BLACK SEA TRADE AND DEVELOPMENT BANK

LONG-TERM STRATEGIC FRAMEWORK 2021-2030

Realizing the Bank's Potential

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LONG TERM STRATEGIC FRAMEWORK 2021-2030

REALIZING THE BANK'S POTENTIAL

TABLE OF CONTENTS

EXECUTIVE SUMMARY i

INTRODUCTION- UPDATING THE BANK'S VISION 1

PART I- BACKGROUND AND SETTING 1

A. Global Economic Prospects 1

B. Regional Economic Context 4

Background- The Legacy of the Inter-crisis Period 4

The Pandemic and its Economic Impact 5

Regional Economic Prospects to 2030 6

C. Regional Cooperation 7

D. The Role of Multilateral Development Banks 8

E. Sustainable Development Goals and Multilateral Development Banks 10

PART II- BSTDB'S EVOLUTION 11

A. Review of LTSF 2010-2020- Achievements and Challenges 12

i. Operational Evolution 2010-2020 12

ii. Achievements and Challenges 13

PART III- AN UPDATED BUSINESS MODEL FOR HIGHER VALUE ADDED 15

A. Achieving Relevance with the Capital Available 15

Co-financing 15

Short-Term Transactions 16

Off-Balance Sheet Activities 16

Risk Sharing and Transfer of Assets 16

B. Diversity Ensures Prudence and Permits Growth in a Balanced Manner 17

C. Specialization Will be Considered in High Priority Circumstances 17

D. Revenue Considerations 18

E. New Shareholders 18

PART IV- STRATEGIC CONSIDERATIONS FOR THE NEXT DECADE 19

A. Strategic Objectives 19

B. Operational Objectives 20

i. Country and Sector Considerations 20

ii. Clients and Partners 21

iii. Products and Financing Instruments ... 22
SME Finance ... 22
Corporate and Project Finance ... 22
Municipal Finance ... 23
Trade Finance ... 24
Environmental Finance ... 24
C. Institutional Transformation Objectives ... 25
i. Features of Institutional Transformation ... 25
Human Resources Management ... 25
Information Technology ... 26
ii. Organizational Transformation ... 27
Strategic Project Selection ... 27
Consolidated Risk Management ... 28
Trading Desk ... 28
iii. Institutional Key Performance and Risk Appetite ... 29
Institutional Key Performance Indicators ... 29
Bank-wide Risk Appetite, Risk Measurement and Mitigating Actions ... 29
D. Resource Mobilization ... 29
Borrowing Program ... 29
Options to Optimize Use of Resources ... 30
Technical Assistance and Grant Co-financing ... 30
PART V- FINANCIAL PLAN ... 31
A. Resources and Uses ... 31
B. Financial Projections ... 31
C. Monitoring and Results Framework ... 32
ANNEX I- EVALUATION OF THE LONG TERM STRATEGY 2010-2020 ... 33
i. Background ... 33
ii. Implementation of the Bank's Long-Term Strategy 2010-2020 ... 33
iii. Conclusions ... 36
ANNEX II- OPERATIONAL GROWTH CORRIDORS AND FINANCIAL PLANS ... 37

EXECUTIVE SUMMARY

The 'Long-Term Strategic Framework 2021-2030' (LTSF 2021-30) provides overarching guidance for the *Black Sea Trade and Development Bank*, outlining how the Bank intends to promote its dual mandate of promoting economic development and enhancing regional cooperation. It reaffirms the Bank's vision to become a prominent development finance institution in the Black Sea Region, and a preferred partner for its clients and its partners in development.

After more than 20 years of existence, BSTDB has become an established development institution which operates smoothly, efficiently and profitably. With an end-2020 operational portfolio and balance sheet size of around €2.1 billion and € 2.7 billion respectively, the Bank has largely attained the LTSF 2010-20's objectives. The Bank is currently the best rated institution based in the Black Sea Region, has built credibility with its clients and lenders, and has established a wide network of international partners. However, it still has a way to go in order to fulfil its aspiration to become a preferred partner in the Region.

For 2021-2030, the Bank intends to focus on further growth in order to realize its potential, with the additional capital provided by Member States. This will require maximum utilization of existing capital, and finding additional ways to meet growing demand. Thus, the Bank plans to adjust its business model so as to be able to undertake additional operations while maintaining prudential banking and capitalization ratios. In addition to identifying, preparing and financing operations which it then holds to term, the Bank will also move towards a model which involves building capacity for active management of a portion of its banking portfolio, including risk transfer and disposal of assets, where it is feasible to do so and makes good business sense.

The Bank has prepared financial projections which assume average annual growth ranging from 6.1%- 7.5% for the period 2021-2030. The projections assume subscription of the available authorized capital ranging from € 240 - € 345 million paid in, with the portfolio of operations growing to € 3,700 - € 4,250 million by 2030. These represent the maximum figures that may be attained while respecting prudential capitalization and risk limits. For the period up to 2030, key strategic targets of the Bank include:

- Undertaking annual commitments which will grow steadily over the course of the decade up to € 1,500 million per annum, cumulatively up to € 12,000 million;
- Maintaining a broadly diversified portfolio of operations, across countries and sectors, balanced against the need to accentuate high priority public goods activities such as financing for the environment, and to support activities with significant regional cooperation value such as trade and infrastructure development;
- Tailor its activities according to the priorities of each Member State, so as to meet key needs and market demand, while maintaining the flexibility to adapt to evolving needs and circumstances;
- Developing the internal capacity to 'originate, prepare, risk share and transfer' projects.

As it enters the 2020s, the Bank has a unique opportunity to achieve growth and enhance its relevance. Globally, the role of multilateral development banks (MDBs) is changing as they are being pushed to fill gaps in public investment and to play a leading role in climate finance. At the same time, they operate in countries where they remain key providers of financing, but also in others where cheap private financing is plentiful and their role has shifted towards risk mitigation and filling important but excluded niches. The Bank is well placed to continue providing value to its Member States, while targeting its activities, so as to maximize impact.

INTRODUCTION- UPDATING THE BANK'S VISION

The 'Long-Term Strategic Framework 2021-2030' (LTSF 2021-30) represents the guiding vision for the institution, linking the *Agreement Establishing the Black Sea Trade and Development Bank*, the Bank's founding document, to its operational and overall institutional framework, thus providing the road map for the achievement of the BSTDB long-term fundamental objectives.

Development banking with a focus on enhancing regionalism is the core distinguishing feature of BSTDB, providing a mandate that is distinctive, important, and valid across time. While retaining this feature, the Bank will also consider additional elements that promote Member States' aspirations and may be incorporated prudently.

The 'Long-Term Strategic Framework 2010-2020: The Next Ten Years', under which BSTDB operated this past decade, provided a roadmap for the development and consolidation of the Bank, guided by the following vision statement:

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

The vision was ambitious, given the institution's newness, and while the Bank has not yet achieved the status of being the 'preferred partner', it has become better known in the Black Sea Region and has enhanced its profile in the development community, to a degree disproportionate to its current size.

The Bank believes that this vision statement remains relevant today, just as it did over a decade ago when it was first articulated. It is not so much an end objective as a process, since it strives to achieve credibility for the institution and a high degree of relevance for its shareholders, clients, and peers.

BSTDB has reached a key point in its development, where Member States need to determine how they wish to see the Bank evolve over the next decade. As a base, the Bank will continue the maintenance, and aim for further enhancement, of its credibility, and the strengthening of cooperation and coordination with partner institutions. In addition, the Bank will, with the necessary investment and support, build on its achievements and pursue its development into a regionally even more relevant and prominent institution, so that it may make the 'preferred partner' ambition a reality for an expanding range of targeted actors and interlocutors.

PART I- BACKGROUND AND SETTING

A. Global Economic Prospects

In recent years there have been changes at global level in, and departures from, the prevailing development models. These changes include a departure away from a rule based international economic system and towards a system of trade restrictions, quotas and tariffs;

the 'weaponization' of economic policy, especially via application of sanctions; frequent volatility of capital flows; restrictions relating to foreign direct investment (FDI- including takeovers, mergers and acquisitions, and policy demanded divestment); and a more general trend towards protectionism and de-globalization. The pandemic induced health, social and economic crisis has not yet run its course and has added to the uncertainty.

The World economy contracted severely in the second quarter of 2020, and despite a timid recovery in Q3, the economic situation worsened in the latter part of the year as a result of new lockdowns introduced in response to the second wave of the Covid-19 pandemic. Prospects for recovery starting with the second quarter of 2021 are subject to great uncertainties. However, 2022 and 2023 are anticipated to be years of recovery in economic activity, although expectations are that activity will only reach, or at best slightly surpass, the levels achieved in 2019.

GDP, annual % change	**2019**	**2020**	**2021**	**2022**
World	2.8%	-3.3%	6.0%	4.4%
Advanced economies	1.6%	-4.7%	5.1%	3.6%
Emerging and developing economies	3.6%	-2.2%	6.7%	5.0%
China	5.8%	2.3%	8.4%	5.6%
EU	1.7%	-6.1%	4.4%	3.9%
Euro Zone	1.3%	-6.6%	4.4%	3.8%
Japan	0.3%	-4.8%	3.3%	2.5%
UK	1.4%	-9.9%	5.3%	5.1%
USA	2.2%	-3.5%	6.4%	3.5%

Source: IMF WEO April 2021

The support measures taken by major economies to mitigate the effects of the pandemic induced economic crisis, but also the non-negligible effects of lockdowns, resulted in large budget deficits and therefore, in the context of contracting GDP, a tremendous increase in debt levels. Global debt, both public and private, is anticipated to reach record levels at end 2020, on the order of USD 277 trillion equivalent, or 365% of global GDP (WEF, IIF, BIS, IMF). Such levels of debt raise concerns about longer-term sustainability and also about future implications for international trade and investment flows. In 2020 there were six sovereign defaults, compared to only three full sovereign defaults in the 2008 global financial crisis.

General government budget balance, % of GDP	**2019**	**2020**	**2021**	**2022**
Advanced economies	-2.9%	-11.7%	-10.4%	-4.6%
Emerging and developing economies	-4.7%	-9.5%	-7.5%	-6.5%
China	-6.3%	-11.4%	-9.6%	-8.7%
EU	-0.5%	-7.4%	-6.4%	-3.2%
Euro Zone	-0.6%	-7.6%	-6.7%	-3.3%
Japan	-3.1%	-12.6%	-9.4%	-3.8%
UK	-2.3%	-13.4%	-11.8%	-6.2%
USA	-5.7%	-15.8%	-15.0%	-6.1%

General government gross debt, % of GDP	**2019**	**2020**	**2021**	**2022**

Advanced economies	103.8%	120.1%	122.5%	121.7%
Emerging and developing economies	54.1%	63.4%	64.0%	66.0%
China	57.1%	66.8%	69.6%	73.7%
EU	79.2%	91.7%	93.0%	91.6%
Euro Zone	84.0%	96.9%	98.2%	96.5%
Japan	234.9%	256.2%	256.5%	253.6%
UK	85.2%	103.7%	107.1%	109.1%
USA	108.2%	127.1%	132.8%	132.1%

Source: IMF WEO April 2021

It remains unknown how this volume of debt will be handled, and whether countries may unilaterally, or in a coordinated manner, resort to unconventional means of debt management such as debt monetization, given that central banks' balance sheets have already expanded greatly, and what implications such liquidity provision may have on economic activity remains anyone's guess. Central banks around the world have already provided huge amounts of liquidity, and more is expected in 2021.

Central bank balance sheets

US$ trillion						
	2008	**2009**	**2010**	**2018**	**2019**	**2020**
BoJ	1.354	1.316	1.587	5.032	5.273	6.780
ECB	2.841	2.658	2.689	5.337	5.267	8.535
Fed	2.191	2.189	2.379	4.044	4.120	7.405
BoE	0.343	0.384	0.387	0.752	0.626	0.959*
SNB	0.201	0.201	0.290	0.829	0.889	1.031*

Source: Assets of ECB, BoJ, Federal Reserve, BoE and Swiss National Bank converted to USD at current rate. Data for BoE & SNB available up through October 2020

Thus far, the transmission mechanism does not appear to have channeled resources to the 'real economy' as liquidity has, to a large degree, remained in, or been absorbed by, financial markets. The continuous flooding of markets with liquidity resulted both in record high asset prices and debt accumulation. Capital markets have exhibited a decoupling from economic reality, while the combination of excess liquidity and pursuit for yield has led to a compression of interest rates to very low levels facilitating easy debt financing even by the highest risk borrowers.

While the outlook to 2025 is for interest rates to remain compressed, what will happen after that and up to 2030 is open to conjecture, with each possible scenario highly dependent on assumptions that may or may not materialize and forecasts blurred by uncertainties. Looking forward, anything may happen from a new normal of high investment in new technologies as the fourth industrial revolution takes shape and the circular economic model replaces the old paradigm leading to a new 'roaring '20s', to a return to the 1980s global sovereign debt crisis with accompanying economic, social and political crisis.

B. Regional Economic Context

Background- The Legacy of the Inter-crisis Period

The previous decade, from 2010-2019, may best be described as the 'inter-crisis' period, a timespan which began following the September 2008 global financial crisis and the sharp economic recession of 2009, and ended with the onset of the 2020 Covid-19 pandemic and the lockdowns which governments undertook in order to protect public health.

