

CREDIT OPINION

24 October 2023

Update

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RATINGS

BSTDB	Rating	Outlook
Long-term Issuer	Baa2	Neg
Short-term Issuer	P-3	--

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Black Sea Trade and Development Bank – Baa2 negative

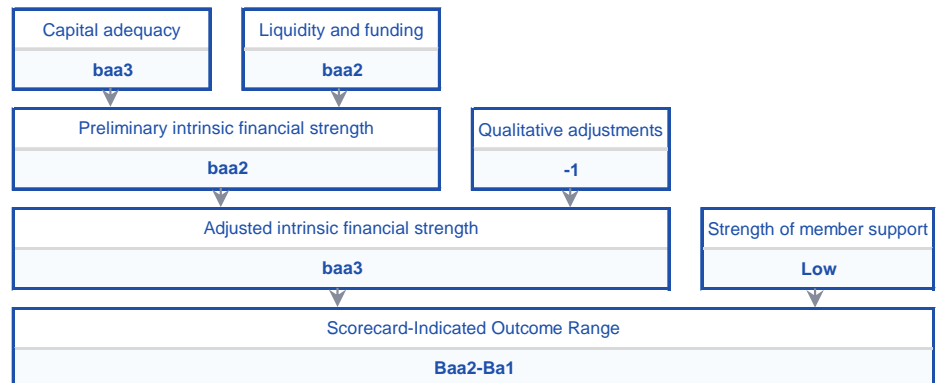
Update following downgrade to Baa2, outlook unchanged

Summary

[Black Sea Trade and Development Bank's](#) (BSTDB) credit profile reflects its solid capital position despite weakened asset performance, and adequate liquidity buffers. While the asset performance deterioration has been manageable so far, the bank will continue to face credit pressures stemming from the difficult and uncertain operating environment due to the war between Russia and [Ukraine](#) (Ca stable).

Exhibit 1

BSTDB's credit profile is determined by three factors



Source: Moody's Investors Service

Credit strengths

- » Solid capital position
- » Track record of strong asset performance despite recent deterioration
- » Contractual shareholders' support underpinned by high level of callable capital

Credit challenges

- » Challenging operating environment
- » Pressures on asset quality due to the impact of the Russia-Ukraine war
- » Member countries' limited ability to provide support if needed compared with peers

Rating outlook

The negative outlook reflects persisting risks to capital adequacy, reflecting potential pressures on asset quality and performance, as well as risks to liquidity due to the challenges related to the Russia-Ukraine war and challenging funding conditions, that are expected to continue in part given the lack of an agreement on the envisaged capital increase.

Factors that could lead to an upgrade

The negative outlook suggests that an upgrade is unlikely in the near term. The outlook could be changed to stable if BSTDB asset performance is preserved at current levels amid the current difficult operating environment. Signs of financial support from member states including the planned capital increase would also be supportive of a stabilization of the outlook.

Factors that could lead to a downgrade

BSTDB's ratings would likely be downgraded should Moody's conclude that a further deterioration in asset quality and/or performance materially affects its assessment of capital adequacy. Evidence of increased liquidity pressures and/or that access to funding sources at affordable costs has weakened on a permanent basis, could also exert downward pressure. Evidence that diminished cohesiveness or lack of 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

Black Sea Trade and Development Bank (BSTDB)	2017	2018	2019	2020	2021	2022
Total Assets (USD million)	1,816.9	2,056.2	2,637.7	3,446.9	3,664.1	3,131.0
Development-related Assets (DRA) / Usable Equity [1]	153.2	167.8	221.3	243.7	265.8	245.5
Non-Performing Assets / DRA	2.1	0.0	0.2	1.5	0.0	8.2
Return on Average Assets	0.5	0.3	0.7	0.6	1.5	-0.9
Liquid Assets / ST Debt + CMLTD	736.1	190.1	387.9	128.9	249.7	222.4
Liquid Assets / Total Assets	24.7	24.7	21.6	26.6	26.4	28.9
Callable Capital / Gross Debt	221.7	167.9	107.9	84.7	70.8	84.0

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

Source: Moody's Investors Service

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.

