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## **Section 1. Purpose**

These Rules and Regulations are adopted by the Board of Governors pursuant to Article 13.3. of the Agreement Establishing the Black Sea Trade and Development Bank (Establishing Agreement). They are intended to supplement and provide interpretation to the general guidelines and requirements set forth in the Establishing Agreement and will constitute the main principles for financing operations (projects and commercial activities) by the Bank, in conformity with the provisions of Article 55 para.2 of the Establishing Agreement.

Further, these Rules and Regulations delegate to the Board of Directors (BoD) the authority to adopt the appropriate policies, strategies and guidelines, and to the Management – under delegated authority from the BoD – to determine the appropriate policies, strategies, guidelines, and adopt the implementing procedures necessary for the origination, assessment, execution, monitoring and financing of operations.

## **Section 2. Operating Principles**

In providing or participating in loans, guarantees and equity investments the Bank shall observe the following principles:

- a) In selecting suitable operations, the Bank shall always be guided by the provisions of Articles 1 and 2 of the Establishing Agreement.
- b) The Bank shall make all possible efforts to ensure that its funds are employed rationally in the interest of the member states.
- c) The Bank shall be guided by sound banking principles and by considerations of transparency and accountability in all its operations.
- d) The Bank will provide finance for operations according to rules and procedures to be approved by the BoD.
- e) The Bank shall seek to maintain a suitable ratio between equity investments, loans and guarantees provided.
- f) The Bank shall take all appropriate measures in order to control and mitigate the credit risk inherent in its operations, by avoiding excessive concentration (e.g. product, obligor, country, sector, etc.) of its operational portfolio. For this purpose the Bank diversifies its credit risk by setting various operational limits .
- g) The Bank shall not allow a disproportionate amount of its resources to be used for the benefit of any one member. The Bank shall seek to maintain reasonable diversification in its operational portfolio.
- h) In the case of a direct loan made by the Bank, the borrower shall be permitted by the Bank to draw its funds only to meet expenditures in

connection with the approved operation. The Bank shall take the necessary measures to ensure that the proceeds of any loan made, guaranteed or participated in by the Bank are used only for the purpose for which the loan was extended and with due attention to considerations of economy and efficiency.

- i) The Bank shall not support any operation, which does not meet the Environmental requirements set forth in the Environmental policies of the Bank.
- j) The Bank shall require obligors to observe the Bank's Procurement Principles and Rules.
- k) In its operational activities and decisions to provide financing the Bank shall pay due consideration to its role as a development institution, while at the same time it shall take all necessary measures in order to: (a) keep the size of non-performing assets to a minimum level; and (b) to recover funds advanced to clients without jeopardizing both its development objectives and its financial position.
- l) The Bank shall cooperate with international, regional and national institutions and organizations, with a view to promoting the development of Member States and of the BSEC region.

### **Section 3. Operations, Beneficiaries and Products**

All financing activities shall be undertaken by the Bank for operations that are consistent with the methods and considerations set out in Articles 12 and 13 of the Establishing Agreement. In addition operations financed by the Bank shall conform to the following broad principles:

- a) Subject to the conditions stipulated in the Establishing Agreement, the Bank may provide or facilitate financing for operations within and among member countries, giving special emphasis, wherever possible, to operations which promote economic and social development and strengthen cooperation among member countries.
- b) The Bank shall make, co-finance, participate in, guarantee loans to its member countries, to any of their agencies, and to public or private legal entities operating within such countries, either on a stand alone basis or with other multilateral financial and development institutions, commercial banks and other interested international, regional, or national entities concerned with the economic progress and developmental aspects of the Black Sea region – irrespective of whether they belong to member countries or not.

- c) The Bank shall offer both full or partial commercial and political risk guarantees. The Bank may guarantee, whether as primary or secondary obligor, in whole or in part, loans for economic development.
- d) The Bank may invest in equity capital, directly or through various financial vehicles, for the ultimate benefit of the member countries.
- e) The Bank shall develop other special products to meet evolving client needs, as and when deemed necessary.
- f) The Bank shall support trade activities among member countries and shall facilitate increased volume of exports from member countries within and outside the region. In order of priority, trade financing provided by BSTDB shall promote: (i) the trade of goods between the member countries; (ii) diversification of trade and expansion into new markets; (iii) generation of foreign exchange; and (iv) modernization of the capital equipment through import of technologically advanced and environmentally friendly equipment.

