Medium-Term Strategy and Business Plan 2023-2026

Phase 1: 2023-2024
Safeguarding the Interests of the Bank and Setting the Foundation for Further Development

Approved by the BSTDB Board of Governors, 7 March 2023

EXECUTIVE SUMMARY

During 2017-2021, the Bank demonstrated rapid and responsible growth, supporting high quality projects that helped fulfil high regional investment needs while at the same time maintaining key capital and financial ratios at prudent levels. However, after nearly two decades of steady growth, predictable profitability, and rising quality, BSTDB experienced an exogenously induced but severe shock in 2022 that has created a multitude of uncertainties, and accumulating risks. The Bank will surely experience a net loss for 2022 due primarily to dramatically heightened provisioning requirements resulting from concerns about damage suffered from military conflict and sanctions restrictions. While some provisioned losses may ultimately not occur, this represents a prudent course of action based on the unknowns of the existing situation.

A secondary challenge to the Bank, beyond the fallout from the armed conflict, is a more difficult financial situation for emerging markets caused by global tightening of monetary policies. While Member Countries are by and large well placed to weather more difficult economic conditions, having prudently increased buffers and reduced vulnerability in the aftermath of the 2008 financial crisis, the expected global economic downturn will impact growth prospects and access to affordable financing into 2023, and possibly beyond.

In light of these developments, the Bank has chosen to split its four-year Medium-Term Strategy and Business Plan (MTSBP) 2023-2026, into two parts: Phase 1: 2023-2024 where it will focus on stabilization and consolidation, and Phase 2: 2025-2026 which expects to focus on return to growth and value creation. Phase 2: 2025-2026:

The present Phase 1 document emphasizes the design, development, and implementation of resilience mechanisms with a view to safeguarding the investment of the Member States as well as the institution's credibility vis a vis its key interlocutors. The main goal is to maintain financial sustainability and achieve operational consolidation through preservation of asset quality and generation of a limited number of smaller sized operations with high strategic value, development, and regional cooperation impact, while carefully managing the size of its portfolio, in order to ensure strong capital and liquidity ratios and a sufficient 'buffer' to be able to adapt to circumstances as needed. Once sufficient clarity is attained, the Bank will shift its focus to returning to its long standing model of steady managed growth.

The Bank will suffer losses, due to the high level of loan-loss provisions, and the extent of this erosion will limit the headroom available to the Bank to undertake new operations. Therefore, it intends primarily to focus on monitoring and supervision of its portfolio in order to prevent further deterioration of asset quality and ensure recovery of exposures at risk. New operational activity will be limited, and for the 2023-24 period will shift to (i) increased use of unfunded participations, such as guarantees, (ii) financing private sector operations in development priority sectors; (iii) financing operations with high development impact in the public sector; (iv) reducing the use of equity, subordinated loans, bonds, and other unsecured high risk facilities, and (v) seeking to enhance the degree of co-financing from other partners. Given the lower level of new activity, the Bank will favor shorter operations of smaller size, than has been the case in the recent past, and it will prioritize post-conflict reconstruction activities and countries which have been under-served, and where the impact of Bank financing is thus likely to be greatest. The degree of operational activity will ultimately be determined by the need always to maintain prudent capitalization ratios and ample liquidity levels.

The Bank fully intends to meet all its financial obligations, stabilize its key financial ratios, and stem losses. Financially, the Bank shall generate internally the financial resources, and supplement those with borrowed funds when and if available at acceptable terms and conditions, in order to fulfill all obligations. It will work hard to restore access to financial markets on the favorable terms it had achieved prior to the crisis. It also expects the increase in the subscribed capital of the Bank will proceed unhindered, as approved by its Board of Governors in September 2021, with initial installments being paid in 2023.

The reduced operational activity affords an opportunity to review and upgrade the Bank institutionally and organizationally, and will continue implementation of the new SAP S/4 Hana RISE integrated IT system, and continue to strengthen control, risk management, accounting, and management information systems in order to further increase transparency and accountability. The Bank will further develop its institutional capacity for conducting continuous policy dialogue with Member States and other stakeholders, and intends to expand further its relationship and cooperation with observers and other members of the MDB family, and more broadly with the components of the international financial community and development promoting agencies.

The Base Case Scenario for 2023-24, which makes a series of conservative assumptions including continued stress on the portfolio and lack of any new borrowing, foresees a further decline of 14.5% in the portfolio between end-2022 and end-2024 (on top of the decline expected for 2022 relative to 2021), essentially returning to 2019 levels. The Bank's balance sheet is projected to fall 22.3% over this period. After averaging € 725 m annually between 2018-2021, new commitments are limited to a total of € 368m in 2023 and 2024.

The Upper Case Scenario for 2023-24 also expects some shrinking of the portfolio and balance sheet during this period, but also assumes a limited degree of external borrowing, less portfolio stress- and hence more repayments and a more favorable climate. The outstanding portfolio declines by 7.2% between end-2022 and end-2024, and the balance sheet by 15.6%. New commitments in 2023 remain limited at € 125m and but recover more rapidly to € 345m in 2024.

These two scenarios establish the upper bound and the lower bound of the corridor where the operational portfolio and balance sheet of the Bank may evolve over the period 2023-2024, depending upon global and regional developments that determine both constraints and opportunities.

1 MISSION AND VISION

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

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

2 GOING FORWARD: A Perspective for Consolidation – Safeguarding the Interests of the Bank

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

The Bank has always sought to be flexible and ready to adapt according to changing conditions.

The exogenously induced crisis has created a multitude of unknowns, uncertainties, and accumulating risks that make difficult any forecast of conditions prevailing after 2024, and therefore the ability of the Bank to foresee at this stage its business profile and operational activities. Consequently, the Bank has decided to proceed with a two stage approach; instead of a four year strategy with a mid-term review, it has elected to prepare a Phase 1 two year strategy covering 2023-2024 and to continue with a Phase 2 strategy covering the remaining period of 2025-2026, when it will have achieved a level of clarity that allows it to assess the impact of the current downturn, and the degree to which it may resume operational growth.