In September 2008, the global financial system suffered a near meltdown as markets panicked and lending seized up. In the Black Sea Region, after several years of impressive economic growth, many countries were exhibiting symptoms of overheating, as rapid credit creation was driving economic growth, the growth was fuelling consumption rather than investment, and key macroeconomic indicators of fiscal, financial and external health were increasingly imbalanced. With the freezing of markets, private firms and banks, but also governments found themselves challenged- or even unable- to refinance their external exposures and faced the prospect of default. Many entities had become dependent upon continued foreign flows in order to finance accrued deficits and debts, but were unable to access financing.

This hindered the possibility to adopt counter-cyclical policies to mitigate the crisis, as most countries had limited space to draw down reserves or increase borrowing. They were thus left with fiscal cutbacks and interest rate increases as the principal available policy responses. However, these exacerbated the impact of the contraction and the Black Sea Region experienced a real GDP contraction of -6.3%, the worst performance of any region globally.

Fortunately, this recession was short-lived, and as the global economy recovered, so did most Black Sea economies. The Region experienced dynamic 'bounce back growth' in 2010 and 2011, although subsequent economic activity slowed due to a series of destabilizing events, chief of which were (i) the Eurozone crisis in 2011-12 which led to a downswing in the Eurozone region and significant turmoil in financial markets, (ii) the rise of geopolitical differences in and around the Black Sea Region which hurt economic activity, and (iii) softening commodity prices. The Region emerged from the mid-decade slowdown, and growth peaked in 2017. However, the trend then reversed, and while all Black Sea countries posted positive rates of growth from 2017-2019, economic activity slowed down again as external factors dampened prospects. During this inter-crisis period, Regional GDP growth averaged 2.7% per annum, less than half the robust annual 6% real GDP growth that was achieved from 2000-2008.

Looking back, economic growth in the Black Sea Region from 2010-2019 was uneven and relatively weak, lagging global and emerging market growth rates, and even the GDP outturns posted by the neighboring countries of Central and Eastern Europe and the Baltics.

Closely correlated to the lower GDP growth, investment rates in the Black Sea Region lagged during 2010-2019. Gross fixed investment (GFI) in the Black Sea Region from 2000-2008 grew at an average annual rate of 12.1%, double the rate of GDP growth. During the 2009 recession, Regional GFI contracted drastically by -19%, and the subsequent recovery has been slow and uneven; from 2010-2019 annual investment growth averaged only 3.7%, less than one third of boom period levels, and with considerable fluctuation from year to year.

This weak investment was exacerbated by the determination of countries not to leave themselves vulnerable to the causes of the 2008 crisis. Since countries that were deemed to be overheating suffered bigger downturns than those which were not, those indicators which directly or indirectly gauge degrees of overheating are those which have received the most attention. These include indicators of external balance, fiscal health, and measures related to size of the financial sector, growth of lending, and loan impairment.

By and large, in the aftermath of the 2008 crisis the Black Sea countries have implemented prudent economic and financial policies that have aimed to enhance their standing, reduce vulnerability and mitigate fears of potential weaknesses. Thus, greater resilience and stability have been achieved, but at the expense of investment and growth; and reliance on external financing has declined, but at the cost of economic activity foregone. The exceptions to this trend underscore the opportunity costs from sacrificed growth. The countries which experienced the highest post-crisis growth were those which remained most open to continued receipt of external financing and which have posted the highest average investment. At the same time, they are regularly cited among the highest 'at risk' countries for a financial or economic crisis globally.

The Pandemic and its Economic Impact

The Black Sea Region entered 2020 poised to reverse the slowing growth of the previous two years and achieve moderately higher real GDP growth of +2-2.5%. The onset of the pandemic halted this prospect, and like the rest of the Global economy, the Region experienced a lockdown induced contraction of -2.4%, all BSEC countries had lower GDP growth than in 2019, and most experienced recession (e.g. negative growth).

The full extent of the downturn, in terms of depth and duration, is unknown and will depend upon how the pandemic situation evolves. All Regional economies locked down in the second quarter of 2020 in order to reduce the spread of the Covid-19 virus. As a result, they suffered double digit contractions for that quarter, but infection rates declined and as societies re-opened, economic growth surged in the third quarter. The onset of a second wave of Covid-19 infections in the fall resulted in renewed lockdowns across the Region and the prospect of sharp contractions again. Until the pandemic is brought under control to a satisfactory degree, either by development and deployment of effective therapies or vaccines, or reduced mortality and/ or morbidity of infections, it is impossible to predict how the disease will evolve and to what extent it will negatively impact economic activity.

At the time of writing of this strategy, the pandemic and its economic impact are still playing out, and countries are undertaking measures to mitigate the negative economic effects. In contrast to 2008, and due to the success of the conservative policies that reduced vulnerabilities, Black Sea Region governments and the central banks possessed the necessary monetary and fiscal space to lower rates and increase spending, to invest in the health sector and to try to protect the most vulnerable groups. In many cases, these measures were supplemented by access to an external support program- either one of the IMF's emergency financing programs or one of the European Central Bank's programs- the quantitative easing program for Eurozone members, or swap lines and repo lines with other EU members and accession candidates.

Due to the proximity and importance of the Eurozone as an economic partner for the Black Sea Region, the ECB's role has been especially critical. Its negative interest rates and quantitative easing policies have flooded markets with liquidity, and not only calmed them, but also led investors to search for higher yields outside the Eurozone, which in turn has led to increased flows for BSEC countries. After a spike in borrowing costs in March 2020, all BSEC countries have been able to issue new debt at ever more attractive rates. In combination with the solid financial and economic position they enjoyed entering the crisis, this has permitted countries to borrow at historically low costs. This borrowing has allowed countries to cushion the economic blow of the lockdown.

One concern arising from the flood of liquidity is that its very success in calming financial markets has contributed to a significant decoupling of the perceptions and behavior of financial markets relative to actual economic realities. Economic activity has declined, unemployment surged, the bad debts of banks are sure to grow, and governments are experiencing widening imbalances of key indicators. Yet financial markets have behaved exuberantly, in a manner uncorrelated to economic activity. The problem with this buoyant mood is that it represents a liquidity fed euphoria that may dissipate if the real economy fails to recover sufficiently, and this could create a renewed loss of confidence in markets.

Regional Economic Prospects to 2030

Any forecasts face significant unknowns and imponderables for the duration of the pandemic. In addition, the Black Sea Region is very diverse in terms of wealth levels, economic structure, geography, geopolitical orientation, demographics, culture, etc. Given the limited degree of Regional integration, making generalizations is challenging. Nonetheless, for the Black Sea Region, it is expected that all countries will return to positive growth in 2021 and overall real GDP growth will reach 3.3%. This would undo much of the damage suffered in 2020 and with growth continuing into 2022, the economies would be able to reach and surpass pre-2020 levels again. However, these are guesses which assume that solutions to the pandemic, in the form of vaccines and/ or therapies, will permit economies to return to a 'new normal' and increase activity. What is clear is that the longer the downturn persists, the more long-term damage it will do to economies and the more difficult it will be to return to pre-pandemic levels of activity.

The Black Sea Region also faces several challenges. The most immediate involves dealing with the economic consequences of the pandemic. With deficits and debt levels having risen everywhere while wealth generation has declined, questions arise about how countries will work their way out of these imbalances and how they will unwind their borrowings. This could become especially difficult if market sentiment sours, leading to sudden rises in risk margins and increasing borrowing costs for Regional sovereigns, banks and corporates.

A second issue is the increasingly complicated state of geopolitics- globally, on the Region's periphery, and inside the Region itself. They render the enhancement of Regional cooperation more difficult and reduce the appetite for regional initiatives. Moreover, their evolution is unpredictable; the trend has been one of deterioration in the 2010s decade, but it is impossible to predict whether they will remain stable, improve or worsen further in coming years.

A longer term issue which, in the coming decade, may begin to constrain economic activity concerns demographics. Most countries have declining and ageing populations, a trend

which may lead to labor market tightening and shortages of skilled workers. This would also decrease the cost advantage the Region has used to attract foreign investment over the years.

Another Regionwide challenge concerns the consistently low rates of investment. Weak investment not only reduces present growth, it constrains longer terms potential output. Insufficient investment may result in capacity constraints, reduced productivity, over-reliance on antiquated or inefficient processes with potentially permanent unfavorable impact upon economic activity. Public investment has been significantly lower after the 2008 crisis as part of the effort to repair public finances. Private investment in the 2010s was affected by the slow recovery of financial sectors and the lower willingness of banks to lend, and by factors such as lingering fear about the continued and unfettered access to financing in light of the tendency of markets to freeze up suddenly and leave firms exposed.

Once the pandemic induced downturn has been surmounted and economies settle into a new equilibrium, and factoring in the track record of the Black Sea Region, the most realistic estimation about average real GDP growth rates for the coming decade would be on the order of 2.0-2.5% per annum. However, it must be kept in mind that this guess is subject to a range of upside and downside unknowns which may alter the figures (or offset each other and keep them in range).

Regional economic developments will certainly affect the Bank to a degree, most directly in the credit rating assessment of the Bank's shareholders which will affect both (i) perceptions of shareholder strength, and (ii) perceptions of the riskiness of the banking operations undertaken in the Member States. However, in the absence of force majeure type events, the Region's economic trends are not likely to impact the Bank's trajectory significantly.

C. Regional Cooperation

The promotion of Regional cooperation is the key feature which distinguishes BSTDB from other institutions and ensures that the institution's mandate will always remain relevant. For a variety of historical and political reasons, the Black Sea Region has not fulfilled its cooperation potential to the degree other highly integrated regions, such as the Baltic Sea, have done. This relative lack of cooperation carries a high cost in terms of foregone economic and political development, and the consequent higher levels of wealth and living standards that might have been achieved.

At the same time, the low level of Regional cooperation represents an opportunity. While its benefits are not always easy to quantify, Regional cooperation does create significant 'Win – Win' possibilities for participating countries which may include:

a) Greater economic activity, expressed in terms of high investment, trade & financing flows

b) Enhanced efficiency, both at the individual firm level and for overall economies, as regionalism supports and permits healthy, growth-inducing competition

c) Expanded market reach of banks and firms, as the expanded size of a regional market provides economies of scale and reduced transaction costs that can foster emergence of new industries (e.g. via trade facilitation and other bilateral/ regional agreements that ease flow of trade)

d) Increased stability and sustainability- a larger market with more resources tends to be more diversified and broader based, and thus less sensitive to contagion and more able to withstand shocks; the sources of growth tend to be deeper as demand is spread out. These benefits are especially pronounced for small/ medium sized economies that need openness to grow and expand their market access

e) Official cooperation is helpful, and often 'opens doors' (e.g. EU accession activities). However, real take-off occurs from the development of private linkages in trade, investment and financing

The BSEC region possesses certain broader comparative advantages including (i) geographic proximity to the wealthy EU market and strategic location at the crossroads of key global commercial routes, (ii) high quality of human capital (education, skills) at a relatively low cost, (iii) improving business environments, and (iv) a lengthy track record of prudence in the implementation of key economic policies- notwithstanding the temporary expansionary fiscal and monetary policies to counteract the pandemic's impact. The Region has memories of dealing with internal and external shocks, and this provides resilience, a wealth of experience upon which to draw, and flexibility in implementing effective policy responses.

Regional cooperation can help economies to fulfil their potential and to tackle common challenges involving common goods (e.g. fisheries, vaccines), the need for regulatory coordination to facilitate economic activity, the need for better and more modern inter-connections (e.g. for physical infrastructure), and fighting common threats for a range of issues such as financial contagion, natural disasters, and criminal activities of various sorts. It can also help deal with long term trends such as environmental challenges.

An important component of the brand of the Bank is that it is uniquely placed to play a catalytic role and to operate as a 'bridging' institution that helps to bring together countries that are diverse, but are willing to work together through BSTDB to achieve mutually beneficial objectives. The BSEC family of institutions, of which BSTDB is the financial pillar, is the sole institutional arrangement that is wholly locally owned, without external influences or agendas, and devoted to the promotion of cooperation and prosperity of its members. The Bank itself is a club of borrowers and lenders that is dedicated to mobilizing financing and enhancing the profile of the Region and its membership.

D. The Role of Multilateral Development Banks

A key legacy of the 2008 financial crisis is how it changed perceptions about the roles of multilateral development banks (MDBs), particularly in the Black Sea Region. MDBs responded to the crisis by rapidly increasing the mobilization and deployment of financial resources, providing targeted assistance to some of the neediest countries and sectors, and offsetting, to a degree, some of the worst effects of the sudden financial shortfall. This reversed a trend in the pre-2008 period during which the relevance of MDBs was questioned as their market share in channeling financing to emerging markets had shrunk significantly. On the strength of their strong credit rating and unbroken access to financial markets, MDBs were able to play a counter-cyclical role and offer a measure of relief, although they could not fully make up for the decline in private flows.

Post-crisis, many governments needed- or chose- to reduce budget imbalances and debt levels, as they recovered. This fiscal consolidation often came at the expense of government investment. The result was a rising public investment gap which persisted throughout the 2010s and a search for alternative sources of investment. Governments sought to involve the private sector in areas such as infrastructure provision, via a variety of concession arrangements- most notably public-private partnerships.