#### **Section 4. Terms and Conditions for Loans and Guarantees**

- a) The Bank shall have power to determine the terms and conditions of the loans and guarantees it offers
- b) In the case of loans made, participated in or guaranteed by the Bank, the financing<sup>1</sup> agreement shall establish the terms and conditions for the loan or guarantee concerned, including those relating to payment and repayment of principal, interest and other fees, charges, maturities and dates of payment in respect to the loan or the guarantee, respectively. In setting such terms and conditions, the Bank shall take fully into account the need to safeguard its income. The Bank shall protect itself against credit risk, interest rate risk, exchange risk and other market risks by including in contracts for loans or guarantees such clauses as it considers appropriate.

#### **Section 5. Terms and Conditions for Equity Investments**

- a) The Bank shall invest in the equity capital of enterprises in order to facilitate or enhance the participation of private capital in such enterprises as well as to encourage foreign investment and the flows of capital

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<sup>1</sup> Financing agreement is a generic term used for any legally binding document between the Bank and another party in connection with operations financed by the Bank.

between the member countries and the mobilization of additional capital from external sources..

- b) The Bank shall seek to maintain reasonable diversification in its investments in equity capital.
- c) The Bank shall not seek to obtain a controlling interest or to assume any responsibility in an entity's management, unless this is required to safeguard the rights of the Bank in ensuring recovery of funds disbursed.
- d) The Bank shall seek to revolve its funds by selling its investments whenever it can appropriately do so on satisfactory terms. All possible exit strategies shall be contemplated and the most appropriate ones for each specific operation, as well as the events triggering exit, shall be negotiated and determined by the time of approval of the equity investment operation.
- e) In its investment in individual enterprises, the Bank shall undertake its financing on terms and conditions which it considers appropriate, taking into account the requirements of the enterprise, the risks being undertaken by the Bank, and the terms and conditions normally obtained by private investors for similar financing.

## **Section 6. Currencies**

- a) Pursuant to Art. 20 of the Establishing Agreement the Bank shall provide financing in any freely convertible currency, local currencies of the member countries, or a combination of currencies, if acceptable to the Bank and in which the Bank can fund itself.
- b) The financing agreement shall expressly state the currency or currencies in which all payments to the Bank shall be made.

## **Section 7. Security**

- a) According to Art. 13, paragraph 1(a) of the Establishing Agreement the Bank, in conducting its operations, shall pay due regard to safeguarding its interests in respect of its financing. Therefore, the Bank may require an appropriate security. The public and private company's operations shall be assessed on the basis of benefits and risks and financing shall be provided on the basis of merit. Loans and guarantees are normally to be secured, although the Bank may accept an unsecured position where this is judged to be consistent with sound banking principles. Acceptable security may include but is not limited to collateral, guarantees, pledges or any other security from shareholders, promoters or third parties. The security will help to protect not only debt service but also commit security

providers to continued supply of management, technology, and equipment, or completion of the project.

- b) The exposure to the central government of a country may take the form of a direct loan to a government or the form of a guarantee issued by the government on behalf of another entity.
- c) Where the recipient of loans or guarantees is not itself a legal entity registered in a member, the Bank may, when it deems it advisable, require that the member in whose territory the project concerned is to be carried out, or a public agency or any instrumentality of that member acceptable to the Bank, guarantee the repayment of the principal and the payment of interest and other charges on the loan in accordance with the terms thereof.

## **Section 8. Principles of Loan and Guarantees Pricing**

- a) The Bank shall provide loans and guarantees based on the principles of market pricing and recovery of operating (including adequate allowance for associated risks) and capital costs associated with loan transaction.
- b) Interest rates on loans to be provided by the Bank and commissions on guarantees shall be, to the extent possible and with a view to achieving the Bank's objectives, adjusted to the conditions prevailing on the capital market and shall be calculated in such a way that the income therefrom shall enable the Bank to meet its obligations, to cover its expenses and to build up adequate provisions and reserves.
- c) Interest rate margins of loans and guarantees shall be differentiated by both country and borrower. Interest rate margins over the cost of funds shall reflect an assessment of the risks involved.
- d) In the case of on-lending, the Bank should ensure the conditions imposed upon the ultimate borrower are no more favorable than to the direct borrower and that the financial strength of the direct borrower is not unduly weakened.
- e) Within the frame of its operations, the Bank shall charge commissions and fees, payable at rates and times determined in financing agreements. Commissions and fees shall be paid directly to the Bank by the obligor, or the party specifically mentioned in the respective agreements.
- f) Other charges of the Bank in its ordinary and special operations shall be established in the Bank's policies.
- g) The Board of Directors establishes the guidelines of the Bank's pricing policy. The application of the guidelines is delegated to the Management, thus providing for an adequate flexibility. The Board of Directors shall review periodically the aggregate pricing information.