The forthcoming period of the four year Medium Term Strategy and Business Plan (MTSBP) 2023-2026, will be a critical juncture for the Bank to stabilize and consolidate - Phase 1: 2023-2024, and return to growth and value creation - Phase 2: 2025-2026:

- The MTSBP 2023-26 is the first such document to be fully implemented within the framework of the LTSF 2021-30, the quantitative targets of which- and possibly certain qualitative aims- will need to be updated following the Covid-19 pandemic, geopolitical tensions, military conflict in the region, and global economic stress.
- Moving from a strategy focused on "Steady Managed Growth" to a strategy focused on "Stabilization and Consolidation", gives the MTSBP 2023-26 basically a "point of inflection" aspect, at entry for Phase 1 covering the period 2023-2024 and at the mid-term, where the Bank would return to growth.

This two Phase approach to the development and implementation of the MTSBP 2023-2026, with its defining point of inflection, shifts the emphasis in Phase 1 of the MTSBP for 2023-2024 to design, development, and implementation of resilience mechanisms with a view to safeguarding the investment of the Member States as well as the institution's credibility vis a vis its interlocutors - the Members States themselves, rating agencies, auditors, partners in development, bond arrangers and dealers and the investor community.

Operationally, the main goal of BSTDB over Phase 1 of the new Medium Term Strategy period is to maintain financial sustainability and achieve operational consolidation through preservation of asset quality and generation of a limited number of smaller sized operations with high strategic value, development, and regional cooperation impact, while carefully managing the size of its portfolio, in order to ensure strong capital and liquidity ratios and a sufficient 'buffer' to be able to adapt to circumstances as needed. In other words, the degree of operational activity will ultimately be determined by the need always to maintain prudent capitalization ratios and ample liquidity levels. Once clarity is attained, the Bank may focus on returning to steady managed growth during Phase 2 of the Medium Term Strategy period.

2.2 Areas of Strategic Focus

After an as yet undetermined period of adversity and uncertainty, BSTDB, with the support and proper action of all its Shareholders, expects to meet all its financial obligations, stabilize its key financial ratios, and stem further losses. However, it will have endured damage the extent of which remains undetermined. More significantly, it will have suffered loss of capital, due to the high level of loan-loss provisions, and the extent of this erosion will limit the headroom available to the Bank to undertake new operations.

Operationally

The operational objectives of the Long-Term Strategic Framework 2021-2030 (LTSF) have been rendered moot by recent events. Moreover, many strategic objectives are now in need of calibration or redefinition. Nevertheless, the increase in the subscribed capital of the Bank must proceed unhindered, as approved by the BoG in September 2021. As the Bank must rebuild its capital and restore the quality of its assets, it expects only to be able to rely on repayments and incoming payments made by Member States in order to undertake new operations. Even with the influx of capital payments from 2023-2030 of €30.6 million per year - as envisioned in the capital subscription approved in September 2021 – the operational portfolio (and overall balance sheet) declined in 2022 and will need to continue to do so in 2023, and possibly in 2024 as well, followed by slow growth thereafter.

BSTDB intends mainly to focus on monitoring and supervision of its portfolio in order to prevent further deterioration of asset quality, ensure recovery of exposures at risk, and provide limited and targeted financing for development while strengthening further its cooperation with the public sector and other partners in development. The rationale for this approach is to consolidate and preserve the quality of its portfolio at a time of severe regional crisis and increased global uncertainty. To this end, operational activity will shift to (i) increased use of unfunded participations, such as guarantees, (ii) financing private sector operations in development priority sectors; (iii) financing operations with high development impact in the public sector; (iv) reducing the use of equity, subordinated loans, bonds, and other unsecured high risk facilities, and (v) seeking to enhance the degree of co-financing from other partners.

Many of these activities may require additional resources to develop delivery capacity. Necessary precautions will be considered with respect to: (i) having in place procedures and platforms necessary for the successful appraisal, execution, and supervision of transactions, (ii) ensuring that all the required technical conditions are in place, and (iii) recruiting, training and retaining staff with the professional knowledge and behavioral characteristics relevant for the Bank.

Financially

The Bank shall strive to generate internally the financial resources, and supplement those with borrowed funds when and if available at acceptable terms and conditions, needed to fulfill all its obligations as they come due.

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

Institutionally and Organizationally

Overall, the Bank is well structured and operates smoothly and effectively. Still, the Bank critically and continuously assesses its organizational structure from a cost effectiveness and operational efficiency perspective in light of potential business model changes, operational adjustments and implementation of the new SAP S/4 Hana RISE integrated IT system. In addition, the Bank needs to continue to strengthen its control, risk management, accounting, and management information systems in an environment of increased transparency and accountability.

The Bank will further develop its institutional capacity for conducting continuous policy dialogue with Member States and other stakeholders, and intends to expand further its relationship and cooperation with observers and other members of the MDB family, and more broadly with the components of the international financial community and development promoting agencies.

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

3 OPERATING CONTEXT

3.1 Global and Regional Operating Environment

Economies in the BSTDB region started to recover in 2021 mainly due to the strong fiscal and monetary incentives implemented by authorities. As of the end-September 2022 the economic performance of Member States, with the exception of Russia and Ukraine, was stronger than originally projected, although there are expectations for a slowdown in the last part of the year and 2023. This, together with the rise in global commodity prices, contributed to strong pressures on inflation. Looking ahead, however, demand-side pressures on inflation are likely to subside on the back of anticipated fiscal consolidation and ongoing tightening of monetary policy across the countries in the region.

Global markets have tightened in the first half of 2022, with rising inflation expectations leading to a general trend of rising interest rates, and financial markets' performance deteriorated sharply in the third quarter. Under normal circumstances, this would be manageable for the Bank as it would be able to pass on the higher costs to its borrowers and, given the strong demand of recent years, it likely would have been able to emphasize higher priority areas in selecting where to invest. However, the Bank has faced an unprecedented crisis resulting from military conflict among Member States. At present, no one knows for how long this dire situation will persist, nor how it may evolve. For the Bank it means that uncertainties are pervasive, risks remain high, and a situation characterized by high uncertainty will continue for the foreseeable future.

Inflation is a major challenge facing the region and beyond. In some countries, price increases are at nearly four decade highs. Food and commodity prices are projected to increase further or remain elevated as geopolitical tensions remain high, military conflicts limit supplies, and some countries implement protective trade measures. This, in turn, will further feed inflation in the region and beyond, and will have negative consequences on economic growth, on the current account of net importing countries, and may lead to an increase in poverty rates.

Supply chain problems are another challenge facing the world as supply bottlenecks remain and affect shipping costs and delivery times. It is expected that producers globally will try to reduce reliance on a single source or single region, and shift to supply chains based on diversified nodes, with production facilities in various regions. As such, countries that attract investment for that purpose will benefit from the current supply chain challenges. Given the proximity to wealthy 'final' markets, available infrastructure, and an educated workforce, BSTDB member countries are among the potential beneficiaries of this process, and such a trend has indeed started to take place since the pandemic.