The need for fiscal consolidation partly explains the turn to MDBs. However, it is important to realize that demand for the presence of MDBs, and their risk mitigation products, appears to be playing an increasingly important role relative to that of their provision of financing. MDBs do provide financing, and in poorer and smaller countries with limited access to financial markets they still play a key mobilization role. Nevertheless, in larger, more mature emerging markets the amounts MDBs mobilize are dwarfed by the levels the private sector is able to provide.

Despite the easy availability of financing and the historically cheap rates for emerging market borrowers, there has been no investment boom like the pre-2008 period. Instead, a sense of uncertainty persists about the recurrence of crisis, and the possibility of a freezing up of markets with devastating consequences for those dependent on continued foreign financing- e.g. for re-financing needs. This applies to less economically developed countries, of course, but is especially important for understanding the way demand has evolved in wealthier, more developed emerging markets. It is this uncertainty that is driving a fair portion of the demand for the presence of MDBs-namely, the provision of risk management and mitigation products that (i) facilitate non-governmental sources to undertake public investment, and (ii) bridge public sector mandates and private sector needs.

The onset of the Global Covid 19 pandemic in 2020 and the economic downturn it created has similarly increased demand for development bank financing. In the lockdown phase of the pandemic, MDBs were requested to play a counter-cyclical role to supplement government support programs and thus contribute to the mitigation of the negative economic effects of the crisis. In the much longer recovery phase, MDBs are likely again to face calls for increased support to fill in for public spending, as governments once again will need to focus on fiscal consolidation in order to rein in the burgeoning deficits and debts created by the necessary, but costly, anti-crisis measures.

In addition to mobilizing financing, MDBs have a demonstrated track record during crises of targeting investment to precisely those areas of the economy which are of highest priority to their Member States. This includes activities such as supporting SMEs, helping exporters fulfill orders, continuing needed infrastructure investment and, in the current pandemic, extending financing to health related firms to boost production and service provision rapidly. This record contrasts with the mixed performance of commercial banks. Central Banks have sought to 'jumpstart' lending to the 'real economy' by injecting massive ultra-cheap liquidity through regulated commercial banks. This dramatic monetary loosening has averted financial crises and also led to large increases in asset prices, but the extent to which it has positively impacted real economic activity remains unclear. Banks raised their liquidity holdings considerably, but the amounts that they actually on-lent to corporates and households operating in the 'real economy' have, as a rule, been considerably smaller.

BSTDB remains one of the newer actors in the global community of MDBs, as well as one of the smaller entities. The MDB 'ecosystem' roughly numbers around 25 institutions with a global, regional, or sub-regional geographic concentration. As a matter of priority, the Bank has invested in becoming a more active member of this community, participating in a number of sectoral MDB working groups, becoming a member of IFI groupings such as the International Development Finance Club, and extending Observer Status to a number of development institutions with a common interest in the Black Sea Region. This has been an ongoing process, and key benefits have included improving knowledge, obtaining greater access, and receiving increasing recognition for the Bank. Most importantly, it has also greatly expanded opportunities to cooperate with other MDBs either to obtain external financing or to co-finance operations.

E. **Sustainable Development Goals and Multilateral Development Banks**

In 2015, the United Nations laid out the Sustainable Development Goals (SDGs), a total of 17 wide-ranging global goals that contain a list of targets and objectives to be achieved by 2030, with a focus on combining economic development and poverty eradication with the notion of sustainability, so that the benefits can be maintained going forward, and negative environmental and social effects be contained and even reversed. Key considerations include containing the negative impact of climate change, promoting environmental protection and focusing on mitigation and adaptation to changing conditions. In contrast to previous global development initiatives, the SDGs are universal in nature. As such they are an agenda for all countries, not just the most developed ones.

SDGs are mainly country focused, but because of their developmental nature they are largely compatible with the mandates of MDBs. The SDG declaration acknowledges the importance of international financial institutions and expects them to align with its priorities. For their part, MDBs have indeed sought to align with the SDGs via collective public statements, and by adapting their own missions accordingly, when it has been necessary to do so. While policy dialogue, institutional strengthening and various forms of knowledge sharing and information exchange are important, the key linkage between the SDGs and MDBs is financing. Implementing the SDGs requires a great deal of financing, and raising and providing financing for public interest objectives is something at which MDBs are adept.

The UN estimates implementation of SDGs will cost an estimated US$ 4 trillion per year, but as of 2014 actual financing for SDG activities was US$ 1.4 trillion globally, leaving a gap of US$ 2.6 trillion per annum[1]. Even if the numbers are crude estimates, it is evident that financing is not nearly enough to meet needs, and MDBs will be called upon to fill a part of the gap, deploying their own resources, mobilizing co-financing from private sources, and looking for other ways to catalyze investment.

For BSTDB, its dual mandate to promote economic development and regional cooperation is compatible with the SDGs. While a number of SDGs are targeted to least developed countries and therefore not relevant to Bank members, all BSTDB Member States have signed up to the

[1] Center for Global Development, *The International Development Finance Club and the Sustainable Development Goals: Impact, Opportunities, and Challenges*, 2018.

SDGs and the Bank is committed to helping, where possible, the implementation of the relevant SDGs according to the priorities of each Member State.

In addition to the SDGs, nearly all BSEC Members have signed the 2015 Paris Agreements on the climate and made commitments to reduce emissions and improve their energy mix. Realizing these commitments will necessitate undertaking investments in clean-up programs, energy efficiency, and other initiatives to provide infrastructure in 'smarter', cleaner, less wasteful ways. Most notably, it will involve investment in renewable energy generation. Renewables have developed in each country as the required legislative and regulatory frameworks have come into being, and as investors have become familiar with these. BSEC Region investment needs in renewable energy will skyrocket in the coming decade, suggesting that MDBs will necessarily be protagonists in mobilizing resources for climate related investments. It also forms an important component of the Bank's climate change strategy, which will guide operational activity in this crucial area.

PART II- BSTDB'S EVOLUTION

The Black Sea Trade and Development Bank recently celebrated twenty years of operational activity, and the successful completion of its LTSF 2010-2020, proving its resilience through consolidation and preservation of asset quality and profitability on a long-term basis. The Bank has grown substantially, in particular by accelerating growth over the last few years within the context of the current MTSBP 2019-2022. During the past decade, period shareholder support was strong, as evidenced by the capital increase undertaken in 2007-08 and the payment in full of the subscribed capital.

Since its inception, the Bank's operating approach has mainly been to fill niches that exist in the financial marketplace in the Black Sea Region, with a focus on expeditiously doing projects that are 'bankable', that is, financially viable within the Bank's dual mandate to finance economic development and regional cooperation. Unable to compete on cost vis a vis larger development banks, the Bank put a premium on being quick and showing due flexibility, while, relative to the private sector, the Bank has been price competitive and has also been able to provide length of term to which commercial banks are unwilling to extend.

Since the Bank's combination of speed, cost and term were most appealing to private banks and firms, the portfolio that evolved was overly concentrated in a number of ways: (i) above 90% in the private sector, (ii) usually above 40% in the financial sector, (iii) an average project size that hovered around €10m, and (iv) skewed towards countries with relatively less developed financial sectors and/ or higher perceptions of country risk. Moreover, while it fulfilled the development aspect of the mandate, the Regional cooperation element was often limited.

An additional consideration about the Bank's operating context is that the LTSF 2010-2020 was written at the close of a decade during which external interest in the Region had grown significantly, due to factors such as (i) the expansion of the EU to the shores of the Black Sea due to the accession of Bulgaria and Romania, and (ii) spreading globalization and the search of investors from advanced economies for higher yields in emerging markets, with Eastern Europe's proximity giving it an advantage in attracting financiers from Western Europe. As

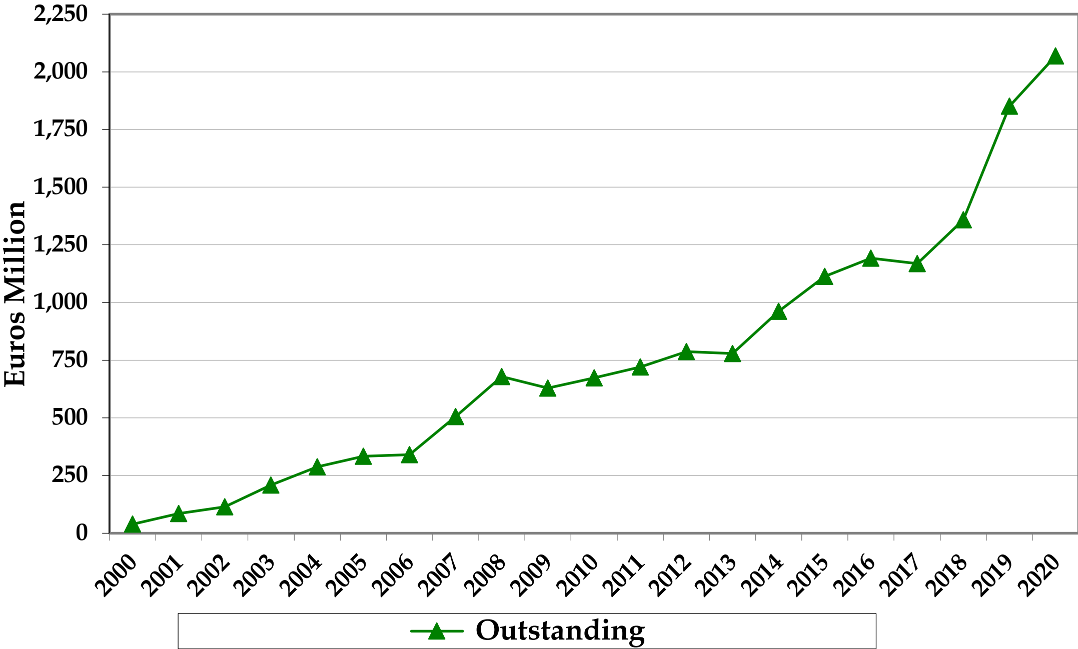
a result, the LTSF 2010-2020 assumed sustained, if not increased, interest of external parties in the Region. However, this interest did not materialize, as the 2008 Global financial crisis and the 2011-12 Eurozone crisis reinforced introversion and stalled the momentum of globalization. In addition, the geopolitical climate worsened, and as economic sanctions and other restrictions were imposed, the appetite for further cooperation waned.

See Annex I for a summary of the independent evaluation of the LTSF 2010-2020

A. **Review of LTSF 2010-2020- Achievements and Challenges**

i. Operational Evolution 2010-2020

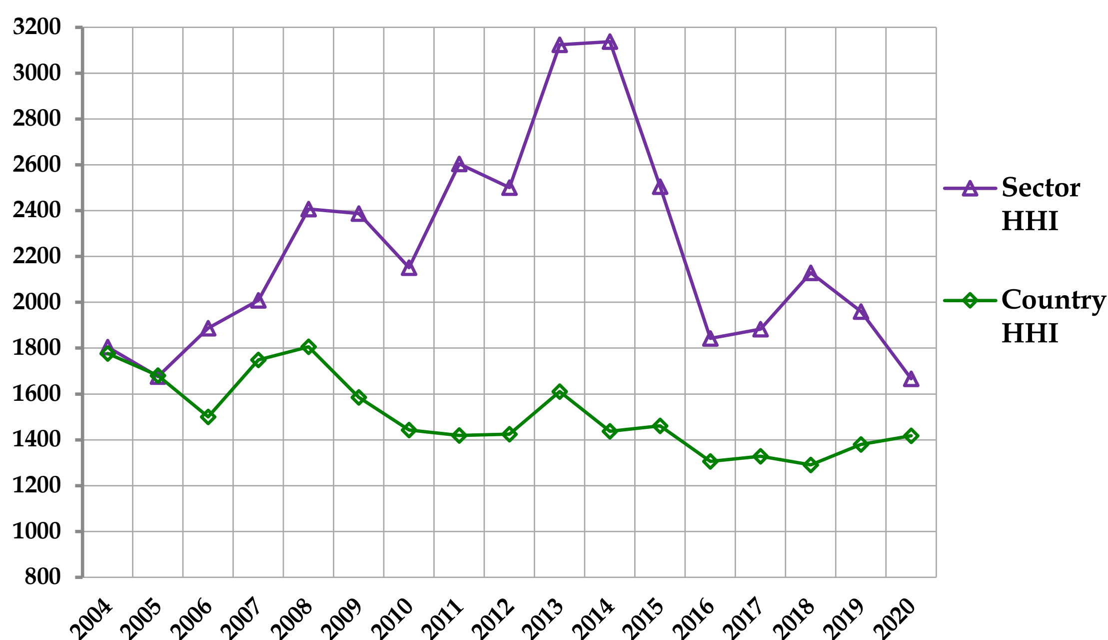
The chart below shows the evolution of the Bank's Portfolio since its establishment.