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## **Section 9. Repayment**

- a) The maturity of the Bank's loans will reflect the type of operation. The final maturity of the loans will not exceed 15 years. Principal repayments shall normally be made in equal installments with the same frequency and at the same time as interest payments. A grace period on repayments of principal may be included to cover the time necessary for the operation to become operational, b) Interest payments should normally be made quarterly or semi annually as determined by the Bank.

## **Section 10. Co-financing**

- a) The Bank may co-finance operations, or coordinate its activities as appropriate with:
- i) Official sources, including governments and governmental agencies, as well as other international financial institutions;
  - ii) Export credit agencies involved in financing trade of goods and services from particular countries.
  - iii) Commercial Banks and other private financial institutions; and
  - iv) Other institutions or agencies as the Bank may from time to time consider appropriate.
- b) In making decisions on applications for loans or guarantees involving matters within the specialized competence of another international organization participated in by members of the Bank, the Bank shall as far as possible, and having due regard to the best interests of the Bank, take into account any relevant views or recommendations of such organization.
- c) In its lending transactions the Bank shall normally be ranked at least equal to the other lenders.

## **Section 11. Financial Institutions**

- a) The Board of Directors approves the Bank's policy that governs operations in the financial sector.
- b) The Bank may carry out operations through financial intermediaries to be selected according to guidelines approved by the Board of Directors.
- c) Selected financial intermediaries are subject to periodic assessment of their financial strength and continuing eligibility, in conformity with the

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principles set forth in the above mentioned guidelines, which shall at least cover an annual financial appraisal.

## **Section 12. Environment**

The environmental mission of the Bank is to integrate environmental concerns into the assessment procedures of Bank financed operations and to be an effective intermediary and interlocutor for the provision of environmentally clean technologies in a cost-effective and economically feasible manner. The ultimate objective of the Bank is promotion of sustainable development and progress towards prosperity of member countries. The Bank will ensure that at a minimum the projects financed by the Bank are environmentally neutral.

The Bank adheres to the principles of the Washington Declaration on Environment and Sustainable Development of the World Federation of Development Financing Institutions:

- We regard sustainable development as a fundamental aspect of sound development bank management.
- We believe that sustainable development can best be achieved by helping our clients work within an appropriate framework of cost-efficient programs and economic development objectives.
- We will work towards integrating environmental considerations into our loan operations and asset management and other business decisions.
- We will assist our clients in complying with applicable environmental regulations and in the use of sound environmental practices for effective corporate management.
- We will share our knowledge with clients, as appropriate, so that they may strengthen their own capacity to reduce environmental risk and promote sustainable development.
- We will promote dialogues relating to environmental matters with relevant stakeholders and the public in general.

## **Section 13. Procurement**

- a) The procurement policy of Black Sea Trade and Development Bank shall insure transparent, fair and open procurement practices, to prevent fraud and corruption.
- b) The use of the Bank's proceeds of any loan, investment or other financing for purchase of goods and services shall be awarded in conformity with the Bank's procurement policies and procedures. In the cases of small size operations, which may not attract international bidders, other methods of procurement may be carried out.

- c) Taking into consideration the regional cooperation and development character of the Bank and in order to give advantage to member countries companies to benefit from procurement, in its operations the Bank shall pay due regard to the provision of a margin of preference to the member countries' companies.
- d) The Board of Directors shall approve Procurement Rules and Regulations.

## **Section 14. Decision Making Procedures**

- a) Before a loan, guarantee, and equity investment is provided the applicant shall have submitted an adequate financing proposal to the Bank and the President of the Bank shall have presented to the Board of Directors a recommendation regarding the proposal together with a written report, on the basis of a thorough study by the Bank's specialized staff, in line with the process outlined in the Bank's Operations Cycle Policy.
- b) The Board of Directors shall have power to take decisions with respect to:
  - (i) granting/augmenting/reducing/restructuring/canceling loans, guarantees, equity investments, and other financial products; and
  - (ii) borrowing of funds by the Bank.
- c) The Board of Directors shall review at least annually the Bank's operations and shall periodically evaluate the adequacy of operational strategy (Business Plan, Sector and Country Strategies) to ensure that the purpose and functions as set forth in Art. 1 and 2 of the Establishment Agreement are fully served.