There is a risk that the world might be moving from a long low inflation period to a high and volatile inflation period in a slow growing economic environment. Different tools and timely action will be required to avoid the persistence of high inflation and secure continuous economic growth. In addition, it implies the adoption of tighter monetary policies by reserve currency central banks (e.g. Federal Reserve, European Central Bank), which leads to greater volatility in emerging markets and challenges such as increased pressure on their currencies, rising external debt payments, and more difficult access to affordable financing.

The current global situation, amplified by the regional geopolitical crisis, has resulted in the most severe and complicated situation that BSTDB, despite its considerable experience in dealing with difficult circumstances, has had to overcome. At present, the cost of access to new funding by BSTDB is prohibitive. Therefore, and because attractive market access cannot be automatically assumed, the Bank will need to be in a position to generate from internal resources, reducing correspondingly the size of its outstanding active portfolio, the amounts necessary to repay the two maturing bonds, before accessing international capital markets in the second half of 2024.

Given these factors, the Bank needs to carefully consider its operations in the period remaining to the end of 2024, enhance supervision and monitoring, and secure to the maximum extent possible repayment of exposures, particularly in places affected by conflicts and sanctions regimes.

3.2 Bank Internal Environment – Review of Performance 2019-2022

The 2019-2021 period was characterized by rapid growth, above the Bank's historical trend, as it sought greater prominence, in order to move towards its vision of being a preferred partner in the Black Sea Region. As a result, the Bank largely met the strategic objectives set by the BoG in the LTSF 2010-2020. BSTDB's operational portfolio grew from EUR 1,357 million at the end of 2018 to EUR 2,370 million at the end of 2021, representing cumulative growth of nearly 75%, or annualized average growth of 20.4% over this period.

It was also well on its way to meeting the quantitative objectives laid out in the MTSBP 2019-2022. Over the period 2019-2021, the Bank's Board of Directors approved 87 new operations with a total value of EUR 2.6 billion, 81 operations were signed, and a total amount of EUR 2.5 billion was disbursed. As at end of January 2022 the Bank's outstanding portfolio reached EUR 2.4 billion, in line with the goal set in the Medium-term Strategy, and despite the difficult conditions imposed by the Covid pandemic and the corresponding containment measures taken by almost all governments around the world. The portfolio structure by sector remained broadly in line with the Bank's historical trends. As in previous years, the most significant exposures were in financial institutions, industrials, utilities, materials, consumer staples, and health care. Significant exposure to financial institutions reflects BSTDB's strategic focus on SMEs , trade finance, leasing, and mortgage lines of credit extended through financial intermediaries in member countries. In terms of country distribution, project coverage was a bit uneven. The Bank fully covered four year targets for certain countries in only three years, but also experienced difficulty fulfilling targets in several countries, particularly some of the smaller ones.

In addition, over the period from 15 July 2018 to the end of 2021, the Bank successfully restructured 4 operations and recovered in total 77% of the amount at risk. Cumulatively, over the period the Bank recovered in total some EUR 55 million. This is also a commendable effort made by the Bank to restructure non-performing operations and minimize potential loss.

The Bank remained profitable for the entire period, and in 2021 it achieved the highest net profit since the start of operations in 1999. All these are extraordinary quantitative results as the Bank increased the level of support it offered to Member States during the difficult times of the health crisis.

Furthermore, the Management of the Bank proceeded with an updated vision for the future, within the mandate of the Bank, to increase the relevance of the institution as a regional development finance endeavor of Member States, submitting and having approved a Climate Change Strategy for a period of 10 years. The Bank's positive prospects and the ways in which its shareholders would like it to evolve were reflected in the Long Term Strategic Framework (LTSF) 2021-2030, the key document that links the Bank's dual mandate to its strategic priorities. The LTSF was adopted by the Board of Governors in June 2021, and it reaffirmed the vision of the Bank to become a pre-eminent institution in the Black Sea Region promoting economic development and regional cooperation. In addition, the Member Countries agreed to initiate the process for a new capital increase, the first one since 2008. This willingness, undertaken during a time of post-pandemic fiscal and monetary tightening and competing demands for government resources, demonstrates the dedication of the shareholders to the Bank.

All these achievements provide a strong foundation for the further growth of the Bank in the coming years, and a focus on operations with high development impact for the benefit, in the ultimate analysis, of the people of the region.

4 OPERATIONAL STRATEGY

The new Medium Term Strategy and Business Plan does not envision a substantive change to the Bank's current business model of finding and financing eligible projects in the public or private sector that take place in one or more of the Bank's Member States, that are deemed to contribute positively to the Bank's dual mandate to promote economic development and regional cooperation.

However, in the current extraordinary period in which the Bank finds itself, as a consequence of Regional military conflicts, such as the one between the Russian Federation and Ukraine, as well as challenging global economic and financial conditions, for Phase I the Bank has changed its focus from pursuing steady growth to the protection, consolidation and the safeguarding of the interests of the shareholders and the credibility of the institution. The emphasis of BSTDB is to protect its portfolio and existing liquidity, limit the damage (and the fallout from damage) inflicted by military activities, and navigate legally and safely through contractually applicable sanctions regimes- e.g. US, EU, UK, as well as UN- in order to be able to receive repayments from all clients transparently. The Bank respects and abides by the sanctions regimes of global influence, and will not undertake operational activity with persons, firms or other entities that are sanctioned, for as long as those sanctions remain in place.

While the Bank is meeting the existing legal commitments it has to clients, it is prioritizing reducing its exposure. This implies shrinking the balance sheet and deleveraging, to free up capital, ensure ample liquidity, and obtain additional flexibility so as to be able to respond quickly and efficiently to emerging contingencies.

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

(a) non-disbursing activities, like provision of guarantees and other unfunded risk participation products in order to compensate for its inability to lend greater volumes of resources directly.
(b) in case of direct financing, smaller sized operations of shorter maturity, mainly for SMEs, and longer term trade financing not covered by private banks. One possible course of action may be by lending directly to medium-sized companies and perhaps for smaller sized projects in the municipal sector, generating a larger number of operations of lower value individually.
(c) participation in select high profile development impact operations, especially where it is co-financing with other prominent institutions.
(d) co-financing, so that even though the Bank's ability to finance directly is constrained, it may continue to mobilize resources for the benefit of Regional banks, firms, and agencies.

