

CREDIT OPINION

16 July 2024

Update



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RATINGS

BSTD

	Rating	Outlook
Long-term Issuer	Baa2	Sta
Short-term Issuer	P-3	--

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Americas	1-212-553-1653
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Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Black Sea Trade and Development Bank – Baa2 stable

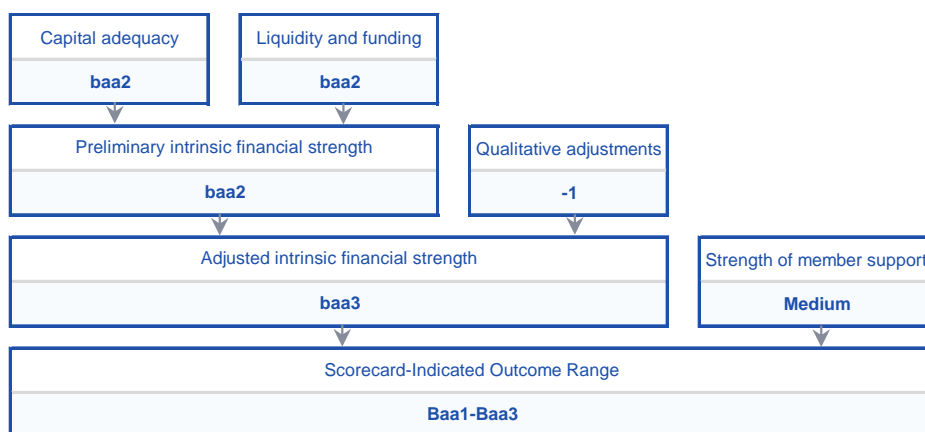
Update following rating affirmation, outlook changed to stable from negative

Summary

[Black Sea Trade and Development Bank's](#) (BSTDB) credit profile reflects its solid capital position, adequate liquidity buffers and medium strength of member support. The credit profile, supported by declining leverage, stable asset quality, and improving asset performance has been resilient to the challenges posed by the difficult and uncertain operating environment due to the war between Russia and [Ukraine](#) (Ca stable).

Exhibit 1

BSTD's credit profile is determined by three factors



Source: Moody's Ratings

Credit strengths

- » Solid capital position
- » Track record of strong asset performance until the start of the Russia-Ukraine war
- » Shareholders' support underpinned by high level of callable capital and recently agreed capital increase

Credit challenges

- » Challenging operating environment
- » Pressures on asset quality due to the impact of the Russia-Ukraine war
- » Member countries' low credit quality limits ability to provide support

Rating outlook

The stable outlook balances BSTDB's solid capital position, adequate liquidity and moderated shareholders' support, against the risks posed to the credit profile by a challenging operating environment due to the prolonged war between Russia and Ukraine. The recent capital increase highlights the members' commitment to the institution. However, while not our baseline, a more fragmented shareholder base due to the geopolitical conditions can still have implications for the strategic direction of the bank over time.

Factors that could lead to an upgrade

Upward pressure on the rating could emerge if BSTDB's development asset credit quality materially improves and the bank also manages to maintain its track record of moderate NPAs amid the current difficult operating environment. A significant improvement in the operating environment and in the creditworthiness of the bank's major shareholders would also be positive for the rating.

Factors that could lead to a downgrade

BSTDB's ratings would likely be downgraded should we conclude that a deterioration in asset quality and/or performance materially affects its assessment of capital adequacy. Evidence of liquidity pressures and/or that access to funding sources at affordable costs has weakened on a permanent basis adversely affecting the business model, could also exert downward pressure. Any evidence that diminished cooperation between members is lastingly affecting the decision-making process of the bank, constraining its ability to meet its strategic objectives, would also be credit negative.

