

SUMMARY OF THE BSTDB MEDIUM TERM STRATEGY AND BUSINESS PLAN 2011-2014

On 5 December, 2010, the Board of Governors of the Black Sea Trade and Development Bank approved BSTDB's Medium Term Strategy and Business Plan (MTSBP) 2011-2014, as the key strategic document which will guide Bank activities over the coming four year period.

Background

BSTDB has completed eleven years of operations during which it has achieved financial sustainability and a high quality portfolio. It has to a large degree met shareholder expectations and enjoys their strong support. This was reinforced in 2008, when the Board of Governors authorized a three fold increase in the authorized capital, and a doubling of the subscribed capital to SDR 2 billion¹, which was subscribed by, and allocated to, Founding Members. The Bank's investment grade risk rating from Moody's was upgraded to A3 in September 2010. In short, the Bank has successfully proven the validity of the concept of a regional development finance institution in the Black Sea region which supports cooperation among and economic progress in the Founding Member States.

Strategic Focus

For the 2011-2014 period, the Bank plans to enhance its role as a provider of development assistance to public and private sector clients through several different channels:

- *Provision of Finance* – Funding for specific transactions on competitive terms, and delivered with minimum delays. This will be done through a variety of means including loans, guarantees, equity (demand for equity and quasi-equity instruments is growing rapidly), special products, targeted programs and technical assistance.
- *Risk mitigation* – As a multilateral development institution owned by its client Member States, and thus benefiting from preferred creditor status, the Bank intends to play an important role in reducing the perceptions of risk about Member States individually and about the region as a whole. This may boost the attractiveness of the region and the confidence of external financiers.
- *Catalytic Role* – the Bank will seek to promote opportunities for public-private partnerships in areas falling between traditional public and private domains. Furthermore, key secondary objectives of participation in operations are benefits such as (i) facilitating networking and development of new relationships among

¹ 1 SDR = US\$ 1.55 = € 1.16 (December 2010)

clients and partners, (ii) helping clients to modernize facilities, equipment and processes, to upgrade skills, and generally to achieve innovation, and (iii) enhancing knowledge sharing activities. In addition, through its resource mobilization efforts, the Bank will introduce new financiers to the region and seek to attract a multiple of the resources it directly applies, thus improving client access to financing.

Strategic Objectives

For the next four years, the Bank aims to advance the vision and translate strategic objectives into goals and measurable targets.

The principal objectives of the MTSBP are making steady and measurable progress in the following areas: (i) meeting shareholder expectations and provide client satisfaction; (ii) maintaining financial stability and improve operational effectiveness; (iii) achieving institutional consolidation and process optimization; and (iv) establishing and maintaining a work environment conducive to attracting, motivating and retaining high quality staff with the required skills and attitude.

Cooperation with IFIs, donors and other external actors will form an increasingly important mode of operation for BSTDB, as it seeks to expand partnerships. Thus, the Bank will be more active in dialogue with partners, as a way to mobilize knowledge resources, share experiences, and engage in promotional activities both for the Bank and for the Black Sea region.

One solution to sustain and even enhance growth and outreach capacity is to admit non-regional internationally reputed and AAA rated institutional shareholder(s) (development banks and financial institutions), in conformity with the provisions of the Agreement Establishing the Bank, and the provisions of the Long-term Strategy. Consequent to such a capital increase, the Bank would enjoy improved prospects for dynamic growth of its operations, and the relevance of the Bank would be enhanced to its shareholders.

Institutionally, BSTDB will continue ongoing efforts to establish a culture characterized by transparency, disclosure of information, sound corporate governance, communication, and cooperation for achievement of the Bank's strategic objectives, underpinned by understanding of the Bank's mission.

Functionally, BSTDB will also seek to improve certain internal processes, to maintain progressive and appropriate human resources policies that motivate staff, and to stay up to date with respect to information technology.

Operationally, the Bank seeks a better distribution of operations across countries and improvement in mandate fulfillment. It also seeks diversifying activities in order to meet new areas of client demand, assist clients to improve market access and validate their market presence.

Goals

The Bank's main operational goal for the period 2011- 2014 is to increase its total outstanding exposure from about SDR 600 million to SDR 1.0 billion by end 2014, with a target Balance Sheet Size of approximately SDR 1.2 billion.

The public/private sector distribution goal is to increase the share of public and quasi-public sector operations to 25% in terms of the amounts of the outstanding portfolio, up from about 20% at present, with most of the increase coming via more infrastructure focused operations.

Equity operations are envisaged to represent 5-7.5% of the value of the outstanding portfolio from 1.4% at present; the 5% figure is a minimum to be achieved under the low case or base case scenarios, while the upper 7.5% would be the target under the high case scenario.

The Bank's quality goal is to achieve an A2 risk rating from Moody's by 2014, as well as a comparable rating from a second leading credit rating agency.

Operational Targets

Operationally, the Bank will seek to:

- Gradually shift operational focus to more public sector or quasi-public sector operations;
- Place particular emphasis on cross country operations, or operations where benefits directly accrue to more than one country. Moreover, attention shall be given to continuing promotion of intra-regional trade and financing of operations based on intra-regional investment, as vehicles of regional cooperation and economic integration;
- Promote operations that may spur innovation and induce modernization, particularly for renewable or environmentally friendly energy;
- Provide financing for other areas of infrastructure (such as transportation, telecommunication, and waste treatment), including through public private partnerships;
- Diversify sectors of operation, with priority given to medium-sized companies;
- Expand SME coverage via all available instruments and products and increase emphasis on medium sized companies and 'second-tier' high potential firms.