This approach requires the strengthening of:

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

4.1 Geographic Concentration

BSTDB seeks to maintain a balance between being market driven on the one hand and maintaining an adequate presence in all the Member States and providing value added in countries and areas which may be underserved, on the other hand.

Cascading to Member State level, how the Bank might increase relevance would differ from country to country. As regards individual country targets, they will be enumerated after Phase 1 of the MTSBP for 2023-24. In Phase 1, the MTSBP is focused on portfolio shrinkage and financial consolidation. The limited new operational activity that will take place will prioritize post-conflict reconstruction activities and countries which have been under-served in the recent past, and where the impact of Bank financing is likely to be greatest.

During this period Country Strategies will not be prepared for BoD approval as the Bank will focus on safeguarding its shareholders' long-term collective interests and not supporting short-term individual country priorities. Country Strategies will be prepared with a view to approval by the Board of Directors following the approval of Phase 2 of the MTSBP for 2025-26 by the Bank’s Board of Governors.

4.2 Sector Priorities

In the short-term, the Bank intends to increase its presence in key areas such as SMEs and trade finance, and in the future in energy (especially renewables), IT and telecommunications, fee-based municipal and communal facilities and services (including digitalization), and environment related operations (energy efficiency, renewable energy, recycling, water and solid waste treatment, climate change mitigation etc.), as these tend to have high cooperation and development impact, as well as economic and social returns that exceed the financial returns of the particular operation financed.

4.3 Financing Instruments

The Bank may employ a wide array of financial instruments. However, it tends to use some far more frequently than others. For the 2023-24 period, the following forms will likely take priority, within the limited activity that is envisioned:

Direct lending - has been and will remain the Bank’s principal financing instrument, for corporate loans as well as for project financing.

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

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

Off-balance-sheet financing - The Bank will look to increase the provision of off-balance sheet instruments such as guarantees – including unfunded risk participations – especially where these improve external mobilization of financing for clients, and shall seek to expand the use of such instruments. As needed, BSTDB will expand its internal capacity in this regard.

Other financing instruments will be avoided unless there are exceptional reasons for employing them. As regards equity, the Bank has reduced the provision of equity in recent years because (i) it is considered riskier, and (ii) it receives a significantly worse risk weighting than other instruments, and thus erodes the Bank’s capital more heavily for a given amount. Similarly, in the period covered by Phase 1, the Bank shall refrain from providing products with unfavorable risk profiles such as subordinated debt and mezzanine finance.

4.4 Size of operations

Over the period 2023-2024 the Bank will seek to provide a larger number of operations of shorter maturity compared to the period 2019-2021. Generally, the Bank will target an average size of operation that is smaller has been the average in recent years, and will consider operations as small as €5 million, with a minimum size in smaller shareholding countries of €3 million.

4.5 Maturity

The average tenor of Bank projects stood at approximately 3.5 years at the end of September 2022. Assuming quality at entry is maintained, this figure is likely to remain steady, and may even come down in view of the shorter maturities envisioned for new operations. While shorter maturity operations mean more frequent turnover, they also increase the number of operations that may be carried out and help reduce the term risk of the portfolio.

5 FINANCIAL STRATEGY

BSTDB has a demonstrated track record of prudence and adherence to robust capital ratios. This adherence has been a key characteristic of the Bank during its existence, and when faced with a choice, it has opted to err on the side of caution rather than risk overreaching. In other words, in times of crisis, the Bank consciously has opted to safeguard its Member States' investment and to maintain its credibility, even when this requires a reduction in new operational activity. These are difficult choices, and they create a degree of risk in the Bank's relationships with the clients it finances, and the Bank seeks to mitigate the negative impact for them by helping find suitable alternatives that fulfill their needs. However, the Bank's primary responsibility is its safety and this has also been conveyed to clients, investors, and all other interlocutors.

To this end, key critical requirements are to sustain high capitalization ratios, such as risk adjusted capital (RAC) and capital adequacy (CAR).

This achievement requires a solid capital base, strong operating income levels, and a high quality portfolio. Consistent positive net income levels allow for increases in reserves and thus shareholder funds (paid-in capital plus reserves and surpluses). Indeed, the ultimate determinant of new Bank operational activity will be the need to ensure that the Bank maintains its operational gearing ratio, which translates into a ratio of at least 30% of total equity to the total operational portfolio.

Other measures to improve financial position aim to:

(a) reduce the cost of employed capital,
(b) improve active portfolio management, and
(c) achieve appropriate control of administrative expenses, while securing the necessary capacity to achieve safely the strategy goal.

5.1 Capital

Resource mobilization represents a critical indicator of the success of MDBs. Essential at this stage in Bank evolution is that shareholders subscribe to the entirety of authorized capital offered for subscription and that payment of allocated shares will proceed swiftly, as approved by the BoG.

5.2 Recovery of Exposures at Risk

The long experience the Bank has accumulated in taking into account various influential sanctions regimes assisted it in quickly receiving the necessary advice from external experts - already being utilized and familiar with the Bank and its operations and status - in order to allow it to continue receiving payments from sanctioned borrowers and countries that have imposed capital controls. The portfolio of operations in all Member Countries is subject to enhanced supervision and monitoring with a view to preserve quality of assets and prevent deterioration. Existing operations at risk are restructured and recovered to the extent possible.

Amounts recovered by the Bank from these operations are a supplementary source of liquidity, not taken under consideration for forecasts of operational activities and financial statements, prepared under very conservative assumptions.

5.3 Resource Mobilization

Shareholders invest equity capital in the expectation that this capital will be leveraged in order to mobilize additional resources. The Bank intends to mobilize resources via a variety of means like borrowing, attracting partners to finance via provision of unfunded risk mitigating products, co-financing, and via Special Funds. In the current constrained environment, the Bank will explore other ways to mobilize resources including partnerships which may bring in parallel co-financiers, with the Bank using its local expertise to identify and prepare projects. Another possibility, which will depend on market conditions, investor interest, and protection of the Bank's bottom line and strategic interests, is the selective sale of assets and even securitization (which remains at a very nascent stage as regards development institutions).

5.4 Pricing of BSTDB Operations

The achievement of positive profitability is essential to the Bank's long term health. The pricing of Bank operations strives to reflect the risk of each type of asset and also the specific cost of funds. The Bank does not seek to maximize profitability, as its shareholders prefer it to put developmental and cooperation considerations first. However, the Bank needs to achieve a reasonable rate of return over time so that it can remain self-sustaining, build capital buffers, and enhance its ability to leverage more resources while minimizing the degree to which it requires additional direct contributions from shareholders.

