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DEVELOPMENT STRATEGY 2021-2025

INTERNATIONAL BANK FOR ECONOMIC CO-OPERATION

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1. EXECUTIVE SUMMARY

I. IBEC Portrait and Positioning

International Bank for Economic Co-operation (IBEC or the Bank) evolves as a dynamic international development institution dedicated to development of mutual trade and business of its member countries, including their trade relations with regional partners. The end of the previous five-year strategy period of the Bank's activity recovery found the Bank in a good shape marked by sharp and sustained growth of its activities in favor of the Member countries, solid financial stability and liquidity requirements, proven by the attained investment-grade ratings attributed by the global rating agencies as well as by trust awarded the Bank by investors to its ever first two bond issues in 2019 and 2020. Continuing meeting its mandate IBEC has increasingly contributed to economic development seen in its close area. The main drivers of the Bank's recent development lie in full-fledged support of all kind of export and import operations by providing direct and syndicated financing, increasingly offered trade documentary finance accompanied by growth in number of clients and volumes of settlement operations which make the Bank distinct from other global or regional multilateral development institutions and enough attractive for its clients in the region.

The Bank operates in a representative geography of shareholders, covering five EU Member countries Poland, Czech Republic, Slovakia, Romania, Bulgaria as well as the Russian Federation with its promising unsaturated large market keeping all a vital link to the Asian region represented by Mongolia and Vietnam.

IBEC is a distinct international financial institution that may perform simultaneously the functions of other traditional development banks, export support institution, and a cash settlement center for foreign trade of its member countries.

Since the adoption of the Updated Strategy in 2018, IBEC has managed to make an impressive breakthrough and seriously grow its business – the Bank has been able to significantly increase its loan and securities investment portfolio, as well as almost triple its off-balance sheet portfolio. It is noteworthy that during the previous strategic cycle, the Bank achieved financial targets and became more attractive to external investors while increasing its business activities in member countries. During the previous strategic cycle IBEC has achieved all its strategic goals despite difficult macroeconomic conditions, which is a solid foundation for the Bank's new strategy development in the next strategic period from 2021 to 2025. Based on the impressive results activating IBEC operations in the 2nd half in the previous strategic period, it is planned to significantly advance the Bank's business activity and continue its further development.

During the previous strategic cycle IBEC was able to ensure outstanding results in terms of improving its business model. Trade finance came forward as one of the core products of the Bank and a significant growth in the loan portfolio was achieved through trade finance transactions between member countries as well as with third countries under member countries' related operations.

At the same time, the Bank actively carried out measures to improve the operational model. The organizational structure of the Bank was updated, and several measures were taken to improve efficiency of business processes and risk management system. In addition, the Bank is aware of

further multi-task working on digitalization: e.g. the launching of a modern website, as well as the introduction of automated banking systems and remote banking tools which are being developed.

Financial results of the Bank are also in line with the goals set at the beginning of the previous strategic period and reaffirmed within the renewed business profile in 2018 by the new management team. Working assets are forecasted to reach the mark of 92% of total assets by the end of 2020 with a decreasing share of treasury assets. Loan portfolio increased and is supposed to surpass the strategic target of EUR 313 mln (net) and is to reach EUR 369 mln. Profit is assumed to reach the mark higher than EUR 5.7 mln, which surpasses the strategic goals and contributes to further growth of the Bank's business.

Challenging year 2020, affected by unprecedented epidemiological situation, prompted IBEC to actively contribute to economic recovery through targeted direct financing while prioritizing:

1. Financial support to priority sectors with a focus on pharmacy, logistics, and medical industry.
2. Financial support to medium sized business as it is one of the most affected sectors and reportedly not enough covered by government support.
3. Financing of trade operations between member states business players facilitating recovery of global trade turnover impacted by the crisis and providing support of supply chains' sustainability.
4. Search to participation in governmental, IFIs' and MDBs' COVID-related programs to directly support medium sized business and indirectly support small companies via other financial institutions.

II. Introduction of IBEC New Strategy for 2021-2025

IBEC's Strategy for 2021-2025 presents the Bank's ambition to **"grow for stability"** during the next five years' period based on the successful Bank's transformation launched in 2018 resulting in a significant growth of core activities and efficiency improvement in the Bank's operations. This commitment to growth allows the institution to surpass one billion euro in total assets by the end of the period, which is an important landmark allowing the Bank to acquire the desired status and reach a new scale and qualitative improvement in its activities. Considering the number of assumptions, the project of strategy envisages optimal increase of the credit portfolio accompanied by an increase of the Bank's trade finance and settlement operations, including cash management.

Naturally, while shaping the Bank's mid-term prospects, a special attention has been paid to the identification of the risks which may accompany the Bank's pace during its next five years perspective. On the one hand, there are upstream external risks linked with the slow-down of economic activity caused by the volatilities on the markets due to continued impact of COVID-19 pandemic on the global economic output. On the other hand, a particular attention has been drawn to the downstream risks related to proper correlation between the increased size of assets and the corresponding equity sources in order to strengthen the prospects for fulfillment of the outlined proportional and sustained long-term Bank's growth.

The Bank will continue to focus on supporting member states' economies through facilitation of international trade and financing projects that promote sustainable development using different set

of products (including trade finance loans, syndicated loans, off-balance sheet transactions and cash management) in operations between member and non-member states.

The Strategy 2021-2025 foresees further development of the Bank's key business activities and assumes targeted products/client types/industries and countries in line with the Bank's mission.

Related credit and market risks and their potential quantitative effect on strategy execution have been considered in the strategic plan.

The projected business growth and sufficient revenue base have been focused via the requirement on the decrease of the funding costs. The Bank will optimize structure of liabilities and their costs of acquisition carrying during the next strategic period. The Management is convinced of the Bank's potential to upgrade its credit rating by one notch, an ambitious but conditionally achievable target.

Along with the growth of the volume and quantity of business operation the Strategy has highlighted the issue of efficiency of the use of general and administrative expenses. Provided the Bank Council support the view of the Management Board, it will allow the Bank to insignificantly increase number of employees (only business-related positions) compared to loan and documentary portfolio growth rate.

These initiatives are described in detail in Key strategic initiatives section below.

III. Main prerequisites to the preparation of the Strategy 2021-2025 and components of the project

The Bank's Strategy for 2021-2025 has been created taking into consideration the necessity to clearly identify the niche for IBEC given comparison with the other MDBs' best practices. To support the Bank in the process of strategy development and provide information on best practices for MDBs and other financial institutions the Bank engaged strategic consultant – EY in the process of strategy preparation. The main role of the consultant was to provide best practice and relevant benchmarks, gather the information about market conditions in member states (using its local offices in each member state), develop methodology and principles of financial modeling based on best practices and help the Bank with the structuring of the general strategy.

III.i. Vision and Mission

The Bank updated its mission based on the Charter and previous strategy taking into consideration current and planned business activities of the Bank and external environment. The Management proposed to introduce a new vision of the Bank to enhance the perception of the institution as a reliable partner for the support of the member states' entities development.

We renew the Bank's mission to focus on transactions that promote sustainable development and cascade it to clearly defined strategic goals and objectives, business model and functional strategies.

Below IBEC's vision and updated mission are defined in the section Vision and Mission

III.ii. Strategic goals and objectives

As described in the Key strategic goals and objective below – the Bank considers the following strategic goals as milestones for its further successful development:

- Positive developmental impact on member states through promotion of international trade, direct support of medium sized companies and indirect support of small businesses through other financial institutions, contribution to sustainable development
- Provision of clients with the most relevant and convenient products and services based on clients' needs
- Increase in long-term financial stability and credit rating of the Bank and internal operating efficiency and
- Increase in IBEC's business activities in all member states

The Bank has set the following strategic targets to be achieved by the end of 2025:

Indicator	2020	2025
Total assets	EUR 734 mln	EUR 1024 mln
Return of Assets (ROA)	~ 0,8 %	~ 0,5 %
Normalized Cost to income ration	~ 90 %	~ 81 %
Capital Adequacy Ratio (CAR)	~ 47 %	~ 35 %
Loan and documentary portfolio (gross)	EUR 486 mln	EUR 728 mln

III.iii. Business model

Target IBEC business model will further develop its set of products and services including product bundles and constant customer interaction. The bank will continue the transition from the product-based to the client-based business model to increase its market competitiveness as described in Business model of the bank section

In a proposed client-centric business model, the Bank determines key target client segments and identifies their needs. Individual approach to the client and deep understanding of business needs allows the Bank to compete in a saturated market of financial services by creating added value for its clients, attractive value proposition and developing long-term relationships with them.

III.iv. Functional strategies and Strategic Initiatives

Several functions have been chosen for a separate functional strategy development to cascade key strategic goals and objectives to the defined functional level. They should be considered together with general strategy as part of the program for the institution's development.

In order to support IBEC business growth target IBEC will implement a set of initiatives and KPIs in each functional area: Funding; Marketing; HR; Risk Management; IT.

For each strategic initiative detailed information regarding business needs for the initiative implementation, its cost, risks, and benefits is described in section Key strategic initiatives. Their financial impact is presented in Financial model section. .

III.v. Financial model

The model quantifies the strategic development plans described further in the document. It comprises detailed forecast of the Bank's financial position development for years 2021-2025 with

the calculation of the Bank's key financial ratios for each year of the strategic period. It will be used as basic tool for business plans preparation and monitoring of the strategy fulfilment, and for the identification of opportunities and threats.

The model represents the ambition of the Bank's management to continue the business growth given the current macroeconomic uncertainty taking into consideration a careful management of the respective risks.

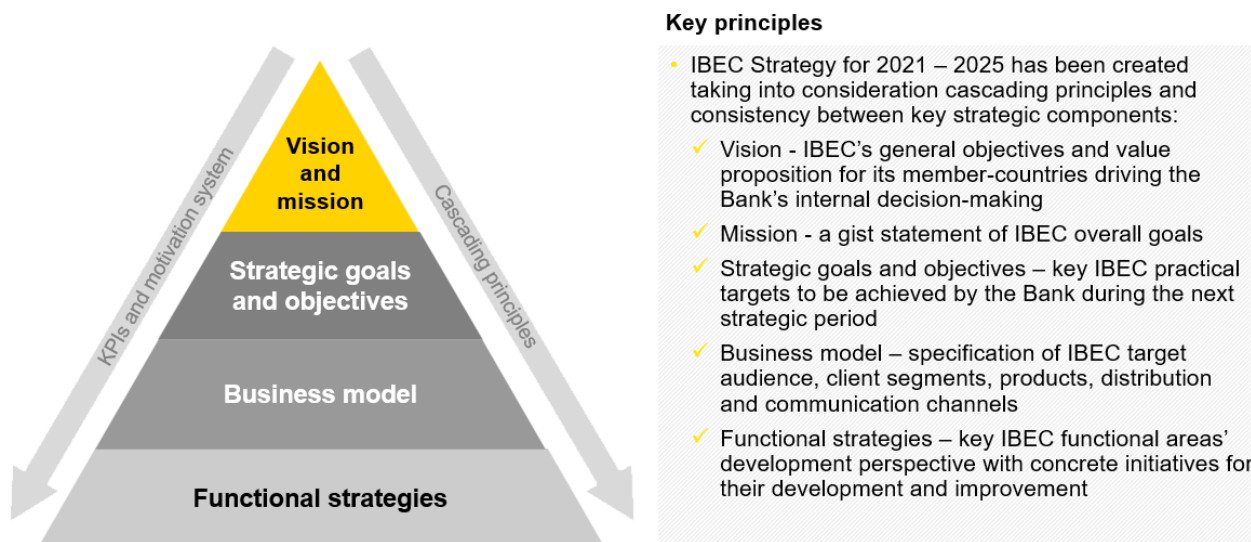
IBEC STRATEGY 2021-2025 STRUCTURE AND COMPONENTS

The main goal of the Strategy for development of the Bank for 2021 – 2025 is a continued business growth based on improvement of IBEC's business and operational model, based on the Bank's mission and goals, considering the ever-changing external factors.

