BLACK SEA TRADE AND DEVELOPMENT BANK

REVIEW AND UPDATE

OF

MEDIUM-TERM STRATEGY

AND

BUSINESS PLAN

2019-2022

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EXECUTIVE SUMMARY

Less than a year since the adoption by the BoG of the Medium-term Strategy and Business Plan (MTSBP) for 2019-2022, BSTDB finds itself operating in a global environment, which has become even more challenging, while relative improvement of regional economies has increased substantially the demand for Bank funds.

Over the first months of the current MTSBP the Bank made strides in terms of advancing its goals and objectives. Overall, the Bank has demonstrated substantial progress towards most of the MTSBP goals, and profitability has been maintained, implying that accelerated operational growth is not achieved at the expense of the Bank's necessary prudence and vigilance. Currently the Bank has no non-performing loans. BSTDB's maintained its credit ratings, with the ratings confirmed by Moody's as stable and by S&P with positive outlook. These ratings are higher than the individual sovereign rating of any of the Bank's shareholders. Although some Member States have seen in recent months their risk ratings upgraded, the Bank remains the best-rated institution in the Black Sea area.

The outlook for the Bank's operational activities, taking into account the value of BoD approved but not yet signed operations and the solid pipeline of new potential operations the Bank has identified, indicates that the Bank will achieve by March 2020 the 4 year target for outstanding envisaged under the BCS of the MTSBP. In order to anticipate developments and protect the portfolio, from mid-year 2019 the Bank has adopted a conservative approach to the approval of new operations, focusing on high-quality projects with strong development impact. Undoubtedly, it is desirable, and over the long term necessary, for the Bank's portfolio to grow in a careful manner that avoids overstretching resources and maintains the robustness of key financial ratios.

For the remaining term of the MTSBP, the Bank will consider a revised Base Case Scenario target for the outstanding portfolio of €2,400 million at end 2020 and up to around €2.600 million at end 2022. The portfolio size of €2.600 million represents the maximum achievable given current capital levels, while potential further growth is not constrained by external factors, such as operational environment, or internal capacity. This size of the outstanding portfolio is within the Bank's risk bearing capacity, matches achievable growth with the Bank's capacity to assume and manage risk, and provides an appropriate balance between financial and business strength. Such a portfolio growth would be manageable and would respond appropriately to the continuing high demand for the Bank financing. The revised target is in line with the operational goals of the LTSF 2010-2020 maintains a RAC ratio of between 23% and 15% for 2020 onwards, and aspires to maintain an equity to total assets ratio of around 30%.

The institutional priorities outlined in the MTSBP remain relevant for the institution, and they will guide the remaining period of implementation up through 2022. In order to develop further an institutional culture of sound corporate governance, the Bank is considering improving its performance management system and developing corresponding work programs, performance indicators and incentives, to support the achievement of the 2022 objectives. Additional improvements are expected through better planning and budgetary execution.

The Bank operates in fluid market conditions, and in a period of wide-ranging changes that have the potential to affect the international financial system and economic relations, with implications for the manner in which it conducts business. While Regional macroeconomic conditions are by and large on a solid footing, global economic, financial and geopolitical conditions may change and deteriorate as a result of any number of potential shocks or shifts in policy.

Uncertainties which may affect the ability of the Bank to achieve the revised Base Case Scenario include new global or regional crises, global recession and regional economic downturns, destabilizing exchange rate movements, interest rate volatility, or uncertain liquidity availability in case of any negative shock affecting global capital and money markets. Consequently, the Bank will be ready to adapt to changing circumstances while remaining flexible in its approach. Nevertheless, the Bank has front-loaded much of the activity offered by the opportunity of increased demand and willingness of some shareholders to provide sovereign guarantees, and therefore, to a certain extent, insulates itself against the negative effects of potential adverse developments and downturns in the global economy that may happen in 2021 or 2022.

1 Introduction

The four year Medium Term Strategy and Business Plan (MTSBP) 2019-22 represents a significant juncture for the Bank as it seeks to achieve a higher degree of relevance for its shareholders. Banking, including development banking, activity is about assumption of understood and measured risks, within risk bearing capacity, and mitigation of these risks. Rating agencies assessment of the Bank was that it has an extremely strong financial profile, but that it lacks in business profile which is considered to be moderate. This in practice means that the Bank did not have sufficient activity, its involvement in the public sector was negligible relative to the volume of operations in the private sector, and that therefore its policy relevance was limited. The Bank needs to grow in prominence and relevance and to enhance its business profile, in addition to maintaining an extremely strong financial profile - or very strong at a minimum, provided compensatory increase in policy relevance (about 25% of its outstanding portfolio of operations being sovereign or sovereign guaranteed) takes place while portfolio quality is further improved - so that it meets shareholder expectations and its own declared vision to become a prominent partner in development for banks, firms and agencies active in the Black Sea Region.

In the first six months of implementation of the Medium Term Strategy and Business Plan 2019-2022, the Bank has actually exceeded expectations for its ability to deliver greater value and volume in the operations it has undertaken in the Member States. Operational growth has been robust, the pipeline of future operations has developed dynamically, and this has been done while maintaining quality at entry and shifting towards involvement in more infrastructure operations, in line with the high investment needs of Member States. The outstanding portfolio has grown at an accelerated pace above the MTSBP base case scenario. Consequently, over the first ten months of 2019, the Bank's loan and equity portfolio increased by 39% to €1,892 million from €1,358 million at end-December 2018. This is mainly due to an opportunity to finance high value sovereign or sovereign guaranteed operations in infrastructure and in the public sector.

BSTDB is therefore seeking to take advantage of the current high demand for the Bank's products, and expand its portfolio more rapidly than envisaged under the original MTSBP 2019-2022. The Bank aims to increase the outstanding portfolio to €2.4bn by end 2020 and to €2.55bn by end 2022. This approach would allow the Bank to get close to achieving the Long-term Strategic Framework 2010-2020 preferred objective for the outstanding portfolio, even though it had in the past to downshift to the Low Case Scenarios of various Medium-term Strategies and Business Plans in order to best protect the interests of the Bank and of its shareholders during adverse times of market turmoil and economic contraction. The BoG approved LTSF provided for a mid-point between the lower-end of growth corridor, the Maintaining Trend Scenario, and the upper-end of growth, the Sustained Growth Scenario, of a total outstanding amount for end-2020 of SDR 2,160.5 million equivalent of approximately Euro 2.47 billion.

The new Base Case Scenario focusses on protecting the Bank's long-term interests, safeguarding its achievements to date, sustaining profitability and avoiding overstretching resources. The increase in activity will predominantly take place in the public sector, which is systemically important and of high policy relevance to the Bank's Member States. Investing in infrastructure and public sector more generally is aimed at maximizing utilization of available resources and benefits from the support of the Member States, which by itself is a risk mitigating factor. With the revised and updated operational strategy the Bank attempts to achieve a better balance between its financial strength and its policy relevance.

In June the Bank successfully issued a benchmark US$ 400million five year bond, substantially oversubscribed, on markedly better terms than the initial benchmark bond from April 2016. In addition to the benchmark bond issuance, done under the MTN program, the Bank was very active in the shorter-term money market, borrowing under the ECP program a total of €216 million as at end-August, up from €70 million at end-2018. Total borrowing amounted to €1,573 million, an increase of 65% compared to end-December 2018. BSTDB will further consider ways to secure a level and structure of its financial resources that would allow it to remain effective and increase relevance. Nevertheless, given continuing market dysfunctionalities, the Bank does not expect that henceforth funding will always be easily and readily available. Therefore, enhanced cooperation with IFIs and similar partners remains a priority.

