Black Sea Trade & Development Bank

ANNUAL REPORT 2000

TABLE OF CONTENTS

BOARD OF DIRECTORS

[left to right]

Oleg RYBACHUK, Director
Chief of Prime Minister's Administration,
Ukraine

Aydin KARAOZ, Director
Deputy Undersecretary of Treasury,
Republic of Turkey

Georgy PETROV, Temporary Alternate Director
Director of the Department of Economic Cooperation
of the Ministry of Foreign Affairs, Russian Federation

Valentina SICLOVAN, Director
Director General, General Directorate
for External Public Finance
Ministry of Public Finance, Romania

Ersoy VOLKAN, Chairman of the Board of Directors
President of BSTDB

Vassilios KANELLAKIS, Director
General Director for International Economic
Relations, Ministry of National Economy,
Hellenic Republic

David APTSIAURI, Director
Deputy Minister, Ministry of Foreign Affairs,
Georgia

Roumen AVRAMOV, Director
Member of the Managing Board, Bulgarian
National Bank, Republic of Bulgaria

Adalet ALIYEV, Alternate Director
Division Chief, Foreign Economic Relations
Department, Ministry of Finance
Republic of Azerbaijan

Arthur JAVADYAN, Director
Board Member, Central Bank of Armenia
Republic of Armenia

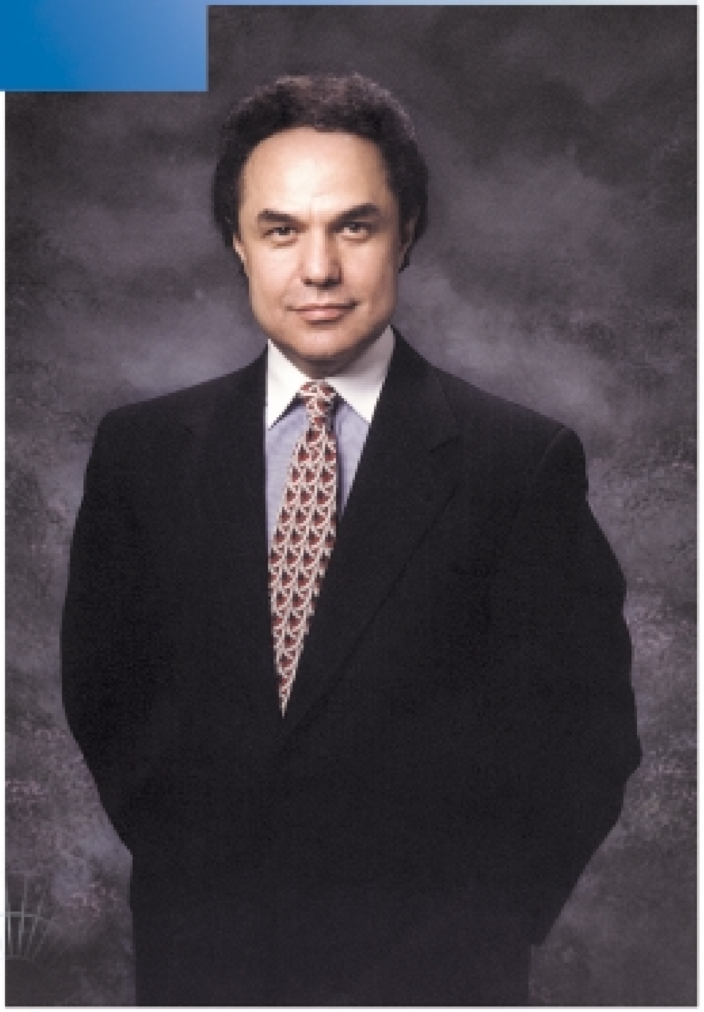
TO THE BOARD OF GOVERNORS

The Board of Directors of the Black Sea Trade and Development Bank has reviewed and endorsed this Annual Report for the fiscal year ended 31 December 2000. The Bank's second Annual Report has been prepared in compliance with the Bank's requirements for financial reporting. The Chairman of the Board of Directors and President of the Bank submits this report with the accompanying audited financial statements to the Board of Governors.

The Board of Directors is pleased to report that the Bank ended its second operational fiscal year with a positive operating balance. The Bank continued to expand project and trade finance operations and to strengthen its internal structure, thus fulfilling its mandate of a regional development financing institution, contributing to the prosperity of the people of its Member States.

Ersoy Volkan

Chairman of the Board of Directors
President
Black Sea Trade and Development Bank



Ersoy Volkan,
Chairman of the Board of Directors
President of BSTDB

STATEMENT BY THE PRESIDENT

The expansion of operations achieved by the Black Sea Trade and Development Bank (BSTDB) in 2000 represents an accurate reflection of the efforts spent towards enhancing economic cooperation amongst the Bank's Member States. Such expansion also reflects the commonalities between the structural characteristics underlying these developments.

The BSTDB benefited from the improved macroeconomic picture of the BSEC region. Virtually all countries demonstrated moderate to strong growth- often in excess of initial projections. The upward volatility of oil prices helped producers and hurt consuming countries, but its negative effects proved less damaging than originally feared, a testament to the growing resilience of the Region's economies. Such conditions have helped sustain the 'turnaround' observed in member countries' economies in late 1999. In this context, it was gratifying for BSTDB to see demand for its services grow.

Following the successful launch of operations in June 1999, the year 2000 was one of expansion for the BSTDB. We initiated the development of project and trade finance operations in all our member countries, and in the process constructed a solid stock, or 'pipeline', of operations to assess, prepare, and implement. The Bank's portfolio reached 15 approved operations in energy, trade, transportation and manufacturing sectors. More significantly, we had over 30 operations at various stages of consideration within the pipeline, a promising indication of demand for the Bank's products and of the perception of the value added which our involvement provides to regional investments and commercial transactions. This is particularly encouraging, given that the vast majority of operations completed, and under consideration, are with private sector firms and financial intermediaries. While we express no ex-ante preference for working with private or public sector institutions, a combination of external and internal factors has led to most demand for the BSTDB services and products coming from the private sector.

One external factor is the increased interest of donors and multi-lateral development banks in the Black Sea region. Some of this welcome increase in attention is due to the Stability Pact for Southeastern Europe, an operational framework, which has helped to attract a greater volume of resources into the Region and to mitigate undeserved perceptions. This has led to a 'crowding out' effect, as far as sovereign projects are concerned. A related external development involves the macroeconomic constraints faced by Member States most of whom are seeking to preserve preciously achieved macroeconomic stabilization by following tight fiscal and monetary policies. One element of every stabilization program involves limitations placed upon the amount of non-concessional sovereign debt, which a country may take, either explicitly or in the form of guarantees. This tightens considerably the prospects for state firms' involvement with BSTDB.

A very significant factor overall, is an internal one, namely; the increased interest in the BSTDB's functions, from the private sector, a trend which is consistent with the private sector led nature of the growth of the member countries' economies. With the exception of oil based growth, most of the expansion in the economies of the

Black Sea region has emanated from the sectors of the economy, where the involvement of the private sector has been highest - agriculture, services, small manufacturing, construction. This is a particularly promising development, since sustained, long-term economic growth can only take place where the private sector is allowed to flourish under open, competitive conditions within a proper legal framework. While more remains to be achieved as regards private sector development, movement in the BSEC region has been substantial, and positive.

Positive movement is also an accurate description of the direction of economic cooperation among member countries. Indeed, the BSEC and the BSTDB owe their existence to the high priority placed by our eleven member countries upon expanding regional cooperation and deepening integration of their economies. I have attached utmost importance to ensuring that the BSTDB's operations seek to achieve regional cooperation, as well as developmental impact; since cooperation and integration represent benefits in their own right, with mutual gains which extend well beyond the strictly economic sphere.

In this context, I am especially pleased to note the growth in regional trade as well as the increase in direct investment involving firms domiciled in member countries. Not only is this in line with our dual mandate and improves business prospects in our operating environment, but it also indicates that the impetus for greater integration is intrinsic to the region, the result of economic forces being freed to pursue opportunities and generate wealth as they see most appropriate.

It also serves as testimony to the relevance of the Bank's mandate. Our distinctive focus on fostering regional trade and cross-country cooperation is particularly timely, given that enhancing regional cooperation is increasingly recognized as a highly efficient way to foster economic progress. The Bank has demonstrated that it is suited to provide value added in an efficient and market friendly manner, while promoting economic development and furthering regional integration. This will direct the BSTDB's operations into 2001 as well, although we also intend to intensify efforts to identify and develop operations that create or upgrade cross-country infrastructure, often a prerequisite for subsequent 'explosions' in trade and investment activity.

The notion of cooperation extends beyond the provision of tailored financial products and the construction of commerc2ial relationships across the region. We maintain strong cooperative ties with our member countries, which are both the shareholders of our Bank and the beneficiaries of our financial operations, and their strong commitment to the Bank and its objectives has been essential for the Bank's achievements to date.

The Bank has also developed stronger linkages with the Black Sea Economic Cooperation and the various BSEC bodies, as well as other organizations, associations and entities. Our goals are common, and we are able to leverage our multi-faceted activities in ways, which assist business associations- and above all, businesses- to establish more productive links, working groups to garner greater knowledge about their sector in the Black Sea region, and the Bank to identify new financing opportunities.

Cooperation is an apt theme for our Bank. From our management to our Board of Directors and our Board of Governors, it represents the spirit which guides our operations effectively and which will help sustain high standards of productivity in the period ahead. I am also blessed with the BSTDB staff who, with their excellent skills, talent and devotion, move the Bank forward. I am enormously indebted to all.

I see the BSTDB as an international financial institution quite adequately equipped with the vision that is needed to meet the challenging requirements of the Black Sea region and to mobilize investible funds on good terms that are tailored to meet the long-term needs of creditors.

We are rapidly building our stock of knowledge of our region and acquiring unique expertise on the modalities of addressing its needs, with a view to make a difference by tailoring our financial products to clients' specific requirements.

Our achievements will always form the foundations of our future endeavours.

Ersoy Volkan
President
Black Sea Trade and Development Bank

ALBANIA

ARMENIA

AZERBAIJAN

BULGARIA

GEORGIA

GREECE

MOLDOVA

ROMANIA

RUSSIAN FEDERATION

TURKEY

UKRAINE

Daniela BOBEVA,
Vice President Banking

Andrei KASIYANENKO,
Vice President Finance

Nicolas ZACHARIADIS,
Secretary General

As of 31 December 2000

I. INTRODUCTION

A. MANDATE AND PRODUCTS

The eleven member countries of the Black Sea Economic Cooperation (BSEC)- Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russian Federation, Turkey and Ukraine, established the BSTDB in 1998. The *Agreement Establishing the Black Sea Trade and Development Bank* was ratified by the Parliaments of all Member Countries and the Bank commenced operations in June 1999.

The BSTDB is a regional financial institution with the dual mandate of supporting economic development within, and promoting regional cooperation among, the member countries of BSEC. The Bank fulfils this mandate by providing project financing and trade finance programs for the public and private sectors of the member countries. The initial authorized capital of the Bank is SDR 1 billion[1], divided into SDR 300 million paid-in capital and SDR 700 million callable capital. The Bank enjoys preferred creditor status.

The Bank represents an important regional source for medium and long term financing, and offers a flexible array of financial instruments, which are tailored to the needs of firms and financial institutions according to the appropriate risk profile. Sound banking principles and current best practice in terms of project preparation and risk management, underlie Bank operations, and an appropriate security structure is sought in all cases. The Bank does not require sovereign guarantees and accepts collateral such as fixed assets, receivables, or other claims pledged, which may be located either in the country of origin or the country of operation, depending on the project.

[1] February 2001: 1 SDR = 1.31 US$

Project finance products include medium to long-term lending, equity, convertible debt and other quasi-equity investments, as well as guarantees. The maturity of project finance loans is normally between 3 and 7 years, but may extend as far as 10 years. The Bank will seek to exit equity investments within a period of five years, and while it will normally seek a seat on the Board of Directors of the enterprise in which it invests, it does not take part in the day-to-day management of the enterprise.

The Bank limits financing to 35% of project cost in debt and 33% in equity. This ensures that a high mobilization ratio of Bank resources to outside resources is maintained. Maximum participation in a single operation at the end of 2000 was approximately US$ 17.5 million. The Bank is able to cover small-scale projects, although the requirement to recover costs in full, effectively limits the project size. The Bank also provides smaller amounts to clients, through the small and medium enterprise operations, which are carried out through financial intermediaries.

One of the distinguishing aspects of the BSTDB's activities is its emphasis on intra-regional trade promotion and financing. The Bank's Trade Finance Program has a broad product range, which includes pre-export finance, single/multiple buyer credits, and single/multiple supplier refinancing programs. The Bank provides most of its trade finance facilities through financial intermediaries, selected in each member country based on their creditworthiness and experience in international trade. On the one hand, local banks are well positioned to perform due diligence and administer aspects of various trade finance transactions, on the other it supports development of the financial services sector, regionally.

Initially, the Bank is concentrating mainly on short-term pre-export finance and multiple buyer credit programs. As the BSTDB gains experience with financial intermediaries, and under suitable market conditions, it will introduce medium term products both through financial intermediaries, and directly to companies in the region. Once a network of financial intermediaries is established in the region, BSTDB intends to use this network to source co-financing opportunities involving direct buyer and supplier credits. By offering financing to both exporters and importers in member countries, the bank will be able to multiply the effects of its trade promotion activities, and to play the role of a regional export credit agency.

B. MISSION OF THE BANK

Article 1 of the Agreement Establishing the Black Sea Trade and Development Bank describes the central purposes of the Bank as contributing to the development of and economic cooperation among its Member States, by providing banking services for projects in the public and private sectors in its Member States, and promoting trade activities among them.

This effectively gives the Bank a dual mandate - both to promote development in the individual Member States, and to enhance regional cooperation. Maximization of shareholder value for the Bank as a regional financial institution means fulfilment, to the extent possible, of both these elements in all of its operations.

The BSTDB is able to offer a wide range of banking products and services to its prospective clients. The Bank finances both private and public sector operations, considering each operation on the basis of its individual economic merits, on how these promote the fulfillment of the mandate, and on the extent to which the operation achieves developmental and integration benefits that are greater than the direct financial benefits of the operation.

All operations in which the BSTDB becomes involved are economically sound and either actively assists market development, or are market friendly. The Bank is complementary to private sector activity, taking on the elements of political risk which may discourage private firms interested in investing or trading in the countries where the economic situation and investment environment are perceived as uncertain or risky. In this way, it ensures that activities are incremental, or 'additional', for the region so that there is no direct competition with, or displacement of, private sector activity.

Mobilization of additional financial resources for the Black Sea Economic Cooperation region is another key element in the Bank's strategy. Single project financing limits oblige the Bank to mobilize financing from other sources - such as equity investors, international financial institutions, commercial banks, investment funds, etc. Generating resource inflows that are a multiple of the Bank's own involvement will be a key indicator of the institution's successful operation.

One of the most fundamental principles incorporated in the Bank's rules and regulations is that it shall be guided by sound banking principles and by considerations of transparency and accountability in all its operations. Other important principles require that the Bank manage its credit risk by establishing and monitoring risk criteria prudently, properly assessing risk mitigants, diversifying the geographic and sectoral coverage of operations, and meeting international environmental policy standards in its operations.