For further sustainable growth, the Bank needs to set new goals and objectives. IBEC new strategic cycle will begin in 2021 when the world is in the process of recovering from the 2020 downturn associated with the COVID-19 pandemic. During this period, the Bank should be a reliable partner for member states and clients to help them overcome consequences of the crisis.

This document covers all main components of the Strategy for development of the Bank for 2021 – 2025 and consists of the below graphed components.

Diagram 1. Key strategic components



In the process of key strategy 2021-2025 components design and implementation the Bank has been guided by principles of consistency and continuity:

2. VISION AND MISSION

Vision and Mission are the basis of the IBEC strategy and future activities. Within the framework of the new strategic period and changing external and internal environment, it is necessary to develop a vision and update current mission of the Bank. Actual vision and mission statements will be implemented into the Bank's future activities as key guidelines.

Vision

Vision statement describes the desired future position of the Bank and its upper level goals. In the previous strategic cycle IBEC did not formulate its strategic vision. Based on key stakeholder expectations and best practices IBEC has developed the following vision for the next strategic cycle:

“A consistently reliable and efficient partner supporting export and import operations for the benefit of member countries offering competitive financial products and services”

Mission

Mission statement defines the Bank’s objectives and its approach to reach those objectives.

The Bank’s mission was formulated in IBEC’s Charter of 1963 as “Assistance in the development of foreign economic relations between the member countries of the Bank, their banks and enterprises and organizations of other countries. Facilitating establishment and operations of joint ventures, primarily with participation of enterprises of the Bank’s member countries. Facilitating the transition of interested member countries of the Bank to a market economy, participation in the development of market economic relations between entities in member countries and other countries”.

For the previous strategic period the Bank’s mission was formulated as “Providing financial support in foreign trade operations conducted by companies residing in the Bank’s member states, as well as to 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 rapidly changing environment and strengthened position of the Bank make it possible to update the Bank’s mission to achieve more ambitious goals and make higher contribution to the development of the member countries’ economies. When updating the Bank’s mission, we considered its current capabilities and needs of all member countries. IBEC perceives its renewed mission as following:

“Contribute to economic prosperity of member countries through support of interconnection via intra- and inter-regional trade operations, development of member states’ economies and facilitation of financing under projects that promote sustainable development goals considering the Bank’s supranational status as an institution beyond politics and in compliance with international regulations and principles”

A more precise and concise Mission statement will make it possible to outline the framework of the Bank’s activities most clearly, as well as to convey IBEC’s purpose to all market participants.

3. INTERNATIONAL ECONOMY AND TRADE FORECAST (INCLUDING COVID-19 IMPACT)

In the process of strategy development, the Bank considers global macroeconomic forecast and specific forecasts for each member state. Due to the current situation related to COVID-19 there is a high level of uncertainty related to key macroeconomic indicators. The severity of the disease

warranted a mandatory lockdown and suspension of air traffic across countries for a prolonged period. Consequently, it created a tremendous strain on the world economy.

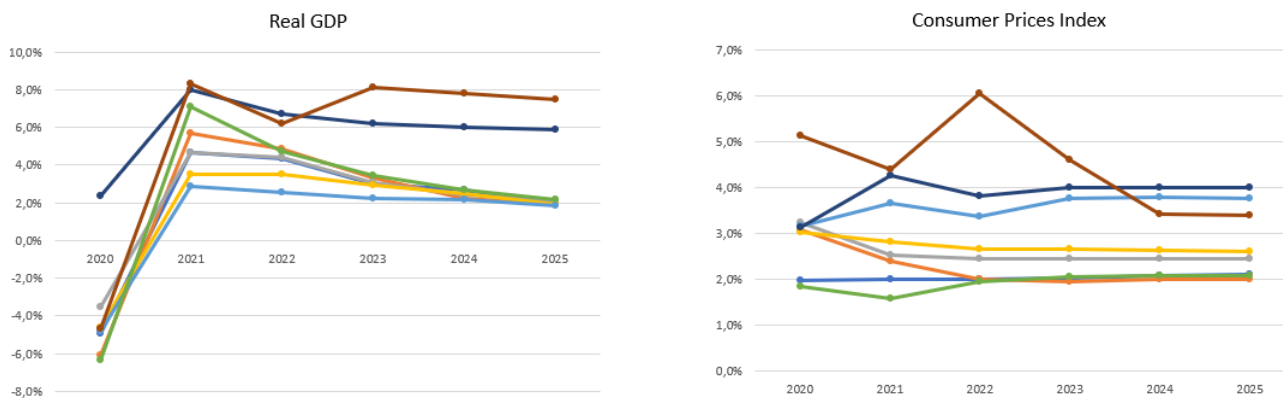
The Bank considered three macro scenarios in the process of strategy development: Baseline (based on which financial model has been developed), Positive and Negative (which has been taken into account in the process of a sensitivity analysis).

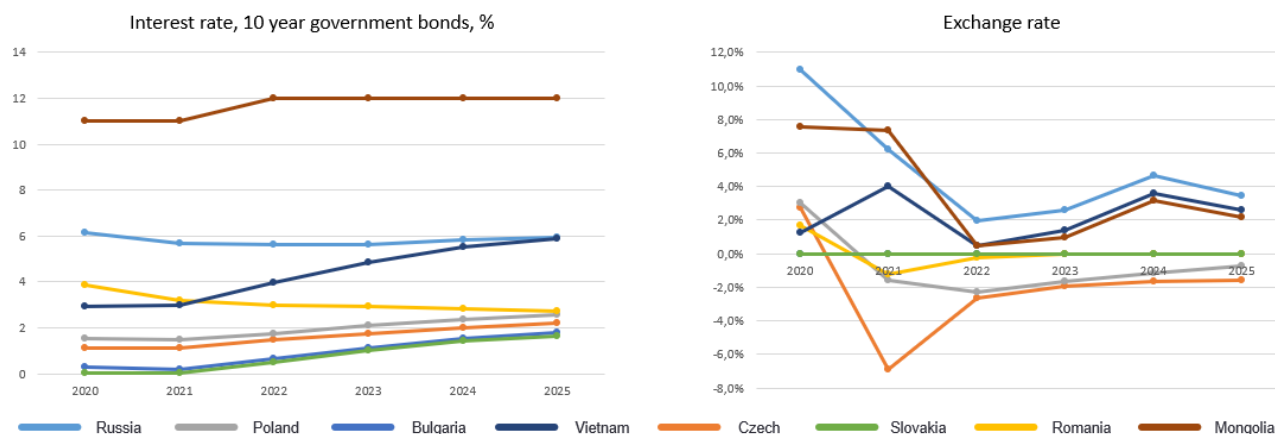
Diagram 2. Global GDP forecast



According to Oxford Economics forecast, global economic growth will slow down to -4.2% in 2020 followed by a recovery during 2021 – 2022. According to forecasts key macroeconomic indicators of IBEC member countries will recover by the end of 2021 – beginning of the 2022:

Diagram 3. Key macroeconomic indicators forecast for member states





The speed of any economic recovery will depend on several equally important factors such as effectiveness of government strategies of containment of the second wave of virus, which will therefore affect how quickly economies are able to return to some degree of normality, and the changing of consumers' and workers' behavior as leisure activities remain subdued even after the lockdown.

Both optimistic and pessimistic scenarios used to forecast the annual change in exports assume April 2020 as a start date. Optimistic scenario assumes V-shaped recovery due to quick disappearance of health effects of the pandemic and related social distancing measures. Pessimistic scenario is a mix of U- and L-shaped recoveries.

Table 1. Export annual % change forecast

Annual % change, exports	Historical		Optimistic		Pessimistic	
	2018	2019	2020	2021	2020	2021
North America	3,8	1,0	-17,1	23,7	-40,9	19,3
South and Central Americas	0,1	-2,2	-12,9	18,6	-31,3	14,3
Europe	2,0	0,1	-12,2	20,5	-32,8	22,7
Asia	3,7	0,9	-13,5	24,9	-36,2	36,1
Other regions (Africa, Middle East, CIS)	0,7	-2,9	-8,0	8,6	-8,0	9,3

All member states of the Bank will be affected by COVID-19 with a significant effect on trade operations. The Bank considers positive and negative scenarios to evaluate potential fluctuations in trade turnover in member states and impact on the Bank's business activities.

