MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades BSTDB's ratings to Baa1; ratings on review for further downgrade

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London, March 18, 2022 -- Moody's Investors Service ("Moody's") has today downgraded Black Sea Trade and Development Bank (BSTDB)'s long-term issuer rating to Baa1 from A2. BSTDB's senior unsecured debt ratings have also been downgraded to Baa1 from A2, and its senior unsecured MTN program rating has been downgraded to (P)Baa1 from (P)A2. Concurrently, Moody's downgraded the short-term issuer rating to P-2 from P-1. All ratings are placed on review for further downgrade.

The downgrade reflects the significant risks to asset quality and performance following Russia's (Ca negative) invasion of Ukraine (Caa2 , ratings on review for downgrade), as well as risks to shareholder support given the relatively large shareholding of Russia. Both countries together account for about 30% of development-related assets (DRA) and a similar share of the bank's capital. The review period will allow Moody's to evaluate the impact of the military conflict and international sanctions on BSTDB's credit profile, particularly on asset performance and capital adequacy.

RATINGS RATIONALE

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

RATIONALE FOR THE DOWNGRADE

Russia and Ukraine comprise about 20% and 12% respectively of BSTDB's development-related assets (DRA) as of end-2021. The imposition of international sanctions on Russia, the introduction of restrictions on cross-border payments by the Central Bank of Russia (CBR), and the likelihood of a sustained disruption to Russia and Ukraine's economies have significantly increased the risks to BSTDB's capital adequacy, by affecting its asset quality and asset performance. In a worst-case scenario a significant part of the exposure to both countries may become non-performing, in Russia's case exacerbated by the imposition of severe international sanctions.

Furthermore, Russia accounts for 16.5% of subscribed capital, while Ukraine's share is only slightly lower at 13.5%. The multi-notch downgrades of both Russia's and Ukraine's ratings significantly reduce Moody's assessment of shareholders' ability to provide support, notwithstanding the currently ongoing capital increase. Moody's now considers that the strength of member support for BSTDB has weakened to "Low" from "Medium".

BSTDB's solid liquidity position provides some buffers against more immediate credit pressures. It had cash deposits and liquid assets rated A2 or higher amounting to €770 million as of December 2021. Moreover, liquidity remains supported by access to committed facilities from international development finance institutions, with unutilized credit lines standing at €130 million as of December 2021. Under Moody's stressed scenario liquid assets would cover almost twice of projected net cash outflows, compared to a coverage ratio of only 35% at end-2020. The scenario assumes that the MDB has no access to markets but continues with its planned (albeit reduced) disbursements. BSTDB's liquid asset coverage ratio is well above the median of Baa-rated peers which stood around 107% at end-2020. The liquidity buffer will remain solid even assuming that no repayments from Russia and Ukraine will materialize.

RATIONALE FOR INITIATING THE REVIEW FOR DOWNGRADE

The review for further downgrade relates to continued significant downside risks. The review period will allow Moody's to gain further insights on the risks around the evolution of the asset performance in Russia and Ukraine and impact of sanctions against Russia, and particularly BSTDB's ability to receive payments from its counterparties despite the Central Bank of Russia's restrictions on cross-border transactions. BSTDB expects that it will be excluded from these types of restrictions given its MDBs status.

BSTDB has a proven track record of shareholders' support in a complex geopolitical environment, as also indicated by the capital increase agreed last year. Past episodes of geopolitical tensions in the region have not materially impacted BSTDB's members' commitment to the institution. While this remains Moody's expectation in the current military conflict, evidence pointing to diminished support would impact the rating agency's view on the strength of member support.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

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

The environmental issuer profile score is neutral-to-low (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.

BSTDB's neutral-to-low social issuer profile score (S-2) reflects good customer relations, as demonstrated by increasing demand from its member states which are also borrowers, policies in place to safeguard responsible production, and attention to societal trends in the bank's strategy.

The neutral-to-low governance issuer profile score (G-2) is underpinned by prudent policies and improvements in the bank's risk management framework over the past decade, which supported the downward trend in non-performing assets despite a complex operating environment in the Black Sea region.

WHAT COULD LEAD TO CONFIRMATION OF THE RATING AT THE CURRENT LEVEL

The ratings could be confirmed at its current level should Moody's conclude that BSTDB's asset quality deterioration will likely remain contained, limiting pressures on capital adequacy. Clarity on continued support from shareholders endorsing BSTDB's future strategy would also be positive for the rating.

FACTORS THAT COULD LEAD TO A DOWNGRADE

The ratings would likely be downgraded should Moody's conclude that the deterioration in asset quality and performance is substantial and negatively affects its assessment of capital adequacy. A significant reduction in BSTDB liquidity buffer and/or increasing signs that access to funding has lastingly weakened would also lead to a downgrade. Signs of diminished support from member states would also be credit negative.

The principal methodology used in these ratings was Multilateral Development Banks and Other Supranational Entities Methodology published in October 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1232238 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288235 .

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