BLACK SEA TRADE AND DEVELOPMENT BANK

LONG-TERM STRATEGIC FRAMEWORK 2010-2020

The Next Ten Years

25 May 2009

TABLE OF CONTENTS

EXECUTIVE SUMMARY

As the Black Sea Trade and Development Bank celebrates ten years of operational activity in 2009, it has proven to be a success for the countries in the Black Sea Region. While still a relatively small development financier in the Region, the Bank has grown substantially and has the potential to become a prominent player, drawing strength from its status as an international financial institution (IFI), its solid track record, and the high quality of its portfolio. During this period shareholder support has been strong, as evidenced by the capital increase undertaken in 2007-08. The achievements of the Bank represent solid ground for further development but in order to become a leading IFI in the region, BSTDB needs to regularly and openly review its key strengths and weaknesses, to enhance the former and mitigate the latter.

BSTDB must adapt to the changing conditions in the crisis and post-crisis environment and adopt a strategy which first and foremost seeks to preserve the successes and achievements of the Bank to date, and to place it in a position from which it can react quickly and flexibly to market conditions, so as to safeguard its interests while seeking to fulfill its mandate. The Bank will seek to prioritize by focusing more on high impact operations which best meet the dual mandate of promoting economic development and regional cooperation.

By 2020, the BSTDB intends to be recognized globally, and by its shareholders in particular, as a prominent development finance institution for the Black Sea Region providing well-focused development assistance and solutions. As such BSTDB would become a preferred partner in the Region for multilateral and bilateral donors and for other partners in development.

BSTDB sets as its key Strategic goals the following:

- Obtain a risk rating of Aa3 from Baa1 currently.
- Develop capacity to originate large-scale projects and to lead/ arrange structured financial packages.
- Increase overall outstanding portfolio of operations to SDR 2.5 – 3 billion by 2020,
- Increase the share of public and quasi-public sector operations (backed and non-backed by sovereign guarantees) in the outstanding portfolio to 25% by 2020 from 11% currently.
- Increase the share of equity in the outstanding portfolio to 10% from 1.5% currently.
- Focus on financing operations in sectors with high development impact, such as: physical infrastructure and related services; social infrastructure; renewable energy; power generation, transport and distribution; municipal services; and environmental protection.
- Enhance dialogue with shareholders on issues related to the development and implementation of country strategies.
- Strengthen networks of cooperation and partnership with peer IFIs, bilateral assistance institutions and other stakeholders operating in the region.
- Expand the use of Technical Assistance.

In order to achieve these goals the Bank needs to:

  - Respond to the investment needs of Member Countries while adhering to prudent banking practices and ensuring high quality of the services provided;
  - Focus on its development function by providing clients with stable medium and long term funding at rates lower than those which they would otherwise have had to pay in capital markets without threatening its own profitability, liquidity and solvency;

- o Leverage its capital resources with funds raised in the international capital markets (the target ratio for borrowed funds to owned funds is 2:1) with an investment grade rating higher than the rating of most member countries in order to be able to finance long term high value projects with development impact;
- o Coordinate its activity and co-financing projects with other IFIs, to ensure that the Bank's services are complementary and create value added.

The Bank would seek to attract a AAA rated Member from among international financial institutions, with a view to achieving a credit rating upgrade to the AA equivalent level. This would significantly enhance its growth potential, as the Bank would accelerate its business activity and aim for an increase in the size of the outstanding portfolio to a level of up to SDR 2.7 billion, with total assets reaching approximately SDR 3 billion. In the absence of a AAA rated shareholder to achieve the rating upgrade to a AA equivalent level, the Bank would attempt to smooth out fluctuations in business activity. Given that under such a 'maintaining the trend' scenario the financial resources would gradually increase over time, the overall outstanding amount at end-2020 would be anticipated to reach around SDR 1.8 billion with total assets of about SDR 2 billion.

In order to achieve its strategic goals to increase approximately four-fold the value of its outstanding portfolio between 2010 and 2020, the Bank will need to design and implement a demanding long-term borrowing program. Regular and timely capital contribution by shareholders and the effort to secure membership of a AAA rated IFI will be complemented by funds raised by borrowing, and such borrowing must be obtained for longer maturities and at lower cost.

Operationally, the Bank would seek to develop capacity to originate large value projects and to lead/ arrange structured financing packages. Facilitating the participation of other IFIs and private agents in Bank financed operations would increase the development impact of Bank operations and the Bank would be able to provide financing for larger sized operations with longer maturity at lower cost.

BSTDB would emphasize the provision of financing for development and regional cooperation. Operations will provide financing principally for specific projects, whether forming part of regional, national, or sub-national (including local and municipal) development programs. In order to optimize the quality structure of its portfolio, in addition to further strengthening its cooperation with the private sector, the Bank will need to pay due regard to increasing the share of operations involving loans and guarantees to governments or quasi-public sector operations. In addition, the Bank plans to increase the use of Technical Assistance (TA) to enhance the development impact of its operations.

The Long-term Strategic framework will underpin the updated Medium-term Strategies and Business plans for 2011-2014 and 2015-2018, by ensuring that future work programs and budgets will reflect and support consistently the strategic directions on a medium-term basis.

As a result the Bank, will aim to achieve:

(i) higher development and regional cooperation impact;

(ii) improved allocation of resources for future operations;

(iii) maximization of effectiveness through enhanced focus on client needs;

(iv) increased corporate efficiency; and

(v) greater operational and organizational effectiveness.

The Bank will improve its use of human resources by better matching available skills with needs. In any event, the total number of staff at the end of the planning period would not exceed 120.

The Bank also needs to strengthen capabilities for conducting dialogue with Member Countries and other stakeholders on issues related to the development and implementation of strategies. It will additionally seek to expand its relationship and cooperation with other IFIs, and more broadly with the partners from the international community and development agencies.

I. INTRODUCTION

In 2009 the Black Sea Trade and Development Bank celebrates ten years of operational activity. These years have proven to be successful for the cooperation of the countries in the Black Sea Region. Although there still are areas of contention and not all of the outstanding issues have found adequate and generally accepted solutions, economic cooperation has been sustained and in certain cases has expanded and deepened.

The Bank has experienced substantial development since its establishment and compares favorably with peers in many respects. It has achieved both a sound operating structure and a balanced portfolio and it has demonstrated a capacity to grow and fulfill its specific mandate. While it is still a relatively small development financier in the region, mostly due to its young age, the Bank has the potential to become a more prominent player.

The initiation and expansion of Bank operations to date has for the most part coincided with benign global and Regional market conditions. Even after the financial crisis first broke out in mid-2007, the Black Sea Region continued its robust trend of growth. High Regional growth facilitated the identification of project opportunities. This trend began to reverse in the middle of 2008 and turned rapidly negative in the last quarter of the year after the September global financial crisis precipitated a Regional economic crisis. Currently, the climate of insecurity and uncertainty persists into 2009, and it has greatly shaped the Bank's operating outlook, introducing new challenges, although, BSTDB draws strength from its status as an international financial institution (IFI), its solid track record, and the high quality of its portfolio.

Continued balanced and manageable growth may only be achieved if strong shareholder support is maintained. The shareholders' support was recently reaffirmed by the decision to increase the authorized and subscribed capital of the Bank. The increase of the authorized capital by SDR 2 billion was approved by the BoG in December 2007, raising the total authorized capital to SDR 3 billion. The Member States subscribed SDR 1 billion, raising the total subscribed capital to SDR 2 billion. The increase in the capital stock of the Bank was allocated to Member States in October 2008. Further to this development and the overall performance of the Bank Moody's Investors Service changed the outlook for the BSTDB credit rating of Baa1 from stable to positive in December 2007.

The capital increase represents a powerful statement of commitment to the institution by its shareholders. It is expected to further enhance the Bank's capabilities, competitiveness and performance, including the Bank's ability to attract more funds to the Region, at a moment when mobilization of additional resources is a priority, given the recent rapid growth in the context of constrained global liquidity.

The achievements of the Bank represent solid ground for further development but should not be a source of complacency. To become one of the leading IFI in the Region, BSTDB needs to regularly and openly review its key strengths and weaknesses, to enhance the former and mitigate the latter.

BSTDB must adapt to the changing conditions in the crisis and post-crisis environment and adopt a strategy which first and foremost seeks to preserve the successes and achievements of the Bank to date, and to place it in a position from which it can react quickly and flexibly to market conditions, so as to safeguard its interests while seeking to fulfill its mandate. The Bank will seek to prioritize by focusing more on high impact operations which best meet the dual mandate of promoting economic development and regional cooperation.

II. DEVELOPMENT AGENDA

A. Regional Economic Context[1]

Regional Trends and Recent Developments

Real GDP growth in the Black Sea Region from 2000-2008 averaged 5.9% per annum, equal to a cumulative real economic expansion of 68% during this period. Per capita incomes increased nearly four and one half times in dollar terms: from roughly US$2,300 in 2000 to an estimated US$10,300 in 2008. As a result, living standards improved, poverty rates dropped, trade and investment rose, and societies were transformed into dynamic places of increasing sophistication and integration into the broader European and global economic context.

The Black Sea Region is a very different place in 2009, than it was in 1999. Over the last ten years, the EU extended to the shores of the Black Sea, three countries became EU members, one is a candidate and two others are potential candidates. Whereas the Black Sea Region had only one country rated investment grade at the end of 1999, it now has four[2]. Significantly, every country in the Black Sea Region has now 'entered the market' and received sovereign ratings, an indication of growing maturity and economic progress since such ratings facilitate their ability to raise funds on international capital markets and set benchmarks for the development of domestic financial markets. An even better, and more easily measurable indicator of attractiveness for business and favorable investing environment is that of foreign direct investment (FDI). After languishing around 1.0% of GDP or less through most of the 1990s, from 2000-2008 FDI into the Black Sea Region increased as a share of GDP grew from 1.1 per cent to 3.9 per cent of GDP. In dollar terms, the rise is an even more impressive sixteen-fold, from U.S.$8 billion to an estimated U.S.$130 billion.

However, the global financial crisis that broke out in late September 2008 and brought about a near collapse of financial markets worldwide also brought a sharp halt to growth across the Black Sea Region. The virulence with which it impacted the Region resulted in destabilization of local financial systems, a freeze-up of markets, an increase in risk aversion and credit rating downgrades. The global financial crisis very quickly became a Region-wide economic crisis, affecting all Black Sea economies but especially hitting those viewed as most dependent upon continued inflow of foreign capital.

Implications of the Global Crisis for the Black Sea Region

The nature of the crisis, and the difficulty to address its root causes and to agree on the right set of measures and the sequencing of their implementation, point to the high possibility of a long period of economic decline or stagnation followed by a protracted and slow recovery. Most recent forecasts foresee that all Member States of BSTDB will suffer in 2009 a contraction with negative rates of GDP growth. For the most part, negative or close to zero rates of economic growth are currently forecast for 2010 as well.

