

***Interview of Andrey Kondakov, BSTDB President  
for "News Time" Russian daily***

*( translation from Russian)*

**SHAREHOLDERS DEMONSTRATE STRATEGIC VISION**

***Andrey Kondakov, new President of the Black Sea Trade and Development Bank (BSTDB) on diplomacy, crisis and new projects***

Today Andrey Kondakov, a Russian citizen, succeeds Hayrettin Kaplan of Turkey as President of the BSTDB. Mr.A.Kondakov was introduced as a candidate for the position by Russian Prime-Minister V.Putin last year and was approved by the shareholders of BSTDB, a development finance institution established in 1999 by the countries of the Black Sea rim. The appointment does not seem a common occasion: so far Russians have not held top positions in international financial institutions and their presence in senior management has been a rare occurrence.

In his interview for "News Time", Andrey Kondakov tells how his background in multilateral economic diplomacy will help in his new job in banking and how the Black Sea Trade and Development Bank is responding to the global crisis.

*Q: Your nomination is a rare occasion when a Russian heads an international financial institution. Other BSTDB member countries might be concerned that Russia with this new top position would outweigh them and dominate the bank. How do you feel coming in?*

A: It is true that apart from banking establishments of the CIS, Russia has not delegated its representatives to top positions in international financial institutions. I believe that this decision of the bank's shareholders attests to recognition of Russia's growing role in the international financial architecture and Russia's constructive position on key issues of the international financial agenda. Obviously, the active Russian role in promoting integration and economic cooperation in the Black Sea Region was an important factor as well.

As regards the Russian weight in BSTDB or its share in the bank's capital, it is equal to those of Turkey and Greece, each of which has 16,5%. So, in fact there is no ground for any dominance. The bank was established to promote economic cooperation in this complex region and the 11 years of its existence have been devoted to implementing this mandate.

Therefore, in becoming the president of such an organization I feel enormous responsibility for the international financial institution representing the interests of its 11 shareholders. Over the past few years the bank has completed the phase of institutional development and has firmly taken its role among peer IFIs and bilateral donors providing development financing in the Black Sea region. I see my mission in continuing and strengthening this positive trend, increasing and expanding the portfolio of diversified operations, further improving the bank's credit rating and intensifying collaboration with other major financial players in the region.

*Q: You came to BSTDB after a diplomatic career. In your view, how important is the diplomatic content in the bank's activities and in promoting economic cooperation that you have mentioned? Apart from this, there are member countries at BSTDB that have quite chilly relations with Russia. How does this affect cooperation in the bank?*

A: Surprisingly, there is quite strong diplomatic content in the activities of such multilateral institutions. How to bring together the different interests of EU member countries (Bulgaria, Greece, Romania), EU candidates (Albania, Turkey), participants in the EU Neighborhood Policy (Armenia, Azerbaijan, Georgia, Moldova, Ukraine) and Russia, which develops a Strategic Partnership with Brussels? This "EU dimension" is just one example. How to find a common denominator in the interests of large and small shareholders? How to assure reasonable geographic diversification of the operations portfolio? Or, something which is even more important, how to achieve normal non-politicized interaction in the bank between individual countries which currently have problematic official relations?

My previous experience in multilateral economic diplomacy proves to be very helpful in resolving such problems every single day.

I am glad to see that the bank's shareholders clearly realize the importance of the common goals facing the BSTDB and thus abstain from politicizing its work. This enables us to come together in improving the bank's position and its financing of projects aimed to promote bilateral and multilateral trade and investments in the Black Sea region. The number of such projects is growing in the bank's portfolio. The bank was engaged in the modernization of the Trans-Balkan gas pipeline and airports servicing direct flights between the member

countries. We also participate in cooperation with BSEC and other interested parties in the elaboration of regional projects such as the Black Sea Ring Highway and Motorways of the Sea.

As for the impact of “chilly” official relations between some individual member-countries on the work of the bank, I may say that our shareholders demonstrate moderation and long-term strategic vision while understanding that the objective of the bank is to promote promising projects rather than to contest or try to resolve political disputes.

*Q: Russia, Turkey and Greece are the largest shareholders in BSTDB. How does this correlate with the projects that the bank finances in those countries? For instance, Russia has a large share in the bank’s portfolio, but do you believe that Russia is fully utilizing the bank’s potential?*

A: At present Turkey accounts for the largest share in the bank’s portfolio. Previously Russia was the leading borrower for a few years and before that it was Ukraine. The portfolio distribution is constantly evolving and will surely change again soon. In fact there is no direct relation between the countries’ shares in the capital and the amount of financing they receive from the bank. All shareholders have equal financing ceilings and none of the countries have yet reached the ceiling. As for the “small” shareholders (Albania, Armenia, Azerbaijan, Georgia, Moldova), their aggregate share in the capital totals 9,5%, yet this group accounts for 19,7% of the BSTDB operations portfolio. This is perfectly normal practice which should be encouraged further because it represents the *raison d’être* of a development finance institution.