Key indicators

Exhibit 2

Black Sea Trade and Development Bank (BSTDB)	2018	2019	2020	2021	2022	2023
Total Assets (USD million)	2,056.2	2,637.7	3,446.9	3,664.1	3,131.0	2,396.6
Development-related Assets (DRA) / Usable Equity [1]	167.8	221.3	243.7	265.8	245.5	183.4
Non-Performing Assets / DRA	0.0	0.2	1.5	0.0	8.2	6.8
Return on Average Assets	0.3	0.7	0.6	1.5	-0.9	0.8
Liquid Assets / ST Debt + CMLTD	190.1	387.9	128.9	249.7	222.4	127.1
Liquid Assets / Total Assets	24.7	21.6	26.6	26.4	28.9	25.5
Callable Capital / Gross Debt	167.9	107.9	84.7	70.8	84.0	137.2

[1] Usable equity is total shareholder's equity and excludes callable capital

Source: Moody's Ratings

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Profile

BSTDB was established in 1997 as the financial pillar of the Organisation of the Black Sea Economic Cooperation (BSEC). The latter was established in 1992 to promote peace and stability through enhanced relations among member states. A country must belong to the BSEC to become a BSTDB member and thereby be eligible for BSTDB financing. As a result, the bank has no non-regional member countries by design, and all member countries are both capital contributors and borrowers.

In line with its mandate, BSTDB provides funding to borrowers with the aim of promoting economic development and regional cooperation. The private sector accounts for the largest share of its lending activities and BSTDB offers a wide range of products encompassing short- to long-term loans, typically denominated in US dollars or euros, trade finance, SME financing through credit lines to local financial intermediaries, equity investments, both direct and via investment funds, guarantees and co-financing. BSTDB's exposure to financial institutions reflects its use of banks to direct loans to SMEs and for trade finance rather than lending directly, as well as leasing and subordinated lending.

Detailed credit considerations

Our determination of a supranational's rating is based on three rating factors: capital adequacy, liquidity and funding and strength of member support. For Multilateral Development Banks, the first two factors combine to form the assessment of intrinsic financial strength, as shown on the cover page graphic. Additional factors can affect the intrinsic financial strength, such as risks stemming from the operating environment or the quality of management. The strength of member support is then incorporated to yield a rating range. For more information please see our [Supranational Rating Methodology](#).

FACTOR 1: Capital adequacy score: baa2

The first key rating factor relates to BSTDB's capital adequacy that we score at "baa2", balancing lower than rating peers leverage against a weakened asset performance (albeit from a sound track record) and a "ba" development asset credit quality reflecting relatively weak borrower credit quality, although supported by credit enhancements and good portfolio diversification.

After significant increase in recent years, leverage ratio is declining

After increasing significantly in the years preceding the start of the Russia-Ukraine war, leverage (development assets and liquid assets rated A3 or lower/usable equity) has been on a declining trajectory. BSTDB's leverage ratio stood at 189% at end-2023, up more than 50% compared to 2013, but down from the peak of 282% in 2021.

In a strategic shift to ring-fence its balance-sheet, BSTDB updated its Medium Term Strategy & Business Plan (MTSBP) covering the period 2023-2026 to establish new operational targets reflecting the material changes to the operating environment. The bank has divided its four-year plan into two phases. Phase 1 (2023-2024) emphasizes consolidation and safeguarding the financial strength and portfolio quality of the institution. In 2024, the bank plans to continue to limit new operations, emphasizing the monitoring and supervision of its existing portfolio, with the aim to preserve asset quality, and ensuring strong capital and liquidity ratios. Phase 2 (2025-2026) will be again oriented towards growth.

We expect the leverage ratio to have peaked in 2021 and after declining significantly in 2022 and 2023 to stabilize thereafter, mainly reflecting balance sheet consolidation in response to a more challenging operating environment. In response to the Russia-Ukraine war, new operations approved by the Board and new disbursements fell materially and as a result, the bank operating portfolio contracted by 13% in 2022 and 23% in 2023, respectively. We apply a +1 adjustment to the Leverage score to acknowledge its declining trend.

BSTDB has paid-in capital of €687 million or 30% of the total subscribed capital of €2.3 billion at end-2023 which is among the higher shares for the multilateral development banks (MDBs) we rate. An increase in the bank's equity was supported by a general capital increase in 2008, which was fully completed at the end of April 2019. The capital increase – together with retained earnings and higher general reserves – more than doubled the stock of total equity.

In an extraordinary meeting in October 2021, the board of governors decided to increase the bank's subscribed capital to €3.1 billion from the current €2.3 billion, with a paid-in portion of the newly subscribed capital of 30% (the remaining 70% callable), in line with

the bank's current capital structure. After protracted discussions among the members, the subscription process for the capital increase was completed in May 2024. BSTDB's subscribed capital will rise as originally announced in 2021. The transfer of shares will occur on 1 January 2027, and BSTDB will receive additional capital of up to €245 million (increasing its paid-in capital to €932 million), with the subscribed capital payments made in eight installments over 2027 to 2034.

