

Black Sea Trade and Development Bank



A-

NEGATIVE
OUTLOOK

Credit strengths

- High capitalisation
- Preferred creditor status and diversified loan portfolio
- Sound liquidity profiles

Credit challenges

- High risk of mandated activities in challenging operating environment
- High Russia and Ukraine exposure

Rating rationale and Outlook:

The Black Sea Trade and Development Bank's (BSTDB) A- rating is driven by its 'strong' intrinsic strength. In detail:

- **Institutional profile:** The BSTDB benefits from strong governance and high importance for its shareholder governments. This is supported by its dual mandate in the Black Sea region, successful implementation of medium-term strategic goals and strong growth in loan disbursements since 2018, although disbursements have declined sharply since February 2022 due to the bank's efforts to safeguard liquidity.
- **Financial profile:** The BSTDB's financial profile benefits from very high capitalisation levels and a well diversified loan book while its liquidity and funding profiles remain adequate, even though its cost of market funding has increased significantly. Challenges include a very difficult operating environment, and its elevated exposures to Russia and Ukraine which constitute about 30% of its loans.
- **Shareholder support:** The BSTDB's rating does not benefit from an uplift from Scope's assessment of the bank's shareholder support as measured via the key shareholders' sovereign credit ratings, with a weighted average rating of B+.
- **Outlook and triggers:** The Negative Outlook reflects Scope's view that risks are tilted to the downside over the next 12 to 18 months. The ratings could be downgraded if: i) asset quality deteriorated, further lowering the bank's profitability and capitalisation; ii) the bank's preferred creditor status were to be questioned or even repealed due to events prompted by the crisis; iii) liquidity buffers declined significantly; iv) the bank's implementation of its strategy diverged significantly from self-imposed targets; and/or v) shareholder's commitment to the bank declined. Conversely, the Outlooks could be reversed to Stable if: i) asset quality improved; ii) liquidity buffers increased; and/or iii) shareholders provided additional support, for example, accelerating and increasing payments of its capital increase.

Scope's assessment of the BSTDB's rating drivers

Institutional Profile	Strong	+	Financial Profile	Strong		
Intrinsic Strength			Strong (+)	+	Shareholder Support	Moderate
Indicative Rating					A / BBB+	Add. Consid.: Neutral
Final Rating					A-/ Negative	

Positive rating-change drivers

- Asset quality improved
- Increase in liquidity buffers
- Acceleration of capital increase

Negative rating-change drivers

- Deterioration of asset quality
- Reduction in liquidity buffers
- Decrease of capitalisation
- Lower shareholder commitment
- Inability to implement strategy/targets

Ratings and Outlook

Foreign currency

Long-term issuer rating	A-/Negative
Senior unsecured debt	A-/Negative
Short-term issuer rating	S-1/Negative

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I Indicative Rating: Black Sea Trade and Development Bank

Indicative rating: A / BBB+

We first map the assessments for the institutional and financial profiles to determine the supranational's intrinsic strength. In a second step, we map this assessment against the shareholder support to determine the indicative rating.

Intrinsic Strength: Mapping institutional and financial profiles for the BSTDB

	Intrinsic Strength	Institutional Profile				
		Very Strong	Strong	Moderate	Weak	Very Weak
Financial Profile	Excellent	Excellent	Excellent	Excellent	Very strong (+)	Very strong
	Very Strong (+)	Excellent	Excellent	Very strong (+)	Very strong	Very strong (-)
	Very Strong	Excellent	Very strong (+)	Very strong	Very strong (-)	Strong (+)
	Very Strong (-)	Very strong (+)	Very strong	Very strong (-)	Strong (+)	Strong
	Strong (+)	Very strong	Very strong (-)	Strong (+)	Strong	Strong (-)
	Strong	Very strong (-)	Strong (+)	Strong	Strong (-)	Adequate (+)
	Strong (-)	Strong (+)	Strong	Strong (-)	Adequate (+)	Adequate
	Adequate (+)	Strong	Strong (-)	Adequate (+)	Adequate	Adequate (-)
	Adequate	Strong (-)	Adequate (+)	Adequate	Adequate (-)	Moderate (+)
	Adequate (-)	Adequate (+)	Adequate	Adequate (-)	Moderate (+)	Moderate
	Moderate (+)	Adequate	Adequate (-)	Moderate (+)	Moderate	Moderate (-)
	Moderate	Adequate (-)	Moderate (+)	Moderate	Moderate (-)	Weak (+)
	Moderate (-)	Moderate (+)	Moderate	Moderate (-)	Weak (+)	Weak
	Weak (+)	Moderate	Moderate (-)	Weak (+)	Weak	Weak (-)
	Weak	Moderate (-)	Weak (+)	Weak	Weak (-)	Very Weak (+)
	Weak (-)	Weak (+)	Weak	Weak (-)	Very Weak (+)	Very Weak
	Very Weak (+)	Weak	Weak (-)	Very Weak (+)	Very Weak	Very Weak (-)
Very Weak	Weak (-)	Very Weak (+)	Very Weak	Very Weak (-)	Very Weak (-)	
Very Weak (-)	Very Weak (+)	Very Weak	Very Weak (-)	Very Weak (-)	Very Weak (-)	