Having reached a point where the Bank (i) has demonstrated success in accessing markets on attractive terms, (ii) understands the perspectives of credit rating agencies and how they view BSTDB and its path of progression, and (iii) has outperformed its objectives and accelerated its trajectory towards greater relevance and impactful profile, BSTDB needs to sustain this positive momentum or else risk missing a unique opportunity to step up its impact.

Nevertheless, success needs proper management, as it creates its own sets of challenges at the same time that it opens up new possibilities for the evolution of the Bank. Growth is essential in order to fulfill the aspirations of shareholders, achieve a greater degree of relevance, and continue to deliver value to the Bank's expanding regional client base. However, maintaining credibility is a prerequisite for further development. Growth must take place upon a solid foundation that ensures that the hard-earned credibility is maintained and to the degree possible, enhanced.

2 Operating Context (Global and Regional Overview and Prospects)

2.1 The Global Economic Environment

Economic Growth

Global growth has been sluggish and is forecasted to remain subdued over the next couple of years. Accordingly, global trade also remains sluggish, with an annual rate of growth for 2019 estimated to be at most in line with, or even trailing, the rate of growth of global GDP. From a sectoral perspective the slowdown in global manufacturing activity, which began in early 2018, has continued, while activity in the service sector has been sustained.

Global growth outlook, Real GDP Growth (in percent)

	2018e	2019f	2020f	2021f
World	3.0	2.6	2.7	2.8
High-income countries	2.1	1.8	1.6	1.6
Emerging Market and Developing countries	4.3	4.0	4.6	4.6
Memo:				
Europe and Central Asia	3.1	1.6	2.7	2.9

Source: World Bank *Global Economic Prospects*, June 2019 forecast

Among advanced economies, the subdued outlook for potential growth reflects, to a large extent, the tensions threatening the global rule based trading system, constrained domestic demand, limited new investment in plant and equipment, and slower labor force growth due mainly to population aging.

Emerging and developing Europe is expected to grow at 1% in 2019 and at an improved 2.3% in 2020. In 2019 strong growth is expected in several CEE countries on the back of resilient domestic demand and rising wages. Economic activity in the CIS is projected to grow at 1.9% in 2019 and accelerate to 2.4% in 2020.

However, in many emerging markets and developing economies debt has increased rapidly and fiscal space has narrowed considerably, constraining their ability to adequately implement counter-cyclical policies in case of adverse shocks.

Trade and Investment Flows

In 2017 global trade and investment flows were at their highest since the 2010–11 and supported global economic growth. Trade growth weakened substantially in late 2018 and early 2019. The deceleration was broad-based, with declines concentrated in capital goods which stand at the center of global networks and supply chains of investment, production and trade. Capital flows to emerging markets weakened considerably in 2018. In 2019 for the first time remittances surpassed FDI as the main source of capital inflows to Emerging Markets and Developing Economies.

The big area of concern remains investment - both public and private. With limited new investment it may be close to impossible to ‘bounce back’, and economic growth over the next couple of years may likely be disappointing. Nevertheless, a recovery sustained at a modest pace is expected in major commodity exporters.

According to the World Bank Global Economic Prospects report of June 2019 “A modest recovery in emerging market and developing economies continues to be constrained by subdued investment, which is dampening prospects and impeding progress toward achieving critical development goals.”

Global Financial Conditions and Credit Markets

The global economy remains vulnerable to a sudden tightening of financial conditions. Global debt, public and private, is at an all-time high of 3.2 times global GDP level. Government debt has risen substantially in emerging market and developing economies to 51% of GDP in 2018 from 36% of GDP in 2007. In advanced economies government debt has increased sharply to the highest level since the end of WWII.

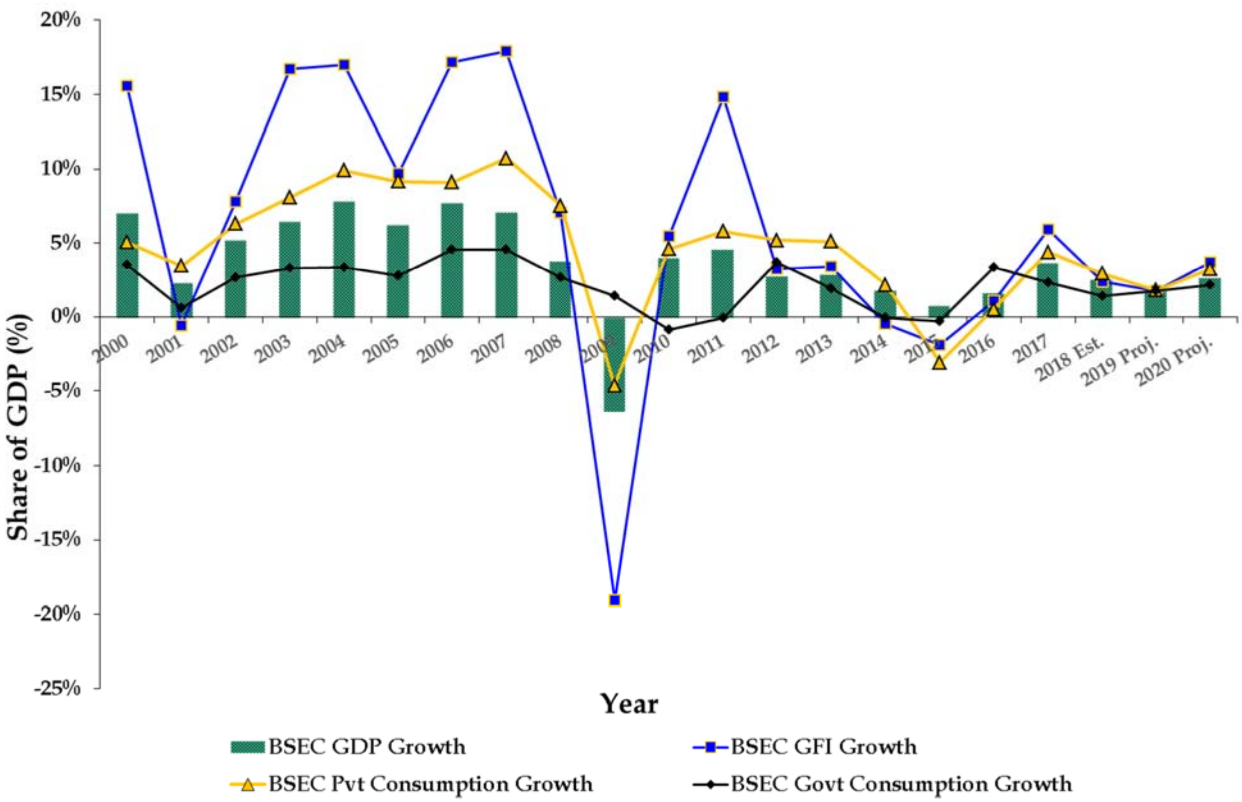
At present, inflationary pressures are very low, while monetary policy stances are projected to become more accommodative across the board and for short-term interest rates in particular to turn negative. Although in an environment of ample liquidity, low interest rates and subdued private investment high levels of government borrowing may be appealing in the short-run to finance public investment in physical and social infrastructure, elevated debt levels can lead to sustainability challenges, in particular if debt is mostly short to medium-term and therefore carries a high rollover and re-pricing risk.

Yield curves for advanced economies have flattened considerably, with the 10 year government bond yields falling below that of 2 year bonds in the US and the UK, and the entire yield curve of German government securities shifting in negative territory. Such bond market developments have historically indicated recessionary episodes, although this time they may equally reflect a combination of excess liquidity, depressed earnings in the corporate sector, and increased risk aversion. Global financing conditions are expected to remain favorable in 2020 and the first half of 2021, tighten gradually thereafter and step-up tightening towards the end of 2022.

