but worsened significantly more than peers in 2011.

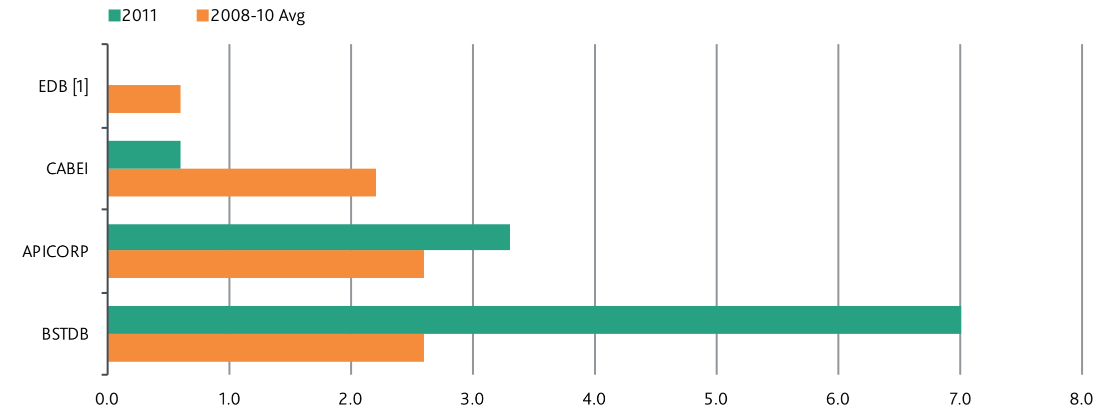
[20] Additionally, the EDB is a relatively new MDB and is still ramping up its lending, which caused the very high 2008-10 average Risk Asset Coverage Ratio.

[21] One was sold at 80% recovery in 2005 and the other is 100% provisioned.

EXHIBIT 6

Non-Performing Loans % Total Loans

Comparison with MDBs Rated in the A-Category



[1] 2011 is actual data (0.0%).

Source: Respective MDB financial statements and Moody's.

Several BSEC members were among the most badly hit by the economic downturn, which explains the significant deterioration in the Bank's NPL ratio from 1.2% in 2008-09 to 5.5% in 2010 and then 7.0% in 2011. During June 2012, one loan started performing again, dropping the NPL ratio to 5.8%.

The Bank's higher NPLs also reflects a reduced benefit from PCS as a result of significant exposure to the private sector. PCS, as it applies to the MDB universe, ensures that loans extended to sovereigns are excluded from all debt restructuring efforts and that resources are made available to service loans regardless of whether the loan is to the public or private sector (i.e., reduces transfer risk in the event of an external payments moratorium). For private-sector focused MDBs, PCS reduces transfer risk but not default risk – in general NPLs are higher and more volatile for them than for public-sector focused MDBs. PCS is critical in bolstering loan repayment performance for public-sector focused MDBs. One example is Corporacion Andina de Fomento (Aa3 stable) and its persistently low NPL ratio of 0.0% despite a relatively large exposure to Ecuador (Caa2 stable). The BSTDB's preferred creditor status has never been tested, even during the bank holiday in the Ukraine in 2004.

Enhanced Provisioning Following Adoption of GEM Database

The Bank's IFRS-compliant provisioning policy was developed in conjunction with Ernst & Young, the Bank's auditors at the time. In 2011, the Bank joined a consortium of international financial institutions'[22] Global Emerging Markets (GEM) credit monitoring system. As a member, the Bank adopted the same methodology for assessing risk and therefore has the right to access data on around 5,000 loan operations as well as add information to the database. This data enables the Bank to better price its loans as well as more accurately size provisions for troubled loans.

General provisions are determined using a proxy based on probability of default and loss given default data from the GEM risk database.[23] Specific provisions are determined following an impairment test after evidence of credit deterioration appears during regular monitoring. During 2011, there was a €9.6 million release from the general provision as a result of the new methodology, however, specific

[22] Includes the International Finance Corporation (Aaa stable) and the European Bank for Reconstruction and Development (Aaa stable).

[23] Previously, the proxy consisted of the average of the yearly loan-loss provisions of the top 10 banks within each of the 11 Member States (110 banks in total) and applying the resulting percentages to BSTDB exposure in the relevant countries.

provisions experienced a charge of €5.4 million. The overall result was that total provisions at the end of 2011 amounted to 5.8% of the outstanding loan portfolio, or 0.8x NPLs, down from 6.6% and 1.2x, respectively, at end-2010.

Profitability

Sustained Profitability Is Supportive of Capital Base

The Bank's lending does not include program or concessional lending, although profit maximisation is not one of its mandates. As all MDBs have a primarily development-related mandate instead of profits, our analysis of MDBs considers profitability from the perspective of whether significant and sustained periods of losses threaten the capital base. In the case of BSTDB, profitability is supportive of the capital base and over time generation of own funds will play a larger role in providing capital for growth in development activities.

