

APPROVED
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(for publication)

THE UPDATED STRATEGY
OF THE INTERNATIONAL BANK FOR ECONOMIC CO-OPERATION
for the period until 2020

Moscow, 2018

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Introduction

This document has been developed in compliance with the resolutions adopted at the 131st meeting held in Bratislava on 27 June 2018, whereat the IBEC Council resolved to:

- approve the Concept for Further Development of the Bank for 2018–2020 (hereinafter, the “Concept for Development”) under the current IBEC’s Business Resumption and Development Strategy for the period from 2016 to 2020;
- instruct the IBEC Board to adjust and expound the Bank’s Strategy as regards the plans of practical measures for achievement of the IBEC’s strategic goals, the Bank’s products and services, segmentation of clients and counterparties, and financial and operational targets until 2020 and submit it for review at a regular meeting of the Council.

The starting points for the development of the Updated Strategy of the International Bank for Economic Co-operation for the period until 2020 (hereinafter, the ”Strategy”) are:

- focusing efforts on transformation tasks while ramping up the Bank’s business until a certain level of the infrastructure maturity is reached;
- carrying out client segmentation consistent with a market niche stated by the Concept for Development;
- establishing achievable targets taking into account the existing operational capabilities of the Bank.

This Updated Strategy also presumes that, starting from the current strategic cycle, the IBEC will focus more on cooperation with the International Investment Bank (IIB) for the benefit of member states, which largely overlap at both banks.

The Updated Strategy implementation is divided into two stages.

During the first stage (till the end of the first half of 2019), the Bank will focus on a comprehensive transformation of the IBEC, which will consist of developing the Bank’s infrastructure and laying the foundation for further scaling up of operations. At this stage, business development will be carried out as a background activity through a selective inclusion of quality assets in the Bank’s portfolio.

During the second stage of the Strategy implementation (second half of 2019 through 2020), the IBEC will largely expand its business aggressively, as well as promote the Bank on the market and develop partnerships.

The Updated Strategy contains general parameters and priorities of the IBEC in all of its member states. In addition to this document, the Bank will elaborate individual country strategies based on analysis of the corresponding markets, industries and foreign trade in member states, which strategies will then become part of this Updated Strategy as regards the IBEC’s business development potential in each of the member countries.

1. Conceptual Framework for the Updated Strategy

1.1. IBEC's potential

According to the Concept for Development, the **IBEC's Mission** consists in:

- lending financial support to foreign trade operations conducted by companies residing in the Bank's member states, as well as supporting small and medium enterprises in member countries, which create added value and aspire to enter new markets;

- facilitating integration into global value chains, increased use of technology, improved energy and resource efficiency of production and services, and boosting competitiveness in accordance with priorities of social and economic development of the Bank's member states.

The IBEC has defined its place in the market in order to effectively fulfill its mission, taking into account the following distinctive features that differentiate the Bank from other financial institutions:

- no direct restrictions on the types of operations carried out by the Bank, which allows the Bank to provide clients with comprehensive services in terms of trade and target financing, treasury operations, transactions with key foreign currencies and the IBEC member states' currencies, and other operations in line with goals and objectives of the Bank;

- tax preferences in the member states;

- no accountability to national and international financial regulatory authorities, which allows the IBEC to establish its own regulatory standards;

- a unique geography of shareholders, which allows for a varied business portfolio and helps to diversify risks geographically;

- a stable financial position, with positive financial performance in recent years combined with high capital adequacy and liquidity levels confirmed by an investment-grade credit rating assigned by Fitch Ratings (long-term BBB- and short-term F3). For credit ratings assigned to IBEC member states by international agencies S&P, Moody's and Fitch as of 1 November 2018, see Appendix 1.

Moreover, the Bank's high capital adequacy ratio shows that it holds considerable capacities for business growth.