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.

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: baa3

The first key rating factor relates to BSTDB's capital adequacy that we score at "baa3", balancing slightly 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

Despite the 2010-2019 capital increase, leverage (development assets and liquid assets rated A3 or lower/usable equity) increased significantly over the past several years and until the start of the Russia-Ukraine war, as BSTDB's loan portfolio raised at an even faster pace than the capital contributions. BSTDB's leverage ratio stood at 256% at end-2022, more than double compared to 2013, but down from 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 the immediate future, 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 to continue to decline thereafter, mainly reflecting the consolidating balance sheet in response to a more challenging operating environment. In response to the Russia-Ukraine war, after averaging EUR 856 million per annum from 2019-2021, new operations approved by the Board fell to EUR 71 million in 2022 and new disbursements fell from an annual average of EUR 910 million to EUR 349 million. As a result, the bank operating portfolio contracted by 13% in 2022. 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-2022 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. As a result of the new subscription, BSTDB was expecting to receive additional capital of up to €245 million (increasing its paid-in capital to €932 million), with the subscribed capital payments made in eight instalments over 2023-30.

In March 2023, the shareholders approved the first step of a capital increase that was announced in October 2021. The envisaged capital increase allocated to the member states (except for Russia and [Albania](#) (B1 stable), the latter decided not to participate) the number of shares based on current shareholdings prior to the subscription offer. 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.

However, at the special meeting of the Board of Governors held in September, no decision on the finalization of the capital increase process was made as the shareholders did not reach an agreement. We assess that the capital increase was not finalized due to the

misalignment between the statutory provisions that protect the members' right to participate to a capital increase up to their current shares, and the still pending clearance requested by BSTDB from the regulatory authorities on Russia's participation.

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 (at Caa) 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 stable). BSTDB is significantly exposed to Russia and Ukraine. Exposure to both countries combined represents about 30% of BSTDB's development-related assets (DRA) as of June 2023, although the outstanding exposure notably declined by 19% since end-2022.

In line with practices followed by other MDBs, BSTDB stopped new lending to Russia. Exposure to Russia declined by about 27% to EUR 293 million (equivalent to 16% of DRAs) in June 2023 from EUR 401 million (19.4%) 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. We estimate that the average residual maturity of the Russian portfolio is below 4 years.

BSTDB is also one of the most exposed MDBs to Turkiye, on account of both its large operations (about 22% of DRAs as of June 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 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 severe 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 2022, the secured portfolio represented 57% of outstanding loans (2021: 54%). 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.

We also incorporate in our assessment of the DACQ 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.

Track record of solid asset performance recently deteriorated due to the Russia-Ukraine war

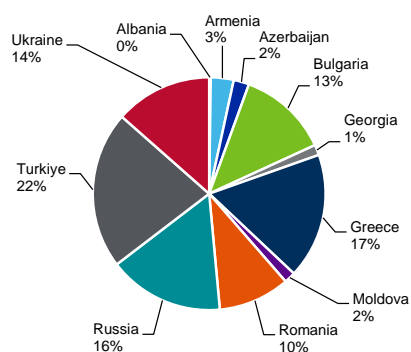
Until the start of Russia-Ukraine war, the bank's asset performance, which we measure by the ratio of nonperforming assets relative to development assets (NPA ratio), proved notably resilient to the pandemic and to the economic volatility in Turkiye, reflecting the bank's prudent risk management framework. There were no recorded NPAs at the end of 2021.

Initially, all exposure on Ukraine and Russia was 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 €192.3 million, or 9.4% of development-related assets at the end of 2022 (almost entirely from Ukraine's exposure), compared with €70.9 million, or 3%, at the end of 2021 (end-2020: 2.5%). Allowances for the impairment of Stage 3 loans amounted to €68.8 million (or 35.8% of total Stage 3 loans). For these loans, BSTDB had collateral of €161.8 million to mitigate credit risks as of the end of 2022.