Source: Scope Ratings

Indicative Rating: Mapping intrinsic strength and shareholder support for the BSTDB

	Indicative Rating	Shareholder Support			
		Excellent	Very High	High	Moderate
Intrinsic Strength	Excellent	AAA	AAA	AAA / AA	AA+ / AA-
	Very strong +	AAA	AAA / AA	AA+ / AA-	AA / A+
	Very strong -	AAA / AA	AA+ / AA-	AA / A+	AA- / A
	Strong +	AA+ / AA-	AA / A+	AA- / A	A+ / A-
	Strong -	AA / A+	AA- / A	A+ / A-	A / BBB+
	Adequate +	AA- / A	A+ / A-	A / BBB+	A- / BBB
	Adequate -	A+ / A-	A / BBB+	A- / BBB	BBB+ / BBB-
	Moderate +	A / BBB+	A- / BBB	BBB+ / BBB-	BBB / BB+
	Moderate -	A- / BBB	BBB+ / BBB-	BBB / BB+	BBB- / BB
	Weak +	BBB+ / BBB-	BBB / BB+	BBB- / BB	BB+ / BB-
	Weak -	BBB / BB+	BBB- / BB	BB+ / BB-	BB / B+
	Very Weak +	BBB- / BB	BB+ / BB-	BB / B+	BB- / B
	Very Weak -	BB+ / BB-	BB / B+	BB- / B	B+ / B-
	Very Weak (+)	BB / B+	BB- / B	B+ / B-	B / CCC
	Very Weak (-)	BB- / B	B+ / B-	B / CCC	B- / CCC
		B+ / B-	B / CCC	B- / CCC	CCC

Source: Scope Ratings



Black Sea Trade and Development Bank

II Key Shareholders: Black Sea Trade and Development Bank

EUR '000s

Key Shareholders	Paid-in capital	Callable capital	Subscribed capital	Key (%)	Rating	Callable capital ≥ AA-
Greece	113,850.0	265,650.0	379,500.0	16.6	BB+/Positive	
Russian Federation *	113,850.0	265,650.0	379,500.0	16.6	WD	
Turkey	113,850.0	265,650.0	379,500.0	16.6	B-/Negative	
Romania	96,600.0	225,400.0	322,000.0	14.1	BBB-/Stable	
Bulgaria	93,150.0	217,350.0	310,500.0	13.6	BBB+/Stable	
Ukraine	93,150.0	217,350.0	310,500.0	13.6	CC/Negative	
Total key shareholders	624,450.0	1,457,050.0	2,081,500.0	91.0		0.0
Other shareholders	62,100.0	144,900.0	207,000.0	9.0		0.0
Total	686,550.0	1,601,950.0	2,288,500.0	100.0		0.0
Key Shareholder Rating						B+

* A credit estimate was used for Russia, which is not publicly rated by Scope in line with EU sanctions and policies.