At the same time, in order to capitalise on its status in full, the IBEC needs to meet certain conditions, such as:

- continue the comprehensive transformation programme, including changes in staff and organisation, business processes and IT infrastructure;¹

¹ For the 2019–2020 transformation tasks, see Appendix 2

- operate in a market niche, in which demand for the Bank's products is the highest and where it brings most value to IBEC member states;
- secure a high level of support from IBEC member states.

That said, given its strengths, the IBEC sees its key market niche in facilitating foreign trade development of its member states.

1.2. Foreign Trade as the IBEC's Key Line of Business

The IBEC defines its role in line with the Concept for Development as a **service centre for the member states' foreign trade**.

This role falls within the plan to roll out cooperation with the IIB, a specialist investment bank, as the business profiles of the two banks will complement each other.

Being a service centre for the member states' foreign trade is in line with one of the IBEC's main aims stipulated in its statutory documents, that is "to promote the development of foreign economic ties among the Bank's member countries, their banks, enterprises and organizations as well as among them and banks, enterprises and organizations of other countries", and corresponds with interests of the IBEC member states in general.

Given broad foreign trade activity with significant volumes among its member countries, the IBEC has multiple opportunities for further development. Companies from member states carry out, on a regular basis, export and import operations that the IBEC is set to finance. Moreover, the IBEC will be a "domestic" bank for both exporters and importers, which will drastically reduce their expenses and mitigate risks to foreign trade operations.

At the same time, IBEC member states represent various geographical regions, greatly differing in terms of the existing foreign trade relations, which unlocks a potential for the Bank to offer export and import operations support almost in any country of the world.

In terms of exports and imports, European member countries of the IBEC mostly partner up with the region's major economies such as Germany, Italy, France and the UK. Maintaining mutual foreign trade relations with bordering countries is also a priority. The EU takes up a great share in each European IBEC member country's foreign trade, which makes their economies dependent on European markets. This refers, first of all, to the Slovak Republic and the Czech Republic, which have export-focused economies.

Mongolia's foreign trade is poorly diversified geographically, relying primarily on China in terms of exports, and on China and Russia in terms of imports. Mongolia's export income is largely affected by global prices for copper, coal and gold, and demand for these commodities, mainly from China. However, the Government of Mongolia has been working to diversify the country's foreign trade. In recent years, it has signed a Free Trade Agreement with Japan, and it has been negotiating similar arrangements with the Eurasian Economic Union and South Korea.

Vietnam imports mostly from the Asian region and exports all over the world. Such a distribution pattern is driven by the country's extensive involvement in global production chains. For example, Vietnam accommodates assembly facilities of major electronics manufacturers.

Russia is actively engaged in foreign trade with both European and Asian countries, due to its geographical position, rich mineral resources and the size of economy. At the same time, Russia remains under EU sanctions and a retaliatory domestic ban on food imports, which have a negative impact on the countries' trade volumes and export incomes.

The IBEC intends not only to support the above-mentioned existing foreign economic relations, but also to develop new ones. In particular, the Bank will leverage its unique shareholders' composition to facilitate new market entries for European exporters and finding new suppliers in Asian IBEC member countries, thus promoting export and import diversification in member states.

In its role of a service centre for the member states' foreign trade, the IBEC will not limit its activities to the member countries' boundaries, but it will also support operations of local enterprises and organisations with their counterparties from third countries, helping the member states' businesses to tap new markets.

The IBEC also intends to expand its geographical footprint. The Bank is considering measures aimed at:

- resuming Hungary's participation in the Bank;
- urging new countries to become members of the Bank as the IBEC is interested in countries that have close economic ties with member states or are their key foreign trade partners.

2. The IBEC's Business Profile

The IBEC intends to carry out the following **operations**, based on its key activities:

- trade finance operations;
- target financing to support export and import operations of the Bank's member states, including operations with third countries, and domestic trade operations;
- settlement services;
- client operations on financial markets.

The IBEC intends to provide products and services in the **trade financing segment** as follows:

- documentary letters of credit, including their opening, advising, execution and acceptance;
- irrevocable reimbursement undertakings;
- guarantees and sureties, including tender guarantees, advance payment guarantees, performance guarantees, counter-guarantees, stand-by letters of credit;

- documentary collection.