Balance of Risks

Risks are largely on the downside, and uncertainties for the world economy remain high. In an environment of rising uncertainty, trade tensions, the potential for currency wars and geopolitical instability could lead to a protracted increase in risk aversion and depressed investor sentiment. In addition, fears of disruptions to technology supply chains and protectionist tendencies more generally also undermine confidence. Furthermore, the backtrack from normalization of monetary policy, after years of low interest rates, constrains policy space to counter downturns and recessionary pressures, and exposes accumulated vulnerabilities in the financial sector and the increased difficulties to service ballooning private sector debt.

2.2 Economic Developments in the Black Sea Region – 2018 and first semester 2019



Sources: BSEC Statistical Agencies, IMF-IFS, EIU

- After real GDP growth of 3.7% in 2017, GDP slowed to 2.6% in 2018
- Trend of BSEC growth (1.8%) lagging CEB growth (3.3%) should continue in 2019
- BSEC growth is higher than Eurozone (1.9%);
- Gap in Western & Eastern BSEC business cycles disappears in 2019
    - However, western BSEC states trending down in mature phase of business cycle
    - Eastern BSEC still trending up, but at moderate pace that barely reaches 2%
- Investment (GFI) growth fell by more than half, to 2.4% for 2018 after 2017's promising 'bump' to 6%; 2019 GFI projection even worse - 1.8%
- Sustained annual GFI growth of 5-6% is needed in order to achieve appreciable convergence to higher income countries
- Private consumption less volatile- fell from 4.4% in 2017 to 2.9% in 2018 and forecast at 1.8% in 2019; stable; continuing fiscal consolidation means that Govt. consumption growing even more slowly
- Export growth for 2018 a pleasant exception: 11.4% in USD terms; defies slowing Global trade trend; import growth of 13.7%

- Overall, endogenous vulnerabilities relatively low (though higher than 12 months ago), and resilience capacity appears solid

*Main Economic Indicators BSTDB Member States 2019 (%)**						
Country	*GDP Growth rate*	*Inflation average*	*Unemployment*	*Budget balance/GDP*	*Current Account/GDP*	*source*
Albania	3.8%	2.5%	11.9%	-1.5%	-6.7%	EC, Spring 2019
Armenia	4.6%	2.1%	17.9%	-2.5%	-4.6%	IMF, Spring 2019
Azerbaijan	3.4%	2.5%	5.0%	4.4%	11.7%	IMF, Spring 2019
Bulgaria	3.3%	2.0%	5.0%	0.8%	1.6%	EC, Spring 2019
Georgia	4.6%	2.5%	12.7%	-1.7%	-8.0%	IMF, Spring 2019
Greece	2.4%	1.1%	18.5%	-0.2%	-2.7%	IMF, Spring 2019
Moldova	3.6%	4.7%	4.0%	-2.7%	-6.9%	WB, Spring 2019
Romania	3.6%	3.5%	4.1%	-3.0%	-5.2%	WB, Spring 2019
Russia	1.6%	5.0%	4.8%	1.0%	5.7%	IMF, Spring 2019
Turkey	1.0%	18.0%	12.7%	-3.8%	-2.7%	WB, Spring 2019
Ukraine	2.7%	6.8%	8.5%	-2.1%	-3.0%	WB, Spring 2019

* Note:
Datasets of the World Bank, IMF, European Commission and OECD were used
For each country forecasts of the instituiton which was the most upbeat about GDP growth rate was selected.
Unemployment figures are from IMF Spring 2019 report

	*Public and Foreign Debt 2019 - Moody's (latest)***		
Country	*Public Debt/GDP*	*Public Ext Debt/GDP*	*Total Ext Debt/GDP*
Albania	68.3%	41.2%	65.7%
Armenia	50.3%	46.0%	80.3%
Azerbaijan	47.8%	38.4%	46.5%
Bulgaria	22.0%	5.4%	62.7%
Georgia	44.4%	37.1%	117.5%
Greece***	181.1%	144.4%	218.6%
Moldova	32.1%	18.7%	72.7%
Romania	36.1%	18.1%	47.0%
Russia	14.6%	14.6%	26.6%
Turkey	35.0%	20.9%	64.9%
Ukraine	66.7%	37.0%	90.3%

** external and domestic separation of public debt using latest available Moody's data

*** Debt figures for Greece are actual for 2018

Economic growth projections for 2020 to 2022 are more uncertain, as they may be influenced by any number of factors, both of an internal and external nature. The best guess that may be made is that the region will continue along a path of moderate real annual GDP growth, likely similar to the average realized over the period 2010-2017, but which should create fewer imbalances and may therefore prove more sustainable.

2.3 Implications for BSTDB

Given the risks and uncertainties surrounding the global economy, the slowing rate of growth in global trade and the potential reversals of capital flows to Emerging Markets and Developing Economies, regional institutional arrangements increase in importance and relevance to participating states. Taking into consideration that growth in the Black Sea region is getting stronger, that ongoing consolidation of public finances and the well contained current account deficit have in general positive effects on the overall foreign debt, taking advantage of the potential for economic cooperation may have a significant contribution to investment and growth.

BSTDB is well positioned to support both cooperation and development of its Member States by taking advantage of the still benign global economic conditions, borrowing higher amounts at terms and conditions conducive to increased assistance to its Members, and supporting an accelerated growth in its portfolio of operations. To protect against recessionary pressures and expected tightening of global capital and money markets towards the end of the MTSBP period, the Bank front-loaded most of its growth in the first two years of the medium-term strategy, 2019-2020.

3 Implementation of the MTSBP for 2019-22: Intermediate Results 2019

Introduction

The present section undertakes a quantitative review of operational developments in 2019, comparing operational performance to MTSBP targets and past actual results.

Over the period 2000 – 2018, with the exception of the 2009-2010 and 2012-2013, years of marked economic contraction as the global financial crisis impacted economic activity and the Bank concentrated on preserving the quality of its portfolio and maintaining profitability, the Bank operations grew steadily at a manageable pace with a focus on consolidating the Bank operationally and strengthening it institutionally.

Portfolio Developments 2019

BSTDB is in the first year of the four year implementation period of the Board of Governors' approved Medium-term Strategy and Business Plan (MTSBP) for 2019-2022. During this time, the Bank has made significant progress towards achieving strategic objectives and quantitative targets.

For the first six months of 2019, to 30th of June, BSTDB's portfolio of outstanding operations grew by 22% relative to year end 2018, to €1,656.8 million. This achievement, at midyear, more than fulfilled the first year target for the MTSBP 2019-22, which had forecast growth of 13.3% for 2019 to €1,538 million.