One of the main risks for the Region's economies is posed by the ability (or inability) of the key decision making countries globally with the largest economies- such as the G20 countries- to address the crisis and its key elements effectively. An inadequate response could result in a global stabilization eventually occurring but at a lower level of economic activity

[1] Note on Sources: Black Sea Region data based on BSTDB calculations from National Statistical Agencies of the countries of the Black Sea Region and the International Monetary Fund IFS Database. Additional sources include *Global Economic Prospects 2009* of the World Bank (& GEP 2008), the IMF's *World Economic Outlook* publications (and their updates) and the Economist Intelligence Unit.

[2] A Sovereign credit rating of Baa3 or better according to Moody's, which also rates BSTDB.

relative to the trend of previous years. Moreover, this would imply a 'compressed' financial sector, which in turn would involve a substantial decline in private capital flows, lower investment, lower levels of international trade, as well as scarcer and more expensive financing – due to the very large amounts governments of developed economies would need to attract in order to finance their growing deficits – and possibly renewed inflationary pressure sometime towards the middle of the 2010-2020 period.

The overriding influence of exogenous factors generates a high degree of uncertainty concerning the long term growth prospects of the Black Sea Region. Nevertheless, despite the crisis and its immediate adverse implications, the Black Sea Region enjoys a number of competitive advantages including (i) proximity to the wealthy markets of the EU, (ii) improved political and economic stability and favorable business environments, and (iii) high quality of human capital (education, skills) at a relatively low cost. Most countries have memories of dealing with crises during the 1990s, and this provides resilience, a wealth of experience upon which to draw, and a greater degree of flexibility in implementing policy responses than that observed in some of the wealthier, but more rigid economies of western Europe.

Furthermore, the devaluation of most Black Sea countries' currencies will boost the competitiveness of the region's exporters, and may trigger an import substituting supply response from domestic manufacturers, as occurred in the late 1990s. These factors, combined with reasonably solid sovereign fiscal situations, the high trend of growth of recent years and the room for convergence towards the prosperity levels of western Europe, suggest that the Black Sea Region may (a) succeed in limiting some of the worst 'bottoming out' effects of the economic crisis and (b) manage to return to decent real rates of annual GDP growth within two to three years. The unanswered question, which will depend on global conditions and the influence of exogenous factors, is whether such growth would be on the order of (i) 2-3% per annum, implying slow recovery from the crisis, difficulty in reducing poverty rates and undertaking income redistribution to balance the gains of growth, and a slight and lengthy process of convergence to western European income levels and livings standards, or (ii) 4% or even higher, denoting a return to the high growth trend of the 2000-2008 period with rapid recovery of output, declining poverty levels, and a substantial convergence over time towards western European income levels with improved prospects for the benefits of growth being shared more widely and fairly.

B. Drivers of Change

As the ***European Union*** has expanded to the shores of Black Sea with the accession of Bulgaria and Romania, and as the Black Sea Region has grown rapidly economically, interest in the Region has increased and can be expected to continue increasing. Notwithstanding the current economic crisis, and the variety of interests and priorities of EU members, the EU and western and central European countries have slowly but steadily developed closer economic ties with the Black Sea Region in recent years, as they sought new opportunities for market expansion and investment. This should remain a long term driver of change, helping to bring the Black Sea Region closer to the EU and its members. One key open question is according to what norms, terms and standards, as the EU very much likes to 'export' its own rules, regulations and standards. In most cases, the EU's rules represent state of the art best practices, allowing sectors of the economy to develop and flourish with features such as greater transparency, increased competition, clear legal framework, inter-applicability across borders to neighboring states. However, there are also EU practices which are discriminatory and even introduce distortions – most notoriously the common agricultural policy. EU determination of its institutional relationship with Black Sea countries has a profound influence. Since 2000, Greece entering the Eurozone, Bulgaria and Romania joining the EU, and Turkey becoming a candidate for EU membership have had significant and positive economic implications for these countries. Trade with the EU increased, foreign direct investment generally soared, and sovereign credit ratings were boosted- thus lowering financing costs. More recently, the European Neighborhood Policy has coincided with an increase of trade and investment with Moldova, Ukraine and the three Caucasus countries, although the degree of causality is open to question.

Another important element relates to the ***changing structure of the economies*** of the Black Sea Region. There are certain areas of commonality, such as the decline of the agricultural sector, both as a share of wealth creation in the economy (e.g. % of GDP) as well as a provider of employment. Similarly, the service sector has grown rapidly in all countries during the period of high growth with construction and retail being two areas which have expanded rapidly throughout the Region. On the expenditure side, it is the private sector which accounts for most if not all of the incremental economic growth observed. Private consumption has grown robustly in all countries, while private investment has generally been high, boosted by record inflows of foreign direct investment. In certain cases, EU structural funds or other aid inflows from donor organizations have been important factors supporting public investment, but these have generally been less important than private flows.

Nevertheless, the economies of the Black Sea Region are also diverging in important ways. Some are de-industrializing while others base much of their growth on industrial output expansion. Most are energy importers, but there are also energy- and more generally commodity- exporters, who are increasingly dependent on these exports for continued growth. Even the service sector growth tends to take different forms- in some cases with construction and retail being more significant, while to differing degrees financial services, tourism, and transport and shipping may play important roles. This suggests that the areas of cooperation in which countries will be most interested will tend to reflect areas in which they either possess comparative advantages, or which they wish to develop. This may generate complementarities within which they may develop cooperation, but it may also result in differing priorities.

At a global level, there have been changes in the prevailing ***development models*** in recent years, the most important for BSTDB being the increasing imperative for regional cooperation. Although not grandly espoused as certain development strategies of the past (import substituting industrialization, export led growth, etc.), there has been a realization that cooperation and integration among neighbors may generate substantial political and economic benefits. It increases understanding, contact, and mutual dependence, while the improvement of economic conditions in one state also tends to spillover and affect neighbors in a positive and reinforcing manner. It also facilitates cross-border projects to link infrastructure.

C. Regional Challenges

Two issues stand out concerning the challenges facing the Black Sea Region for 2010-2020 period:

(i) The current global economic crisis, and how it will affect states individually as well as the Black Sea Region collectively;

(ii) Longer term evolution of political and economic relations with important external players. For the Black Sea Region, relations with the EU are far and away the most significant parameter.

To be sure, there are other challenges facing the Region, such as:

a. Long term demographic trends and the threat they pose for the quantity and quality of the workforce, and the financial sustainability of social security programs;

b. The need to continue improving the competitiveness and productivity of regional economies;

c. Promoting Regional Cooperation.

While important, these issues are secondary for the time frame under consideration, and in comparison to the two highlighted issues. The demographic issue may eventually become the principal challenge for most countries in the Region, but while it will grow during the period in question it is of less immediacy than the other two, and countries can and should plan for it as a long term trend.

The questions of competitiveness and productivity are key ‘second generation’ reforms for many countries of the Region, and represent requirements in order to preserve gains made, to sustain the trend of growth over the long term, and strive for convergence with western European income levels and living standards. This includes the need to: (1) strengthen public and private governance, (2) undertake difficult structural reforms in key sectors, with energy and especially, agriculture, ranking as the most difficult, and (3) continue to invest in maintaining and expanding infrastructure, the current state of which is a key potential constraint on growth. However, the ability to deal with these issues depends to a substantial degree on the impact of the current economic crisis, as well as the politic and economic relationships of countries which in turn determine factors such as policy limitations, obligations, privileges and prospects for access to decision making forums and assistance.

The importance of promoting Regional cooperation is a significant challenge in the face of economic crisis, the influence of external actors, diverging national economies, and potentially competing priority agendas. To a considerable extent, however, this issue is also already subsumed within the two major challenges. On the one hand, the economic crisis is an obstacle to allocating resources for new initiatives that might increase cooperation, although under certain circumstances it could lead to efforts by countries to pool resources, undertake joint schemes, or otherwise improve coordination. On the other hand, the European Union is the most powerful external influence on BSEC cooperation, with EU measures sometimes dividing BSEC members according to whether or not they are EU members or candidates, while at other times they facilitate increased cooperation under EU sponsored frameworks.

(i) The current global economic crisis, has adversely affected the Region collectively, and countries individually. Restoration of credit flow to the Region represents a critical element to recovery from the crisis, necessary but most probably not sufficient. Yet even this is a major obstacle for Black Sea countries since most lack a currency with reserve status and access to foreign currency is expensive. This leaves them with limited options:

- *Individual country options*- despite increased reserves and the high growth of previous years, these options are limited. Resort to traditional austerity to reduce external demand, shore up revenues, restore financial system to functionality (i.e. get credit flowing) and increase confidence of markets are the likeliest responses.
- *Regional options*- theoretically, the Black Sea countries could coalesce around a Regional institution such as BSEC in order to seek ways to cooperate and coordinate. This could involve some form of pooling of resources, or policy commitments to provide assistance to partner Central Banks or Ministries of Finance which request assistance.
- *Externally supported options*- in some form or other, these are the most likely to emerge, although (a) the extent of assistance is likely to be inadequate compared to growing needs, and (b) any program of assistance would either work bilaterally between country and assisting entity/ donor, or if under a multilateral framework, it would probably be the EU (e.g. based in Brussels with participation by all 27 EU members).
  - For many sovereign borrowers in the Black Sea, official lending is the only realistic option for accessing external financing. International financial institutions

(IFIs) have an important 'counter-cyclical' role to play in this respect, as do donors and the EU. IFIs and donors may also help via provision of political risk guarantees, to achieve similar impact but with lower direct financial involvement.

- There do not appear to be any supranational or multilateral financial support schemes on the horizon that might include all Black Sea Countries.

Once markets (globally, and in the Black Sea) are restored to functionality, most likely at a new more risk averse equilibrium, it will be possible to project how much 'bottoming out' will occur, and to undertake measures and reforms to promote recovery. When this stage is reached, more traditional development assistance and support are likely to play a role- hopefully diminishing in scope and need over time. Moreover, a return to the rapid growth of the 2000-08 period will require foreign capital flows returning to the levels viewed at the peak of the boom.

(ii) Longer term evolution of relations with important external players. For the Black Sea Region, from an economic perspective, these are in order of importance: the EU, the USA, China, Middle East, Central Asia.

- Economically, the EU is far and away the most important actor in this respect. EU decisions have an important direct impact on the Black Sea Region, but also often an externality impact- with EU decisions having significant indirect effects for non-EU Regional countries, sometimes positive but sometimes also divisive or negative.
- The EU is a critical market for the Black Sea Region- it is the largest destination for exports from the Black Sea Region, and its principal source of financing- both lending and investment. A prolonged economic downturn in the EU will negatively affect growth prospects for the Black Sea Region, while a rapid recovery will be an undoubted boost.