Table 2. IBEC member countries exporting volumes % change (positive scenario)

Member state	2019	2020	2021	2022	2023	2024	2025
Russia	1,3	-12,2	20,5	3,6	3,4	2,7	2,8
Czech Republic	4,0			4,1	4,2	4,2	4,2
Poland	4,7			4,9	4,5	4,0	3,5
Slovakia	2,3			3,8	4,1	4,1	4,1
Bulgaria	3,5			3,9	3,7	3,4	3,3
Romania	4,5			6,3	5,6	5,4	5,1
Vietnam	11,7	-13,5	24,9	13,1	12,8	12,6	12,6
Mongolia	4,8			-0,1	5,8	5,1	7,2

Table 3. IBEC member countries exporting volumes % change (negative scenario)

Member state	2019	2020	2021	2022	2023	2024	2025
Russia	1,3	-32,8	22,7	1,3	3,6	3,4	2,7
Czech Republic	4,0			4,0	4,1	4,2	4,2
Poland	4,7			4,7	4,9	4,5	4,0
Slovakia	2,3			2,3	3,8	4,1	4,1
Bulgaria	3,5			3,5	3,9	3,7	3,4
Romania	4,5			4,5	6,3	5,6	5,4
Vietnam	11,7	-36,2	36,1	11,7	13,1	12,8	12,6
Mongolia	4,8			4,8	-0,1	5,8	5,1

COVID-19 will have a significant impact on international trade as well as on IBEC target industries. The Bank analyzed potential impact of COVID-19 on key industries so that to plan business growth more accurately and allocate resources in line with the Bank's mission:

Table 4. Analysis of COVID-19 effect on industries

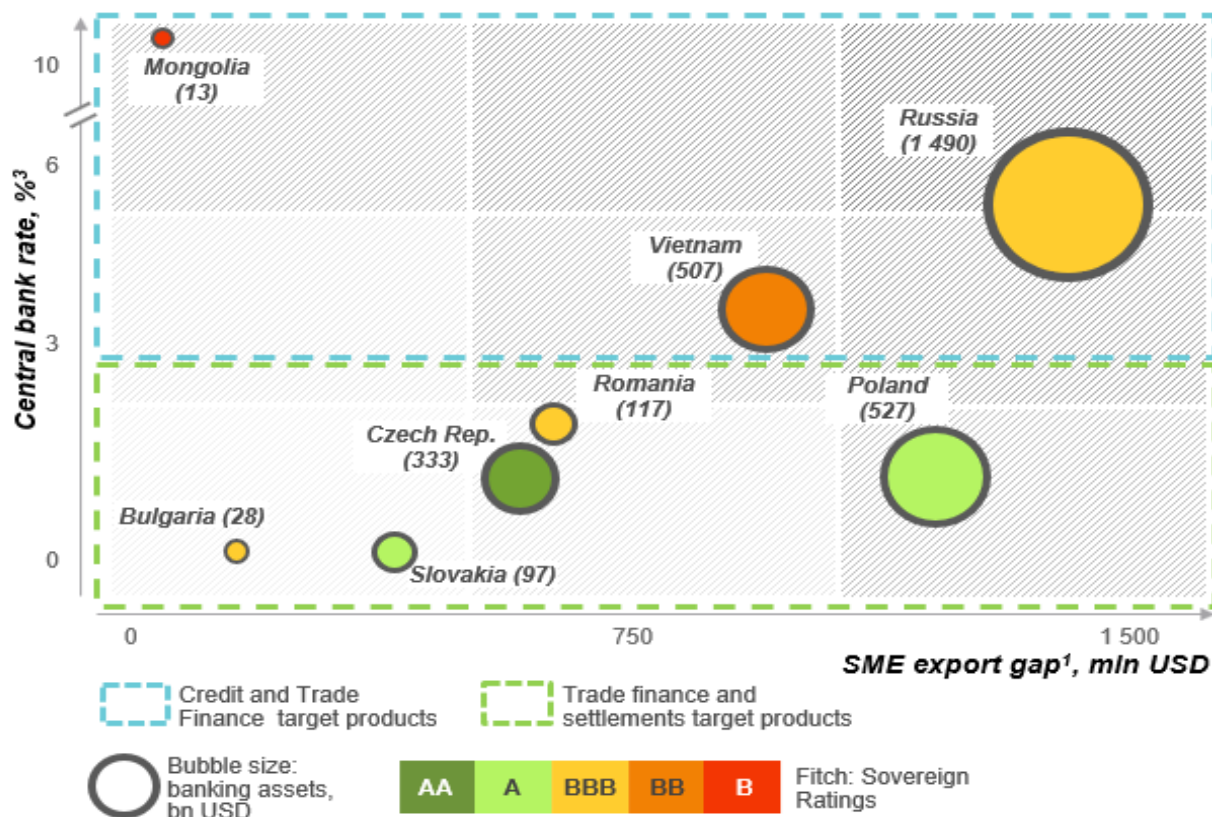
Industry	Level of negative impact	Major short-term business issues
Manufacturing & Mobility (IBEC target industry)	Severe	<ul style="list-style-type: none"> Supply Chain Disruption: significant disruption in global supply chains due to a slowdown in production caused by regional closures Demand Reduction: significant reduction in demand due to a slowdown in consumer spending (Example: air travel is reporting ~70-80% demand erosion)
Consumer (IBEC target industry)	Severe	<ul style="list-style-type: none"> Managing Peak Demand: consumer staples and e-commerce channels are struggling to keep up with the demand from panic buying and online orders Demand Reduction: slowdown in consumer spending and closure of brick and mortar stores is hurting nonessential industry segments
Financial Services (IBEC target industry)	Significant	<ul style="list-style-type: none"> Non-Performing Assets: stock market decline and non-payment of loans and real estate rents is weakening investment returns Capital Position: declines in asset values and weak investment returns is creating capital position concerns Rise in Insurance Claims: Insurers have been strongly affected, especially reinsurers and life & health insurers
Health (IBEC target industry)	Major	<ul style="list-style-type: none"> Reduction in Non-essential Services: reduction in lucrative non-essential services is hurting hospital finances Supply Essential Non-COVID-19 Services: providers are struggling to deliver essential non-COVID-19 health care while simultaneously responding to the crisis Managing Public Health: increased expenditures linked to testing, hospitalizations and support for vulnerable individuals is hurting hospital finances
Government & Public Sector (IBEC target industry)	Major	<ul style="list-style-type: none"> Managing public health crisis: need to confront the immediate public health emergency by increasing health system capacity and securing medical supplies Maintain Essential Functions: need to provide core services including public safety, food supply chains and access to education despite closures Manage Economic Fallout: address the economic consequences of social distancing policies including manage new programs and rise in unemployment claims
Life Sciences	Major	<ul style="list-style-type: none"> Slowdown in Clinical Trials: delays in clinical trials due to the difficulty recruiting or testing patients as health systems redeploy personnel Delayed Approval Timelines: Delays in foreign and domestic inspections of sites are likely to affect product approval timelines for non-COVID-19 treatments
Mining & Metals (IBEC target industry)	Major	<ul style="list-style-type: none"> Supply Demand Mismatch: reductions in industrial activity is causing a slowdown in demand creating oversupply issues

Industry	Level of negative impact	Major short-term business issues
Oil & Gas (IBEC target industry)	Major	<ul style="list-style-type: none"> Price Concerns: large oil price decline driven by a short-term demand reduction and supply overhang due to OPEC decision to increase production
Power & Utilities (IBEC target industry)	Major	<ul style="list-style-type: none"> Demand Reduction: regional power markets are at risk of a prolonged demand destruction due to reduced industrial activity Oil Price Volatility: gas generators will be exposed to oil price volatility Non-Payment Concerns: fears that business and consumers will defer payment of their energy bills
Private Equity	Significant	<ul style="list-style-type: none"> Portfolio Assessment: for most funds crisis management issues related to industry specific concerns at the portfolio level is the first priority
Real Estate, Hospitality & Construction	Severe	<ul style="list-style-type: none"> Access to Capital: real estate firms need capital to manage ongoing business needs and slowdown in revenue Non-Producing assets: retail, hospitality and tourism have seen the most significant impact with an almost complete shutdown Slowdown in Construction: inconsistent response to site closures by government and significant supply chain disruption is leading to delays in project timelines
TMT	Significant	<ul style="list-style-type: none"> Supply Chain Disruption: significant disruption in global supply chains due to slowdown in production caused by regional closures Demand Reduction: entertainment world is estimated to see a \$4 billion decline in box office receipts and will lose billions more from halted productions 5G: rollout of 5G infrastructure could be slowed due to stop work orders and supply chain issues

In terms of country-level analysis IBEC member countries have different macroeconomic development status and can be grouped into two categories: EU members and non-EU members. EU member states have lower interest rates, lower risk of investments and moderate SME finance gap. These lower rates are anticyclical measures for the countries' economies being part of regulatory easing to support liquidity. Apart from Vietnam, non-EU members have higher interest rates, higher risk of investment and moderate SME finance gap. The highest export gap is demonstrated by Russia. The Bank considers specifics of each member state and reflects those in separate member states' strategies.

Diagram 4. Key macroeconomic indicators analysis

Comparison of SME Export Gap and Central Banks' Rates



4. KEY STRATEGIC GOALS AND OBJECTIVES

Applying cascading principles IBEC has formulated five strategic goals that will allow the Bank to successfully fulfill its updated mission and achieve its target vision. Strategic goals are a key element for defining the Bank's target business model and serve as a guideline for identifying key areas that require changes and improvement. All five strategic goals are presented below with a specific set of strategic objectives related to each strategic goal:

Strategic goal 1. Positive developmental impact on member countries through promotion of international trade, support of a greater role of SME trade between member and third countries and participation in sustainable development.

Related strategic objectives:

- Financing projects and companies promoting United Nations sustainable development goals (UN SDGs) with a focus on the following specific goals: zero hunger; good health and well-being; industry, innovation and infrastructure, sustainable cities and communities, climate action;
- Increasing financial and non-financial support of SME companies involved in international trade;
- Participating in international and local support programs in partnership with other development institutions and governmental bodies.

The following potential key performance indicators (KPIs) could be used by the Bank to measure achievement of the strategic goal and objectives:

- Loan portfolio amount (EUR);
- Financed projects with UN SDG compliance (number / EUR);
- Share of medium companies in loan portfolio (%);
- Amount of SME financing in cooperation with partners (EUR);
- Share of projects with positive impact on IBEC-member states' economies and/ or social sphere in the loan portfolio (%);
- Growth and share of development portfolio in the Bank's assets (%).

Strategic goal 2. Provide clients with innovative and competitive products and services relevant with clients' higher requirements

Related strategic objectives:

- Continue focusing on trade finance operations and forming several transparent and standardized product bundles to satisfy customers' needs appearing in the process of international trade operations;
- Developing a center of expertise in relation to international trade operations between member countries;
- Improving customer experience with a focus on accelerating the approval processes on key operations to meet client needs in a fast-changing environment and providing clients with convenient digital solutions.

The following potential KPIs could be used by the Bank to measure achievement of the strategic goal and objectives:

- Number of active clients;
- Share of clients with products other than loans / documentary operations (%);
- Time to Yes / Time to Cash for key products (days).

Strategic goal 3. Improve IT technology in banking operations and continue development of the internal operational efficiency

Related strategic objectives:

- Increasing labor productivity;
- Implementing KPI system;
- Improving key internal processes' efficiency;
- Improving remote channels of interaction with the client;
- Continued digitalization of the Bank's internal activities (including development of the core banking system);
- Continue improving corporate governance and organizational structure.

The following potential KPIs could be used by the Bank to measure achievement of the strategic goal and objectives:

- Cost to income ratio before provision (%)
- Loan portfolio per employee (EUR / #)
- Number of disbursed loans per employee per year
- Successful realization of key strategic projects

Strategic goal 4. Growth ensured by a long-term financial stability of the Bank

Related strategic objectives:

- Remaining profitable during the next strategic period;
- Lower country risk concentration;
- Increasing quality of assets;
- Diversifying funding sources and decreasing cost of funding;
- Increasing share of long-term funds in the funding structure;
- Increasing credit rating to BBB (Fitch or equivalent).

