

Black Sea Trade and Development Bank Assigned 'A/A-1' Rating; Outlook Stable

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Overview

- We have assigned 'A/A-1' issuer credit ratings to the Black Sea Trade and Development Bank (BSTDB).
- The ratings reflect the bank's strong capitalization and liquidity, its historically well-performing loan portfolio, and evidence of continuing shareholder support.
- The stable outlook reflects our expectation that the bank's financial profile and shareholder support will remain strong.

Rating Action

On June 16, 2011, Standard & Poor's Ratings Services assigned its 'A' long-term and 'A-1' short-term issuer credit ratings to BSTDB. The outlook is stable.

Rationale

BSTDB is a subregional multilateral development financial institution (MDFI), the purpose of which is to accelerate economic development in and promote economic cooperation among its member countries. Headquartered in Thessaloniki, Greece, the bank was established in 1994 and commenced operations in 1999. BSTDB's 11 member countries are the Russian Federation (BBB/Stable/A-3), Turkey (BB/Positive/B), Greece (CCC/Negative/C), Ukraine (B+/Stable/B), Romania (BB+/Stable/B), Bulgaria (BBB/Stable/A-3), Azerbaijan (BB+/Positive/B), Albania (B+/Stable/B), Georgia (B+/Positive/B), Armenia (not rated), and Moldova (not rated). (All ratings cited are foreign-currency sovereign credit ratings as of June 16, 2011.)

Publication Date

June 16, 2011

The bank is one of the smallest MDFIs, with outstanding assets, loans, and shareholders' equity of 701 million special drawing rights (SDR) (US\$1.08 billion), SDR563 million (US\$868 million), and SDR435 million (US\$671 million), respectively, at year-end 2010. It has a staff of about 100.

The bank lends to both public- and private-sector borrowers. In its early years, BSTDB focused almost entirely on the private sector, and despite increasing lending to the public sector in recent years, nearly 85% of its outstanding loans at year-end 2010 were to private-sector entities.

The bank's focus has been on project finance and trade finance. This has contributed to the strong historical performance of the bank's loan portfolio. Its only writeoffs so far were SDR642,000 in 2005 and SDR7,000 in 2007, while borrowers had repaid nearly SDR1.6 billion by year-end 2010. The deterioration in the global economic and financial environment beginning in 2007 understandably raised management's concerns about the impact on borrowers' credit quality. As a result, unlike some other MDFIs, BSTDB curtailed its lending, with outstanding loans falling by more than 6% in 2009 and another 1% in 2010.

BSTDB has made modest equity investments alongside other institutions in a handful of small and medium-size enterprises as well as in two funds. The bank's SDR8.2 million equity investment in four enterprises had a fair value of SDR10.4 million at year-end 2010. Similarly, the SDR5.6 million it invested in equity funds had a fair value of SDR5.3 million.

Although its capital ratios have fallen substantially from the very high levels of its earliest years, as is common with newly established MDFIs, the bank remains well capitalized. At year-end 2010, its ratios of shareholders' equity to assets and to net loans plus equity investments were more than 62% and 80%, respectively. The bank's Medium-Term Strategy and Business Plan baseline scenario envisions these ratios declining to 58% and 69%, respectively, by year-end 2014, which would still be relatively high. This increase will nearly double the bank's paid-in capital from the SDR302 million at year-end 2009.

Outlook

The outlook is stable. There is scope for an upgrade, even with some increase in the bank's leverage, if the bank's loan portfolio continues to perform well. Conversely, downward pressure on the rating would occur if the performance of the loan portfolio deteriorated markedly, leverage increased beyond expected levels, members failed to make scheduled capital contributions, or borrowers did not continue to treat the bank as a preferred creditor.

Related Criteria And Research

- Criteria For Multilateral Lending Institutions, Oct. 19, 2007.

Ratings List

New Rating

Black Sea Trade and Development Bank

Issuer Credit Rating

Foreign Currency A/Stable/A-1

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be

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found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation area, select Find a Rating, then Credit Ratings Search.

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