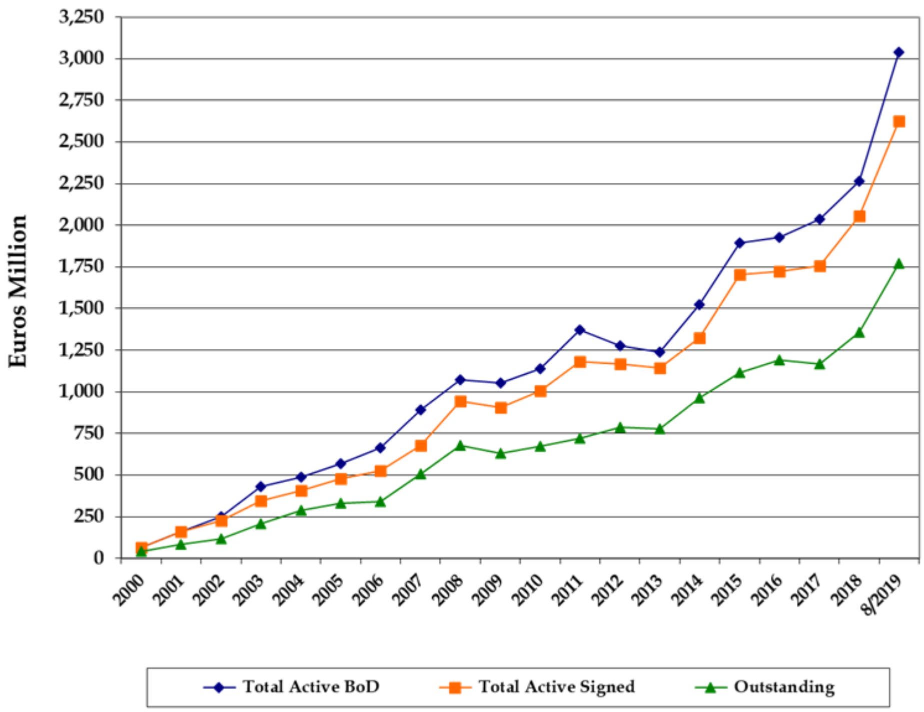
At end June 2019, the amount committed and available (projects signed but not yet disbursed) stood at €276.3 million, amounts approved by the Board of Directors but not yet signed stood at €527.8 million, and an additional €308.5 were in the pipeline for Board approval. Collectively, this sum exceeds one billion euros and underscores the degree to which BSTDB has 'taken off' operationally in 2019.

As at end-August the Bank's outstanding portfolio of active operations stood at €1,770 million, of which €1,743 million in loans, an increase of 30% (or €412 million) from €1,358 million as of 2018 year end. The acceleration in the levels outstanding has been matched by the rise in the amounts approved by the Board of Directors (BOD) and the amounts signed, indicating that the pipeline of operations has developed robustly and the demand for Bank financing and products is at a very high level. This translates into average project size at BoD approval and signing of around €35 million, a significant increase on the approximately €20 million average size of BoD approvals and signings over the 2015-2018 period.

This growth in portfolio size also denotes a substantial rise in output per staff and improvement in overall efficiency ratios since employment levels are unchanged and administrative expenses were budgeted for the year to increase by 2%. Together with the reduced borrowing costs, the decline in the ratio of expenses to portfolio will improve the pricing profile for operations and the reductions in pricing margin calculations will in turn be passed on to Bank clients in the form of more attractive rates.

On aggregate, as at end-August 2019, the average interest margin calculated over the loan portfolio is 3.43%, and the average tenor is 3.32 years.

BSTDB Portfolio growth 2000 to 31 August 2019



Note: The numbers for BoD approvals and Signings are not net of repayments

The observed growth is due to a combination of increased number of projects and average project size:

- Between 2010 and 2018 the Bank averaged 24 Board approvals and 22 new signings (commitments) every year, and in no year did either ever exceed 30. In terms of volume, the largest amounts of projects approved by the Bank's Board of Directors occurred in 2018 for €569.7m, while new signings similarly reached their highest level ever at €617.8 million.
- In the first six months of 2019, the Bank's Board of Directors approved 20 new operations for €712.8million and the Bank signed 12 new operations for €421.3 million. By way of comparison, in the first six months of 2018 the BoD approved 13 operations for €183.8 million and the Bank signed 14 operations for €266.8 million, while in the first six months of 2017 the BoD approved 7 operations for €150 million and the Bank signed 5 operations for €104.6 million.
- During 2019 up to end-August, the BoD approved 24 new operations for €849.8 million, and the Bank signed 19 operations for €640.3 million that is an increase of €220 million relative to end-June.

Growth was driven among other things by opportunities which involve large sovereign guaranteed operations uniquely desirable for the Bank and its mission because (i) they possess high mandate fulfillment potential and (ii) they have an excellent risk profile. BSTDB had two such operations for €260 million in 2019.

The dynamic growth is set to continue, as the Bank has also developed a robust pipeline of projects covering all Member States and a diverse array of sectors, building upon its track record of credibility, sustained regional presence, and financial strength so as to be in a position to meet rising demand in the greater Black Sea Region.

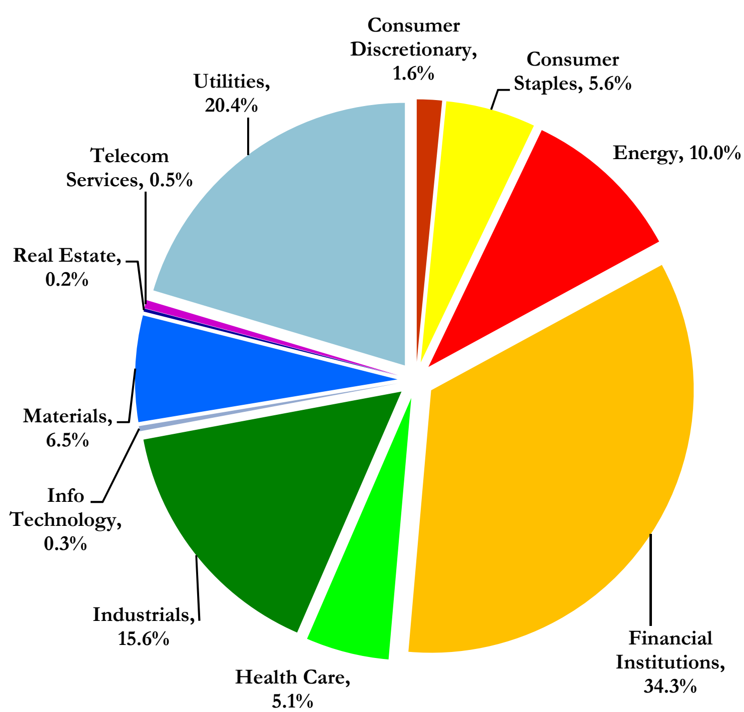
The Bank has observed a rise in the volume and the quality of demand for its financing on its 20th Anniversary of operational activity, as its presence in the Region has become more widely known, and its ability appreciated to respond quickly and flexibly to client requirements without endangering the underlying need for prudence and quality. It has also afforded the Bank the opportunity to meet the operational targets laid out in its 'Long Term Strategic Framework 2010-2020, The Next Ten Years' (LTSF), approved by the Board of Governors in June 2009. The LTSF has served as Bank's key vision document, constituting the overarching context in which the Bank's four year rolling Medium Term Strategies and Business Plans have operated.

By definition, growth for a bank means application of financial resources to operational activities, and in the case of BSTDB this mainly means growth of loans. BSTDB has been overcapitalized for many years, and applying more resources to operational activity, as well as leveraging its resources in order to finance more projects, are highly desirable so long as adequate levels of capital are maintained.

In June the Bank successfully issued a benchmark US$ 400million five year bond, five times oversubscribed, on markedly better terms than the initial benchmark bond from April 2016. In addition to the benchmark bond issuance, done under the MTN program, the Bank was very active in the shorter-term money market, borrowing under the ECP program a total of €216 million as at end-August, up from €70 million at end-2018. Total borrowing amounted to €1,573 million, an increase of 65% compared to end-December 2018.

As the portfolio has grown, the Bank has maintained quality and sought to fulfill key priority areas identified in the MTSBP. The share of infrastructure related projects has grown and along with it the share of sovereign guaranteed operations has risen to 18.0%, from 9.5% at year-end 2018. As for non-performing loans, after several years of steady decline they have fallen to zero, from 1.0% at end 2018.

