Research Update:

Eurasian Development Bank 'BBB/A-2' Ratings Affirmed On Criteria Change; Outlook Stable

**Primary Credit Analyst:**
Ivan A Morozov, London (44) 20-7176-7159; ivan_morozov@standardandpoors.com

**Secondary Contacts:**
Ana Jelenkovic, London (44) 20-7176-7116; Ana_Jelenkovic@standardandpoors.com
Elie Heriard Dubreuil, London (44) 207-176-7302; elie_heriard_dubreuil@standardandpoors.com

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Overview

• Following a review of the Eurasian Development Bank (EDB) under our revised criteria for multilateral lending institutions (MLIs), we have affirmed our long- and short-term issuer credit ratings at 'BBB/A-2'.
• The stand-alone credit profile for the EDB is 'bbb', reflecting our assessment of its "weak" business profile and "very strong" financial profile, as our criteria define these terms.
• The stable outlook incorporates our expectation that EDB's financial profile will remain intact over the medium term.

Rating Action

On Jan. 16, 2013, Standard & Poor's Ratings Services affirmed its 'BBB/A-2' foreign currency issuer credit ratings on the Eurasian Development Bank (EDB). At the same time, we affirmed the Kazakhstan national scale rating at 'kzAA+' and the Russia national scale rating at 'ruAAA'. The outlook is stable.

Rationale

The ratings on the EDB reflect our assessment of the bank's financial profile as "very strong" and its business profile as "weak", as our criteria define these terms. These assessments determine our 'bbb' stand-alone credit profile (SACP). Given that EDB's shareholding structure does not include callable capital, EDB's SACP is the same as its long-term issuer credit rating of 'BBB'. We outline these factors in our revised criteria, "Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology," published Nov. 26, 2012, on RatingsDirect on the Global Credit Portal.

Our assessment of the EDB's business profile as "weak" is based on our view of the bank's concentrated decision-making and policy mandate as a subregional development bank with a relatively narrow geographical diversification of activities, its length of time in operations, and its institutional arrangements.

The EDB was established in 2006 under an intergovernmental agreement between the Russian Federation (BBB/Stable/A-2 foreign currency, BBB+/Stable/A-2 local currency) and the Republic of Kazakhstan (BBB+/Stable/A-2). EDB's mandate extends throughout a number of countries in the Eurasian Economic Community (EurAsEC). The bank's general strategic objective is to promote integration between its member states by encouraging mutual trade and fostering economic
growth. At end-August 2012, the EDB had six member states: the Russian Federation (a 65.97% stake), the Republic of Kazakhstan (32.99%), the Republic of Belarus (B-/Stable/B, 0.99%), the Republic of Tajikistan (not rated, 0.03%), the Republic of Armenia (not rated, 0.01%), and the Kyrgyz Republic (not rated, 0.01%), the newest member. Each of the member states have paid in full more than $1.5 billion of capital. Like most MLIs, the EDB is exempt from taxes and domestic bank regulation.

Voting rights are proportional to capital contributions, therefore Russia and Kazakhstan continue to dominate the EDB. In our opinion, there are significant institutional and governance impediments in Russia and Kazakhstan, which we believe have a negative impact on EDB's business profile because both members are able to significantly influence the bank's decision-making (see "Ratings On Russia Affirmed On External Strength; Short-Term FC Rating Raised To 'A-2' On Criteria Change; Outlook Stable," published July 27, 2012 and "Kazakhstan Ratings Affirmed At 'BBB+/A-2'; Outlook Stable," published Nov. 30, 2012).

Our "very strong" assessment of EDB's financial profile reflects our view of its high capitalization and liquidity levels compared with many other financial institutions. We estimate that the EDB's Standard & Poor's risk-adjusted capital (RAC) ratio (our primary measure for assessing capital adequacy) was 32% before adjustments as of end-December 2011. Given its mandate, EDB operates with high geographical and counterparty concentration risk, and most of its loans are to entities that are either not rated by Standard & Poor's or are speculative-grade companies and banks. After factoring in adjustments that are specific to MLIs, which primarily include a penalty for single-name concentrations, we estimate that the RAC ratio decreases to 17%.

Our funding and liquidity ratios indicate that EDB is structurally able to cover its scheduled debt repayments and loan disbursements over the next year without recourse to new issuance. Despite its relatively small size, EDB has successfully issued several types of securities at different bond and money markets even during times of market turbulence. Given that the bank expects a moderate increase in its balance sheet, we believe it will be able to continue providing loans and servicing its debt even if market access worsens. Roughly one quarter of its liquidity portfolio is invested in bonds issued by the Russian Federation.

**Outlook**

The stable outlook reflects our expectation that EDB's policy goal, as well as its capital and liquidity positions, will remain intact over the medium term.

The ratings on EDB are not directly linked to those of its controlling shareholders. However, if the operating environment in the EurAsEC becomes more difficult, for example if nonperforming loans in EDB's private sector portfolio were to rise or its shareholder support were to weaken, demonstrated through delays in payments of capital or loans, we could lower the ratings on
EDB. Similarly, if EDB's financial profile worsened, either because of increased leverage, for example due to rapid loan growth, or because of funding pressure, EDB's creditworthiness could come under pressure.

Conversely, we could raise the ratings if we see the political institutional framework in the main decision-making member countries strengthen or if the bank's capitalization were to improve substantially.

Related Criteria And Research

- Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Nov. 26, 2012
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Ratings On Russia Affirmed On External Strength; Short-Term FC Rating Raised To 'A-2' On Criteria Change; Outlook Stable, July 27, 2012
- Kazakhstan Ratings Affirmed At 'BBB+/A-2'; Outlook Stable, Nov. 30, 2012
- Republic of Belarus Short-Term Ratings Raised To 'B' On Criteria Change; 'B-' Long-Term Ratings Affirmed; Outlook Stable, July 17, 2012

Ratings List

Ratings Affirmed

Eurasian Development Bank
Issuer Credit Rating
Foreign Currency BBB/Stable/A-2
Kazakhstan National Scale kzAA+/--/--
Russia National Scale ruAAA/--/--
Certificate Of Deposit
Foreign Currency BBB/A-2
Senior Unsecured BBB

Additional Contact:
SovereignEurope; SovereignEurope@standardandpoors.com

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.
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