6 INSTITUTIONAL STRATEGY

Maintenance and enhancement of institutional credibility remain a prerequisite for the fulfillment of the Bank's mandate and the achievement of greater prominence over time. To this end, the Bank is dedicated to adopting best practices and attaining appropriate levels of checks and balances, utilizing a proper 'three lines of defense' model.

6.1 Organizational Issues and Human Resources Considerations

It is important for the Bank to be structured in a way that allows it to successfully face the challenges ahead, respond effectively to evolving conditions, and be both flexible and dynamic.

Organizational Structure

Although the current organizational structure of the Bank was recently upgraded and is not a constraint on successful operational activity, certain adjustments and improvements may be needed - in particular:

(i) strengthening monitoring and supervision
(ii) developing capacity of accounting, the middle office, more comprehensive risk management (particularly concerning the liability side and with respect to operational risk), and internal audit
(iii) establishing a dedicated MIS function with reporting responsibilities across the Bank.
(iv) enhancing the IT human resources for: SAP- with emphasis in the finance and data governance/management area; Microsoft Azure and Enterprise Information Management based on the OpenText software; and an IT project management office

Human Resource Management

To a great extent, success is determined by the quality of institutional and human relations. The Bank will adopt the necessary measures aimed at establishing an environment characterized by trust, high morale, and dedication, with a view to improving motivation and performance of staff.

The major components of the human resources program are:

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

In 2023-24, Bank staff is not expected to grow, but key positions will be filled either with new staff or horizontal shifts, in a prompt manner to ensure a smooth transition. Limited hires may also take place for individuals with specialization in in-demand priority areas. Moreover, the Bank faces an additional challenge of long serving regular staff retiring, and needs to carefully consider succession planning for the replacement of such staff to ensure that institutional knowledge is retained and disruptions are avoided.

IT Strategic Direction and Alignment

Transparency and reporting channels will be upgraded for real time provision of project information and identification of key controls during preparation and execution. Improvements will be made in the areas of financial accounting and management, treasury operations in particular with regard to hedge accounting, and loans administration. In the area of Information Management, there is a need to further enhance the automation and management of unstructured information, records management, and archives, including a Knowledge Management system. The Bank will prioritize an approach that supports automation, predictive analytics, and information governance; especially through a centralized, consolidated, and integrated IT architecture. The implementation of new IT software already underway may assist and improve operational efficiency. IT risk management and controls will be put be in place to mitigate IT risks. IT will be aligned with the Bank's strategic goals and objectives to assist the business with:

- Capitalizing on the new SAP cloud-based applications to improve business functionality in financial accounting and management, automation of payments approval, and enhancement of treasury operations and loans management and administration.
- Completing the implementation of the Banking application on the Operations Life Cycle
- Enhancing reporting and implementing business dashboards to monitor key Bank business indicators, providing management and staff with early warning signals.
- Enhancing document and information management by automating the capture, control, handling, approval and storage of information.
- Facilitating collaboration, communication and knowledge-sharing across the organization, via the creation of a Knowledge Management system.
- Implementing high-level integration between information systems to improve the automation of business processes and the exchange of data.
- Enhancing further the HR functions by using the SuccessFactors application to better manage the human capital resources of the Bank.
- Transitioning core business applications to a cloud-based environment.

To be able to maintain a resilient IT organization and to deliver the above services to business, the IT Department shall:

- Build a modern and agile IT Architecture with a high degree of integration among systems.
- Provide the appropriate IT structure, staffing, and sourcing.
- Ensure that staff are equipped with the necessary IT skills and competencies.
- Manage and develop IT projects efficiently and effectively, adopting a project management office.
- Align IT with business and enhance the IT Governance model in place.

- Maintain high availability of IT and business services.

6.2 ERM and Independent Accountability Mechanism

The Bank has established a functioning, consolidated, and on-going Enterprise Risk Management (ERM) system. This system includes certification in the Annual Report, of effectiveness of internal controls over external financial reporting, using standards and practices prescribed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), Internal Control Framework, and ERM. The ERM shall be enhanced during 2022-2024, based on the Bank's own experience and the recommendations of external auditors and the Audit Committee, to capture and quantify the risk appetite and exposure of the Bank.

As per the Bank's Corporate Governance Framework, the Bank established and maintains, under the coordination of the Internal Audit Department (DIA), an Independent Accountability Mechanism for the receipt, retention, and treatment of complaints received by the Bank from any source, either internally or externally, in connection with any operations, accounting, or internal control matters. DIA shall continue to play an active role in the IFIs Independent Accountability Mechanisms Group, as appropriate, in order to identify current accountability trends, good practices, and knowledge.

6.3 Institutional Key Performance and Risk Indicators

Over the next two years efforts will be made to achieve progress in the following key areas:

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

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

- Solvency (CAR), with a threshold value of min 30% for equity to operational portfolio and min 25% equity to total assets;
- Risk adjusted Capital (RAC), with a target value of at least 16%;
- Liquidity (LAR), with a threshold value of min 75%;
- NPL (overdue for 90 days and more), with a threshold value of max 10%;
- Return on average assets min 0.25%

Table 1: Institutional KPIs – MTSBP 2023-2024

Client – Stakeholder (Internal & External)	Financial
1.1. Mandate fulfillment – share of post evaluated operations to rate positive on overall performance (combined Relevance; Effectiveness; Efficiency; Sustainability and; Institutional Development): above 70%	**2.1. Asset Quality –** NPLs ratio: up to 10%
1.2. Portfolio Concentration – Herfindahl-Hirschman Index (HHI): seek to (i) maintain the country HHI below 1,400 and (ii) improve coverage in underserved countries and increase exposure to small shareholding countries to 20%	**2.2. Budgetary Discipline –** actual expenses relative to budget: +/- 5% tolerance
Business Process	**People Development**
3.1. Relevance – **(a)** value of outstanding portfolio at end-2024: less than €2.0 bn **(b)** equity to operational portfolio above 30%; total equity/ assets ratio above 28% **(c)** RAC ratio above 16%	**4.1. Learning and Development –** attendance of one relevant training by each Division staff member: at least every 2 years
3.2. Liquidity Management* – **(a)** Short Term Pool of Liquid Assets / next three months of potential cash outflows: greater than 100% **(b)** Liquidity (LAR) to cover at least 75% of maturing obligations over the next 12 months	**4.2. Recruitment and Retention –** secure at least 90% of staff has required skills and competencies, retain and reward appropriately those with very good and above performance

*) As calculated monthly by ALM

7 BUSINESS PLAN 2023-2024

7.1 Financial Plan

In the past, forward looking growth targets drove the development of Bank scenarios. In the current circumstances, scenarios will be driven by the level of capital, and the need for the Bank to maintain adequate levels of capitalization that allow it to grow to its maximum operation gearing ratio, which works out to the banking portfolio not exceeding 10/3 of total equity (e.g. a 30% ratio).