According to the agreement reached in May 2024, and given a special exemption for International Financial Institutions provided by the EU, Russia will participate in the capital increase, but will be required to pay by cash upfront in 2027. The share of Romania (Baa3 stable) and Ukraine will increase slightly given their oversubscription versus Albania (B1 positive) which does not participate.

Development asset credit quality reflects weak borrower credit quality, albeit supported by credit enhancements and diversification

We assess BSTDB's development asset credit quality (DACQ) as "ba". The relatively weak borrower credit quality of BSTDB is a reflection of the challenging operating environment in the bank's countries of operations, as highlighted by severe economic downturns over the past decade in member countries such as [Greece](#) (Ba1 stable), Ukraine, Russia and [Turkiye](#) (B3 positive). Despite significant exposure decline, BSTDB remains exposed to Russia and Ukraine. Exposure to both countries combined represents about 22% of BSTDB's development-related assets (DRA) as of end 2023, although the outstanding exposure notably declined by 47% since end-2022.

In line with practices followed by other MDBs, BSTDB stopped new lending to Russia after the start of the war. Exposure to Russia notably declined by about 60% to EUR 162 million (equivalent to 10% of DRAs) at end-2023 from EUR 401 million (19.5% of DRAs) in December 2022. We expect that the exposure to Russia relative to BSTDB's portfolio of development assets will continue to decline over time, reducing risks to asset performance, given an average residual maturity of the Russian portfolio of about 3.5 years. The outstanding exposure to Ukraine has declined as well although remaining broadly stable as a share of the portfolio (about 12% of DRAs).

BSTDB is also one of the most exposed MDBs to Turkiye (B3 positive), on account of both its large operations (about 27% of DRAs as of end 2023) and Turkiye's position as one of the bank's largest shareholders, with a share of 16.5% in BSTDB's subscribed capital. Key mitigating factors are the large share of lending to key Turkish public sector projects, the resilience demonstrated so far by the private sector to the volatile - albeit improving - domestic economic conditions, as well as a high share of co-financing with highly rated MDBs, which give comfort that BSTDB would be treated as a preferred creditor in the event of Turkiye experiencing some stress.

BSTDB also benefits from significant credit protections in the form of guarantees, the use of collateral and other credit enhancements that mitigate risks associated with a large exposure to the private sector. As of the end of December 2023, the secured portfolio represented 63% of outstanding loans (2022: 57%). Mortgages on properties and equipment, pledges of equity shares and investment instruments, cash or blocked deposits, and other third party guarantees are the main types of collateral. We apply a +1 adjustment for the existence of credit protections.

Our assessment of the DACQ is also supported by the very high diversification of the bank's portfolio in respect of project size, country and sector, combined with a very low share of equity investments, which are typically more risky than loans because of the greater risk of a full investment loss and the risk of more pronounced price volatility. Our assessment of BSTDB compares favourably with most Baa-rated peers in respect of the diversification of its portfolio, the size of its individual projects and the share of equity investments.

Resilient asset performance despite the impact of the Russia-Ukraine war

Until the start of Russia-Ukraine war, the bank's asset performance, which we measure by the ratio of nonperforming assets relative to development assets (NPA ratio), was not impacted by the effects of the pandemic and economic volatility in Turkiye, reflecting the bank's prudent risk management framework. There were no recorded NPAs at the end of 2021.

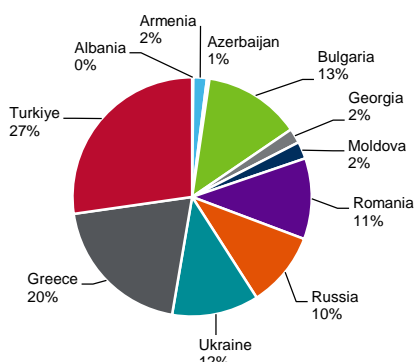
After the start of the war, all exposure on Ukraine and Russia was initially classified as stage 3, but based on the performance, a significant portion was reclassified as stage 2. Under the IFRS 9 accounting standard, the bank's share of loans classified as Stage 3 (credit-impaired) amounted to €151.6 million or 9.6% development-related assets at the end of 2023 (mostly from Ukraine's exposure), compared with €192.3 million, or 9.4% at the end of 2022 (end 2021: 3%). Allowances for the impairment of Stage 3 loans amounted to €62.1 million (or 41.0% of total Stage 3 loans). For these loans, BSTDB had collateral of €114.5 million to mitigate credit risks as of the end of 2023.

