

Medium-Term Strategy and Business Plan 2023-2026

Phase 2: 2025-2026 Getting Back on Track

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EXECUTIVE SUMMARY

When BSTDB began preparation of the Medium Term Strategy and Business Plan 2023-26, it faced a broad array of uncertainties and unknowns resulting from rising geopolitical tensions driven by the largest active military fighting in Europe since the end of World War II. The resulting divide rendered impossible any efforts to continue the Bank's historic business model of promoting economic development and regional cooperation via steady managed growth. With the overwhelming support of its shareholding Member States, the Bank consciously decided to take a step back, in order then to begin moving forward at an appropriate time.

Cognizant of the need to consolidate activities and tread cautiously, the Bank adopted a two phase approach to its MTSBP, starting with an initial Phase 1 covering the two year period 2023-2024 which would focus upon managing the crisis, deleveraging and de-risking the balance sheet and assessing the impact of the external stresses on the institution with a view to attaining a degree of clarity which would permit the Bank to navigate the uncertainties and risks, and lay the groundwork for Phase 2. Phase 2, in turn would cover the remaining period of 2025-2026 and formulate a path to return to operational growth and value creation.

Indeed, Phase 1 played out largely as expected, with the Bank prioritizing the maintenance of its creditworthiness, at the expense of growth and the undertaking of new activities. The Bank ensured its financial sustainability by deleveraging and shrinking its operational portfolio (and balance sheet) in a controlled manner. It experienced its first loss in 2022 after nearly two decades of consistently positive net income, due to the aggressive and preemptive provisioning undertaken by BSTDB, in line with IFRS, in response to transactional difficulties and heightened credit risks. The Bank's diligence led to significantly better than initially feared recovery rates from war affected countries and stabilization of problematic operations in its portfolio, and this permitted a return to profitability in 2023 and, on current trend, for 2024 too.

This prioritization was appropriate, but it came at a cost as the Bank forewent many new project lending opportunities and deleveraged, which resulted in reduced engagement with financial markets. The extent of consolidation also exceeded projections due to higher than anticipated transaction costs and fallout from the deteriorating geopolitical environment. By mid-2024 (e.g. end-June), the outstanding portfolio and the balance sheet had declined around by nearly 40% relative to the end of 2022. However, the Bank met all its commitments comfortably, and maintained key liquidity and capital ratios at healthy levels. In addition to the aforementioned return to profitability, it also successfully concluded the capital increase which had been initiated in 2021 but ran into unique complexities that drew it out time-wise and raised intricacies without precedent in international forums and the operation of multilateral development banks (MDBs).

Since mid-2024, the Bank has begun a process of resuming new operational activity and seeking to return to its business model of steady managed growth via financing of projects that promote economic development and, where possible, regional cooperation. To be sure, transaction costs and uncertainties remain high, since sanctions regimes remain in place, regional conflicts continue unresolved, and in addition to ongoing military fighting in the Region, there has arisen a major military conflagration in the neighboring Middle East. However, the Black Sea Region has demonstrated impressive resilience in the face of these events and the potential disturbances caused by rising global interest rates, and has sustained solid economic growth while posting healthy and improving macroeconomic indicators. And the Bank has generated a nascent momentum in the second half of 2024 which it expects to build upon in the 2025-26 period covered by Phase 2 of the MTSBP.

The objective of Phase 2 is to get back on track, according to the operational opportunities which present themselves while sustaining the necessary parameters of ample liquidity and solid capitalization. The Bank

has had to navigate areas where sanctions and other politically imposed limitations on economic activity have had the biggest impact. The high transaction costs resulting from the weaponization of economics will remain a feature of the global economic landscape in coming years, but the valuable expertise which the Bank has developed represents an important source of knowledge which it is well placed to share with its clients, development partners, and shareholders, even as it resumes providing effective financing and risk solutions.

Despite the temptation to try to make up the 'lost ground' of the last two and a half years, the Bank intends to be deliberate as it resumes growth, and it will choose to err on the side of caution whenever risks appear. With this understanding, the Bank has prepared two moderate growth scenarios for 2025-26. First, a base case scenario (BCS) in which portfolio growth averages around 5% annually and secondly, an upper case scenario (UCS) with average annual growth of around 9% if circumstances permit. Under both scenarios, the Bank expects to post positive net income for both 2025 and 2026. Either way, the ultimate determinant of how much growth takes place will be the commitment to retain strong capital and liquidity ratios. A key component of Phase 2 will also be restoring business and financing relationships.

Achievement of the scenarios will require expansion of the Bank's lending program and enhanced resource mobilization. On the lending side, the Bank intends to undertake new commitments totaling € 640 million under the BCS and € 780 million under the UCS. It aims to maintain a balance between being market driven while attaining an adequate presence in all Member States where it is possible to operate. The Bank hopes to provide reconstruction assistance to post-conflict areas and to prioritize enhanced regional cooperation and the re-establishment of linkages where these have weakened. It expects most projects to be private, but will welcome public ones too, and will continue mainly to offer loans, although where strategically warranted, it may also offer guarantees and even equity, especially if this helps enhance resource mobilization efforts. The Bank is generally open to financing activities that create employment and generate new wealth, but would like to increase the level of climate financing provided, particularly for investment in renewable energy generation, storage and transmission where there is an ongoing investment boom as countries seek to reduce dependence on fossil fuels and to enhance the resilience and autonomy of their energy production networks.

As regards resource mobilization, the Bank will pursue opportunities to co-finance with public development partners, as well as private financiers, whenever possible. On the financing side, it will re-establish cooperation with official financiers and private lenders in order to fulfill funding needs as affordably and efficiently as possible.

The Bank does not intend to undertake significant changes to its governance structure, which by and large operates effectively and provides necessary degrees of flexibility and transparency, as well as appropriate levels of checks and balances. Nevertheless, it will continue to modernize its processes, upgrade information technology capabilities, and implement efficiency enhancements. As always it will follow the global development finance agenda, and adopt evolving best practices as appropriate, as it seeks to get back on track.

1 MISSION AND VISION

BSTDB possesses the dual mandate to (i) promote regional economic cooperation among, and (ii) economic development in, its Member States by financing private and public sector operations and undertaking activities which promote the Black Sea Region and create value for its shareholders.

The Bank's Long-term Strategic Framework (LTSF) 2021-30 translates this into a vision that seeks to enhance the profile of the Bank and make it a prominent development partner in the Black Sea Region. While this remains a valid long term vision, under the current exceptional circumstances and unprecedented crisis, the Bank needs to adapt for the period of the MTSBP 2022-26, to maintain credibility, ensure maintenance of its financial health, and lay out conditions to return to operational growth serving the developmental needs of Member States.

2 OPERATING CONTEXT

2.1 Global and Regional Operating Environment

Global Developments 2023-24

Global economic activity exceeded expectations in 2023 and 2024, despite tighter monetary policies, a range of geopolitical challenges, and critical elections in several major economies. Monetary tightening and falling commodity prices helped to curb inflation, and contractions and stagflation were avoided, with global GDP rising by 3.2% in both 2023 and 2024. Consequently, global GDP not only surpassed the long-term trendline in 2023 but is also projected to remain above it in forthcoming years.

Among geographic regions, GDP growth in 2023, compared to the previous year, accelerated in emerging economies in Europe and Asia, which benefited from sustained solid macroeconomic management, as well as structural shifts such as the increased 'near-shoring' of global supply chains that has been underway since the COVID-19 pandemic. These shifts are expected to further boost trade flows in these regions, and the countries in the Black Sea Region are well placed to be major beneficiaries.

Regional Developments 2023-2024

In the Black Sea Region¹, economic growth decelerated from 5.3% in 2022 to 3.5% in 2023, with projections indicating a further slowdown of the growth to 3.0% in 2024. This deceleration is primarily due to a high base effect from a swift post-pandemic recovery, the impact of tighter monetary policies both globally and domestically, and geopolitical conflicts in close proximity to the region. However, the actual outcomes exceeded the original pessimistic predictions. Geopolitical conflicts have had a limited impact on the regional economies, and despite elevated interest rates, both sovereign and private sector entities have been able to secure domestic and external financing affordably. These dynamics underscore the resilience of the Black Sea Region's economies and their capacity to navigate complex geopolitical and macroeconomic landscapes.

¹ This analysis only covers countries which have continuously and consistently published macroeconomic data over the last few years.

Additionally, the past two years have demonstrated the effectiveness of monetary policy mechanisms in the region and the commitment of the countries to price stability. Several acted far earlier than major economies by preemptively raising policy rates in response to inflationary pressures as early as 2021. These early decisions helped to prevent high inflation from becoming persistent and have led to a substantial retreat in price growth levels that began earlier than in many wealthier, more advanced economies in Western Europe. Overall, simple average inflation in the Black Sea Region dropped from 19.3% in 2022 to 11.5% in 2023, with forecasts suggesting it will fall below 10% in 2024. With inflation receding and, in some cases, dipping below targeted levels, regional central banks now have the flexibility to lower rates without adversely affecting inflation prospects or currency stability, while supporting long-term growth trends.

Retreating inflation also created space for more flexible fiscal policy and the opportunity was used by the countries in the region to support growth by running expansionist fiscal policies in 2023 and 2024, compared to 2022. However, fiscal deficits remained within acceptable ranges and well below 2021 levels. The simple average fiscal deficit in our member countries, as a ratio to GDP, was up from 1.7% in 2022 to 2.8% in 2023 and to an estimated 3.4% in 2024. In the next two years, it is projected to decrease marginally to 3.2%. Higher debt servicing payments account for a significant part of the increasing deficit in 2023 and 2024, rising from 1.4% of GDP in 2021 and 2022 to 1.7% of GDP in 2023 and a bit further to 1.8% in 2024. However, with the primary budget deficit staying at a moderate level and stronger growth in GDP, debt ratios in BSTDB member countries improved in 2023 and 2024. By the end of 2024, it is expected that the simple average general government gross debt in will drop to 52.4%, down from 65.1% in 2020.

Credible monetary policy and consistent fiscal policies, along with other regional advantages, kept external financing flows steady, either as direct investments or loans. These flows generally exceeded external financing needs, supporting exchange rates, with some local currencies even appreciating in the last few years, boosting official reserves to record highs, and further improving the macroeconomic buffers of the Region's countries.

External financing needs in the region remained predictable and manageable, as imports and exports moved broadly in parallel. Notably, several countries in the region posted record-high exports of services, more than compensating for certain instances of stagnant or declining exports of goods. As the region attracts more investments and integrates into new, complex supply chain networks, exports of both services and goods are expected to increase further in the coming years.

These developments in the 2023-2024 period have been acknowledged by rating agencies as well, albeit with considerable delay. Five members got upgraded during this period by one or several major rating agencies, with a few countries getting two-notch upgrades. Several members have positive outlooks, increasing the probability of further upgrades in the near future. As at mid-2024, four BSTDB Member States had achieved an investment grade credit rating with at least one of the 'big three' rating agencies.

Regional Prospects for 2025-26

The outlook for both global and regional economies remains stable and positive, underscored by the strategic measures taken to ensure sustainable growth amidst ongoing challenges. It is projected that global GDP will grow by 3.2% in 2025 and 2026, sustaining real GDP above the long-term trend line. A marginal improvement in growth in advanced economies is expected to be offset by a slight decline in the growth rate in emerging economies. The ongoing decline in global inflation is forecast to continue, with rates reaching the long-term average by 2027.

The economies of the Black Sea Region have demonstrated remarkable resilience in the face of challenges ranging from pandemics, to inflation to all sorts of geopolitical crises. They have managed to pull through and, in each case, they have undertaken necessary measures in a timely manner. Consequently, they have

improved their credibility and prospects in the eyes of investors, and the result is a solid base for continued sustainable growth. Thus, the Region is projected to achieve GDP growth in line with the global economy at 3.2% in 2025 and 2026. This moderate but stable growth is supported by solid macroeconomic indicators such as healthy and rising official reserves, low debt ratios, and stable and improving fiscal and external balances. The Region's economies possess 'cushions' so as to be able to withstand moderate shocks, and even more severe short-lasting shocks, without the high risk of falling into crisis. Similarly, if global interest rates move downward over the next two years, as is widely anticipated, the economies are in good shape to take advantage in order to increase investment activity and spur moderately higher growth, without raising substantial concerns about overheating.