The Bank's financial plan is developed on the basis of the Operational Strategy and Objectives with due attention paid to the constraints imposed by external and internal factors. The Upper Case Scenario (UCS) thus establishes the upper bound and the Base Case Scenario (BCS) the lower bound of the corridor where the operational portfolio of the Bank may evolve over the period 2023-2024, depending upon global and regional developments that determine both constraints and opportunities.

7.1.1 Base Case Scenario

Under the BCS, the Bank will consider an initial contraction in the portfolio in 2022, continued in 2023 and up to June 2024, as, in the absence of affordable external borrowing, additional resources must be generated internally for the repayment of the maturing two bond obligations in a total amount of EUR 750 million. Further, as the situation stabilizes, risk aversion recedes and access to capital markets is restored, the Bank will stabilize in the second half of 2024 and tentatively grow slowly thereafter at a rate of 3 to 5% annually for both 2025 and 2026. The BCS allows the Bank to conduct operations in a still difficult environment marked by uncertainties and to achieve at the end of 2024 a balance sheet size of at least EUR 2.1 billion.

Base Case Scenario (BCS)

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

- The outstanding portfolio declines between end-2022 to end-2024 by 14.5%.
- Over the period 2023-24 repayments will amount to at least EUR 650 million.
- The amount of newly signed operations over the period 2023-24 is approximately EUR 325 million.
- The average loan maturity of an operation at the time of signing is 4 years.
- New operations will range in value between € 3 million and € 30 million.
- Financial markets are expected to remain risk averse and tight.
- Member States pay their contribution to the capital increase in full and on time.
- Administrative expenses will be controlled, recruitment of incremental staff is deferred to 2025 and beyond, with the exception of key positions that need to be filled with experienced personnel.
- Cost of borrowed funds remains elevated but is expected to decline over time as inflationary pressures recede, volatility declines and BSTDB access to financial markets improves.
- The Bank will generate internally the funds necessary to repay maturing debt obligations, the portfolio of active operations is planned to decline by Euro 300 million, and provide a basis for expanding operational activity in 2024-2025.
- Banking operations remain the principal profit center in relative terms. The main concern of the Treasury is to manage the capital of the Bank and to secure the funds necessary for operations.
- Provisions are assumed to reflect the relationship between the Risk Margin and the portfolio quality and are set to increase from 8% in 2022 to 10% in 2024.

Operational Activity and Financial Forecast 2023-2024 BCS

Table 2: Financial Plan for MTSBP 2023-2024 BCS Forecast of Operational Activities

		Preliminary	Forecast	Forecast
INDICATORS	EUR mil.	**2022**	**2023**	**2024**
New commitments (signed)		**112**	**67**	**255**
New BoD Approved		**90**	**79**	**300**
Disbursements		393	117	251
Repayments*)		693	304	363
Total Outstanding Disbursements (B/S)		**2,071**	**1,884**	**1,771**
Commitments		**2,148**	**1,904**	**1,803**
Planned Commitments (Net of Repayments)		**2,148**	**1,913**	**1,825**
Total Signed Undisbursed		78	27	32
BoD Approved not Signed		0	8	22
Results				
Growth Rate in Active Portfolio (signed)		***-4.10%***	***-8.32%***	***-0.97%***
Growth in Gross Loans Outstanding (B/S)		***-12.08%***	***-9.03%***	***-5.97%***
Ratios				
Capital		793	833	874
ROAE		*-11.03%*	1.16%	1.19%
ROAA		*-3.12%*	0.36%	0.44%
Loan Loss Provisions/Total Loans (end of year)		8.00%	9.30%	10.00%

*) For 2022 actual repayments from Russia and Ukraine; for 2023-2024 assumed 1/3rd of repayments
Includes in 2022 prepayment by EUROPLAN (OP. 386) on the amount of EUR 40 million

Table 3: Financial Plan for MTSBP 2023-2024 BCS Forecast of Financial Statements

INCOME STATEMENT	2022	2023	2024
Interest and Similar Income			
Total Interest and Similar Income	112.59	119.02	116.76
Interest Expenses and Similar Charges			
Total Interest Expenses and Charges	61.08	79.24	81.27
Net Interest Expense (Income) on Derivatives	-8.36	-3.39	0.00
Net Interest Income	**59.87**	**43.16**	**35.49**
Total Other Income	**(9.14)**	**1.29**	**1.60**
Operating Income	**50.73**	**44.46**	**37.10**
Total Administrative Expenses	**23.32**	**25.04**	**25.22**
Income before Provisions	**27.41**	**19.42**	**11.88**
Provisions	120.00	10.00	1.75
Net Profit	**-92.60**	**9.42**	**10.12**
BALANCE SHEET	2022	2023	2024
Assets			
Total Deposits and Securities/Liquidity	**727.30**	**681.00**	**468.00**
Derivative Financial Instruments	38.67	31.48	15.00
Less: Provisions for Impairment	0.37	0.22	1.50
Loans	2,058.52	1,872.78	1,760.30
Equity Investments	12.17	10.83	10.93
Less: Provisions for Impairment	-164.21	-174.21	-175.96
Net Loans and Equity Investments	**1,906.48**	**1,709.40**	**1,595.27**
Total Assets	**2,711**	**2,455**	**2,106**
Liabilities			
Borrowing	1,817.98	1,525.86	1,136.52
Total Liabilities	**1,917.52**	**1,621.96**	**1,232.57**
Paid-in Share Capital	**686.55**	**717.17**	**747.60**
General Reserve	7.71	17.13	27.25
Surpluses	98.86	98.86	98.86
Total Equity	**793.12**	**833.16**	**873.71**
Total Own Funds and Liabilities	**2,711**	**2,455**	**2,106**

**) Forecast implies additional provisions or EUR 95 million in 2022, EUR 25 million in 2023 and sale of €50 mil bonds Treasury portfolio in '22 (completed)

***) Borrowing in 2023 and H1 2024 of EUR 100 million from AA rated institutions in H2 of 2024 issue bond for €200 million

7.1.2 Upper Case Scenario

Under the UCS the Bank considers an initial contraction in the portfolio in 2022, continued in 2023 (for a cumulative approximatively EUR 450 million. It is assumed that the Bank will access EUR 100 million of affordable external borrowing, which will be added to existing liquid assets to provide additional resources for the repayment of the maturing two bond obligations in a total amount of EUR 750 million. Portfolio size will stabilize in 2024 before conditions for the resumption of growth are created.