The exposure to Russia has experienced issues of transactional nature due to the imposition of international sanctions and the need of payments' authorization from Russia, which have affected the timely receipt of payments.¹ In the case of Ukraine, the weaker asset performance is mainly a reflection of challenges posed by the war conditions to the borrowers' credit profile. The majority of the payments scheduled in 2022 and up to May 2024 from Russia and Ukraine, respectively, have been received by the bank. Non-performing assets (NPAs) under Moody's definition (90 days or more overdue) stood at 6.8% at end-2023, down from 8.2% at end-2022. The performance of the rest of the portfolio has remained broadly stable.

While the bank will likely continue to experience asset performance pressures on its exposure to Ukraine stemming from the uncertainty related to the war, we expect NPAs to remain on an improving trend over the medium term, with any potential deterioration temporary and contained. We apply a +1 adjustment to reflect this trend for the asset performance.

Exhibit 3

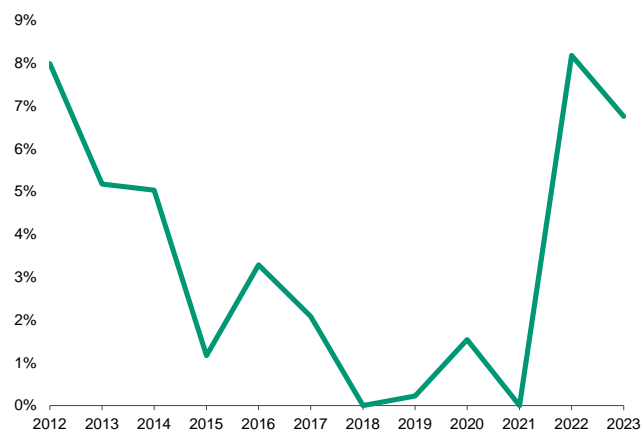
Russia and Ukraine together comprise 22% of the DRA portfolio % of Development Related Assets



Sources: BSTDB, Moody's Ratings

Exhibit 4

Asset performance deteriorated after the start of Russia-Ukraine war NPAs as a % of DRA



Sources: BSTDB, Moody's Ratings

FACTOR 2: Liquidity and funding score: baa2

The second rating factor is the institution's liquidity and funding score, which is assessed as "baa2" based on the "a1" score for availability of liquid resources and "ba" score for quality and structure of funding.

We assess BSTDB's liquidity score based on our measure for the availability of liquid resources, which is defined by high quality liquid assets to net cash outflows over 18 months. BSTDB's liquid resource ratio covered 1.1X projected net cash outflows as of December 2023, in line with end-2022. This reflects holdings of cash and highly rated securities but also significantly reduced planned disbursements compared to the original plans to safeguard liquidity in response to the challenging market conditions and difficult operating environment.

BSTDB's liquidity policy sets minimum liquid assets at 75% of net cash requirements for the next 12 months which is less stringent compared to other MDBs, with many requiring 100% for the next 12 months or more.

The bank's financial investments amounted to €561 million in cash and securities as of the end of 2023 compared to €860 million as of end 2022. Of those treasury assets, 18.8% consist of debt investment securities of governments and companies and 81.2% are cash and bank balances. According to BSTDB definition, 49% of its financial assets are held in assets Aaa-Aa3, 23% in assets rated A-A3, 6% in assets rated Baa1-Ba3, 1% in assets rated B1-B3 with the remaining being unrated.

BSTDB has historically relied on a reasonably diversified pool of funding sources, including bond issuances, a commercial paper programme for cash management purposes as well as bilateral loans from other international development institutions such as Germany's (Aaa stable) [Kreditanstalt fuer Wiederaufbau](#) (KfW, Aaa), the [Nordic Investment Bank](#) (NIB, Aaa stable), [European Investment Bank](#) (EIB, Aaa stable), French development entity Proparco, [Export-Import Bank of China](#) (A1), New Development Bank,

[Korea Development Bank](#) (Aa2 stable) and the Development Bank of Austria (OeEB). While the pool of funding has narrowed following the pre-payment of some of these facilities in 2023, BSTDB is in advanced discussion with other MDBs and official sector partners on new bilateral facilities.