Target financing to support export and import operations will include the following products and services:

- loans for trade financing, including pre-export, post-export, pre-import, and post-import financing;
- factoring;
- forfaiting;
- negotiating, discounting, post-financing under documentary letters of credit and other similar instruments;
- financing foreign trade operations covered by ECAs;
- other target financing products in line with the Bank's business profile.

Direct lending to companies residing in IBEC member states is possible, when declared operations fully comply with the IBEC's strategic goals. Joint projects of IBEC member states and SME projects will be the priority.

Settlement services of the Bank will include the following:

- opening and maintaining accounts in all currencies of member states and in key foreign currencies;
- clearing mutual debt obligations between subsidiaries and affiliates of companies from member states in different countries;
- providing remote access services through a remote banking system (RBS).

The IBEC intends to carry out the following client operations on **financial markets**:

- arranging financing for projects, enterprises and banks of member states on the debt capital market, including participation in offering and purchasing of bonds, credit notes, participation in syndicated loans;
- participating in syndicated loans aimed at supporting foreign trade operations;
- hedging currency and interest risks of clients in all currencies of member states and key foreign currencies.

3. Customer Relations and Funding Sources

Customer Relations

Taking into account the IBEC's product range, the first stage of the Updated Strategy implementation will be focused on the **target group of clients**, which consists of:

- companies from the Bank's member states that export products (works, services) to the Bank's member states and to other countries, creating added value in a member country;
- companies from the Bank's member states that buy products (works, services) from the Bank's member states, creating added value in a member country;

- international companies with subsidiaries and affiliates located in several member countries of the IBEC, including intracompany transactions;
- companies from the Bank's member states that raise capital to finance foreign trade activity;
- companies from the Bank's member states that import parts and equipment as well as works and services abroad to expand production or export potential of an enterprise in the Bank's member state;
- companies from the Bank's member states that provide logistic services for export and import operations;
- companies from the Bank's member states involved in the localisation of production in IBEC member states and third countries;
- joint ventures with a company from a member state, regardless of a country where the joint venture resides;
- companies that take part in projects, which engage enterprises and organisations from several IBEC member states.

Key requirements for clients and counterparties, including those for compliance procedures, are stipulated by the Bank's rules and regulations.

The IBEC also plans to carry out strategic segmentation of clients in order to select niches with target clients in member states, identify optimal comprehensive product offerings and subsequently implement support programmes for trade financing, export and import operations and SME.

At the current stage of the Updated Strategy implementation, the IBEC will continue developing the **client infrastructure** by doing the following:

- re-engineering business processes of the Bank's core activities, including adjustments to the existing system of internal ratings assigned to clients on the basis of their quality and financial stability;
- standardising and refining the product range taking into account the needs of economic entities in IBEC member states;
- developing a tariff system for the Bank's typical products based on country specifics as well as unifying contract documentation on these products in order to optimise business processes in offering products to clients;
- implementing advanced IT solutions, which help to reduce application processing time and secure transactions accounting and support;
- implementing an automated client relationship management (CRM) system;
- implementing industry analysis of the IBEC member states' markets;

- optimising and strengthening work with loan collateral, including working out approaches based on transaction types and internal client ratings;
- optimising and strengthening the transactions monitoring system;
- developing and implementing a system for annual monitoring of banking markets in IBEC member states.

The IBEC plans to **sell** its products and services through:

- direct contacts of relationship managers with potential clients from a target group of clients;
- contacts with partner banks, including for the purposes of syndicated lending and trade finance operations;
- promoting the Bank's products and services in business community events, including those organised by chambers of commerce and industry, export credit agencies and other IBEC partners;
- leads and referrals of the existing clients;
- advertising, including online tools;
- the IBEC's website and pages in social networks;
- agents residing permanently in IBEC member states.