C. OPERATIONAL POLICY

Due to the differing levels of economic development of Member States, and consequently the diverse prospects and challenges facing each, the Bank adapts its strategy to the requirements of each country individually. The BSTDB seeks to leverage its assets to bring in maximum flows of capital and know-how into the Region.

The operational objectives of the Bank include:

(i) promoting regional trade links, cross country projects, foreign direct investment;

(ii) supporting activities that contribute to sustainable development, and particularly the generation of employment in the member countries; and

(iii) ensuring that each operation is economically sound and contributes to the development of a market orientation.

Such ambitious aims require a strong orientation and commitment to working with the private sector, which is the major generator of economic growth, investment, exports and employment. While in principle not favouring either public or private sector operations ex ante, the Bank concentrates on supporting private sector development and contributing to a more market friendly economic environment. Consequently, the majority of the Bank's operations are in the private sector with a significant share targeted at small and medium enterprise development programs, usually through financial intermediaries.

The Bank's clientele is diverse, consisting primarily of private firms and financial intermediaries but also including national governments, official agencies, non-governmental organizations, and even research institutions. The Bank does not limit itself to financing firms from within the region, but gladly works with strategic investors and financiers from outside the region who are committed to undertaking investments in the Black Sea area.

The BSTDB possesses the advantages of a local organization, as it is proximate to clients, has intimate knowledge of the region in which it works, and seeks to be efficient and time responsive in its project preparation process. At the same time, as an international financial institution it possesses two additional key resources, namely its funds and its preferred creditor status. The Bank intends to turn its funds into a solid portfolio of performing projects, the composition of which reflects the mission of the Bank. It uses its involvement in an operation as an indication of the operation's attractiveness, and utilizes its preferred status as an instrument to mitigate investors' concerns about country risks. This permits investors to assess operations primarily on the basis of the commercial and market risks involved, and enhances the attractiveness of the region for private capital.

The key operational challenges for the BSTDB include:

(i) improving the access of all Member States to capital, in particular foreign direct investment and capital market investments, and

(ii) contributing to the enhancement of intra-regional integration via trade and investment.

The BSTDB aims to 'make a difference' in accordance with its mandate and to conduct operations, which are incremental, or 'additional', to the activity currently taking place in the region. Not only does this leverage the Bank's activity, but it creates complementarity with, rather than displacement of, private sector activity. By focusing on priority areas of activity, the impact of a particular operation creates positive 'externalities'- general economic benefits greater than the direct financial benefits of that operation.

II. ACTIVITIES OF BSTDB'S GOVERNING BODIES

ANNUAL MEETING OF THE BOARD OF GOVERNORS

The Board of Governors met for its Second Annual Meeting in Athens on 17 April 2000. The Board approved the financial statements of the Year 1999 and adopted the BSTDB's Code of Conduct.

Mr. Merab Kakulia, Governor for Georgia, was elected Chairman of the Board of Governors, while the Governors for Romania and Ukraine became Vice Chairmen. The Board of Governors decided to hold its Third Annual Meeting in Tbilisi, Georgia, in May 2001.

Within the framework of the Annual Meeting, the BSTDB organized a Black Sea Business Day to promote investments in its member countries and develop the Bank's relations with other international financial institutions, with the business community active in the Black Sea region as well as with the commercial banking sector. This first Business Day met with great success and attracted more than 350 attendees from 30 countries.

THE BOARD OF DIRECTORS

In the Year 2000, the Board of Directors of the Bank has accompanied the growth of the banking activities and continued to monitor the Bank's Management.

The Board of Directors held six meetings during the year. Its main activities were to study and approve the projects proposed by the Banking Division, to approve country and sector strategies and to contribute to the policies of the Bank. In the year 2000, the Board benefited from the activities of the Audit Committee that reports to the Board of Directors.

The Board approved 12 projects in 9 member countries. In the course of the year, the Board introduced the practice of a regular "Report on the Progress of Approved Operations". In the field of country and sector strategies, the BSTDB's Board of Directors approved the 11th country strategy (for Moldova) as well the strategies for the energy sector and for special funds managed by the Bank.

Furthermore in the context of efficiency, prudent risk management and transparency as other international financial institutions, the Board of Directors approved a large number of policy documents in the year 2000. In developing these policies, the Bank followed the best international practices. Among the most important policies introduced in the year 2000 are the Corporate Governance Policy, the Depreciation Policy and the Provisioning Procedures of the Bank.

In its September meeting, the Board of Directors received Ambassador Valery Chechelashvili, Secretary General of BSEC, for an official communication on the objectives of the Black Sea Economic Cooperation and on the areas of cooperation with the BSTDB.

III. WORLD ECONOMIC DEVELOPMENTS

A. DEVELOPMENTS IN YEAR 2000

1. THE GLOBAL ECONOMIC ENVIRONMENT

Global economic growth exhibited some slowdown during the last quarter of 2000, after reaching a peak in the first half of the year. The slowdown was more prominent in industrialized countries, than in developing nations. The steep increase in oil prices has been one of the most significant factors contributing to the moderation of growth in the global economy. The uptrend in energy prices, witnessed in most countries with its direct effect on the general level of prices, has in effect acted as an indirect tax increase which has in turn strengthened the contractionary effect of the monetary tightening that began back in the later half of 1999. During the course of the year 2000, scarce evidence emerged of any substantial concerted effort to recover the real losses of income resulting from these developments, by means of appropriate wage and price adjustments. This core inflation (i.e. price rises excluding food and energy) increased only moderately, against the background of rising headline inflation.

Economic indicators available for year 2000, provide clear signs of a slowdown in the United States economy, following buoyant growth in the first half of year 2000. While the uptrend in US productivity continued throughout the year, aided by new technology, and structural change, altogether raising the non-inflationary potential of the economy; manufacturing activity in particular slowed down somewhat, both in Europe and in the United States. Thus development, while on the one hand raising the prospect of a general weakening of economic conditions, has on the other hand contributed to relatively subdued activity in financial markets.

In contrast to the continuing increase in the productivity of US manufacturing, productivity growth in Europe and Japan remained modest. Particularly in the second half of the year 2000, the growth rate of gross domestic product in the Euro zone slowed down as a result of factors such as high oil prices, rising interest rates and relatively slower growth in world trade, compared to previous years. Nevertheless, at least during the first half of year 2000, with broadly stable prices underpinned by a credible monetary policy, economic growth in the Euro zone remained robust and widespread across the region, as strong export performance strengthened the positive impact of buoyant domestic demand.

The underlying divergence between the economic fundamentals of the United States and of the Euro-zone – particularly as regards growth rates - during most of year 2000 was reflected in a recurrently weak Euro, which followed a rather consistent downward path against the US Dollar and the Japanese Yen. This trend culminated early November, after which the Euro regained some of its lost ground.

Meanwhile, economic growth in most of the OECD countries slowed down in the latter half of year 2000 after a strong performance in 1999 and in the first half of last year. This moderation in economic activity resulted partly from the surge in oil prices and partly from the tight monetary policy pursued by the European Central Bank and the Federal Reserve.

Finally, in Japan, a moderate recovery driven by strong profits and business investment particularly in the information technology sector, gathered some momentum in year 2000; although spare capacity, while being absorbed slowly, is nonetheless likely to persist for some time. Private consumption should continue to strengthen, supported by increases in wages, falling consumer prices, rising corporate profits, buoyant demand for information technology and a modest expansion of employment. The uptrend in energy prices may have less negative repercussions on the Japanese economy, compared to elsewhere, as it may be compensated for by lower profit margins in the country's energy distribution sector, where competition appears to have increased in the wake of regulatory reforms.

2. THE BLACK SEA REGION

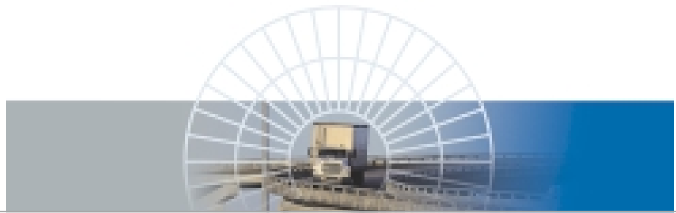
The Black Sea region achieved positive growth rates in 2000. The average GDP growth rate is expected to be as high as 5 percent, well above its 1 percent equivalent in 1999. This recovery was benefited by the expansion of international demand, especially in the European Union (EU) and the strong performance of the Russian economy.

Generally speaking, countries anchored by the EU accession process achieved a stronger economic outlook, which can be attributed to measures promoting sound macroeconomic management, and the acceleration of structural reforms. Experience in transition countries as a whole has so far proved that strong output performance is positively related to both macroeconomic consolidation and microeconomic restructuring, that include also market adjustments and institutional reforms. An additional reason for further economic consolidation and reforms is the forthcoming liberalization of capital and foreign transactions of these countries, as part of the requirements towards EU accession. Liberalization is likely to increase the vulnerability and exposure of these economies to external shocks.

High energy prices, combined with the appreciation of the dollar contributed to higher inflation rates in most countries of the region, while increased import costs compensated for the greater export volumes, thus limiting the alleviation of current account imbalances. This was particularly potent in those BSEC member countries that suffer from macroeconomic instability and have fallen short of implementing well-articulated and efficient reform programs.

GDP growth in the Balkans was also supported by aid inflows and the restoration of normal economic relationships following the implementation of the Stability Pact. Indeed, **Albania** achieved a GDP growth faster than anticipated: more than 7 percent during the first three quarters of 2000, and a zero inflation rate. While a moderate acceleration in inflation may materialize parallel to domestic expansion, this is not expected to entail a significant shift in the general price level. The privatisation process made some significant progress in 2000, especially in agriculture, the food processing industry and the telecommunication sector and this process is likely to continue in 2001. The tight monetary policy pursued by the Central Bank of Albania during the course of year 2000 is expected to be sustained in 2001 and savings are likely to increase as a proportion of aggregate income, as the intermediary role of the banking sector develops further and inflationary expectations remain at their current subdued level. In **Armenia**, a certain degree of macroeconomic stability has been achieved, thanks to the comprehensive stabilization and structural reform program, which targeted price liberalization and privatisation of Armenian enterprises. Substantial financial support from international financial institutions, aimed at financing the country's sizeable current account and budget deficits, while at the same time addressing structural problems, (amongst which the limited size of the domestic market and the weak competitive profile in foreign markets, are the most prominent) has also contributed to consistently registering positive growth rates since 1994. This trend continued in year 2000, with industrial output and GDP growing at 6.4 and 6 percent respectively. Such support has also contributed to lowering inflation to levels close to 1 percent, in 2000. Growth in Armenia's economy for year 2000, which was driven mainly by industry and construction, signalled recovery in business confidence, notwithstanding the dampening effects of the drought that affected agricultural output adversely.

High energy and commodity prices improved the fiscal balance in the hydrocarbon-rich countries of the Black Sea region, and increased export revenues thus contributing to balancing their current accounts. As a case in point, during year 2000, **Azerbaijan** enjoyed real GDP growth of 11.4 percent, with industrial output expanding by 6.9 percent and accompanied by a sizeable expansion of export revenues, accounted essentially by the high prices of oil in international markets. While data for the whole of year 2000 was not available at the time of writing, preliminary data suggest solid growth in oil production and investment in the same sector. This should offset the effect of easing world prices for hydrocarbons and provide greater contribution to growth. The same set of data also show that whereas growth in labour-intensive sectors remained low, strong growth was recorded in trade, transport and communications. While Azerbaijan is likely to continue pursuing a tight fiscal and somewhat looser monetary policy stance, accelerating structural reforms remains an important precondition for further improvement in domestic economic conditions.



Reforms continued to gather momentum in **Bulgaria**, continuing the trend that emerged following the introduction of the currency board system in 1997. Enterprise restructuring and privatisation have kept the major macroeconomic fundamentals relatively stable in 2000. Real GDP grew by an estimated 5 percent in 2000. High oil prices and the depreciation of the euro, to which the Lev, Bulgaria's national currency is pegged, vis-a-vis the US dollar contributed to an inflation rate, as it is measured by the consumer price index of 10.4 percent. Exports maintained a strong upward trend throughout the year, while oil prices were responsible for an increase of the import cost by US dollar 453.2 million, or 3.7 percent of the GDP. Imports of investment goods and raw materials also expanded in line with increasing economic activity. As a side effect the country's trade balance worsened compared with 1999 by US dollars 275.5 million or 2.3 percent of the GDP and the current account showed a deficit of 2.4 percent of the GDP. The increase in tourism revenues was insufficient to compensate for this worsening in the trade balance. The situation with respect to the current account balance is likely to ease in 2001, as world oil prices stabilize around lower levels than in year 2000. However, privatisation, which made a substantial contribution to favourable economic performance in year 2000, may fall somewhat short of being repeated, at least in the first half of 2001. Nevertheless, economic recovery is likely to continue throughout 2001.

Georgia was also disadvantaged by adverse extraneous conditions. The drought experienced during the course of year 2000 resulted in a slowdown in GDP growth to 1.9 percent, notwithstanding the fact that output in the industrial sector increased by 6.1 percent and activity in the construction sector was strong. The need to import agricultural commodities, arising from the drought is likely to continue in 2001, thereby increasing the strain on the balance of payments and on growth. Despite these adverse factors, success in maintaining exchange rate stability, coupled with the implementation of economic policies focused on reducing the government deficit, in line with the IMF's recommendations, has ensured low inflation throughout the year 2000. Furthermore, the increase in foreign direct investment flows expected to begin in the latter half of 2001, in relation to the construction of the Georgian section of the Baku – Ceyhan oil pipeline should enhance real GDP growth. Improvement in Georgia's domestic financial balances in the longer run is closely dependent upon the success on increasing the collection of fiscal revenues so as to enable settlements of the sizeable wage and pension arrears.

ANNUAL REPORT 2000 III. WORLD ECONOMIC DEVELOPMENTS

Greece achieved GDP growth rate above the EU average in 2000, along with a high degree of sustainable economic convergence to Euro-zone averages, while fully satisfying the macroeconomic criteria set by the Maastricht Treaty. Specifically, strict adherence to stability-oriented fiscal and monetary policies, aimed at consolidating and improving macroeconomic fundamentals, has resulted in significantly reduced inflation, a primary budget surplus as high as 7 percent of GDP, a diminishing public debt to GDP ratio, and falling interest rates. Altogether, such developments strongly contributed to the official acceptance of Greece to the Euro-zone, effective from 1 January 2001. Ongoing deregulation of key sectors of the economy, such as electricity and fixed telephony structural reforms such as privatisation, improvements in physical and intangible infrastructure are improving the supply-side of the economy by accelerating fixed capital formation while creating more competitive structures. Telecommunications, advanced support services, software development, banking and a very dynamic food and beverages sector are leading the Greek business expansion into the Balkans and into other emerging markets. These account for an increasing portion of the Greek foreign trade and form a substantial part of Greek outward foreign direct investment.

Extraneous factors limited economic progress in some BSEC Countries and notably in **Moldova** where the economic situation was adversely affected by drought and elevated energy prices. However, preliminary data indications are that the decline in output and growth is bottoming out and that in 2000 real GDP growth is expected to materialize at zero. Meanwhile consumer price inflation grew at an annual rate of 31 percent, being reduced from 40 percent year-to-year in the first quarter, to 23.1 percent year-to-year in the final quarter. Both exports and imports grew with respect to their levels in 1999, although disproportionately, as evidenced by the 3.3 percent increase in exports against a 38.3 percent growth in imports. The real effective appreciation of the national currency, the Leu between 5 and 10 percent, along the high energy prices, contributed to this development. The current economic program aims at achieving sustainable growth led by strong export growth, reduced poverty and a lower external debt burden. Key to achieving these goals fully will be a significant increase in domestic and foreign investment, which will require determined implementation of sound economic policies and structural reforms.