As of December 2023, around 38% of the bank's total borrowing was in US dollars. However, BSTDB also secured funding in euros (27%) and Swiss francs (14%), and in local-currency markets in member countries. The latter was conducted to help develop local-currency markets in member countries and to match the funding and financing currency. Since 2015, BSTDB has issued bonds in Armenian drams, Azerbaijan manat, Romanian lei and Georgian laris.

The first bond under the MTN programme (\$500 million) was issued in May 2016 with a coupon of 4.875%, and matured in 2021. In June 2019, BSTDB issued a \$400 million bond with a coupon of 3.5% maturing in June 2024, which it tapped in July 2020, increasing the issuance's total size to \$550 million. As part of the bond tap issue, holders of the bank's \$500 million 4.875% notes due 6 May 2021 tendered bonds to purchase the new 2024 issue or for cash. In June 2023, to manage the liability profile, the bank launched a tender offer to buy back the 2024 bond (USD 550 million due in June 2024) at a discount, successfully achieving 25% of the principal. The rest of the issuance was repaid in June 2024. There are no large upcoming maturities.

After having declined for number of years, funding costs increased significantly in the aftermath of Russia's invasion of Ukraine, with the spreads on its international bonds remaining more elevated than peer MDBs since then. While we expect funding conditions to gradually improve, BSTDB is likely to continue to generate financial resources internally and relying on new bilateral financing to service its financial obligations and finance its operations unless borrowing becomes available on more affordable terms and the bank returns to growth.

Qualitative adjustments to intrinsic financial strength

Operating environment

We apply a "-1" adjustment to BSTDB's intrinsic financial strength because of the materially weakened operating environment primarily due to the Russia-Ukraine war and the bank's still significant (although declining) exposure to both economies. A diversified portfolio mitigates in part a difficult operating environment. BSTDB's relatively diversified loan portfolio by sector and country is balanced against its loan exposure to the Black Sea region.

Quality of management

Risk management is a key component of BSTDB's decision-making processes and is supported by the bank's operational limits, which specify maximum exposures to a single obligor and country and sector targets. These operational limits are, with respect to single obligors, that BSTDB can lend up to 10% of usable equity for private-sector operations and up to 20% for public-sector nonsovereign operations (the operational country ceiling remains the limit for each sovereign). The single obligor limit for equity investments is 3% of paid-in capital.

Regarding project finance and equity, BSTDB only co-finances with a share of any project amounting to 50% and 33%, respectively, while the share can be 100% for corporate finance and trade finance. Other lending limits include that the share of the five largest obligors cannot exceed 40% of the outstanding loan portfolio, maximum country exposure amounts to 30% of the planned commitments and the typical maximum duration of a loan is 10 years. However, the bank's board of directors can approve a longer duration on the credit committee's recommendation.

FACTOR 3: Strength of member support score: Medium

BSTDB's strength of member support is assessed as "Medium". This assessment is driven by the ability of members to provide support and their willingness to support the institution. We assess the ability to provide support based on the weighted average shareholder rating.

The largest shareholders, which combined own about 90% of the bank's subscribed capital, are Greece (16.6%), Russia (16.6%), Türkiye (16.6%), [Romania](#) (Baa3 stable) (14.1%), [Bulgaria](#) (Baa1 stable) (13.6%) and Ukraine (13.6%). The other member countries' shares are [Azerbaijan](#) (Ba1 positive) (5%), Albania (2%), [Armenia](#) (Ba3 stable) (1%), [Moldova](#) (B3 stable) (0.5%) and [Georgia](#) (Ba2 stable) (0.5%).

The multi-notch downgrades of Ukraine's rating and of Russia's rating (before its withdrawal) since the start of the war reduced our assessment of shareholders' ability to provide support, resulting in a weighted average shareholder rating of "b2" from "ba2" at the end of 2022. The currently assigned weighted average shareholder rating stands at "b2".