Profitability has been a concern in the past, but one that has been mitigated by the Bank's very good performance in recent years, even during the 2008-09 global crisis. The Bank posted net losses in 2001-04, mostly due to provisioning charges (income before general provisions was positive except in 2001). It posted its first solid net profit in 2005 and profitability continued with solid growth until the Lehman crisis in 2008. Difficult conditions meant that income before provisions and net income fell 45% and 24%, respectively, in 2009. Nevertheless, the Bank did make a profit, helped by tight control of expenses.

Historically Large Provisioning Charges in 2010-11

Income before provisions rebounded in 2010, returning to the peak level reached in 2008 and growing another 7% in 2011 to reach €20.2 million. In both years, higher-than-usual dividend income and net gain from an increase in share value related to an equity investment in a strongly-performing Azerbaijani bank, contributed to the overall positive results. However, in both years, provisions were higher than the historical norm, leading to relatively flat net income over the 2009-11 period (average €10.4 million for an average ROA and ROE of 1.3% and 4.4%, respectively). In 2010, provisions for loan losses amounted to €8.6 million due to signs of increasing weakness in the loan portfolio. Much of that (€4.6 million) was released in 2011 after the Bank adopted the new provisioning guidelines associated with the GEM database. The significant release was more than overshadowed by the €14.2 million provision for the Greek government bond held in the treasury portfolio in anticipation of the debt exchange that was announced in early 2012. This was the first time that the Bank had to provision for a treasury portfolio asset.

Going forward, the Bank's expenses will rise mildly due to a change in rent expense associated with its headquarters. The Greek government will no longer reimburse the Bank for its rent costs.[24] At year-end 2011, other income of €875 thousand was the result of a delayed rent reimbursement from the Greek government. Typically the reimbursement was received in the same year and therefore it was netted out instead of being reported separately. This is another example of how the weaker financial positions of the members negatively impacts the level of support provided to the Bank (i.e. weaker ability to support can trump strong willingness to support).

24 The position of the Greek Government is that such reimbursements were made on a voluntary basis.

Rating History

Black Sea Trade and Development Bank

	Issuer Rating				
	Long-term	Short-term	Senior Unsecured	Outlook	Date
Rating Raised	A3	--	A3	Stable	Sept-10
Rating Assigned	--	--	Baa1	Positive	May-09
Outlook Changed	--	--	--	Positive	December-07
Outlook Changed	--	--	--	Stable	October-06
Rating Raised	Baa1	--	--	--	October-06
Review for Upgrade	Baa2	--	--	RUR+	June-06
Rating Assigned	Baa2	P-2	--	Stable	March-04

Annual Statistics

Black Sea Trade and Development Bank

	2008	2009	2010	2011
BALANCE SHEET (€ THOUSANDS)				
Assets				
Cash and bank balances	5,756	12,197	85,134	11,888
Placements with financial institutions	500	0	4,528	0
Investment securities	221,119	172,970	86,151	140,849
Total deposits and securities	**227,375**	**185,167**	**175,813**	**152,737**
Derivative financial instruments	**1,059**	**0**	**0**	**0**
Gross loans	668,495	619,049	654,746	688,218
Less provisions for loans and guarantees	-33,976	-32,780	-43,334	-39,843
Less deferred income	-5,223	-5,299	-6,305	-6,913
Net loans	**629,296**	**580,970**	**605,107**	**641,462**
Equity investments	10,759	14,463	18,154	32,173
Less provisions for losses	0	0	0	-608
Net equity investments	**10,759**	**14,463**	**18,154**	**31,565**
Property, technology and equipment	**327**	**305**	**288**	**555**
Intangible assets	**443**	**622**	**772**	**924**
Other assets	**15,450**	**10,798**	**7,966**	**9,588**
Total Assets	**884,709**	**792,325**	**808,100**	**836,831**
LIABILITIES AND MEMBERS' EQUITY				
Liabilities				
Borrowings	506,037	392,332	298,254	268,084
Derivative financial instruments	0	1,229	202	8,746
Payables and accrued interest	5,892	3,075	3,579	3,051
Total Liabilities	**511,929**	**396,636**	**302,035**	**279,881**
MEMBERS' EQUITY				
Authorised share capital	3,305,310	3,266,250	3,486,870	3,547,897
Less unallocated share capital	-1,101,770	-1,088,750	-1,162,290	-1,198,597
Subscribed share capital	2,203,540	2,177,500	2,324,580	2,349,300
Less callable share capital	-1,542,478	-1,524,250	-1,627,206	-1,653,115
Less payable share capital	-338,588	-324,993	-268,452	-228,767
Cumulative translation adjustment	0	0	0	-216
Advance against future call	35	35	30	15
Paid-in share capital	**322,509**	**328,292**	**428,952**	**467,217**
General reserve	**20,172**	**29,980**	**30,996**	**40,103**
Retained earnings	**30,099**	**37,417**	**46,117**	**49,630**
Total Members' Equity	**372,780**	**395,689**	**506,065**	**556,950**
Total Liabilities And Members' Equity	**884,709**	**792,325**	**808,100**	**836,831**
Memo: Commitments (signed but undisbursed loans)	134,892	96,310	82,334	171,967