2.2 Review of MTSBP Phase 1: 2023-2024 Stabilizing the Bank in a Stress Tested Operational Environment

Approach for MTSBP 2023-2026

The Bank began preparation of the MTSBP 2023-2026 in the shadow of high geopolitical tensions and the largest active military fighting in Europe since the end of World War II. These created a fissure through the Black Sea Region rendering nearly impossible efforts to promote economic development and regional cooperation. The wide range of uncertainties and unknowns resulting from this crisis led the Bank to split the MTSBP into two Phases, with the overwhelming support of its shareholding Member States who mandated that the Bank be willing to take a step back, in order then to begin moving forward at an appropriate time. In other words, the Bank's shareholders mandated it to take whatever steps are necessary in the short term in order to ensure its ability in the longer term to continue to provide value in line with its dual mandate and vision.

The result of this dialogue was the adoption of a Phase 1 two year strategy covering 2023-2024 which would focus upon managing the crisis, assessing its impact on the institution and trying to achieve sufficient clarity so as to navigate the uncertainties and risks, and lay the groundwork for Phase 2. Phase 2, in turn would cover the remaining period of 2025-2026, and would emphasize taking stock of the prevailing situation and assess the degree to which the Bank may resume operational growth and prepare the ground for continued expansion thereafter.

Results of Implementation of MTSBP Phase 1: 2023-2024

In terms of financial results, the Bank experienced its first loss in 2022 after nearly two decades of steady positive net income which had allowed it to enhance its equity position and to build up reserves and earnings. This loss was entirely due to the aggressive and preemptive provisioning undertaken by BSTDB in response to (i) the transactional difficulties caused by the widespread, severe, and at times haphazard imposition of sanctions- and the counter-measures taken in response- which complicated the receipt of payments from otherwise creditworthy clients, and (ii) the heightened credit risks resulting from war-induced physical destruction and other actual damage, and fear of potential damage, caused by the continuing military fighting. For the full year, the net loss reached € -27.6 million. The Bank's careful monitoring of its portfolio, and its diligent and careful emphasis on safeguarding its interests resulted in significantly better than initially feared recovery rates from war-affected countries, and this permitted a return to profitability in 2023, with the Bank posting net income of € 20.4 million. On current trend, the Bank expects to post positive net income for 2024 as well.

In terms of activities, Phase 1 has played out as expected, with the Bank ensuring its financial sustainability by deleveraging and shrinking its operational portfolio (and hence balance sheet) in a controlled manner. The Bank has comfortably met all its commitments, including the repayment of a benchmark bond in June 2024, while maintaining key liquidity and capital ratios at healthy levels. It has prioritized the maintenance

of its creditworthiness, even at the expense of activities which might have helped raise the profile of the institution, or promoted the developmental and cooperation mandate.

Opportunity Cost of Consolidation

This prioritization was proper and necessary, but it has also come at a cost. The Bank has foregone many new project opportunities in this period and has been extremely selective and restrained in undertaking new lending commitments. At the same time, the slowdown in borrowing means that, despite maintaining contacts, the Bank has reduced engagement with financial markets as it deleveraged. The sharp drop in both borrowing from markets and lending to the Black Sea Region represents disrupted or immobilized relationships which the Bank fully intends to restore, but which in some instances may take time. Furthermore, since March 2022 the Bank has suffered multiple notch downgrades to its credit ratings and has stabilized in the BBB range, only two notches above investment grade. While it is highly paradoxical that prioritization and enhancement of creditworthiness should lead to multiple notch downgrades of an institution's main measures of creditworthiness, in the current difficult geopolitical context such decisions are not driven solely, and perhaps not even principally, by creditworthiness considerations. The bottom line is that the Bank currently has credit ratings which are substantially lower than they were in 2018, when its balance sheet was of a similar size, even though in addition to demonstrating the priority it gives to maintaining creditworthiness after a crisis, its key capital and liquidity ratios are every bit as strong, and in some cases stronger, than they were then.

The degree to which the Bank has consolidated has exceeded projections. The more optimistic High Case Scenario for Phase 1 projected a cumulative decline of 7.2% in the outstanding portfolio up to the end of 2024 and a cumulative decline of 15.6% in the balance sheet. The less optimistic Base Case Scenario for Phase 1 projected a cumulative decline of 14.5% in the outstanding portfolio up to the end of 2024 and a cumulative decline of 22.3% in the balance sheet. In the event, the decline was larger than anticipated and up to end June 2024 the cumulative decline in the outstanding portfolio reached 39.3% and the cumulative decline in the balance sheet was 38.3%.

There are two principally exogenous reasons for the larger than anticipated decline. The first was the worsening geopolitical situation in Europe which has led to the acceleration of the 'weaponization' of economic activities and institutions, with an ever more complicated web of economic sanctions and counter-sanctions being imposed by the disputing sides, along with capital controls enacted either to protect against possible financial destabilization, or in order to deny access and create difficulties for the other side. The upshot has been an enormous rise in transaction costs as the Bank has sought to wind down a portion of its portfolio judiciously during this period of consolidation.

The second was the capital increase that the Bank's shareholders had unanimously approved in late 2021 in order to show their support for the Bank and to help underpin the strategy of steady, managed growth that was foreseen in the Bank's LTSF 2021-30. While the capital increase was unreservedly a positive development for BSTDB, its coinciding with the worsening geopolitical context raised a series of complicated and unprecedented issues regarding the legal right of all shareholders in good financial standing to participate in the capital increase, countered by concerns about the risk of imposition of economic sanctions. The latter concern became centrally salient when, for the first time in history, significant economic sanctions were imposed on a multilateral development bank in April 2023². These complicated issues resulted in a drawn out capital increase process that required delicate management, until the issues at hand could be clearly identified and then resolved satisfactorily so as not to endanger the continued operation of the Bank. After extensive legal research, and outreach to relevant regulatory authorities, the

² International Investment Bank (IIB).

process was eventually resolved and this paved the way for finalization and completion of the capital increase in May 2024.

Although the capital increase process was transparent and Bank guidelines and procedures were followed meticulously, in the eyes of some external interlocutors (including credit rating agencies) it appeared to have been excessively delayed and hence, in their views, to have indicated shareholder conflict. In view of the aforementioned political character of the credit rating process, this raised the specter of further politically driven downgrades which may in turn have crossed key covenant thresholds and thus triggered the prospect of technical default and/ or cross defaults. Faced with such a possibility, the Bank prioritized its creditworthiness and prepaid certain loans it had taken which had default triggers related to credit rating covenants. This resulted in accelerated deleveraging and the larger than envisioned shrinking of the Bank's operational portfolio and overall balance sheet.

3 OVERVIEW: Building Back Step by Step While Safeguarding the Interests of the Bank

3.1 MTSBP Phase 2: 2025-2026 Building Back to Business as Usual

Continued Validity of the Bank's Business Model

The Bank's business model since its establishment has focused on steady, managed growth, with the Bank leveraging its equity judiciously in order to provide assistance to financial institutions, firms, and agencies active in its Member States and establish new linkages and networks that enable the creation of wealth and enhance the prospects for regional cooperation and greater integration into the global economy. Phase 1 represented a necessary departure from previous years. The fact that the need to consolidate resulted from no internal failure of the Bank but rather exogenous circumstances has been a source of frustration for the institution on the one hand, but it has brought management and staff together closer than ever in order to ensure that the Bank is in a position to return to its tried and tested business model.

Bank Well Placed to Resume Growth

As the Bank enters the back stretch of Phase 1, it finds itself in a very strong financial position, both in terms of capital and liquidity. Not only has the Bank returned to profitability in 2023 after the provisioning driven losses posted in 2022, it has also achieved extraordinarily high recovery rates from the areas of highest concern and it has stabilized the most problematic operations in its portfolio³.

These achievements are expected to permit the Bank to achieve a high degree of clarity as to how well its portfolio is performing and to be able to use this as a basis to pivot forward. The successful consolidation has left the Bank very highly capitalized, with room to expand, and needing to focus on the resumption of growth. Thus, the Bank is in a strong position to return to its core business activity of providing financial and risk mitigation products that seek to promote economic development and regional cooperation, to the public agencies, banks, and private firms that are economically active in the Black Sea Region. This will form the main focus of Phase 2, albeit with the ever present overriding emphasis on remaining flexible so as to be

³ For the period 1 Jan 2022 - 30 June 2024, the Bank received 83.4% of all scheduled payments from its two highest concern areas, a figure which far exceeds its original conservative assumption that only one third of the amounts due would have been received.

able to adapt to changing circumstances or sudden shocks, in order to mitigate the impact on the Bank itself and its clients.

By circumstance, rather than design, the Bank has had to learn to navigate areas where the weaponization of economic activity has had the biggest impact. The high transaction costs incurred are unfortunate, but the knowledge attained, and the ability to identify and handle new, extraordinary and often unprecedented legal issues are extremely valuable assets. These higher transaction costs for doing business are undesirable but likely will remain a feature of the global economic landscape in coming years. They include sanctions, counter-sanctions, tariffs and duties, other trade and investment limitations, capital flow restrictions, etc. The valuable expertise which the Bank has developed represents an important source of knowledge which it intends to use in order to guide its development partners, its co-financiers, its clients, and its shareholders.

Ultimately, weaponization of economics and finance increases political risk for economic activity- financing, investment, and commerce. While increased political risk decreases overall economic activity, it also makes economic actors turn to multilateral development banks (MDBs). MDBs may be financial institutions but they are also political constructs, created in order to channel investments and other economic activities into areas that shareholding Member States prioritize, and where the social and developmental impact is most pronounced. They have a demonstrated record of managing political risks successfully, thus allowing their clients to focus on the credit and other commercial risks associated with an economic undertaking. In this respect, BSTDB should be well placed in order to resume providing effective financing and risk solutions for its clients.

Constraints to Faster Growth

For the avoidance of doubt, there are three main factors affecting the ability of a development finance institution to grow and a fourth perception based factor: (i) availability of capital, (ii) access to affordable financing, (iii) ability to identify and develop suitable project opportunities, and (iv) views of external interlocutors.

Following the consolidation of the last two plus years, BSTDB's capital position is extremely strong and even under a very high growth scenario of 15% annual portfolio growth on average, it would not represent a constraint on growth until at least 2028. By that time, the payment of capital under the capital increase that was finalized in May 2024 will be in full swing. This capital increase foresees the provision of €816.5 m of capital- of which 30%, or €245.0 million paid in- by shareholders in the form of eight equal annual installments beginning in 2027.

The next two key factors, access to financing and ability to generate project opportunities are likely to play a more significant role in determining growth. The Bank has demonstrated its ability to broaden and diversify its sources of financing, but the 2022-24 consolidation resulted in a distancing that may take some time to remediate, as the Bank seeks again to expand its activities. The consolidation strategy required judicious deleveraging, which of course meant that undertaking of new lending was not of interest to BSTDB during this period. In addition, some long-term bilateral partnerships were terminated preemptively due to the exogenous risk of technical default mentioned in Section 2.1 and in order to safeguard the mutual relationship and interests of the Bank and its bilateral partners.

Generating new projects is also very much a relationship based activity, and the Bank's slowdown in new project activity in 2022-24 implies that the Bank will need to rebuild its presence in certain markets after the two plus year 'quasi-hiatus'. Investment needs in the Region remain high, particularly in areas such as climate financing and quality employment generation, and the Bank's shift to emphasizing these areas to a greater degree will require restoring some old connections and building networks in new areas of activity.

As for the fourth influencing factor- the viewpoints of external interlocutors- it needs to be considered but not overstated. It is beyond the direct control of the Bank and less directly relevant, but nevertheless needs to be managed via dialogue and maintenance of high transparency in the way that the Bank operates. It is very much a perceptual issue, but rating agencies, some investors, and perhaps others tend to express concerns when they observe sudden spikes in growth and/ or volatility in lending volumes. This was the case in 2019, when BSTDB's portfolio grew by 36%, a significantly higher number than in previous years, even though it was driven by high quality projects and a unique regional situation that favored increased investment, and for which the Bank tried to provide the support requested by its clients. The Bank's capital and liquidity ratios remained robust, but the spike raised worries about over-extension, even though the Bank's portfolio growth slowed to 11.8% and 14.6% during the 2020-2021 period that was overshadowed by the pandemic, with zero non-performing exposures.