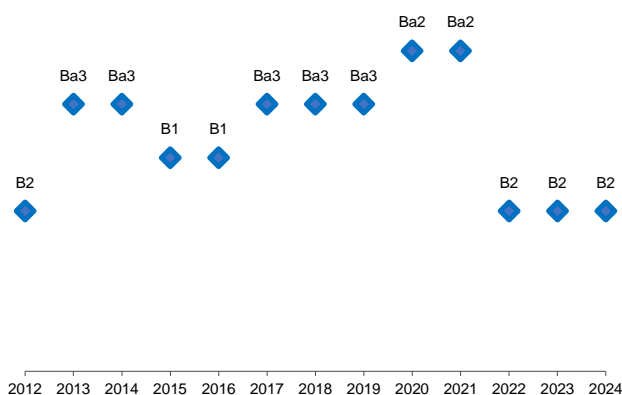
Willingness to support is a function of shareholders' contractual and non-contractual willingness to support the institution. Our assessment of contractual support being "aaa" is based on the relatively high ratio of callable capital to total (gross) debt. In addition, BSTDB has some protection against the unexpected withdrawal of a member state. According to Article 39 of BSTDB's establishment agreement, a member country is liable for its obligations until the shares are bought by the bank at book value, up to five years after the cessation of membership.

Given the finalization of the capital increase, we increased non-contractual support to "Medium" from "Low", resulting in a strength of member support of "Medium". The non-contractual support for BSTDB was previously assessed as "Low" due to the lack of finalization of the capital increase amid questions on shareholders' cohesiveness in light of the difficult and unprecedented geopolitical situation. The recent capital increase confirm the members' commitment to the institution and their track record of capital injections, including the 2008 general capital increase.

Exhibit 5

BSTDB's WASR fell to B2 following the downgrades of Russia and Ukraine

Weighted Average Shareholder rating of BSTDB

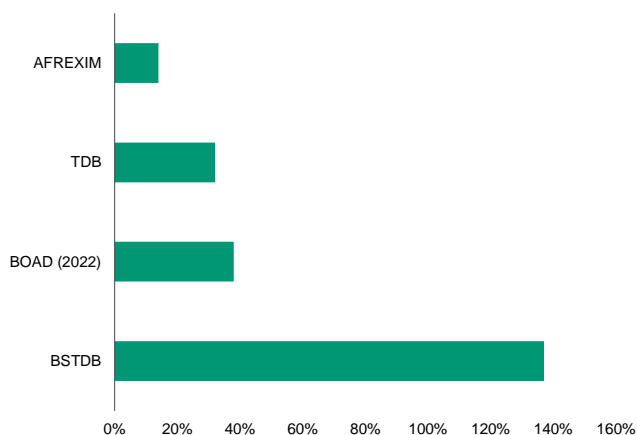


Source: Moody's Ratings

Exhibit 6

BSTDB has some of the strongest contractual support among the Baa universe

Callable Capital/Debt ratio, 2023 or latest



Note: We exclude EADB because its Callable Capital/Debt ratio is significantly higher
Sources: BSTDB other MDB's financial statements, Moody's Ratings

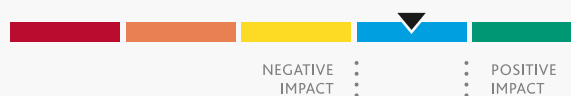
ESG considerations

Black Sea Trade & Development Bank's ESG credit impact score is CIS-2

Exhibit 7

ESG credit impact score

CIS-2



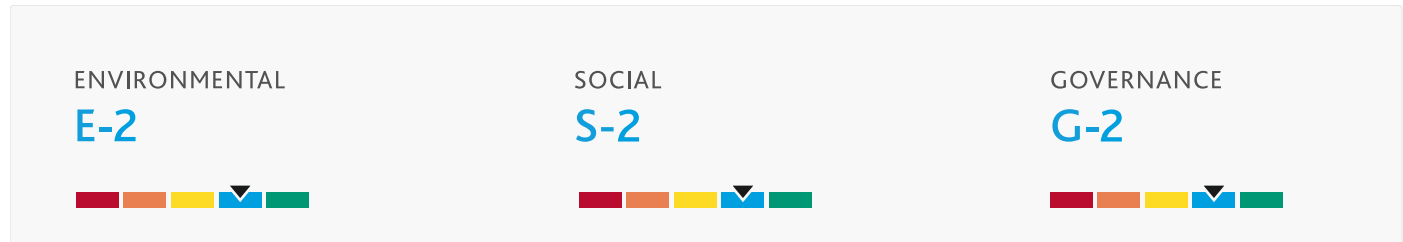
ESG considerations do not have a material impact on the current rating.