D. Opportunities for the Bank

In contrast to previous crises, the global scope of the current one means that outsiders who previously were in a position to lend assistance (as in the 1990s) now are also struggling with the impact of the crisis on their economies, and thus have less time and fewer resources to contribute to the Black Sea Region. Whereas from a political perspective this creates a greater degree of balance and fewer hierarchical distinctions, from a financial point of view this also limits recourse options and resource availability from abroad. Furthermore, in a sharp reversal of the trend of recent years, the private sector is no longer willing nor able to provide the financing, financial products and financing terms which are in demand Regionally.

After years of watching their share of financing diminish and their relative importance decline, IFIs are now left uniquely positioned to play a more ubiquitous role. At their core, IFIs exist in order (i) to provide financing, financial products and financing terms which are not sufficiently available in a country, and (ii) to eliminate, or at least mitigate, country risks so that investors can focus on the core features of the investment or commercial transaction- in other words items such as market, strategy and credit issues. In the current situation of low availability of financing and high perception of country risks, the need for IFIs is reinforced and amplified. Due to their special development character, IFIs are well positioned to operate in a manner counter-cyclical to economic trends, (i) assisting clients to obtain recourse to solutions in a constrained international setting by offering long term financing and country risk mitigation during 'lean' periods, and (ii) acting as a 'beacon' to attract banks, firms and agencies which are fundamentally sound, but due to market conditions cannot suitably access financing at reasonable terms.

Most IFIs that operate in the Black Sea Region are AAA rated[3]. For BSTDB, market illiquidity creates specific challenges because it is not AAA rated. The Bank can expect to encounter greater reluctance from lenders to provide financing, and to face disproportionately larger spreads. Nevertheless, since (i) the Bank does enjoy a credit rating equal to or better than 10 of its 11 shareholders, (ii) has built an operational track record and network of partners and clients, and (iii) has been able to access funds at relatively reasonable terms, it can to a degree operate in a counter-cyclical manner and contribute financing to eligible, creditworthy Regional agencies, firms and banks. This will take place at higher cost for clients relative to previous years and relative to AAA rated IFIs' financing, but the withdrawal of the private sector creates conditions of higher demand for Bank resources as well.

The prevailing risk aversion creates opportunities for products and initiatives that seek to improve the country risk profile of the Black Sea Region, and the constituent economies. Similarly, the challenges posed by the economic crisis and the evolution of relations with the EU may also prove to be important opportunities which promote development and strengthen cooperation in the Black Sea Region. Country interest in pooling resources and sharing risks has increased as they seek new ways with which to respond to the fallout from the crisis. This suggests that in addition to financing, there will be increased scope for provision of guarantees, and for the establishment of partnerships and cooperation schemes (See Section III D).

[3] For example, the World Bank Group, ADB, CEB, EIB, EBRD, NIB and national FIs: KfW, OeEB, etc.

III. STRATEGIC VISION FOR THE FUTURE

A. The Way Forward

"*The creation of new regional banks in the late 1990s – AFREXIMBANK, BSTDB, PTA Bank – and more recently, the creation of MDB projects in Central Africa and in the Mediterranean region provide clear evidence of the interest that these types of institutions present to finance development*" (Fitch March 2003: A Survey of Multilateral Development Banks).

In the post-crisis environment, the expected reform of the International Financial Architecture will also affect the providers of development assistance. The reform will likely mostly affect Major Multilateral Development Banks (MMDBs), while the impact on Regional Development Banks (RMDBs) and other providers of development finance will be a more focused, enhanced and clearly defined role.

With the expected decline in private capital flows, along with renewed official development assistance, there will likely be an increased need for RMDBs to provide higher levels of development finance. RMDBs will likely focus on the quasi-public sector at sub-sovereign level (regional and municipal) and the private sector, in sectors and geographical areas where private financing is not sufficient.

Vision

By 2020, the BSTDB intends to be recognized globally, and by its shareholders in particular, as a prominent development finance institution for the Black Sea Region providing well-focused development assistance and solutions. Thus, BSTDB would become a preferred partner in the Region for clients, multilateral and bilateral donors and other partners in development.

Strategic goals

- Obtain a risk rating of Aa3 from Baa1 currently.
- Develop capacity to originate large-scale projects and to lead/ arrange structured financial packages.
- Increase overall outstanding portfolio of operations to SDR 2.5 – 3 billion by 2020,
- Increase the share of public and quasi-public sector operations (backed and non-backed by sovereign guarantees) in the outstanding portfolio to 25% by 2020 from 11% currently.
- Increase the share of equity in the outstanding portfolio to 10% from 1.5% currently.
- Focus on financing operations in sectors with high development impact, such as: physical infrastructure and related services; social infrastructure; renewable energy; power generation, transport and distribution; municipal services; and environmental protection.
- Enhance dialogue with shareholders on issues related to the development and implementation of country strategies.
- Strengthen networks of cooperation and partnership with peer IFIs, bilateral assistance institutions and other stakeholders operating in the region.
- Expand the use of Technical Assistance.

In order to achieve these goals the Bank needs to:

- Respond to the investment needs of Member Countries while adhering to prudent banking practices and ensuring high quality of the services provided;

- Focus on its development function by providing clients with stable medium and long term funding at rates lower than those which they would otherwise have had to pay in capital markets without threatening its own profitability, liquidity and solvency;
- Leverage its capital resources with funds raised in the international capital markets (the target ratio for borrowed funds to owned funds is 2:1) under an investment grade rating higher than the rating of most member countries in order to be able to finance long term high value projects with strong development impact;
- Coordinate its activity and co-financing projects with other IFIs, to ensure that the Bank's services are complementary and create value added.

As a result, the Bank would be able to provide financing for larger size operations with longer maturity at lower cost.

B. Institutional Transformation Objectives

Over the 2010-2020 period high priority will be given to maintaining professional and institutional integrity, and safeguarding the Bank's financial soundness. In order for the Bank to turn its vision into action, it would need to transform, both in the area of operational activities, and on the provision of financing support.

On the operational side, due to its relatively small size and youth, the Bank until now has primarily focused on the 'bankability' of project opportunities, and where it has financed large projects it has done so by participating in deals arranged by other International Financial Institutions. Most of the operations financed directly by the Bank were of smaller size. Therefore the Bank's activities concentrated mostly on the corporate and financial sectors.

Over time the Bank would seek to develop capacity to originate large value projects and to lead/ arrange structured financing packages. Facilitating the participation of other IFIs and private agents in Bank financed operations would increase the development impact of Bank operations. To this end, the Bank would need to become more active in project identification and to enhance its business development capabilities. When and if it would become necessary for the identification of business opportunities and closer supervision of existing operations the Bank would evaluate the feasibility and cost-effectiveness of establishing Representative Offices. However, the existing size of the Bank's portfolio of operations does not justify such a move at the present moment. Most probably a need in this direction would arise after the completion of the first Medium-term Strategy and Business Plan of the planning period, and would be explored on a pilot basis.

Furthermore, in order to establish the organizational context conducive to increasing the share of equity operations in the portfolio of outstanding operations, the Bank will consider setting up a team consisting of professionals specialized in equity investments.

Turning to the financing support side, a key foundation for the operational strategy is the increase in the capital of the Bank. The increase in the capital of the Bank alone, as a result of which the Bank expects a risk rating upgrade to A3, would not be sufficient to transform the Bank into a fully fledged and mature development finance institution able to assume a prominent role in the Region.

Therefore the Bank sets as an indicative target to obtain an Aa3 risk rating[4] in order to be able to secure an appreciably lower cost of funds than any of its Member States. This may be achieved if the Bank secures the membership of a AAA rated international financial institution holding about 10% of total subscribed capital. Maintaining the high quality of the

[4] (the letter grade used by Moody's), equivalent to the AA- rating of other credit rating agencies.

Bank's portfolio of operations and achievement of sustained profitability would support such an upgrade, and would create conditions for further credit rating upgrades.

In conformity with the mandate provided by the Board of Governors, the Management will continue to explore the possibility that a AAA rated Multilateral Bank/ Financial Institution may become a shareholder. In addition, the Bank would support the membership of all present and future BSEC members.

Moreover, in order to achieve its strategic goals to increase approximately four-fold the value of its outstanding portfolio between 2010 and 2020, the Bank will need to design and implement a demanding long-term borrowing program. Regular and timely capital contribution by shareholders and the effort to secure membership of a AAA rated IFI will be complemented by funds raised by borrowing, and such borrowing must be obtained for longer maturities and at lower cost. To this end, the Bank will consider establishing within the Treasury Department a specialized Capital Markets function, which will focus on establishing and maintaining relations with lenders and investors.

The Bank also needs to strengthen capabilities for conducting dialogue with Member Countries and other stakeholders on issues related to the development and implementation of strategies. It will thus seek to expand its relationship and cooperation with other IFIs, and more broadly with the partners from the international financial community and development promotion agencies.

The Long-term Strategic framework will underpin the updated Medium-term Strategies and Business Plans for 2011-2014 and 2015-2018, by ensuring that future work programs and budgets will reflect and support consistently the strategic directions on a medium-term basis.

As a result the Bank, will aim to achieve:

(i) higher development and regional cooperation impact;

(ii) improved allocation of resources for future operations;

(iii) maximization of effectiveness through enhanced focus on client needs;

(iv) increased corporate efficiency; and

(v) greater operational and organizational effectiveness.

C. Partners in Development

After the initial years of emphasizing operational growth, building a track record of activities, and becoming established in the developmental marketplace, at the start of its second decade BSTDB has established contacts and relationships in the development community, and it has gradually embraced the idea of building networks of cooperation and partnerships. The Bank inaugurated an Observer Status Policy in June 2003 in order to generate interest in the Bank, and to provide a flexible mechanism to facilitate involvement in the Black Sea Region. As of May 2009, BSTDB's Observers include: the KfW Banking Group (Germany), the European Investment Bank (EIB), the Development Bank of Austria (OeEB), the Association of European Development Finance Institutions (EDFI), and the Nordic Investment Bank (NIB). Observer Status will be a key tool in coming years to develop relations with non-Black Sea actors and entities who wish to become engaged in the Region.

To date, the Bank's relationships with development partners may be divided into:

(i) ***International Financial Institutions***- Since its inception, BSTDB has cultivated ties with other IFIs active in the Black Sea Region. Most comprehensively, it has worked closely with the European Bank for Reconstruction and Development (EBRD), although it has co-financed operations and sought cooperation with others. This will continue to be an area of emphasis for the Bank, as it seeks to broaden and institutionalize relationships with other IFIs. Prospects for cooperation with EIB are particularly favorable.