Determination of an Operational Growth Corridor

The Bank's emphasis will be on restoring business and financing relationships as it returns to its core business model. As such, it does not intend to undertake any significant reforms in its governance structure although, as with any institution, it will continue to modernize its processes, seek to upgrade its information technology capabilities, achieve efficiency enhancements where possible, stay on top of key changes in the global development finance agenda, and adopt evolving best practices as needed. Section 6 provides more information on organizational and other qualitative areas of emphasis during Phase 2.

While there is a temptation to grow back quickly to make up the 'lost ground' of the last two and a half years, the Bank is conscious of the need to be deliberate as it resumes targeting portfolio growth, and as ever, it will tend to err on the side of caution whenever uncertainties and vagaries appear. However, the Bank has achieved the degree of understanding it required as a result of the consolidation that marked Phase 1, and as such it will target a base case scenario in which portfolio growth averages around 5% annually in 2025 and 2026. Under benign conditions, including robust client demand and an improved financing situation, a higher case scenario average growth of around 9% may be targeted. Sections 7.1 and 7.2 break down the scenarios into greater detail. These scenarios are illustrative of how Bank activity may evolve, but the ultimate determinant of how recovery of growth transpires will be the commitment of the institution to retain strong capital and ample liquidity ratios in line with its internal guidelines and established best practices. Under both scenarios, the Bank expects to post positive net income for both 2025 and 2026.

3.2 Areas of Strategic Focus

The potential damage to capital feared from possible losses during the 2022-24 period has been much more limited than originally feared (for example, see MTSBP Phase 1 2023-24). As a result, the Bank enjoys a much clearer picture now as to the excellent health and quality of its existing portfolio. This, in turn permits the Bank to plan the resumption of growth after the significant slowdown it experienced up to mid-year 2024. Diligent monitoring and supervision of the existing portfolio will remain priority activities in order to maintain overall quality. The Bank will continue its efforts to limit war-induced damage to its assets and to wind-down exposure in an orderly manner where sanctions risks exist, with full respect of the challenging and complicated legal frameworks that are in place and are constantly evolving, often unpredictably and always in an ever more challenging and convoluted direction. The Bank is cognizant of the high transaction costs they impose and the uncertainties they generate which often spill over and preempt the undertaking of new economic activity even in untargeted countries⁴. But as it has always done, it will fully respect the UN's sanctions regime, and other regimes of global importance so as to safeguard its shareholders' interests to the maximum degree. At the same time, the Bank's experiences have endowed it with a degree of expertise that it can utilize to assist and protect its clients on the one hand, and the investors and

⁴ An unfortunate collateral effect of sanctions is that they do not just affect directly named entities, but they also spawn ambiguities and doubts that cause 'inactivity contagion' in non-targeted but proximate entities or countries.

financiers with whom the Bank cooperates on the other hand, in order to steer through a complex and shifting environment that can generate unexpected reputational, financial, and operational risks.

Operationally

While the vision expressed in the Bank's LTSF 2021-30 remains valid for the institution, a number of its operational objectives are no longer key areas of priority, and the overall numeric projections for operational activity that it had laid out over this period are unachievable if growth is to be prudent. Instead, the Bank will prioritize safety and steadiness even as it targets growth and returning to its business model of mobilizing resources in order to finance operations that provide positive developmental and cooperation impact in its region of activity. In contrast to Phase 1, which sought to shrink the operational portfolio actively, Phase 2 is growth oriented, with the proviso that it must be safe and measured growth.

BSTDB intends to expand financing directly, and where possible to mobilize additional involvement by including other partners in development, either working through BSTDB, or in parallel. The Bank will welcome off-balance sheet activities, particularly in cases in which it enables substantial external resource mobilization from financiers and investors. But the Bank will also seek to return to expanding its balance sheet in a steady stable manner by financing activities directly as well as through financial intermediaries in key areas such as trade finance. The business model thus entails targeting a prudent mix of projects that remain diverse overall in terms of country coverage, sectors, public versus private sector, and instruments, even though certain areas of activity will be prioritized relative to others. These include climate financing, and a greater emphasis on poverty reduction and reconstruction assistance, as detailed further in the Operational Strategy section below.

Financially

The Bank shall strive to return to the 'normal' situation of leveraging its equity prudently, so as to mobilize additional resources it will require to finance operations at acceptable terms and conditions, from a mixture of public and private sources. Bilateral credit lines with other development institutions have been an important source of financing for the Bank over the years, and it will continue to emphasize these. First, the terms are often favorable and permit the Bank to pass these savings on to its clients. Second, they help to introduce new investors and lenders into the Black Sea Region and they help to promote targeted investment in areas of priority. Indeed, they often act as 'gateways' for the increased engagement of private financiers for the countries where the bilaterals originate. The Bank will also re-engage more actively with private financiers and financial markets. The main focus will likely be on bilateral loans or private placements, but as conditions improve and opportunities arise, the Bank will consider new bond issuance, possibly through the 'Medium Term Notes' program in which it has participated successfully in the past. The Bank will certainly intensify its outreach to markets- both those in which it has historically had a presence as well as new ones with which it has not engaged yet- and undertake road shows or other related events that showcase the Bank and the investment potential of the Black Sea Region.

In short, the Bank will generate long-term positive net income and work hard to re-engage with financial markets on the favorable terms it had achieved prior to the crisis, in order to ensure that it maintains ample levels of liquidity and develops the necessary relationships to be able to borrow affordably even when markets exhibit stress.

Institutionally and Organizationally

The Bank generally has well designed rules and processes and is structured in a way that seeks to balance efficiency with the need to maintain prudence and balance in its daily operations with critical oversight in key areas of activity. It constantly seeks to find new ways to operate more smoothly, and it tries to stay abreast of key new changes and occurrences in (i) the development finance arena, (ii) key regulatory

standards, and (iii) information technology innovations and adoptions so as to maintain and where possible, enhance, its efficiency. The Bank does not foresee any significant restructuring or overhauls in its operating ways and methods over the next couple of years.

In terms of Human Resources management, the Bank will seek to upgrade the skills of existing staff and to bring in a blend of skilled experienced staff in certain critical positions. It will also seek to bring in younger staff with potential and promise in a timely manner in positions where such a strategy is warranted, and/or where existing staff are nearing retirement age and ensuring smooth succession, with transfer of key skills retained so as to preserve institutional knowledge even when personnel turns over for natural reasons.

Sustaining dialogue with Member States' authorities for institutional and operational development remains a key priority for the Bank, especially in the current fractured regional setting where contacts among countries are much reduced. Any prospect of re-establishing meaningful regional cooperation will depend in the first instance on lines of communication remaining open, and where possible being enhanced so as to be able to deal with the humanitarian emergencies that exist and new crises which may emerge, whether man-made or natural. In addition, the Bank intends to expand further its relationship and cooperation with observers and other members of the MDB family, and more broadly with the international financial community and development promoting agencies. It has been and will remain an active member of the various sectoral working groups that have played a key role in harmonizing standards, establishing best practices, and coordinating activities among MDBs across a broad range of activities. Furthermore, BSTDB's membership in the International Development Finance Club (IDFC) is particularly important, as it provides a forum via which to stay on top of the global development agenda and the new initiatives therein, as well as a medium through which to express a voice on key topics.

The Bank will continue to explore and pursue available possibilities for attracting new shareholders, from among BSEC Member States and internationally reputed International Financial Institutions.

4 OPERATIONAL STRATEGY

Approach for Operational Development

The key difference in Phase 2 of Medium Term Strategy and Business Plan, relative to Phase 1, is the shift in emphasis of Bank activities primarily back towards growth. Phase 1 fully envisioned such a shift, stating that:

“The Bank shall continue with this conservative, safety-first approach until it attains sufficient clarity as to the evolving nature of the conflict. It will navigate sanctions regimes as appropriate, so that it may assess the impact that they will end up having on its portfolio, and when it is appropriate to do so, it shall map out steps to recovery and a plan for ratcheting up operational activity.”

Safeguarding the existing portfolio remains a priority, of course, but the uncertainties of 2022-24 have receded and the Bank is in a much clearer position as far as where it can reach out and pursue growth. Risks remain of direct war-related damage and contagion spillovers from military activity in the Black Sea Region, as well as the neighboring Middle East. To this end, BSTDB will apply a conservative approach that prioritizes safety. It will err on the side of caution and creditworthiness when facing shocks or high levels of uncertainty. It will respect and abide by the sanctions regimes of global influence, and will not undertake operational activity with persons, firms, or other entities that are sanctioned, for as long as those sanctions remain in place. However, the Bank's intention is to go back to seeking growth through finding and financing eligible projects in the public or private sector that take place in one or more of the Bank's

Member States, that are deemed to contribute positively to the Bank's dual mandate to promote economic development and regional cooperation.

This return to growth presupposes, as ever, a continued process of improving key activities such as:

- (i) quality at entry (strictly follow rules, deadlines, operational and financial guidelines for appraisal and due diligence),
- (ii) procurement, and
- (iii) supervision and monitoring functions connected with (a) active portfolio management and (b) Stage 3 management and resolution.

4.1 Geographic Coverage

BSTDB seeks to maintain a balance between being market driven on the one hand, and maintaining an adequate presence in all the Member States and providing value added in countries and areas which may be underserved, on the other hand. The Bank hopes to provide assistance where possible to post-conflict areas in the Black Sea Region and thus contribute to their redevelopment, but also to enhanced regional cooperation and the re-establishment of linkages where these have become distant, or outright been severed. Where such opportunities arise, they will be prioritized.

In view of the short implementation period, the relatively smaller project volumes expected, and the difficulty in predicting the precise nature of demand in terms of sector or activity, the Bank does not intend to prepare individual Country Strategies for Phase 2. Nevertheless, it will maintain close dialogue with each of its Member States and so long as activities fulfill the Bank's overall dual mandate to promote development and regional cooperation, the Bank will seek to contribute to the fulfillment of stated investment priorities in Member States, and to prioritize areas of activity which the Member may identify as particularly important.

New operational activity will emphasize doing more in smaller member states, where development needs tend to be higher, where Bank financing can achieve greater impact, and which have tended to be underserved in recent years. The Bank will target a minimum 15% of new operational activity in 2025-26 being in, or including, its five smaller shareholders.

In the larger shareholder countries where it is possible to prepare and implement new projects, the Bank will target a minimum of at least 10% of new operational activity in 2025-26 in each one, so as to ensure that a minimum balance is maintained across the board. However, where needs and actual demand are higher, and especially in instances where a high priority operation with high development and/ or regional cooperation impact may be achieved, the Bank will give priority to meeting client demand and to taking part in such high mandate fulfillment operations.

4.2 Sector Priorities

The Bank is generally open to financing activities that create employment, generate new wealth for the region's economies, and contribute to greater linkages and integration among Member State economies. Its statutes are very flexible and allow most activities that have positive economic and/ or financial impact. It also does not have a preference for private sector or public sector operations. In practice, it has found greater demand for its products from private banks and firms active in the Black Sea Region, and it has helped to fill a gap in the provision of medium and longer term corporate financing which continues to be an area of need. In recent years, the Bank has sought to increase the public sector share of its operations, a target which accords with its growing interest to finance the development or rehabilitation of infrastructure, including provision of municipal finance where appropriate, given the substantial needs of the Region in certain key areas. The Bank will welcome participation in such projects, but as they tend to have longer

lead times it is aware that levels of involvement are likely to be low in 2025-26. Dialogue with relevant Member State authorities will be crucial in this respect, both in order to ensure that pipeline determination is in line with a country's public investment priorities, and in order for the Bank to obtain a 'seat at the table' and have the opportunity to participate in such higher profile, higher impact operations.

The Bank seeks to develop a well-diversified portfolio with corporate clients in different sectors of activity, as well as banks that provide a range of SME products and trade financing. Where possible, it will be open to theme based lending, especially where the emphasis is on climate financing related activities.

Indeed, financing of climate change mitigation and adaptation operations is one sector where the Bank has stated that it intends to increase its presence. This includes, but it is not limited to, carbon emission reduction programs, renewable energy generation, improving energy efficiency, developing storage and transmission capacity, recycling, promotion of activities in the circular economy, etc. There is currently a great push throughout the Black Sea Region to increase the share of renewable energy sources in the production of energy, and Member States have made great progress in updating their legislative and operating frameworks so as to facilitate investment in renewables. Nevertheless, more has to be done in the connected areas of storage and transmission of energy generated from renewable sources. Moreover, implementation of new frameworks is at times uneven, and unless unforeseen snags are successfully managed, they can become disincentives to further investment. In this respect, development finance institutions- with their unique structure and ability to navigate, and occasionally mediate, between public and private sectors- are well positioned to troubleshoot and help overcome complications, thus paving the way for increased additional investment in these critical areas.