After three consecutive years of declining output, **Romania** is expected to have achieved positive growth in 2000, as a result of the introduction of a strict fiscal regime, the correction of the exchange rate and the renewal of its agreement with the IMF. The current account deficit was 25 percent lower during the first 11 months of 2000, compared to the same period in 1999. Nevertheless, financial sector problems as highlighted by the collapse of two large state-owned banks, persisting high inflation rates and low inflows of foreign capital remain as problems to be addressed and point to the need for maintaining tight macroeconomic policies and increasing the speed of structural reforms. Assuming that the current administration conducts economic policies in line with the restructuring targets, some recovery in domestic demand and real GDP may be expected. Meanwhile, continued economic growth in Central Europe, which accounts for a growing proportion of Romania's exports, is likely to have positive effects on the current account balance.

Russia experienced its best year of economic performance in the last decade during year 2000. The economy appeared to have recovered from the 1998 financial crisis and real GDP, after expanding by 3.5 percent in 1999 is now above pre-1998 crisis level. Real GDP growth materialized as 7 percent in year 2000, fuelled by high energy and other commodity prices, continuous improvement of enterprise profitability and the consequent increase of business investment. Economic growth in the year 2000 was also influenced by high international oil prices, greater than expected domestic demand and the continuing positive effects of the sharp devaluation of the Rouble in August 1998, although these positive effects appeared to be diminishing, especially as far as import substitution is concerned. Also, industrial production expanded by 9 per cent, while the foreign exchange reserves of the Central Bank were in the vicinity of US$ 28 billion as of end-2000. Stronger-than-expected demand, contributed to annual inflation remaining at 20.2 percent. The sharp devaluation of the Rouble in August 1998 extended its impact throughout 2000 by promoting both export expansion and import substitution. The latter, in combination with high oil prices, resulted to the strengthening of the trade balance and the current account recorded a surplus that accounted for the 18 percent of GDP. Overall, the Russian economy has fully recovered from the 1998 financial crisis, and its real GDP is now well above the pre-1998 crisis level. While in some countries of the Black Sea region fundamental weaknesses such as high levels of external debt, and the slow pace of structural reforms, limited the extent of positive economic developments, the revival of the Russian economy was a significant factor assisting growth in the BSEC region, particularly in countries which maintain close trading relations with the Russian Federation. Notwithstanding the favourable developments experienced in the Russian economy during year 2000, implementation of structural reforms and reform of the banking sector remain as issues to be addressed with high priority.

Turkey has been implementing a macroeconomic stabilization program agreed upon with the IMF, which by end-2000 succeeded in creating a primary surplus of the state budget, and in significantly reducing inflation and interest rates. An increasing balance of payments deficit forced the government to allocate additional fiscal savings arising in 2000 and to commit itself to maintaining public expenditure for 2001 constant, in real terms. In December 2000 Turkey secured an additional IMF loan to support the restructuring of the financial sector after a liquidity crisis erupted in the banking sector in November. Restructuring of the financial sector involves the improvement of transparency and Central Bank supervision of the sector, the undertaking of 11 banks under the state-controlled Banking Supervisory Board and their eventual selling to private investors. The undertaking of eleven privately-owned banks into state control points to a need to radically restructure both the real and the financial sectors of the Turkish economy and calls for support from the international financial community, in this respect. Finally, Turkey was accepted as a candidate to the EU, during the year. Success in Turkey's economic performance in 2001 remains closely tied to sustaining fiscal discipline, accelerating privatization, rationalizing the financial system and restructuring the social security system.

Economic developments in **Ukraine** during year 2000 have been encouraging. Following the gradual stabilization of the economy in 1999, real GDP growth in 2000 turned positive and under the program reached some 6 percent for the year as a whole. The improved growth performance stemmed primarily from oil-driven industrial output, which increased by 12.9 percent in year 2000 and from the positive response of exports, to the real effective depreciation of the Hryvnia in 1999. However, delays in the implementation of structural reforms have reduced output in the manufacturing sector. Positive impetus to Ukraine's economy was provided by better-than-expected growth in Russia. Continuing the improvement in the external position that began in 1999, Ukraine's external current account surplus is expected to increase further to around 5 percent of GDP in 2000, reflecting the strong growth in the volume of exports and the modest increase in non-energy imports. Large debt-service payments fell due in 2000, but debt service pressures were moderated by the rescheduling of official debt to private creditors in April 2000. Further macroeconomic consolidation in Ukraine depends on the progress of structural reforms, especially as regards the banking sector and the privatization program.

B. EXPECTATIONS FOR 2001

1. THE GLOBAL ECONOMIC ENVIRONMENT

Economic indicators pertaining to year 2000 suggest that in 2001 global economic growth should ease to around 4 percent in real terms, down from 4.9 percent in year 2000. The slowdown is likely to affect industrialized countries more severely than developing nations. Unemployment should remain moderate and inflation at the manageable average rate of 3 percent. The most significant threats to continuing world growth in 2001 are likely to be trade imbalances, overpriced oil, instability in financial and foreign exchange markets and overly tight monetary policy.

In **Europe**, economic growth may be expected to slow somewhat during 2001, reflecting firstly the purchasing power losses rooted in higher energy prices and secondly a less supportive monetary policy by the European Central Bank. For the Euro-zone countries, the critical question during 2001 will be that of whether economic expansion can be sustained without running into inflationary bottlenecks. The European Central Bank is likely to follow suit (possibly with some lag), raising interest rates only if and when necessary, while taking account of possible supply side improvements. A central challenge in the Euro area during 2001 will be to take advantage of the present cyclical upturn to decisively accelerate fiscal and structural reforms. A combination of Euro weakness and above-trend economic growth is likely to continue putting upward pressure on inflation in the Euro-zone during the course of the year. Against this background, the European Central Bank is likely to maintain a relatively tight monetary policy, keeping interest rates unaltered, at least in the first half of 2001.

Following its steep increase in 1999 and 2000, the expansion of world trade is set to slow somewhat in coming years. The slowdown is likely to be most pronounced in trade within the OECD region, where the rate of growth could be almost halved by 2002 (to 7 percent) compared with 2000. Meanwhile, OECD-wide unemployment should continue to decline during 2001. The OECD area will also continue to benefit from strong export growth to the non-OECD region. However, reflecting the increase in the oil price, the terms-of-trade of the OECD has deteriorated significantly and will improve only modestly with the slow decline in oil prices assumed from the middle of 2001.

The position of the **US economy** in the global economic cycle will be instrumental in the performance of the world economy during 2001. A fundamental issue in this respect will be the extent to which the uptrend in US labour productivity can be sustained in 2001 and beyond. The greatest single threat to global economic stability remains as that of an outright US recession, the risk of which has increased since November 2000. A hard landing in the United States economy would dampen growth in the European Union, with spillover effects on the growth of Balkan and other European economies.

Economic indicators suggest that in 2001, US growth is likely to moderate somewhat, as the pressures inflicted by the very large trade deficit and high volume of borrowing from abroad, begin to counteract the favourable effects of sustained excess domestic demand. This raises the prospect of some weakening of economic conditions in the world's key regions and of relatively subdued activity in financial markets. On the other hand, the positive effects of new technology on the high level of productivity in the US economy may no longer be sufficient to offset the pressures of rising wages and higher oil prices. Accordingly during 2001, some decline in the overall productivity of the US corporate sector may become apparent. This, coupled with a continuing high current account deficit, may eventually give rise to some decline in international investors' appetite for US assets. As these trends become more evident, funding US economic growth may require greater inflows of capital; a requirement that could increase further, if a loose fiscal policy is implemented by the new US public administration.

Economic data pointing to sluggish consumer spending, low levels of investment and considerable spare capacity, suggest that **Japan**'s economy may be heading towards a slowdown in 2001. Consumer spending still remains somewhat sluggish and spare capacity is likely to persist for some time. Under these circumstances, economic policy during 2001 is likely to target sustainable recovery, while encouraging swift implementation of fiscal reforms, as well as restructuring in product and labour markets and continued reforms in the corporate and banking sectors.

2. THE BLACK SEA REGION

In 2001 the Black Sea region is expected to maintain the positive economic outlook that prevailed last year. There is scope for economic expansion based on increased utilization of existing spare capacity, as well as on the further deployment of skilled, yet relatively cheap labor and on the consistent implementation of structural reforms.

Further macroeconomic stabilization should remain the primary concern of economic policies. Fiscal policy, in particular should be designed cautiously in an effort to balance the extensive need for public investments in infrastructure. This will require an increase in public expenditure, together with rationalization of tax systems. Furthermore, policies geared to achieving macroeconomic stabilization will require curbs on the inflationary pressures that may emerge from strong GDP growth and a sustainable decrease in public debt, requiring a restructuring of public expenditure and an increase in public revenues. The latter factor will call for enhancement of the tax base and improvements in the tax administration system.

Provided that most of the economies remain “open” to a significant degree and the average ratio of the total volume of trade to GDP remains above 50 percent, then exchange rate policy can contribute towards balancing the foreign trade accounts of the countries in the region. Currency depreciation at a moderate pace may provide temporary relief to competitive pressures and improve the current account deficit, but would not provide a permanent solution to balance of payments problems. Fiscal and current account imbalances appear unlikely to be eliminated completely and will continue to put a strain on economic policies. Macroeconomic stability together with a firm commitment to privatisation should provide the incentives to the incoming foreign direct investment that is needed to consolidate the region’s growth potential through the introduction of new technologies and business restructuring.

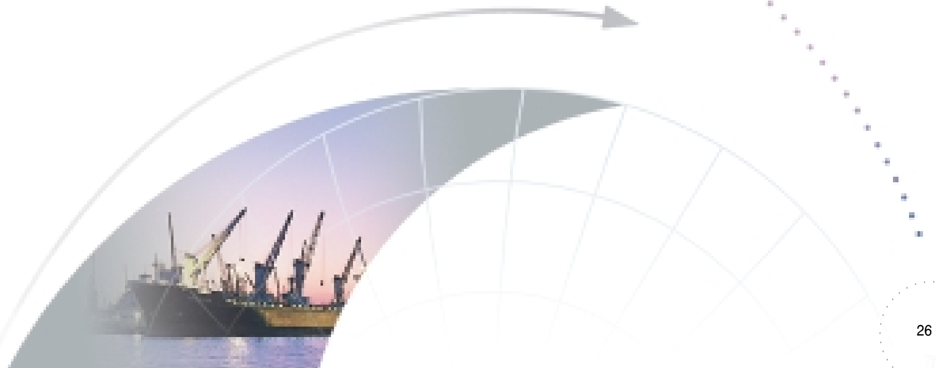
While steps towards achieving greater macroeconomic stability are likely to become evident during the course of 2001, structural problems will continue to impose strains on the economies of the region during 2001. To present the matter somewhat more succinctly: the fact that most of the economies in the region are “open” to a significant degree is a factor reducing the effectiveness of domestic monetary policies that aim to lower inflation, while at the same time maintaining exchange rate competitiveness. Against this background, fiscal policy assumes the burden of combating inflation while facing serious obstacles, including the management of overgrown public sectors, the allocation of substantial funds to finance current public expenditure needs and often extensive deficits in the social security system.

The external environment, one of the main factors underlying last year’s recovery, is expected to sustain its favourable impact on exports, although the slowing US economy will set the pace for moderating foreign demand growth this year. A risk factor that nevertheless remains, is that while in some countries the exchange rate has been used as an effective instrument to improve export performance, it has also resulted in an inflated external debt burden, casting doubts on its serviceability and in some cases leading to attempts at rescheduling.

For the countries of the region that are candidates for accession to the European Union (EU), fiscal policies need to be structured with the additional constraint of financing the additional expenditure needed to bring their economies up to the minimum standards required for EU accession. This involves sizeable investment designed to improve transport and environmental infrastructure, as well as the legal and institutional setting. Accordingly, the dichotomy that faces the countries of the Black Sea region that are candidates for accession to the EU, is to finance the restructuring expenses and take the necessary fiscal and monetary policy measures that such candidacy entails, without damaging market structures and disrupting the macroeconomic equilibria on which their economies stand.

An additional risk for the hydrocarbon rich countries may come from conditions in the international energy markets. Growth rates in these countries, namely Russia and Azerbaijan, may slow down as international energy prices stabilize. In turn, that may affect close trading partners, especially of Russia, as far as export expansion is concerned.

On the whole, while the Black Sea region abounds in economic potential, the rather delicate balances on which the economies of the region stand, call for a comprehensive set of cautiously and thoughtfully designed economic policies, the effectiveness of which will increase in proportion to the degree of political and social stability prevailing in the environment in which they are implemented.



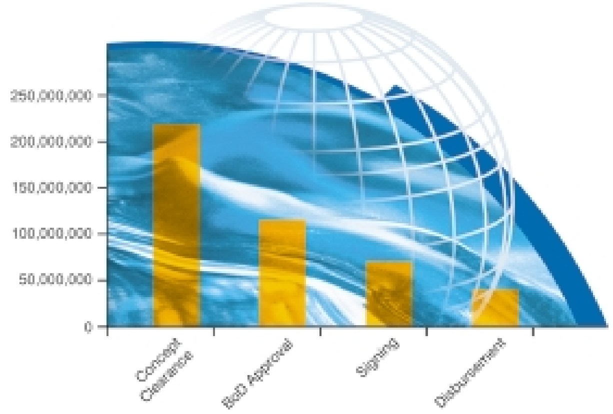
ANNUAL REPORT 2000 III. WORLD ECONOMIC DEVELOPMENTS

IV. OPERATIONS IN THE YEAR

The BSTDB commenced operations in June 1999 and during that year had three operations approved by the Board of Directors. In 2000 12 operations were approved by the Board of Directors, with the portfolio reaching US$ 105 million. Of these projects, six were project finance operations for US$ 43.2 million, and six were trade finance operations for US$ 23.3 million. The Bank also made its first disbursements in 2000, a total of six for US$ 35.6 million.

The cumulative project breakdown for the first year and a half of operations is as follows:

Total Operations (US$ million)



The Bank has progressed in the identification, selection and origination of a large number of potential project and trade finance operations, with coverage spread over all member countries, and priority sectors of energy, transport, manufacturing, telecommunications, and small and medium sized enterprises. In project finance, 74 potential projects were generated and have entered the pipeline, totaling about US$ 800 million, while for trade finance, 32 financial intermediaries have been identified and are being assessed by the Bank for trade finance program operations.

A. OPERATIONAL PRIORITIES

The Bank's operational priorities during 2000 remained largely the same as those set out in its 1999 three year Business Plan and the two year country strategies developed individually for each member country of the Bank. The emphasis shifted from planning to implementation, and in particular to expansion of operations.

Thus, operationally, the strategy remains to adopt a flexible approach that will enable the Bank to respond promptly to changes in economic and market conditions. The Bank wishes to grow quickly, but as a commercially minded institution which achieves development impact and enhancement of cooperation in all of its operations, in compliance with its mandate on the one hand, and sound banking principles on the other.

The Bank's focus is on investing its assets in a portfolio of good quality. This approach will help the Bank generate sufficient cash flow to cover expenditures, generate value and extend the asset portfolio.