The distribution of the portfolio per sector of economic activity as at end-June 2019 is depicted in the following graphs:



4 GOING FORWARD: Revised Medium-term Strategic Goals

BSTDB's growth in 2019 to date and the expected continued growth in light of the rich development of the pipeline mean that the operational activity targets of the MTSBP 2019-2022 are no longer valid and need to be updated. This update puts forward a proposal incorporating the observed operational growth and pipeline development, to be considered within the qualitative, institutional and other parameters of the MTSBP 2019-2022. Put differently, only the numbers change, namely the operational targets for the remainder of the 2019-2022 strategy period and the financing requirements that will be required in order to support the revised operational targets.

Other operational priorities and institutional objectives remain essentially the same as those in the MTSBP 2019-2022. The need to consider revision of the operational scenarios may alter the timing of certain activities, or modify their nature in light of the new priorities. For example, applying for accreditation to the Green Climate Finance (GCF) Fund remains an objective, but the Bank has prioritized undertaking the European Union (EU) Pillar Assessment, as in addition to permitting the Bank to manage and blend-in EU funds, the Pillar Assessment is recognized by the GCF Fund administrators as a precedent, permitting so-called 'fast track' accreditation by the GCF, avoiding some duplication and simplifying its overall approval process.

While the surge in demand is undoubtedly positive and underscores the rising relevance of the Bank, it has created a new set of challenges which must be met by the same standards of prudence, transparency, and safeguarding of the interests of shareholders which has always guided the Bank's approach to doing business. The Bank's successful shift to higher growth needs also to be managed effectively, and a key component of this is re-assessing internal capacities- financial, institutional, and operational- and adapting to the new situation accordingly. The majority of issues raised in the MTSBP 2019-2022 remain accurate and valid. For example, the Bank's mission, vision and values are valid, as are its assessments of its operating context, the nature of risks it faces, and its assessment of the quality of the institution and its activities.

On the operational side, the robust growth suggests that key target areas, the shift to doing more infrastructure operations and the related increased emphasis on more public sector operations were correctly identified. What was underestimated was the volume of operations that the Bank would be able to generate and develop. Nevertheless, the Action Plan for the implementation of this medium-term strategy, as defined in the original MTSBP 2019-2022, maintains its actuality and validity.

The Bank will strive to improve the geographical distribution of its portfolio among Member States to the degree its rapid growth may have produced temporary imbalances. BSTDB is committed to improving the coverage of its activities while not sacrificing quality-at-entry. Nevertheless, Member States' willingness to provide sovereign guarantees for high priority operations greatly increases the ability of BSTDB to provide support in these areas, while improving the risk profile of its portfolio. Therefore, the Bank is setting an aspirational target of advancing towards achieving a desirable portfolio share of about 25% sovereign guaranteed operations.

In countries where demand has been robust and demonstrated support has been high, the Bank will continue to provide support, but will become more selective, giving preference to high profile projects which possess elements such as strong development potential, a high regional cooperation component, beneficial diversification of the Bank's risk profile, and meet the Bank's priorities to promote infrastructure investment, etc. In countries where Bank presence has been less prevalent, in addition to welcoming high profile high priority projects, BSTDB will be more flexible in selecting operations that may lack some of these features but are 'bankable': meaning that they must (i) respond to client needs, (ii) meet Bank eligibility requirements, and (iii) also meet criteria of sound banking principles and financial viability.

Within these parameters, and in line with the Bank's continuing strategy to sustain higher operational activity in smaller shareholder countries, the Bank will be open to financing smaller sizes of operations and taking on added risk in order to participate in a larger volume of operations, and thus promote market oriented economic development where needs are greatest.

5 Institutional Strategy

The LONG-TERM STRATEGIC FRAMEWORK 2010-2020 stresses the focus on development results and recognizes the importance of institutional reforms which underpin achievement of desired outcomes. The Bank maintains unaltered the strategic choices for increasing its relevance, made in the context of the original MTSBP 2019-2022.

6 Financial Strategy

For BSTDB to successfully finance development while preserving financial strength, two elements at play have to be concomitantly addressed, the more so as they tend to reinforce each other: one is the cost of capital, the other is portfolio quality, none of which can be effectively sustained without the maintenance of strong financial positions.

One key requirement is to sustain the high capitalization and other financial ratios, such as risk adjusted capital (RAC) and capital adequacy (CAR). This achievement requires a solid capital base and strong operating income levels. Consistent positive net income levels allow for increases in reserves and thus shareholder funds (paid-in capital plus reserves and surpluses).

The sustainability of the Bank is based upon its ability to employ its available resources productively in order to keep operating independently and fulfilling its mandate. The sources for consistently positive net income are strong operating income levels and good portfolio quality (resulting in low provisioning expenses and low cost of capital). In addition to smooth ongoing operation, this would permit accumulation of surpluses to improve buffers and support further expansion.

6.1 Shareholders' Equity

The Bank's equity capital was initially denominated in SDR and was redenominated to EUR in June 2013. The first authorized capital of SDR 1 billion, of which 30% payable and 70% callable, was fully subscribed and the payable portion was paid in full by end 2009.

The BoG authorized an increase in capital to SDR 3 billion (EUR 3.45 bln) in 2007, of which SDR 1 billion (EUR 1.15 billion) was subscribed in 2008. Moldova requested and the BoG approved a reduction in its shareholding to 0.5%, leaving 0.5% of subscribed capital unallocated. The payable portion of allocated capital was fully paid by end 2018.

SDR 1 billion (EUR 1.15 billion) of authorized capital is available for subscription either by new shareholders or by the Founding Members, as and when the BoG may decide.

6.2 Resource Mobilization

This is a critical indicator of the success of any MDB. Shareholders invest equity capital in the expectation that this capital will be leveraged in order to mobilize additional resources.

6.2.1 Borrowing

Under the updated MTSBP 2019-2022 Base Case Scenario of Growth, the Bank will need to increase total borrowings to around €2.0 billion by end 2022. The Bank will need to obtain new borrowings of around €1.4 billion over the remaining medium-term strategy period, from a diversified array of funding sources which it has carefully built up and managed over the years.

Going towards the end of 2019 the Bank aims to have signed undrawn facilities from some of EIB EUR 50 million, KfW EUR 90 million, NIB EUR 50 million and NDB EUR 100 million. These will all be useable to some extent – and will enhance the look of the Bank's liquidity position.

In the coming years the size of the MTN programme will increase and use it for bond and Private Placement issuance. The Bank will also continue to develop a presence in the short term markets by issuing ECP.

	2019	2020	2021	2022
Assets				
Loan + equity Portfolio	1,950	2,400	2,500	2,550
Liquid assets	300	314	300	359
Total assets	2,250	2,714	2,800	2,900
Liabilities				
Borrowing	**1,414**	**1,872**	**1,942**	**2,023**
Capital	812	824	840	860

Borrowings maturing		76	600	97
Bond buyback (USD 2021 bond vs new USD Issue)		200	-200	
Adjusted borrowings maturing		276	400	97
New borrowing required	**283**	**729**	**479**	**194**

6.2.2 Co-financing

An important way in which the Bank mobilizes additional resources is via co-financing, bringing other private and public financiers to participate in an operation. Since co-financing can achieve a high multiple of financial mobilization for a given operation, and can share risks broadly among participants, the Bank will continue to seek high degrees of co-financing in the operations in which it participates, and it will seek to develop its capacity to prepare and lead arrange operations.

The Bank will work in cooperation with EBRD, IFC, EIB, KWF, DEG, Proparco, other IFIs, commercial banks and ECAs in joint energy and infrastructure sector projects as an important source of the project co-financing as well as the institutional knowledge transfer.