Source: BSTDB, Scope Ratings

III Scope's supranational scorecard: Black Sea Trade and Development Bank

Risk factors	Variables	Unit									BSTDB			
			+4	+3	+2	+1	0	-1	-2	Value	Assessment	Notches		
Institutional Profile	Mandate & ESG (-2; +2)	Importance of mandate	Qualitative	--	--	--	Very High	High	Declining	--	--	High		
		Social factors	Qualitative	--	--	--	Strong	Medium/ N/A	Weak	--	--	Strong	0	
		Environmental factors	Qualitative	--	--	--	Strong	Medium/ N/A	Weak	--	--	Medium/ N/A		
	Governance	Shareholder concentration	HHI	--	--	--	--	≤ 1500	> 1500	--	1400.0	Strong		
		Shareholder control	%	--	--	--	--	≤ 25	> 25	--	17.0	Strong	1	
		Strategy and internal controls	Qualitative	--	--	--	Strong	Medium	Weak	--	--	Strong		
Institutional Profile											Strong			
Intrinsic Strength	Capitalisation (-3; +6)	Capital/ Potential assets	%	≥ 30	< 30; ≥ 20	< 20; ≥ 15	< 15; ≥ 10	< 10; ≥ 7.5	< 7.5; ≥ 5	< 5	35.0	Excellent	4	
		Capital/ Actual assets*	%	--	--	--	≥ 30	< 30	--	--	39.0	Excellent	1	
		Profitability (Return on equity)	%	--	--	--	≥ 3	< 3; ≥ 0	< 0	--	4.0	Adequate	1	
	Trend (-1; +1)												-1	
	Asset quality (-3; +5)	Portfolio quality	Incl. risk mitigants	Qualitative	--	--	Very Strong	Strong	Adequate	Moderate	Weak	Adequate	Adequate	0
		Asset performance	NPLs	% total loans	--	≤ 0.5	> 0.5; ≤ 1	> 1; ≤ 3	> 3; ≤ 5	> 5	--	0.4	Excellent	3
		Trend (-1; +1)												-1
	Liquidity & funding (-4; +8)	Liquid assets ratio		%	> 100	≤ 100; > 75	≤ 75; > 50	≤ 50; > 25	≤ 25; > 15	≤ 15; > 10	≤ 10	70.0	Strong	2
		Maturity gap		Multiple	--	--	--	≥ 0.75	< 0.75; ≥ 0.5	< 0.5	--	0.7	Adequate	0
		Funding	Funding volume	EUR or USD bn	--	--	≥ 25	< 25; ≥ 5	< 5; ≥ 2	< 2	--	1.0	Moderate/Low	-1
Currency diversification			Top 1 share	--	--	--	≤ 70	> 70	--	--	49.0	Strong	1	
Trend (-1; +1)												0		
Financial Profile											Strong			
Intrinsic Strength											Strong (+)			
Shareholder Support	Shareholder strength (0; +3)	Weighted average rating of key shareholders	Avg. rating	--	≥ AA-	≥ A-	≥ BBB-	< BBB-	--	--	--	B+		
		Share of portfolio related to key shareholders	%	--	--	--	--	≤ 50	> 50	--	88.0	High / Negative adjustment	0	
		Adjusted key shareholder rating	Avg. rating	--	--	--	--	--	--	--	--	B		
	Extraordinary Support (0; +2)	Callable capital [rated ≥ AA-]/ Actual assets	%	--	--	≥ 100	< 100; ≥ 20	< 20	--	--	0.0	Adequate	0	
		Additional support mechanisms	Qualitative	--	--	Very Strong	Strong	N/A	--	--	N/A			
Shareholder Support											Moderate			
Indicative Rating											A / BBB+			
Additional considerations (-1; +1)											Neutral			
Final Rating											A-			

Nb. Financial profile refers to three-year average of 2019-21 figures.

Source: BSTDB, Scope Ratings

IV Asset quality assessment

Portfolio quality (initial assessment)	Very Strong	Strong	Adequate	Moderate	Weak
Indicative borrower quality	aaa/aa	a	bbb	bb	b/ccc
Notches	+2	+1	0	-1	-2

Adjustments		Indicator	Assessment/ Thresholds								
Points			+5	+4	+3	+2	+1	0	-1	-2	-3
Credit Protection	Sovereign PCS	% of loan portfolio	100	≥ 80	≥ 60	≥ 40	≥ 20	< 20			
	Private sector secured										
Diversification	Geography	HHI				≤ 1000	≤ 2000	> 2000			
	Sector	HHI					≤ 2000	> 2000			
	Top 10 exposures	% of loan portfolio				≤ 25	≤ 75	> 75			
Equity Exposure		% of equity						≤ 25	> 25	> 50	> 75
		Total points									
		Adjustments	+5 +2 categories								

Portfolio quality (final assessment)	Very Strong	Strong	Adequate	Moderate	Weak
Notches	+2	+1	0	-1	-2

N.B. * Based on i) Scope's estimate of the geographical and sectoral distribution of the BSTDB's loan portfolio before any credit enhancements via collateral or guarantees, and ii) Scope's sovereign ratings.