Non-performing assets (NPAs) under Moody's definition (90 days or more overdue) stood at 8.2%, from zero at the end of 2021. According to unaudited accounts, the NPAs ratio has declined to 5.6% as of June 2023. However, these figures exclude the payment deferrals that have been agreed on about one third of exposure to Ukraine, and might deteriorate. The quality of the rest of the portfolio has remained broadly stable.

Exhibit 3

Russia and Ukraine together comprise 30% of the DRA portfolio % of Development Related Assets

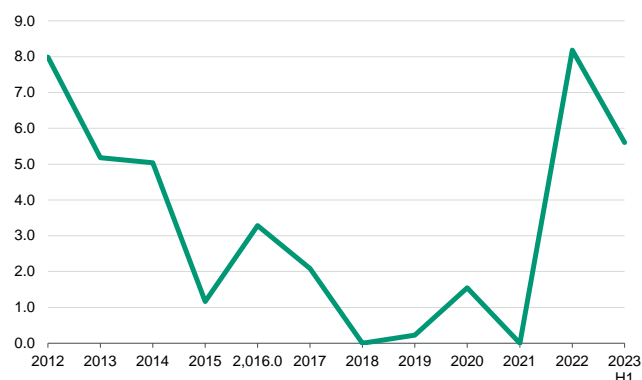


Source: BSTDB, Moody's Investors Service

Exhibit 4

Asset performance deteriorated after the start of Russia-Ukraine war

NPAs as a % of DRA



Source: BSTDB, Moody's Investors Service

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. We estimate that BSTDB's liquid resource ratio covers 1.5X projected net cash outflows as of September 2023, compared to a coverage ratio of 1.1X at 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 €860 million (cash and securities) as of the end of 2022 and €657 million as of June 2023. These can be divided into treasury assets held in debt investment securities of governments and companies (61% of total financial investments) and cash and bank balances (37.5%), as well as equity investments (1.4%) as of end 2022. Of the bank's treasury assets, 86% are held in assets rated Aaa-Aa3, 2.5% in assets rated A1-A3, 3.3% in assets rated Baa1-Ba3 and 3.2% in assets rated B1-B3 as of end-2022.

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). The Annual Meeting saw the signing of a EUR 30 million agreement with OeEB to support projects in the region. However, the pool of funding has recently narrowed, given the prepayment of some of these facilities.

The first bond under the MTN programme, in the amount of \$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 (USD 137.5 million).

As of June 2023, around 42% of the bank's total borrowing was in US dollars. However, BSTDB also secured funding in euros (24%) and Swiss francs (10%), 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.

After having declined in recent 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 in the past year. Its next large international bond maturity is in 2024, amounting to about \$410 million.

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. By sector, the bank has progressively reduced its loan concentration. In terms of sectoral distribution, its exposure to financial institutions reached 40% of total loans at the end of 2018 before falling to 16% at the end of 2022. The financial institutions category covers a variety of subsectors, mostly lending to small and medium-sized enterprises and, to a lesser extent, trade finance, leasing and subordinated lending.

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: Low

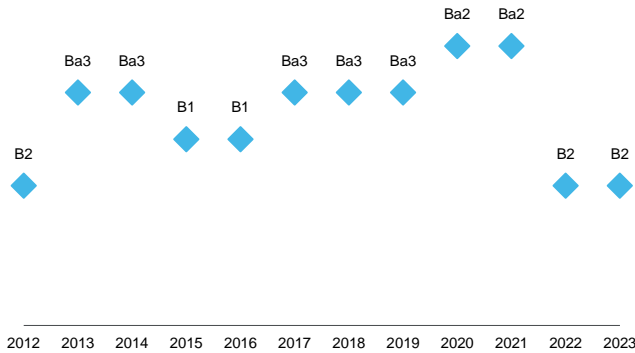
BSTDB's strength of member support is assessed as "Low". This assessment is driven by the ability of members to provide support and their willingness to support the institution. We assess the ability to provide support based on the weighted average shareholder rating.