The Bank will also keep regular contact with complementary national specialized development finance institutions of Member States to identify ways to coordinate activities given the opportunities which exist for joint involvement.

6.2.3 Risk Sharing and Disposal of Assets

One of the key tasks of the Bank is to mobilize foreign and local capital, both public and private, for loans and guarantees in its countries of operation. It would therefore seek to employ a variety of techniques and vehicles to both reduce the risk it assumed in operations and to increase the liquidity provided to clients. The Bank may identify operations, develop projects, perform due diligence, secure guarantees and collateral, sign the operation and sell it to other financiers either entirely or part of it, before or after disbursement.

To this end, the Bank may use:

- Participations - the Bank may agree to make loans to finance operations, but to provide its commitment only to a portion of the loan with other financiers subscribing for the balance. The Bank may also, sell a portion of the risk assumed through its participation in the loan after commitment or even after disbursement to one or several financiers.
- Assignments - the Bank may fully underwrite a loan and later sell part of it to other financial institutions.

6.2.4 Special Funds

An additional method of resource mobilization is via Special Funds for activities such as co-financing, research, regional promotion, and technical assistance. Moreover, they may support development of operations which have higher upfront costs. Special funds also represent an opportunity to cooperate with Observers and Member States and to approach interested new entities that wish to become active in the Black Sea Region.

6.3 Pricing of Operations

While, as per its mandate, the Bank is not a profit-maximizing institution, it is nevertheless expected to cover costs and achieve a level of profitability that allows it to build up reserves and support organic growth of its portfolio. The rapid growth envisioned for the 2019-2022 period depends upon the Bank's ability to finance more operations in infrastructure and the public sector. As volume of operations, and therefore the size of the outstanding portfolio, increases, also increases the Bank's ability to reduce interest margins and transfer those benefits to clients, with preference for public sector obligors.

The flows of capital from multilateral and official sources are increasingly long term in nature, and are made available on increasingly competitive terms. The market today is in general demanding cheaper funds with more flexible conditions delivered more quickly. This creates a very competitive environment for BSTDB especially in relation to the other IFIs. BSTDB remains committed to reducing its lending costs in a steady, sustainable manner. For this to be feasible, the Bank needs to control its operating costs and to reduce its own borrowing costs.

7 Risk Assessment and Mitigation

7.1 Background

For the 2020-22 period the Bank will need to manage elevated levels of credit risk, in part inherently related to an accelerated increase in portfolio size, although these are risks which the Bank by its nature of a multilateral development oriented institution is well suited to assume. If these are added to increased market risks, in particular exchange rate and interest rate risks, this means that the overall risk the Bank will face in the future may be expected to increase. Therefore, the Bank will need to enhance its risk assessment and risk mitigation capabilities appropriately.

The Long-term Strategic Framework underlines that:

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

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

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

(iii) further enhance a results-focused supervision culture by strengthened

a. results oriented supervision reporting systems, and

b. mid-term review processes to facilitate better results;

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

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

(vi) enhance learning and accountability through

a. evaluation of results-oriented completion reports, and

b. stronger feedback loops from lessons learned to new operations; and

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

As further stated in the MTSBP 2019-2022, "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."

7.2 Actions Taken by the Bank to Enhance the Quality of its Portfolio

The proposed shift in priority operational activities, and consequent change in business model, entails a calculated increase in the risk assumed by the Bank in its portfolio. Higher volume of business activity, and increased own participation shares, increases the risk assumed by the Bank in its operational portfolio, while the Bank's risk bearing capacity and loss absorption capacity remain largely unchanged, defined by a risk appetite of keeping NPLs below 3% of total portfolio size.

To this end, the Bank shall:

- For the existing portfolio under implementation, increase the depth of risk asset review, tighten supervision and take proactive measures to limit the size and number of non-performing loans at or below the desired level.
- For new operations, improve quality at entry by being more selective as to the risk/return profile of proposed operations, their value at risk (VAR), their impact on Risk Adjusted Capital (RAC), and their development/ regional cooperation impact.
- Give special attention to the cost effective development of early warning indicators, such as improving access to business intelligence in Member Countries. Changes to key risk indicators will be devised and supervision and monitoring of all operations will be enhanced.

The Bank enhances its risk management systems and controls in line with evolving best practices and has adopted Financial Institution and Corporate rating methodologies. The rating methodologies are currently operational, with all corporate lending and financial institutions operations rated. The results of this initiative are used to fine-tune BSTDB's loan loss impairment methods in accordance with market and IFI best practices, and in conformity with the requirements of the new IFRS 9 standard.

Regarding the banking portfolio credit risk and measurement, the Bank plans to further upgrade its internal risk ratings systems models, and is updating its internal rating methodologies for Financial Institutions and Corporate entities in line with best practices.

The Bank is in the process of developing a risk management policy framework comprehensively relating to operations which contains detailed product guidelines, pricing, investment strategies, risk limits and monitoring processes, incorporating a methodology for quantifying and properly accounting for the residual risks relevant to an operation and to the Bank's portfolio, overall.

Quality at Entry

While the portfolio has proven resilient, the near future is likely to present the Bank's region of operations with new challenges. In order to anticipate developments and protect the portfolio, the Bank has taken a conservative approach to the approval of new operations, focusing on high-quality projects. To this end, more comprehensive developmental targets/indicators shall be set and included in the relevant documentation at the appraisal stage of an operation and shall be closely monitored and reported during the supervision and monitoring stages.

Moreover, procedures, modalities and controls shall be put in place to improve quality at entry in operations by strengthening the established analysis and due diligence processes and making them more forward-looking. Also, the Bank is in the process of implementing relevant audit recommendations, which will enhance initial review of potential clients' corporate governance and close monitoring of clients' procurement/use of loans proceeds, including those for private sector clients, as appropriate. Furthermore, each new loan/ operation agreement shall specifically mention and provide adequate and practical means to enable such monitoring requirements.

Non-Performing Loans, Restructuring and Recovery

Post- global financial crisis, BSTDB experienced an increase in non-performing loans (NPLs). NPLs peaked in 2012 at 8.5% of the portfolio and have subsequently come down substantially as a result of a proactive policy of restructuring and resolution, as well as improved monitoring to preempt- where possible- new NPLs appearing, with early identification of 'at risk' operations. From four operations accounting for 5.5% of the portfolio at 31 December 2014, NPLs have been reduced systematically so that at end-October 2019 the Bank has zero non-performing operations.

Provisioning Approach Upgrade

The Bank implemented the IFRS 9 standard as regards loan loss impairment, and is in the process of reviewing its pricing methodology to better correlate the risk margin charged on operational activity to the expected loss given default. Furthermore, various elements encompassing market, operational, legal and reputational risks, will be taken into account and shall be properly quantified and reported, as appropriate, in addition to credit risk. Overall provisions should be sufficient to cover expected losses arising from all relevant types of risk, while reserves are regarded as an ultimate cushion to protect against unexpected adverse developments and as such to prevent impairment of capital.

7.3 Areas of Enhanced Risk Management

The risks encountered by the Bank, which need to be evaluated, mitigated to the extent possible, measured and managed are present largely in two areas:

- In individual operations; and
- In the portfolio in its entirety.

Risk in operations appears at origination and evolves during the life of the project. It consists mainly of credit, market and operational risks. Creditworthiness of the client, in conjunction with project and country risks are assessed during appraisal and recommended for approval if they meet quality at entry requirements. In addition, risk is associated with the collateral assigned to operations, its existence, integrity, value, and capacity to secure and execute if and when needed.