For 2011-2020, the Bank's operational portfolio increased from € 672.9 million at end 2010, to € 2,068.7 million at end 2020, equivalent to growth of 207.4%. This translates into average annual growth of 11.9% over the period, a figure which hides considerable oscillation from year to year. There were two years in which the operational portfolio contracted slightly, and the standard deviation of 11.0% attests to the volatility of growth rates. The last three years were especially productive, as the portfolio averaged annual growth of 21.0% from 2018-2020. Loans account for 98.7% of the outstanding portfolio at end 2020, equity only 1.3%.

Cumulative commitments from 2011-2020 amounted to 226 operations for € 4,243.5 million, with an average project size of € 18.8 million. Activity in the 2018-2020 period was considerably higher, as for this three year timespan the Bank averaged 25 projects per annum for €694.9 million, with an average project size of € 27.4 million. The chart below shows the

evolution of the country and sector concentration of the portfolio according to the Herfindahl-Hirschman Index (HHI), using end of year outstanding portfolio data[2].



The country concentration has remained reasonably stable, at around the 1400 level, but the Bank's sector concentration has fluctuated, mainly due to the increase of the financial sector portfolio in 2013-2014. A subsequent successful rebalancing, as greater emphasis went to 'real' sectors, resulted in a sustained decline to near 1600 at end 2020.

ii. Achievements and Challenges

Looking at the Bank's evolution over the previous decade qualitatively, the Bank's list of achievements includes:

- The credit risk rating has risen to A2 (stable, from Moody's) and A- (Standard & Poor's, with positive outlook) which is better than that of all BSTDB shareholders.
- The Bank has a team of professionals with knowledge of the Region and experience working in the Region in the public and private sectors (and internationally with IFIs).
- The Bank has a well-developed and prudent internal regulatory framework and an efficient system of corporate governance.
- The small size of the Bank allows it to maintain a flat organizational structure which allows it to carry out activities and processes with greater immediacy and effectiveness.
- Similarly, the smaller size of the Bank allows it to participate directly in smaller sized operations and with medium-sized entities, and renders the Bank (i) flexible and

[2] The HHI is a well-established monitoring tool that uses a 'sum of squares' approach to show degree of concentration of a topic of interest containing more than one observations or subjects (e.g. market share, portfolio distribution, etc.). See also http://en.wikipedia.org/wiki/Herfindahl_index

efficient in relation to client needs and market requirements, and (ii) able to adapt quickly to changing circumstances, and to adopt rapidly product and process innovations.

- Clarity and relevance of mandate - promotion of development and regional economic cooperation are both important and salient objectives, which will remain priorities for the Member Countries for years to come.
- Growing ties with the international community- the Bank has established co-financing relationships with other IFIs and bilateral development institutions, some of which took on Observer Status.
- Resilience in crisis situations or when faced with prolonged stagnation in main partner countries;
- Good prospects to advance relations further with institutions which obtained Observer Status in the Bank;
- Increased international visibility and access to markets, at favorable terms;
- The exclusively local ownership of the Bank is a strength insofar as it represents shareholder commitment to the institution.

Notwithstanding the above, the Bank has also faced a number of challenges

- Increased availability of funding in the marketplace from commercial banks reduces financing gap available for MDBs;
- Increased volume of operations of EIB, EBRD and IFC in some Member Countries;
- Needs and priorities of private firms, banks and official institutions in the Region changing rapidly and creating uncertainties;
- Ultra-low interest rates squeeze Bank earnings from its lending operations and render holding liquidity more costly
- Relatively low capital base.
- Finding business in some Member Countries was restricted by: (i) the non-cost effective amount of identified operations in the smaller-sized enterprise segment, which often required greater effort to develop, (ii) readily available liquidity for short-term operations, and (iii) low interest rates which many of the larger prospective clients were able to secure from private sources;
- Fragmentation and/or overlapping of certain functions;
- Insufficiently effective marketing function (either for promotional or market penetration purposes);
- Fragmented MIS, not integrated institution-wide, with restricted and segmented access to information. Flow of information internally has room for improvement and inconsistency of data exists in some units of the Bank;
- The mix of credit quality, volume of business, developmental impact and profitability, targeted by the Bank is not readily available in member state markets.

PART III- AN UPDATED BUSINESS MODEL FOR HIGHER VALUE ADDED

This section considers issues related to the business model of BSTDB. As an MDB, the Bank's core business model centers on the identification and preparation of operations which the Bank then finances and holds to term. This process will continue to constitute the core of the business model. However, (a) high demand for Bank investment in projects, and (b) potential capital constraints as the Bank approaches key prudential capital limits that it wishes to maintain, have motivated the Bank to consider, to the extent that would be reasonable and prudent, an 'originate, prepare, and transfer' model for certain portions of its portfolio- where it is feasible to do so and makes good business sense. Recent innovations in financial markets make the timing of such an initiative favorable, but there remain technical (and other) issues that require resolutions and answers for this market to mature to a stage where it can take off.

A. Achieving Relevance with the Capital Available

Operational growth is a means, not an end, to the fulfillment of the Bank's mandate, but the value of BSTDB depends on the impact its operations have on the Member States' economies. Achieving higher impact is contingent upon continued growth of the Bank's operational activity. Therefore, the Bank needs to emphasize continued growth, not least because external parties such as investors and rating agencies expect balance sheet growth in light of targets set, and view it as an indicator of the importance of the institution.

With the overall capitalization ratio moving close to the 30% limit which the Bank wishes to maintain, BSTDB has explored a number of options that collectively or individually may allow it to sustain new project preparation activity while preserving capital ratios.

Co-financing

One option is for the Bank to accept lower rates of growth on its own balance sheet, but seek to enhance mandate fulfillment through greater resource mobilization by doing more origination of operations, and then organizing larger amounts of co-financing for the operation (or syndicating it) so as to mobilize more external financing into the Region and offset the Bank's own lower amount of participation. The Bank has experience in co-financing, and while in its early years it often joined operations generated by other financiers, it is developing over time its own capacity to generate projects and arrange financing.

Expanding co-financing capacity helps share risks and attracts more financing for the benefit of the Region. Nevertheless, it does have certain drawbacks which can create limitations. The Bank needs to proceed carefully with co-financing arrangements so that it will not diminish its competitive advantage of flexibility and speed, since a greater emphasis on co-financing would reduce the Bank's ability to work directly with corporate clients and would require involving others and project preparation costs and timespans would increase. Furthermore, while co-financing may create some revenue generation opportunities from preparation and arrangement fees, it is not likely to have much impact on the Bank's net revenues.

Additionally, a greater emphasis on co-financing operations would likely require hiring staff with experience in arranging, particularly for specialist activities such as A/B loans. Development of A/B loan provision capacity deserves attention, but given the Bank's single

A rating level, BSTDB is a less attractive partner than AAA rated institutions in the eyes of potential 'B lenders' from the private sector.

Short-Term Transactions

Another possibility compatible with lower balance sheet growth would be to emphasize more short-term transactions (e.g. up to 360 days). This would permit undertaking more operations without increasing overall exposures, would reduce provisioning costs, and could be compatible with a strategy to promote higher inter-regional trade. However, the scope for regional cooperation and development impact would be more limited and would be driven primarily by commercial considerations. In addition, it would not be consistent with the intention to increase involvement in infrastructure operations and raise the public sector share of the portfolio, both of which typically require long term financial commitments.

Off-Balance Sheet Activities

Off-balance sheet activities (e.g. guarantees, unfunded risk participations) would permit more operational activity for a given level of capital as well as continued revenue generation. They represent a useful way to earn income and stay active during periods of market stress when liquidity is either expensive or unavailable, as they place lower demands on use of capital but allow the Bank to still offer support to clients and help them mobilize external financing. In addition, they would reduce pressure for added liquidity and bear lower risk weights. However, this would represent an important shift in the Bank's business model and if expanded in scope to replace lending activity, it would require skills training and/ or new hiring, as well as internal restructuring in order to achieve and accommodate effectively.

Risk Sharing and Transfer of Assets

The divestment of Bank assets through a variety of means might limit growth of the Bank's outstanding portfolio and balance sheet, but would allow the Bank to finance more projects and expand operational activities beyond what is achievable with available capital. It would free resources received from the transfer of assets and/ or their risk, which may be reinvested in new projects. At present, the principal assets in the banking portfolio which may be sold are certain bonds for which BSTDB played the role of anchor investor in order to help improve client access to financial markets. These assets have a standard structure and are normally listed on exchanges, although the wisdom of selling them depends upon factors such as their market value, the degree of liquidity of the exchange on which they are listed, and any reputational/ perception considerations. The Bank may also seek to transfer, through assignments and participations, portions of the loan or equity portfolio to commercial and institutional investors, subject to similar considerations.

The Bank may also consider more structured measures in order to share risk, transfer or divest assets, including asset securitization. Such activities to remove or otherwise reduce exposures from the Bank's balance sheet would likely entail lengthier preparation and transaction costs, and therefore require greater caution and employment of necessary expertise. These options may include: (i) re-financing; (ii) reducing risk weightings on capital via synthetic risk transfers or other derivative instruments that transfer or share risk; (iii) cross-pooling assets with other sub-regional multilateral development banks to reduce

concentration risks (most likely sub-regional MDBs like BSTDB or a regional institution that has similarly rated assets), (iv) purchasing insurance in order to reduce risk weights.

B. Diversity Ensures Prudence and Permits Growth in a Balanced Manner

The shift to more infrastructure operations, which began with the growth oriented Medium Term Strategy and Business Plan (MTSBP) 2019-2022, represented a conscious effort to enhance regional cooperation and development impact while at the same time achieve a greater degree of diversification. This Diversification sought (a) broader country coverage, (b) more public clientele to offset the heavy emphasis on the private sector, and (c) sectoral differentiation away from the financial sector and towards priority areas which have suffered from perennial under-investment in the Region such as energy, transport and other utilities.

The greater infrastructure focus raises questions about the degree to which BSTDB should continue to emphasize this area of activity and even develop specialization in key areas. Its initial success in achieving growth and rebalancing certain components of the portfolio (e.g. sectors, public vs. private) suggests that the Bank may wish to take a more diversified approach, seeking to balance the portfolio with respect to such factors as size of clientele, country distribution, sector distribution, length of financing offered, size of projects financed, and public/ private mix. Looking forward, such an approach would imply moving away from the long standing weight given to demand orientation as the primary criteria for selecting which projects to finance, and instead establishing target ranges and actively seeking an appropriately balanced blend, with occasional corrections when certain characteristics begin to predominate over others.

One implication of this approach is that the Bank would devote more resources and effort to finding new operations in the sectors, countries or areas which might be underrepresented as the preferred way to redress imbalances. It would most certainly not imply the rejection of a promising financing opportunity with positive externalities and desirable characteristics merely because it may come in an overrepresented sector or country.

By and large, with due consideration given to the above mentioned factors, the Bank does not intend to develop specialization in particular areas, and as a rule will prefer to outsource needs and to consider options such as framework cooperation agreements with specialized firms in order for them to provide specialized personnel for such skills when the need may arise for a particular project. This assists the maintenance of greater balance and flexibility, but it does imply that the Bank may forego the opportunity to develop a name, or even a brand, in a particular area of activity.

While the desire to maintain diversification and maneuverability is important, it is not absolute, and BSTDB will be open to developing specialization in a specific area if it generates significant positive externalities, and promotes fulfillment of the Bank's dual mandate.

C. Specialization Will be Considered in High Priority Circumstances

Notwithstanding the overall focus on diversification, one key benefit that specialization in a high priority global public good activity may bring is re-engagement of external parties with the Black Sea Region. Given the high interest of external investors, official and private, this represents an excellent opportunity to promote cooperation. Important areas for dedicated

attention and potential specialization include the digital economy, preparation for transition from the linear economic model to the circular economy with particular focus on recycling and, most importantly, financing for the environment.

The common challenges of a global public good issue represent a shared interest, and an opportunity to bring regional actors together as well as to engage external actors in order to undertake much needed investments. Thus, such activities offer better prospects to develop partnerships with external parties that are unfamiliar, and not yet active, in the Black Sea Region. This can help mobilize additional resources for the Region in the form of co-financing, technical assistance, and other financial partnerships/ relationships.

An additional benefit of investing in such global public goods is the potential to experiment with innovative measures that may increase their 'headroom' to expand activities for a given level of capital. With MDBs seeking ways to free up resources in order to be able to do more with their given level of capital, focusing on high profile issues of global priority will increase the interest of potential partners and clients.

D. Revenue Considerations

Achieving positive net income over the long term has always been an important consideration for the Bank, as its shareholders want it to operate viably and independently. In practice, this means posting a reasonable rate of return over time such that the Bank can remain self-sustaining, without need for additional support (beyond the capital subscribed). Among development institutions, BSTDB generates rather low rates of return, and the global compression of margins as interest rates have trended ever lower during the 2010s has resulted in declining rates of return for the Bank. The implications of this are that even though the Bank has remained consistently profitable, and has posted positive net income in every year since 2004, it has not generated a sufficient return in order to enhance equity levels notably via earnings growth. Furthermore, given its limited capital base and the constraints that it faces, the Bank cannot provide concessional financing.