Within this framework, the Bank's operational priorities include:

- Financing viable projects for promotion of co-operation among member countries;
- Financing projects especially in targeted sectors such as transportation, manufacturing, telecommunications, and energy;
- Providing support- financial and promotional- to small and medium enterprises (SMEs);
- Financing mainly *private sector* projects;
- Financing trade of processed goods among the member countries;
- Introducing new financing instruments as market demand for these products develops;
- Investing in business generation.

GENERATING BUSINESS

The Bank takes a multi-level approach to generating business opportunities, and seeks to promote the region as a business destination as well as itself as the appropriate business partner. It aims to provide a focused message, but it covers a broad range of interlocutors, utilizing all marketing tools available with a clear notion of its priorities.

Its operational marketing activities thus focus on:

- identification of new operations that require Bank involvement;
- raising the profile of the Bank;
- expanding awareness of opportunities in the BSEC region.

Such activities are all the more important for an institution such as the BSTDB, which is 'new' on the market, with 2000 being its first full year of operations. This necessitates identifying the Bank's advantages, and what market niche it can best seek to fill in the Black Sea region. An important consideration in seeking out this niche is to cooperate and find complementarities with the various international financial institutions already present.

For the Bank, the principle of maintaining genuine value added, also referred to, as being 'additional', is key to its consideration of business generation. Bank marketing is active on a number of levels, engaging with key interlocutors including national and regional government officials, firms, business associations, official agencies, interested investors, bilateral donors and, of course, financial institutions- international, foreign and domestic.

The Bank benefits from its geographic proximity to seven capitals, and from the close contact it maintains with all member countries through a regular schedule of visits to each country, country strategy updates, and frequent meetings with local officials. This is further facilitated by the non-resident nature of the Board of Directors; Bank Directors are high-level government officials who convene five to eight times per year to approve operations and policies, and to discuss the general business of the Bank. They are thus ideal links between the Bank and its member country governments, facilitating two-way contacts.

The Bank pays particular attention to targeting solid financial intermediaries, strategic investors and potential sponsors both from within the business community of the region, and from prospective investors based outside. This requires a constant dialogue with business, industrial, and banking associations throughout the region, as well as pursuing bilateral contacts, attending business meetings and conferences, and making frequent presentations on key topics such as financial instruments available for businesses, opportunities in the region, etc. In April 2000, the Bank held the first Black Sea Business Day, with over 350 participants attending a conference, which focused on regional prospects and business opportunities.

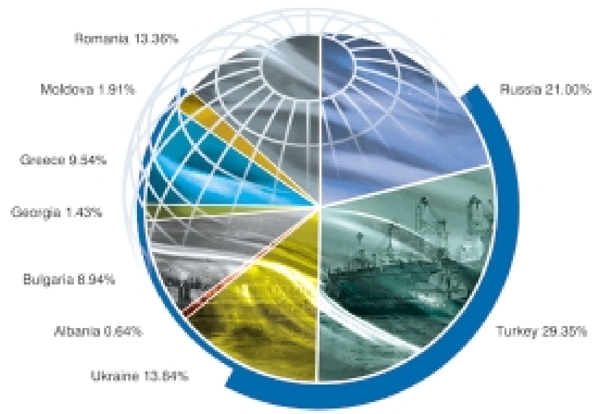
The Bank also participated in BSEC sector working groups which brought together regional government officials and business representatives involved in sectors of the economy such as energy, transport, telecommunications; it hosted a meeting of the sector Working Group on Trade as well as a conference on business opportunities in the BSEC Region in Yalta, Ukraine. These focused events led to new contacts which translated into potential projects that are currently at various stages of the Bank's 'pipeline'.

The Stability Pact for Southeastern Europe represents another forum in which BSTDB became more actively involved during 2000. The Bank participated in most Stability Pact conferences as an observer/ guest of the Chair, and sought to highlight the importance of the Stability Pact for the continued development of those BSEC Members who are primary beneficiaries, but also to underscore the importance of similar attention being paid also to the other member countries of BSEC by the governments, donors, and agencies involved in the Stability Pact.

EXPANDING THE GEOGRAPHIC COVERAGE

The pie chart above shows the coverage of Bank operations approved by the Board of Directors, across the member countries. Through 2000, operations had been

Country Breakdown of BoD Approvals by Percentage (of Amount)



ANNUAL REPORT 2000 IV. OPERATIONS IN THE YEAR

approved for nine of the eleven members, and operations for the remaining two members were in the pipeline at an advanced stage of preparation.

The Bank has business targets for each member country as part of its planning process, but is not tied to any fixed allotments- or quotas- for allocation of its financial resources. It is the intention of the Bank to be active in every member country and to provide tailored financial products that meet the needs of the local market. To this end, it monitors carefully the distribution of its projects- geographically, sectorally, and by product type and tenor. Should gaps be discovered, or if a country's pipeline appears weak, then the Bank is determined to focus attention on ways to strengthen the pipeline and to seek financially sound activities in which it can provide value added.

B. OPERATIONS BY COUNTRY

PROJECT FINANCE

The Bank has given priority to operations, which best fulfill its dual mandate to support development and promote regional cooperation. In this respect, cross-country infrastructure projects enjoy highest priority in the Bank. Other projects, which are of high priority, include:

- investments or joint ventures in one member country by one or more firms from another member;
- investments which receive funding from financial institutions of another member country;
- projects with upstream and downstream linkages that provide benefits to the economy of more than one member country;
- projects which bring indirect region-wide benefits such as introduction of new technologies and best practices which may be applied within the rest of the region;

The Bank will also support financially sound projects that promise to deliver high developmental impact, either through high returns, sustainable infrastructure development, or sustained employment growth. Most of the projects completed in 2000 represent joint ventures or investments between firms from the member countries, an indication of the regional investment opportunities, which have entered a phase of rapid growth following the successful macroeconomic stabilization of the economies of the member countries.

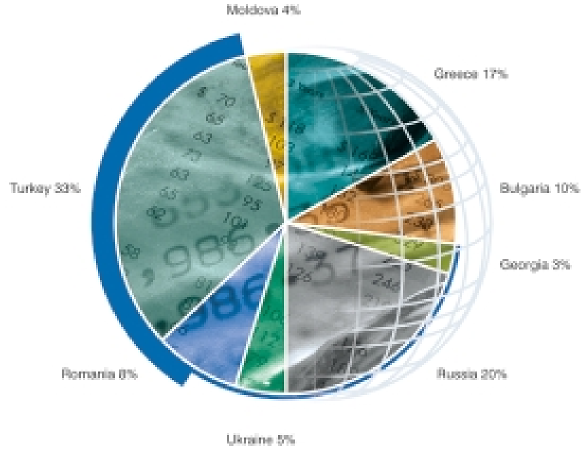
TRADE FINANCE

The objectives of the trade finance program are; to (i) increase intra-regional trade by assisting importers in the member countries to purchase goods from other member countries, (ii) improve the competitive position of exporters in the member countries by providing post-shipment financing to their clients, (iii) mitigate exporters' risk in transaction by providing BSTDB reimbursement undertaking and (iv) strengthen financial institutions in the region by providing additional liquidity and reimbursement undertaking for their letters of credit.

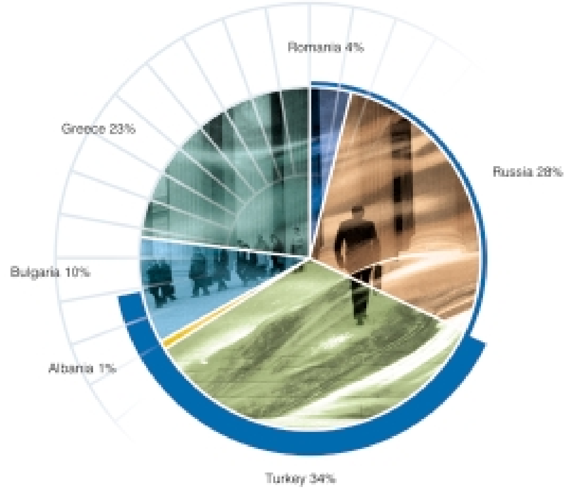
The Bank's trade finance strategy is to identify and reach agreement with financially sound, well managed financial intermediaries in member countries where there is value added to its doing so. Bank products currently available include the pre-export financing program and the multiple buyer/ seller credit program. For larger transactions, the Bank may conduct a single buyer/ seller credit transaction with the firm involved.

COUNTRY PRIORITIES

Distribution of Approved Trade Finance Facilities by Country



Country Breakdown - BoD Approval for Project Finance



ALBANIA

The Bank's priorities in Albania include infrastructure projects such as construction of major road corridors connecting Albania with Greece, and along an east-west axis between the Adriatic and Black Seas; the manufacturing sector with particular attention to consumer products, textiles and construction materials; and small and medium enterprises. The Bank has developed a pipeline of projects covering manufacturing, and cross-country projects in the telecommunications and transportation sector. The first approved Bank operation covering Albania involved a regional fund, which targets small and medium enterprises across Southeast Europe, providing equity and quasi-equity financing, in combination with active business assistance and trade linkages.

The Bank has sought to introduce its pre-export finance product in Albania. Due to the availability of soft money in the market, and the existence of high liquidity in the banking system, concluding an arrangement with an Albanian intermediary has taken time, but should come to fruition in 2001. Import financing, a new product being introduced by BSTDB, is also being offered through Albanian banks.

ARMENIA

Financing needs in Armenia are extensive, and there exist investment needs in all major priority sectors for the Bank. The BSTDB's activity is oriented in particular towards the development of the project finance pipeline in two areas- (i) export oriented industries and (ii) transport, for which existing bottlenecks, and the relative isolation of the country pose formidable obstacles for development in other sectors of the economy.

Although there is a potential demand from the Armenian banks for pre-export finance and short-term multiple buyer credit facilities of the BSTDB, the undercapitalised banking system limits the Bank in the selection of a financial partner in Armenia, through which to introduce its trade finance products. Therefore, the Bank will focus on providing direct financing for cross-country trade finance projects while continuing to identify financial intermediaries in Armenia.

AZERBAIJAN

The Bank's activities in Azerbaijan are concentrated on providing financial support for projects in non-oil sectors. As a long-term priority the Bank intends to support investors participating in privatisation in Azerbaijan, and will also actively consider financing projects in telecommunications, transportation, manufacturing, and agribusiness. Projects in the banking sector and energy have progressed in the Bank's pipeline, including a microcredit bank with multiple co-financiers.

For the trade finance program, the Multiple Buyer Credit Facility will be introduced in 2001 through a selected financial intermediary. In addition, potential direct financing projects will be identified for cross-country transactions.

BULGARIA

Priority areas include post-privatisation activities as well as private firms with solid management and good track records, which are involved in sectors such as food processing, consumer products, or textiles. In addition, there is scope for the BSTDB participation as a co-financier in transport, cross border infrastructure, and telecommunications. The project pipeline is very strong, and includes a number of innovative projects including the Bank's first environmental improvement project, which advanced considerably in 2000. The Bank completed two project finance operations covering Bulgaria in 2000, one concerning a post-privatisation expansion in the agribusiness sector, and the other a regional fund which targets small and medium enterprises across Southeast Europe, providing equity and quasi-equity financing, in combination with active business assistance and trade linkages.

The BSTDB trade finance strategy in Bulgaria is to provide pre-export finance and short-term multiple buyer credit facilities through selected financial intermediaries. The Bank has already approved in 2000 one financial intermediary and has advanced in selecting a second.

GEORGIA

Georgia's geographical position as a crossroads of the Eastern Black Sea region makes it promising for cross-border transport and communications projects. The project pipeline reflects this, and the preparation of a number of port and maritime projects has progressed. The energy sector is also a priority, requiring both infrastructure for transit of energy resources and power generation activities. The best prospects for working with private firms will involve dynamic small and medium sized firms involved in export oriented or import substituting activities. This includes much of the agribusiness sector, and certain industries that are export oriented.

The BSTDB concluded a pre-export finance agreement with one bank in Georgia in 2000, and is now in discussions with other Georgian banks to expand the trade finance program in this market. Import financing facilities may also be offered.

GREECE

Project finance prospects in Greece are more limited than in other member countries. There is less need for BSTDB participation, since private firms can access funds more quickly and cheaply through private banks. However, cross-border initiatives and activities in the ports and maritime sector represent priority areas because of their regional cooperation potential. For the most part, Bank cooperation involves Greek firms investing in other BSEC countries. Greek firms are expanding their market reach through the Black Sea region, and are among the most active foreign investors in many BSEC countries. In 2000, the Bank completed one such project, involving a Greek firm ordering a new vessel from a Ukrainian shipyard.

ANNUAL REPORT 2000 IV. OPERATIONS IN THE YEAR

No banks in Greece have been identified for the Bank's programs involving intermediaries because of the high level of development of the country's financial sector. The pipeline includes one supplier re-financing transaction in support of Greek telecommunications equipment exports to Romania. This transaction would be co-financed and Greece's official export insurance agency is also involved. In addition to this transaction, the Bank is looking at other buyer/supplier credit transactions in favour of Greek companies conducting business in the Balkan-Black Sea region. The BSTDB trade finance will increase its visibility and cooperation with Greek banks and Greek companies in 2001.

MOLDOVA

The Bank has developed a pipeline involving projects in energy, transportation, manufacturing and, especially, the telecommunications sector. Infrastructure investment needs in Moldova are large, and the Bank has identified investment projects to improve the water supply systems. The development of small and medium enterprises, a categorization that applies to the vast majority of Moldovan firms, is also an area of priority, particularly for firms involved in export oriented or import substituting activities.

For the trade finance program, the BSTDB is in the process of concluding a combined export and import finance agreement with one financial intermediary in Moldova. Barring any complications, a signing is expected in 2001, and the Bank is now searching for a second financial intermediary to expand its trade finance program.

ROMANIA

Bank priorities in Romania involve development of the small and medium enterprise sector. The pipeline involves several SME projects, and related support areas, such as the development of leasing operations in Romania. Along with SME sector development and promotion, the Bank's sector priorities in Romania include infrastructure development- for energy, ports and telecommunications in particular- and manufacturing and companies promoting regional development and cooperation. In the energy sector, the Bank is considering a number of investments, including (i) energy interconnections with neighbouring countries; (ii) renewable energy projects; (iii) energy efficiency improvements. The first approved Bank operation covering Romania involved a regional fund, which targets small and medium enterprises across Southeast Europe, providing equity and quasi-equity financing, in combination with active business assistance and trade linkages.

The BSTDB signed a pre-export finance agreement with a Romanian bank in 2000. Disbursements have taken place. Two additional financial intermediaries are in the pipeline and it is expected that at least one more pre-export finance agreement will be signed in 2001.

RUSSIA

The project finance strategy for Russia involves focusing on projects in the regions of Russia near the Black Sea- Rostov, Krasnodar, and Stavropol. Investments involving regional BSEC cooperation that are outside these three regions will also receive due consideration, but the emphasis will be on working in the Black Sea areas. The best opportunities for business in these regions are with firms involved in food processing and light industry, especially firms which are involved in 'import substitution' activities, or which carry out exports. The Bank has developed a pipeline that includes a project supporting small and medium sized enterprises in the region, and a working capital facility for an important regional exporter, which mobilizes considerable additional co-financing. In addition, projects in the ports and maritime sector are under consideration.