Upper Case Scenario (UCS)

The relatively optimistic assumptions under which the Upper Case Scenario (UCS) was developed are:

- The outstanding portfolio declines between end-2022 to end-2024 by 7.8%.
- Over the period 2023-24 repayments will amount to about EUR 700 million.
- The amount of newly signed operations over the period 2023-24 is approximately EUR 470 million, almost EUR 150 million more than in the BCS, or 45% more.
- New operations will range in value between € 3 million and € 40 million.
- Although financial markets are expected to remain risk averse, the Bank will secure about EUR 300 million new borrowing.
- Member States pay their contribution to the capital increase in full and on time.
- Administrative expenses will be controlled, recruitment of incremental staff is deferred to 2025 and beyond, with the exception of key positions that need to be filled with experienced personnel.
- The Bank will generate internally about EUR 150 million of funds necessary to repay maturing debt obligations, that is about 50% of the contraction envisaged under the BCS.
- Banking operations will remain the principal profit center in relative terms. The main concern of the Treasury is to manage the capital of the Bank and to secure the funds necessary for operations.

Operational Activity and Financial Forecast 2023-2024 UCS

Table 4: Financial Plan for MTSBP 2023-2024 UCS Forecast of Operational Activities

		Preliminary	Forecast	Forecast
INDICATORS	EUR mil.	**2022**	**2023**	**2024**
New commitments (signed)		**112**	**125**	**345**
New BoD Approved		**90**	**148**	**406**
Disbursements		393	166	379
Repayments*)		693	314	380
Total Outstanding Disbursements (B/S)		**2,071**	**1,922**	**1,922**
Commitments		**2,148**	**1,952**	**1,925**
Planned Commitments (Net of Repayments)		**2,148**	**1,968**	**1,958**
Total Signed Undisbursed		78	37	3
BoD Approved not Signed		0	15	34
Results				
Growth Rate in Active Portfolio (signed)		***-4.10%***	***-7.05%***	***1.13%***
Growth in Gross Loans Outstanding (B/S)		***-12.08%***	***-7.17%***	***-0.01%***
Ratios				
Capital		818	852	886
ROAE		*-7.97%*	0.39%	0.50%
ROAA		*-2.28%*	0.12%	0.18%
Loan Loss Provisions/Total Loans (end of year)		6.8%	8.6%	9.2%

*) For 2022 actual repayments from Russia and Ukraine; for 2023-2024 assumed 1/3rd of repayments
Includes in 2022 prepayment by EUROPLAN (OP. 386) on the amount of EUR 40 million

Table 5: Financial Plan for MTSBP 2023-2024 UCS Forecast of Financial Statements

INCOME STATEMENT	2022	2023	2024
Interest and Similar Income			
Total Interest and Similar Income	112.27	123.96	124.17
Interest Expenses and Similar Charges			
Total Interest Expenses and Charges	61.09	79.68	86.50
Net Interest Expense (Income) on Derivatives	-8.36	-7.39	0.00
Net Interest Income	**59.55**	**51.67**	**37.68**
Total Other Income	**(9.14)**	**1.63**	**1.91**
Operating Income	**50.41**	**53.30**	**39.59**
Total Administrative Expenses	**23.32**	**25.04**	**25.22**
Income before Provisions	**27.08**	**28.26**	**14.37**
Provisions	95.00	25.00	9.99
Net Profit	**-67.92**	**3.26**	**4.37**

BALANCE SHEET	2022	2023	2024
Assets			
Total Deposits and Securities/Liquidity	**727.30**	**681.00**	**518.00**
Derivative Financial Instruments	38.67	31.48	15.00
Less: Provisions for Impairment	0.37	0.22	1.50
Loans	2,058.52	1,906.55	1,893.32
Equity Investments	12.17	15.69	28.63
Less: Provisions for Impairment	-139.21	-164.21	-174.21
Net Loans and Equity Investments	**1,931.48**	**1,758.03**	**1,747.75**
Total Assets	**2,736**	**2,504**	**2,309**
Liabilities			
Borrowing	1,818.29	1,546.02	1,306.61
Total Liabilities	**1,917.83**	**1,652.12**	**1,422.66**
Paid-in Share Capital	**686.55**	**717.17**	**747.60**
General Reserve	32.39	35.65	40.02
Surpluses	98.86	98.86	98.86
Total Equity	**817.80**	**251.68**	**886.49**
Total Own Funds and Liabilities	**2,736**	**2,504**	**2,309**

**) Forecast implies additional provisions or EUR 95 million in 2022, EUR 25 million in 2023 and sale of €50 mil bonds Treasury portfolio in '22 (completed)

***) Borrowing in 2023 and H1 2024 of EUR 150 million from AA rated institutions in H2 of 2024 issue bond for €200 million

8 ACTION PLAN FOR STRATEGY EXECUTION

8.1 Main Concerns Looking Ahead

The Bank operates in volatile market conditions and within a period of fluid and wide-ranging changes that have the potential to affect the international financial system and international economic relations, with implications for how the Bank conducts business. Global conditions may deteriorate further with the resulting effect of decline in investors' desire to hold debt instruments issued by emerging markets and to invest in emerging markets.

Furthermore, events specific to the Black Sea region, such as further increased instability, geopolitical considerations, or volatility in commodity prices may have a negative impact on the growth prospects of the region and on the perceptions of risk. As a consequence, credit markets may tighten further, with constrained availability of funds for BSTDB.

8.2 Risk Assumption Considerations

The current global and regional conditions affect negatively operational activities and consequently entail an increase in the risk assumed by the Bank in its portfolio. Risks are largely on the downside, and uncertainties remain high. These include international spillovers from the expected monetary tightening by major developed economies, in addition to external and internal vulnerabilities of emerging economies.