Beyond investment in the areas connected to renewable energy generation, storage and transmission, the Bank aims to prioritize other climate financing operations that deliver clear and measurable benefits, including areas such as energy efficiency, recycling, water and solid waste treatment, climate change mitigation etc.. Such projects tend to have high cooperation and development impact, as well as economic and social returns that exceed the financial returns of the particular operation financed.

4.3 Financing Instruments

From its Establishing Agreement, the Bank enjoys the freedom to provide support to entities active in its Member States via a broad range of financial instruments. Its sole limitation is that it may not provide grant or concessional lending from its own ordinary capital resources (equity capital, retained earnings, borrowed resources), although it may attract donated grant resources in the form of Special Funds which are held and accounted for separately from ordinary capital resources. Historically, Special Funds resources have been in the form of technical assistance funds set up in order to assist clients prepare projects, upgrade skills, and incorporate new standards and established best practices. Nevertheless, they may also be provided for co-financing purposes in order to blend grant resources with the Bank's ordinary capital resources. Despite political imperatives, which usually drive such grant resources, and the complicated geopolitical situation in the Black Sea Region, the Bank will seek to leverage its knowledge of the Region and will pursue opportunities that facilitate the undertaking of investment in Member States' priority sectors.

As the Black Sea Region's economies have grown in sophistication, the Bank has sought to adapt accordingly, for example extending the terms of the loans it provides, or introducing new financing instruments in order to remain responsive and relevant to its clients' needs. It has always done so in a prudent manner, reviewing the relative risks involved and ensuring that it possesses the requisite institutional capacity. For the 2025-26 period, the Bank does not foresee substantial change to the mix of instruments it employs, relative to what it has generally done. More specifically:

Direct lending – As in the past, direct lending has been and will remain the Bank's principal financing instrument, for corporate loans as well as for project financing.

Lending through financial intermediaries - Generally, the Bank takes the risk of the intermediary, not that of the end recipients. This instrument represents the principal form of financial assistance for reaching out to SMEs, and for the provision of trade financing, leasing, and factoring facilities.

Local currency facilities - BSTDB has financed select operations in local currency (LC) loans since 2015, an activity which can help to broaden and deepen local financial markets, and thus contribute to their further development. The Bank will undertake LC lending only in Member States which view such activity favorably⁵. It will, however, constitute a small share of activity since the Bank was originally established to mobilize external resources for the benefit of economic entities active in its Member States, and therefore such lending will continue to form the bulk of its new operational activity.

Off-balance-sheet financing - The Bank has over the years developed its capacity to provide off-balance sheet instruments such as guarantees, including via the introduction of unfunded risk participations. While they do not represent a significant portion of the portfolio, the Bank is open to their expanded use, especially in instances where they improve external access to financing for clients. In contrast to Phase 1, use of such instruments will be driven by strategic considerations (e.g. helping the client to access markets, to mobilize additional resources, etc.), not the need to avoid adding assets to the Bank's balance sheet.

Other financing instruments— Other instruments will be avoided unless there are exceptional reasons that are documented, clearly measurable and provide justification for the Bank to do so. Such exceptional reasons would be (i) high and measurable development impact and/ or (ii) potential for significant resource mobilization as a result of the use of such a riskier instrument. As regards equity, the Bank has reduced the provision of equity in recent years because (i) it is considered riskier, and (ii) it receives a significantly worse risk weighting than other instruments, and thus erodes the Bank's capital more heavily for a given amount. The Bank will only consider direct equity operations where it would provide financing to the client, and not indirectly through investment or equity funds where the degree of direct control is diminished.

4.4 Size of operations

During Phase 1, BSTDB not only undertook fewer new operations, it also targeted smaller average sizes. Whereas the average project size of new commitments from 2019-2021 was € 31.0 million, the average for 2022 up to mid-2024 dropped nearly by half to € 16.0 million.

In contrast to the trend of 2023-24 when the Bank actively sought smaller sizes and shorter tenors, the Bank expects that over 2025-2026 it will move back, on the whole, towards seeking longer maturities and a larger average size of operation. The intention to focus on smaller countries, which have greater development needs but which also tend to have much smaller firms, implies that the Bank will continue to provide smaller size loans. However, the intended shift towards more project finance types of operations means that the Bank will also participate in larger operations and it expects that overall, the average size will increase. The Bank's scenarios in Section 7 imply that average project size should rise to the € 20-25 million range from mid-2024 up to the end of 2026. Notwithstanding this expected growth, the Bank will continue to consider operations with a minimum size of even €3 million in smaller shareholding countries,

⁵ Historically, some countries believe the purpose of MDBs is to mobilize foreign exchange resources for banks, firms, and agencies at favorable terms (stripped of the country risk component which MDBs are well placed to manage). Other countries either (i) welcome business activity in any form or (ii) wish for MDBs to support development of domestic financial markets in the national currency and to 'de-dollarize'. Both perspectives are valid and MDBs as a rule try to respect the preferences.

so long as it is able to recover its costs fully and even earn a small net income in line with its policy requirements⁶.

4.5 Maturity

The average tenor of Bank projects stood slightly below 3.2 years at the end of June 2024. This is a natural and expected result of the consolidation of the previous two year period where certain long-term projects were wound down and new project activity tended towards operations with shorter tenors. As the Bank resumes higher activity and seeks to undertake investments in areas such as renewable energy and infrastructure, project tenors are expected to become lengthier, on average. Such operations have longer lead preparation times, often have lengthy investment phases, and also need longer payback periods. The Bank will continue to finance shorter maturity operations in the financial sector, but they should form a more limited share of the portfolio as projects requiring longer terms are pursued. While this may increase the term risk of the portfolio somewhat, for operations that are longer and/ or larger the Bank tends to focus on infrastructure and other relatively 'safe' sectors, with tried and established technologies, and working with clients who have demonstrated track records.

5 FINANCIAL STRATEGY

Prudence and adherence to robust financials represent the highest priority for BSTDB. The Bank's primary responsibility is to safeguard the investment of its shareholding Member States, for which it possesses a demonstrated track record of maintaining healthy capital and ample liquidity ratios, and observing the conservative policies and guidelines it has in place.

Consistent with the Bank's target of steady, stable growth, and provided that key ratios are observed, the Bank prioritizes operational activity that has demonstrable development and economic value, and which is financially sustainable. To this end, Treasury activities are focused on sustaining the financial health of the institution, and providing the necessary resources for the Bank's operational activities on terms which are attractive and competitive. Only excess liquidity may be invested, and only in high quality liquid instruments and with strict time limits, in order to earn a return which may defray the cost of funds and thus permit greater savings to be passed on to clients. Key critical requirements are to sustain high capitalization ratios, both basic capital adequacy (CAR), but also risk adjusted capital ratios according to Basel and key credit rating agency methodologies.

5.1 Capital

Capital represents the lifeblood of any financial institution which leverages resources and on-lends them to end recipients. Its maintenance at solid levels is critical for financial health and BSTDB has several policy ordained limits which ensure that capital is always maintained at appropriate levels. There is the provision of Article 15.1 of BSTDB's Establishing Agreement, which for convenience is named the 'Institutional Gearing Ratio' and which, when calculated and translated into a percentage ratio, effectively mandates that the Bank must always maintain a minimum 20% CAR, given the Bank's historical 30/70 ratio of paid-in capital to callable capital. To change this ratio would at a minimum require a decision of the Bank's Board of Governors. In order to build the Bank's credibility, and maintain CARs in line with the historical ratios of other sub-regional borrower-led MDBs, the Bank's Board of Directors has mandated an even more

⁶ BSTDB does not provide concessional loans by statute. It may blend its financing with other low cost and even grant sources so that the terms appear concessional to the client, but the sources of such extra financing must ultimately be other entities.

conservative ratio, internally called the 'Operational Gearing Ratio', which mandates that the ratio of Bank capital to operational assets be above 30%⁷ This OGR may be changed by decision of the Bank's BoD, but it has never done so nor shown any inclination to do so.

As with other development finance institutions, BSTDB does not distribute dividends; instead, whatever net profit it produces in a given year is allocated to reserves and retained earnings, in order to build the capital buffers of the Bank further and allow it to grow in an appropriate manner within its means.

The other source of capital is capital increases agreed by the Bank's shareholders. At an Extraordinary Meeting in September 2021, the Bank's Board of Governors approved a capital increase of € 816.5m, of which 30%, or € 245.0m, would be paid-in. This increase was oversubscribed but, as discussed in Section 2.2, the worsening geopolitical context raised a series of complicated and unprecedented issues regarding the legal right of all shareholders in good financial standing to participate in the capital increase, countered by concerns about the risk of imposition of economic sanctions. When the issue was resolved, following extensive legal consultations and receipt of permissions from relevant regulatory authorities in the European Union, the process was successfully completed in May 2024. The Bank's shareholding capital is summarized in the table below.

€ Million	Paid-In Capital	Callable Capital	Total Capital
Pre-Capital Increase Capital	686.55	1,601.95	2,288.50
Capital Increase Completed In May 2024	244.96	571.58	816.54
Totals Once Cap Increase Is Paid*	931.51	2,173.53	3,105.04

* Payments for 2024 finalized capital increase will take place in eight installments from 2027-34

5.2 Recovery of Exposures at Risk

The long experience the Bank has accumulated in taking into account various influential sanctions regimes assisted it in quickly receiving the necessary advice from external experts - already being utilized and familiar with the Bank and its operations and status - in order to allow it to continue receiving payments from sanctioned borrowers and countries that have imposed capital controls. The portfolio of operations in all Member Countries is subject to enhanced supervision and monitoring with a view to preserve the quality of assets and prevent deterioration. Existing operations at risk are restructured and recovered to the extent possible. Furthermore, the Bank has applied very conservative assumptions for repayments from assets in countries engaged in extended military activity, and it has excluded such operations in forecasts of operational activities and financial statements, including of course liquidity forecasts and earnings. In the event, the Bank has outperformed its recovery forecasts by a wide margin, and even while continuing to maintain relationships with clients and help in critical cases it had achieved recovery rates of over 83% between 1 January 2022 and 30 June 2024, well above the 33% it had very cautiously projected.

Amounts recovered by the Bank from these operations are a supplementary source of liquidity, and are accounted as extraordinary income.

5.3 Resource Mobilization

All MDBs place high value on resource mobilization, both the resources that they obtain directly from financial markets by leveraging their capital and which they then use to finance operations on their own account, as well as the additional resources they help to attract either indirectly or in parallel to their region of operation, via activities such as co-financing, providing guarantees, injecting equity, facilitating

⁷ Cash and high quality liquid assets held by Treasury are excluded from the OGR. They are not excluded from the IGR.

networking effects, etc. BSTDB is no different in this respect, and its plans for 2025-26 as regards the more indirect and parallel forms will involve seeking to enhance co-financing participation, especially for high profile development impact operations in cooperation with other prominent institutions.

As regards its direct resource mobilization (i.e. its borrowing program) the Bank intends to build on its historical relationships and reach out and cooperate with official financiers and private sources of lending in order to fulfill funding needs as affordably and efficiently as possible.

Alongside re-engagement, diversification of sources of funding is also important so as to (i) maximize outreach to potential financiers, (ii) ensure that as many possibilities as possible are accessed, and (iii) reduce over-dependence on any particular source of financing.

Key activities to achieve this objective include engaging with bilateral public and private lenders to fulfill immediate funding needs for the remainder of 2024 and the first part of 2025, as well as re-engaging with Dealer banks to:

- Perform comparative market analysis
- Identify optimal re-entry market
- Engage with investors
- Update the Euro Medium-Term Notes (EMTN) Program to prepare for potential public or private bond issuances

The Bank's goal, as always, is to access new funding on the best terms possible so as to be able to pass on the financing to its clients at the most attractive rates possible, to lengthen the maturity profile of its debt and to re-establish a yield curve that will help accelerate the return to 'normal' banking activity.