In the trade finance sector the Bank has selected one bank as a financial intermediary for its short-term pre-export financing program. In 2001, a second financial intermediary will be identified in order to introduce the short-term multiple buyer credit facility. The Bank has established relations with major exporters and a memorandum of understanding was signed in 2000 with the exporters association. Potential direct operations will be identified and assessed.

TURKEY

The Bank's sector priorities in Turkey include focusing on less developed regions and on infrastructure projects. The Bank seeks co-financing partners to undertake medium term, medium size, public infrastructure operations and regional development projects. In addition, the Bank is keen to provide support for private sector development, in particular locally owned and incorporated medium size businesses in the manufacture of goods with export potential, and small and medium size enterprises in the less developed parts of the country. An additional priority for the BSTDB is to partner with Turkish firms investing in other member countries, where they are already quite active. The Bank has developed a strong pipeline of potential projects in these areas, as well as the ports and maritime sector, and it strives to play a catalytic role in attracting foreign investment in Turkey. The Bank's first operation in Turkey involved extension of a credit line for the purpose of earthquake relief and reconstruction support to affected small and medium sized enterprises.

The Bank concluded a pre-export finance agreement with a Turkish bank in 2000, and the facility has been fully disbursed. The BSTDB has another major Turkish bank in its pipeline for pre-export financing and at least one addition agreement is expected in 2001.

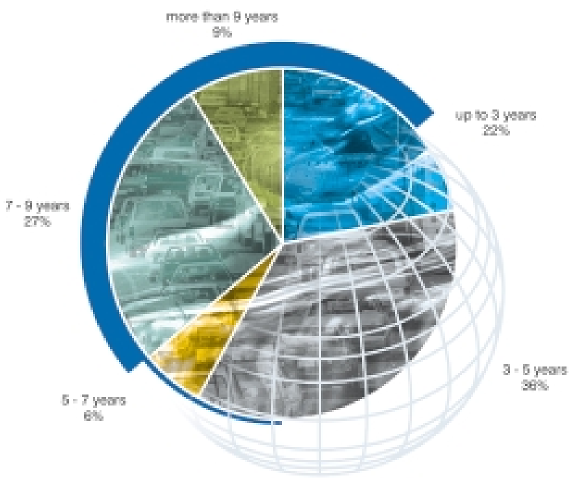
UKRAINE

The BSTDB's primary strategy for the Ukraine lies in (i) diversification of the sources of energy supply; (ii) support of small and medium sized private sector development; (iii) activities in the ports and maritime sector which take advantage of its central location in the BSEC region. The Bank's first multi-country operation involved a gas compressor station in Ukraine for a pipeline originating from another member country, and running to four other members.

For the trade finance program, a financial intermediary has already been selected in Ukraine to introduce the pre-export financing product and an agreement is expected in 2001. The BSTDB's strategy is to select an additional two financial intermediaries and provide a short-term multiple buyer credit facility in addition to pre-export finance facility.

C. MATURITY STRUCTURE OF THE BANK'S PROJECTS

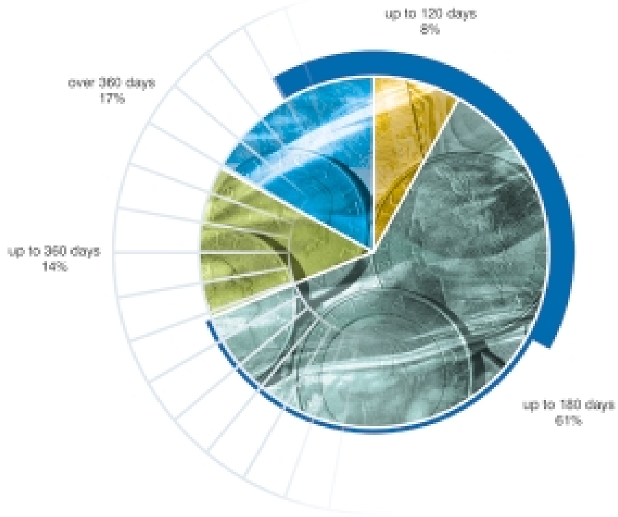
Approved Project Finance Operations: Percentage by Tenor



The Bank offers a balanced mix of short, medium and long term financing. For project finance (see chart above) 22% of the portfolio is concentrated in projects of 'short term' duration, meaning up to three years. About 36% of the portfolio is concentrated in projects in the 'medium term' three to five year range, and 42% falls in the 'long term' category of greater than five years duration.

The tenor of trade finance operations (see chart below) is shorter than that of project finance operations. Around 69% of the trade finance portfolio consists of operations with a tenor of 180 days or less. Only 17% is for over a year, and represents larger scale direct supplier credit transactions. All other trade finance transactions are through financial intermediaries for the pre-export finance program.

Approved Trade Finance Operations: Percentage by Tenor



D. PRIORITY SECTORS FOR THE BANK'S OPERATIONS

Operational experience to date has shown that the Bank is able to generate business in all sectors, but that priority needs to be given to the sectors where Bank involvement will contribute most to the co-operation among the member countries. The Bank's 1999-2001 business plan identified the following priority sectors for the Bank's activities: energy, transportation- especially in ports and maritime activities, telecommunications and manufacturing. In addition, support to the small and medium enterprise sector constitutes a priority area representing the most promising growth area of the economy.

Sector strategies - in 2000 for ports and maritime, and energy sector - were prepared in order to improve understanding of these sectors, and to lay the basis for establishment of the operational portfolio. These strategies were prepared in collaboration with international consultants, and (i) identify the main competitive advantages of the region's sectors, (ii) the demand for financing and (iii) the opportunities for identification of projects with high development and co-operation impact. The sector strategies also take into consideration the experienced gained and lessons learned by other international financial institutions.

PORTS AND MARITIME

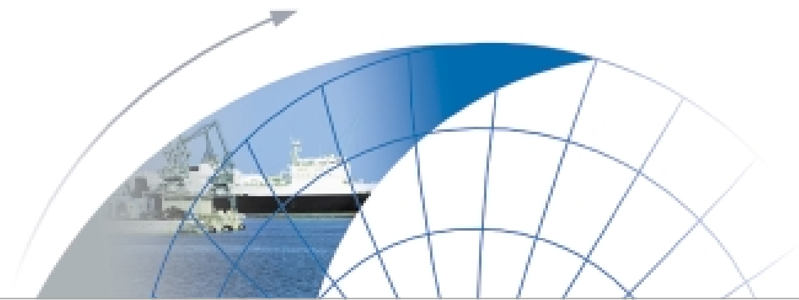
The process of privatisation and restructuring as well as growing regional trade create prospects for an active BSTDB role in this sector. Ports and maritime activities contribute strongly to cooperation among member countries, playing a natural ‘gateway’ role with a particularly strong impact on increased trade. The existence of strong market demand as well as regional competitive advantages in this sector (including plentiful sea access, geographic location at trading ‘crossroads’, large merchant fleets, etc.) gives the opportunity for the Bank to contribute high ‘value-added’, offering specific financial products and helping to mobilize additional resources for this sector. The first project financed in the maritime sector is one example of the potential (see Box 1), and a number of other projects for items such as infrastructure development, general handling operations, environment, capacity expansion, and ferry upgrading, are at various stages of preparation in the Bank’s pipeline.

The Bank intends to consider projects in the ports of each maritime member country. Although focusing primarily on Black Sea ports, the Bank is also seeking to identify potential projects involving Albanian, Azeri and Greek ports.

During 2000, the Bank participated actively in a number of meetings of the BSEC Working Group on ports and infrastructure, a particularly useful forum not only for discussion of sectoral issues, but also for marketing and for project generation.

In addition to the high degree of regional cooperation, ports and maritime projects often have the following characteristics, which render them attractive for Bank financing:

- strong commercial features and a strong cash flow generation, which may attract private sector promoters and capital from outside the region;
- strong developmental impact due to the positive externalities generated for other sectors of the economy which benefit from use of the maritime infrastructure;
- solid potential for public-private partnerships with the private sector contributing much of the infrastructural and operational improvements and reaping benefits from long-term concessions or various forms of full and partial privatisation.



BOX 1 AVIN INTERNATIONAL SHIP PROJECT

The project involves the construction of one oil/product tanker vessel for the fleet of the Vardinoiannis-Avin International group (Greece). The vessel will be constructed and assembled by the State Joint Stock Holding Company ‘Black Sea Shipbuilding Yard’ (Black Sea Shipyard) at Nikolaev, Ukraine. The project represents part of a long-term shipbuilding program between the Greek group and the Ukrainian shipyard, and will contribute to the modernization of the fleet of the sponsor, the Vardinoyannis-Avin International group. For the Greek group the project represents a factor to enhance its competitive profile and to strengthen its operations in some of the most advanced and competitive markets (North America). For the Ukrainian shipyard the program will enable a higher utilization of its capacity and will also contribute to the improvement of its operational standards as a result of the closer co-operation with an advanced and efficient international shipping group.

The total project cost is US$ 36 million. Financing for the project is provided by means of equity from the sponsor in the amount of US$ 26 million and a US$ 10 million loan for the remaining part by BSTDB.

Amount: US$ 10 million
Type of financing: Loan
Maturity: Two years

TELECOMMUNICATIONS

The BSTDB has carried out extensive preparatory work to address the financing needs of the telecommunications sector in the Black Sea region. Most telecommunications and telecommunications related companies have developed in recent times the capacity to attract private sector financing thus decreasing their dependence on concession or international financial institution funding sources. Nevertheless, the BSTDB has identified areas in the sector and the region where its participation as a key financier would be crucial for putting together an attractive financing package for cross-border investments. The Bank is developing working relations with key telecommunications players from member countries looking for opportunities to expand their operations in the Black Sea region. In particular, the Bank intends to focus on opportunities commensurate with its size and mandate and related to the financing of mobile operators (mostly second or third generation GSM license holders) and second-tier telecommunications operators competing or preparing to compete with incumbent national operators.

As part of its commitment to the telecommunications sector, the Bank is also developing its strategy for financing media, software and Internet or internet-related projects. Due to the relatively small size and, more often than not, start-up nature of these operations, the demand is mostly for risk capital with equity, in particular, often representing the most appropriate financing instrument.

ANNUAL REPORT 2000 IV. OPERATIONS IN THE YEAR

ENERGY

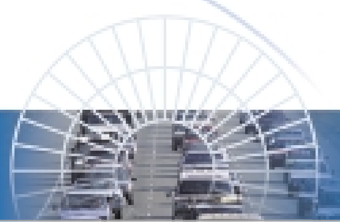
For the Black Sea region, (i) energy resources and (ii) the region's location as a conduit for energy resources represent major competitive advantages, and the region's role in the 'global energy map' is increasing. Regional firms are large, competitive, and active in the global market, and regional opportunities for cross-country financing in this sector are growing as pipelines, energy grids/ networks and other upstream and downstream portions are being privatised and/ or opened to foreign investment.

Energy is one of the priority sectors for the BSTDB. The sector is given high priority in the development strategy of all member countries, and possesses some of the highest potential for activities that promote development and cross-country cooperation.

The Bank has developed an energy strategy which studies the sector, lays out challenges and opportunities, and identifies areas in which Bank involvement may have genuine 'value-added'. The strategy also establishes a structured framework for the prioritisation and assessment of available project opportunities, and emphasizes the following priority directions:

- Rehabilitation and expansion of the cross-country intra-regional energy transportation infrastructure such as oil and gas pipelines, storage facilities and high voltage electricity transmission lines;
- Niche energy production and processing opportunities in oil, gas and electricity generation, especially where undertaken by joint ventures involving firms from member countries;
- Local sustainable development oriented projects, which incorporate strong components of social development and environmental amelioration. Projects involving promotion of renewable energy sources and energy efficiency are the most important areas under this category.

A total of 35 investment operations involving the energy sector with an overall project cost of US$ 1 billion have been identified to date, and have entered the project pipeline. This robust pipeline covers all member countries, half are of a 'quick start' or 'near term' nature, meaning that feasibility studies have been prepared and the projects are at a reasonably advanced stage of preparation, and the majority involve the interest of more than one member country and meet some or all of the priority characteristics listed above. The first operation was signed in 1999 (see Box 2).



BOX 2 TRANS-BALKAN GAS PIPELINE PROJECT

The Project represents the first phase of a program aimed at the expansion of the capacity of the Trans-Balkan gas-pipeline system in order to meet the obligation of Russia based Gazprom to increase delivery of natural gas to Turkey. In order to take advantage of unused capacity in the existing pipeline - which also crosses Ukraine, Moldova, Romania and Bulgaria - the construction of a compressor station on the existing line in Tarutino, Ukraine is planned in order to increase the transit capacity of the southern Ukrainian system.

Financing for the project, which has a total cost of some US$ 77 million, is to be provided by means of equity from the sponsors in the amount of US$ 26 million (approximately one third of the total project cost). The remaining part of the project cost is to be financed as a loan by EBRD and BSTDB. In line with the Bank's mandate, the project promotes regional co-operation with the Member States as six countries including Russia, Turkey, Ukraine, Romania, Bulgaria, Moldova will benefit, to some extent, from the project.

Terms and conditions of the operation:

Amount: US$ 12 million
Type of financing: Loan
Maturity: Nine Years

FOSTERING DEVELOPMENT AND COOPERATION THROUGH THE FINANCING OF SMALL AND MEDIUM ENTERPRISES

The Small and Medium Enterprises (SME) sector is an area where important human and financial resources are devoted for provision of both financial and non-financial support. Many donors (non-governmental organizations, specialized development agencies and IFIs) provide financing, but also focus their attention on non-financial services such as providing policy advice for improving the business environment, strengthening the financial sector, empowering the poor and their communities, and setting up business advisory services.

Ideally, necessary preconditions for the growth of a vibrant private SME sector include a stable macroeconomic situation and the establishment of a friendlier business environment in which the transaction costs of establishing and running a business are reasonable, and where medium to long term financing on affordable terms is available. However, even in the absence of such conditions, the BSTDB's financing activities in the SME sector have considerable value added, making targeted funding available on reasonable conditions- market based, but with mitigation of the country risks.

The Bank's SME Strategy places particular priority on identifying and supporting SMEs involved in export oriented activities, cross-border investments and joint venture creation. This does not exclude support for other types of SMEs, but rather

ANNUAL REPORT 2000 IV. OPERATIONS IN THE YEAR

comprises enterprises, which have the highest returns both in terms of developmental and regional cooperation impact. In providing the financing, the Bank pays due regard to the coverage, the long-term sustainability and the transaction costs. It strives to remain cost-effective while giving priority to endeavours showing high potential for rapid sustained growth. Other objectives for SMEs that receive support include:

- Creation of new employment;
- Promotion of exports;
- Facilitation of know how and technology transfer;
- Promotion of intra-regional investment;
- Mobilization of foreign capital;
- Facilitation in networking.

The Bank has employed a number of different instruments ranging from direct lending to equity investments through a specialized regional fund (see Box 3), with a view to providing the most appropriate financing vehicle to meet client needs. Available instruments include:

- Credit lines;
- Credit Guarantee Funds;
- Specialized Micro/SME Financing Institutions;
- Equity Investment Funds;
- Leasing;
- Guarantees.

At the end of 2000, SME operations accounted for 27 percent of total commitments. In the future the Bank intends to extend its activities to cover micro-finance institutions, leasing companies and country investment funds in member countries. It will also concentrate more actively on institutional development and capacity building in the member countries.