Black Sea Trade and Development Bank

	2008	2009	2010	2011
Derivation of Useable Equity				
Total subscribed capital	**2,203,540**	**2,177,500**	**2,324,580**	**2,349,300**
Less total callable capital	1,542,478	1,524,250	1,627,206	1,653,115
o/w investment grade members	937,417	921,722	709,965	730,909
Less paid-in share capital not received	0	0	2	0
Equals paid-in capital	661,062	653,250	697,372	696,185
Less payable share capital	338,588	324,993	268,452	228,767
Plus cumulative translation adjustment	0	0	0	-216
Plus advance against future call	35	35	30	15
Plus total reserves and retained earnings	50,271	67,397	77,113	89,733
Equals useable equity	**372,780**	**395,689**	**506,063**	**556,950**

INCOME STATEMENT (€ THOUSANDS)				
Interest and similar income	47,866	37,882	37,209	39,706
o/w from loans	38,115	31,963	29,870	31,633
Interest expense and similar charges	17,608	15,111	12,417	12,110
Net Interest Income	**30,258**	**22,771**	**24,792**	**27,596**
Net fees and commissions	587	263	799	433
Dividend income	50	44	958	1,250
Net profit on sale of equity investments	0	0	2,563	25
Net gains from avail-for-sale investments	537	105	3,932	4,693
Net income (loss) on foreign exchange	-288	29	245	1,033
Other income	51	-9	-2	881
Operating Income	**31,195**	**23,203**	**33,287**	**35,911**
General administrative expenses	12,106	12,541	14,082	15,266
Depreciation and amortisation	331	322	348	398
Income Before Impairment	**18,758**	**10,340**	**18,857**	**20,247**
Impairments	4,722	-390	8,550	10,188
Impairment (gains) losses on loans	4,722	-390	8,550	-4,591
Impairment loses on equity investments	0	0	0	608
Impairment losses on avail-for-sale debt securities	0	0	0	14,171
Net Income (Loss)	**14,036**	**10,730**	**10,307**	**10,059**

Black Sea Trade and Development Bank

	2008	2009	2010	2011
FINANCIAL RATIOS				
Liquidity Ratios (%)				
Liquid assets/total assets	25.7	23.4	21.8	18.3
Liquid assets/borrowings	44.9	47.2	58.9	57.0
Liquid assets/net cash requirement [1]	156.0	69.0	164.0	88.0
Capital Adequacy Ratios (%)				
Useable equity/gross loans and equity investments	54.9	62.5	75.2	77.3
Useable equity/risk assets [2]	93.2	102.3	106.8	118.1
Useable equity + CC Of Aaa/Aa members/risk assets [2][3]	93.2	102.3	106.8	118.1
Useable equity + CC of IG members/risk assets [2][3][4]	327.7	340.8	256.7	273.1
Debt/useable equity	135.7	99.2	58.9	48.1
Debt/useable equity + CC of IG members [3][4]	38.6	29.8	24.5	20.8
Asset Quality (%)				
NPLs/gross loans [5]	1.2	1.2	5.5	7.0
Reserves/NPLs (X) [5]	6.9	8.2	2.1	1.7
Allowance for loan losses/NPLs (X) [5]	4.3	4.3	1.2	0.8
Performance Statistics (%)				
Return on assets	1.6	1.4	1.3	1.2
Return on useable equity	7.5	5.4	4.1	3.6
Interest coverage ratio (X)	1.8	1.7	1.8	1.8

[1] Liquidity policy states that the minimum level of liquid assets held should equal 50% of net cash requirement (liabilities maturing within the next 12 months + signed and undisbursed loan facilities + next 12 months administrative expenses - repayments due on loans in the next 12 months)

[2] Risk assets defined as loans extended to entities rated below investment grade.

[3] CC is callable capital.

[4] IG is investment grade.

[5] NPL is non-performing loan.

Capital Subscription and Voting Powers as of 31 December 2011

(SDR thousands)	Subscribed	Callable	Payable	Paid-In	Voting Power (%)
Greece	330,000	231,000	28,970	70,030	16.6
Russia	330,000	231,000	28,875	70,125	16.6
Turkey	330,000	231,000	28,875	70,125	16.6
Romania	280,000	196,000	25,426	58,574	14.1
Bulgaria	270,000	189,000	23,625	57,375	13.6
Ukraine	270,000	189,000	40,500	40,500	13.6
Azerbaijan	100,000	70,000	8,750	21,250	5.0
Albania	40,000	28,000	6,000	6,000	2.0
Armenia	20,000	14,000	1,750	4,250	1.0
Moldova	10,000	7,000	-	3,000	0.5
Georgia	10,000	7,000	-	3,000	0.5
Total	**1,990,000**	**1,393,000**	**192,771**	**404,229**	**100**

Moody's Related Research

Analyses:

» Arab Petroleum Investment Corporation (APICORP), December 2011 (138013)

» Central American Bank for Economic Integration, July 2012 (143497)

Credit Opinions:[25]

» Eurasian Development Bank

» Vnesheconombank

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.

Related Website Links

» Black Sea Trade and Development Bank

[25] Corrected on June 7, 2013.

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