The following potential KPIs could be used by the Bank to measure achievement of the strategic goal and objectives:

- Return on assets (normalized) / Return on equity (%);
- Capital adequacy ratio (%);
- Share of long-term funds in liabilities (%);
- Increase of credit rating to BBB;
- Non-performing loans (Stage 3 in IFRS 9) (%).

Strategic goal 5. A proportional increase in IBEC's business activities in all member countries

Related strategic objectives:

- Increasing awareness of the Banks' activities on all member states' markets and other markets in active trade with the member countries;
- Continue to strengthen distribution channels and forming an effective partner and agent network in all member-countries;
- Considering geographical expansion of the Bank's operations and attraction of new shareholders;
- Significantly increasing amount of financial and non-financial support for target clients evenly distributed between all member states.

The following potential KPIs could be used by the Bank to measure achievement of the strategic goal and objectives:

- Amount of interest-bearing assets at the general Bank's level and at individual country level (EUR);
- Amount of attracted funds at the general Bank's level and at individual country level (EUR);
- Share of indirect sales (through partners and agents) in total sales (%);
- Share of export/import related projects realized to benefit for two and more IBEC members countries (% of loan portfolio).

The Bank will monitor strategic goals and objectives during the whole strategic period and promptly update its action plan in case of need to achieve the initially set targets.

5. KEY STRATEGIC PERFORMANCE INDICATORS

The Bank has identified eight strategic KPIs which will measure success of strategy execution. These KPIs were developed both on the general Bank's level and on the functional level:

Table 5. Key performance indicators

Indicator	2020	2025
Total assets	EUR 734 mln	EUR 1024 mln
Return of Assets (ROA)	~ 0,8 %	~ 0,5 %
Normalized Cost to income	~ 90 %	~ 81 %

Indicator	2020	2025
ration		
Capital Adequacy Ratio (CAR)	~ 47 %	~ 35 %
Loan and documentary portfolio (gross)	EUR 486 mln	EUR 728 mln
Financed projects with UN SDG compliance (number)	Not calculated	5% from loan portfolio
Medium clients' share in loan portfolio	~ 9%	~ 19%
IBEC rating	BBB-	BBB

According to strategic goals IBEC will reach EUR 1 bln of total assets by 2025. This is an important threshold in the development of the institution, and it will allow the Bank to reach a new scale and a better quality of operations. The most important factors to increase assets are loan and off-balance sheet portfolios' growth, to achieve which the Bank plans to hire additional employees and conduct a large-scale IT transformation. Simultaneously to the business growth the Bank will support profitability to increase its capital base. As a result of implementation of the initiatives aimed at improving cost efficiency, the cost-to-income ratio (CIR) indicator will also be improved. To increase its financial stability and attractiveness to external investors, the Bank plans to raise its credit rating to BBB. The Bank will also pay attention to medium-sized business segment to fulfill the Bank's mission.

Herein IBEC proposes to refrain from increasing balance sheet growth indicators in the context of the shock effects of the ongoing COVID-19 volatility and a lack of an additional capitalisation of the Bank. The Bank provides for such balance sheet growth for a planned achievement of the capital adequacy by the end of the strategic period at the level not below 35% which is acceptable for rating agencies in accordance with their methodology.

6. BUSINESS-MODEL OF THE BANK

IBEC perceives a business model to be the core element of the whole strategy. While the previous strategic cycle was mostly concentrated around re-activation of the Bank's operations, especially in relation to customer lending and trade finance expertise establishment and launch, the new strategy for 2021-2025 demands introduction of a well-structured approach to further formation and increase of the Bank's loan and securities' investment portfolios in terms of more focused operations totally complying with IBEC's mission and in with a full awareness of the Bank's impact on member states' development.

Bank's business model consists of four key components:

1. **Clients** – definition of key customer segments the Bank plans to work with
2. **Products** – definition of key financial and non-financial products and services the Bank plans to provide to its clients
3. **Distribution channels** – key channels for communication with clients, including sales and service channels
4. **Partners** – key types of counterparties the Bank plans to cooperate with to fulfill its mission

Continued transitioning from the product-based to the **client-centric business model** will be one of the key drivers defining future business model of the Bank which would increase the Bank's market competitiveness. In line with the client-centric approach the Bank will determine key target client segments and identify their needs. Individual client relations and deep business knowledge will allow the Bank to compete in a saturated market of financial services by creating additional value for its clients and developing respective long-term relationships.

6.1 Clients

The Bank has developed a client segmentation approach to provide a wide range of services to the key client segments. IBEC identified four key client segments with a specific approach to each group.

Large corporates

Clients' key characteristics:

- Revenue per year higher than EUR 70 mln;
- Companies involved into global value chains and/or target industries.

These clients' expectations from the Bank are a full product line and assistance in entering new markets. They expect flexible individual conditions of cooperation and value processing efficiency and speed. These clients prefer a full cycle of customer support carried out by an individual client manager and opportunity to use e-channels with minimal time on routine operations.

Table 6. Large corporates segment strategy

Strategy and value proposition	<ul style="list-style-type: none"> • IBEC is a reliable financial partner with ability to provide financial support on market conditions • Individual approach with fast and convenient products and services
Key products	<ul style="list-style-type: none"> • Cash Management services (settlements, accounts, deposits etc.) • Medium and long-term direct lending and documentary services • Syndicated lending jointly with other development banks and commercial banks • Financing through securities purchase
Distribution channels	<ul style="list-style-type: none"> • Client managers (~60%). Identification of potential clients by a pro-active search and participation in business events • Financial institutions/commercial banks' partners (~40%). Joint projects (mainly syndicates) for large corporate clients financing and positioning IBEC as a stable partner for joint projects
Service model	<ul style="list-style-type: none"> • Individual client managers for a full-cycle service • Top managers to build individual relationships • Online channels (online bank, web-support) for all routine operations

Medium size companies

Clients' key characteristics:

- Revenue per year from EUR 30 to 70 mln;
- Companies involved into global value chains and/or target industries.

These clients' expectations from the Bank are expertise in a certain area and high quality of support and online banking system. They expect flexible individual conditions of cooperation and value

process efficiency and speed. These clients prefer a full cycle of customer support carried out by an individual client manager and opportunity to use e-channels with minimal time on routine operations.

Table 7. Medium size companies segment strategy

Strategy and value proposition	<ul style="list-style-type: none"> • IBEC as a center of expertise in trade will support exporters /importers of member states involved in international trade operations worldwide • Individual approach with fast and convenient products and services • Banks as a stable partner for all international trade operations
Key products	<ul style="list-style-type: none"> • Direct short- and long-term loans (average ticket is ~EUR 9mln) and documentary services related to trade operations and investment projects • Settlement services between both sides of trade transactions • Treasury operations (foreign exchange (FX), hedging operations) • Consulting services related to international trade support
Distribution channels	<ul style="list-style-type: none"> • Client managers (~50%). Focus on pro-active sales and growth of local market knowledge • Agents (~30%). Mainly specialized associations referring clients to IBEC • Online channels, mainly website and trade platforms (~20%)
Service model	<ul style="list-style-type: none"> • Online channels (online bank, web-support) for all routine operations • Client managers for an expert advice and difficult/urgent issues • Top managers on a timely basis to build individual relationships

Small business

Clients' key characteristics:

- Revenue per year less than EUR 30 mln;
- Companies operating in member countries.

These clients' expectations from the Bank are affordable simple bundles of products and simplicity of opening an account. They expect high quality of support and online banking system. These clients prefer anytime servicing via remote channels.

Table 8. Small business segment strategy

Strategy and value proposition	<ul style="list-style-type: none"> • International institution supporting SME development • Bank as a provider of financing based on standard programs related to SME support
Key products	<ul style="list-style-type: none"> • Target financing of partners programs for small entities support on member states markets (average ticket is ~EUR 5-20 mln) • Standard documentary operations • Settlements for international operations
Distribution channels	<ul style="list-style-type: none"> • Partnership financial institutions and agents (~85%). Direct financing of financial and development institutions • Online channels, mainly web-site standard product request and trade platforms (~10%) • Client managers' work directly with clients (~5%)
Service model	<ul style="list-style-type: none"> • Indirect sales through partners (mainly commercial banks) • Client managers direct contact for expert advice for client with business growth potential

Financial institutions, including IFIs and MDBs

Clients' key characteristics:

- Commercial banks, leasing companies, multilateral development banks and national development institutions with an exposure on member states.

These clients' expectations from the Bank are an expertise in specific areas, preferential conditions in member states and geographical presence. They expect regular top management communications and use of standard interbank channels.

Table 9. Financial institutions including IFIs and MDBs

Strategy and value proposition	<ul style="list-style-type: none"> Reliable and stable partner IBEC as a secure international financial partner with a high potential for further cooperation in different business areas
Key products	<ul style="list-style-type: none"> Direct target lending (average ticket is ~EUR 20 mln) Treasury operations Participation in joint projects (syndicates, SME support programs) Attraction of long-term funding
Distribution channels	<ul style="list-style-type: none"> Key distribution and communication channel are direct through a specialized department of the Bank. Participation in joint regional and international events
Service model	<ul style="list-style-type: none"> Long-term relations with key partners build by client managers and top management of the Bank Online channels for all routine operations

Identification of potential client demands and target industries

To identify key client segments' potential demand for IBEC products and services the Bank analyzed international trade operations between member states:

Diagram 5. Analyze of international trade operations between member states



Key market segment for the Bank is financing export by large and medium companies in the following geographies:

- From EU member-countries to non-EU member countries;
- Between non-EU-member countries;
- From non-EU member countries to EU member countries.

Local market knowledge, partners and an agent network, speed of settlements and standardized products could be IBEC's key competitive advantages in financing international trade between EU, Russia, and Asia.

In determining the target industries and projects IBEC is considering global sustainability priorities and existing trade and finance gaps.

To support development of member-countries' economies the Bank not only covers export gaps between member countries but also takes opportunities to finance trade flows between member countries' and third countries.

Export gaps between member-countries and some of their trading partners for 2019 are presented in the following table

Export gap, \$ mln year					
Member countries/ Others	Armenia*	Belarus*	Kazakhstan	Hungary	Uzbekistan
<i>Bulgaria</i>	26	42	40	327	29
<i>Vietnam</i>	27	58	373	327	25
<i>Mongolia</i>	-	0,29	5	0,39	0,23
<i>Poland</i>	62	1200	513	2900	191
<i>Russian Federation</i>	153	679	1500	418	1100
<i>Romania</i>	10	49	125	1800	31
<i>Slovak Republic</i>	9	104	61	2200	16
<i>Czech Republic</i>	56	304	312	2100	108
Total	342	2435	2929	10072	1500

Source: <https://exportpotential.intracen.org/>

*Further cooperation with Armenia and Belarus is subject to stability factors in these countries

Considering significant opportunities of trade development between the above-mentioned countries the Bank envisages maintenance of a significant part of its operations supporting of member-countries' export to third countries.