BOX 3 TRANS-BALKAN SME EQUITY FUND

The Small Enterprise Assistance Fund (SEAF), in conjunction with its Dutch sister organization, Stichting-SEAF, proposed to establish the Trans-Balkan SME Equity Fund (the "Fund"). The Fund's objective is to provide equity and quasi-equity financing, in combination with active business assistance and trade linkages, to small and medium enterprises (SMEs) in Albania, Bulgaria, Romania, and other neighbouring Balkan states.

In order to comply with the Bank's operational policy for investing in member countries, and as a condition of the Bank's participation in the Fund, the Fund will invest a total of at least US$ 12 million in Albania, Romania, and Bulgaria; at the end of 2000 the fund had already invested US$ 13 million in these three countries. This amount is three times as big as the BSTDB's participation, and indicative of a high mobilization ratio of equity capital for the beneficiary SMEs.

The fund gives priority to high growth potential sectors, including high technology, and provides advice and transfer of know-how through technical assistance funds from USAID.

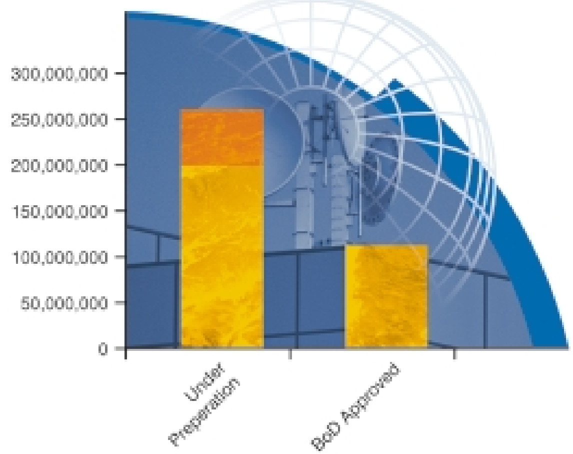
This equity investment operation is the Bank's first project targeting several BSTDB countries simultaneously with equity investments for smaller size SMEs, a priority area in the BSTDB's strategy papers. The project will stimulate, albeit indirectly, cross-country activities of private sector companies in the Black Sea region. This will be achieved through the increased trade among companies financed by the Fund. There also exist further co-financing opportunities with other IFIs, which are currently reviewing the prospects of participating in the Fund and will be making commitments in parallel with BSTDB.

Terms and conditions of the operation:

Amount: US$ 4 million
Type of financing: Equity investment
Maturity: 10 years with wind-down commencing in year 6

A 'MARKET FRIENDLY' ORIENTATION AND PRIVATE SECTOR FOCUS

Public and Private Sector Breakdown by amount - Project Finance



The BSTDB recognizes that long-term economic growth can only take place when the private sector is allowed to flourish under open, competitive conditions within a proper legal framework. Therefore, assistance to the private sector and support of market friendly operations are important parameters in the fulfilment of the Bank's dual mandate of development and regional cooperation. To meet the widely varying market needs, the Bank offers a flexible array of financial instruments in its effort to promote private sector development. Indeed it represents an important regional source for medium and long term financing in forms, which are tailored to the needs of firms and financial institutions according to the appropriate risk profile. Where possible, a sovereign guarantee is not required, and the Bank generally prefers an appropriate security structure in its operations, although assets, receivables or other claims pledged may be located either in the country of origin or the country of operation, depending on the project. In addition, the Bank does not limit itself to financing firms from within the region, but readily collaborates with strategic private investors from outside the region who are committed to working in the Black Sea area.

E. INTRODUCING NEW PRODUCTS

In 2000, the Bank undertook its first equity investment, the Transbalkan SMEs Fund. The initial strategy for the Bank is to be conservative as far as equity investments are concerned. Equity investments will form a portion of the portfolio, but the Bank intends to employ them judiciously in operations which (i) promise high development impact and (ii) strong elements of regional cooperation, and where (iii) the external resource mobilization potential is high and (iv) involvement of the Bank is either 'catalytic' for the project or otherwise provides high value added.

During 2000, the Bank introduced the Pre-Export Finance Facility to the market through selected financial intermediaries in the region. Taking into consideration the needs of financial intermediaries in the region, a new product, Multiple Buyer Credit Facility, was designed in order to support intra-regional trade among the member countries and encourage more financial intermediaries to participate in the Bank's trade finance program. This product was also introduced to potential financial intermediaries in year 2000 and generated much interest from the market. In addition to these products, a Supplier Refinancing facility has been structured to co-finance export transactions for capital goods from one member country to another. The BSTDB will co-finance this project with two major international banks and share risk with a shareholder country's official export credit agency.

F. CO-FINANCING

Co-financing is an important consideration in all Bank operations, and an imperative, as project finance rules and procedures stipulate that the Bank can only finance a maximum 35% of total project cost for loans, and 33% for equity investments. This effectively requires a minimum mobilization ratio of two to one (2:1). The Bank was particularly pleased that the mobilization ratio during 2000 was over three to one (3:1) as external resource mobilization accounted for 76% of total project costs.

In accordance with the Agreement Establishing the BSTDB, the Bank places great emphasis on encouraging the involvement of other sources of financing in its operations, thereby increasing the total resources available for co-operation and development projects in the region.

The Bank's co-financing partners include:

- international financial institutions;
- export credit agencies;
- commercial banks;
- official co-financing institutions (bilateral donors).

In 2000, the principal co-financiers in Bank operations were other international financial institutions, in particular the European Bank for Reconstruction and Development, and the International Finance Corporation. Approximately 65% of co-financing resources were from IFIs. The similar mandate, policies and procedures make these institutions natural co-financing partners, although each is careful to fit into unique niches in the overall market and to work in ways, which highlight their relative complementarities. The Bank has also established good working relations with the other IFIs active in the BSEC region, and is seeking co-financing opportunities with institutions such as the Council of Europe Development Bank, the European Investment Bank, and the World Bank.

Co-financing with export credit agencies, national development banks, development agencies and related government affiliated- or owned- financial institutions comprised approximately 32% of co-financing resources in Bank funded projects. The interest in the Black Sea region from such financial institutions (especially from western Europe) grew considerably as a result of factors such as (i) improvements in the macroeconomic situation of all Bank member countries, (ii) realization that underdeveloped investment potential exists in most BSEC countries, and (iii) increased attention focused on the region as a result of the Stability Pact for Southeastern Europe. These financial institutions are normally good bellwethers, or indicators, of trends to follow in terms of investor interest, as they normally support private investment flowing from national firms, and open the way for other financial institutions to become involved in the future.

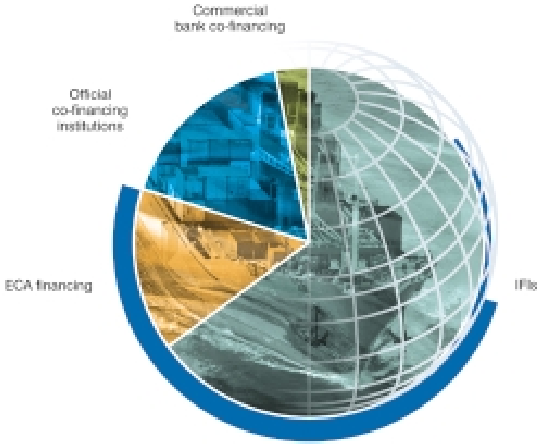
The Bank established cooperation with a number of such institutions from Austria, Canada, Finland, Germany, Greece, Japan, the Netherlands, Norway, and the United States.

Co-financing with commercial banks was markedly lower, constituting only 3 percent of total co-financed resources, and represents one of the areas in which the Bank will be seeking to expand co-financing substantially during 2001. In the case of regional commercial banks, (other than for Greek banks) the BSTDB has identified the most promising financial institutions in each country and in most cases is cooperating with them as financial intermediaries for facets of its trade finance program, or for SME credit lines. Among non-regional commercial banks (and Greek banks) the Bank has developed ties with commercial banks from countries including Austria, France, Germany, Greece, and Japan, and will not only enhance these ties but will seek to develop links with commercial financial institutions from other countries. However, many internationally oriented commercial banks exhibit a relatively high risk aversion and reluctance to expand substantially their presence

ANNUAL REPORT 2000 IV. OPERATIONS IN THE YEAR

in the Black Sea region until perceived country and systemic risks diminish. This represents a challenge which the Bank plans to target, since increased activity of non-regional commercial banks will bring in additional resources to the region, as well as increased sector competition which will on the one hand improve the array of financial products available and service quality, and on the other will help to introduce new skills and practices into the region and should also have a positive impact upon corporate governance.

SOURCES OF CO-FINANCING FUNDS- 2000 OPERATIONS APPROVED BY BOARD OF DIRECTORS



International financial institutions	65%
Export credit agency financing	15%
Official co-financing institutions	17%
Commercial bank co-financing	3%

G. SPECIAL FUNDS

A significant operational challenge for the BSTDB is to leverage its assets to bring in maximum flows of capital and know-how into the region, to improve access to information, and to contribute to the development of greater managerial, technical, and financial capacity in the region. To meet this challenge, the Bank has made provision for the establishment of Special Funds - trusts or other pools of financing resources, which may be used for operational purposes that further the mandate of the Bank. Typically, these funds would be established to provide financing for projects or to provide technical assistance to build capacity, effect skill transfer, provide know-how, or to help improve the quality and flow of information available. In addition to helping Bank clients, they also offer a vehicle through which multi-lateral, bilateral and private sector entities may become involved in the complementary processes of regional development and increased cross-country integration.

Mobilization of special funds:

(i) increases the impact of donor activities;

(ii) provides an alternative route for raising funds- diversifying obligations and exposure among the donors involved in specific operations;

(iii) improves harmonization of procedures and consistency of approach among co-financiers/ co-donors;

(iv) establishes working relationships with governments, organizations, and other entities who show an active interest in the BSEC region;

(v) provides the opportunity to attempt different activities such as pilot projects, complicated ventures, undertakings with high development and/ or cooperation impact but low financial return, experimental endeavours with lengthier time horizons and other initiatives which for one reason or another might be considered high risk.

The Bank achieved considerable progress during 2000 in the design and establishment of its Special Funds Program. The Bank developed the internal procedures for the execution and administration of Special Funds, and prepared a comprehensive manual entitled *SPECIAL FUNDS: BSTDB Donor Supported Programs for Co-financing and Technical Assistance* for potential donors and other interested parties. The Bank intends to establish Special Funds for a range of priority activities including the environment, export promotion, preparation of feasibility studies, financial reporting methods and standards, and regional cooperation structures. Contacts were initiated with a number of bilateral donors involved in the Black Sea region, and the Bank fully expects to finalize its first Special Funds Agreements during 2001.

H. CONTRIBUTING TO THE ENVIRONMENT

As an integral component of its objectives, the Bank has a mandate to promote environmental sustainability, soundness and cleaner technologies in a cost-effective manner. The Bank's environmental policy pays special attention to the preservation of natural conditions and the prevention of pollution of groundwater, wetlands, coastal areas, natural parks and protected areas, forests, fisheries and wildlife. The Bank is focused on the unique issues of its member countries, and supports the various national, regional and international efforts to prevent marine pollution in the Black Sea.

From the outset of operations, environmental considerations have been incorporated into the Bank's policies and procedures. In 2000, these words were put into actions

ANNUAL REPORT 2000 IV. OPERATIONS IN THE YEAR

and the Bank committed to financing environmental improvement projects within the primary sectors of investment. As the number and variety of projects under evaluation by the project teams has increased, so has the environmental profile of the Bank's operations.

In 2000 the Bank's first environmental project was evaluated within the manufacturing sector. This environmental improvement project in Bulgaria went into the final stages of appraisal and is on-track for final approval in the first quarter of 2001. The project will involve the investment of over US$ 9 million in pollution control technology and equipment upgrades, and will result in significant reductions in harmful air emissions and wastewater effluent.

Within the energy sector a full environmental analysis was carried out for a small hydroelectric power plant in Turkey. While this project is not specifically an environmental project, the Bank has worked with the project sponsor to maximize the environmental and social benefits offered by renewable resource energy generation while ensuring neutral environmental impact. The environmental analysis process required the preparation of an environmental action plan to be implemented during the life of the project.

The Bank's environmental procedures require environmental involvement at all key points of project evaluation. In accordance with these requirements, screening and initial environmental review was completed for the concept clearance of more than a dozen projects in all sectors of the Bank's operations. The full environmental analysis process was initiated for four other projects.

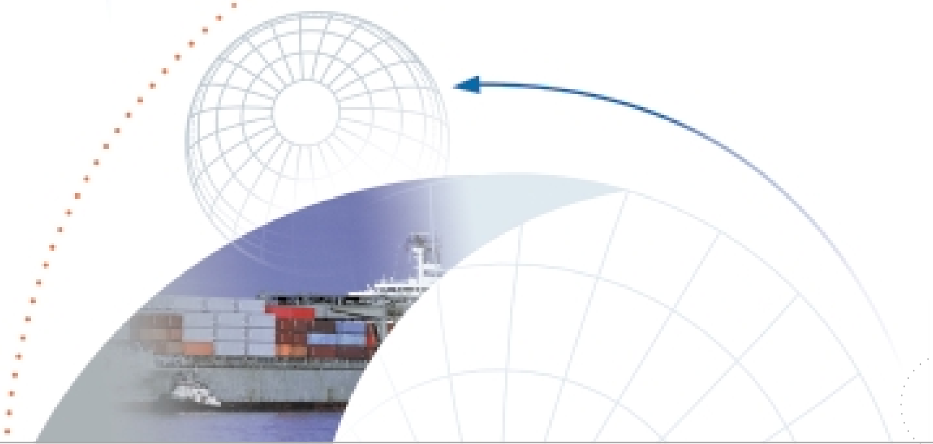
The Bank is committed to working with other international financial institutions in a manner that presents a consistent approach to all our clients. The BSTDB has been working with the major IFIs to harmonize the requirements of all institutions and maximize the combined resources and expertise available. The Bank also plans to expand its ability to foster environmental improvement by generating and distributing funds for environmental projects and capacity building. Preliminary work was completed for the establishment of donor supported special funds to be made available for environmental projects. These funds will be used for projects that are purely environmental in nature and for adding environmental value to existing projects.

I. PROCUREMENT

The BSTDB is committed to international competitive tendering of major contracts in the public sector without country restriction or impediment although, in some cases, a margin of preference may be applied to suppliers and contractors from Member States in the determination of contract awards in a clearly defined and transparent manner.

The Bank has established its own database of consultants, after placing two sets of advertisements in international and regional periodicals calling for applicant consultants, firms and individuals to submit their credentials. This database is being compiled for sector and discipline based services to meet foreseen Bank needs. These include energy; environmental assessment; financial sub-sectors for expertise in assessing market and regional trends, and regulatory environment - banking industry and capital markets; legal services; manufacturing; management - including, separately, financial controls, general management and organizational development, human resources, management information systems, public relations and staff training; procurement; small/medium enterprises; telecommunications; transport excluding ports and shipping; ports and shipping. The objective is to assist Bank staff in selecting qualified firms to assist in their projects, but it is unique in that it enables consultants to promote their services in a concise and readily accessible format that is tailored to bankers' needs. In due course this information may be made available to Bank clients, albeit on a strictly informational basis without any recommendation or notion of preference.