Source: Moody's Ratings

BSTDB's credit impact score is **CIS-2**, reflecting generally low exposure to environmental risks, low exposure to social risks, and a solid governance profile, supported by a prudent framework.

Exhibit 8

ESG issuer profile scores



Source: Moody's Ratings

Environmental

The environmental issuer profile score is **E-2**. BSTDB's exposure to sectors affected by environmental considerations, such as the agriculture sector or sectors facing carbon transition risk, such as the oil and gas sector, is contained, with high portfolio diversification providing a mitigation.

Social

BSTDB's social issuer profile score at **S-2** reflects good customer relations and, as demonstrated until the start of Russia-Ukraine war, solid demand from its member states which are also borrowers, policies in place to safeguard responsible production, and attention to societal trends.

Governance

The governance issuer profile score at **G-2** is underpinned by prudent policies and improvements in the bank's risk management framework over the past decade, which supported a robust track record of asset performance and is helping to contain asset quality risk in the current difficult operating environment in the Black Sea region. At the same time, a more fragmented shareholder base due to the geopolitical conditions can have implications for the strategic direction of the bank over time.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

All of these considerations are further discussed in the "Detailed credit considerations" section above. Our approach to ESG is explained in our cross-sector methodology [General Principles for Assessing Environmental, Social and Governance Risks](#). Additional information about our rating approach is provided in our [Supranational Rating Methodology](#).

Recent developments

Asset performance deterioration has been manageable

At the onset of the conflict, BSTDB had significant exposure to both Ukraine and Russia, with both countries together accounting for over 30% of DRAs as of December 2022. BSTDB stopped lending to Russia after the start of the war. The exposure notably declined by about 60% to EUR 162 million (equivalent to 10.3% of DRAs) at end-2023 from EUR 401 million (19.5% of DRAs) in December 2022, as part of the exposure was sold or prepaid. The outstanding exposure to Ukraine has declined as well although remaining broadly stable as a share of the portfolio (about 12% of DRAs). As of end 2023, Ukraine and Russia were the fourth and the sixth-largest country exposures of BSTDB's loan portfolio.

The imposition of international sanctions on Russia and sustained disruption to the Ukraine economy weighted on BSTDB's asset performance in 2022. The Russia's portfolio is experiencing issues of transactional nature which are slowing down the receipt of payments, while in the case of Ukraine, the weaker asset performance is mainly a reflection of pressures on the borrowers' credit profile given the economic disruptions caused by the war. About 89% and 74% of the payments (including prepayments and sold exposure)

scheduled in 2022 and up to May 2024 from Russia and Ukraine, respectively, have been received by the bank. As of May 2024, about 10% of the payments are deposited in "S" accounts.

As of end-2023, stage 3 loans - mostly from Ukraine's exposure - were about 20% lower compared with 2022 but remained broadly stable as a share of DRAs at 9.6% of DRAs. Non-performing assets (NPAs) under Moody's definition stood at 6.8% at end-2023, down from 8.2% at end-2022. According to unaudited accounts, the non-performing loans (NPLs) ratio reached 5.7% as of May 2024. While these figures exclude the payment deferrals that have been agreed on about 16% of the exposure to Ukraine, our expectation is that any deterioration in asset quality would be contained.

BSTDB is also one of the most exposed MDBs to Türkiye, which accounts for more than 27% of the bank's total loans. Nevertheless, the challenging (albeit improving) operating conditions have not translated in a deterioration of the asset performance. The quality of the rest of the portfolio has remained broadly stable.

Liquidity buffers remain adequate, with the bank likely to rely on bilateral facilities in the near term

Following the start of the invasion, the bank revised its growth target down and lowered new commitments, with the aim to safeguard its liquidity position. The bank started 2024 with a solid liquidity position, with liquidity assets under our definition amounting to €434 (including €375 million cash deposits). Under our stress scenario, liquid assets under Moody's definition as of end of December 2023 amply cover projected net cash outflows over the subsequent 18 months.

The scenario assumes that BSTDB has no access to markets. While further payment delays on the Ukraine and Russia exposure could weigh on the liquidity position, they are manageable as accounting for 7% and 15% respectively total repayments due over the next 12 months. Liquid resources declined after the international bond redemption (USD 383 million) in June 2024 and are likely to decline further over the next 12 months if no additional funding is secured. However, we expect them to remain clearly sufficient to cover BSTDB's upcoming repayment obligations.