The Risk Bearing Capacity (RBC) of BSTDB, taking into consideration its internal culture, structure, and strategy, defines the Bank's risk appetite and tolerance to the financial impact of risk. The Bank's credit rating is a key factor in determining its borrowing costs, and the Bank will seek to maintain it. The Bank follows closely the potential implications of rating actions (upgrade/downgrade) with respect to market access and cost, collateral requirements, and ability to open and maintain correspondent bank accounts.

8.3 Action Plan Goals

Overall Considerations

The effort to achieve financial stability and safeguard the interests of shareholders requires strengthening:

- (i) supervision and monitoring functions connected with (a) active project portfolio management, and (b) NPL management and resolution.
- (ii) institutional expertise and technical capability, and
- (iii) quality at entry – strictly follow rules, deadlines, operational and financial guidelines for appraisal and due diligence.

Objectives

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

- meet shareholder expectations;
- maintain financial stability and improve operational effectiveness (asset quality, cost control, productivity, profitability);
- achieve institutional consolidation and process optimization; and
- establish and maintain a work environment conducive to attracting, motivating, and retaining high quality staff with the required skills and attitude.

The Bank's performance objectives are designed to achieve adequate financial protection and secure the funds necessary to meet all maturing obligations as they come due, while seeking to minimize the cost of employed capital.

Target

Safeguarding the interests of the Bank and its shareholders targets in the first instance the reduction of the size of the outstanding portfolio to below Euro 2 billion by the end of 2024. This ensures:

- adequate levels of liquidity and capital adequacy;
- flexibility to adjust in case of sudden changes in the operating environment.

8.4 Institutional Action Plan

At this moment in time, the Bank is making the most prudent assumptions it can and charts a course that allows it to reach the end-2024 counting essentially on itself while meeting all its legal commitments, both for projects and its own debt.

Nevertheless, as clarity is obtained, and as events unfold over the next two years, if things go better than these prudent assumptions imply, i.e. repayments come in from the two portfolios (Ukraine/Russian Federation), repayments or pre-payments from other operations in the active portfolio are normally obtained or sales of assets are made at no loss, financial markets open to BSTDB, etc., then, dynamically and with constant vigilance, more operational capability will be possible earlier.

A. Actions Internal to the Bank

- Reducing the size of the portfolio of outstanding operations and deleveraging the balance sheet.
- Pursuing prepayments from wherever possible - waiving prepayment fees if necessary.
- Identifying in the portfolio the assets that could be sold while protecting the Bank's bottom line and strategic interests.
- Operationally, emphasizing projects with high development, cooperation, and/or rehabilitation elements, with activity growing as clarity improves and any 'room' becomes available, starting with the second half of 2023.
- Providing allocation of funds for compliance legal actions (external experts, Regulator(s), etc.).
- In line with changing trends, further strengthening Accounting and the Middle Office is critical, a requirement which includes activities such as improving the understanding the treatment, recording and reporting of derivatives' hedge-accounting, as well as the treatment of bonds in the banking portfolio.
- Monitoring of prudential ratios both (i) under covenants and (ii) per the expectations of rating agencies, must be constant and vigilant; with sharing of information among all relevant departments as well as reporting to Management monthly values of key ratios.
- Further enhancing the reporting culture within the Bank and the understanding among all staff on the need for timely and accurate entry of data, and open, transparent sharing of information among departments.

B. Actions Involving Third Parties

- Applying, as needed, for a license (or licenses) to the EU sanctions regulator/s and receiving a positive outcome;
- Continuing to work with BSTDB-related Ministries to ensure proper and speedy license approval;
- Pursuing license/ exemption from OFAC/UK if it becomes necessary;
- Continuing to request Russian Federation Authorities to exempt the Bank from any and all capital controls, including for payments from its Borrowers;
- Restarting discussions with EU bodies such as the Commission, EIB, and ECB to seek ways to enhance ties and collaborate; one specific activity is to overcome unjustified Commission objections to BSTDB undertaking the Pillar Assessment, which would open the way for management by BSTDB of EU funds and facilities covering Member States in areas of mutual interest and priority;
- Opening channels of communication and dialogue, seeking possible providers for new funding, or renewal of existing facilities in full or in part.

In implementing the Action Plan, and in order for BSTDB to adequately respond to the needs and demands of its "shareholder-clients", special attention shall be paid to the following institutional issues, and improvements shall be made in the respective areas according to the proposed measures:

Management Information System

MIS provides information to support decision making. It collects, organizes and processes data with a view to identify and remedy performance breakdowns. It integrates IT systems in data management, as a unique provider of structured data driven reports assisting management to identify performance issues, adopt corrective measures and make informed decisions at the right time.

To increase accuracy, consistency and efficiency internally, the Bank shall establish a high level MIS function with a clear definition of responsibilities, separated from financial reporting. The function shall provide all management required reports in a timely manner and with adequate quality to the appropriate levels of decision making authority.

Portfolio Quality

Further enhance restructuring and recovery, NPLs workouts and reductions, where feasible and appropriate, by judicious application of strategies tailored to the requirements of each specific case, and potentially involving restructuring, the asset sale, and/ or write-offs. To this end, the Bank will ensure stronger coordination of appraisal, due diligence, supervision, and monitoring activities.

Automation and IT support

Transparency and reporting channels will be upgraded for real time provision of project information and identification of key controls during preparation and execution. The digital business transformation and insight into data and information will require a modernized platform approach that supports automation, predictive analytics, and information governance, especially through a centralized, consolidated, and integrated IT architecture. The IT Strategy shall be reviewed annually to make sure that it is aligned with the MTSBP 2023-2024 and any changes which may occur during the year shall be reflected in the IT action plan for IT Strategy implementation. The technology upgrades need to be accompanied by a commitment to enhancing timely reporting, and the exchange of information, data, and activities among the various departments of the Bank.

Effective Human Resource Management

The human resources management activities planned for 2023-2024 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 potential.

- The achievement of the strategic goals may require additional training of existing staff and recruitment of additional specialized staff.
- Furthermore, the Bank will prepare for succession of key staff with planning aimed at securing continuity and avoiding gaps in skills and competencies.
- The Bank will pursue a more active recruitment of qualified and experienced personnel, and will improve access to young talent, with a view to filling vacancies as they may arise from the creation of new positions and turnover of staff.
- The Bank will review and improve the system of Work Planning, Performance Evaluation and Reward, update policies and practices in order to ensure that best staff is retained, and that promotions are based on merit.