At the portfolio level, all types of relevant risks shall be evaluated and quantified for each operation and according to its specific characteristics and shall be accounted for, as appropriate.

Risk in individual operations

The Bank analyses risk-return and debt service projections; carries out regular monitoring of credit and equity exposures; reviews the credit proposals to minimize the credit/investment risk; and takes all appropriate actions to mitigate credit issues for existing commitments.

The Risk Management Department (DRM) and the Financial Analysis Department (DFA), in parallel but in close coordination, perform functions related to:

- Supervision reports and monitoring schedules.
- Monitoring risk exposure parameters across countries and sectors.
- Evaluation and appraisal of transaction proposals as well as collateral evaluation.
- Evaluation of country and operation risk for each operation
- Assessment of credit worthiness of each prospective client, its financial strength, sustainability, willingness and ability to repay
- Initial and on-going assessment of the use of proceeds by the client/borrower
- Formulation and implementation of the provisioning policy, and monitoring of the assignment of provisions.
- Setting up an appropriate risk rating system.
- Reviewing the risk assets of the Bank, classifying them and determining required provisions.

In order to ensure quality at entry, at each presentation for final review of a prospective operation for approval by the Credit Committee, the DRM, to the extent practicable, will present key forward looking indicators concerning capitalization, RAC, profitability and risk-return profile.

The Bank strives in each operation to secure adequate collateral/security and to obtain credit enhancement products, such as, but not limited to, guarantees and revenue intercepts.

In addition to taking security to cover the value of its exposure, the Bank periodically reviews the existence, integrity and legal status of the collateral/security assigned to it in individual operations. In addition, periodically and to the extent feasible, it performs security valuation and evaluates the legal provisions in the appropriate jurisdiction regarding enforceability and realizable value of the pledged collateral/security. The net present value of collaterals expected to be realized (taking into account all projected costs and time elements) shall be recorded and accounted for, as appropriate.

Risk in the Portfolio

The Bank has designed an early warning system (EWS) designed to (i) exercise prudential supervision of operational portfolio developments, (ii) anticipate deviations from targets, the emergence of portfolio imbalances, and potential breaches of limits, and (iii) allow the Management to take appropriate and timely corrective measures.

Periodic reports contain regularly updated information that includes the following:

- amounts outstanding,
- committed operations (signed amounts that remain undisbursed),
- BoD Approved but not signed operations
- Final Review approved by the CC and ready for presentation to the BoD
- Concept Cleared by the Credit Committee and approved for undertaking appraisal and due diligence

Further, in conjunction with the current implementation of the planned Operations Life Cycle and MIS applications, which have been set as a priority, the Bank is in the process of developing a portfolio monitoring tool (PMT), utilizing to the maximum extent existing programs (like SAP), with a view to:

- providing rolling 12 month-projections for the size, distribution and risk parameters of the portfolio
- alerting Management and business owners where key indicators are and when they may be approaching specified thresholds, and

- informing Bank management about the impact that each and every new project under consideration for financing from BSTDB, has for a range of selected key ratios and measures

The tool considers various scenarios on the effects of each additional project on ratios of fundamental importance to the Bank. Additionally, the tool will provide quarterly Country Strategy progress and exception reports regarding pipeline developments in countries where results deviate from desired targets, as per Country Strategies, by more than 10%.

Next Steps

To implement PMT as a systematized process, the Bank will organizationally consider establishment of a corresponding comprehensive portfolio monitoring and management function (PMF) structure, as may be deemed appropriate.

Within this context, and in view of the upgrades required to expand and streamline the Bank's risk management functions, as a foundation, the Bank may select and develop, or commission, a comprehensive MIS system, capable of acting as an information repository from which data is extracted, analyzed and reported.

The integrated approach of risk management, appraisal and mitigation included, may necessitate a reevaluation of the organizational structure to ensure compatibility and efficiency, streamlining of processes, elimination of bottlenecks and avoidance of fragmentation of duties, to be performed in due course and to the extent necessary.

8 Operational Strategy

8.1 Updated Business Plan 2019-2022

Lending Margin Considerations

Current reserve and capital levels can maintain key financial ratios at healthy levels. The margin on Bank operations at end 2017 was about 3.80% and is expected to fall further to about 3% on average, as the share of sovereign and sub-sovereign investment operations in infrastructure and the public sector increase as a share of total portfolio.

Updated MTSBP 2019-2022 Base Case Scenario of Growth - Business Plan Target and Operational Considerations

An important threshold for BSTDB would be to increase its loan portfolio to €2.4 billion in 2014 and €2.55 billion by 2022, while maintaining high portfolio quality.

This outcome would achieve a ratio of roughly 1:2.5 of own capital to borrowed funds, an indicator of mobilization that is symbolically significant. Thus, such growth supported by more regular issuance would help to enhance further BSTDB's profile with investors and assumes that the Bank can access markets when it needs to, at sufficiently favorable rates which it can then transform into attractive lending for the benefit of its clients.

A portfolio size of €2.6 billion in outstanding operations is about the maximum level that could be reached with the current equity capital without threatening its financial profile while improving its business profile and policy relevance. Maintenance of quality with such growth would require that public sector lending (including sovereign guaranteed projects and municipal finance) would need to expand greatly, even by comparison with the target set in the original MTSBP 2019-2022. This, in turn, will require a pricing approach that is in line with the market for such operations.

8.2 Financial Forecast 2019-2022 - Updated Base Case Scenario of Growth

The new Base Case Scenario is focused on protecting the Bank's long-term interests and safeguarding its achievements to date, sustaining profitability and avoiding overstretching resources.

Priority will be given to improving quality at entry and preserving the capability of BSTDB to expand financing of the Black Sea region. The Bank will continue portfolio growth unless broader conditions deteriorate to a degree where it is impossible to do so, but the Bank is determined to do so in a careful, managed manner that avoids overstretching resources and maintains the robustness of key financial ratios.

The Forecasted operations during the strategy period under the revised and updated Base Case scenario for Growth are:

INDICATORS	2018	2019	2020	2021	2022
Financial Assumptions					
Interest on loans	5.33%	5.22%	5.20%	4.99%	4.85%
Net Cash requirements	248	223	267	313	310
Liquidity buffer	124	112	133	157	155
Extra liquidity	350	239	250	229	296
New commitments (signed)	**618**	**973**	**992**	**818**	**827**
New BoD approved	**570**	**1,112**	**1,072**	**935**	**973**
Disbursements	574	990	951	771	829
Reimbursement	383	398	500	671	780
Total outstanding disbursements (B/S)	**1,358**	**1,950**	**2,400**	**2,500**	**2,550**
Commitments	**1,577**	**2,152**	**2,644**	**2,791**	**2,838**
Planned Commitments (net of repayments)	**1,616**	**2,215**	**2,673**	**2,841**	**2,932**
Total signed undisbursed	219	202	243	291	288
BoD approved not signed	39	63	30	50	94
Operational Gearing Ratio	***2,400***	***2,414***	***2,426***	***2,442***	***2,461***
Institutional Gearing Ratio	***3,606***	***3,621***	***3,639***	***3,663***	***3,692***

The assumptions under which the Updated Base Case Scenario of Growth was developed are the following:

- The outstanding portfolio will reach €2.55 billion, and the Balance Sheet size would amount to about €2.8 - €3.0 billion at end 2022.
- The portfolio of outstanding operations will grow over the remaining period by about €600 million.
- Average loan maturity of an operation at the time of signing increases from less than 4 years in 2018 to 5 years in 2022 (1 year availability and grace period, 4 years of repayment in equal installments).
- The Risk margin of the portfolio declines marginally but steadily over the remaining strategy period.
- Cost of borrowed funds declines over time as a result of the improvement in the Bank's portfolio quality, and the improvement in perception of the Bank as an established issuer.
- The Treasury will continue to generate revenues but banking operations will remain the principal profit center in relative terms. The main concern of the Treasury will be to preserve the value of the Bank's capital and to secure the funds necessary for Banking operations. In case of excess liquidity, the Treasury would seek profitable investments.