In recent years, efforts have intensified on the international scene to explore ways to undertake the sale of existing development assets on the balance sheets of MDBs or to set up securitization schemes that may permit the bundling and sale of assets. Both of these schemes represent innovative resource mobilization in that they seek to engage the private sector in order to free up resources for additional development financing without requiring higher leveraging by MDBs or new injections of capital from fiscally constrained shareholders. However, despite some progress in recent years, at the time of writing the market for such activities remains quite limited and does not appear to provide realistic possibilities for extensive use. Nevertheless, the Bank has, and will continue to, engage in such discussions and to stay on top of developments as the issue evolves, and potentially matures at some point.

5.4 Pricing of BSTDB Operations

The achievement of positive profitability is essential to the Bank's long-term health. The Bank by statute does not provide grant or concessional financing and is not profit maximizing, as the stated preference of its shareholders is that it prioritize development and regional cooperation impact. However, the Bank seeks to achieve a reasonable rate of return so that it can remain self-sustaining, build capital buffers, and enhance its ability to leverage more resources while minimizing the degree to which it requires additional direct contributions from shareholders. The Bank by policy employs an average cost plus method of pricing; which puts a premium on transparency, as well as being easy to understand and deploy. Periodically, it reviews and updates the pricing methodology so as to ensure that the pricing model is appropriate and that it reflects the key risks of each type of asset and the overall cost of funds.

6 INSTITUTIONAL STRATEGY

In order to be in a position to implement its operational and financial strategies effectively, the Bank must establish, maintain, and evolve an institutional structure that will permit it to perform its functions effectively and in a coordinated manner. Possessing the necessary degree of institutional capacity and having appropriate processes, together with the necessary degree of transparency and oversight in order to ensure that activities are carried out efficiently and correctly, remain essential elements for the proper functioning of the institution. These represent ongoing processes and activities that help establish the credibility and effective performance of the Bank. To this end, the Bank is dedicated to staying up to date with, and adopting, best practices and attaining appropriate levels of checks and balances, utilizing a proper ‘three lines of defense’ model that includes primary and supporting activities, review roles, and ex-post evaluation and audit functions.

6.1 Organizational Structure and Key Functional Issues

It is important for the Bank to be structured in a way that allows it to deal with the challenges it faces regularly, as well as to be able to respond effectively to evolving conditions as well as the unpredictable shocks that occur from time to time. In this respect, the Bank seeks to be flexible, resilient and dynamic, with the ability to respond to sudden changes and to be able to adapt flexibly, quickly, and effectively.

In this respect, the Bank plans to move further towards flatness and openness which facilitates communication across divisions, the assumption of personal initiative, and increased teamwork, while seeking to reduce transaction costs that can emerge from instances of administrative resistance and bureaucratic tendencies that naturally arise in every institution. On the one hand, diligent management is required to ensure that activities play out as planned and institutional disincentives are minimized and overcome, while on the other hand institutional structures and activities- including policies, procedures, and processes- need to be set up in a way that encourage and enable the aforementioned communication and cooperation to take place. During periods of stress, such as the Covid pandemic, the ongoing severe geopolitical conflicts, and the various global and regional financial crises in the past, the Bank has demonstrated an ability to coalesce and operate in a coordinated manner that safeguards its interests, protects its financial health, and navigates the uncertainties and threats that crop up successfully.

Organizational Structure

The Bank regularly reviews its organizational structure, seeking to stay up to date with emerging best practices and to have in place the necessary institutional arrangements, and staffing skills that are required to maintain high standards of quality and governance. Most recently, the Bank’s BoD approved the establishment of a stand-alone operational risk function to ensure that this crucial element of risk management has the status it deserves and the resourcing it requires in order to perform its tasks as effectively as possible. Other recent measures have similarly sought to improve the independence of key ‘checks and balances’ functions and to improve transparency and accountability.

Going forward, key adjustments to the existing current organizational structure that the Bank will pursue include:

- (i) Further strengthening monitoring and supervision of projects, including improved control over the use of proceeds;
- (ii) Re-aligning functionality of banking departments in order to incentivize improved client outreach by increasing inter-departmental cooperation, including greater departmental crossover of bankers to target underserved sectors and countries of operation;

- (iii) Enhancing the capacity of accounting and reporting, with targeted interventions to (i) upgrade the middle office, (ii) achieve comprehensive risk management (particularly concerning the liability side and with respect to operational risk), and (iii) enhance further the effectiveness of internal audit;
- (iv) Establishing a dedicated MIS function with reporting responsibilities across the Bank;
- (v) Enhancing the IT human resources for (i) knowledge management and archiving, and (ii) SAP- with emphasis in the financial and derivatives accounting functions as well as data governance/ management.

Human Resource Management

Any development finance institution needs a high quality of institutional and human relations in order to be successful. The Bank seeks to establish and preserve an environment characterized by enabling individual initiative and fostering trust, high morale, and dedication, with a view to improving the motivation and performance of staff. The major components of its human resources program over the years have been, and remain:

- Creating a positive and enabling working environment that motivates staff;
- Attracting high caliber candidates for open positions;
- Developing the capacity of staff members to reach their full potential, assessing skills and capacity needs, and making the necessary investments in human capital, professional training and IT skills development; and
- Basing decisions to retain, reward, and promote staff on the basis of merit and performance.

The Bank has an excellent track record of employee retention, with long serving and dedicated staff along with a surprising number of staff members who served an initial term, moved to other jobs in other countries, but then re-applied and returned to BSTDB with new skills and more experience. While the Bank is proud of this feature and the attractiveness of working at the Bank which it connotes, it also has created the challenge of needing to consider succession planning. There is a sizeable segment of long serving staff who will reach retirement age sometime in the next five years, 15.4% of regular staff, and if one considers those who will become eligible for early retirement the number jumps even higher. What it means is that over the next few years the Bank will embark on a policy of timely recruitment in order to bring in new staff in a proactive manner to ensure that they have time to adapt on the one hand, and are brought up to speed so that key institutional knowledge is transferred smoothly and undue disruptions are avoided.

While the Bank plans limited growth in overall staff numbers in 2025-2026, this impending natural turnover will spur the Bank to hire new employees and blend them in with existing experienced staff in order to continue operating efficiently. Certain key positions may also be filled via the horizontal transfer of existing employees, while needs for specialized skills will be fulfilled by new hirings.

Information Technology (IT) Strategic Direction and Alignment

Capitalizing on the existing business applications used in the Bank, the Bank needs to enhance its processes to efficiently and effectively support its core business functions in the areas of Treasury, Loans, Banking operations, Data management and Reporting, and Enterprise Information Management (EIM). Transparency and reporting channels will be upgraded for real-time provision of project information and identification of key controls during preparation and execution. Considering the use of Artificial Intelligence (AI), the Bank shall consider the development of an AI framework for the use of AI in the Bank. IT risk management and controls will be put in place to mitigate IT risks related to the Cloud and Cybersecurity. IT will be aligned with the Bank's strategic goals and objectives to assist all facets of business activity

Move to new premises

In late 2023, The Bank signed a purchase agreement for its new and permanent premises, currently under construction. The relocation is projected to take place during the second quarter of 2025. This move has a dual function:

- A symbolic function, as the Bank signals its back-to-business push, with these better, permanent, cutting-edge premises;
- A practical function, as the new premises provide a substantially improved working environment, modern facilities, increased flexibility, and (following the host country's financial support) will have a break-even period of under ten years (from rents saved alone) and substantial economies thereafter.

The decision to move to the new premises, taken during a phase of consolidation where new outlays and commitments received extra scrutiny, underscores the relevance of the Bank for shareholders and their expectation that the Bank is well positioned to bounce back and thrive. In addition, the inclusion of the new premises in the Bank's fixed assets will increase the latter's value substantially above the net capital expenditures that went into them. This is because (a) the net cost of the permanent premises to the Bank is below 50% of their actual cost, with the rest covered by the host country, and (b) all real estate in the area where the premises are erected is projected to increase in value substantially, a fact that will be reflected in the Bank's ledgers if and when so dictated by the IFRS.

Environment

The reduction in operational activity in 2023-2024 has resulted in a sharp decline in climate finance related activities, despite the desire of the Bank to increase the share. In line with the growing awareness and prioritization of environmental issues in Member States, the Bank intends to give increasing weight to this area of activity, and will look to re-adjust some of the objectives and priorities of the BSTDB Climate Change Strategy as well as the development of an Implementation Plan which will clarify the detailed activities.

Related activities planned for this period include revising and updating the BSTDB Environmental and Social Policy by adding the climate change dimension, more explicit circularity principles, possibly gender, and restrictions for thermal coal operations and associated facilities, as well as the eligibility requirements for potential operations in the nuclear sector. Moreover, in cooperation with other development finance institutions, the Bank will further develop the framework for climate specific credit lines for financial institutions supported by relevant eligibility criteria for SMEs, microfinancing, and individuals. The first BSTDB Green Credit Line is being tested; The Bank is also planning to introduce a greenhouse gas (GHG) assessment and reporting methodology for carbon intensive operations. It has already introduced the methodology to account for avoided GHG emissions in renewable operations.

Evaluation

The envisaged turnaround towards restoring the Bank's mandate fulfilment, based on renewed financial sustainability and asset quality will rely on the critical support and insights of Independent Evaluation. The latter will facilitate the Bank's response to mandate-relevant challenges through impact analysis and lessons learned that will steer the decision-making process and ensure rigorous accountability regarding mandate fulfilment. To this end, within 2025-2026, independent evaluation activities will focus on the following priorities:

- To execute and promote implementation of the recently approved Independent Evaluation Policy, e.g. by training relevant staff and ensuring rigorous reporting of mandate fulfilment;

- To enhance independent evaluation capabilities for conducting timely evaluations as per the respective policy and international standards, by additional human resources, to reflect the increasing needs, as well as succession planning requirements;
- To develop and utilize, in cooperation with Information Technology, adequate Artificial Intelligence tools and processes, to support the growing meta-evaluation needs, such as distilling of lessons learned and sample screening of evaluation-ready operations;
- To perform evaluations on completed operations and respective synthesis aggregation of trends and conclusions, to be reported to BoD and BoG within Annual Evaluation Overviews and the Bank's Annual Report;
- To prepare evaluation studies on issues, sectors and programs of interest with a focus on institutional performance and MDB resilience in critical periods;
- To review operations, policies and procedures in view of reflecting lessons learned from internal and external independent evaluation;
- To strengthen interaction with key evaluation events and peers at other MDBs towards advancing applicable methodology and broadening the access to insight and lessons learned with a focus on crisis-response, for risk mitigation and impact enhancement in new operations.

6.2 ERM and Independent Accountability Mechanism

Enterprise Risk Management (ERM)

The Bank has an established and functioning, consolidated, and on-going Enterprise Risk Management (ERM) system, under the coordination of the Internal Audit Department. It includes coordination, planning, documentation and testing of all the Bank's key processes, risks and controls. The process is broken down into a number of phases of activity, appropriately involving representatives from all Divisions. The exercise covers all of the following areas: Banking operations (Project Finance, Operations following Expedited Procedures, Equity Investments), Financial Management & Accounting, Treasury, Human Resources, Information Technology, Entity Level controls. The Bank's External Auditors review the whole exercise annually and provide a certification that is published in the Bank's Annual Report on the effectiveness of internal controls over external financial reporting, according to standards and practices prescribed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), Internal Control Framework, and ERM.

During 2025-2026 the Bank's ERM system shall transition into and consolidate with the new Operational Risk Management Department, to ensure the achievement of the Bank's objective of comprehensive risk management. The established ERM methodology shall be utilized by the new Operational Risk Management Department to ensure the comprehensive identification and assessment of the operational risk inherent in all material products, activities, processes and systems, as risk identification and assessment are fundamental characteristics of an effective operational risk management system, and directly contribute to operational resilience capabilities.

The Internal Audit Department shall continue to provide independent assurance on the appropriateness of the Bank's Operational Risk Management, including ERM, through periodic independent reviews, assessment of the design and implementation of the operational risk management systems, and associated governance processes operated by the first and second lines of defense (including the independence of the second line of defense).