E. New Shareholders

Since its inception, the Bank has been open to the entrance of new members. The Bank is ready to welcome BSEC Members who have yet to join the Bank and it would similarly be pleased to discuss interest from other countries who have not yet become members of BSEC but are interested in the Region. Likewise, it is open to discussion with MDBs and internationally oriented financial institutions that wish to establish or expand their strategic presence in the Black Sea Region. The Bank plans to open and maintain dialogue with potential members, and will enlist the active support of Founding Members. The addition of new shareholders would warrant the setting and pursuit of revised, more ambitious operational targets.

PART IV- STRATEGIC CONSIDERATIONS FOR THE NEXT DECADE

A. Strategic Objectives

The principal objectives of the long-term strategy are making steady and measurable progress with respect to: (i) meeting shareholder expectations and providing client satisfaction; (ii) improving operational effectiveness (asset quality, cost control, productivity, profitability) and ensuring financial stability; and (iii) establishing and maintaining a work environment conducive to attracting, motivating and retaining high quality staff with the required skills and attitude.

Over the 2010-2020 period, priority was given to maintaining professional and institutional integrity, and safeguarding the Bank's financial soundness. For the coming ten years, the Bank intends to maintain these essential elements, but it will seek to build upon them in order to maximize the impact of its operations and increase relevance to shareholders. To this end, it will prioritize the following objectives in order to fulfill in the best manner the dual mandate of promoting economic development and regional cooperation:

- Focus on developing project generation capacity and lead arranging financing so as to mobilize more resources from external investors- official and private.
- Maintain a diversified, balanced portfolio of operations, by country, sector, and product type (intermediaries, corporate, or project financing), with due regard for term and clientele; aim to sustain a public sector (sovereign guaranteed and non-sovereign) share of about 30%.
- While respecting the diversification imperative, invest in specialization in the area of financing for the environment, so as to build capacity to prepare and develop high priority operations.
- To sustain operational development consistent with capital commitments, develop capacity to divest, share or transfer risk of assets so as to facilitate new operational activity; in this respect, climate financing assets may prove appealing for external investors, as the Bank develops necessary capacity.
- Increase overall outstanding portfolio of operations to around € 4,250 million by 2030, or the maximum amount permissible with available paid-in capital while maintaining a total equity to assets ratio of at least 30% and a risk adjusted capital ratio (RAC ratio) above 15%.
- Work towards improving credit ratings. For the period 2021-2030, this includes, at a minimum, maintaining the current credit ratings from Moody's and Standard & Poor's, and striving for upgrades.
- Maintain and strengthen further networks of cooperation and partnership with peer MDBs, bilateral development institutions and other stakeholders.
- Expand and deepen relationship with investors so as to enhance name and profile of Bank in financial markets. Seek to diversify and expand sources of funding, sustain regular access to markets in order to establish benchmarks and enhanced outreach. Supplement funding sources strategically with official funds.
- With the backing of shareholders, seek to attract new regional and non-regional shareholders to expand BSTDB's operational presence and strengthen its financial status

- Reach out to potential development partners in order to attract and establish Technical Assistance and project co-financing funds for the benefit of the Region

The Bank's growth and performance objectives allow for maintenance of good asset quality, while expanding and diversifying the operational portfolio. They are designed to:

a) Ensure manageable growth;
b) Provide an ideal balance between own capital and borrowed funds;
c) Provide the flexibility to adjust in case of sudden changes in the operating environment.

In order to achieve these objectives, the Bank needs, inter alia, to:

- Respond to the investment needs of Member Countries while adhering to prudent banking practices and ensuring high quality of the services provided;
- Focus on its development function by providing clients with stable medium to long term funding at terms and conditions better than those otherwise available in international capital markets, without threatening its own profitability, liquidity and solvency;
- Leverage its capital resources with funds raised in the international capital markets under terms better than those obtained by most Member Countries;
- Expand business cooperation with partners and make efficient use of institutional arrangements and international cooperation opportunities
- Coordinate activity and co-financing projects with other partners in development, to ensure that the Bank's products and services are effective in creating value added.

B. Operational Objectives

Over the Bank's first two decades, lending for business development has been the biggest single area of activity, as there consistently has been demand throughout the Region for direct lending to corporates for terms starting at three years and extending to seven (and occasionally beyond). The size of projects has varied, from as low as three million euros up to the Bank's single obligor limit (€83 million at end 2020). These medium-sized corporates were too small for other MDBs institutions to deal with directly, but wanted term and other features that were beyond the risk capacities of Regionally based financial institutions. The Bank was often a natural partner for such entities, able to provide financing for desired lengths, quickly and flexibly while also fulfilling its financial and developmental requirements. The operating priorities in the post-pandemic environment are subject to uncertainty, but in broad terms- and subject to variation- they will involve the items enumerated below.

i. Country and Sector Considerations

In view of the variation in the economic structures and priorities of the Member States, the Bank's preference for diversification coincides with the need for the Bank to differentiate its approach in each country and by sector. In smaller economies and countries with small banking systems and/ or weak access to financial markets, BSTDB expects that it will contribute the greatest value added by directly financing projects and mobilizing additional financing from external sources. By contrast, in wealthier or more developed countries where

non-market risk perceptions are high or risk transformation requirements are a key necessity, the Bank will emphasize risk mitigation interventions and risk management solutions in order to facilitate economic activity in areas of need. The Bank expects to continue SME promotion activities as these represent key areas of interest across the Region, and to help with the further promotion and diversification of exports.

The overall intention to remain diversified extends to sectoral coverage as well. For example, in energy where, (i) in view of the energy mix of the Member States and their sunk investments in electricity generation, mining and other complexes, and (ii) in concert with its commitment to promote the transition to clean energy, the Bank will continue to support projects which promote efficiency, modernization, and improved operation. The Bank sees a niche in reducing financing shortfalls, not covered by other development finance institutions, to support projects that use fossil fuels in energy generation and metals production, in order to reduce their environmental impact. These different approaches will be clarified as time goes by through policy dialogue with the relevant representatives of Member Countries and will be specified in greater detail in the Country Strategies

The Bank will maintain a balanced approach, for reasons of risk prudence and avoidance of excessive concentration, as well as to be better placed to deploy resources into areas of need efficiently and to meet demand as it arises. Given the differentiation according to each Member Country's priorities, to which the Bank is dedicated, the ability to provide support to a broad range of sectors is essential for the Bank to fulfill such a commitment.

Even in instances of specialization in a high demand, high mandate fulfillment public good activity, the Bank will take care to respect sector limits. This applies to the area of environment financing, where the Bank foresees rising demand in the coming decade.

ii. Clients and Partners

The Bank has gradually built up a core clientele in many Member States, providing follow up financing as the firms grow and expand. This has permitted the Bank to establish a presence and raise its profile in local markets, and to reach out to additional firms who can see how the existing clients have benefited. Via lending to corporates, the Bank is able to diversify the size and term of financing it provides and to demonstrate its ability to respond quickly and flexibly to the needs of firms. BSTDB may not be the cheapest option available, but its speed, flexibility and ability to orient to client needs lead clients to see value in maintaining the relationship with BSTDB, and from it generate networking and reputational benefits as well as access to additional sources of financing.

In particular, locally incorporated medium-sized firms represent a market in which the Bank can take advantage of its size and adaptability and enhance its risk/ return profile. In order to emphasize the developmental component, the Bank will continue to explore ways in which it can improve outreach by showing greater flexibility. For example, it will seek to be forward looking by pursuing appraisal and due diligence on the basis of management accounts, monthly balances and cash flows. It will also seek ways to improve the capacity to lend in local currency and to preserve its interests, in particular with respect to the ability to be repaid in full and on time, or speed of securing access to collateral and security.

For dealing with the critical SME sector, the Bank will continue to select and expand the pool of eligible financial institutions as preferred intermediary partners.

For public sector operations, while the Bank will be open to working with ministries and national agencies, it similarly expects it may be most appealing to municipalities, their agencies, and other sub-sovereign and decentralized instrumentalities.

This approach implies a mix of long-term clients, with which the Bank maintains, renews and expands relationships, as well as seeking out new clients in order to expand coverage and reach underserved areas.

iii. Products and Financing Instruments

Lending will continue to constitute the primary instrument via which the Bank provides support. Equity will only be used sparingly and for highly strategic reasons, since it carries excessively high risk weights that erode the capital position of the institution. Guarantees and related instruments will be employed by the Bank, but in a judicious manner in order to assist clients to achieve greater access to financing or other key strategic goals, and in line with demand for such off-balance sheet products.

Lending may take many forms, but there are essentially three types - through intermediaries; direct lending to the client for general business development, e.g. corporate finance; and project finance for a specific purpose, which is a common way of financing infrastructure development. While most lending will involve use of major reserve currencies as part of the Bank's role to help Regional entities mobilize such resources, the Bank will also carry out select local currency operations in countries which desire such activities for purposes of reaching out to a larger pool of clients, and/ or contributing to the enhancement and deepening of domestic financial markets.

Lending through financial intermediaries has been an important way to contribute to the development of financial institutions active in the Region and to (i) gain access to the small and medium enterprises (SMEs) which form the primary form of corporate organization throughout the Region, the fastest growing parts of most economies and the principal generators of new employment, and (ii) to reach Regional importing and especially exporting firms, helping to furnish liquidity for them to carry out cross-border commercial activities.

SME Finance

In the small to medium range, the Bank will continue to aim at attracting second tier firms, firms that may be newer or in underserved sectors or geographic regions which hold promise to create new employment and to generate new wealth in the areas in which they operate.

An interesting niche area which the Bank will explore involves experimenting with the development of certain areas of theme-based lending (social inclusion, green financing, etc.) as a way to support clients that wish to develop such 'brands'. Such activities require a degree of expertise, and careful consideration needs to be given to the costs, benefits, and risks of adopting such themes, but they may also generate sizeable positive externalities and thereby enhance the Bank's value and profile.

Corporate and Project Finance

Given its successful track record, and the demonstrated interest of firms active in the Region, the Bank plans to continue with its corporate lending activities, with a blend of medium to large projects. In the case of larger projects, the preference will be for high visibility projects

that help raise the profile of the Bank and open future doors for markets or additional business prospects.

With respect to project financing, its use in the early years of the Bank's existence was relatively low due to size considerations for lending, and capacity limitations in the ability of the Bank to generate and prepare large projects. While the Bank remains a small institution relative to other MDBs active in the Region, it has gradually built capacity and developed experience in project preparation. Beginning in 2018, and formally approved by the shareholders in the MTSBP 2019-2022, the Bank initiated a shift to undertaking more infrastructure projects as a way to enhance both development and regional cooperation impact in its operations. This shift has played an important role in helping diversify the portfolio in terms of sector and maturity, and it has also improved value of Bank to certain shareholders who are keen to see the Bank helping to meet infrastructure investment needs.

In turn, the Bank has (i) expanded its presence in high profile transport projects involving concessions, (ii) undertaken a number of new energy projects, including in the nascent but fast growing sub-sector of renewables, and (iii) engaged more broadly with municipalities that wish to undertake local infrastructure development in areas which include transport, waste management, and lighting. Since infrastructure operations constitute a key area of public investment and require longer lead times, this has also helped the Bank to improve the balance of its public/ private mix and contributed to the diversification of the maturity profile of lengthening of the maturity of operations.

The move to greater emphasis on infrastructure was driven by the Bank's desire to increase its relevance to shareholders and improve mandate fulfillment, but it has coincided with a sustained shortfall in infrastructure investment throughout much of the Region.

Municipal Finance

Governments generally lack the necessary fiscal space to invest in the modernization or expansion of infrastructure in order to enhance the growth potential of their economies. Alternative arrangements to the traditional model of public investment focus on private provision, with concessions to build and/ or operate and maintain the infrastructure an increasingly common way to attract the private sector. This notably includes public- private partnerships (PPPs), an area which lends itself to MDB involvement since they are well suited to provide financing, mobilize additional resources, and above all to help investors manage the elements of political risk which PPPs inevitably possess.

BSTDB has observed strong and growing demand for its participation in such activities, and in view of the many externality benefits of such investments, the mandate fulfillment and the way in which they contribute to the growth of the Bank's profile in the Region, the Bank will further develop its presence in infrastructure (including local government sponsored projects) in line with its capacity- with the extent to which it is able to do so determined by the level of capital invested. An important related area for the Bank to expand further concerns its ability to attract and arrange financing from external sources. It can greatly leverage the resources the Bank directly brings to bear and will contribute to its profile.

Trade Finance

Trade comprises part of the name of BSTDB, and at the time of its establishment in the 1990s there was great need to formalize cross-border trade and to support the competitiveness of liquidity starved Regional firms. However, financial sectors have developed significantly in all Member States since the mid-1990s, in depth, size, and sophistication. Even by the late 1990s, provision of short-term financing was amply covered by domestic banks, most of which had comprehensive relationships with the client importing/ exporting firms. Thus, there were limited prospects for a new, small, internationally established institution spread across 11 countries to provide meaningful trade finance products, and a large volume of low value transactions, requiring rapid turnover, time intensive dialogue and processing, and proximity to clients in a rush. Instead, providing the funding through the established intermediaries, which needed to establish relationships internationally, diversify their funding sources, and access foreign exchange for longer terms, made more sense. It also permitted such financing to target the critical SME sector.