*Q:As we see it, the Bank’s portfolio in Russia is largely concentrated in the financial sector. Is it a deliberate policy?*

A: Indeed, the Russian portfolio tended to lurch towards the financial sector a while ago, which in my view was not bad. The point is that the bulk of our operations with Russian financial institutions aims to support SME sector development, via mortgage, leasing, trade transactions, etc. Financial sector institutions are acting as our intermediaries and not as end users of the bank’s financing.

In any case, the share of the financial sector in our Russian portfolio is declining. According to the bank’s new long-term strategy, priority is being given to the real sector development, including infrastructure projects. Among recent examples I may mention the loan agreements to finance the modernization of Pulkovo airport, and the construction of modern storage and office facilities in Mineralnye Vody and Kaluga. Before that, the bank financed the well known Russian

companies “Severstal” and “Alrosa”, assisted “Rusal” in entering the Armenian market, supported the development of the “Seventh Continent” retail network, financed the Kazan-based telecom company “Teleset” and invested in the quality cosmetics producer “Kalina”. Overall, I believe that the bank’s services are in good demand in Russia.

*Q: How has the crisis affected the bank’s portfolio and policy? Being the head of BSTDB, what do you see as your main tasks? Is there any need in taking anti-crisis measures?*

A: By all means, the crisis has affected the bank’s activities and compelled us to adapt to new realities. First of all, we amended our mid-term strategy and business plan to shift the focus from portfolio growth (our portfolio doubled during 2006-2008) to preserving its quality and strengthening monitoring of the signed loan agreements. Those measures proved to be justified and well-taken. The bank finalized the last 2 years with net profit, while many other IFIs showed losses. We also managed to avoid new non-performing loans. Our credit rating (Baa1 from Moody’s) was maintained during the crisis and despite the backdrop of downgrading ratings of some of our main shareholders, which is evidence of the bank’s stable position. So, there is no reason for taking any special anti-crisis measures. Moreover, our shareholders decided to double the subscribed capital some time ago, and the bank has started receiving the capital contributions. In the coming years, we expect further strengthening of the bank’s role in the region and its more active involvement in public sector and municipal projects, as well as in the infrastructure and energy sectors (especially renewable and energy saving) and environmental projects, etc. We also intend to increase involvement in equity operations. We will actively promote further increase of the BSTDB credit rating. The bank plans to actively develop its borrowing and fund raising program. Finally, we will more closely cooperate with leading IFIs, in particular in order to co-finance regional projects.

*Q; You mentioned that during the crisis the bank managed to avoid new non-performing loans. It means that the bank had such loans before?*

A: In the history of BSTDB, there have been only two non-performing loans, which is a negligible quantity for an institution with a billion-dollar portfolio. Indeed, both cases pre-date the crisis. The first one was with a Bulgarian client, which was quite quickly resolved by selling the asset. The second case with a Turkish company which started to experience financial difficulties remains in our

portfolio since 2005. In line with international standards, the loan was duly provisioned, but we continue working with the client on the repayment process. *Greece, one of the bank's major shareholders and clients, is facing severe budgetary problems. How did this influence its cooperation with the BSTDB? How have the signed operations been implemented? Is there any discussion on projects to facilitate bringing the situation in Greece to normal?*

It must be noted that before the current crisis in Greece, its share in the bank's portfolio was comparatively small (3-4%) with only a few projects signed. This situation was due to objective reasons. Being a developed country and an "old" member of the EU, Greece did not have much need in development assistance from the bank. Besides, until recently Greece enjoyed the highest credit rating of all BSTDB shareholding countries, which secured its access to comparatively cheap funding inside the country and in international capital markets.

Now the situation has dramatically changed, and the demand for the bank's resources from the Greek business community has increased manifold.

The word "crisis" in the Chinese language is described with two hieroglyphs: one means "danger", another – "opportunity". In our current credit policy in Greece we are primarily targeting the new opportunities coming our way. In a few days the bank's Board of Directors will consider loans for two Greek companies totaling 40 million euros. One company is engaged in a construction sector, another develops software solutions in marketing and advertising for mobile communications operators. By the way, both companies are doing business not only in Greece but also in other BSTDB member countries. We are also working on a project to support a major Greek bank in the capitalization of its subsidiaries in other member countries. We are exploring opportunities to participate as a founding member in two investment funds for Greece and to finance some projects promoting alternative energy sources. Overall, I believe that our portfolio in Greece will grow substantially in the near future.

**Andrey Kondakov** is a career diplomat. In 2002 he became head of the Department for Economic Cooperation of the Ministry of Foreign Affairs of Russia. In that capacity he acted as a "Foreign Affairs *Sous-Sherpa*" – assistant to the special representative of the Russian president in the G8. In 2007 he was appointed Vice President Banking at BSTDB.

**The Black Sea Trade and Development Bank (BSTDB)** is an international financial institution headquartered in Thessaloniki, Greece. It was established in 1999 by 11 member countries of the Black Sea Economic Cooperation - Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey, and Ukraine. The BSTDB cumulative portfolio financed over the period has reached 202 operations

for a total amount of USD 2,7 billion in a variety of sectors – infrastructure, energy, transport, telecoms, financial sector, etc.