Independent Accountability Mechanism

Per the Bank's Corporate Governance Framework, the Bank has established and maintains, under the coordination of the Internal Audit Department (DIA), an Independent Accountability Mechanism

(‘Complaints Mechanism’) for the receipt, retention, and treatment of complaints received by the Bank from any source, either internally or externally, in connection with any operations, accounting, or internal control matters. The relevant procedure approved by the BoD is in accordance with best practices, in line with similar mechanisms of other International Financial Institutions and it is viewed positively by the Bank’s counterparts (such as rating agencies, etc.). All complaints received are reviewed and/or investigated in detail as per the Bank’s Procedure. The mechanism serves as a useful tool for improving (i) the structure of Bank operations, especially as regards clients’ governance (including environmental and social aspects), (ii) the internal processes as regards the Bank’s operations and (iii) its internal administration. To this end, the findings identified via the Complaints Mechanism are integrated with, and included holistically, in the Bank’s Follow Up process of issues identified by Internal Audit, External Auditors and Audit Committee, which involves regular review and appropriate actions by the Management Committee, the Audit Committee and the Board of Directors, adding substantial value to the process.

BSTDB’s Complaints Mechanism is a member of the “IFIs Independent Accountability Mechanisms” Group. The Group’s objectives include identifying current accountability trends, good practices and knowledge, exchanging views, sharing experiences, contributing to supporting institutional capacity building of community of practice, and exploring the possibility of greater harmonization among the IFIs’ Accountability/Complaints mechanisms. The Internal Audit Department has so far chaired the Group and has hosted one Annual Meeting of the Independent Accountability Mechanisms (IAMs) in Thessaloniki, and is also a member of the Group’s Governance Committee. For the 2025-2026 period, BSTDB shall remain one of the leading IFIs in the Group and shall participate/ host the Group’s Governance Committee meetings, in addition to its Annual Meeting.

Furthermore, for the 2025-2026 period, public/ outreach events shall be organized in Member States, either jointly with other IFIs or on a stand-alone basis, as appropriate, in order to raise awareness and co-operation among stakeholders. The objective of such events are to share information about independent accountability mechanisms (IAMs), exchange views with Civil Society Organizations on their experiences and listen to concerns, and discuss ideas from the participating organizations about promoting accountability and redressing harm.

6.3 Institutional Key Performance and Risk Indicators

Over the next two years, the Bank will continue efforts to achieve additional progress in the following key areas:

- (i) improve quality at entry in operations by strengthening the due diligence, appraisal, and risk mitigation processes;
- (ii) enhance monitoring, risk management, control, and evaluation systems through further IFI harmonization and peer reviews (best practice);
- (iii) maintain profitability, as measured in two key areas:
 - a. net revenues after operating expenses to net revenues before operating expenses;
 - b. cost/income ratio;
- (iv) improve systems and procedures for progress assessment and results reporting.

Institutional Key Performance Indicators (KPIs) are synoptically presented in Table 1 below. Key Risk Indicators (KRIs) are the threshold values for KPIs and the Bank shall follow, review and report them quarterly. KRIs are the following:

- Bank operational portfolio to reach € 1.57 billion, at least;
- Solvency (CAR), with a threshold value of min 30% for equity to operational portfolio and min 25% equity to total assets;
- Risk adjusted Capital (RAC), with a target value of at least 15%;

- Liquidity (LAR), with a threshold value of min 75%;
- Stage 3 operations, with a threshold value of maximum 10% of the portfolio, and preferably a declining trend;
- Return on average assets min 1.00%

Table 1: Institutional KPIs – MTSBP 2025-2026

Client – Stakeholder (Internal & External)	Financial
<p>1.1. Mandate fulfillment – share of post evaluated operations to rate positive on overall performance (combined Relevance; Effectiveness; Efficiency; Sustainability and; Institutional Development): above 70%</p> <p>1.2. Portfolio Concentration – Herfindahl-Hirschman Index (HHI): seek to (i) maintain the country HHI below 1,400 and (ii) improve coverage in underserved countries and increase exposure to small shareholding countries to 15%</p>	<p>2.1. Asset Quality – Stage 3 loans: limit to 10% and try to achieve declining trend and lower figure</p> <p>2.2. Budgetary Discipline – actual expenses relative to budget: +/- 5% tolerance</p>
Business Process	Personnel Development
<p>3.1. Relevance – (a) value of outstanding portfolio at end-2024: less than €1.57 bn (b) equity to operational portfolio above 30%; total equity/ assets ratio above 25% (c) RAC ratio above 15%</p> <p>3.2. Liquidity Management* – (a) Short Term Pool of Liquid Assets / next three months of potential cash outflows: greater than 100% (b) Liquidity (LAR) to cover at least 75% of maturing obligations over the next 12 months</p>	<p>4.1. Learning and Development – attendance of one relevant training by each Division staff member: at least every 2 years</p> <p>4.2. Recruitment and Retention – ensure at least 90% of staff has required skills and competencies; recruit new staff to ensure continuity when near retirement staff leaves; retain and reward appropriately those with very good and above performance</p>

*) As calculated monthly by ALM

7 BUSINESS PLAN 2025-2026

In the past, forward looking growth targets drove the development of Bank scenarios. In the current circumstances, scenarios will be driven by the need for the Bank to maintain ample levels of liquidity in line with existing guidelines. Capitalization thresholds are not expected to represent a constraint on growth in the coming two years, due to (i) the deleveraging that occurred during Phase 1 of the MTSBP and the consequent consolidation of the balance sheet, and (iii) the desire of the Bank and its shareholders for the return to growth to occur in an orderly, managed manner without excessive growth from one year to the next.

The Bank's financial plan is developed on the basis of the Operational Strategy and Objectives with due attention paid to the constraints imposed by external and internal factors. The Upper Case Scenario (UCS) thus establishes the upper bound and the Base Case Scenario (BCS) the lower bound of the corridor where the operational portfolio of the Bank may evolve over the period 2025-2026, depending upon the Bank's particular situation on the one hand, and global and regional developments on the other hand, that determine both constraints and opportunities. The principal difference is that greater borrowing undertaken in the case of the UCS permits almost EUR 140 million in additional operational activity relative to the BCS, or 22% higher.

7.1 Base Case Scenario (BCS) – Lower Bound of the Growth Corridor

Under the BCS, the Bank will contract in 2024, with the low point coming in June and modest growth beginning in the second half of the year. At the end of 2024, it is expected the portfolio will be 11.9% lower than it was at end 2023. As the Bank enhances its external borrowing activities, project activity will pick up in 2025 and 2026, with cumulative growth of the Bank's operational portfolio reaching 10.6%. The BCS assumes a stable but challenging operating environment, which will allow the Bank to return to a path of growth, albeit marked by uncertainties. It projects that, at the end of 2026, the Bank's balance sheet will be around EUR 2.2 billion, with liquid assets comprising around 29% of total assets.

Base Case Scenario (BCS)

The conservative assumptions under which the Base Case Scenario (BCS) was developed are:

- The outstanding portfolio grows 4.9% in 2025, and 5.4% in 2026 for a cumulative recovery of 10.6% (relative to end 2024).
- Over the period 2025-26 repayments will amount to at least EUR 500 million, and new disbursements EUR 650m.
- The Bank will secure a total of about EUR 490m in new borrowing in 2025 and 2026.
- The amount of newly signed operations over the period 2025-26 will be approximately EUR 640 million.
- The average loan maturity of an operation at the time of signing will be 4 years.
- New operations will range in value between € 3 million and € 80 million.
- Financial markets are expected to remain risk averse and tight towards emerging markets.
- Administrative expenses will be controlled, while recruitment of incremental staff will recommence in 2025, with priority given to positions that require experience, and potential retirement induced shortages.
- The cost of borrowed funds will remain elevated but is expected to decline over time as inflationary pressures recede, volatility declines and BSTDB access to financial markets improves.
- Banking operations will remain the principal profit center in relative terms. The main focus of the Treasury will remain to manage the capital of the Bank and to secure the funds necessary for operations.
- Provisions are assumed to reflect the relationship between the Risk Margin and the portfolio quality and are set to stabilize, representing 6.4% of the outstanding loan portfolio at end 2026.

Table 2: Financial Plan Overview for MTSBP 2025-2026 BCS Forecast of Operational Activities

INDICATORS	EUR mil.	Audited	Audited	Projected	Forecast	Forecast
		2022	2023	2024	2025	2026
New commitments (signed)		121	121	311	311	327
New BoD approved		71	160	328	328	363
Disbursements		348	245	319	309	341
Repayments*)		686	655	510	239	260
Total outstanding disbursements (B/S)		2,069	1,611	1,420	1,490	1,570
Commitments		2,187	1,660	1,503	1,576	1,643
Planned Commitments (net of repayments)		2,187	1,692	1,515	1,587	1,653
Total signed undisbursed		119	50	84	86	72
BoD approved not signed		0	31	12	11	10
<i>Operational Gearing Ratio</i>		<i>2,633</i>	<i>2,686</i>	<i>2,780</i>	<i>2,873</i>	<i>2,967</i>
<i>Institutional Gearing Ratio</i>		<i>4,875</i>	<i>4,909</i>	<i>4,970</i>	<i>5,031</i>	<i>5,093</i>
<i>Growth in gross Loans outstanding (B/S)</i>		<i>-12.81%</i>	<i>-23.27%</i>	<i>-9.90%</i>	<i>4.95%</i>	<i>5.40%</i>
Ratios						
Capital		836	860	900	941	982
ROAE		-3.20%	2.45%	4.62%	4.42%	4.25%
ROAA		-0.89%	0.82%	2.02%	2.05%	1.89%
Equity/Total Assets		28.5%	39.6%	48.7%	44.5%	44.6%
Loan loss provisions/total loans (end of year)		5.2%	5.4%	6.2%	6.1%	6.0%

Table 3: Income Statement for MTSBP 2025-2026 BCS Forecast of Financial Statements

INDICATORS	EUR mil.	Audited	Audited	Projected	Forecast	Forecast
		2022	2023	2024	2025	2026
INCOME STATEMENT						
Interest and Similar Income						
Interest on loans		141.08	123.41	119.72	121.36	122.97
From placements with Financial Institutions		0.08	2.18	2.19	1.85	1.90
From Investment Securities		8.26	12.44	8.10	7.93	10.33
From front-end and Commitment fees		1.97	0.74	3.00	3.00	3.00
Total Interest and Similar Income		151.39	138.77	133.02	134.13	138.20
Interest Expenses and Similar Charges						
Interest Expenses		38.83	53.96	48.22	53.99	59.28
Other Charges		18.96	9.25	9.00	9.00	7.50
Issuance and Arrangement Costs		1.35	1.53	3.00	3.75	3.75
Total Interest Expenses and Charges		59.14	64.74	60.22	66.74	70.53
Net interest expense (income) on derivatives		-4.39	17.36	7.00	5.75	0.00
Net interest Income		96.63	56.67	65.80	67.39	67.67
Other Income						
Net Fees and Commissions		1.94	0.47	2.15	2.04	2.14
Net Income (Loss) on Forex		-18.98	5.75	0.00	0.00	0.00
Other Income		-15.82	4.62	0.00	0.00	0.00
Total Other Income		-32.86	10.84	2.15	2.04	2.14
Operating Income		63.77	67.50	67.95	69.44	69.81
Administrative Expenses						
Total salaries and benefits		18.20	17.63	18.89	19.29	19.44
Other administration expenses		4.85	4.76	4.93	5.08	5.20
Depreciation		0.34	0.58	0.57	0.59	0.61
Total Administrative Expenses		23.39	22.98	24.38	24.95	25.25
Income before provisions		40.38	44.53	43.56	44.49	44.56
Provisions		68.07	23.72	2.93	3.80	3.68
Net profit		-27.59	20.81	40.63	40.69	40.88

Table 4: Balance Sheet Statement for MTSBP 2025-2026 BCS Forecast of Financial Statements