(ii) ***International Organizations/ Supranational Partnerships***- As financial arm of BSEC, BSTDB has sought to deepen its relationship with the BSEC Related Bodies[5] in order to promote the Black Sea Region. BSTDB will continue to participate in BSEC initiatives that promote particular sectors- e.g. Banking & Finance, Energy, and transport initiatives for Extension of Motorways of the Sea in the BSEC Region (MSBR) and the Black Sea Ring Highway (BSRH). The European Union (EU) is the pre-eminent supranational partnership in Europe. BSTDB has developed relations with the EU at two levels:

a. BSTDB was recognized by the EU as a Multilateral Development Bank for calculation of capital adequacy by financial institutions which lend to/ through BSTDB, in the *Capital Requirements Directive*, published in the Official Journal of the EU on 30 June 2006[6].

b. BSTDB is a Member of two Working Groups for cooperation in BSTDB Member Countries between the European Commission (EC) and IFIs[7]. One covers Albania, Bulgaria, Romania, and Turkey, as well as BSEC Member Serbia. The other covers Armenia, Azerbaijan, Georgia, Moldova, and Ukraine. In addition, BSTDB will seek to develop partnerships with the EU under the *'Black Sea Synergy'*[8] Initiative, and- where possible- with the potentially problematic and contradictory '*Eastern Partnership*'[9] Initiative.

(iii) ***Bilateral relationships with donors/ countries***- This aspect of partnering has been pursued less systematically than that with IFIs or international organizations, and needs to be developed further as it represents an important area of potential as more countries take an interest in the Black Sea Region. To date, relations have been most closely developed with Austria through OeEB, Germany through KfW and DEG, and the Netherlands through FMO. Austria has also established a Special Fund with BSTDB.

D. Cooperation for Development Objectives

Cooperation with IFIs, donors and other external actors will be an increasingly important mode of operation for BSTDB, as it seeks to develop partnerships. They represent areas which match the mandate of BSTDB and for which the Bank would be well placed to play a leading role. Partnerships may confer benefits in terms of mitigating country risks, and thus improving the business environment as well as the attractiveness for trade and investment. The decision to undertake or participate in partnerships would be based on the extent to which such a partnership generates value added for the Bank's shareholders and for Regional firms and banks by offering benefits such as:

- Improved access to funding- i.e. enhanced 'resource mobilization';
- Networking effects and benefits of 'scale';

---

[5] PERMIS- BSEC Permanent Mission in Istanbul, ICBSS- International Center for Black Sea Studies, and PABSEC- Parliamentary Assembly of BSEC.

[6] Available at: http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l_177/l_17720060630en00010200.pdf

[7] They are based on (a) a Memorandum of Understanding (MoU) for *Cooperation in (i) Economic Development of the New EU Member States Of Central And Eastern Europe, Cyprus, Malta, and (ii) Accession Preparation in the EU Candidate and Potential Candidate Countries*, and (b) an MoU for *Cooperation for Eastern Europe and Southern Caucasus, Russia, And Central Asia*.

[8] Communication COM(2007) 160 to the European Council

[9] Communication COM(2008) 823 to the European Parliament and the European Council

- Greater visibility (for enhancing cooperation, deepening integration, etc.);
- Improved transparency of operation;
- Prospects for enhanced prestige due to participation in the Partnership;
- Improved information sharing and thus greater policy coherence and consistency;
- Generation of positive externalities such as demonstration effects, upstream/ downstream linkages, mitigating 'free-rider' or moral hazard issues, etc.

The development of partnerships in part responds to the increased interest of external actors in the Region, but it is also the result of a Bank strategy of increased outreach, to achieve greater leveraging of resources, improved risk sharing and the establishment of new networks of financing. Resource mobilization also implies expansion of the Bank's Special Funds program in order to attract grant and other donor resources to facilitate innovative or riskier but high impact operations, and to facilitate operational support activities such as technical assistance, Regional studies, training, and event sponsoring. For example, the Bank will seek partners for the establishment of a Special Fund which will support environmental project preparation.

However, BSTDB intends to extend resource mobilization beyond just financing of operations, for policy coordination and consistency are also crucial features in generating value for the Bank's shareholders and for Regional firms and banks. Thus, the Bank will be more active in dialogue with partners, as a way to mobilize knowledge resources, share experiences, design and coordinate policy responses, and engage in promotional activities. Also the Bank will expand, whenever deemed appropriate, participation in organization of events that promote the Region, and facilitate networking and information sharing.

E. Operational Objectives

Operationally, BSTDB will focus on the provision of financing for development and regional cooperation. Operations will provide financing principally for specific projects, whether forming part of regional, national, or sub-national (including local and municipal) development programs. In order to optimize the quality structure of its portfolio, in addition to further strengthening its cooperation with the private sector, the Bank will need to pay due regard to increasing the share of operations involving loans and guarantees to governments or government guaranteed operations, and where the obligors would be sub-sovereign entities, their agencies, or subordinated state owned specialized institutions.

While the Bank will continue operations in sectors currently receiving financing, in the future the operational activity will primarily focus on such fields as physical infrastructure and related services; power generation, transport and distribution; social infrastructure; municipal services; public utilities and environmental protection. For cross-subsidization of operations with high development and regional cooperation impact, the Bank would seek to apply extra income obtained from high income operations as well as to transfer to clients the interest differential between the cost of borrowed funds for the Bank and the cost for the client.

In addition, the Bank plans to increase the use of Technical Assistance (TA) to enhance the development impact of its operations. The emphasis of TA interventions would be put on issues of corporate governance, institutional development and strengthening delivery capacity. The Bank would provide TA to Member Countries, their subsidiary entities, or private entities within their borders. TA operations would complement project operations by facilitating the transfer of techniques, assisting knowledge mobilization, encouraging the development of expertise and promoting the identification, design and preparation of investment opportunities. In addition, the Bank would consider, if requested, to assist in the planning and coordination of various TA operations which are being carried out at a national or regional level.

IV. GOALS AND PERFORMANCE MANAGEMENT

A. Implementation of Strategy - Corporate Balanced Scorecard (CBS)

In order for the Long-term Strategic Framework to constitute an effective roadmap for achieving the stated objectives and for turning the Vision for the Bank into reality, it will be necessary that the organization be aligned with the strategy. Further to the alignment, performance has to be measured and results used to ensure that operational targets are met and performance improved. This process would be helped by the Balanced Scorecard. The Balanced Scorecard translates a business unit's mission and strategy into tangible objectives and measures. The measures represent a balance between external measures for shareholders and customers, and internal measures of critical business processes, innovation, and learning and growth.

The SAP is expected to be fully implemented by end-2010 and the concept of CBS is scheduled to be finalized and adopted by end-2010. It is therefore anticipated that efforts to implement the CBS as a framework for the communication and implementation of the Medium-term Strategy and Business Plans- for allocation of tasks in departmental work programs, and for performance management- would be a priority for the period 2011-2014.

B. Resources and Uses

The authorized share capital of the Bank has been increased to SDR 3 billion, with the subscribed capital increasing to SDR 2 billion. The paid in portion of the newly subscribed capital will be contributed by Founding Members over the period 2010-2018. This will ensure the Bank's financial self-sustainability until at least 2018 as the funds are deployed progressively during the period and the Bank supplements them with borrowed funds and retained earnings.

Maintaining trend Scenario

In the absence of a AAA rated shareholder which would support the rating upgrade to a AA equivalent level, the Bank would attempt to smooth out fluctuations in business activity. Given that in the 'maintaining the trend' scenario the financial resources would gradually increase over time, the overall outstanding amount at end-2020 is anticipated at around SDR 1.8 billion with total assets of about SDR 2 billion. This anticipated development implies (i) an average annual growth rate of approximately 10% and (ii) nearly reaching the Bank's operational gearing ratio. Such development would be supported by SDR 600 million in paid-in capital, about SDR 200 million in surpluses and SDR 1 billion of borrowed funds, and would require a level of activity wherein the Bank generates about 25 operations annually at an average size of SDR 10.5 million, which corresponds to annual disbursements of about SDR 300 million. The borrowing program of the Bank would fully cover the portfolio growth and liquidity needs, while maintaining a comfortable ratio of borrowed funds to own funds (including equity contributions, reserves and surpluses). This would be necessary as the Bank's cost of borrowed funds is higher relative to other IFIs. It is expected that profitability would be maintained consistently throughout the period.

Sustained growth Scenario

Should the Bank attract a AAA rated Member and have its rating upgraded to the Aa3 level, its growth potential would be significantly enhanced. In addition to (and supported by) this membership, a further increase in the single obligor limit in both absolute and relative terms would increase the possibility for the Bank to identify larger sized operations with strong development impact for which it would become able to lead/ arrange financing. An increase in the single obligor limit to 10% of paid-in capital, reserves and surpluses would be considered when accumulated reserves and surpluses reach a level equivalent to two times the new single obligor limit, in order to provide the necessary cover against unexpected negative developments. Under such a desirable scenario, the Bank would accelerate its business activity and would project an increase in the size of the outstanding portfolio to a level of up to SDR 2.7 billion, with total assets reaching approximately SDR 3 billion.

This development implies (i) an average annual growth rate of the outstanding portfolio of operations of approximately 14.5%, and (ii) increasing the Bank's operational gearing ratio from the current 1:1 ratio to 1.25:1. Such development would be supported by SDR 700 million in paid-in capital (including new regional member(s) and the AAA member), about SDR 200 million in surpluses and about SDR 1.8 billion of borrowed funds. The Bank would have to generate about 30 operations annually of an average size of SDR 15 million, which corresponds to annual average disbursements of about SDR 500 million (range of 350-550 million).

Human Resources Considerations

The Bank will improve its use of human resources by better matching available skills with needs. This may require adjustment of the Organizational Structure. Also, planned activities in the Operational Objectives would require a gradual increase in staff, in particular for business generation, appraisal, risk management, supervision, monitoring, MIS and reporting. Additional specialized staff in equity products and business development may be required too. In this context, it will become necessary to design and provide specialized training programs. In any event, the total number of staff at the end of the planning period would not exceed 120.

C. Key Performance Indicators and Results Framework

Focus on Development Results

The Bank has embarked on an ambitious long-term development agenda to enhance quality and strengthen the focus on development results in its operations. Institutional reforms will be made, as needed, to ensure that progress is achieved in the following key areas:

(i) improve quality at entry in operations by strengthening analytic work and the due diligence processes, particularly with respect to the extent to which an operation meets the development and regional cooperation mandates of BSTDB;

(ii) build stronger monitoring and evaluation systems in operations, in order to attain higher impact while controlling the risk-return profile of operations;

(iii) further enhance a results-focused supervision culture by strengthening
  a. results oriented supervision reporting systems, and
  b. mid-term review processes to facilitate better results;

(iv) enhance and consolidate risk management systems and controls, in line with evolving best practices;

(v) establish standardized targets and outcome indicators, including sectoral benchmarks;

(vi) enhance learning and accountability through
  a. evaluation of results-oriented completion reports, and
  b. stronger feedback loops from lessons learned to new operations; and

(vii) improve systems and procedures for results reporting, through upgraded portfolio management systems.

Key Performance Indicators

In order to build and reinforce a culture of institutional performance, specific Key Performance Indicators (KPIs) will be devised, adopted, and applied. The KPIs will reinforce responsibility in portfolio management, leading to greater accountability at every level of Bank activity and at each stage of the Operations Cycle from Eligibility Review through Completion and Evaluation. Together with the Balanced Scorecard system, systematic monitoring and reporting will cascade through the institution at the division and department levels. Consequent to the above, staff performance evaluations will be adapted to reflect associated KPIs.