The Bank also became an active participant in the meetings of heads of procurement of the multilateral development banks. This is a semi-annual two-day forum at which representatives meet to discuss issues of common concern such as the harmonization of public sector tender documents, best practices, and how fraud and corruption in procurement may be addressed. Following each forum, contractors, suppliers, consultants and other interests in the international business community are invited to attend a business opportunities seminar, at which heads of procurement from the banks address the audience. During 2000, BSTDB secured the hosting of the spring 2001 heads of procurement and business opportunities meetings in Thessaloniki, yet another indication of the Bank's growing recognition and status.



V. INSTITUTIONAL DEVELOPMENTS DURING THE YEAR

In year 2000 the Bank continued strengthening both its international position of a new financial institution for the Black Sea region, and its internal structure.

The Bank's corporate and public relations strategy aimed to promote the operational objectives of attaining a key position in the Black Sea region. The Bank's promotional policy focused on establishing corporate relations and business generating activities in its member countries, both on regional and global level. Apart from the ongoing active process of establishing working contacts in the governments of its eleven Member States, the Bank reached for partners, businesses and potential clients through numerous events, presentations, and press conferences. A major success in this respect was the first Black Sea Business Day hosted in April in Athens on the occasion of the Bank's Second Annual Meeting, which gathered 375 banking and business leaders active in the region, and government officials. The event demonstrated that the Bank is widely recognized as a partner with an important role and potential to promote business and investments. Within its promotional activities the bank focused on disseminating information through media contacts, publication of articles and brochures and its web site.

As part of its strategy for establishing a framework of cooperation with other organizations for the purpose of exchanging information and facilitating joint activities in the Black Sea region, the BSTDB concluded a framework cooperation agreement with the Organization of Black Sea Economic Cooperation, and signed a Memorandum of Understanding and Cooperation with International Center for Black Sea Studies. Memoranda of Understanding were also signed with Russian Council of Branch Associations of Manufacturers and Exporters, and Russian Federal Fund for Small Business Support.

In spring 2000, BSTDB acquired Observer Status with the IMF and the World Bank Group. Business relations with IBRD, IFC, MIGA, EBRD, EIB, NIB and EC were strengthened.

Fulfilling its mandate to promote intra-regional trade and economic cooperation, the BSTDB stimulates business contacts and official policy discussions among its member countries. In 2000 the Bank sponsored a meeting of the BSEC Working Group on Economic Development and Trade to consider establishment of Export Promotion Centres and Export Credit Agencies in the member countries, and an international conference "Business Opportunities in the Black Sea Region" in Yalta, Ukraine.

The Bank took major steps towards improving operational and reporting systems and has put emphasis on creating an integrated Management Information System (MIS). As a first step in this direction the Bank Application Subsystem (BAS) was installed, which, together with market systems such as Reuters and Bloomberg, supports the activities of project and trade financing, treasury, credit risk management and back office. In line with international standards, efforts were made towards establishing other automated subsystems such as the Human Resources Subsystem and the Information Resources Subsystem. Higher levels of security and efficiency were achieved, providing better capabilities for auditing and financial reporting. All procedures for system management and maintenance are in accordance with EU and Bank of Greece disaster procedures and requirements. In the area of network infrastructure the Bank has enhanced its system security by introducing an advanced firewall system, upgrading all its network switches to fast Ethernet and establishing a gigabit backbone infrastructure in order to accommodate future needs of the organization.

The increase in operations necessitated the expansion of the Bank's leased premises by 65%, which will also meet business requirements in the coming two years, until a solution for permanent premises is finalized. Subsequent to the 1999 ratification of the Headquarters Agreement between the BSTDB and the Hellenic Republic, in year 2000 with the assistance of the Hellenic Government various provisions of the Agreement were implemented, thus liberalizing the bank's functions as an international financial institution with special rights and status in Greece. Administrative support functions were streamlined by creating specialized units for internal purchasing, travel arrangements and expatriate staff assistance.

VI. CORPORATE GOVERNANCE

The BSTDB governing constitution is the Agreement Establishing the Bank, which provides that the Bank will have a Board of Governors, a Board of Directors, a President, one or more Vice Presidents and such other officers and staff, as may be necessary. In addition, the position of the Secretary General of the Bank was created at the Inaugural Meeting of the Board of Governors.

The BSTDB is managed as stipulated in the Agreement and is committed to effective corporate governance with responsibilities and related controls throughout the Bank properly defined and delineated. Transparency and accountability are key principles and integral elements of the Bank's corporate governance framework. The corporate governance structure is further supported by a system of reporting, with information appropriately tailored for and disseminated to each level of responsibility within the BSTDB, to enable the system of checks and balances on the Bank's activities to function effectively and efficiently.

BOARD OF GOVERNORS

Each Member State of the BSTDB is represented on the Board of Governors, which consists mainly of high-level government officials designated by their respective countries, the majority coming from either the Finance Ministries or the Central Banks. They represent the Member States as shareholders of the Bank. All powers with respect to the BSTDB are vested in the Board of Governors. With the exception of certain reserved powers, the Board of Governors has delegated their exercise to the Board of Directors, while retaining overall authority. At each annual meeting, the Board of Governors elects one of the governors as Chairman and two other governors as Vice Chairmen.

In accordance with the Agreement, the Board of Governors establishes general directives for the purpose of governing the Bank and resolves on capital stock increases, determines the number of directors, appoints the President of the Bank, approves the balance sheet and statement of profit and loss, admits new members, determines the conditions of their admission, decides the reserve and distribution of the net income and surplus of the Bank and exercises any other special powers assigned to it, as per the Agreement.

BOARD OF DIRECTORS

The Board of Directors, chaired by the President of the Bank, is responsible for the direction of the general operations of the Bank and for this purpose, in addition to the powers assigned to it expressly by the Agreement, exercises all the powers delegated to it by the Board of Governors. The Board of Directors consists of 11 directors. Accordingly, each participating Member State appoints a Director and an Alternate Director with full powers to act for the Director, when the Director is not present.

Subject to the relevant provisions of the Agreement, the Board of Directors is empowered to take decisions concerning the business of the Bank and its operations, in conformity with the general directions of the Board of Governors; to submit the accounts for each financial year for the approval of the Board of Governors at each annual meeting, and to approve the budget of the Bank.

THE PRESIDENT

The President is chief executive and legal representative of the Bank and the Chairman of the Board of Directors. In the above capacities, and as Chairman of the Management Committee, he conducts the current business of the Bank under the direction of the Board of Directors. In accordance with Article 29 of the Agreement, the President holds a term of office of four years.

The President is also responsible for the organization, appointment, and dismissal of the officers and staff in accordance with the rules and regulations adopted by the Board of Directors. The Board of Governors appoints the President of the Bank, who may participate in the meetings of the Board of Governors without voting power.

THE MANAGEMENT

In accordance with Article 30 of the Agreement and the decisions of the Inaugural Meeting of the Board of Governors, the Board of Directors appoints the Vice Presidents and the Secretary General of the Bank with three-year terms of office. Their respective authorities and responsibilities have been defined by the Board of Directors to include the main operational and administrative functions within the Bank.

The Management Committee comprises of the President (as Chairman), Vice Presidents and the Secretary General. All policy matters pertaining to the key aspects of the strategy, performance and financial soundness of the Bank are considered by the Management Committee, which ensures that they are duly observed. In the absence of the President, one of the Vice Presidents chairs the meetings of the Management Committee.

AUDIT COMMITTEE

The Board of Directors establishes the Audit Committee, which reports directly to the Board of Directors. Membership in the Audit Committee consists of the President (as Chairman), two BSTDB Directors, the Head of the Internal Audit Department and the General Counsel.

Members of the Board of Directors, who serve as members of the Audit Committee, are appointed by the Board of Directors on the nomination of the President following proposals by the directors. Directors who are members of the Audit Committee serve in this position for one calendar year and are normally appointed at a Board of Directors meeting in the final quarter of the preceding calendar year. If a member Director leaves before the end of his/her term, a successor is appointed for the remainder of the term.

As an independent body reporting directly to the Board of Directors, the Audit Committee verifies that the operations of the Bank have been conducted and its financial books are kept in proper manner. The Board of Directors takes note of the report of the Audit Committee and its conclusions and of the statement of the Audit Committee, before submitting the Annual Report of the Bank to the Board of Governors for approval.

OTHER COMMITTEES

The Board of Directors has also established four other special committees for conducting the Bank's daily operations:

- Assets and Liabilities Committee (ALCO)
- Credit Committee
- Recruitment Committee
- Purchasing Review Committee

Additionally, specialised committees as exemplified below will, in due course, be established by authority of the President to facilitate strategic and important operational decision-making within the Bank:

- Human Resources Committee
- Information Technology Steering Committee

A charter specifying membership, responsibilities, authorities, etc governs the work of each committee. Membership to these committees is normally comprised of senior management and of the staff, as stipulated in the relevant rules.

VII. HUMAN RESOURCES MANAGEMENT

Recognizing its human resources potential as a key to the success of the institution, in year 2000 the Bank focused on further development of human resources strategies and policies, with the purpose of maintaining an environment, conducive to the high standards of performance required for safeguarding the interests of its shareholders.

ORGANIZATION STRUCTURE OF THE BANK

Under the responsibility of the President and each Division Head, (i.e. Vice Presidents and Secretary General) are departments, reporting to them as designated in the Organization Chart of the Bank. The President and each Division Head have direct control and accountability within the framework of the organization structure with delineated respective authorities. Responsibilities are duly segregated among the departments, to enable the system of checks and balances on the Bank's activities to function both effectively and efficiently and in accordance with industry best practices.

During the year the BSTDB continued the development of its corporate structure, corresponding to its business strategy and activities. The experience gained through its 18 months of operations necessitated a review of the Bank's organizational structure. The Board of Directors approved a new organizational diagram under which project and trade finance operations will be carried out by two, instead of one, divisions with the respective number of vice president positions, thus reflecting a more business-oriented approach in terms of sector and country financing activities and improving functional efficiency.

RECRUITMENT

The BSTDB's aims to attract qualified professionals with international experience in specific areas of direct relevance to the Bank's needs. The Bank's recruitment and staff benefits policies provide for hiring of the employees on a wide geographical basis, preference being given to the citizens of the Member States. At the end of the year 2000 the Bank's staff totalled 76 employees.

The Bank strives to maintain its status of a competitive employer by following international standards and developments, through active cooperation with other IFI's (IBRD, IMF, IDB, EBRD, ADB and EIB) and international organizations (OECD, ESA, EC).

There is no discrimination against any person because of race, sex or religion, in the processes of recruitment, transfer and promotion.

COMPENSATION

The BSTDB has designed a market oriented staff compensation policy, to meet the requirements of an international financial institution. With the purpose of retaining its position of a competitive employer and in line with international market standards, in year 2000 the Bank implemented a salary scale increase of 10% for its professional and of 7% for its support staff.

The Bank's benefits system aims at assisting employees for their short and long-term well-being and financial security, while being responsive to changing organizational needs and reflecting sound fiscal policy. The Bank finalized the design of its pension plan, which will provide attractive benefits for long-term career planning, will allow flexibility and will optimise the cost to benefit ratio within its financial capabilities. In addition, the Bank continued to develop policies and methods for evaluation of staff performance and for internal career planning and development.

TRAINING

The Bank strives to maintain its business performance levels by identifying training needs and external training programs for participation of its management and staff. In the year 2000 emphasis was given to training of various management staff in banking, finance and information technologies units to enhance and upgrade managerial and technical skills.

VIII. FINANCIAL MANAGEMENT

A. FINANCIAL RESULTS

In 2000 the BSTDB achieved a higher net income than expected, mainly due to lower operating costs than budgeted. This reflected a disciplined and cost conscious response to evolving needs. The Bank posted a net income for the year of US$ 2,549 thousand.

KEY FIGURES IN THE YEAR 2000

Expressed in thousand of United States Dollars

Total revenues	13,901
Total expenses including provisions	11,352
Net income for the year	2,549
Paid-up capital	196,802
Total equity (subscribed)	1,302,910

REVENUES

In its first full year of operation, the Bank's revenues came primarily from interest earned on its equity. The Treasury commenced operations in the first quarter of the year utilising the higher interest rates available to provide a major part of the Bank's income. Project and trade finance operations provided a total income of US$ 1,416 thousand. Operating income for the year was US$ 12,552 thousand.

EXPENSES

General administrative expenses, including depreciation, for the year were US$ 8,748 thousand which were US$ 3,859 thousand higher than in 1999. General administrative expenses include salaries, benefits and other administrative costs.

Salaries and benefits, in the amount of US$ 6,022 thousand, represented an increase of US$ 3,282 thousand from the previous year. This was due to accomplishing necessary staff appointments during the year. This process is expected to continue in the year 2001, although at a slower pace, as the Bank further builds up operations requiring additional professional staff.

Other administrative expenses for the year were US$ 2,422 thousand, an increase of US$ 368 thousand from 1999. A substantial increase in depreciation was recorded as the Bank made major capital expenditures on items, including information technology systems, required for operations.

Overall, general administrative expenses were well within the 2000 Budget, reflecting the Bank's effective cost controls.

OUTLOOK FOR THE YEAR 2001

The BSTDB is projected to continue profitably in the year 2001, while implementing its manageable growth strategy. The financial results will, however, remain sensitive to negative event risk affecting the loan portfolio quality. With this in mind one of the Bank's priorities in the year 2001 is the continued building up of reserves to ensure and maintain financial viability.

B. CAPITAL AND FINANCIAL STATUS

CAPITAL BASE

As specified in the Agreement Establishing the BSTDB, ("the Agreement") the Bank's initial authorised capital stock is one billion (1,000,000,000) Special Drawing Rights (SDR) divided into one million (1,000,000) shares, each with a par value of one thousand (1,000) SDR. All participating Member States of the Bank have fully subscribed to their portion of the initial authorised capital stock. The subscribed capital is composed of:

- ten per cent (10%) fully paid shares;
- twenty per cent (20%) payable by promissory notes (eight equal annual installments, encashment starting from the year 1998);
- seventy per cent (70%) callable shares.

The aggregate par value of the initial authorised fully paid shares is SDR 100 million and that of the capital payable by promissory notes is SDR 200 million. The Board of Governors shall at intervals of not more than 5 years review the capital stock of the Bank.

As of 31 December 2000 one hundred and seventy five million SDR's were due to be paid-up by the participating Member States, in accordance with the schedule stipulated in the Agreement. This included the ten per cent fully paid shares and three of the eight equal annual installments of the twenty per cent shares payable by promissory notes. The total initial authorised capital stock of the Bank of SDR one billion remained unchanged.

BORROWINGS

The BSTDB will continue to develop its borrowing capacity in order to ensure the Bank is in a position to carry out its banking operations and abide by its liquidity policies. This process will include building relationships with commercial banks for access to short term money markets and preparing the Bank for fund raising on the international capital markets. In addition the Bank will when possible, obtain funding from and enter into co-financing agreements with other international financial institutions.

STATUS

As an international financial institution, the Bank has preferred creditor status. This means that the Bank usually will:

- not reschedule debt payments or participate in debt rescheduling agreements with respect to its loans to, or guarantees for, its member countries of operations; and
- not reschedule its loans to private sector borrowers where the borrower's inability or anticipated inability to service its debt is due to a general foreign exchange shortage in the borrower's country.

RATING

As a newly established financial institution, the BSTDB has not yet applied for a credit rating from any of the rating agencies. The Bank has engaged the services of a leading Investment Bank as its ratings advisor and will solicit a rating from a leading agency in due course.