INDICATORS	EUR mil.	Audited	Audited	Projected	Forecast	Forecast
		2022	2023	2024	2025	2026
BALANCE SHEET						
Assets						
Cash and bank balances	208.34	375.39	252.04	336.20	298.44	
Placements with financial institutions	44.65	67.38	48.14	51.59	57.25	
Investment securities	525.23	94.99	79.66	171.90	195.89	
Collateral for derivatives	114.43	80.12	65.43	70.00	82.80	
Total deposits and securities/Liquidity	892.65	617.88	445.27	629.69	634.38	
Derivative financial instruments	42.34	35.41	30.00	32.00	37.00	
Loans	2,040.99	1,565.01	1,409.77	1,480.16	1,560.83	
Equity investments	12.44	10.67	9.84	9.72	9.50	
Less: provisions for impairment	-106.47	-83.93	-86.86	-90.66	-94.34	
Net loans and equity investments	1,946.95	1,491.74	1,332.74	1,399.22	1,475.99	
Receivables and accrued interest	38.05	32.01	35.64	35.35	38.88	
Paid-in share capital not received	0.00	0.00	0.00	0.00	0.00	
Less: deferred income	-26.46	-27.72	-20.00	-10.00	-10.00	
Property, technology and equipment	3.48	0.33	0.37	0.42	0.46	
Intangible assets	5.41	0.55	0.74	0.93	1.12	
Less: accumulated depreciation	-7.56	4.85	4.99	4.40	3.79	
Net property, technology and equipment	1.33	5.72	6.10	5.75	5.37	
Other assets	40.61	14.05	21.05	21.05	21.05	
Total assets	2,935.47	2,168.88	1,849.31	2,113.06	2,202.67	
Liabilities						
Borrowing	1,915.81	1,174.48	850.88	1,077.40	1,155.14	
Payables and accrued interest	20.40	24.30	24.75	24.75	24.75	
Deferred income/Other liabilities	14.39	1.60	1.60	1.60	1.60	
Derivative financial instruments	148.62	108.99	71.93	68.48	39.48	
Total liabilities	2,099.22	1,309.37	949.17	1,172.23	1,220.97	
Paid-in share capital	686.55	686.55	686.55	686.55	686.55	
General reserve	80.68	83.53	124.17	164.86	205.73	
Surpluses	69.01	89.42	89.42	89.42	89.42	
Total Equity	836.25	859.50	900.14	940.83	981.71	
Total own funds and liabilities	2,935.47	2,168.88	1,849.31	2,113.06	2,202.67	

*) For 2024, 2025 and 2026 repayments from Russia and Ukraine 60% of planned repayments

**) additional provisions of €2.93 million in 2024, €3.8 million in 2025 and €3.68 million in 2026

***) borrowing €75 million in 2024, €240 million in 2025 and €250 million in 2026 (when debt repayment amounts to €150 million)

Capital increase payments of annual instalments start in 2027

7.2 Upper Case Scenario (UCS) – Upper Bound of the Growth Corridor

Under the UCS, following a contraction in the first half of 2024, the Bank's portfolio is forecast to undergo a sharper upturn that continues into 2025 and 2026. The low point will come in June with growth picking up

in the second half of the year. At the end of 2024, it is expected the portfolio will be 9.2% lower than it was at end 2023. As the Bank steps up its external borrowing activities, project activity will pick up in 2025 and 2026, with cumulative growth of the Bank's operational portfolio reaching 18.0%. The UCS assumes a stabilizing environment for the Bank, which will allow it to conduct more operations and return to a path of higher growth. Despite lingering uncertainties, the Bank's balance sheet will reach around EUR 2.4 billion at the end of 2026, with liquid assets comprising around 29.6% of the total.

Upper Case Scenario (UCS)

The more benign assumptions under which the Upper Case Scenario (UCS) was developed are:

- The outstanding portfolio declines by 9.3% in 2024, but grows 8.5% in 2025, and 8.7% in 2026 for a cumulative recovery of 18.0% (relative to end 2024).
- Over the period 2025-26 repayments will amount to about EUR 500 million, and new disbursements EUR 760m.
- The amount of newly signed operations over the period 2025-26 will be approximately EUR 780 million.
- The Bank will secure a total of about EUR 650m in new borrowing in 2025 and 2026.
- Administrative expenses will be controlled, while recruitment of incremental staff will recommence in 2025, with priority given to positions that require experience, and potential retirement induced shortages.
- Banking operations will remain the principal profit center in relative terms. The main focus of the Treasury will be to manage the capital of the Bank and to secure the funds necessary for operations.

Table 5: Financial Plan Overview for MTSBP 2025-2026 UCS Forecast of Operational Activities

INDICATORS	EUR mil.	Audited	Audited	Projected	Forecast	Forecast
		2022	2023	2024	2025	2026
New commitments (signed)		121	121	363	373	405
New BoD approved		71	160	382	393	450
Disbursements		348	245	361	366	397
Repayments*)		686	655	510	240	260
Total outstanding disbursements (B/S)		2,069	1,611	1,462	1,587	1,725
Commitments		2,187	1,660	1,555	1,688	1,833
Planned Commitments (net of repayments)		2,187	1,692	1,564	1,697	1,841
Total signed undisbursed		119	50	93	101	109
BoD approved not signed		0	31	9	9	8
Operational Gearing Ratio		2,633	2,686	2,781	2,876	2,972
Institutional Gearing Ratio		4,875	4,909	4,971	5,033	5,096
Growth in gross Loans outstanding (B/S)		-12.81%	-23.27%	-7.24%	8.60%	8.64%
Ratios						
Capital		836	860	901	942	984
ROAE		-3.20%	2.45%	4.69%	4.49%	4.31%
ROAA		-0.89%	0.82%	2.04%	2.00%	1.77%
Equity/Total Assets		28.5%	39.6%	48.1%	41.6%	40.3%
Loan loss provisions/total loans (end of year)		5.2%	5.4%	6.0%	5.9%	5.8%

Table 6: Income Statement for MTSBP 2025-2026 UCS Forecast of Financial Statements

INDICATORS	EUR mil.	Audited	Audited	Projected	Forecast	Forecast
		2022	2023	2024	2025	2026
INCOME STATEMENT						
Interest and Similar Income						
Interest on loans		141.08	123.41	121.57	127.73	133.69
From placements with Financial Institutions		0.08	2.18	2.19	2.57	3.11
From Investment Securities		8.26	12.44	8.11	8.00	10.46
From front-end and Commitment fees		1.97	0.74	3.00	3.00	3.00
Total Interest and Similar Income		151.39	138.77	134.88	141.31	150.27
Interest Expenses and Similar Charges						
Interest Expenses		38.83	53.96	48.90	58.81	68.55
Other Charges		18.96	9.25	9.00	9.00	7.50
Issuance and Arrangement Costs		1.35	1.53	3.00	3.75	3.75
Total Interest Expenses and Charges		59.14	64.74	60.90	71.56	79.80
Net interest expense (income) on derivatives		-4.39	17.36	7.00	5.75	0.00
Net interest Income		96.63	56.67	66.98	69.74	70.46
Other Income						
Net Fees and Commissions		1.94	0.47	2.46	2.43	2.72
Net Income (Loss) on Forex		-18.98	5.75	0.00	0.00	0.00
Other Income		-15.82	4.62	0.00	0.00	0.00
Total Other Income		-32.86	10.84	2.46	2.43	2.72
Operating Income		63.77	67.50	69.44	72.17	73.18
Administrative Expenses						
Total salaries and benefits		18.20	17.63	18.89	19.29	19.44
Other administration expenses		4.85	4.76	4.93	5.08	5.20
Depreciation		0.34	0.58	0.57	0.59	0.61
Total Administrative Expenses		23.39	22.98	24.38	24.95	25.25
Income before provisions		40.38	44.53	45.06	47.22	47.93
Provisions		68.07	23.72	3.77	5.85	6.43
Net profit		-27.59	20.81	41.29	41.37	41.50

Table 7: Balance Sheet Statement for MTSBP 2025-2026 UCS Forecast of Financial Statements

INDICATORS	EUR mil.	Audited	Audited	Projected	Forecast	Forecast
		2022	2023	2024	2025	2026
BALANCE SHEET						
Assets						
Cash and bank balances	208.34	375.39	235.54	351.61	353.44	
Placements with financial institutions	44.65	67.38	48.14	90.59	87.25	
Investment securities	525.23	94.99	79.66	171.90	195.89	
Collateral for derivatives	114.43	80.12	65.43	70.00	84.80	
Total deposits and securities/Liquidity	892.65	617.88	428.77	684.10	721.38	
Derivative financial instruments	42.34	35.41	30.00	32.00	37.00	
Loans	2,040.99	1,565.01	1,451.14	1,576.99	1,714.08	
Equity investments	12.44	10.67	10.53	10.36	10.49	
Less: provisions for impairment	-106.47	-83.93	-87.70	-93.55	-99.98	
Net loans and equity investments	1,946.95	1,491.74	1,373.97	1,493.80	1,624.59	
Receivables and accrued interest	38.05	32.01	35.75	35.73	39.63	
Paid-in share capital not received	0.00	0.00	0.00	0.00	0.00	
Less: deferred income	-26.46	-27.72	-20.00	-10.00	-10.00	
Property, technology and equipment	3.48	0.33	0.37	0.42	0.46	
Intangible assets	5.41	0.55	0.74	0.93	1.12	
Less: accumulated depreciation	-7.56	4.85	4.99	4.40	3.79	
Net property, technology and equipment	1.33	5.72	6.10	5.75	5.37	
Other assets	40.61	14.05	21.05	21.05	21.05	
Total assets	2,935.47	2,168.88	1,874.14	2,262.42	2,439.03	
Liabilities						
Borrowing	1,915.81	1,174.48	875.07	1,225.43	1,350.55	
Payables and accrued interest	20.40	24.30	24.75	24.75	24.75	
Deferred income/Other liabilities	14.39	1.60	1.60	1.60	1.60	
Derivative financial instruments	148.62	108.99	71.93	68.48	78.48	
Total liabilities	2,099.22	1,309.37	973.35	1,320.26	1,455.37	
Paid-in share capital	686.55	686.55	686.55	686.55	686.55	
General reserve	80.68	83.53	124.82	166.19	207.69	
Surpluses	69.01	89.42	89.42	89.42	89.42	
Total Equity	836.25	859.50	900.79	942.16	983.66	
Total own funds and liabilities	2,935.47	2,168.88	1,874.14	2,262.42	2,439.03	

*) For 2024, 2025 and 2026 repayments from Russia and Ukraine 60% of planned repayments

**) additional provisions of €3.77 million in 2024, €5.85 million in 2025 and €6.43 million in 2026

***) borrowing €100 million in 2024, €350 million in 2025 and €300 million in 2026 (when debt repayment amounts to €150 million)

Capital increase payments of annual instalments start in 2027

8 ACTION PLAN FOR STRATEGY EXECUTION

8.1 Key Concerns Going Forward

The Bank operates in market conditions that are prone to sudden changes. This context of fluidity and oft recurring volatility has the potential to negatively affect the international financial system and international economic relations. While Regional, and global financial conditions are by and large stable, this may change suddenly and result in reduced willingness- or even outright refusal- of investors to take on emerging market risk. Such developments would have negative implications on the Bank's ability to conduct business, and more specifically on the volume of investment operations it would be able to undertake.

Beyond global developments, events specific to the Black Sea region, such as increased instability, intensification of geopolitical tensions, financial and/ or political contagion, and even shocks in commodity prices and/ or countries' terms of trade may have a negative impact on the growth prospects of the countries in the Region and on perceptions of risk in the Region. Experience has shown that sentiment in financial markets may shift with little advance notice, resulting in sudden financial tightening or even complete closure of market access. These are developments that could result in limited availability of funds for BSTDB at rates and terms that would be considered reasonable. This would have negative consequences for the business model of the Bank which seeks to leverage resources judiciously in order to finance operations in its region of operation and achieve steady, profitable 'organic' expansion of its activities, increasing coverage and nurturing regional relationships and networks.

8.2 Risk Assumption Considerations

While risks are largely on the downside, and uncertainties remain high, current global and regional conditions are broadly stable and permit the planning and undertaking of economic activity with long term horizons. Emerging markets in Eastern Europe, including Member States of BSTDB, have navigated recent financial and political crises deftly, maintaining solid economic performance and stability. Resilience, and a demonstrated willingness to take necessary measures, often preemptively as with interest rates to counter rising inflation pressures in the aftermath of the Covid pandemic, have enhanced their credibility in the eyes of financial market participants, resulting in an improvement of the perceptions about their long term prospects, and encouraging greater investment and financing interest.

In this operating context, the Risk Bearing Capacity (RBC) of BSTDB, taking into consideration its internal culture, structure, and strategy, defines the Bank's risk appetite and tolerance to the financial impact of risk. BSTDB has similarly demonstrated an ability to adopt needed measures proactively so as to ensure its continued stable operation and to fend off any concerns about financial quality or creditworthiness.

In order to measure progress towards achieving strategic goals and meeting the targets, the Bank uses metrics consistent with its goals, which provide the opportunity to detect deviations and adopt corrective actions. For the future, the Bank will evaluate and assess what alternatives are best suited to support the adoption of an institutional performance management system that provides timely and relevant feedback, permitting the Bank and its management to consider and pursue whatever corrective actions are deemed appropriate.