This activity remains important for the Bank, as a way to contribute to the promotion of Regional integration, and to generate operational activity and revenue while providing the aforementioned benefits to local financial institutions and the SMEs and exporters/ importers that ultimately benefit. Lending through intermediaries may also expand to key thematic categories such as energy efficiency, social inclusion, targeting of particularly impoverished or isolated areas (and groups), etc. as these hold the promise of generating significant positive externalities beyond the immediate benefits of the project financing.

The Bank would also be well placed to support trade in the event of a surge in demand- if, for example, a crisis leads markets to freeze up- by increasing the amounts it provides through the network of eligible financial institutions through which it works. In addition to lending through intermediaries, the Bank may expand the value added characteristic of operations by also supporting trade facilitation, providing products that reduce transaction costs for firms and otherwise reduce risks or improve liquidity. An even more promising trade finance activity is the provision of larger "direct to clients" medium term export/ import credits of 12-36 months. This activity bridges financing trade and direct corporate lending, but it is an area in which the Bank has seen demand grow and where it has developed a good presence that generates a stream of projects, as firms find value in the Bank's ability to provide larger amounts and longer terms at attractive rates.

Environmental Finance

There was little demand for financing for the environment (including climate financing) in the Black Sea Region one decade ago, but it has since experienced tremendous growth in interest and been recognized as a global public good. Technological advances, for renewable energy generation in particular, have improved its cost competitiveness, and if these continue according to projections, all key renewable energy generation methods will be much more efficient than fossil fuels, in addition to having significant public health and climate benefits, in terms of carbon emissions and other pollutants.

Furthermore, environmental finance shows great promise in the area of cooperation, risk transfer and sharing, and attraction of new financing, due to the rapid growth of the so-called 'green investor' class, which is aggressively searching for new assets into which to invest.

Environmental finance investment may also benefit from future regulatory changes. In view of their positive significant externalities, there is an argument being made that certified green investments should receive more favorable regulatory treatment- e.g. lower risk weights, while fossil fuels may be in line for more punitive risk weights to account for their negative polluting externalities. This would 'erode' capital invested in green activities more slowly and thus permit more operational activity.

C. Institutional Transformation Objectives

Maintenance and enhancement of institutional credibility remain a prerequisite for the achievement of greater relevance. To this end, the Bank is committed to the development of an institutional culture characterized by transparency, sound corporate governance, communication, cooperation for achievement of the Bank's strategic objectives, underpinned by a deep understanding and reflection of the Bank's mission. This includes adopting best practices and attaining appropriate levels of checks and balances that (i) ensure compliance with existing regulatory frameworks and (ii) enhance responsibility and accuracy without compromising efficiency and effectiveness.

Most benefits obtained from improvements in systems and procedures as well as from elimination of inefficiencies are passed over to the Bank's clients. Thus, the Bank attempts to maximize the development impact of its operations at a given combination of capital subscription and risk rating.

i. Features of Institutional Transformation

Institutional transformation is supported by two key activities: Human Resources and Information Technology.

Human Resources Management

The Bank needs to move further towards an open and lean organization that promotes open communication across divisional boundaries; actively engages staff; and, encourages creativity, assumption of personal initiative, and teamwork. The guiding principles mandate a superior management of human resources, acquisition and development of high skills, ethics and values, where staff is knowledgeable, mobile, versatile, adaptable, and committed to the mandate and values of the Bank.

The Bank faces three major tasks over the coming long-term strategy period:

- A key element will be dealing with turnover and succession planning. Given the rotation system for senior management, BSTDB is used to turnover at senior level and has institutionalized processes to a considerable extent in order to minimize potential disruptions. Over the next decade, the Bank faces an additional challenge of long serving regular staff retiring, some of which have been with BSTDB since it began operations in 1999. The Bank is aware of the need to plan for the replacement and renewal of such staff, to ensure that institutional knowledge is retained and disruptions are avoided while these transitions/ successions take place.
- While in net terms the number of Bank staff is not expected to grow markedly to 2030, there will be replacement of retiring staff, and there may also be horizontal shifts of staff towards areas of priority (e.g. climate financing) and/ or new hires who possess

in-demand skills for the priority areas. Integrating human resources management (HRM) into the organization's planning process (including succession planning) will ensure that the management of human resources contributes to the accomplishment of the Bank's strategic objectives.

- Related to the above, the Bank will be concerned with Talent Sourcing (attract and retain talent committed to the values and mission of the Bank). The Bank will tailor its recruitment strategy to attract talented young professionals who meet needs at present and with support from the institution may develop capabilities to broaden and deepen their skills to continuously perform at the highest level. In this respect, HRM reform activities aim to (i) attract and retain the right people, in the right job, with the right motivation, skills and training; and (ii) create an enabling work environment for staff to achieve their objectives.
- Establishment of an efficient performance management system and career management (Staff Development, Learning/Development/Training, Career Path, Staff Mobility; Performance Management, Promotion) is a particularly important task for talent sourcing and retaining high performers.

To this end, at a minimum, the following should be emphasized:

- Clear career advancement path for professional and general service staff and implementation of the human resource development policy;
- Respect and observance of standards, policies, rules and regulations by all staff;
- Transparency and consistency in application of policies;
- Clear definition and application of an incentive scheme both in terms of rewards (bonus) for success and positive attitude (volume, profitability and quality) and penalties for substandard performance and unprofessional conduct.

Information Technology

The pandemic has triggered a rapid acceleration of digital transformation, bringing a marked increase in the digitization/automation of manual processes and the uptake of Cloud-based collaboration platforms and information systems. To remain relevant, operationally effective, and responsive to the expectations of clients and other interlocuters, the Bank needs to keep pace with this evolution, assessing new systems, methods and procedures and adopting them for its own use where appropriate, balancing expected benefits against associated expenses in a prudent and measured manner.

In parallel, newly emergent threats need to be anticipated and addressed, particularly in the area of Cloud storage and cyber security. The Bank shall thus continuously enhance its IT Strategy, ensuring that the IT-related goals defined in its periodic Medium-Term strategy plans, support the broader strategic objectives of the Bank, and are closely aligned with the current state-of-play in the fields of information technology/management and reflect the 'best practice' for MDBs.

Against this backdrop, the Bank will need to record and preserve institutional memory, not only to ensure that operational experience and knowledge accumulated thus far are captured and utilized, but also to meet policy requirements regarding historical archives.

To this end, the Bank will commission and implement advanced information technology systems and procedures, automating processes to the extent possible (including for the

Operations Cycle), to support the organization in meeting its business goals and objectives while improving the consolidation of data collection, processing and reporting (including MIS) to allow better informed decision-making. More generally, IT systems will seek to support the core activities of the Bank and to enhance the level of service and assistance provided to clients and other interlocutors. IT supports the Bank in fulfilling its long-term strategic objectives, primarily by (i) providing solutions that permit and encourage the expansion of business, by (ii) maintaining and improving operational efficiency while supporting compliance objectives, and (iii) creating a resilient operational environment that offers long-term stability.

ii. Organizational Transformation

In order to achieve the stated long-term institutional objectives, the Bank needs to adjust the organization in a way that would facilitate smooth implementation of the Bank's Strategy given the governance framework and will allow it to successfully face the challenges ahead, remaining flexible and dynamic. To this end an evaluation of business processes will (a) identify conflicts of interest and (b) mitigate or remove dysfunctionalities, inefficiencies, or redundancies, and (c) seek to streamline processes. Within the areas identified for improvement, and with a view to increase efficiency, the Bank will establish new functions as needed.

Given the constraints it faces, the Bank has to improve the efficiency of the organizational structure without a substantial increase in the number of staff and by finding cost-effective solutions for business generation, but without contemplating a permanent presence in Member Countries- that is without "representative offices". The projections of operational activity- that may prudently be undertaken and which result from the assumed level of capital increase- do not justify the additional costs associated with the establishment of representative offices.

In terms of outreach, practical solutions considered for improving local presence include: (a) contracting, on a success-fee basis, country representatives with business generation mandates; (b) enhancing and intensifying working relations with local financial institutions and official associations such as Chambers of Commerce and SME agencies; and (c) (post-pandemic) undertaking travel and extended duration presence for establishing and developing contacts relevant for each local market. A key related activity for establishing and maintaining a well-structured and effective business generating capacity is the development of the client relationship management function.

Strategic Project Selection

The purpose of this activity is to select and propose for financing those potential operations that best satisfy strategic requirements with a view to building a high quality portfolio, consisting of economically sustainable and financially viable operations with high development and/or regional cooperation impact, and a risk-return profile suitable for the Bank's risk assumption capacity.

Main institutional features of this function are designed to play a key strategic role in supporting and facilitating achievement of the Bank's Strategic Objectives. To this end the function would:

- support business generation, integrated into the planning and execution process;
- facilitate the selection and prioritization of projects and activities that satisfy institutional criteria, contribute to meeting KPIs and budgetary targets, in line with the Bank's strategic objectives, country strategy goals, and capacity to deliver;
- assist the determination and allocation of optimal resource mix for delivery;
- mobilize knowledge resources, share experiences, and engage in promotional activities.

Consolidated Risk Management

The Bank commits to strengthen risk management, monitoring and reporting and shall ensure stronger coordination of appraisal, due diligence, supervision and monitoring activities with an integrated risk management function.

To this end, the Bank will establish a dedicated Risk Management Division (formerly Operations Division) and enhance its role to include: (i) coordination of risk management activities and all types of risk across the entire organization in line with the Bank's risk appetite, (ii) determination of the consolidated price of risk of proposed operations commensurate with their risk of impairment, and (iii) periodic risk assets reviews and valuations of collateral.

In addition, within the consolidated Risk Management Division, a strengthened monitoring and supervision of the portfolio of outstanding operations allows the Bank to: (i) pro-actively manage non-performing exposures (NPE)[3] and reduce the risk of such exposures becoming bad loans, and (ii) build stronger monitoring and evaluation systems in operations while enhancing quality of result oriented reporting.

Trading Desk

The Bank may engage with commercial and institutional investors in order to share risk, transfer, and/ or divest parts of the loan and equity portfolio. Assuming that legal and technical issues can be managed, this activity would allow the Bank to apply the freed up resources and/ or risk weights to new projects. In addition, securitization of MDB assets is at an early stage but has enjoyed rising interest in recent years since many MDBs need to consider alternatives to capital injections and face the possibility of capital constraints even as they are asked to provide more financing.

A number of issues such as standardization still require elaboration, but one issue specific to a small institution such as BSTDB, that deserves special consideration, is that the need to generate a sufficient volume of projects earmarked for transfer raises concerns about potential mismatches of assets and liabilities, and will require fine calibration of liquidity needs.

In order to effectively perform this activity, consisting in the first instance of risk mitigation and trading in marketable securities, the Bank needs to establish a new function that rests at the confluence of banking and treasury operations, with the support of legal, financial analysis and risk management departments. To this end, the Bank needs to set-up a

[3] NPEs concern high risk credits that may be rehabilitated, where repayments are doubtful and unlikely to be made in full without restructuring or liquidation of the pledged collateral.

specialized focal point of contact with external parties and to consolidate contributions made by all relevant internal departments, and therefore it needs to secure the services of dedicated staff with expertise, skills and experience.

iii. Institutional Key Performance and Risk Appetite

To successfully implement the LTSF 2021-2030 the Bank needs a comprehensive system of performance monitoring, measurement and reporting. To this end are established a consistent set of Key Performance Indicators (KPIs), which may drive performance, ensure that the right things are done in the right way and at the right time, while also acting as Early Warning indicators (EWIs) for signaling deviations from stated objectives, goals and targets and allowing for (i) decision making, in line with the Bank's Risk Appetite, and (ii) due corrective measures to be taken as appropriate and deemed necessary. In order to measure progress towards achieving strategic objectives, the Bank uses metrics which provide the opportunity to detect deviations and adopt corrective actions.

Institutional Key Performance Indicators

The Bank has embarked on an ambitious agenda to enhance quality and strengthen the focus on development results in its operations. To achieve its strategic objectives the Bank adopted Institutional Key Performance Indicators (KPIs) that serve as a performance measurement framework to assess progress and facilitate implementation of the LTSF.

Bank-wide Risk Appetite, Risk Measurement and Mitigating Actions

The Bank decided to establish a monitoring system in relation to the management of risks on a Bank-wide level, in line with its Enterprise Risk Management (ERM) activities, including credit, market and operational risks. The basis of such a risk monitoring system will be the determination, review and approval of the Bank's overall risk appetite established through MTSBPs with specific thresholds set in annual budgets, and then cascaded down to levels relevant to operations across the organization. One of the main processes for such management includes the mapping of risk appetite per risk area to appropriate Key Performance Indicators (KPIs), where appropriate, to act also as early warnings of increased risk of potential losses due to potential failure in human activities, systems and procedures. Effective tracking of these indicators shall allow the Bank to identify changing risks upon their occurrence and respond to them promptly. Proper establishment, approval, cascading and monitoring of Risk Appetite and KPIs contributes to an organization's growth and success and relates to the key business objectives too.