Monitoring of KPIs will form the basis for quarterly and annual reports. KPIs will follow the structure of the Balanced Scorecard perspectives, and are therefore grouped in four dimensions:

1. *Stakeholder Perspective*

   Satisfaction of stakeholders' expectations will remain a key measure of the Bank's value-added from operational activity. The Bank's financing activities are strongly geared to:

   (i) meeting shareholders' expectations in terms of mandate fulfillment, and

   (ii) providing clients' satisfaction.

   This would require increased use of financial instruments in carefully structured ways.

2. *Financial Perspective*

   The Bank is not a profit maximizing organization, as it primarily identifies shareholder value by the impact of its activities (operational and otherwise) on economic development and regional cooperation. Nevertheless, the overall financial objective of the Bank is to ensure a sufficient return and maintain positive net income levels after ensuring coverage of administrative costs and constitution of comfortable levels of provisions against the risk of loan losses.

   In order to achieve the optimization of funding costs on a sustainable basis, the Bank's funding strategy would aim to address proactively changing patterns of market demand.

3. *Institutional Objectives and Internal Processes*

   The Bank will address issues identified as generated by internal procedures, decision making processes, operation processing and staff constraints. These issues need to be addressed, as response time is essential. Policies will be revised judiciously, but as required in order to remove and/ or mitigate institutional shortcomings.

   The Bank will seek progress and improvements in the following areas:

   - appraisal and due diligence;
   - risk management methodologies, processes, systems and controls;
   - compliance;
   - transparency and accountability; and
   - communication.

4. *Learning and Growth Perspective*

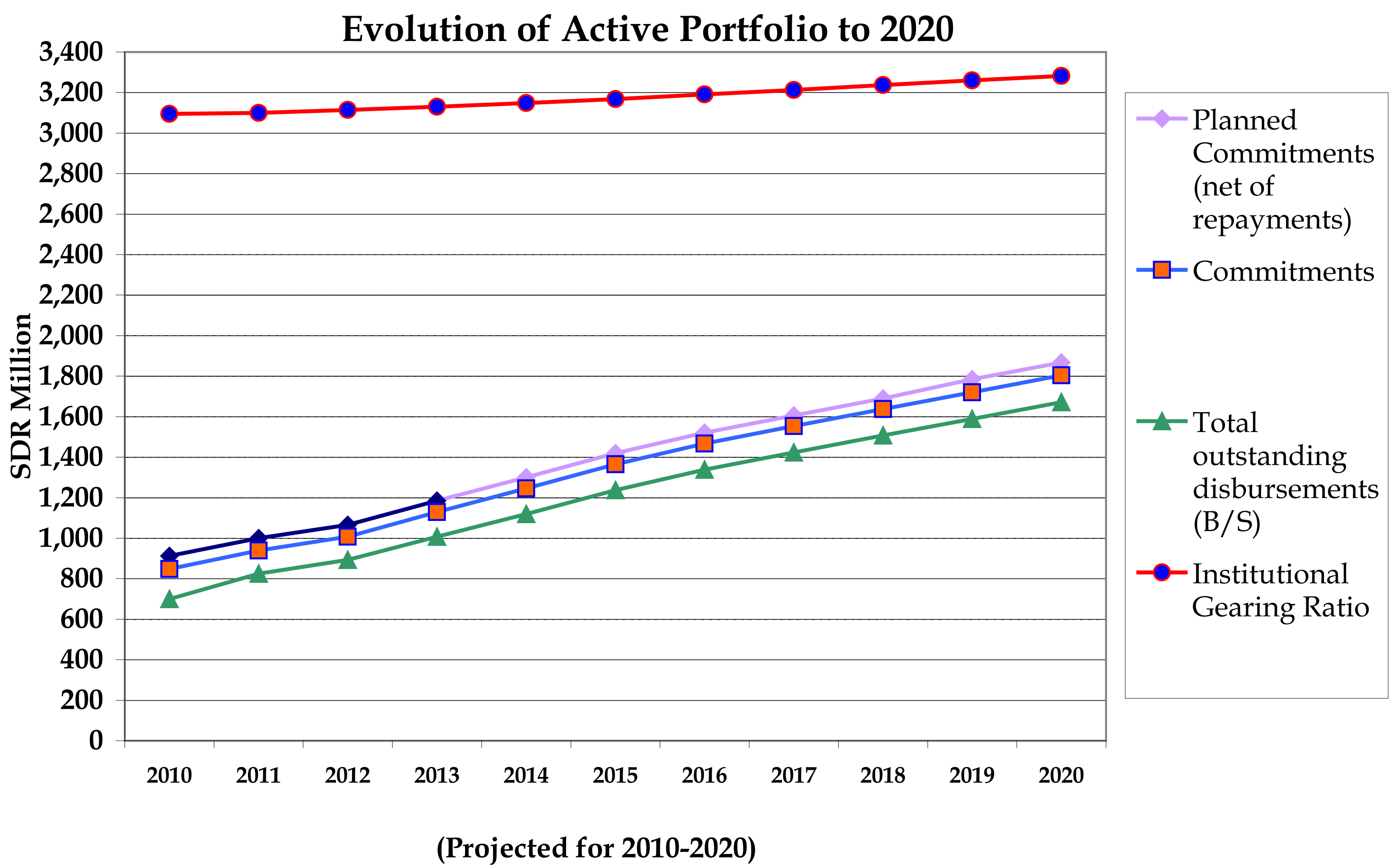
   In this perspective a key function is played by the creation of an environment conducive to attracting, motivating and retaining high quality staff. Staff motivation and job satisfaction are considered important contributors to the achievement of the Bank's objectives. For the planning period this will require continuous evaluation of the effectiveness and efficiency of the staffing processes and a proactive approach in assessing and planning the quantity and quality of the skills required to implement the Bank's strategy. To this effect the Bank will review, and amend where necessary, the Human Resource policies.