Market's perception of BSTDB has deteriorated since the start of the war and the cost of market funding has increased significantly. While we expect funding conditions to gradually improve, BSTDB is likely to continue to generate financial resources internally and relying on new bilateral financing to service its financial obligations and finance its operations unless borrowing becomes available on more affordable terms.

Recently agreed capital increase indicates shareholders' support for bank's strategic role despite difficult geopolitical environment

After protracted discussions among the member states, the subscription process for the capital increase was completed in May 2024. BSTDB's subscribed capital will rise to EUR 3.1 billion from EUR 2.3 billion, as originally announced in 2021, with a paid-in portion of the newly subscribed capital of 30% (the remaining 70% is callable), in line with the bank's current capital structure. The transfer of shares will occur on 1 January 2027, and the subscribed capital payments will be made in eight instalments over 2027 to 2034. According to the agreement reached in May 2024, and given a special exemption for International Financial Institutions provided by the EU, Russia will participate in the capital increase, but will be required to pay by cash upfront in 2027. The share of Romania and Ukraine will increase slightly given their oversubscription versus Albania which does not participate.

In March 2023, the shareholders approved the first step of the capital increase, allocating to the member states (except Russia and Albania) the number of shares based on current shareholdings immediately prior to the offer for subscription. The final decision on allocation of shares, payment and transfer of voting rights (including potential Russia's participation) was expected to be made in a second step of the process. The delay in reaching the agreement was due to a misalignment between internal rules due to Russia's interest in participating in the capital increase, which is protected by the bank's statute, and the sanctions risk deriving from its participation, which led BSTDB to seek clearance from regulatory authorities in the EU.

Despite only materializing over the coming years, the capital increase provides evidence of the commitment of the shareholders for the strategic role of the institution in a difficult geopolitical environment.

Rating methodology and scorecard factors: BSTDB - Baa2 stable

Factor / Subfactor	Metric	Initial score	Adjusted score	Assigned score
Factor 1: Capital adequacy (50%)			baa2	baa2
Capital position (20%)			a2	
	Leverage ratio	a3		
	Trend	+1		
	Impact of profit and loss on leverage	0		
Development asset credit quality (10%)			ba	
	DACQ assessment	ba		
	Trend	0		
Asset performance (20%)			baa3	
	Non-performing assets	ba1		
	Trend	+1		
	Excessive development asset growth	0		
Factor 2: Liquidity and funding (50%)			baa2	baa2
Liquid resources (20%)			a1	
	Availability of liquid resources	a1		
	Trend in coverage outflow	0		
	Access to extraordinary liquidity	0		
Quality of funding (30%)			ba	
Preliminary intrinsic financial strength				baa2
Other adjustments				-1
Operating environment		-1		
Quality of management		0		
Adjusted intrinsic financial strength				baa3
Factor 3: Strength of member support (+3,+2,+1,0)			Medium	Medium
Ability to support (50%)			b2	
	Weighted average shareholder rating	b2		
Willingness to support (50%)				
	Contractual support (25%)	aaa	aaa	
	Strong enforcement mechanism	0		
	Payment enhancements	0		
	Non-contractual support (25%)		Medium	
Scorecard-Indicated Outcome Range				Baa1-Baa3
Rating Assigned				Baa2

Note: Our ratings are forward-looking and reflect our expectations for future financial and operating performance. However, historical results are helpful in understanding patterns and trends of an issuer's performance as well as for peer comparisons. Additional considerations that may not be captured when historical metrics are used in the scorecard may be reflected in differences between the adjusted and assigned factor scores. Furthermore, in our ratings we often incorporate directional views of risks and mitigants in a qualitative way. For more information please see our Multilateral Development Banks and Other Supranational Entities rating methodology.

Source: Moody's Ratings

Related websites and information sources

- » [Black Sea Trade and Development Bank](#)
- » [Moody's Sovereign and supranational rating list](#)

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Endnotes

- 1 Russian authorities have exempted BSTDB from capital controls, while continuing to require the borrowers to apply for specific licenses from the appropriate Ministry or Central Bank. In some instances, delays in the process led willing and able to pay borrowers to deposit part of the amount due in a special type of account under Russian legislation, known as "S" account (i.e. restricted account, under bank's ownership).

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