The largest shareholders, which combined own almost 91% of the bank's subscribed capital, are Greece (16.5%), Russia (16.5%), Turkiye (16.5%), [Romania](#) (Baa3 stable) (14%), [Bulgaria](#) (Baa1 stable) (13.5%) and Ukraine (13.5%). The other member countries' shares are [Azerbaijan](#) (Ba1 stable) (5%), [Albania](#) (B1 stable) (2%), [Armenia](#) (Ba3 stable) (1%), [Moldova](#) (Ba3 stable) (0.5%) and [Georgia](#) (Ba2 negative) (0.5%). As of the end of 2021, 0.5% of shares in the bank were unallocated. 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 2021. The currently assigned weighted average shareholder rating of "b2" takes also into account the recent Greece's rating upgrade to Ba1 from Ba3.

Willingness to support is a function of shareholders' contractual and non-contractual willingness to support the institution. Our assessment of contractual support being "aa2" 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.

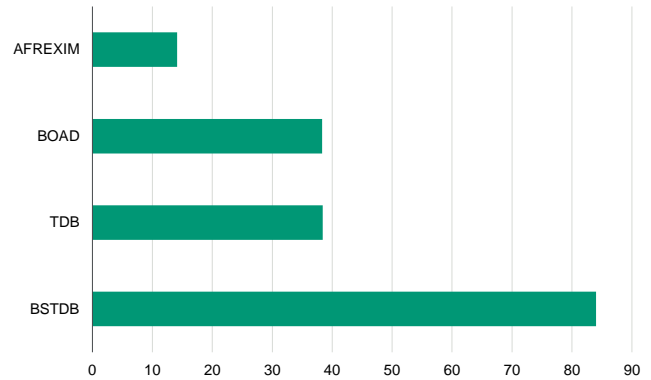
We have reassessed the non-contractual support for BSTDB as "Low" as the lack of finalization of the capital increase raises questions on shareholders' cohesiveness in light of the difficult and unprecedented geopolitical situation, despite the members' past track record of capital injections, including the 2008 general capital increase which doubled the subscribed capital.

Exhibit 5
BSTDB's WASR fell to B2 following the downgrades of Russia and Ukraine
 Weighted Average Shareholder rating of BSTDB



Source: Moody's Investors Service

Exhibit 6
BSTDB has some of the strongest contractual support among the Baa universe
 Callable Capital/Debt ratio, 2022



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

ESG considerations

Black Sea Trade & Development Bank's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 7
ESG Credit Impact Score

CIS-2
 Neutral-to-Low



For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

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

ENVIRONMENTAL
E-2
 Neutral-to-Low



SOCIAL
S-2
 Neutral-to-Low



GOVERNANCE
G-2
 Neutral-to-Low



Source: Moody's Investors Service

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 is **S-2**, reflecting 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 is **G-2**, 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.

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 ESG Risks](#). Additional information about our rating approach is provided in our [Supranational Rating Methodology](#).

Recent developments

Asset performance deterioration has been manageable so far but remains a source of credit pressures

Russia and Ukraine comprise about 16% and 13.5% of BSTDB's DRAs as of June-2023, respectively. Russia and Ukraine are the third and the fourth-largest country exposures of BSTDB's loan portfolio, after Turkiye and Greece.

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. In the case of the Russian exposure, although most borrowers have proved willing and financially able to pay, technical delays have occurred due to the imposition of international sanctions against Russia and the need of payments' authorisation from Russia. About 84% and 62% of the payments (including prepayments) scheduled in 2022 and up to September 2023 from Russia and Ukraine respectively, have been paid transparently and permissibly under EU exemption and derogation. Furthermore, in the case of the exposure to Russia, a further 13% of payments have been received, although currently held in restricted accounts.

NPAs (90 days or more overdue definition) increased to 8.2% in 2022, up from no NPAs at the end of 2021. According to unaudited accounts, the NPAs ratio has declined to 5.6% as of June 2023 and BSTDB expects a further decline by year-end. However, about one third of Ukraine exposure has been granted some payment deferrals. While the asset performance deterioration has been manageable so far, the bank will continue to face credit pressures stemming from the uncertainty related to the Russia-Ukraine war.