Source: Scope Ratings. Three points usually correspond to one assessment category. In the case of the BSTDB, this implies up to two higher categories from the initial portfolio quality assessment based on the estimated average borrower quality.



V Statistical tables

	2016	2017	2018	2019	2020	2021	2022 H1
Capitalisation (EUR m)							
Mandated potential assets	2,200.0	2,200.0	2,400.0	2,450.0	2,500.0	2,600.0	2,450.0
Mandated (disbursed) assets	1,191.8	1,166.4	1,358.4	1,851.3	2,069.2	2,370.2	2,285.4
Capitalisation ratio, potential (%)	32.0	32.1	33.4	34.1	34.5	35.6	33.8
Capitalisation ratio, actual (%)	63.2	65.0	59.0	44.9	40.8	37.4	35.8
Profitability (EUR m)							
Net income	1.8	8.7	5.2	13.7	14.2	43.9	- 32.9
Return on equity (%)	0.2	1.1	0.6	1.6	1.7	5.0	- 4.0
Asset quality (EUR m)							
Total gross loans	1,139.1	1,132.4	1,318.4	1,808.2	2,030.4	2,329.4	2,255.0
Non-performing loans / gross loans (%)	3.4	2.1	0.0	0.2	1.4	0.0	
Stage 3 loans	72.7	61.1	41.7	50.9	78.4	70.9	
Stage 3 loans (%)	6.4	5.4	3.2	2.8	3.9	3.0	
Provisions for Stage 3 loans	21.7	45.5	27.0	34.4	37.4	38.6	76.2
Provisions for Stage 3 loans / Stage 3 loans (%)	29.8	74.3	64.6	67.7	47.7	54.5	
Liquidity (EUR m)							
Liquid assets and undrawn credit facilities	327.1	289.0	362.1	394.9	604.7	695.1	
Cash and cash equivalents	70.0	81.5	48.6	82.6	34.3	170.2	286.2
Assets ≤ 12 months and undrawn credit facilities*	257.0	207.5	313.6	312.3	570.4	524.9	
Liabilities maturing within 12 months and disbursements	516.6	678.3	1,186.5	994.3	1,718.3	725.5	
Liabilities ≤ 12 months	130.4	105.3	315.3	210.3	646.1	425.5	
Disbursements over the next 12 months	386.2	573.0	871.1	783.9	1,072.1	300.0	
Liquid assets ratio (%)	63.3	42.6	30.5	39.7	35.2	95.8	
Funding (EUR m)							
Volume	619.0	106.7	433.6	1,267.3	944.2	1,677.9	
<i>Share of borrowings outstanding (%)</i>							
USD	72.2	69.2	62.4	68.7	54.6	43.7	44.7
EUR	8.5	10.6	13.3	6.4	17.9	19.4	19.5
CHF	10.8	11.9	9.3	12.3	9.8	14.9	17.8
ESG issuance	-	-	-	-	-	-	-
% total	-	-	-	-	-	-	-
Equity (EUR m)							
Paid-in capital	613.8	641.6	685.1	686.6	686.6	686.6	686.6
Retained earnings and reserves	138.9	117.1	116.5	143.9	157.2	199.2	130.9
Total equity	752.7	758.7	801.6	830.4	843.7	885.7	817.5
Key shareholders							
Average capital-key weighted rating	BB	BB	BB	BB	BB	BB	B+
Shareholders rated at least AA- (%)	-	-	-	-	-	-	-
Callable capital [rated ≥ AA-] / Mandated assets (%)	-	-	-	-	-	-	-

N.B. * Includes committed, undrawn and unconditional credit lines from supranational counterparties or national development banks rated AA- or higher.

Source: BSTDB, Scope Ratings



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