8.3 Action Plan Goals

The principal objectives of the Business Plan are making steady and measurable progress in the following areas:

- Continue to satisfy shareholder expectations;

- Maintaining financial stability and improving operational effectiveness (asset quality, cost control, productivity, profitability);
- Empowering and further developing constructive relationships with clients, investors, development partners and other key interlocutors;
- Ensuring smooth institutional operation with transparency, flexibility and accountability, along with an appropriate system of checks and balances to minimize and/ or mitigate operational, financial and institutional risks; and
- Providing and sustaining a work environment conducive to attracting, motivating, and retaining high quality staff with the required skills and attitude.

The Bank's performance objectives are designed to promote the fulfillment of the Bank's mandate while ensuring that the Bank meets all its financial obligations and maintains high standards of performance.

8.4 Operational and Financial Action Plans

The MTSBP 2023-2026 consists of two distinct periods:

- Phase 1 covering 2023-24 which focused on safeguarding the portfolio and achieving consolidation in order to build buffers and navigate a challenging situation- in short, ensuring that the Bank maintains and upholds its credibility, and
- Phase 2, covering 2025-26 and aiming to return the Bank to its business model of leveraging resources judiciously in order to achieve steady profitable growth- in other words, shifting the focus of activity back to augmenting the Bank's relevance for its clients and interlocutors in the greater Black Sea Region

Effectively, since mid-year 2024 the Bank has entered Phase 2 in terms of getting 'back on track' business-wise and seeking to return to normalcy and measured operational growth after the two years of going slow, building protective buffers, and dealing with unprecedented exogenous, non-financial challenges.

Overall Considerations

The shift in focus to resuming rapid portfolio growth – involving increasing operational activity, diversifying the portfolio sectorally and geographically, and judiciously taking on operations of greater complexity and with more extensive longer preparation, requires strengthening:

- (i) Quality at entry –following processes, deadlines, operational –and financial guidelines for appraisal and due diligence;
- (ii) Ensuring appropriate checks and balances are upheld in order to mitigate risks and maintain transparency without affecting efficiency detrimentally;
- (iii) Developing institutional expertise and technical capabilities to be able to deliver value to clients and shareholders;
- (iv) Maintaining active project portfolio management with a heightened degree of oversight for financial risks, as well as governance and reputational issues. This requires sustained focus on key supervision and monitoring functions for management of the operational portfolio, and in the case of problem projects proactive restructuring recovery, or resolution as best fits the situation.

For greater relevance to be achieved, it is essential that the Bank maintain and enhance institutional credibility. To this end, the Bank is dedicated to adopting best practices and attaining appropriate levels of checks and balances that (i) ensure compliance with the existing internal regulatory framework, and (ii) enhance responsibility and accuracy without compromising efficiency and effectiveness.

Operational Action Plan

- Allocate additional resources for marketing efforts to re-establish, enhance, or generate connections with clients and contacts with new potential clients, in order to re-build a healthy pipeline of operations across a diversified array of sectors in all eligible Member States;
- Seek long term relationships that will help anchor a portion of the portfolio with financially viable and mandate fulfilling operations, and also establish a community of clients across the Region that can serve as ‘ambassadors’ of the Bank and the value it can generate for clients. These relationships may serve as references and examples for potential clients, thus improving the Bank’s outreach to potential new clients;
- Monitor project development and pipeline evolution at a synoptic ‘bird’s eye’ level in order to identify potential geographic or sectoral shortfalls that may need addressing via focusing special attention in such underserved areas;
- Prioritize outreach for project generation via participation in development forums, conferences and related events, in order to familiarize potential clients and co-financiers with the Bank, its activities, and the strong investment prospects in the Black Sea Region;
- As required, carry out roadshows in order to increase knowledge about the Bank in the Black Sea Region (especially in underserved areas) and to source and generate new project opportunities;
- Engage in regular dialogue with Governors, Directors and other key officials in Member States in order to (i) learn about each country’s public investment priorities and (ii) to seek opportunities to participate in public sector operations- particularly for the development or expansion of infrastructure that has high development and regional cooperation benefits. This may also require involvement on the part of Member States to facilitate the Bank’s marketing efforts, and where necessary to help ‘open doors’ for Bank participation in such high mandate initiatives;
- Actively seek opportunities to increase share of climate financing- for both public and private sector operations. The Bank can provide significant value added for firms interested in becoming involved in the investment boom in renewables, but which are concerned about regulatory and other political risk related issues. Climate mitigation projects are likely to play a larger role than climate adaptation projects in the case of the Black Sea Region, but the Bank needs to pursue all opportunities that advance this objective;
- For high priority, high profile public sector operations which have considerable development and regional cooperation benefits, the Bank should be open to pricing itself more flexibility in a manner that fully covers its costs and avoids being concessional, but which makes participation easier;
- The Bank’s principal clientele will remain private firms and financial institutions active in the Black Sea region. This will include both well-established companies and medium-sized and ‘second tier’ firms- companies with high growth potential and/ or located outside of capital cities or principal financial centers, and which therefore often encounter difficulties in accessing financing and risk mitigation products. The main driver of the Bank in this area will be facilitation of access to finance for companies facing a financing gap not fulfilled by commercial banks and other private financiers;
- Credit lines through eligible financial intermediaries will remain the preferred instrument for the provision of trade finance for smaller sized transactions (pre-export finance, import finance, etc.), and for outreach to small and medium enterprises (SMEs) which form the majority of enterprises in the Bank’s Member States;
- Target mobilization of domestic and foreign resources into the region. BSTDB will promote various means of resource mobilization such as a greater degree of co-financing with financing partners with an interest in the Black Sea Region, whether in the public or private realm, as well as MDBs. This would imply engaging to a greater extent in syndications for project finance operations;
- Ideally, the Bank should work not only with lead arrangers, other agents, and third party providers of services, but it should also internally develop the capacity to assume a lead arranging role in appropriately sized transactions;
- Further enhance capacity in restructuring and recovery, problem project workouts and reductions, where feasible and appropriate, by judicious application of strategies tailored to the requirements of each specific case, and potentially involving restructuring, the asset sale, and/ or write-offs;

Financial Action Plan

- Target containment of funding costs to be in line with other issuers of the same credit rating, while focusing on diversification of sources of funding;
- Re-establish, enhance, generate- as applies- connections with investors, other development finance institutions (bilateral and multilateral), arrangers, and other relevant parties to recovery from the distancing of the 2022-24 period when the Bank deleveraged and did not need to borrow;
- Seek long-term relationships that will help achieve sustained, 'regularized' access to markets with a view to re-establish a yield curve and benchmarks;
- Undertake active outreach via participation in development forums, MDB working groups, conferences and related events on a regional and global level in order to familiarize interlocutors with the Bank and attract greater engagement in the Black Sea Region;
- As appropriate, carry out roadshows (either related to a deal or non-deal) to develop new ties and open new market opportunities for the Bank;
- Maintain close engagement with credit rating agencies (CRAs), via regular exchanges and updates in addition to the contractually mandated reviews and visits. Keep them informed of key developments transparently, and underscore the primacy that the Bank- and its shareholders- give to the unquestioned creditworthiness and high credibility of the institution, both of which are absolute prerequisites for mandate fulfillment to be possible. Re-consider relationships with CRAs that delve into politics or investment speculation and deviate from creditworthiness. Be open to the possibility of engagement with respectable, established CRAs that do prioritize creditworthiness;
- Stay engaged in other activities that promote resource mobilization directly or indirectly. This includes seeking to develop Special Funds for co-financing, regional promotion, and/ or technical assistance services, wherever opportunities arise;
- The Bank should follow closely, and where possible participate in, novel initiatives that seek to enhance the investment capacity of MDBs, either via the generation of new resources or the freeing up of existing resources. This includes various discussions regarding possible risk transfer, securitization, or other forms of sale of development bank assets to private investors. Such initiatives remain at a nascent stage, but given the high level of interest and the potential to free developmental resources for new investment, they represent areas which could evolve rapidly if framework arrangements can be agreed and established.

8.5 Institutional Action Plan

Internal Actions

- Provide all necessary resources, in terms of managerial support, staff participation and allocation of budgetary funds for compliance related legal actions (dealing with sanctions regimes, obtaining external expert advice, engaging with Regulator(s), etc.);
- In line with changing trends, further strengthening of Accounting and the Middle Office is critical, a requirement which includes activities such as improving the understanding of the treatment, recording and reporting of derivatives' hedge-accounting, as well as the treatment of bonds in the banking portfolio;
- Ongoing monitoring of prudential ratios both (i) under covenants and (ii) per the expectations of investors and CRAs, must be constant and vigilant; with sharing of information among all relevant departments as well as reporting to Management monthly values of key ratios;
- Further enhance the reporting culture within the Bank and the understanding among all staff on the need for timely and accurate entry of data, and open, transparent sharing of information among departments. This includes identifying communication choke points and removing instances of the 'silo phenomenon' where information is inadequately shared;
- Incentivize increased project sourcing and generation by encouraging bankers to develop and maintain relationships with potential clients without geographic or sectoral restrictions currently

imposed by the Bank's internal department structure. This pre-supposes a necessary degree of internal coordination and communication at divisional level to avoid overlaps or duplication of contacts with clients and ensure broader outreach, but it can also help to develop a more robust, diversified pipeline and to ameliorate the problem of underserved sectors and/ or countries of project activity.

Actions Involving Third Parties

- Apply, as needed, for any licenses or exemptions to the relevant EU sanctions regulators; similarly, if necessary, pursue licenses/ exemptions from the OFAC office in the US, and any other jurisdictional entity which becomes relevant for BSTDB and its assets;
- Continue to work with BSTDB-related Ministries in Member States, as required, to ensure proper and speedy license approval, and the removal of any restrictions on the Bank's use of its proceeds;
- Continue to work with relevant authorities of Member States in which there are protracted delays, to exempt the Bank from any and all capital controls, including for repayments from Bank clients, so as to avoid violation of Bank Establishment Agreement rules regarding immunities and freedom of assets from any restriction;
- Restart discussions with EU bodies such as the Commission, EIB, and ECB to seek ways to enhance ties and collaborate; one specific activity is to overcome unjustified Commission objections to BSTDB undertaking the Pillar Assessment, which would open the way for BSTDB to manage EU funds and facilities covering Member States in areas of mutual interest and priority;
- Consider the costs and benefits of applying for accreditation to the Green Climate Fund.

In implementing the Action Plan, the Bank also needs to pay close attention to the following institutional issues, and improvements shall be made in the respective areas according to the proposed measures:

Management Information System

- Improving the Treasury module in the area of derivative capture and settlement;
- Enhancing the financial risk management of the Bank by implementing the cash and liquidity risk management modules, as well as the hedge management and accounting management modules, and producing reports on hedge effectiveness;
- Enhancing the modules for loan administration and management and effective Interest rate calculation;
- Completing the implementation of the Banking application on the Operations Life Cycle;
- Enhancing reporting and implementing business dashboards that monitor key Bank business indicators, providing management and staff with insight into information;
- Protecting information by implementing an information security classification system, including a Data Loss Prevention (DLP) mechanism;
- Enhancing the management of Enterprise Information across the Bank (Board of Directors, Evaluation, etc.) and deploying Artificial Intelligence (AI) tools to extract information for business decisions;
- Facilitating collaboration, communication, and knowledge-sharing across the organization, via the creation of a Knowledge Management system and the use of Artificial Intelligence tools;
- Enhancing the HR services using the SuccessFactors application to automate HR business processes.

Automation and Information Technology (IT) support

- Build a modern and agile IT Architecture with a high degree of integration among systems;
- Provide the appropriate IT structure, staffing, and sourcing, and consider how the Bank shall be organized in adopting and using Artificial Intelligence;
- Ensure that staff are equipped with the necessary IT skills and competencies;
- Maintain high availability of IT and business services and consider IT risks related to cloud and cybersecurity.

Human Resources

- Encourage opportunities for training of existing staff and development of new skills;
- Prepare for succession of key staff with planning aimed at securing continuity and avoiding gaps in skills and competencies;
- Pursue a more active recruitment process for qualified and experienced personnel, and improve access to young talent, with a view to filling vacancies as they may arise from the creation of new positions and turnover of staff.