The following approach to target industry selection has been implemented by the Bank:

1. The Bank considers **trade turnover data on an industry and country level**, including share of large and medium legal entities in trade turnover and export gap between member countries in order to identify key target industries for the next strategic period
2. **Specific industries for promotion of local economies' growth** will also be considered in line with IBEC goal to promote economy growth

The Bank will focus (but not limit) its business activities on the following industries:

Table 10. Target industries

Industry	Bulgaria	Vietnam	Mongolia	Republic of Poland	Russian Federation	Romania	Slovak Republic	Czech Republic
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Machinery and vehicles	+			+	+	+	+	+
Manufacturing	+	+	+	+	+	+	+	+
Infrastructure	+	+	+	+	+	+	+	+
Chemicals	+				+			
Agriculture and Food	+	+	+	+	+	+		
Service industry	+	+	+	+	+	+	+	+
Medicine	+	+		+		+		+
Transport	+			+	+	+		+
IT and Telecom	+	+	+	+	+	+	+	+
Consumer goods	+			+		+	+	+
Financial services	+	+	+	+	+	+	+	+
Materials	+			+	+	+	+	+

The Bank will use industrial and project characteristics as a guideline for business development but IBEC will not plan its business activities on an industry level and it will not limit its activities to a number of mentioned industries and projects.

Sustainable development focus

In choosing a potential project IBEC will also consider specific United Nations Sustainable Development Goals consistent with the Bank's mission. The following Sustainable Development Goals have been selected by the Bank as key targets:

1. Ensure healthy lives and promote well-being for all at all ages.

To support this goal, the Bank will use its products and services in order to:

- Support development, provision, and improvement of access to health services, solutions (incl. financial risk protection) and infrastructure. (incl. medical treatment) for people regardless of age, gender, residence, income, diagnosis, etc., including basic health care;
- Support quality medicine solutions (incl. scientific research and further production) for prevention and / or treatment of different diseases;
- Support health-promoting measures for population;
- Support manufactures, exporters and importers contributing to increase the level of medicine.

2. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

To support this goal, the Bank will use its products and services in order to:

- Support development of local, regional and transborder infrastructure (incl. energy, road, water and sanitation, transport and other) ensuring resource efficiency, resilience and sustainability;
- Provide innovative financing mechanisms like 'green' bonds and impact investing to foster a sustainable domestic economy;
- Support development and diffusion of environmentally friendly technologies;
- Support upgrade for all kind of infrastructure and retrofitting industries through innovation, development and/or environmental protection, efficiency and clean technology (incl. water supply, sanitation and others);

- Investin programs to improve sustainability technologies and performance in producer countries, incl. advancing technology and R&D capacities.

3. Make cities and human settlements inclusive, safe, resilient and sustainable.

To support this goal, the Bank will use its products and services in order to:

- Support sustainable urban development and city infrastructure (incl. buildings, energy, mobility, telecommunications, transport systems, water, sanitation, waste management services and others) to create inclusive, safe, sustainable and disaster resilient cities.
- Support manufactures, exporters and importers contributing to cities development. (incl. smart cities technologies and solutions).

6.2 Products

Modern customer service model requires a creative approach to client relations via a clear recognition of a 'client journey' in the Bank's product choice and utilization. This is a task which has been tackled in the new strategy during the business-model development.

Historically, IBEC pursued its customer relations on the best opportunity basis and in the environment of underdeveloped distribution channels and risk metrics, which obviously impeded IBEC's development impact assessment.

As stated above, currently the Bank is in a transition from Product-centric Business Model to Client-centric Business Model.

Previously the Bank determined a ready set of products based on sales experience and global trends. This approach does not allow to fully manage client needs and to offer them new products. Individual client relations and deep business knowledge will allow the Bank to compete in a saturated market of financial services by creating a value-added environment for its clients and developing long-term relationships. Moreover, IBEC would be able to target client transactions in compliance with member states' sovereign development programs, 'narrowing' its counterparty choice to target segments, industries, and financial health status.

The client-centric target approach would require introduction and application of a whole range of additional initiatives, e.g. process management, project management, decision-making process improvement, reinvention of client acquisition, update of numerous internal documents.

All these initiatives are included in the new strategic concept of IBEC's development and several of those are already launched at the Bank.

In line with the client-centric business model the Bank identified basic client needs at all stages of international trade deal as based on the transaction lifecycle.

Proceeding from this value proposition the Bank will develop a set of products to cover key client needs:

Table 11. Identification of importer/exporter needs and potential IBEC's products

	Key international trade deal stages					
	Signing a contract	Production	Customs control	Goods transportation	Goods realization by importer	Deal closing
Client potential need	<ul style="list-style-type: none"> Foreign market knowledge Contract drafting Payments Advance Payment guarantee Cash Management FX hedging 	<ul style="list-style-type: none"> Financing of production process 	<ul style="list-style-type: none"> Exporter needs for customs documentation prepared and logistical issues resolved 	<ul style="list-style-type: none"> Importer needs for timely and safe delivery Quick settlements between exporter and importer 	<ul style="list-style-type: none"> Covering cash gap before product sales Support in sale of goods 	<ul style="list-style-type: none"> Quick settlements with counter-parties
IBEC potential product	<ul style="list-style-type: none"> Documentary operations Currency risk hedging for exporter/ importer Consulting support 	<ul style="list-style-type: none"> Direct loan for exporter to finance the production process 	<ul style="list-style-type: none"> Consulting support with customs documentation 	<ul style="list-style-type: none"> Settlement operations for both parties Consulting support with potential logistical partners working on local markets 	<ul style="list-style-type: none"> Direct loan to importer to cover cash gap Guarantees for participation in contracts Participation in state programs 	<ul style="list-style-type: none"> Settlement services for the importer

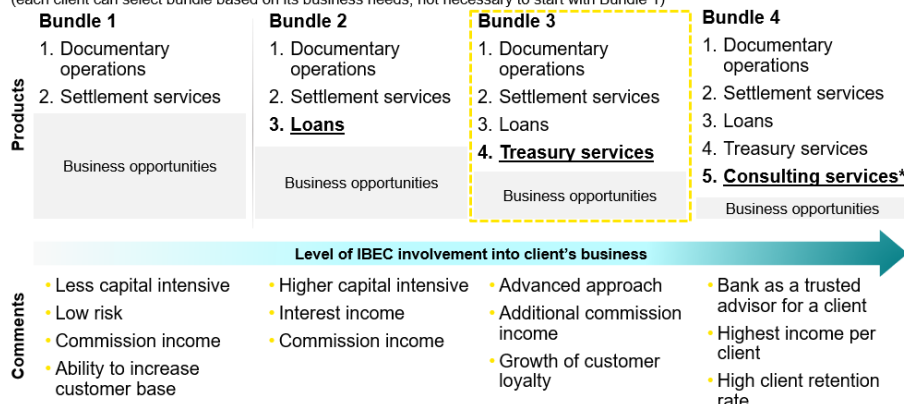
Introduction of Bundles

As one of key steps in the transition process to the client-centric business model the Bank will move from a significant number of individual products to several product bundles which cover key client needs, keeping the customer option of product cherry-picking. Client bundles' characteristics are a combination of existing Bank's products which cover a certain area of client activities and could be sold as a package to a client. IBEC will review the existing set of products and concentrates on key client needs. In case of a client's specific request the Bank will be able to provide other services.

Diagram 6. Approach to product bundles

Approach to product bundles structuring

(each client can select bundle based on its business needs, not necessary to start with Bundle 1)



Bundle 3 - Target bundle by 2025

Key benefits of product bundles approach

- Complex offering to meet all clients' needs will help to form a permanent client base with recurring operations
- Growth of income per client
- Increase share commission income in an environment of decreasing central banks rates
- Increase in sales of non-loan products which are less capital intensive products
- Ability to improve pricing conditions by calculating all potential income per client (additional methodology has to be developed)

6.3 Distribution channels

The Bank will also structure its distribution channels during the next strategic period. Three main channels have been selected for further development:

Table 12. Distribution channels

Channel	Description	Target share in client acquisition	Target share in client servicing
Client managers	<ul style="list-style-type: none"> Client managers are engaged in proactive sales (finding potential customers and selling IBEC products) as well as reactive sales (response to incoming requests), with a focus on increasing sales funnel quality Key contact for client servicing 	40%	70%
E-channels	<ul style="list-style-type: none"> Website Online bank Social networks Trade platforms 	10%	30%
Partners / agents	<ul style="list-style-type: none"> Local financial institutions, Development institutions Governmental development programs Association of exporters, trade missions, chambers of commerce and industry Agents 	50%	-

During the next strategic period, a general outlook for distribution channels and their efficiency will be established and proactive sales model will be further developed in line with the client-centric approach. The Bank plans to attract 50% of all clients via direct channels with a focus on remote communication channels.

From the service point of view online self-service instruments and their development will be the key focus. The Bank will provide clients with an opportunity to perform all routine operations via personal online accounts and client managers will act as a "single window" for all specific non-routine issues and operations. Top managers of the Bank may also communicate with selected key clients on a timely basis for the purpose of ensuring individual approach.

6.4 Partners and agents

Further development and structuring of partners' and agents' network will be one of key focuses during the next strategic period. Specific KPIs will be developed and set to measure partner and agent efficiency.

Partners are organizations mainly interacting with the Bank in co-financing (for example, syndicated loans) or organizations providing services to IBEC (for example, trade platforms). Agents are organizations which will refer clients to the Bank under agent agreements for an agreed commission. The main purpose of partnerships and agents is the Bank's sales growth, thus, IBEC needs to create an optimal mix of partnerships in each country and industry. Below are demonstrated types and values from co-operation with partners and agent.

Table 13. Partners and agents

Partners/ Agents	Value for IBEC	Examples
Financial institutions	<ul style="list-style-type: none"> Attracting new clients for foreign trade operations support of IBEC member states with non-member 	<ul style="list-style-type: none"> Commercial banks with a large client network but unable to operate in

Partners/ Agents	Value for IBEC	Examples
	countries <ul style="list-style-type: none"> Establish limits for banks with a risk profile beyond partner banks' policies, and reciprocal acquisition of partner banks' limits for IBEC operations 	some regions due to a risk profile or ready to work on a risk- sharing basis
National and multilateral development institutions	<ul style="list-style-type: none"> Using MDBs' and IFIs' branches in countries beyond IBEC operations Financing of major projects via syndicated loans in member countries Participating in SME programs launched by MDBs Participating in forums and meetings and increasing local awareness of the Bank 	<ul style="list-style-type: none"> National development institutions Multilateral development banks
Governmental development programs	<ul style="list-style-type: none"> Providing companies with loans at lower interest rates Increasing loan portfolio in certain sectors of the economy in accordance with the Bank's mission 	<ul style="list-style-type: none"> Programs for subsidizing lending, including to SMEs Subsidized soft lending program of a respective ministry
Agents	<ul style="list-style-type: none"> Attraction of new clients from member states under agent agreements with a success fee 	<ul style="list-style-type: none"> Chambers of Commerce and Industry, Associations and non-profit organizations Agencies Online platforms

Business models in each member country

Business models for each member country are specified in updated country strategies which recognize specifics of each member country's economy as well as local requirements and the COVID-19 effect. Business models on the country level include specification of key assets types, client characteristics, key products and target industries as well as distribution channels to be used by IBEC in the respective country.