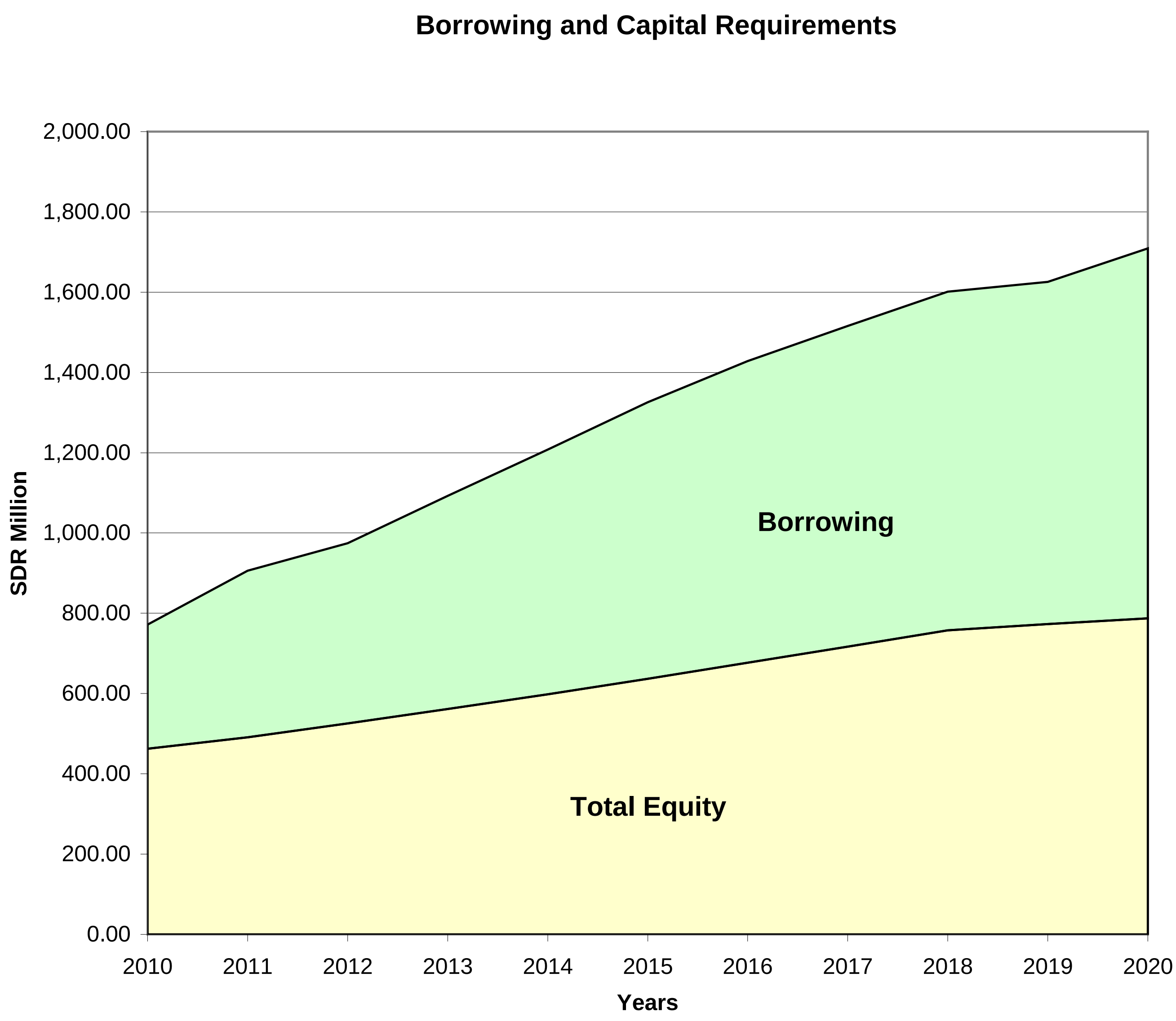
Maintaining Trend Scenario

INDICATORS SDR mil.	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
New commitments (signed)	**212**	**212**	**223**	**245**	**257**	**257**	**257**	**257**	**257**	**257**	**257**
New BoD approved	**265**	**243**	**255**	**280**	**294**	**294**	**294**	**294**	**294**	**294**	**294**
Cancellations	*6*	*7*	*8*	*9*	*10*	*11*	*11*	*12*	*13*	*14*	*15*
Prepayments	*22*	*25*	*27*	*30*	*33*	*36*	*40*	*43*	*45*	*45*	*48*
Disbursements	150	285	263	279	293	296	296	296	296	296	297
Reimbursement	104	161	194	164	180	178	196	211	213	215	214
Total outstanding disbursements (B/S)	**700**	**824**	**893**	**1,007**	**1,120**	**1,238**	**1,338**	**1,424**	**1,507**	**1,589**	**1,671**
Commitments	**848**	**939**	**1,008**	**1,129**	**1,245**	**1,365**	**1,467**	**1,553**	**1,637**	**1,720**	**1,803**
Planned Commitments (net of repayments)	**912**	**1,000**	**1,066**	**1,185**	**1,301**	**1,419**	**1,520**	**1,606**	**1,690**	**1,785**	**1,868**
Total signed undisbursed	148	115	115	121	126	127	128	129	130	131	132
BoD approved not signed	65	61	58	57	55	54	54	53	52	64	64
Operational Gearing Ratio	***1,396***	***1,483***	***1,576***	***1,670***	***1,765***	***1,862***	***1,960***	***2,059***	***2,158***	***2,173***	***2,188***
Institutional Gearing Ratio	***3,094***	***3,099***	***3,114***	***3,129***	***3,148***	***3,168***	***3,190***	***3,213***	***3,237***	***3,260***	***3,282***
Results											
Number of operations (Newly signed that yea	35	30	25	25	25	25	25	25	25	25	25
Operations per Banking team (newly signed)	7.1	5.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Productivity volume (operation per banker)	2.21	1.26	1.03	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02
Productivity value (amount per banker-SD	**13.26**	**8.84**	**9.29**	**10.21**	**10.72**	**10.72**	**10.72**	**10.72**	**10.72**	**10.72**	**10.72**
Planning target (amount per Banking Tear	**42.45**	**35.37**	**37.14**	**40.86**	**42.90**	**42.90**	**42.90**	**42.90**	**42.90**	**42.90**	**42.90**
Operational Staff/Total Staff	33.00%	42.86%	42.86%	42.86%	42.86%	42.86%	42.86%	42.86%	42.86%	42.86%	42.86%
Staff costs per capita	0.086	0.095	0.099	0.104	0.109	0.115	0.120	0.126	0.132	0.139	0.146
Growth Rate in Active Portfolio (signed)	***10.20%***	***14.61%***	***9.04%***	***10.14%***	***11.76%***	***9.92%***	***8.77%***	***7.69%***	***6.66%***	***6.07%***	***5.57%***
Growth in gross Loans outstanding (B/S)	***6.96%***	***17.85%***	***8.30%***	***12.83%***	***11.15%***	***10.54%***	***8.13%***	***6.37%***	***5.88%***	***5.44%***	***5.18%***
Ratios											
Capital	463	491	526	561	598	637	677	717	758	773	788
ROAE	1.82%	0.75%	1.88%	1.91%	2.11%	2.19%	2.28%	2.17%	2.11%	2.02%	1.85%
ROAA	1.02%	0.42%	1.00%	1.00%	1.05%	1.06%	1.08%	1.02%	0.99%	0.95%	0.86%
Cost/Income Ratio (before provisioning)	54.16%	61.16%	52.46%	49.25%	47.56%	46.60%	46.54%	48.48%	49.08%	52.05%	54.67%
Cost/Income Ratio (after provisioning)	61.06%	81.51%	61.59%	62.57%	59.60%	58.21%	55.97%	55.71%	55.93%	58.62%	61.28%
Equity/Total Assets	59.19%	53.65%	53.41%	50.92%	49.15%	47.69%	47.07%	47.01%	47.03%	47.27%	45.81%
Loan loss provisions/total loans (end of year)	4.91%	-4.85%	-4.89%	-4.85%	-4.82%	-4.79%	-4.78%	-4.77%	-4.77%	-4.77%	-4.76%
Loss Provisions/Incremental Exposure	3.02%	3.45%	3.45%	3.36%	3.36%	3.30%	3.30%	3.00%	3.00%	3.00%	3.00%
Operating Income per Operational Staff	604,158	441,196	538,926	601,606	652,909	698,469	733,092	737,614	763,860	779,966	778,618
Revenues after opex/revenues before opex	22.50%	17.17%	22.68%	23.81%	23.77%	24.15%	23.23%	21.33%	20.64%	19.91%	18.24%
Outstanding funds/Average staff	7.00	7.78	7.97	8.99	10.00	11.05	11.95	12.71	13.46	14.19	14.92
Disbursed funds (annually)/Average staff	1.50	2.69	2.35	2.49	2.61	2.64	2.65	2.65	2.65	2.65	2.65

INCOME STATEMENT	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Interest and Similar Income											
Interest on loans	33.71	41.65	47.20	53.81	60.72	65.32	71.70	75.65	80.15	83.53	87.86
From placements with Financial Institutions	3.31	1.76	2.37	2.80	3.20	3.48	3.70	3.91	4.10	4.02	2.90
From Investment Securities	0.00	0.43	0.89	0.96	1.00	0.99	1.01	1.03	1.04	0.52	0.00
Total Interest and Similar Income	**37.02**	**43.84**	**50.46**	**57.57**	**64.91**	**69.78**	**76.40**	**80.59**	**85.29**	**88.07**	**90.76**
Interest Expenses and Similar Charges											
Interest Expenses	18.81	24.24	26.24	30.52	35.51	38.22	43.20	47.19	50.65	52.32	55.09
Other Charges	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Total Interest Expenses and Similar Charg	**19.21**	**24.64**	**26.64**	**30.91**	**35.91**	**38.62**	**43.60**	**47.59**	**51.05**	**52.72**	**55.49**
Net interest Income	**17.82**	**19.21**	**23.82**	**26.65**	**29.00**	**31.16**	**32.80**	**33.00**	**34.24**	**35.35**	**35.27**
Other Income											
Net Fees and Commissions	2.12	1.97	2.05	2.22	2.34	2.36	2.38	2.40	2.42	2.09	2.10
Net Income (Loss) on Forex	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Income	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Other Income	**2.12**	**1.97**	**2.05**	**2.22**	**2.34**	**2.36**	**2.38**	**2.40**	**2.42**	**2.09**	**2.10**
Operating Income	**19.94**	**21.18**	**25.87**	**28.88**	**31.34**	**33.53**	**35.19**	**35.41**	**36.67**	**37.44**	**37.37**
Administrative Expenses											
Total salaries and benefits	8.56	10.61	11.12	11.66	12.23	12.82	13.45	14.11	14.80	15.55	16.31
Other administration expenses	2.24	2.34	2.45	2.56	2.68	2.80	2.92	3.06	3.20	3.34	3.50
Depreciation	**0.33**	**0.36**	**0.39**	**0.42**	**0.45**	**0.48**	**0.51**	**0.54**	**0.57**	**0.60**	**0.62**
Total Administrative Expenses	**10.80**	**12.95**	**13.57**	**14.22**	**14.90**	**15.62**	**16.37**	**17.17**	**18.00**	**19.49**	**20.43**
Income before provisions	**8.81**	**7.86**	**11.91**	**14.24**	**15.99**	**17.43**	**18.31**	**17.70**	**18.10**	**17.95**	**16.94**
Provisions	**1.38**	**4.31**	**2.36**	**3.85**	**3.77**	**3.89**	**3.32**	**2.56**	**2.51**	**2.46**	**2.47**
Net profit	**7.43**	**3.56**	**9.55**	**10.39**	**12.21**	**13.53**	**14.99**	**15.14**	**15.59**	**15.49**	**14.47**
Surpluses	44.46	48.02	57.56	67.95	80.17	93.70	108.69	123.83	139.42	154.91	169.39
Deferred Income (equity)	**0.58**	**1.47**	**3.13**	**4.97**	**6.93**	**8.69**	**10.76**	**12.64**	**14.71**	**16.62**	**18.74**
TOTAL PROFIT	**8.02**	**5.02**	**12.67**	**15.36**	**19.15**	**22.23**	**25.74**	**27.78**	**30.31**	**32.11**	**33.21**

BALANCE SHEET	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Assets											
Cash and bank balances	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	0.00	0.00
Placements with financial institutions	84.01	76.18	77.51	83.14	88.31	90.74	94.14	97.03	99.64	67.98	69.82
Investment securities	0.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	0.00	0.00
Total deposits and securities/Liquidity	**89.01**	**101.18**	**102.51**	**108.14**	**113.31**	**115.74**	**119.14**	**122.03**	**124.64**	**67.98**	**69.82**
Derivative financial instruments	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Loans	687.89	784.24	826.39	913.02	996.04	1,084.41	1,155.38	1,211.04	1,265.12	1317.39	1370.00
Equity investments	11.63	40.18	66.46	94.34	123.62	153.21	182.84	212.48	242.13	271.78	301.43
Less: provisions for impairment	-33.76	-38.07	-40.43	-44.28	-48.05	-51.95	-55.27	-57.82	-60.34	-62.79	-65.26
Net loans and equity investments	**665.76**	**786.35**	**852.42**	**963.08**	**1,071.61**	**1,185.67**	**1,282.96**	**1,365.70**	**1,446.91**	**1526.38**	**1606.17**
Receivables and accrued interest	**17.94**	**19.16**	**20.50**	**22.02**	**23.72**	**25.52**	**27.47**	**29.33**	**31.29**	**33.34**	**35.49**
Paid-in share capital not received	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Property, technology and equipment	2.27	2.41	2.55	2.70	2.84	2.98	3.12	3.26	3.41	3.55	3.69
Intangible assets	2.24	2.46	2.69	2.91	3.14	3.36	3.59	3.81	4.04	4.26	4.49
Less: accumulated depreciation	-3.71	-4.07	-4.46	-4.88	-5.33	-5.81	-6.31	-6.85	-7.42	-8.01	-8.64
Net property, technology and equipment	**0.80**	**0.80**	**0.78**	**0.73**	**0.65**	**0.54**	**0.40**	**0.23**	**0.03**	-0.20	-0.46
Other assets	**8.31**	**8.31**	**8.31**	**8.31**	**8.31**	**8.31**	**8.31**	**8.31**	**8.31**	8.31	8.31
Total assets	**782**	**916**	**985**	**1,102**	**1,218**	**1,336**	**1,438**	**1,526**	**1,611**	**1,636**	**1,719**
Liabilities											
Borrowing	**309.03**	**414.46**	**448.63**	**531.00**	**609.10**	**688.75**	**751.26**	**798.44**	**843.44**	**852.57**	**921.62**
Payables and accrued interest	5.27	5.27	5.27	5.27	5.27	5.27	5.27	5.27	5.27	5.27	5.27
Deferred income	4.74	4.74	4.74	4.74	4.74	4.74	4.74	4.74	4.74	**4.74**	**4.74**
Other liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total liabilities	**319.04**	**424.47**	**458.64**	**541.01**	**619.11**	**699**	**761.27**	**808.45**	**853.45**	**862.58**	**931.63**
Paid-in share capital	**400.00**	**425.00**	**450.00**	**475.00**	**500.00**	**525.00**	**550.00**	**575.00**	**600.00**	**600.00**	**600.00**
General reserve	**18.31**	**18.31**	**18.31**	**18.31**	**18.31**	**18.31**	**18.31**	**18.31**	**18.31**	**18.31**	**18.31**
Surpluses	**44.46**	**48.02**	**57.56**	**67.95**	**80.17**	**93.70**	**108.69**	**123.83**	**139.42**	**154.91**	**169.39**
Total Equity	**462.77**	**491.33**	**525.87**	**561.26**	**598.48**	**637.01**	**677.00**	**717.14**	**757.73**	**773.22**	**787.70**
Total own funds and liabilities	**782**	**916**	**985**	**1,102**	**1,218**	**1,336**	**1,438**	**1,526**	**1,611**	**1,636**	**1,719**


