

Research Update:

Black Sea Trade and Development Bank Downgraded To 'BBB+/A-2' On Halting Capital Replenishment

September 21, 2023

Overview

- We understand that the Black Sea Trade and Development Bank (BSTDB) has been unable to finalize the terms under its capital replenishment program. This is because of shareholders' hesitance on the statutory treatment of an asymmetrical capital allocation and because of still unclear regulatory circumstances regarding Russia's participation.
- In our view, the unexpected lack of a decision on finalizing the capital replenishment creates heightened uncertainty about the bank's medium-term plan to bolster its policy relevance in the current geopolitical environment.
- We therefore lowered our long-term issuer and issue credit ratings on BSTDB to 'BBB+' from 'A-' and affirmed our 'A-2' short-term issuer credit rating.
- The ratings remain on CreditWatch with negative implications.

Rating Action

On Sept. 21, 2023, S&P Global Ratings lowered its long-term issuer and issue credit ratings on Greece-headquartered BSTDB to 'BBB+' from 'A-' and affirmed the 'A-2' short-term issuer credit rating. The ratings remain on CreditWatch with negative implications.

CreditWatch

The CreditWatch placement reflects our view that we could lower our ratings on BSTDB in the coming months, possibly by more than one notch, if the shareholders fail to resolve obstacles related to the planned capital replenishment, and if the bank's access to funding markets does not normalize well ahead of its eurobond maturity in June 2024.

Pressure on the rating could also arise over the medium term if:

- BSTDB's shareholders reduced their support of the bank, prompting concerns about the bank's strategic role and shareholder backing; and
- Pressure on the bank's asset quality increased such that its capital position weakened, and our

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risk-adjusted capital (RAC) ratio fell below 15%.

We aim to resolve the CreditWatch once we have more clarity on the resolution of the capitalization process.

Rationale

The downgrade reflects our view that the unexpected lack of a decision on finalizing the capital replenishment creates heightened uncertainty about the bank's medium-term policy relevance and the coherence of the shareholder collective. While we recognize that these are challenging times, we previously expressed our view that the capital subscription would be crucial to confirm the bank's policy importance in the current geopolitical environment.

The negative CreditWatch reflects our concerns that the process of finalizing the capital allocations could extend into 2024. This could delay the bank's restoration of market confidence. It could also worsen liquidity pressures ahead of its eurobond maturity or lead to an extended period of subdued lending, which would raise further questions about the bank's longer-term policy importance.

We are yet to gain clarity on the process and prospects of finalizing the capitalization program. BSTDB's shareholders demonstrated their willingness to support the bank by approving the capital replenishment program. Out of 11 shareholders, 10 subscribed according to their pro rata ownership when the capital subscription program closed on Jan. 31, 2023. So far, shares have been allocated to the shareholders that qualify without regulatory concerns, but the finalization still hinges on a decision about the remaining shares. We understand that there is no change to shareholders' willingness, but concerns have surfaced regarding the dissonance between regulatory risks and the bank's statutes in the case of an asymmetrical capital allocation. According to the bank's statutes, each member state shall have a reasonable opportunity to subscribe, in line with its pro rata share. We understand that Russia has expressed its willingness to participate in the capital increase, but the sanctions imposed on it could prohibit it from doing so. In our view, the lack of a conclusion in the capital process indicates that shareholders struggle with practical difficulties to support the bank in the current geopolitical environment. We believe this creates uncertainty about BSTDB's medium-term funding, its lending plans, and, potentially, its longer-term policy importance.

We continue to recognize the bank's strong liquidity levels and solid capital as cornerstones of its near-term repayment capacity. Liquidity sources are ample and new disbursements are limited, which reduces near-term liquidity pressures. We expect the bank's liquidity buffers can cope with near-term loan payment deferrals and strained access to global financing markets. As of June 30, 2023, our estimated 12-month liquidity ratio was 1.2x (including scheduled loan disbursements). Still, we are monitoring BSTDB's liquidity coverage and market access closely ahead of its \$420 million eurobond maturity in June 2024. The initial outstanding amount of the eurobond was \$550 million, but the bank repurchased \$130 million in June 2023. This reduced the refinancing risk somewhat. For more information, see "Black Sea Trade and Development Bank Placed On CreditWatch Negative On Challenges To Funding Profile," published on July 26, 2023.

We believe that BSTDB's capital position has proven more resilient than we initially expected when Russia launched a full-scale invasion of Ukraine. We estimate BSTDB's RAC ratio is 20.6%, based on balance-sheet exposures as of Dec. 31, 2022, sovereign ratings, and Banking

Industry Country Risk Assessments as of July 10, 2023. Even though impairments have markedly increased, in line with our expectations, we note that very few loan exposures have turned to nonperforming. Still, a prolonged conflict could pressure the bank's asset quality and liquidity flows beyond what we currently expect, given that about 30% of its loans are to borrowers in Russia and Ukraine. In the case of a stress scenario with a significant write-down of BSTDB's exposures in Russia and Ukraine, we estimate the RAC ratio could fall below 15%, signaling erosion of the bank's capital to a level not commensurate with the current rating.

Ratings Score Snapshot

Issuer credit rating	BBB+/Watch Neg/A-2
Stand-alone credit profile	a-
Enterprise risk profile	Moderate
Policy importance	Moderate
Governance and management expertise	Adequate
Financial risk profile	Very strong
Capital adequacy	Very strong
Funding and liquidity	Strong
Extraordinary support	0
Callable capital	0
Group support	0
Holistic approach	1

Environmental, social, and governance (ESG) credit factors for this change in credit rating/outlook and/or CreditWatch status:

- Other governance factors

Related Criteria

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Jan. 31, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Black Sea Trade and Development Bank Placed On CreditWatch Negative On Challenges To Funding Profile, July 26, 2023

Ratings List

Downgraded

	To	From
Black Sea Trade and Development Bank		
Senior Unsecured	BBB+/Watch Neg	A-/Watch Neg

Downgraded; Ratings Affirmed

	To	From
Black Sea Trade and Development Bank		
Sovereign Credit Rating		
Foreign Currency	BBB+/Watch Neg/A-2	A-/Watch Neg/A-2

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