- There are no actual write-offs forecast for the period covered by the Business Plan.

Under the above assumptions, the Bank will achieve the following results:

INDICATORS	2018	2019	2020	2021	2022
Results					
Number of operations (Newly signed)	30	30	31	25	25
Operations per Banking team (newly signed)	6.0	6.1	6.1	5.0	5.1
Productivity volume (operation per banker)	1.43	1.45	1.45	1.20	1.21
Planning target (amount per Team)	**123.51**	**194.52**	**198.41**	**163.69**	**165.33**
Growth Rate in Active Portfolio (signed)	***19.95%***	***27.65%***	***20.42%***	***13.43%***	***11.62%***
Growth in gross Loans outstanding (B/S)	***16.97%***	***43.25%***	***23.09%***	***4.17%***	***1.99%***
Ratios					
Capital	801	812	824	840	860
ROAE	0.66%	1.17%	1.48%	1.92%	2.32%
ROAA	0.31%	0.46%	0.49%	0.58%	0.69%
Cost/Income Ratio (before provisioning)	62.22%	52.75%	42.18%	41.12%	40.29%
Equity/Total Assets	44.63%	36.07%	30.36%	30.00%	29.64%
Loan loss provisions/total loans (end of year)	3.05%	2.62%	2.95%	3.53%	4.08%
Revenues after opex/revenues before opex	16.15%	22.52%	26.58%	26.21%	27.42%

The forecast financial statements are presented in Annex.

9 Implementation and Monitoring

The Update and Review of the MTSBP 2019-2022 will be implemented through Annual Budgets and in particular the budget for 2020, which would allocate resources for the most part of the growth envisaged for the remaining strategy period. The annual budgets will be supplemented by Departmental Work Programs and Key Performance Indicators, in conformity with the Bank's regulatory framework. Progress under Departmental Work Programs and Key Performance Indicators will be reviewed and updated semi-annually.

Monitoring will be both a continuous task of assessing progress towards achieving targets, and a periodic evaluation and review process through quarterly portfolio development analysis and semi-annual budgetary execution. In particular, economic and market developments, funding opportunities and asset quality will be reviewed on a quarterly basis. Decisions on business developments and acceleration/ deceleration of operational activity would be derived from the result of such analysis.

In 2020-2021 the Bank will develop, with guidance from Governors and input from Directors, the Long-term Strategic Framework (LTSF) for the period 2021-2030. The new LTSF will cover the next 10 years and, following the successful consolidation achieved under the current long-term strategy, will desirably set the stage for a period of sustained growth of the Bank.

ANNEX 1 – FINANCIAL STATEMENTS 2019-2022

INCOME STATEMENT	2018	2019	2020	2021	2022
Interest and Similar Income					
Interest on loans	65.71	80.64	111.05	119.80	119.76
From placements with Financial Institutions	-0.01	0.00	0.00	0.07	0.08
From Investment Securities	4.78	4.86	2.76	2.69	2.87
From front-end and Commitment fees	8.24	1.71	1.70	1.70	1.70
Total Interest and Similar Income	**78.72**	**87.21**	**115.51**	**124.26**	**124.40**
Interest Expenses and Similar Charges					
Interest Expenses	24.91	41.43	56.69	64.85	64.43
Other Charges	12.64	4.64	4.64	4.14	3.39
Issuance and Arrangement Costs	8.03	0.55	2.20	1.15	0.75
Total Interest Expenses and Charges	**45.58**	**46.62**	**63.52**	**70.13**	**68.56**
Net interest Income	**33.14**	**40.59**	**51.99**	**54.13**	**55.84**
Other Income					
Net Fees and Commissions	1.65	1.41	2.04	2.14	2.37
Net Income (Loss) on Forex	-1.35	0.00	0.00	0.00	0.00
Other Income	0.60	0.45	0.00	0.00	0.00
Total Other Income	**0.90**	**1.86**	**2.04**	**2.14**	**2.37**
Operating Income	**34.04**	**42.44**	**54.03**	**56.27**	**58.21**
Administrative Expenses					
Total salaries and benefits	15.95	15.51	15.79	16.03	16.23
Other administration expenses	4.77	5.25	5.31	5.39	5.47
Depreciation	**0.46**	**1.64**	**1.69**	**1.72**	**1.75**
Total Administrative Expenses	**21.18**	**22.39**	**22.79**	**23.14**	**23.45**
Income before provisions	**12.86**	**20.05**	**31.24**	**33.13**	**34.76**
Provisions	**7.69**	**10.66**	**19.12**	**17.14**	**15.06**
Net profit	**5.17**	**9.40**	**12.12**	**15.99**	**19.70**

BALANCE SHEET	2018	2019	2020	2021	2022
Assets					
Cash and bank balances	48.60	43.70	20.00	20.00	20.00
Placements with financial institutions	14.12	102.81	129.33	148.64	157.19
Investment securities	332.44	105.00	125.00	100.00	150.00
Total deposits and securities/Liquidity	**395.16**	**251.51**	**274.33**	**268.64**	**327.19**
Derivative financial instruments	**0.40**	**0.28**	**0.00**	**0.00**	**0.00**
Less: provisions for impairment	0.28	0.00	0.00	0.00	0.00
Loans	1,333.53	1,922.25	2,352.50	2,450.54	2,492.29
Equity investments	27.65	27.62	47.67	49.78	57.72
Less: provisions for impairment	-40.72	-50.28	-69.40	-86.54	-101.61
Net loans and equity investments	**1,320.45**	**1,899.59**	**2,330.77**	**2,413.77**	**2,448.40**
Receivables and accrued interest	**20.32**	**20.96**	**24.92**	**29.10**	**33.23**
Paid-in share capital not received	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Less: deferred income	-3.00	-15.00	-10.00	-8.50	-7.50
Property, technology and equipment	3.25	3.48	3.71	3.95	5.68
Intangible assets	3.48	3.92	4.35	4.79	5.22
Less: accumulated depreciation	0.79	0.90	0.96	0.99	0.74
Net property, technology and equipment	**7.52**	**8.30**	**9.02**	**9.72**	**11.64**
Other assets	**53.78**	**84.78**	**84.78**	**86.78**	**86.78**
Total assets	**1,795**	**2,250**	**2,714**	**2,800**	**2,900**
Liabilities					
Borrowing	**953.58**	**1,413.90**	**1,872.44**	**1,942.15**	**2,022.68**
Payables and accrued interest	15.92	16.52	17.51	17.51	17.51
Deferred income/Other liabilities	0.00	8.25	0.00	0.00	0.00
Derivative financial instruments	24.24	0.00	0.00	0.00	0.00
Total liabilities	**993.75**	**1,438.67**	**1,889.96**	**1,959.66**	**2,040.19**
Paid-in share capital	**685.12**	**686.55**	**686.55**	**686.55**	**686.55**
General reserve	**32.98**	**32.98**	**32.98**	**32.98**	**32.98**
Surpluses	**82.82**	**92.21**	**104.33**	**120.32**	**140.02**
Total Equity	**800.92**	**811.74**	**823.86**	**839.85**	**859.55**
Total own funds and liabilities	**1,795**	**2,250**	**2,714**	**2,800**	**2,900**