Evolution of Active Portfolio to 2020
SDR Million
3,400
3,200
3,000
2,800
2,600
2,400
2,200
2,000
1,800
1,600
1,400
1,200
1,000
800
600
400
200
0
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
Planned Commitments (net of repayments)
Commitments
Total outstanding disbursements (B/S)
Institutional Gearing Ratio
(Projected for 2010-2020)

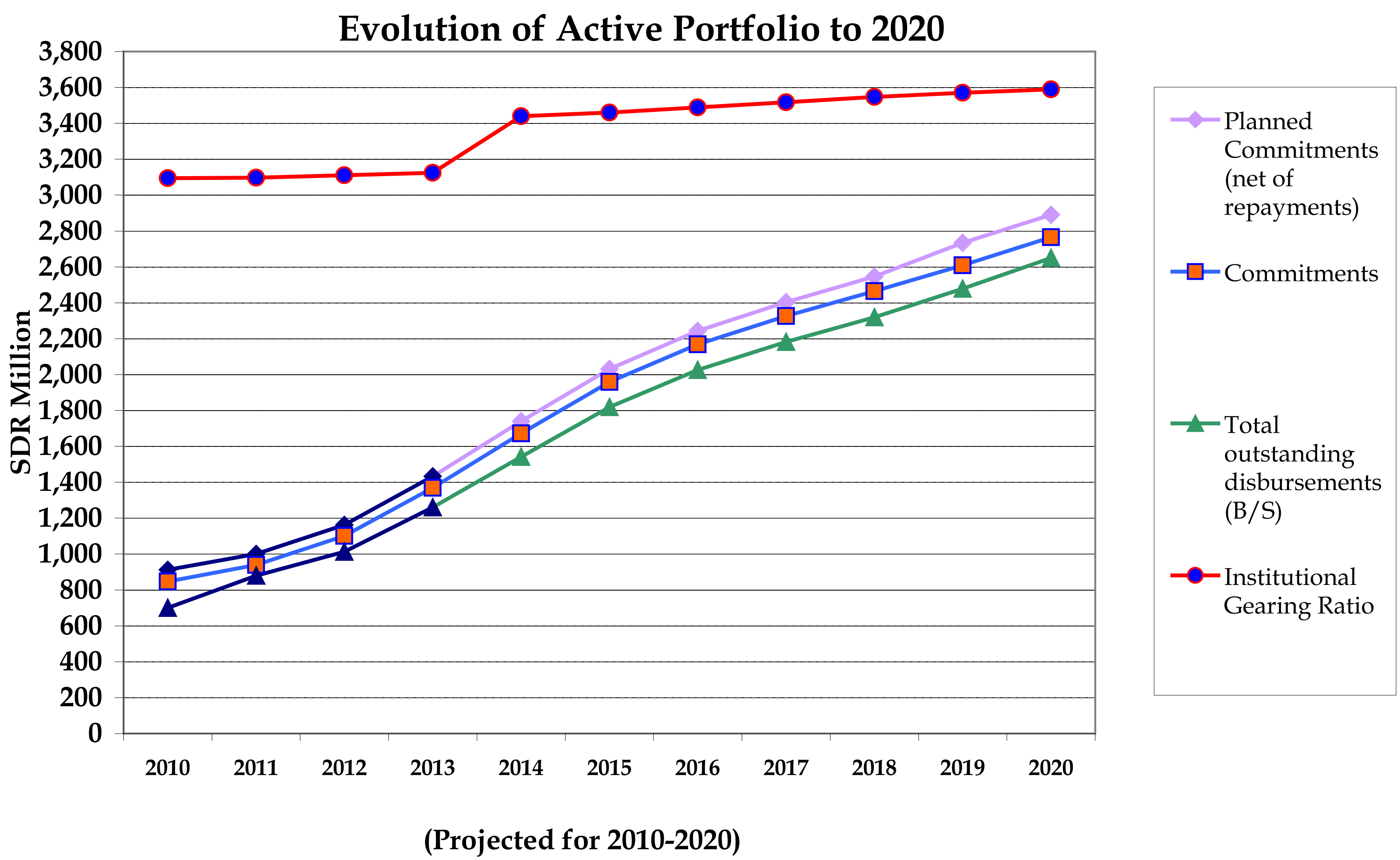

Borrowing and Capital Requirements
2,000.00
1,800.00
1,600.00
1,400.00
1,200.00
1,000.00
800.00
600.00
400.00
200.00
0.00
SDR Million
Borrowing
Total Equity
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
Years