Country strategies form a separate set of documents inherent of IBEC's strategy for the new strategic period 2021-2025.

7. KEY FUNCTIONAL AREAS FOR DEVELOPMENT FOR THE PERIOD 2021-2025

Key functional development areas during the next strategic period will have a direct link with the Bank's strategic goals. Key initiatives on functional development as a key instrument for achievement of strategic business goals will be defined in functional strategies. Functional strategies include strategic directions for development of functional areas and has been developed by cascading the Bank's strategic goals, objectives, and target business model.

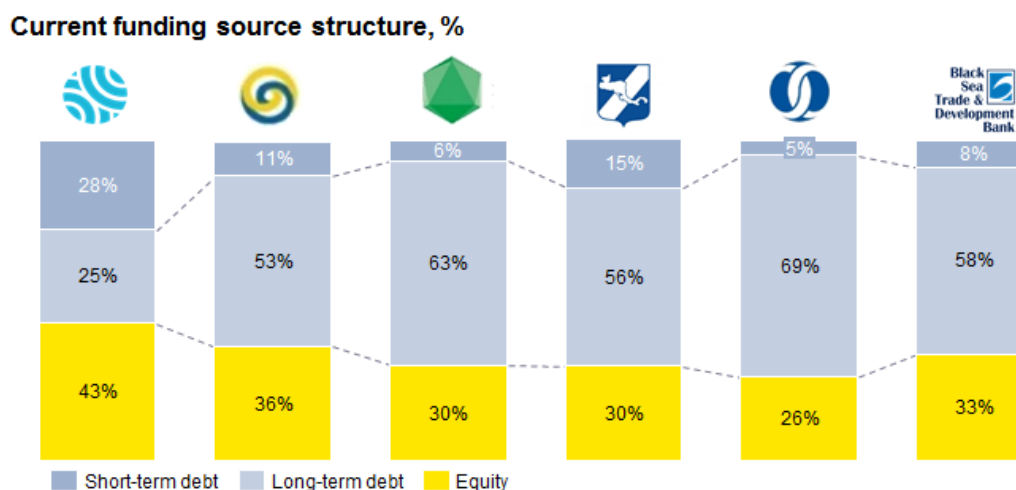
7.1 Funding Function key development area for the period 2021-2025

Key funding sources and their structure will remain the same during the next strategic period with an increase in market funding.

IBEC analyzed the current funding structure to update the existing funding strategy. The Bank first compared its funding structure with other development institutions. As a result, it was revealed that IBEC has the highest share of equity in the funding structure at 43% vs 31% average for peers (current higher capital share may be needed due to a relatively low asset quality). Currently the Bank

has a relatively low share of long-term funds in comparison with peers in line with shorter assets duration, but in 2019 – 2020 the Bank significantly increased the share of long-term funds.

Diagram 7. Peers funding structure analysis



From the geographical point of view IBEC's target for the strategic period is to increase geographical diversification. Currently the Bank has a high exposure of 46% to the Russian capital market while it also attracts a significant amount of term deposits on the Bulgarian interbank market. Client funds are mainly concentrated around a single counterparty and relate to one-off operations. An important issue for the Bank is a relatively low penetration to other European wholesale interbank and capital markets.

During the next strategic period, the Bank will be guided by the following key asset liability management principles:

1. IBEC funding strategy and new market funding will be synchronized with the growth and the profile of core assets in the banking book;
2. Long- and short-term funding mix will be forecasted and set against prudent coverage of structural liquidity risk appetite requirements;
3. Long-term funding tenors will target building up the Bank's credit curve across major marketable tenors;
4. The Bank will diversify sources of funding mainly by attracting client funds;
5. In the selection of markets and instruments for funding its operations the Bank will use the cheapest options with respect to costs of hedging;
6. IBEC will target natural FX hedge by funding banking book assets in the same currency. FX structural mismatch will be hedged according to the hedging strategy;
7. Long-term floating rate debt will be considered and aligned to the interest rate profile of the banking book assets.

In order to meet all liquidity ratios, the Bank will increase capital and long-term funds based on the financial model.

To support the planned growth IBEC will significantly increase attracted funds. Based on the key funding principle the Bank will optimize its funding structure in compliance with the required NSFR

(Net Stable Funding Ratio) level. The amount of long-term funds could stay on approximately the same level or slightly grow so as to optimize NSFR in line with the financial model analysis.

Issued own bonds will be one of the key sources of long-term funds during the next strategic period. The Bank will significantly diversify its presence on member states' capital markets by issuing own bonds in different member states.

From the geographical point of view the Bank will place bonds on local EU markets so as to increase funding diversification. Local currency debt (unhedged positions) will be considered to fund local currency assets if sizeable positions will be built. Local currency debt with a matched swap hedging into the asset currency will be used in the overall structural FX position with costs for debt servicing and derivatives hedging against the cost of a natural hedge.

IBEC will also consider automation of treasury operations to reduce operational risks, improve internal operational efficiency and provide additional treasury services to clients. Specifically, the Bank plans to provide additional FX client services by implementing an automated treasury operations system.

The following funding developmental areas have been identified for the next strategic period:

Diagram 8. Key developmental initiatives for funding strategy

Strategic goals	Key developmental initiatives	Timeline
1 Business activities increase	Clients funds 1. Attract the clients' current accounts as stable and comparably low-cost funding source ¹ 2. Attract deposits of IBEC's active corp clients in respective member states ¹	Jan 2021 → Dec 2023
2 Positive developmental impact	Due to banks 3. Continue to penetrate interbank markets in member countries, especially low interest rate EU markets, both local FX and EUR denominated	Jan 2021 → Dec 2022
3 Relevant and convenient products and services provision for clients	Funding structure 4. Attract short- and long-term funds ~EUR 300 mln ² (from 2020-2025)	Jan 2021 → Dec 2025
4 Increase in internal operating efficiency	FTP methodology 5. Consider pricing new equity cost (in potential faster business growth) as an input into overall pricing mechanism Automation of internal procedures 6. Automation of treasury operations to improve internal operational efficiency and possibility to provide additional treasury services to clients	Jan 2021 → Jun 2023 Jan 2022 → Dec 2022
5 Increase long-term financial stability	Long-term funds 7. Increase long-term debt in the form of direct or syndicated borrowings from banks and other financial institutions (in accordance with duration of assets)	Jan 2021 → Jun 2024

1 - At a certain level of interest rates

2 - In accordance with realistic scenario

7.2 Risk control function key development area for the period 2021-2025

Risk control strategy is an integral part of IBEC risk management framework. The Bank will continue to develop its risk control processes and procedures during the next strategic period.

To increase the quality and speed of the initial risk assessment IBEC will introduce risk profiles for key client segments. The Bank will develop risk profiles for each target client segment that will reinforce the first line of defense and increase the quality of the application process from business units. Each risk profile will include general information about the client, financial indicators that

mostly reflect high-level risks of potential borrowers, external credit rating (where applicable) as well as the Bank's terms for products and services for the target risk profile. Detailed description of target risk profiles will be prepared jointly by risk and business units.

Current IBEC's risk appetite metrics are clearly defined, and they will be further developed equally to introduction of key limits according to other Multilateral Development Banks's best practice. Current limit policy covers most of the required limits, while some key lending limits will be considered at a later stage:

- **Member country limit.** Due to a high concentration on several markets the Bank considers to set up the limit to diversify the loan portfolio
- **Exposure limit.** Due to a high concentration of Top-5 borrowers the Bank should consider to set up the limit to diversify the loan portfolio
- **Limits of Collective decisions.** The Bank should consider setting up limits of Collective decisions at the Credit Committee level to speed up the decision-making process including processing of small enterprises' applications
- **Treasury limits** may be tailored in accordance with limits for other business lines and best practices

Loan origination and servicing processes for different types of business will be further optimized to increase operational efficiency.

The Bank has identified the following development opportunities for loan origination and servicing processes:

1. Further unification of the application assessment process.
2. Further standardization of the underwriting process.
3. Elimination of duplication of responsibility for the credit risk in respect to provisions and credit monitoring processes.
4. Establishing of sole responsibility for non-performing loans (NPL) management for the full range of transactions.
5. Consider establishing of a veto right of the unit responsible for the credit risk.

Credit analysis process and metrics will be further improved, including additional stop-factors and introduction of other metrics.

The following developmental areas have been identified for the risk function during the next strategic period:

Diagram 9. Key developmental initiatives for risk strategy

Strategic goals	Key developmental initiatives	Timeline
1 Business activities increase	Improvements of risk internal procedures Reengine and speed up the credit process including credit analysis to identify sole responsible department for credit risk assessment on a deal level	Jan 2021 → Dec 2023
2 Positive developmental impact	1. Develop and implement in internal business processes risk profiles for key target clients' segments	Jan 2021 → Dec 2022
3 Relevant and convenient products and services provision for clients	2. Refreshment of automated scoring models for business departments at the stage of initial credit risk assessment for calculation potential rating and offer specific loan conditions in accordance with risk assessment methodology 3. Risk appetite development through introduction of additional limits and revision of current limits	
	Improvements of risk assessment models 5. Consider development credit risk assessment model for medium size legal entities	Jan 2021 → Dec 2022
4 Increase in internal operating efficiency	Improvements of risk internal procedure 6. Develop risk appetite in part of market risk assessment Risk governance, processes and responsibilities 7. Identify processes and internal procedures for credit risk assessment, monitoring process and NPL recovery 8. Define clear metrics and their values that would be the stop-factors for credit deals during initial credit risk assessment 9. Introduce additional risk ratios and stop factors for credit analysis	Jan 2021 → Dec 2023 Jan 2021 → Dec 2021
5 Increase long-term financial stability	Assets credit rating improvement 10. Increase average credit quality of the Bank's assets	Jan 2021 → Dec 2021

7.3 Marketing Function key development area for the period 2021-2025

The Bank developed a marketing strategy to support the planned business growth and significantly increase the total number of clients.

