

Black Sea Trade and Development Bank



A-

NEGATIVE
OUTLOOK

Credit strengths

- High capitalisation
- Preferred creditor status and diversified loan portfolio
- Sound liquidity and funding 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.
- **Financial profile:** The BSTDB's financial profile benefits from very high capitalisation levels. The bank's loan book is well diversified and benefits from credit protections. The BSTDB's liquidity and funding profiles are adequate. Challenges include a difficult operating environment, and particularly its elevated exposures to Russia and Ukraine with constitute about 30% of its outstanding 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the bank's profitability and capitalisation; ii) the bank's preferred creditor status were to be questioned or even repealed due to events prompted by the crisis; iii) liquidity buffers declined significantly; iv) the bank's implementation of its strategy diverged significantly from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	Weak
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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Bloomberg: RESP SCOP

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 GmbH

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

	Indicative Rating	Shareholder Support			
		Very High	High	Moderate	Weak
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+
	Strong	AA- / A	A+ / A-	A / BBB+	A- / BBB
	Strong	A+ / A-	A / BBB+	A- / BBB	BBB+ / BBB-
	Adequate +	A / BBB+	A- / BBB	BBB+ / BBB-	BBB / BB+
	Adequate -	A- / BBB	BBB+ / BBB-	BBB / BB+	BBB- / BB
	Adequate	BBB+ / BBB-	BBB / BB+	BBB- / BB	BB+ / BB-
	Moderate +	BBB / BB+	BBB- / BB	BB+ / BB-	BB / B+
	Moderate -	BBB- / BB	BB+ / BB-	BB / B+	BB- / B
	Moderate	BB+ / BB-	BB / B+	BB / B	B+ / B-
	Weak +	BB / B+	BB- / B	B+ / B-	B / CCC
	Weak -	BB- / B	B+ / B-	B / CCC	B- / CCC
	Weak	B+ / B-	B / CCC	B- / CCC	CCC
	Very Weak +	B / CCC	B- / CCC		CCC
Very Weak -	B- / CCC	CCC			
Very Weak	CCC	CCC			

Source: Scope Ratings GmbH



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+/Stable	
Russian Federation*	113,850.0	265,650.0	379,500.0	16.6		
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	CCC/ Developing	
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 GmbH

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	34.0	Excellent	4	
		Capital/ Actual assets*	%	--	--	--	≥ 40	< 40	--	--	44.0	Excellent	1	
		Profitability (Return on equity)	%	--	--	--	≥ 3	< 3; ≥ 0	< 0	--	2.0	Moderate	0	
	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	--	0.9	Very Strong	2
	Liquidity & funding (-4; +8)	Liquid assets ratio		%	> 100	≤ 100; > 75	≤ 75; > 50	≤ 50; > 25	≤ 25; > 15	≤ 15; > 10	≤ 10	40.0	Adequate	1
		Maturity gap		Multiple	--	--	--	≥ 0.75	< 0.75; ≥ 0.50	< 0.50	--	0.8	Strong	1
		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	--	--	60.0	Strong	1	
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	--	82.0	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											Weak			
Indicative Rating											A / BBB+			
Additional considerations (-1; +1)											Neutral			
Final Rating											A-			

Nb. Financial profile refers to three-year average of 2018-20 figures.

Source: BSTDB, Scope Ratings GmbH

IV Asset quality assessment

Portfolio quality (initial assessment)		Very Strong	Strong	Adequate	Moderate	Weak						
Indicative borrower quality		aaa/aa	a	bbb	bb	b/cc						
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	+5									
		Adjustments	+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 GmbH. 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

	2015	2016	2017	2018	2019	2020
Capitalisation (EUR m)						
Mandated potential assets	2,323.5	2,354.6	2,360.6	2,403.6	2,432.4	2,445.7
Mandated (disbursed) assets	1,113.5	1,191.8	1,168.7	1,361.0	1,853.5	2,071.6
Capitalisation ratio, potential (%)	31.1	32.0	32.1	33.4	34.1	34.5
Capitalisation ratio, actual (%)	64.8	63.2	64.9	58.9	44.8	40.7
Profitability (EUR m)						
Net income	15.2	1.8	8.7	5.2	13.7	14.2
Return on equity (%)	2.1	0.2	1.1	0.6	1.6	1.7
Asset quality (EUR m)						
Total gross loans	1,049.7	1,139.1	1,132.4	1,318.4	1,808.2	2,030.4
Non-performing loans / gross loans (%)	1.2	3.4	2.1	-	0.2	1.4
Stage 3 loans	42.1	72.7	61.1	41.7	50.9	78.4
Stage 3 loans / gross loans (%)	4.0	6.4	5.4	3.2	2.8	3.9
Provisions for Stage 3 loans	18.1	21.7	45.5	27.0	34.4	37.4
Provisions for Stage 3 loans / Stage 3 loans (%)	42.9	29.8	74.3	64.6	67.7	47.7
Liquidity (EUR m)						
Liquid assets and undrawn credit facilities	189.0	327.1	289.0	362.1	394.9	604.7
Cash and cash equivalents	49.7	70.0	81.5	48.6	82.6	34.3
Assets ≤ 12 months and undrawn credit facilities*	139.3	257.0	207.5	313.6	312.3	570.4
Liabilities maturing within 12 months and disbursements	706.2	516.6	678.3	1,186.5	994.3	1,528.1
Liabilities ≤ 12 months	262.5	130.4	105.3	315.3	210.3	646.1
Disbursements over the next 12 months	443.7	386.2	573.0	871.1	783.9	882.0
Liquid assets ratio (%)	26.8	63.3	42.6	30.5	39.7	39.6
Funding (EUR m)						
Volume	275.7	619.0	106.7	433.6	1,267.3	944.2
<i>Share of borrowings outstanding (%)</i>						
USD	30.6	72.2	69.2	62.4	68.7	54.6
EUR	13.8	8.5	10.6	13.3	6.4	17.9
CHF	51.3	10.8	11.9	9.3	12.3	9.8
ESG issuance	-	-	-	-	-	-
% total	-	-	-	-	-	-
Equity (EUR m)						
Paid-in capital	542.8	613.8	641.6	685.1	686.6	686.6
Retained earnings and reserves	178.7	138.9	117.1	116.5	143.9	157.2
Total equity	721.5	752.7	758.7	801.6	830.4	843.7
Key shareholders						
Average capital-key weighted rating	BB	BB	BB	BB	BB	BB
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 GmbH



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