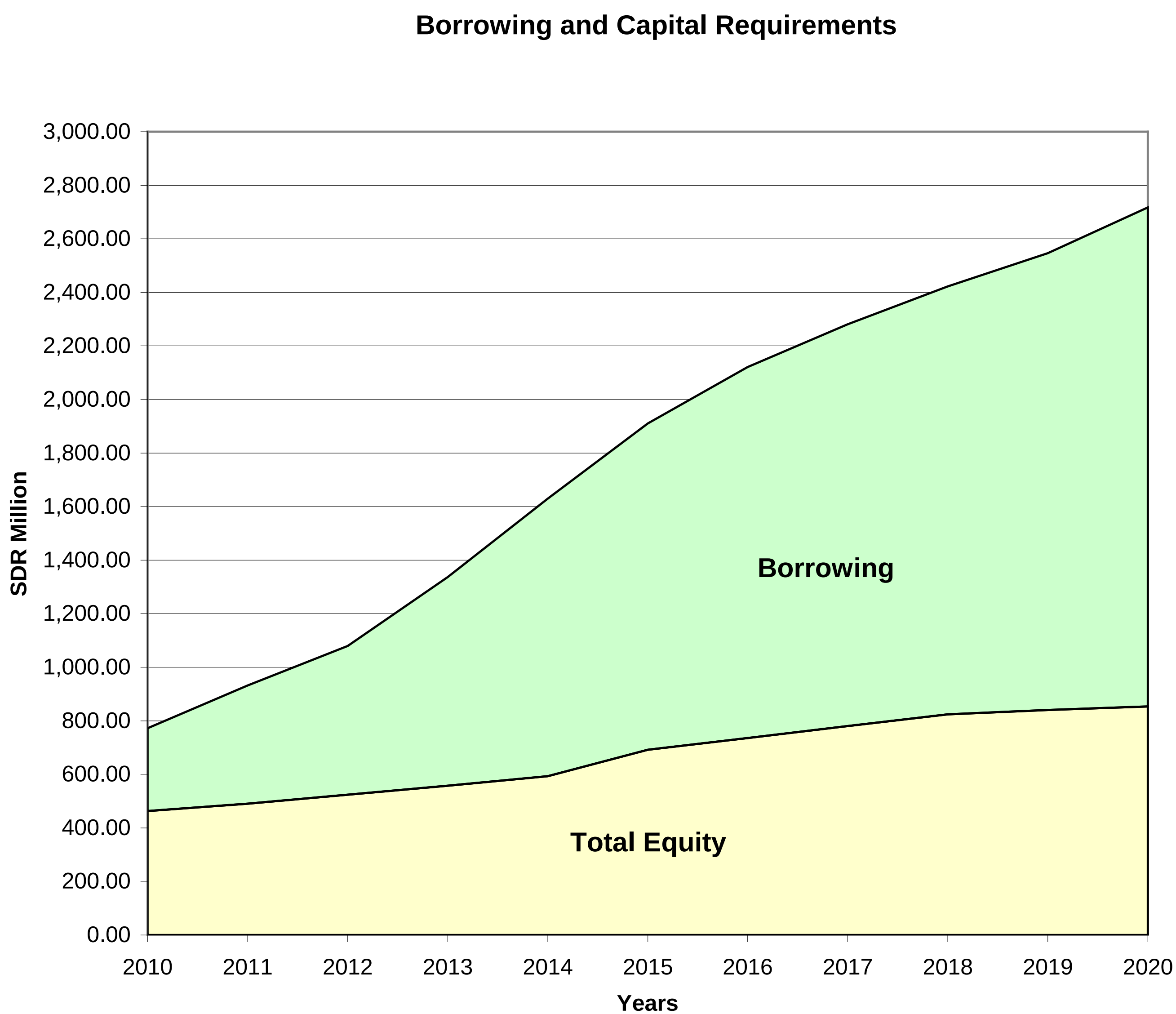
Sustained Growth Scenario

New commitments (signed)	**212**	**212**	**318**	**398**	**478**	**501**	**501**	**501**	**501**	**501**	**501**
New BoD approved	**265**	**243**	**364**	**455**	**546**	**573**	**573**	**573**	**573**	**573**	**573**
Cancellations	*6*	*7*	*8*	*10*	*12*	*15*	*17*	*19*	*21*	*23*	*25*
Prepayments	*22*	*25*	*29*	*35*	*43*	*51*	*59*	*67*	*73*	*74*	*80*
Disbursements	150	341	330	416	495	533	539	539	539	557	555
Reimbursement	104	161	196	170	214	255	333	383	402	397	385
Total outstanding disbursements (B/S)	**700**	**880**	**1,013**	**1,260**	**1,541**	**1,819**	**2,026**	**2,182**	**2,319**	**2,479**	**2,650**
Commitments	**848**	**939**	**1,101**	**1,369**	**1,673**	**1,959**	**2,168**	**2,326**	**2,465**	**2,609**	**2,766**
Planned Commitments (net of repayments)	**912**	**1,000**	**1,162**	**1,433**	**1,740**	**2,031**	**2,243**	**2,404**	**2,546**	**2,735**	**2,891**
Total signed undisbursed	148	60	88	109	131	140	142	144	146	130	116
BoD approved not signed	65	61	61	63	67	72	75	78	81	125	125
Operational Gearing Ratio	***1,396***	***1,482***	***1,574***	***1,666***	***1,760***	***2,057***	***2,159***	***2,262***	***2,364***	***2,380***	***2,393***
Institutional Gearing Ratio	***3,094***	***3,097***	***3,111***	***3,124***	***3,440***	***3,461***	***3,489***	***3,518***	***3,547***	***3,570***	***3,590***
Results											
Number of operations (Newly signed that yea	35	30	35	36	40	33	33	33	33	33	33
Operations per Banking team (newly signed)	7.1	5.1	5.9	6.0	6.6	5.6	5.6	5.6	5.6	5.6	5.6
Productivity volume (operation per banker)	2.21	1.26	1.47	1.51	1.66	1.39	1.39	1.39	1.39	1.39	1.39
Productivity value (amount per banker-SD	**13.26**	**8.84**	**13.26**	**16.58**	**19.90**	**20.89**	**20.89**	**20.89**	**20.89**	**20.89**	**20.89**
Planning target (amount per Banking Tear	**42.45**	**35.37**	**53.06**	**66.32**	**79.59**	**83.57**	**83.57**	**83.57**	**83.57**	**83.57**	**83.57**
Operational Staff/Total Staff	33.00%	42.86%	42.86%	42.86%	42.86%	42.86%	42.86%	42.86%	42.86%	42.86%	42.86%
Staff costs per capita	0.086	0.095	0.099	0.104	0.109	0.115	0.120	0.126	0.132	0.139	0.146
Growth Rate in Active Portfolio (signed)	***10.20%***	***14.61%***	***17.43%***	***20.64%***	***23.19%***	***19.25%***	***15.70%***	***12.22%***	***9.94%***	***8.35%***	***7.34%***
Growth in gross Loans outstanding (B/S)	***6.96%***	***25.73%***	***15.23%***	***24.36%***	***22.31%***	***18.04%***	***11.35%***	***7.69%***	***6.30%***	***6.89%***	***6.88%***
Ratios											
Capital	463	490	524	558	593	692	736	780	824	840	853
Effective Interest Rate Earned	2.44%	2.32%	2.48%	2.34%	2.11%	1.97%	1.90%	1.70%	1.61%	1.53%	1.41%
ROAE	1.82%	0.45%	1.80%	1.61%	1.82%	2.14%	2.63%	2.54%	2.41%	1.88%	*1.55%*
ROAA	1.02%	0.25%	0.90%	0.72%	0.70%	0.77%	0.93%	0.87%	0.82%	0.63%	0.50%
Cost/Income Ratio (before provisioning)	54.16%	59.79%	48.94%	44.91%	42.24%	40.06%	38.55%	41.23%	42.80%	46.09%	49.55%
Cost/Income Ratio (after provisioning)	61.06%	88.45%	65.61%	71.10%	69.01%	63.59%	54.59%	52.47%	52.61%	63.09%	68.17%
Equity/Total Assets	59.19%	52.01%	48.09%	41.41%	36.18%	36.03%	34.53%	34.05%	33.89%	32.86%	31.28%
Loan loss provisions/total loans (end of year)	4.91%	-4.79%	-4.77%	-4.64%	-4.54%	-4.48%	-4.48%	-4.48%	-4.50%	-4.63%	-4.74%
Operating Income per Operational Staff	604,158	451,327	577,666	659,770	735,152	812,437	884,946	867,316	875,951	880,964	859,092
Revenues after opex/revenues before opex	22.50%	17.68%	23.55%	23.12%	21.61%	21.64%	21.15%	18.42%	17.01%	15.76%	13.64%
Outstanding funds/Average staff	7.00	8.30	9.05	11.25	13.76	16.25	18.09	19.48	20.71	22.13	23.66
Disbursed funds (annually)/Average staff	1.50	3.21	2.95	3.72	4.42	4.76	4.81	4.81	4.82	4.98	4.96

INCOME STATEMENT	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Interest and Similar Income											
Interest on loans	33.71	43.63	53.27	66.93	84.01	96.69	111.33	119.79	127.54	134.27	143.19
From placements with Financial Institutions	3.31	1.46	1.77	2.59	3.44	4.13	4.59	4.97	5.31	5.80	5.29
From Investment Securities	0.00	0.43	0.92	1.02	1.06	1.03	1.06	1.08	1.10	0.55	0.00
Total Interest and Similar Income	**37.02**	**45.53**	**55.96**	**70.54**	**88.51**	**101.85**	**116.98**	**125.85**	**133.95**	**140.63**	**148.48**
Interest Expenses and Similar Charges											
Interest Expenses	18.81	25.16	30.33	41.58	56.56	66.42	78.12	87.88	95.61	101.95	110.88
Other Charges	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Total Interest Expenses and Similar Charg	**19.21**	**25.56**	**30.73**	**41.98**	**56.96**	**66.82**	**78.51**	**88.28**	**96.01**	**102.35**	**111.28**
Net interest Income	**17.82**	**19.97**	**25.23**	**28.56**	**31.55**	**35.03**	**38.46**	**37.57**	**37.94**	**38.28**	**37.20**
Other Income											
Net Fees and Commissions	2.12	1.70	2.49	3.11	3.74	3.96	4.02	4.06	4.11	4.01	4.03
Net Income (Loss) on Forex	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Income	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Other Income	**2.12**	**1.70**	**2.49**	**3.11**	**3.74**	**3.96**	**4.02**	**4.06**	**4.11**	**4.01**	**4.03**
Operating Income	**19.94**	**21.66**	**27.73**	**31.67**	**35.29**	**39.00**	**42.48**	**41.63**	**42.05**	**42.29**	**41.24**
Administrative Expenses											
Total salaries and benefits	8.56	10.61	11.12	11.66	12.23	12.82	13.45	14.11	14.80	15.55	16.31
Other administration expenses	2.24	2.34	2.45	2.56	2.68	2.80	2.92	3.06	3.20	3.34	3.50
Depreciation	**0.33**	**0.36**	**0.39**	**0.42**	**0.45**	**0.48**	**0.51**	**0.54**	**0.57**	**0.60**	**0.62**
Total Administrative Expenses	**10.80**	**12.95**	**13.57**	**14.22**	**14.90**	**15.62**	**16.37**	**17.17**	**18.00**	**19.49**	**20.43**
Income before provisions	**8.81**	**8.35**	**13.77**	**17.03**	**19.93**	**22.90**	**25.60**	**23.93**	**23.48**	**22.80**	**20.80**
Provisions	**1.38**	**6.21**	**4.62**	**8.29**	**9.45**	**9.18**	**6.81**	**4.68**	**4.12**	**7.19**	**7.68**
Net profit	**7.43**	**2.14**	**9.15**	**8.73**	**10.49**	**13.72**	**18.78**	**19.25**	**19.36**	**15.61**	**13.13**
Surpluses	44.46	46.60	55.75	64.48	74.97	88.69	107.48	126.73	146.09	161.70	174.82
Deferred Income (equity)	**0.58**	**1.64**	**3.75**	**6.42**	**9.71**	**12.81**	**16.65**	**20.24**	**24.13**	**27.91**	**32.01**
TOTAL PROFIT	**8.02**	**3.78**	**12.89**	**15.16**	**20.20**	**26.53**	**35.44**	**39.49**	**43.49**	**43.52**	45.13

BALANCE SHEET	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Assets											
Cash and bank balances	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	0.00	0.00
Placements with financial institutions	84.01	49.09	65.98	82.69	101.56	111.03	118.43	124.79	130.05	123.30	128.22
Investment securities	0.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	0.00	0.00
Total deposits and securities/Liquidity	**89.01**	**74.09**	**90.98**	**107.69**	**126.56**	**136.03**	**143.43**	**149.79**	**155.05**	**123.30**	**128.22**
Derivative financial instruments	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Loans	687.89	833.84	934.71	1,139.90	1,371.54	1,596.27	1,748.79	1,850.73	1,934.17	2,038.25	2,153.29
Equity investments	11.63	45.69	78.73	120.37	169.92	223.22	277.13	331.05	385.00	440.72	496.27
Less: provisions for impairment	-33.76	-39.97	-44.59	-52.89	-62.33	-71.51	-78.32	-83.00	-87.12	-94.31	-101.99
Net loans and equity investments	**665.76**	**839.56**	**968.85**	**1,207.38**	**1,479.12**	**1,747.98**	**1,947.59**	**2,098.78**	**2,232.05**	**2,384.67**	**2,547.57**
Receivables and accrued interest	**17.94**	**19.26**	**20.81**	**22.79**	**25.25**	**28.00**	**31.07**	**34.03**	**37.16**	**40.46**	**43.99**
Paid-in share capital not received	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Property, technology and equipment	2.27	2.41	2.55	2.70	2.84	2.98	3.12	3.26	3.41	3.55	3.69
Intangible assets	2.24	2.46	2.69	2.91	3.14	3.36	3.59	3.81	4.04	4.26	4.49
Less: accumulated depreciation	-3.71	-4.07	-4.46	-4.88	-5.33	-5.81	-6.31	-6.85	-7.42	-8.01	-8.64
Net property, technology and equipment	**0.80**	**0.80**	**0.78**	**0.73**	**0.65**	**0.54**	**0.40**	**0.23**	**0.03**	-0.20	-0.46
Other assets	**8.31**	**8.31**	**8.31**	**8.31**	**8.31**	**8.31**	**8.31**	**8.31**	**8.31**	8.31	8.31
Total assets	**782**	**942**	**1,090**	**1,347**	**1,640**	**1,921**	**2,130.80**	**2,291.13**	**2,432.59**	**2,556.53**	**2,727.63**
Liabilities											
Borrowing	**309.03**	**442.09**	**555.66**	**779.08**	**1,036.60**	**1,218.84**	**1,385.00**	**1,501.08**	**1,598.18**	**1,706.51**	**1,864.49**
Payables and accrued interest	5.27	5.27	5.27	5.27	5.27	5.27	5.27	5.27	5.27	5.27	5.27
Deferred income	4.74	4.74	4.74	4.74	4.74	4.74	4.74	4.74	4.74	**4.74**	**4.74**
Other liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total liabilities	**319.04**	**452.10**	**565.67**	**789.10**	**1,046.61**	**1,229**	**1,395.01**	**1,511.10**	**1,608.19**	**1,716.53**	**1,874.50**
Paid-in share capital	**400.00**	**425.00**	**450.00**	**475.00**	**500.00**	**585.00**	**610.00**	**635.00**	**660.00**	**660.00**	**660.00**
General reserve	**18.31**	**18.31**	**18.31**	**18.31**	**18.31**	**18.31**	**18.31**	**18.31**	**18.31**	**18.31**	**18.31**
Surpluses	**44.46**	**46.60**	**55.75**	**64.48**	**74.97**	**88.69**	**107.48**	**126.73**	**146.09**	**161.70**	**174.82**
Total Equity	**462.77**	**489.91**	**524.06**	**557.79**	**593.28**	**692.00**	**735.78**	**780.04**	**824.40**	**840.01**	**853.13**
Total own funds and liabilities	**782**	**942**	**1,090**	**1,347**	**1,640**	**1,921**	**2,131**	**2,291**	**2,433**	**2,556.53**	**2,727.63**


Evolution of Active Portfolio to 2020
SDR Million
3,800
3,600
3,400
3,200
3,000
2,800
2,600
2,400
2,200
2,000
1,800
1,600
1,400
1,200
1,000
800
600
400
200
0
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
(Projected for 2010-2020)
Planned Commitments (net of repayments)
Commitments
Total outstanding disbursements (B/S)
Institutional Gearing Ratio


Borrowing and Capital Requirements
SDR Million
3,000.00
2,800.00
2,600.00
2,400.00
2,200.00
2,000.00
1,800.00
1,600.00
1,400.00
1,200.00
1,000.00
800.00
600.00
400.00
200.00
0.00
Borrowing
Total Equity
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
Years