Target marketing strategy will consist of four key elements supporting the Bank's business growth that closely relate to IBEC business model:

Diagram 10. Key elements of marketing strategy

Key elements	Description	Product / Client Component	PR Component	GR Component
Products and services description and development	Main aim Description of Bank's offering Key components • Product parameters • Price • Customer proposition	✓		
Target audience	Main aim Structure key client segment Determination of consumers needs and capabilities Key components • Country • Industry • Type of company • Company size	✓	✓	✓
Communication channels	Main aim Raising awareness and improvement of customer interaction Key components • Traditional VS Digital channels • Earned, Owned, Paid communication channels	✓	✓	✓
Positioning and key messages	Main aim Customer acquisition and value proposition formation Key components • Problem identification • How product is solving it • Tangible and quantifiable benefits of the solution	✓	✓	✓

The Bank singles out the following target audience groups with different key expectations:

Table 14. Key clients' expectations

Target audience	Description	Expectations
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Target audience	Description	Expectations
Large corporate clients	<ul style="list-style-type: none"> Large Exporters / Importers of member countries Infrastructure companies of member countries 	<ul style="list-style-type: none"> Providing of financing on attractive conditions Individually tailored products Cash Management products
Medium enterprises	<ul style="list-style-type: none"> Medium Exporters/Importers of member countries 	<ul style="list-style-type: none"> Support in international trade Expertise in trade finance Quick and transparent loan process Benchmark pricing conditions
Financial Institutions	<ul style="list-style-type: none"> Large Financial Institutions of member countries financing medium enterprises 	<ul style="list-style-type: none"> Providing of funding for medium enterprises support (including syndications) Treasury operations Financial stability
Development Institutions	<ul style="list-style-type: none"> Development Institutions, operating in IBEC member states and third countries and in similar target sectors 	<ul style="list-style-type: none"> Cooperation for economic development Expertise in trade finance Participation in joint development programs and syndications Providing Cash Management services for MDBs' clients
Governmental Bodies	<ul style="list-style-type: none"> Authorities and governing bodies of the member countries 	<ul style="list-style-type: none"> Local economy development Active positioning in GR circles Participation in governmental programs
Other Partners	<ul style="list-style-type: none"> Member states' Export Credit Agencies; Member states' Chambers of Commerce and Industry; Member states' medium-sized enterprises' support institutions 	<ul style="list-style-type: none"> Active participation in international trade support Affordable financing for medium-sized enterprises

Additionally, to the product bundles approach described above in the Bank's Business Model the Bank will revise current products with a focus on high-priority products to cover the most significant part of the Bank's business.

The following products will have a high priority during the next strategic cycle:

1. **Trade finance:** Letters of credit (L/Cs), stand-by L/Cs, Guarantees and counter-guarantees, Reimbursement undertakings, Insurance covered loans
2. **Cash management:** Opening and maintaining of accounts as well as bundled cash and settlement offers for different client segments
3. **Lending:** Syndicated loans, Direct targeted lending, Working capital loans
4. **Treasury operations:** Risk-hedging products

Communication Channels

The Bank divides all communication channels into three main categories:

Table 15. Communication channels

Owned channels	Earned channels	Paid channels
<ul style="list-style-type: none"> • Customer/Partner reference and promotion • Self-arranged Business-missions to target countries • Product awareness events (IBEC days) • Targeted communication of IBEC (e-mails) to reach the targeted audience • E-mail subscriptions to IBEC news • Simple and convenient Mobile App • Social Media channels • Messengers • Website 	<ul style="list-style-type: none"> • Mentions in industry news and reviews • Participation in third party business events, including conferences, sponsorships of exhibitions and townhall meetings • Customers reviews • Interaction with diplomatic, governmental, business circles, banks and financial institutions for the Bank's promotion 	<ul style="list-style-type: none"> • Social media • Internet and mass media positioning and addresses to target audience • Contextual placement • Display ads • High search engines ranking of IBEC website

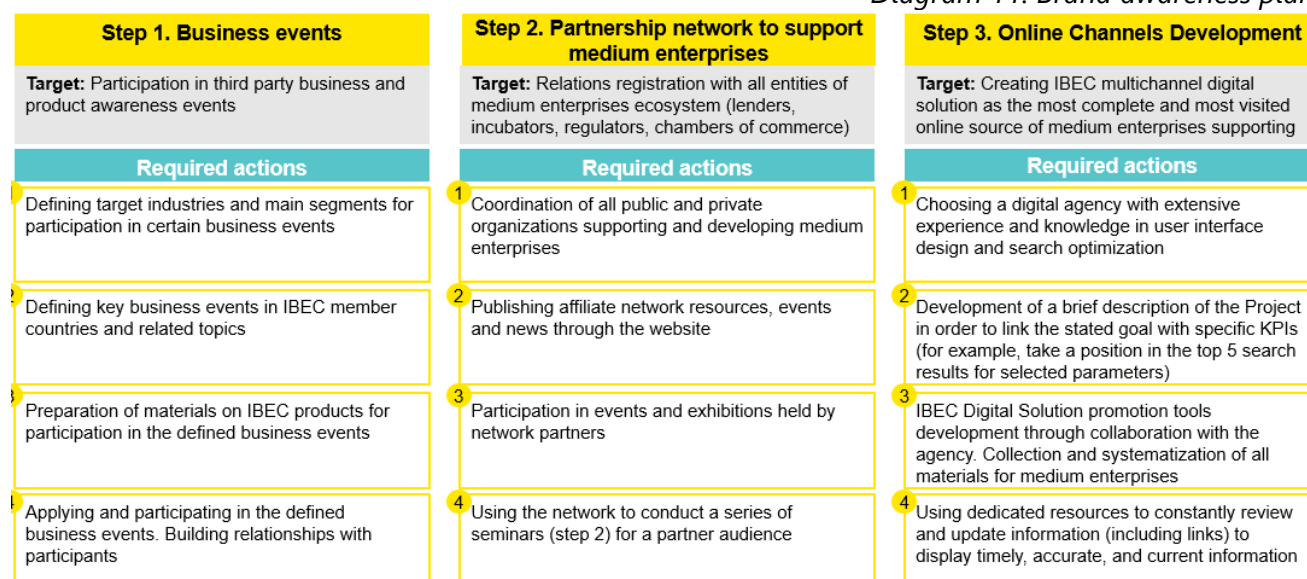
One of the key elements of the Bank's marketing strategy and customer acquisition is raising of awareness about the Bank. The Bank will use multiple ways of increasing IBEC's brand and products awareness. The Bank will actively participate in business events and presentations including:

- Participation in third party business events such as conferences, sponsorship of exhibitions, townhall meetings, and Business-missions
- Organizing product awareness events (IBEC days)
- Interaction with diplomatic, governmental, business circles, banks and financial institutions to promote the Bank's brand and its products and services The Bank also plans to actively use such public awareness tools as news releases, event reports, social media, Internet, and mass media for positioning and addressing the target audience. IBEC multichannel digital solutions, including website, social media, other Internet channels, mobile application will also be an important source for IBEC brand awareness.

IBEC will promote multichannel digital solutions for customer acquisition divided into four main groups: Internet, website, Bank-Client and other (online events, blockchain trade platforms, etc.).

Raising of IBEC brand awareness will include three steps: IBEC website update, expansion of the partnership network and participation in target events and gatherings:

Diagram 11. Brand awareness plan



Multichannel for engagement	<ul style="list-style-type: none"> • Multi language interface • Chatbots and messengers • Video Conferences
Other	<ul style="list-style-type: none"> • The KPI cascade is deployed only for managers / key specialists who can significantly influence achievement of the Bank-level strategic goals (up to B-2) • For other employees, general principles of motivation system are applied (without reference to Bank-level KPIs)

The Bank will set functional KPIs for each Board member, department director and other employees, connect bonus level to the internal KPI system and perform a remuneration research to compare salaries with other financial institutions. The diagram below shows a scheme of the approach to building a KPI system in accordance with the key principles.

Diagram 13. Target KPI system

				General banking KPIs		Strategic projects KPIs	Personal performance
				General	Functional		
Board Level	Board Member 1	...	Board Member N	✓	✓	✓	
Board-1 Level	Head of Department 1	...	Head of Department 2		✓	✓	✓
Board-2 Level	Head of Unit 1	...	Head of Unit N				✓
Board-3 Level	Employee 1	...	Employee N				✓

 - Possible performance calibration (on general banking KPIs level) when calculation the payout

For the next strategic period HR functional strategy includes establishment of an effective grading system and learning & development processes. Transition to target HR operating model could be done in two main stages:

1. Development and establishment of target HR business processes and internal procedures
2. HR business process optimization and automation

The following key steps will be undertaken by the Bank for employees' development to support the business growth and to increase operational efficiency:

1. Development of the grading system (for the current organizational structure), business and professional competencies matrix for each defined position with the Bank
2. Assessment of the current employees' competencies and evaluation of their compliance to defined grades and competencies matrix
3. Promotion of the English language as the second working language
4. Developing a learning and development plan for improving employees' key competencies based on the competencies' assessment
5. Developing and implementing a L&D program to acquire new skills and to promote organizational culture based on competencies' assessment and the Bank's strategic priorities

Diversification of employees' sourcing will provide an opportunity to support the business growth and remain flexible in FTE terms. Three main ways for employees' sourcing diversification are

contracts with professional consultants for specific tasks, independent contractor agreement and outsourcing of routine functionality.

The Bank has identified several potential functions and operations which could be outsourced during the next strategic cycle, including IT, HR, customer service, compliance, and credit functions.

Diagram 14. Key developmental initiatives for HR strategy

Strategic goals	Key developmental initiatives	Timeline
1 Business activities increase	Learning and development 1. Develop grading and L&D system and competencies matrix for defined grades 2. Perform employees' competencies assessment 3. Promote English language as a second working language	Jan 2021 → Dec 2023
2 Positive developmental impact		
3 Relevant and convenient products and services provision for clients	Recruitment and outsourcing 4. Intensify usage of international recruitment channels (LinkedIn, etc.) 5. Increase share of employees from countries other than HQ country 6. Hire additional employees in accordance with Bank's business growth	Jan 2021 → Dec 2023 Jan 2021 → Dec 2025
4 Increase in internal operating efficiency	KPIs and motivation system 9. Implement KPI system and develop bonus system 10. Set functional KPIs for each Board member and head of department 11. Set functional KPIs for each other employees Learning and development 12. Develop and implement L&D program to develop new skills and organizational culture based on competency assessment and strategic priorities Recruitment and outsourcing 13. Focus recruitment on the search of required competencies on international markets 14. Diversify employees sourcing in terms of staff flexibility and cost optimization	Jan 2022 → Dec 2023 Jan 2021 → Dec 2025 Jan 2021 → Dec 2025
5 Increase long-term financial stability	Not applicable for HR function. Initiatives are represented in other functional strategies	