Going forward, another option for securing the IBEC's presence in member states will be regional client managers.

The IBEC will complete detailed sales channels structuring in 2019.

Funding Sources

As the Updated Strategy goes to print, the IBEC sources funding mostly from its equity, which is, to a significant extent, composed of the paid-in authorised capital.

The Bank intends to continue investing its equity into liquid low-risk assets in order to maintain capital and secure returns.

The IBEC's core line of activity will be financed by borrowings.

Initially, the Bank will raise funding on interbank markets. At the same time, the IBEC plans to attract, when necessary, long-term financing on local and international capital markets including, but not limited to, by issuing bonds, raising bilateral and club-deal loans in order to fund the Bank's lending activities.

The IBEC will also focus on increasing the amount of funds raised from non-banking clients.

4. The IBEC's Partners

The IBEC sees the following institutions as its partners:

- non-financial institutions in IBEC member states that facilitate business development: intergovernmental commissions, national and multilateral chambers of commerce and industry, export and investment agencies;
- international institutions, development banks and export credit agencies;
- commercial banks.

4.1. Cooperation with Non-Financial Institutions

The IBEC intends to establish and develop partnerships with the following non-financial institutions:

- exporters' and importers' associations;
- trade development agencies;
- SME support institutions;
- banking associations;
- state and municipal authorities;
- chambers of commerce and industry;
- unions of entrepreneurs.

The IBEC plans to use the above-mentioned organisations as channels for promoting its products and services, as a source for finding government programmes, and as a channel for attracting new clients and projects.

The Bank will also take part in special events organised by these institutions, such as meetings of bilateral intergovernmental commissions, missions, conferences and meetings of thematic working groups. Depending on the meeting agenda, the IBEC will offer its services in facilitating development of foreign trade relations between economic entities of the respective countries.

4.2. Cooperation with Financial Institutions

The Bank intends to establish and develop partnerships with the following financial institutions:

- the International Investment Bank (IIB);
- other international development banks, with which the IBEC overlaps on member states;
- national development banks in IBEC member states;
- national export-import banks;
- export credit agencies;
- commercial banks.

The IBEC aims to develop cooperation with the IIB considering a significant overlap in their member states in terms of shareholders, markets, infrastructure (buildings, utilities and communications), and historical ties.

As the IIB's sister bank, the IBEC intends to develop client segments jointly with the IIB, while representing a common channel for both banks for customer acquisition, including clients in the IIB business profile (project and infrastructure financing). The IBEC will be servicing the IIB's clients in terms of trade finance operations, settlement and foreign exchange transactions. This way, the banks will offer comprehensive banking services – each in accordance with its business profile.

Within their partnership, the IBEC and IIB will:

- align their policies on managing clients, products, tariffs, and risks;
- exchange experience and insights on a regular basis;
- cooperate on internal infrastructure issues.

The IBEC sees Multilateral Development Banks (MDBs) as its sales channel. MDBs are expected to recommend the IBEC to their borrowers as a financial institution for conducting operations listed in the IBEC's business profile and not typical of development banks.

Moreover, the IBEC plans to participate in syndicated loans arranged by MDBs, if they are in line with the IBEC's strategic goals.

The Bank will develop relations with national export-import banks in conducting trade finance and documentary operations aimed at supporting foreign trade of IBEC member states.

Development of relations with ECAs is aimed at obtaining insurance and guarantee coverage on trade finance transactions.

The IBEC will develop partnerships with commercial banks in the following areas:

- establishing correspondent relations with a view to expand the correspondent banking network and execute cross-border payments, including payments in national currencies of IBEC member states;
- establishing credit risk limits for commercial banks, as well as commercial banks' credit risk limits for the IBEC, in order to conduct trade finance and documentary operations, operations on financial markets and to participate in syndicated loans in line with the IBEC's strategic goals;
- cooperating in treasury operations to secure liquidity and raise funding for the Bank's core line of activity.