D. Resource Mobilization

Borrowing Program

Further expansion in the mobilization of resources for the benefit of the Region will remain a key area of focus, with the Bank seeking to build upon its experiences from the current LTSF period and lay out directions for 2021-30. A critical factor for BSTDB to enhance its credibility and relevance is a regular and unfettered presence in financial markets. The overarching goal would be to enter a "virtuous cycle" of increased importance through higher profile and higher lending, while reducing the costs of funding for the Bank, which in turn would permit

more high profile and diversified financing at better terms and conditions for prospective clients, and so on. This includes regular bond issuances and borrowing, developing further a 'yield curve', becoming increasingly well known in investor circles, and diversifying, as appropriate, the sources of financing by type of borrowing (e.g. official & private sources) and also by currency and term. It also includes consideration of new instruments the Bank may employ to borrow on more attractive terms, such as covered bonds.

With the demonstrated success of the Bank in raising funds commercially at ever more favorable terms, in terms of cost and duration, the principal objective of Treasury operations will be liquidity provision in order to support operational activities, to the maximum prudential degree. Protection of capital is also an important objective. However, profit generation, which may require diversion of greater levels of resources from the Bank's primary activity of financing eligible operations in the Black Sea Region, will be secondary to the Treasury's main objectives.

Options to Optimize Use of Resources

Options include securitization, trade in marketable securities and risk sharing, transfer, and insurance of assets. These may help liberate resources for new lending. This balance sheet optimization activity, to be conducted with the assistance of the Trading Desk, would represent an addition to the business model. However, looming capital constraints have given impetus to efforts made by many MDBs to address the many legal and technical challenges, to develop standards and to establish an investor base. Climate finance, due to the interest of the budding 'green investor' class, has achieved greater headway in tackling such obstacles, and as it matures into a distinct asset class it is anticipated that it may become feasible for MDBs to cooperate to this end with large, liquid private as well as sovereign investment funds.

A more immediate prospect is the undertaking of a synthetic risk transfer (SRT). The SRT seeks to reduce risk weights on capital by shifting a major portion of the risk of a selected pool of assets to investors for an annual fee. The SRT is legally easier because the assets remain on the MDB's balance sheet. However, it is costly, as it is an alternative form of purchasing insurance, and because the market remains underdeveloped, (a) it has a limited pool of interested investors, and (b) there is the risk that in a stressed market, interest in this asset class might disappear.

Insurance would operate conceptually closely to the SRT, providing capital relief but not extra liquidity, and it faces similar issues about the limited number of interested available insurers and the high cost of insuring a portfolio.

Technical Assistance and Grant Co-financing

Technical assistance (TA) and grant co-financing are forms of resource mobilization which typically rely on donor contributions. The Bank's track record on TA has been weak and non-existent for grant co-financing. Yet they need to become a priority for the Bank since they can enhance the value of the Bank to clients, they can facilitate continued growth and the shift to infrastructure and higher profile activities- permitting the undertaking of more complex high value activities, as well as projects with high economic value but low immediate financial returns. TA can permit the Bank to undertake more innovative activities, to help clients prepare operations more thoroughly, and to carry out Regional studies on issues of interest.

Funds for co-financing, especially in grant form, would help make the Bank more attractive to clients, especially in terms of pricing. The Bank will lay out a strategy in due course for pursuit of donor funds.

PART V- FINANCIAL PLAN

A. Resources and Uses

The Bank has prepared a financial projection for the period up to 2030. It utilizes the numbers already approved in the updated MTSBP 2019-2022 for the period up to 2022. The new projections that follow concern the period for 2023-2030 and create a corridor with an upper bound and a lower bound that are determined by the amount of subscribed capital that is paid in by the Member States.

For the projection, the main underlying operating assumptions are:

- Capitalization ratio (own funds to total assets) is maintained above 30%, the risk adjusted capital ratio (RAC, as defined by S&P) is kept above 15% and the maximum ratio of borrowings to equity is 2.33:1.00;
- Average annual growth for the period from 2023-2030 that ranges from a lower end of 5.0% up to 6.6%; in conjunction with the projections for 2021-2022 in the updated MTSBP 2019-2022, this would result in growth ranging from 6.1%- 7.5% for the full decade 2021-2030;
- Funds available for Treasury operations will be kept between 12% and 14% of total assets, with the rest available for banking operations;
- Non-performing exposures will be kept below 5% of the loan portfolio, to maintain a comfortable cover of loss absorption capacity;
- Average return on equity will grow steadily, driven by increasing efficiency and falling borrowing costs. The Bank intends to maintain profitability without being a profit maximizing organization, in order to internally generate additional resources for growth;
- Cost of borrowed funds will decline gradually as the Bank proves its resilience, maintains regular access to capital markets and builds a maturity yield curve.

B. Financial Projections

The working assumption is that the Member States agree to participate in the subscription of the capital still available from the increase in authorized capital – approved by the Board of Governors in 2007. At the upper bound, the shareholders will complete the second phase of the subscription to the remaining share of authorized capital of € 1,150 million, of which € 345 million is to be paid in, before end 2030. The lower bound, involving € 240 million paid in before end 2030, is the minimum amount that would allow the Bank to grow at 5% on average annually from 2023-2030. The shareholder subscription here would amount to € 800 million. The borrowing program of the Bank would cover portfolio growth and liquidity needs, while maintaining as a limit the aforementioned ratio of borrowed funds to own funds of 2.33:1 (including equity contributions, reserves and surpluses). Under these projections:

- The Bank will prepare and sign around 30-35 new operations per year, for annual commitments that begin at € 800 and rise systematically up to € 1,700 million.
- Cumulatively, for 2021-2030 the Bank expects commitments will reach up to € 12,000 million;
- The balance sheet will grow to € 4,150 – 4,800 million, by the end of 2030, with the operational portfolio reaching € 3,700 - 4,250 million;
- Portfolio growth fluctuates from year to year according to the payment schedule for new capital.

Annex II provides details of financial plans for the upper and lower bounds of the corridor.

C. Monitoring and Results Framework

The LTSF 2021-2030 will be implemented through medium-term strategies and business plans where goals and action plans will be devised for their achievement, and specific operational priorities and actions will be detailed in Country Strategies. The Bank will periodically assess progress towards achieving strategic objectives, business plan goals and budgetary targets using standardized targets and outcome indicators. The Bank will seek to benchmark itself and will assess performance not only against objectives set by itself, but also relative to the achievements of comparator institutions. Institutional KPIs and harmonized indicators will be used to perform such assessment. Periodic independent evaluation and progress reviews will also inform about causes of potential divergence and through lessons learned will provide guidance for adjustments and corrective measures.

ANNEX I- EVALUATION OF THE LONG TERM STRATEGY 2010-2020

i. Background

The current section represents the executive summary of the evaluation of implementing the Long-Term Strategy 2010-2020. This evaluation was conducted by the Evaluation Office independently, in order to support the Bank's effort to prepare a strategic concept for the direction of its further activities. The full evaluation study will be presented as a stand-alone document by the Evaluation Office to the Boards at the Bank's Annual Meeting in 2021.

While the focus of this study is the evaluation of the Bank's Long-Term Strategy 2010-2020, its conclusions and recommendations also reflect the learning from post-evaluation results on over 100 completed projects.

ii. Implementation of the Bank's Long-Term Strategy 2010-2020

Business Related Goals (External)	Justification	Unit of Measurement	Achievement / evaluation rating
1. Obtain a risk rating of Aa3 from Baa1 currently. This represents high quality and very low credit risk, just 3 notches below the highest AAA rating.	Secure an appreciably lower cost of funds than any of its Member States.	Ratings from Moody`s and S&P	Long term credit ratings of "A2" from Moody's and "A-" from Standard & Poor's. The goal is partly (50%) achieved as A2 stable represents the mid-point. The Bank made an effort to reach the goal, e.g. by sacrificing its own target of equity investments share, as well as overshadowing some development / mandate objectives. While the result is below the target, the Bank achieved a substantial improvement, despite credit rating downgrades of some of its shareholders. BSTDB also realized that the financing cost of the recent benchmark bond issue did not meet the expectations associated with the current credit rating as some Member Countries with lower credit ratings actually borrowed at substantially better terms. ***Evaluation rating: Satisfactory***
2. Attract an AAA rated Member (IFI)	Accelerate activity and portfolio.	AAA rated IFI shareholder	The Bank has contacted various IFI/DFIs namely EIB, KfW, OeEB. However, it was unable to achieve the goal. ***Evaluation Rating: Unsatisfactory***
3. Overall outstanding amount to reach around SDR 1.8 bn.	Balanced growth despite funding constraints.	Amount at end of 2020	Total Outstanding Amount as of end October 2020: **EUR 1.96 bn** or **SDR 1.67** bn (EUR to SDR = 1,209140 as of end October 2020). Volumetric target was almost reached, particularly by the rapid portfolio growth in last 2 years. ***Evaluation Rating: Satisfactory***

4. Increase share of public and quasi-public operations	As per goal number 1 above, to back a better credit rating	From 11% to 25% by 2020	Public Operations to Total Outstanding: **Public Non-sovereign** **10.07%**, **Public Sovereign** **18.32%** **Total Public** **28.39%**. While the target was achieved, the assumed justification is assessed as partly applicable, i.e. an increase in public and quasi-public exposures is not necessarily representing a lower risk profile, *ceteris paribus*, as revealed by the debt crisis in Greece. ***Evaluation Rating: Satisfactory***
5. Increase the share of equity in the outstanding portfolio.	Diversify the product mix in reference to mandate goals.	From 1.5% to 10%	Result: **1,41%**. The Bank intentionally revised and abandoned the goal, to offset underperformance regarding the first two goals. While the target was set in good faith, the Bank realized it implies severe negative consequences for the risk weighting of the portfolio. The evaluation is therefore conducted in view of this consideration and the revised goal of not increasing the share of equity. ***Evaluation Rating: Satisfactory.***
6. Expand the use of Technical Assistance.	Enhance the development impact of operations.	Amount	Currently there are 2 TA Funds of EUR 0.5M each (contributed by Austria and Russia respectively). While these partly substitute the previously available fund contributed by Greece, there is no actual expansion of TA, as intended, hence the ***Evaluation Rating is Partly Unsatisfactory.***
7. Design and implement a demanding long-term borrowing program	To achieve its strategic goals to increase approximately four-fold the value of its outstanding portfolio between 2010 and 2020	Unclear	The Bank has implemented a Medium-Term Note Program – a framework document that allows BSTDB to swiftly issue a wide range of bonds in response to investor demand. To encourage investor interest the Bank has: (i) obtained ratings from the two largest rating agencies, plus one European and one Russian rating, and (ii) Marketed the Bank to a range of investors through roadshows, conferences and the Investor Relations section of the website. It has also negotiated and signed funding agreements with major MDBs and National Development Banks including KfW, EIB, OeEB, STLC. NIB etc. The evaluation considers this to constitute an equivalent of a long-term funding program – however, as a work in progress. Both the Treasury and the evaluation find the term "demanding" as ambiguous and therefore not evaluable. In view of this, the ***evaluation rating is Satisfactory.***

8. The borrowing to cover portfolio growth, while maintaining a comfortable ratio of borrowed funds to own funds.	Necessary as the Bank's cost of borrowed funds is higher relative to other IFIs. Finance long term high value projects with strong development impact.	Gearing Ratio (borrowed/own funds) 2:1	With own equity of around EUR 830 million, the 2:1 target allows the Bank to have total assets of EUR 2.5 billion and a loan and equity portfolio of around EUR 2 billion. The strategic objectives for the Bank are currently a little higher at total assets of close to EUR 3 billion and a loan and equity portfolio of around EUR 2.5 billion. The binding constraints on growth are (i) the loan and equity portfolio size through the operational gearing ratio (100% of subscribed capital reserves and surpluses – EUR 2.43 billion) and (ii) the objective of keeping paid in capital (EUR 830 million) at 30% of total assets. Gearing ratios are: 2010: 28%; 2011: 30%; 2012: 32%; 2013: 32%; 2014: 39%; 2015: 46%; 2016: 49%; 2017: 48%' 2018: 56%; 2019: 76%; 2020: 81% (average of 3 quarters) Reflecting these considerations the ***evaluation rating is Satisfactory.***
9. Average annual growth of outstanding portfolio.	Economy of scale	10%	Yearly growth rates are: **2010**: -1%; **2011**: 7%; **2012**: 9%; **2013**: -1%; **2014**: 23%; **2015**: 16%; **2016**: 7%; **2017**: -2%' **2018**: 16%; **2019**: 36%; **2020**: 6.7% (average of 3 quarters). As the annual average growth is over 11%, the ***Evaluation Rating is Satisfactory.***
10. About 25 operations p.a. at an average size of SDR 10.5 million (disbursements of about SDR 300M p.a.).	As above	# of Operations Amount of Disbursements	# of Signed Operations: **2010**: 25; **2011**: 36; **2012**: 17; **2013**: 22; **2014**: 24; **2015**: 25; **2016**: 20; **2017**: 20; **2018**: 31; **2019**: 27; 2020: 11 (as of 31 Oct 2020). Disbursements: **2010**: 197mln; **2011**: 298mln; **2012**: 168mln; **2013**: 225mln; **2014**: 213mln; **2015**: 480mln; **2016**: 373mln; **2017**: 401mln; **2018**: 618mln; **2019**: 843mln; **2020**: 310mln (as of 31 Sept 2020) The results are in line with projections and the ***Evaluation Rating is Satisfactory.***