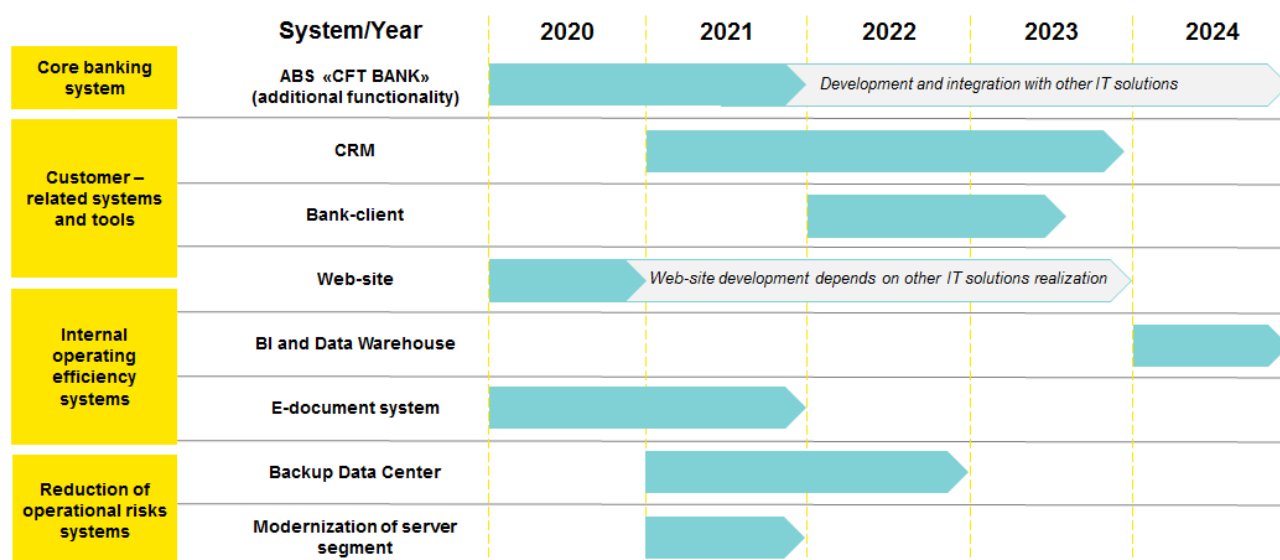
7.5 IT Function key development area for the period 2021-2025

IT function is strategically important for the Bank's overall development strategy since it is expected to support the business growth by digitalization of processes and digital transformation initiatives. IT strategy will play a key role in supporting the business growth.

The following key development areas have been identified in relation to IT development:

1. Complete transition to the new core banking system and new functionality development
2. Implementation and integration of key internal IT systems / functions (CRM and BI) and other systems
3. Implementation of Data Warehouse (based on or integrated with the core system)
4. Setting up e-document system and corresponding processes for using its capabilities
5. Development of digital client services and tools, including personal account on IBEC website with an ability to create loan requests, online bank functionality and direct communication with support services, integration with CRM and Trade platforms
6. Complete implementation of iBank2 new version with a wide range of analytical tools, Bank communication channels and the ability to support different languages.

Diagram 15. IT systems implementation plan



For digitalization promotion several strategic initiatives is listed below with the aim of developing IBEC operational activities

Diagram 16. Key developmental initiatives for IT strategy

Strategic goals	Key developmental initiatives	Timeline
1 Business activities increase	Development of digital client services and tools	Jan 2022 – Jul 2023
2 Positive developmental impact	1. Complete implementation the new version of iBank2 with extended functionality, wide range of analytical tools, communication channels with Bank and the ability to support different languages	Jan 2020 – Dec 2020
3 Relevant and convenient products and services provision for clients	2. Development of web-site with personal account with the ability to create loan requests, online banking functionality and direct communication with support services	Jan 2021 – Dec 2023
	Implementation and integration of key internal IT systems / functions	Jan 2021 – Dec 2023
	3. Implementation and integration of CRM system for effective interaction with customers	Jan 2021 – Dec 2023
	Improvement of IT policies, procedures and approaches	Jan 2021 – Dec 2021
	4. Finalization of IT policies and procedures for processes standardization	Jan 2021 – Dec 2021
	5. Establishing of data management policy for processes standardization	Jan 2021 – Dec 2021
	6. Implementation of project approach for IT for covering more project areas in a standardized way	Jan 2021 – Dec 2021
	Improvements of current IT systems / functions	Jan 2020 – Dec 2022
	7. Development of «ABS CFT BANK» functionality to increase internal operational efficiency	Jan 2020 – Dec 2022
	8. Setting up e-document system and the corresponding processes for using its capabilities	Jan 2020 – Dec 2022
4 Increase in internal operating efficiency	Implementation and integration of key internal IT systems / functions	Jan 2024 – Dec 2024
	9. Implementation and integration of BI system for improvement of internal and external analytical processes	Jan 2024 – Dec 2024
	10. Implementation and integration of Data Warehouse for effective data management processes	Jan 2024 – Dec 2024
5 Increase long-term financial stability	Development of IT-infrastructure	Jan 2021 – Dec 2022
	11. Implementation and integration of Backup Data Center	Jan 2021 – Dec 2022
	12. Modernization of server segment	Jan 2021 – Dec 2022

IT SECURITY

The growth of computer crime, primarily in the credit and financial sphere, is a global trend that requires the creation and development of a comprehensive information security system in the Bank.

The main objectives of the information security system are to ensure the reliability and continuity of financial and banking services, reduce risks in the form of direct losses and the cost of recovery from business process violations, and ensure the safety of the Bank's assets, including cash.

The Information Security development strategy is based on recommendations of the international standard ISO/IEC 27001 and includes the following main directions:

- Increase employee awareness of information security issues;
- Protection of information in access management;
- Network perimeter protection and information exchange security;
- Monitoring the integrity and security of the information infrastructure;
- Protection from malicious code;
- Information leak prevention;
- Cryptographic protection;
- Information security incident management;
- Protection of remote access using mobile (portable) devices.

8. KEY STRATEGIC INITIATIVES

For achieving key strategic goals and objectives in line with functional strategies the Bank identified several key strategic projects which should be implemented during the next strategic period. Nevertheless, determination of the strategic projects expenses will be carried out within the framework of the annual budget preparation based on cost-benefit analysis and will be subject to the Council's approval of annual Budget. A description and estimated investments in these projects are presented below:

8.1 Hire additional employees matching the Bank's business growth and develop a hiring model for candidates from EU-member states

Based on the projection of the loan and documentary portfolio growth the Bank should consider hiring additional employees. The main goal of the initiative is to support the business growth and provide clients with additional services. In order to change the Bank operational model and to increase the employees' internal efficiency 2-4 of front-office employees of the total headcount could be based in member states (in one or two EU-member states as a pilot) to manage local partners' and agents' network and drive business in the local markets. The initiative will be implemented during the whole strategic period (in line with the business growth and processes' optimization). However, the increase of full time employees will be done in line with road map of the Bank and will be accounted in the annual budgeting of the Bank during this strategic period.

8.2 Implement KPI system and develop a bonus system

To increase internal operational efficiency and link the Bank's performance and strategy achievement to managers bonuses the Bank will implement a KPI system in two main stages (general Bank-level and functional KPIs as well as personal KPIs). The initiative will be implemented during 2022-2023.

8.3 Optimization of key business processes

In line with a projected extensive business growth (significantly higher than the anticipated headcount increase) the Bank should significantly increase its operating efficiency and improve key client servicing metrics (Time to Yes / Time to Cash) in order to achieve the target loan and documentary portfolio. Optimization of key business processes (credit, documentary, settlement) will be one of the key initiatives during the next strategic period. The initiative includes automation of business processes (manual operations reduction by additional software implementation), unifying key business processes and reducing steps without value. The initiative will be implemented during 2022-2025.

8.4 Implementation and integration of CRM system to increase client interaction

To increase the quality of client interaction, to improve client data and to speed up application processing as well as to increase sales the Bank will implement a CRM system that will allow it to interact with clients and perform the following functions: register and route incoming customer requests, meetings and negotiations reports, create a customer profile (general information, etc.) and create deals, display their status, create reports on transactions. The initiative will be implemented during 2021-2023.

8.5 Development of «ABS CFT BANK» functionality to increase internal operational efficiency

To decrease manual operations and to increase internal processes' transparency the Bank will develop ABS CFT functionality as ERP with the following modules/functions: Planning transactions, resources, operations; Revenue / expenses management; Reporting preparation in order to decrease manual operations and introduce automate control procedures. The initiative will be implemented during 2022-2024.

8.6 Development of internal systems for operational efficiency increase

To increase operational efficiency, processes' transparency, data management and its quality the Bank will implement BI system that will allow to structure internal data with a functionality of information collection from databases, predictive analytics and automated reporting preparation. The Bank will also implement Data Warehouse to store data in a single source to increase the data quality. The initiative will be implemented during 2024.

8.7 Development of external systems for effective client interaction

To improve the efficiency of customer interaction and to increase internal operational efficiency the Bank will implement a new version of iBank2 with extended functionality, wide range of analytical tools, communication channels and ability to support different languages. The Bank will also develop a personal client account on its website with the ability to create loan applications, online banking functionality and direct communication with support services. The Bank will also consider integration between CRM, iBank2 and website. The initiative will be implemented during 2021-2022.

8.8 Implementation of Data recovery solutions to decrease operational risks

To decrease operational risks and to ensure the Bank's business continuity in the event of non-standard and emergency situations the Bank will implement Backup Data Center and upgrade the server equipment for the support of normal operations of the Bank's IT architecture in the environment of a possible increase in operational risks. The initiative will be implemented during 2021-2022.

8.9 Automation of treasury operations to decrease manual operations and to provide additional services

To decrease operational risks of Treasury function and to possibly provide additional Treasury services to clients the Bank will implement treasury software for compliance with OTC Derivatives regulations and contractual requirements under ISDA and CSA agreements. The software will allow the Bank to calculate fair value for all derivative positions in real time and consolidate them on a single information exchange platform with all counterparties. The initiative will be implemented during 2022.

8.10 Improve learning and development system to increase employees' competencies

The Bank will develop a learning system and professional competencies matrix for each defined position in the Bank. Assessment of existent employees' competencies and evaluation of its compliance to the defined grades and competencies matrix will occur during the strategic period. The Bank will also develop additional L&D programs for employees. This initiative will help the Bank to optimize organizational structure and to develop necessary skills for employees in line with their grades. The initiative will be implemented during 2021-2025.

8.11 Promote English language as the second working language

To develop employee's English language skills for better inter and intra communication as a multilateral development bank the Bank will introduce corporate changes for the transition to two working languages of all the Bank's internal and public documents and introduce English courses for employees and hire English speaking employees. The initiative will be implemented during 2021-2023.

8.12 Utilization of international recruitment channels to increase the number of international employees

To increase the share of employees other than from the country of domicile, to expand the base of highly skilled employees and to promote internal exchange of knowledge and competencies the Bank plans to extensively utilize international recruitment channels and to focus on international recruitment with required competencies and utilize of international job social networks such as LinkedIn and attraction of international recruitment agencies. The initiative will be implemented during 2021-2025.