BSTDB is also one of the most exposed MDBs to Turkiye, which accounts for more than 20% of the bank's total loans. Nevertheless, the challenging operating conditions have not translated in a deterioration of the asset performance despite elevated currency volatility and high inflation. The quality of the rest of the portfolio has remained broadly stable.

Liquidity buffers are sufficient to stem temporary payments deferrals and challenging market conditions

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. Liquidity buffers remain sufficient to withstand lower cash inflows due to payments deferrals.

Under our stress scenario, liquid assets as of end of September 2023 cover 150% of projected net cash outflows over the next 18 months, from 111% in 2022 which is well above the median of Baa-rated peers (around 84% at end-2022). The scenario assumes that

BSTDB has no access to markets. Nevertheless, further payment delays on the Ukraine and Russia exposure, which account for 27% of the projected net cash inflows over the next 12 months, could weigh on the liquidity position.

As of September, liquid assets stood at almost EUR 344 million (including EUR 145 million cash deposits and EUR 169 million in highly rated securities), comfortably covering the maturities up to year-end (around EUR 60 million). BSTDB has about EUR 400 in 2024 of which EUR 390 is international bonds. To manage its liability profile, in June 2023 the bank launched a tender offer to buy back the 2024 bond (USD 550 million due in June 2024), that was executed successfully (USD 137.5 million).

BSTDB plans to generate financial resources internally to service its financial obligations unless borrowing is available at more affordable terms. While BSTDB's liquid resources have remained adequate to date, the market's perception of BSTDB has deteriorated since the start of the war and the cost of market funding has increased significantly and remains elevated. Liquid resources risk being eroded given the large upcoming international bond maturities next year (about EUR 390 million) in case the bank does not decide to secure new financing.

The lack of finalization of the capital increase indicates a weakened shareholders' cohesiveness amid a difficult geopolitical environment

In March 2023, the shareholders approved the first step of a capital increase that was announced in October 2021. The envisaged capital increase allocated to the member states (except for Russia and Albania, the latter decided not to participate) the number of shares based on current shareholdings prior to the subscription offer. 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.

However, at the special meeting of the Board of Governors held in September, no decision on the finalization of the capital increase process was made as the shareholders did not reach an agreement. We assess that the capital increase was not finalized due to the misalignment between the statutory provisions that protect the members' right to participate to a capital increase up to their current shares, and the pending clearance from the regulatory authorities requested by BSTDB on Russia's participation. Given Russia's interest in participating, it remains unclear at this juncture if and when the capital increase will go ahead. We expect ongoing discussions at member states level to remain protracted, with a decision on the capital increase unlikely to be reached until mid-2024.

While BSTDB has a proven track record of shareholders' support in a complex geopolitical environment, the severity of the current geopolitical tensions has no precedent in the bank's history, and has the potential to hamper the cooperation among members. We view the successful implementation of the capital increase as important not only because of the additional paid-in capital provided (about EUR 200 million up to 2030, raising the overall paid-in capital to EUR 0.9 billion), but also because it would offer a strong signal of endorsement for the strategic role of the institution, with a positive impact on investors' perception of the institution and thereby on the quality and cost of funding.

Rating methodology and scorecard factors: BSTDB - Baa2 negative

Factor / Subfactor	Metric	Initial score	Adjusted score	Assigned score
Factor 1: Capital adequacy (50%)			baa3	baa3
Capital position (20%)			a3	
	Leverage ratio	baa1		
	Trend	+1		
	Impact of profit and loss on leverage	0		
Development asset credit quality (10%)			ba	
	DACQ assessment	ba		
	Trend	0		
Asset performance (20%)			ba1	
	Non-performing assets	ba2		
	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)			Low	Low
Ability to support (50%)			b2	
	Weighted average shareholder rating	b2		
Willingness to support (50%)				
	Contractual support (25%)	aa2	aa2	
	Strong enforcement mechanism	0		
	Payment enhancements	0		
	Non-contractual support (25%)		Low	
Scorecard-Indicated Outcome Range				Baa2-Ba1
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 Investors Service

Related websites and information sources

- » [Moody's Supranational web page](#)
- » [Moody's Sovereign and supranational rating list](#)

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