Breakdown of Operational Targets, by Type of Operation and Sector, 2010 & 2014

	Share in 2010 (End Sept.)	Targeted Share in 2014
Intermediated Operations	36.2%	35-40%
<i>Of Which:</i>		
SMEs	67.7%	55-65%
Trade Finance	25.1%	25-30%
Other Financial	7.2%	10-15%
<i>Sub-Total</i>	<i>100.0%</i>	
Cross Country	N/A	10.0%
Direct Operations	63.8%	50-55%
<i>Of Which:</i>		
Transportation	26.8%	25-30%
Manufacturing	22.3%	20-25%
Energy	29.9%	25-35%
Other	21.0%	10-20%
<i>Sub-Total</i>	<i>100.0%</i>	
TOTAL	100.0%	

Financial Plan

Base Case Scenario

Under the Base Case Scenario, the Bank will focus on fulfillment of its mandate via a strategy of managed expansion. It will be flexible and adaptable in doing so, given the prevailing environment in which, in addition to normal risk factors, uncertainties are likely to influence the Bank's performance to a greater degree than in the past.

The Bank's Base Case Scenario projects that the Bank's portfolio of outstanding operations will grow from SDR 600 million at end-2010 to SDR 1.0 billion at end-2014, with a balance sheet size of SDR 1.2 billion. This implies an average annual growth rate of 13.7% of the outstanding portfolio, with new operations ranging between SDR 200 and 260 million each year. Net income will be positive every year, increasing from SDR 10 million in 2011 to SDR 15 million in 2014.

To finance the growth in operations the Bank has devised a comprehensive but adaptable financing plan which assumes overall improvement in global financial markets, but is cognizant of the risk of new shocks which may unsettle markets, and expects lingering risk aversion with higher margins than those prevailing prior to the 2008 global crisis.

The Bank has thus placed great emphasis on a comprehensive sensitivity analysis, assessing a series of (i) operational risks with respect to its due diligence process, adverse selection problems, pressures on profitability, operational inefficiencies, and staff recruitment and allocation, and (ii) market risks with respect to borrowing costs

and maturities, liquidity, diversification of sources of funding, interest and exchange rate volatility, among others.

Alternative growth scenarios

In view of the fluid environment in which it operates, the Bank has also developed two alternative growth scenarios.

In case of higher regional economic growth rates, increased demand for Bank funding, and an improved situation in financial markets, a phased increase in the average size of operations would allow the Bank to reach a total outstanding portfolio of SDR 1.2 billion and a Balance sheet size of SDR 1.35 billion.

Alternatively, under continued adverse global and regional conditions, or new crises, the Bank may face difficulties in achieving its targeted goals, facing a series of potential financial and human constraints. In this case the Bank would only achieve at the end of the planning period an outstanding portfolio of operations of SDR 800 million, with a balance sheet size of SDR 870 million.

Implementation and Monitoring

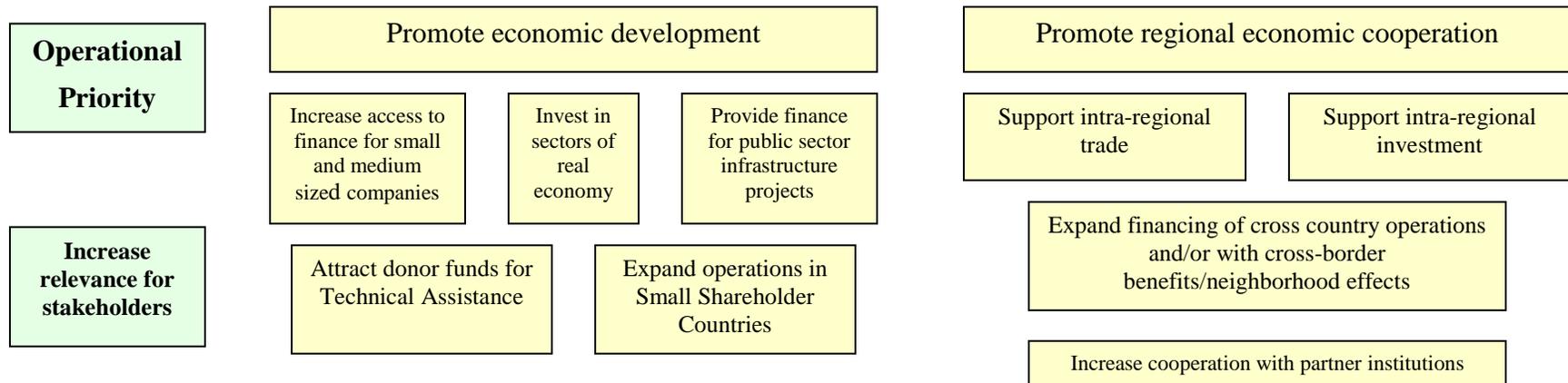
The Bank has developed a Strategy Map for the planning, implementation and monitoring of its MTSBP. The MTSBP will be implemented through Country Strategies, Annual Budgets, Divisional Action Plans, Departmental Work Programs, and individual Work Plans. Moreover, the Bank benchmarks itself against a selected peer group of MDBs. In addition to its own quantitative and qualitative budget targets and Key Performance Indicators (to be cascaded in a Balanced Scorecard multilevel environment), the Bank shall attempt to control developments against a set of Key Risk Indicators. MTSBP implementation and monitoring will also include a mid-term review. Depending on developments a target revision may happen and/or corrective measures necessary to reflect changes in prevailing market and economic conditions may be taken.

BSTDB STRATEGY MAP

WHAT TO DO

Mission: To promote development and regional economic cooperation with a view to effectively contribute to the transition process of the Member States towards the economic prosperity of the people of the region.

Vision: To establish itself as a pre-eminent partner financial institution for the Black Sea region



HOW TO ACHIEVE