Bank Related Goals (Internal)	Justification	Unit of Measurement	Achievement / evaluation rating
1. Key Performance Indicators used in quarterly and annual reports.	Reinforce portfolio management / accountability.	KPIs	KPI design and implementation turned more challenging than expected but was generally accomplished, at least at corporate level. A simplification at departmental level was adopted recently. ***The Evaluation Rating is Satisfactory.***
2. Consider setting up a team of professionals in equity investments	Increasing the share of equity operations in the portfolio of outstanding operations	Equity team	The goal was abandoned mid-way, as the Bank took course toward reducing the portfolio risk levels in aspiration of a better credit rating. The ***Evaluation Rating is Partly Unsatisfactory.***

3. Corporate Balance Scorecards (CBS) to be used for implementation of the Medium-term Strategy.	Allocation of tasks in work programs. Translate mission and strategy into tangible objectives.	CBS	As with KPIs, CBS turned very hard to effectively implement and cascade to departmental levels. It was abandoned and replace with a simple assessment as done before 2010. The evaluation acknowledges the challenging task and arrived at a ***Rating Partly Unsatisfactory.***
4. The total number of staff would not exceed 120	matching available skills with needs.	Number	Total number of staffs is 117 as of Nov 26, 2020. This is well within the goal and the ***Evaluation rating is Satisfactory.***
5. Enhance monitoring and evaluation systems, to attain higher impact while controlling the risk-return profile.	elevate accountability to highest MDB standards, to improve mandate fulfilment	MDB standards	The monitoring process and outcomes were streamlined with certain progress in completion reporting (self-evaluation). The independent evaluation system was peer reviewed and substantially enhanced in 2012, followed by a full recognition and membership at the MDB ECG authority in 2014. ***Evaluation Rating: Excellent.***

iii. Conclusions

As outlined above, the Strategy implementation produced mixed results. While some goals (mostly financial) were consistently addressed, other higher-level objectives were not attained. The latter include mostly goals that were beyond the direct control of the Bank such as the attraction of a new shareholder and the higher credit rating, among others. Meanwhile, certain goals that were within the capability of the Bank, were abandoned almost at outset, often because they were perceived as contradictory to other goals, as is the case with the intention to build a 10% share of equity operations.

The Evaluation ratings vary from Excellent to Unsatisfactory, with the positive ratings outnumbering the negative ones (11 positive and 4 negative within all 15). Hence, the overall assessment of the Long-Term Strategy 2010-2020 is rated positively - as Satisfactory.

ANNEX II- OPERATIONAL GROWTH CORRIDORS AND FINANCIAL PLANS

Table II/ A: Upper Bound Financial projections 2021-2030

			Actual	Estimate	Forecast	Forecast	Forecast
INDICATORS	EUR mil.	**2010**	**2019**	**2020**	**2021**	**2022**	**2030**
Cost of Borrowed Funds (Above Base Rate)		2.85%	3.50%	2.00%	1.85%	1.80%	1.55%
Average cost of funds		1.06%	2.24%	1.38%	1.28%	1.25%	1.08%
Interest on loans		6.57%	5.84%	4.93%	4.33%	4.30%	3.38%
New commitments (signed)		**198**	**843**	**624**	**858**	**772**	**1,730**
New BoD approved		**214**	**1,064**	**770**	**953**	**965**	**2,162**
Disbursements		215	872	785	882	799	1,687
Reimbursement		198	383	484	545	697	1,457
Total outstanding disbursements (B/S)		**653**	**1,851**	**2,069**	**2,406**	**2,508**	**4,249**
Commitments		**724**	**2,101**	**2,228**	**2,589**	**2,664**	**4,696**
Planned Commitments (net of repayments)		**774**	**2,251**	**2,417**	**2,711**	**2,870**	**5,734**
Total signed undisbursed		72	250	159	183	156	447
Operational Gearing Ratio		***1,507***	***2,620***	***2,641***	***2,675***	***2,710***	***4,357***
Institutional Gearing Ratio		***1,571***	***3,649***	***3,663***	***3,685***	***5,450***	***5,766***
Growth Rate in Active Portfolio (signed)		***6.30%***	***23.33%***	***11.28%***	***16.24%***	***11.75%***	***11.17%***
Growth in gross Loans outstanding (B/S)		***6.22%***	***35.06%***	***12.53%***	***16.31%***	***4.22%***	***5.72%***
Ratios							
Capital		506	830	840	855	870	1,429
ROAA		1.30%	0.67%	0.54%	0.53%	0.52%	0.72%
Equity/Total Assets		62.57%	35.44%	30.12%	30.34%	30.02%	29.99%
Loan loss provisions/total loans (end of year)		6.56%	3.80%	2.63%	2.71%	3.09%	4.23%

Table II/ B: Upper Bound Income Statement & Balance Sheet Forecast Summaries

INCOME STATEMENT	2010	2019	2020	2021	2022	2030
Interest and Similar Income						
Interest on loans	29.87	78.67	86.68	90.91	97.09	135.96
From placements with Financial Institutions	0.02	0.04	0.10	0.01	0.03	0.45
From Investment Securities	4.38	11.19	9.64	5.21	4.23	5.69
From front-end and Commitment fees	2.93	3.31	1.94	1.70	1.70	1.70
Total Interest and Similar Income	**37.21**	**93.22**	**98.35**	**97.83**	**103.04**	**143.80**
Total Interest Expenses and Charges	**12.42**	**56.74**	**55.66**	**50.67**	**52.96**	**66.35**
Net interest Income	**24.79**	**36.48**	**42.68**	**47.16**	**50.08**	**77.45**
Total Other Income	**8.50**	**0.28**	**-0.54**	**1.55**	**1.86**	**6.23**
Operating Income	**33.29**	**36.76**	**42.14**	**48.70**	**51.94**	**83.67**
Total Administrative Expenses	**14.28**	**21.31**	**20.03**	**23.06**	**25.04**	**35.02**
Income before provisions	**19.00**	**15.45**	**22.12**	**25.64**	**26.90**	**48.66**
Provisions	**8.55**	**1.60**	**8.36**	**10.75**	**12.03**	**15.19**
Net profit	**10.45**	**13.85**	**13.75**	**14.89**	**14.87**	**33.47**
BALANCE SHEET	**2010**	**2019**	**2020**	**2021**	**2022**	**2030**
Assets						
Cash and bank balances	85.13	82.62	65.61	50.00	50.00	125.00
Placements with financial institutions	4.53	0.00	0.00	50.00	50.00	150.00
Investment securities	86.15	419.83	459.35	325.00	325.50	425.00
Total deposits and securities/Liquidity	**175.81**	**502.45**	**724.96**	**425.00**	**425.50**	**700.00**
Loans	654.75	1,808.05	2,044.91	2,382.05	2,482.73	4,122.83
Equity investments	18.15	30.39	23.81	24.02	24.89	125.88
Less: provisions for impairment	-42.92	-68.74	-53.83	-64.58	-76.61	-174.46
Net loans and equity investments	**623.67**	**1,769.70**	**2,014.89**	**2,341.49**	**2,431.01**	**4,074.26**
Total assets	**809**	**2,343**	**2,789**	**2,817**	**2,897**	**4,766**
Liabilities						
Borrowing	299.00	**1,485.03**	**1,889.94**	**1,911.58**	**1,976.18**	**3,286.00**
Total liabilities	**302.78**	**1,512.91**	**1,948.92**	**1,962.56**	**2,027.21**	**3,337.03**
Paid-in share capital	**428.95**	**686.55**	**686.55**	**686.55**	**686.55**	**1,035.00**
General reserve	**31.00**	54.00	54.71	54.71	64.38	141.74
Surpluses	**46.27**	89.92	98.63	113.53	118.72	252.41
Total Equity	**506.22**	**830.47**	**839.89**	**854.78**	**869.65**	**1,429.15**
Total own funds and liabilities	**809**	**2,343**	**2,789**	**2,817**	**2,897**	**4,766**

Table II/ C: Lower Bound Financial projections 2021-2030

			Actual	Estimate	Forecast	Forecast	Forecast
INDICATORS	EUR mil.	**2010**	**2019**	**2020**	**2021**	**2022**	**2030**
Operating Assumptions							
Cost of Borrowed Funds (Above Base Rate)		2.85%	3.50%	2.00%	1.85%	1.80%	1.55%
Average cost of funds		1.06%	2.24%	1.38%	1.28%	1.25%	1.06%
Interest on loans		6.57%	5.84%	4.93%	4.33%	4.30%	3.36%
New commitments (signed)		**198**	**843**	**624**	**858**	**772**	**1,401**
New BoD approved		**214**	**1,064**	**770**	**953**	**965**	**1,752**
Disbursements		215	872	785	882	799	1,374
Reimbursement		198	383	484	545	697	1,243
Total outstanding disbursements (B/S)		**653**	**1,851**	**2,069**	**2,406**	**2,508**	**3,726**
Commitments		**724**	**2,101**	**2,228**	**2,589**	**2,664**	**4,092**
Planned Commitments (net of repayments)		**774**	**2,251**	**2,417**	**2,711**	**2,870**	**5,017**
Total signed undisbursed		72	250	159	183	156	367
Operational Gearing Ratio		***1,507***	***2,620***	***2,641***	***2,675***	***2,710***	***3,957***
Institutional Gearing Ratio		***1,571***	***3,649***	***3,663***	***3,685***	***4,925***	***5,209***
Growth Rate in Active Portfolio (signed)		***6.30%***	***23.33%***	***11.28%***	***16.24%***	***11.75%***	***9.13%***
Growth in gross Loans outstanding (B/S)		***6.22%***	***35.06%***	***12.53%***	***16.31%***	***4.22%***	***3.63%***
Ratios							
Capital		506	830	840	855	870	1,303
ROAA		1.30%	0.67%	0.54%	0.53%	0.52%	0.63%
Equity/Total Assets		62.57%	35.44%	30.12%	30.34%	30.02%	31.38%
Loan loss provisions/total loans (end of year)		6.56%	3.80%	2.63%	2.71%	3.09%	4.47%

Table II/ D: Lower Bound Income Statement & Balance Sheet Forecast Summaries

INCOME STATEMENT	2010	2019	2020	2021	2022	2030
Interest and Similar Income						
Interest on loans	29.87	78.67	86.68	90.91	97.09	121.90
From placements with Financial Institutions	0.02	0.04	0.10	0.01	0.03	0.45
From Investment Securities	4.38	11.19	9.64	5.21	4.23	4.24
From front-end and Commitment fees	2.93	3.31	1.94	1.70	1.70	1.70
Total Interest and Similar Income	**37.21**	**93.22**	**98.35**	**97.83**	**103.04**	**128.29**
Total Interest Expenses and Charges	**12.42**	**56.74**	**55.66**	**50.67**	**52.96**	**58.02**
Net interest Income	**24.79**	**36.48**	**42.68**	**47.16**	**50.08**	**70.27**
Total Other Income	**8.50**	**0.28**	**-0.54**	**1.55**	**1.86**	**4.15**
Operating Income	**33.29**	**36.76**	**42.14**	**48.70**	**51.94**	**74.43**
Total Administrative Expenses	**14.28**	**21.31**	**20.03**	**23.06**	**25.04**	**35.02**
Income before provisions	**19.00**	**15.45**	**22.12**	**25.64**	**26.90**	**39.41**
Provisions	**8.55**	**1.60**	**8.36**	**10.75**	**12.03**	**13.50**
Net profit	**10.45**	**13.85**	**13.75**	**14.89**	**14.87**	**25.91**
BALANCE SHEET	**2010**	**2019**	**2020**	**2021**	**2022**	**2030**
Assets						
Cash and bank balances	85.13	82.62	65.61	50.00	50.00	125.00
Placements with financial institutions	4.53	0.00	0.00	50.00	50.00	150.00
Investment securities	86.15	419.83	459.35	325.00	325.50	325.00
Total deposits and securities/Liquidity	**175.81**	**502.45**	**724.96**	**425.00**	**425.50**	**600.00**
Loans	654.75	1,808.05	2,044.91	2,382.05	2,482.73	3,697.20
Equity investments	18.15	30.39	23.81	24.02	24.89	28.42
Less: provisions for impairment	-42.92	-68.74	-53.83	-64.58	-76.61	-165.22
Net loans and equity investments	**623.67**	**1,769.70**	**2,014.89**	**2,341.49**	**2,431.01**	**3,560.40**
Total assets	**809**	**2,343**	**2,789**	**2,817**	**2,897**	**4,151**
Liabilities						
Borrowing	299.00	**1,485.03**	**1,889.94**	**1,911.58**	**1,976.18**	**2,797.14**
Total liabilities	**302.78**	**1,512.91**	**1,948.92**	**1,962.56**	**2,027.21**	**2,848.17**
Paid-in share capital	**428.95**	**686.55**	**686.55**	**686.55**	**686.55**	**930.00**
General reserve	**31.00**	54.00	54.71	54.71	64.38	141.74
Surpluses	**46.27**	89.92	98.63	113.53	118.72	231.00
Total Equity	**506.22**	**830.47**	**839.89**	**854.78**	**869.65**	**1,302.74**
Total own funds and liabilities	**809**	**2,343**	**2,789**	**2,817**	**2,897**	**4,151**