In the commercial banking sector of IBEC member states, the Bank also plans to participate in government programmes on par with local development and commercial banks, if these programmes fall in line with the IBEC's strategic goals.

The IBEC will also develop relations with national financial regulatory authorities in order to expand opportunities for conducting banking operations with residents of the respective member state.

5. Infrastructure Development²

In the longer term, the IBEC will have a special strategic focus on infrastructure development as the Bank undergoes transformation.

Strategic Research

As a follow-up to the Updated Strategy, the IBEC will develop country strategies for each member state, which will define individual parameters of the Bank's activities in a particular country.

The IBEC Council will have to review the following matters:

- a list of indicators and targets to assess the Bank's contribution to development of the member countries' economies (Development Impact Assessment);
- the Bank's Strategy for the next strategic cycle.

Staff and Organisational Changes

The IBEC will develop an organisational model on the basis of its divisions' roles in new business processes.

To improve employee incentives, the Bank will implement a comprehensive KPI system for employee performance assessment. The KPI system will become effective once the new organisation is in place.

Risk management

In line with the IBEC's new growth initiatives, the key tasks in terms of roll-out and optimisation of the risk management framework till the end of 2020 are:

- development and optimisation of risk management methodology approaches, tools, and technologies for analysis and assessment of liquidity, market and operational risks;
- improvement of the limit-setting system;
- automation of processes for risk analysis and assessment and of risk reporting.

Within the period in question, the Bank will review and improve the following aspects:

- models for analysis of counterparty banks' financial stability;
- existing models of credit standing and solvency assessment;
- issuer assessment models;
- a system for regular reporting on risk exposure;

² For the purposes of this section, infrastructure is defined as elements of the IBEC's activities not directly related to conducting banking operations

- a limit-setting system.

At all stages of its operations, the Bank will implement as follows:

- calculating and controlling risk appetite indicators;
- applying advanced models of operational risk control and accounting.

Relations with Rating Agencies

Relations with rating agencies will be focused on maintaining and upgrading the current rating, which Fitch Ratings assigned to the Bank in 2017 (BBB-). Once the respective decision is taken, the Bank will initiate the process for obtaining a second investment-grade credit rating from Moody's or S&P and, if necessary, from local rating agencies in IBEC member states.

Public Relations

In order to increase the IBEC's brand awareness and attractiveness for banks and corporate clients as well as to inform potential clients about the IBEC and its products and services, the Bank will:

- implement a new corporate identity based on the brand book developed;
- work out strategies for PR, GR and marketing;
- carry out a set of measures for the Bank's identification.

In order to boost the IBEC's brand awareness, the Bank, on a regular basis, will undertake the following actions:

- preparing and publishing information about the Bank in the media and social networks;
- publishing information about the IBEC's products and services and other data about the Bank on its website;
- arranging and delivering presentations about the Bank's activities;
- presenting the Bank's activities in events held by other financial institutions and associations.

Information Technology

As part of the Updated Strategy, the IBEC will update the IT infrastructure in accordance with an IT Development Plan. The Plan includes measures for comprehensive automation of the Bank's operations such as:

- implementation of a new automated banking system (ABS);
- implementation of a client relationship management (CRM) system;
- creating a new website;
- modernisation of the remote banking system (RBS).

Credit Ratings of the IBEC Member Countries as of 1 November 2018

IBEC member countries	S&P		Moody's		Fitch	
	short-term	long-term	short-term	long-term	short-term	long-term
Republic of Bulgaria	A-3	BBB-	-	Baa2	F2	BBB
Socialist Republic of Vietnam	B	BB-	-	Ba3	B	BB
Mongolia	B	B-	NP	B3	B	B
Republic of Poland	A-2	A-	P-1	A2	F2	A-
Russian Federation	A-3	BBB-	NP	Ba1	F3	BBB-
Romania	A-3	BBB-	P-3	Baa3	F3	BBB-
Slovak Republic	A-1	A+	-	A2	F1+	A+
Czech Republic	A-1+	AA-	(P) P-1	A1	F1+	AA-