

**Rating Action: Moody's upgrades Black Sea Trade and Development Bank to A2/P-1; outlook stable**

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Global Credit Research - 04 Feb 2014

**Action follows adoption of Multilateral Development Bank and Other Supranational Entities rating methodology**

New York, February 04, 2014 -- Moody's Investors Service has today upgraded the long-term issuer rating of the Black Sea Trade and Development Bank (BSTDB) to A2 from A3. The short-term issuer rating was also upgraded to Prime-1 from Prime-2. The outlook on the ratings is now stable. This concludes the review for upgrade that commenced on 16 December 2013.

The upgrade was driven by changes in the assessment of the BSTDB's credit profile as a result of the adoption of Moody's rating methodology for Multilateral Development Banks and Other Supranational Entities on 16 December 2013. The two key changes in Moody's analysis that led to the upgrade are:

- (1) The change in Moody's assessment of concentration risk in the bank's loan portfolio to a credit strength; and
- (2) The change in Moody's assessment of the contractual support provided by members from a neutral rating factor to an item of credit strength.

**RATINGS RATIONALE**

--RATIONALE FOR UPGRADE TO A2 --

The first driver of the upgrade is the change in Moody's assessment of the concentration risk in the BSTDB's loan portfolio. Before adopting the methodology on 16 December 2013, the rating agency measured concentration risk in the BSTDB's loan portfolio using one measure -- geographic concentration. In particular, that over 50% of the bank's loans and equity investments were extended in three countries represented a credit challenge. After adopting the methodology, Moody's measures four types of concentration: (1) individual client/exposure; (2) country; (3) sector; and (4) region. In particular, the introduction of the measure of concentration of individual clients changed Moody's assessment of the BSTDB's concentration risk.

For the BSTDB, and other multilateral development banks (MDBs) that lend to the private sector, the number of clients typically far exceeds the number of countries in which they lend. By including a measure of the top 10 clients/exposures of the total portfolio, the methodology more appropriately captures the BSTDB's client diversification compared to MDBs that lend to the public sector. In the scorecard that accompanies the methodology, the BSTDB receives a positive adjustment from the Portfolio Concentration Adjustment Factor as the bank's low level of portfolio concentration is an element of strength in the assessment of its capital adequacy.

The second driver of the upgrade was a change in Moody's assessment of the contractual support provided by members. Using the prior support measure, member support was insufficient to be a factor in the bank's rating. Under the methodology it is a credit strength as the Strength of Member Support (Factor 3) provides a two-notch uplift to the preliminary rating range set by Intrinsic Financial Strength.

After adopting the methodology, the support measure includes callable capital (CC) pledged by members rated Baa3 or higher, discounted by expected loss rates associated with the ratings of the members. This represents an expansion of the CC included in Moody's analysis from Aa3 or higher-rated members to Baa3 or higher-rated members. While the bank has never had any shareholders rated Aa3 or higher, several of its largest shareholders are rated in the Baa category and therefore this expansion of eligible CC improves Moody's assessment of the strength of the bank's member support. The BSTDB is 51.8% owned by sovereigns rated in the Baa category (excluding Romania because there is a negative outlook in its Baa3 rating -- if it were to be downgraded its rating would fall to Ba1 and its callable capital would be ineligible for inclusion). That makes EUR829 million of pledged CC eligible for inclusion in the measure of contractual support. Considering the eligible CC and the bank's low leverage, the Contractual Support sub-factor within Factor 3 yields a score of Very High. The overall Factor 3 score is High, which has a tangible impact on the scorecard-indicated rating range.

## --RATIONALE FOR STABLE OUTLOOK--

The stable outlook on the bank's A2 rating reflects the balance of strong capitalization ratios and risks stemming from its weak operating environment. While the ratio of non-performing loans to total loans is high compared to peers, the BSTDB has a strong track-record of successful loan restructuring. In addition, the bank has ample capital buffers to absorb potential losses.

## WHAT COULD CHANGE THE RATING -- UP/DOWN

The BSTDB's rating could be upgraded if its operating environment experienced a significant and fundamental improvement whereby the member/borrowing countries' economies experience political, economic, and financial stability and prosperity.

The BSTDB's rating could be downgraded if its loan and equity investments portfolio experienced significant deterioration to the extent that capital coverage was no longer adequate to absorb potential losses.

The principal methodology used in this rating was Multilateral Development Banks and Other Supranational Entities published in December 2013. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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