C. PRINCIPLES OF FINANCIAL MANAGEMENT

FINANCIAL DOCUMENTATION

The BSTDB has developed a number of major policy documents defining the framework of the Bank's financial management which include: Financial Policies, Treasury Investment Authority, Accounting Policy, Portfolio Risk Management and Investment Policies, Depreciation Policy, Country Risk Rating System, Provisioning Policy, Guidelines for the Appraisal and Selection of Financial Intermediaries, and Rules and Regulations under Article 19.1(c), describing procedures of the Bank's maintenance of value for its share capital contributions.

The BSTDB's financial management is based on:

- pursuing financial viability;
- following market and performance orientation in all its activities;
- working within a comprehensive risk management framework; and
- ensuring transparency and accountability at all levels and supporting effective corporate governance.

LIMITATION ON THE USE OF THE BANK'S CAPITAL

The BSTDB's Agreement places a number of institutional limitations on the use of the Bank's capital for its ordinary operations. Treasury investments, comprising the Bank's investment of its capital and those assets held for liquidity purposes, are considered auxiliary to the Bank's ordinary operations.

The total amount of outstanding loans, equity investments and guarantees made by the Bank in its ordinary operations shall not at any time exceed 150% of the total of the Bank's unimpaired subscribed capital, reserves and surpluses included in its ordinary capital resources, thus establishing a 1.5:1 gearing ratio.

However, for considerations of prudency the Bank intends during its initial stages of operation to observe an operational gearing ration limited to 1:1 of the its paid-in capital, reserves and surpluses and 50% of the callable capital for the first three years of operations. The Bank also intends to follow in its operations capital adequacy requirements as provided by the Bank of International Settlements (BIS), Basle.

RESERVES AND PROVISIONS

The BSTDB's provisioning policy is designed to ensure that the level of provisions are determined by the risk rating of actual committed exposures for project and trade financing and equity investments.

General provisions are made as part of a project analysis and routinely assigned over the life of a project. Specific provisions are allocated by the Bank's Credit Committee whenever required by risk category or following an asset's movement within the risk categories.

The Bank will maintain reserves and provisions consistent with its growing portfolio. The targets to be achieved for total reserves and provisions, over time, is set at 10% of disbursed loans and 25% of disbursed equity investments. The Bank's operational strategy aims at achieving these targets at a rather early stage, given that a large part of the anticipated portfolio will consist of regional private sector operations, where the Bank will not benefit from sovereign guarantees.

CREDIT RISK

The BSTDB is exposed to credit risk in both ordinary operations and Treasury activities. The majority of credit risk lies in the lending portfolio. The Bank will address all aspects of its credit risk exposure within a robust credit risk management framework, based on quantifying related risk exposures and properly assessing risk mitigants.

The Bank's exposure to various types of risk is monitored on an ongoing basis by the Credit Risk Department of the Bank. The Credit Risk Department assigns ratings to countries, financial institutions and individual projects, based on a variety of quantitative and qualitative methodologies thus determining product pricing, tenor of instruments/investments, as well as the level of provisions.

Portfolio diversification

The BSTDB seeks to maintain reasonable diversification in its credit portfolio to spread project and borrower credit risk.

Risk mitigation

The BSTDB will normally require its operations to benefit from some form of security or risk-sharing in order to mitigate the credit risks involved. When the Bank lends to public or private sector borrowers, it will normally require certain guarantees and, in all cases, will ensure that the parties involved share risks in a reasonable manner.

TREASURY

Given the relatively high credit risk profile of the lending portfolio, resulting largely from the region of operations, the Bank aims to minimize its exposure to other risks. Hence, Treasury operations are performed within conservative risk parameters. As at 31 December 2000 treasury investments, held in short term deposits and commercial paper denominated in the four SDR component currencies, were rated at a minimum of single A by major rating agencies, with the majority of the investments rated AA.

Risk management

Treasury activities are regulated within a comprehensive policy framework provided by the Financial policies, the Treasury investment authority, the Treasury investment guidelines and by operational procedures issued by the appropriate level of authority. These policy documents ensure that exposures to foreign exchange risk, liquidity risk, interest rate risk and other market risks are effectively managed and closely monitored within the criteria adopted by the Bank.

As a matter of policy the Bank will take no significant foreign exchange or interest rate positions, investing its SDR denominated capital and reserves in the correct weights of the SDR constituent currencies. Foreign exchange and interest rate exposures are monitored on a daily basis by the ALM Unit and monthly by the Bank's Asset and Liability Committee.

PRICING POLICY

The BSTDB seeks to recover all costs of intermediation (including administrative expenses, borrowing costs and provisions against expected losses) and to earn an appropriate return on its capital. The pricing of products of all types will be in line with the pricing of assets with similar risk profiles by other financial institutions and thus (to the extent such comparisons can be made and/or a market exists) reflect the market's perception of the risks involved.

ANNUAL REPORT 2000 VIII. FINANCIAL MANAGEMENT

FINANCIAL PLANNING AND CONTROL

The BSTDB is committed to budgetary discipline within the framework of budgetary policies and guidelines. The planning and budgeting process's main function is to prioritize the Bank's operational objectives, within the framework of its mission, in order to enhance the prospect of achieving them, while maintaining a balance with appropriately allocating resources.

The guiding principles of the Bank's planning and budgeting process ensure an effective utilisation of resources to best achieve the Bank's evolving priorities and objectives. Review processes and tools confirm ongoing monitoring of actual performances against targets, while establishing appropriate controls and regular feedback.

The management information reporting flow involves a Bank-wide assessment of the program objectives for the year, its costs and budgetary requirements, taking into consideration both external and internal developments.

Operational risk

Operational risk brings together all aspects of risk related exposure other than those falling within the scope of the definition of market and credit risk.

Control of operational risk within the Bank will rely heavily on a robust financial control framework and fundamental requirements of industry best practices, with appropriate checks and balances and segregation of duties, as established by related process and procedures. In addition, internal and external auditors provide a regular audit of the Bank.

D. REPORTING AND DISCLOSURES

The BSTDB's corporate governance structure is supported by appropriate financial and management information reporting. Through its reports and disclosures the Bank, in line with its policy of maintaining industry best practice, follows the reporting conventions of other international financial institutions. The Accounting Policies adopted by the Bank are based on International Accounting Standards.

With respect to external financial reporting, the Bank presents financial statements in its quarterly Summary Statements and in the Annual Report, prepared in accordance with International Accounting Standards. Pursuant to Article 35 of the Agreement, these reports are transmitted to the Governments of the Member States (Annual Report only), members of the Board of Governors and Directors and the BSEC Permanent International Secretariat. The Annual Report 2000 is the second report published following the commencement of operations of the BSTDB.

In its financial reporting, the Bank aims to provide appropriate information on risk and performance. Industry best practice will guide the evolving disclosure practice both in public financial reports and management information reporting, with the ultimate aim of enhancing accountability throughout the organisation.

BSTDB

PROFIT AND LOSS STATEMENT

For the year ended 31 December 2000

Expressed in thousands of United States Dollars	Note	Year to 31 December 2000	Year to 31 December 1999
Interest and similar income			
From loans	3	910	0
From placements with financial institutions	4	12,023	8,898
From investment securities	4	462	0
Interest expense and similar charges	5	(956)	0
Net interest income		12,439	8,898
Net fees and commissions	3	506	0
Net income (loss) on foreign exchange	5	(393)	30
Operating income		**12,552**	**8,928**
General administrative expenses	6	8,444	4,794
Depreciation		304	95
Income before provisions		**3,804**	**4,039**
Provision for losses	2	1,255	0
Net income for the year		**2,549**	**4,039**

The accompanying notes are an integral part of these financial statements.

BALANCE SHEET

At 31 December 2000

Expressed in thousands of United States Dollars	Note	At 31 December 2000	At 31 December 1999
Assets			
Cash and bank balances		244	370
Placements with financial institutions	4	139,722	180,308
Investment securities	4	60,321	0
Other deposits	8	2,550	3,617
Total deposits and securities		202,837	184,295
Loans	3	35,439	0
Equity investment	3	897	0
Less: provision for losses	2	(1,255)	0
Net loans and equity investment		35,081	0
Receivables and accrued interest	8	3,347	1,971
Share capital replenishment portion not received	8	6,244	5,648
Share capital due but not received	7	2,587	5,378
Share capital short-term subscription receivable	7	22,376	21,849
Paid-in share capital not received		31,207	32,875
Property, technology and equipment	9	1,087	638
Intangible assets	9	709	11
Less: accumulated depreciation	9	(411)	(107)
Net property, technology and equipment		1,385	542
Other assets	10	187	80
Total Assets		**274,044**	**219,763**
Liabilities			
Borrowings	11	20,500	0
Payables and accrued interest	12	2,001	187
Total liabilities		22,501	187
Members' Equity			
Subscribed share capital	7	1,302,910	1,372,510
Less: callable share capital	7	(912,037)	(960,757)
Less: payable share capital	7	(162,864)	(205,877)
Cumulative translation adjustment	7	8,610	(602)
Advance against future call	7	36	1,963
Paid-in share capital		236,655	207,237
General reserve	13	2,059	0
Net income for the year		2,549	4,039
Retained earnings		10,280	8,300
Total members' equity		251,543	219,576
Total Liabilities and Members' Equity		**274,044**	**219,763**
Off-balance-sheet items			
Commitments	3	24,114	0

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN MEMBERS' EQUITY

For the year ended 31 December 2000

Expressed in thousands of United States Dollars	Share capital: Subscribed	Share capital: Callable	Share capital: Payable	General Reserve	Surplus	Total
At 31 December 1998	**1,404,790**	**(983,353)**	**(247,421)**	**0**	**8,300**	**182,316**
Exchange rate difference on conversion of share capital	(32,280)	22,596	9,684			0
Paid-in share capital			30,278			30,278
Cumulative translation Adjustment			2,858			2,858
Advance against future call			85			85
Net income for the year					4,039	4,039
At 31 December 1999	**1,372,510**	**(960,757)**	**(204,516)**	**0**	**12,339**	**219,576**
Exchange rate difference on conversion of share capital	(69,600)	48,720	20,880			0
Paid-in share capital			22,133			22,133
Cumulative translation Adjustment			9,212			9,212
Advance against future call			(1,927)			(1,927)
General reserve				2,059	(2,059)	0
Net income for the year					2,549	2,549
At 31 December 2000	**1,302,910**	**(912,037)**	**(154,218)**	**2,059**	**12,829**	**251,543**

The accompanying notes are an integral part of these financial statements.

ANNUAL REPORT 2000 VIII. FINANCIAL MANAGEMENT

STATEMENT OF CASH FLOWS

For the year ended 31 December 2000

Expressed in thousands of United States Dollars	Note	Year to 31 December 2000	Year to 31 December 1999
Cash flows from operating activities			
Net income for the year		2,549	4,039
Provision for losses	2	1,255	0
Depreciation	9	304	95
Total adjustments		1,599	95
Receivables and accrued interest	8	(1,376)	(1,733)
Other assets	10	(107)	(22)
(Increase) in operating assets		(1,483)	(1,755)
Payables and accrued interest	12	1,814	105
Increase in operating liabilities	6	1,814	105
Net cash flows from operating activities		4,439	2,484
Cash flows from investing activities			
Funds advanced for loans and equity investment	3	(36,336)	0
Purchase of property, technology and equipment	9	(1,147)	(517)
Net cash used in investing activities		(37,483)	(517)
Cash flows from financing activities			
Increase in paid-in share capital	7	29,418	33,221
(Increase) in share capital portion not received	8	(596)	(2,195)
Decrease in share capital due and not received	7	2,791	7,178
(Increase) decrease in share capital S.T. receivable	7	(527)	13,271
Paid-in share capital received		31,086	51,475
Borrowings	11	37,230	0
Repayments of borrowings	11	(16,730)	0
Net cash provided by financing activities		51,586	51,475
Net increase in cash and cash equivalents		**18,542**	**53,442**
Cash and cash equivalents at beginning of year		184,295	130,853
Cash and cash equivalents at end of year	14	**202,837**	**184,295**

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ESTABLISHMENT OF THE BANK

1.1 AGREEMENT ESTABLISHING THE BANK

The Black Sea Trade and Development Bank ("the Bank"), whose headquarters' office is located in the city of Thessaloniki of the Hellenic Republic, is an international financial organization under the Agreement Establishing the Bank dated 30 June 1994 ("the Agreement"). At 31 December 2000 the Bank's shareholders comprised of 11 countries: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russian Federation, Turkey and Ukraine.

In accordance to Article 61 of the Agreement, the Bank was established and the Agreement entered into force on 24 January 1997.

1.2 HEADQUARTERS AGREEMENT

The status, privileges and immunities of the Bank and persons connected therewith in the Hellenic Republic are defined in the Headquarters Agreement between the Government of the Hellenic Republic and the Bank ("Headquarters Agreement"). The Headquarters Agreement was signed on 22 October 1998. The Bank commenced operations on 01 June 1999.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the Bank's Accounting Policies, which comply with International Accounting Standards (IAS). Whenever IAS will not provide sufficient guidance, the overall principles of the European Communities Council Directive on the annual accounts and consolidated accounts of banks and other financial institutions shall be used by the Bank. The Bank's balance sheet is stated in accordance with the historical cost convention.

2.1 FOREIGN CURRENCIES

The Bank maintains its books, records and reports in its functional currency, which is the United States Dollar (US$). For reporting purposes the Bank also presents its financial statements in Special Drawing Rights (SDR), the currency in which its share capital is denominated.

Foreign currency transactions are recorded on initial recognition in US Dollars by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the transaction. Exchange gains or losses arising from the translation of assets and liabilities during the period are taken to the profit and loss account.

The basis of conversion of the US$ financial statements into SDR for all assets and liabilities, are translated into SDR at closing rate 31 December 2000. Revenue and expense items are translated into SDR at the prevailing rate of the beginning of the month in which they occur. For the purpose of the preparation of the financial statements the following year-end exchange rates were used:

31 December 2000, 1 SDR = 1.30291 US$

31 December 1999, 1 SDR = 1.37251 US$

2.2 LOANS AND EQUITY INVESTMENTS

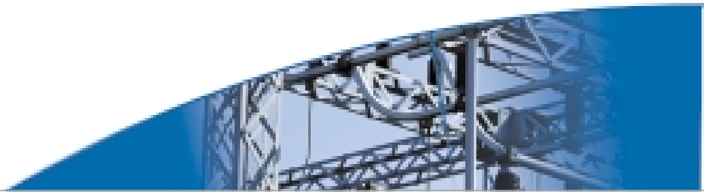
Loans are carried at the outstanding principal amount plus any capitalized accrued interest net of any general and specific provisions for bad and doubtful debts. Loans on which either interest or capital is unpaid for 90 days are classified as non-accruals. Non-accrual loans are only written off when the borrower is liquidated. Recoveries of loans previously written off are credited to the profit and loss account.

Equity investments are recorded in the functional currency less any provisions. If a permanent diminution in value is identified the equity investment is reduced in value to a level approved by the Credit Committee. When equity investments are sold the difference between the net proceeds and the carrying value is reflected in the profit and loss account as a gain/loss on sale of equity investments. Dividends are recognized as income when the Bank's right to receive payment is established or shall be offset against the proceeds on the disposal of the equity investment.

The Bank has considered the definition of associate in both IAS 28 and the European Community's Council Directive on the annual and consolidated accounts of banks and other financial institutions, in relation to its equity investments. The Bank believes that, in general, even where 20 per cent or more of the equity may be held, these investments do not come within the definition of associates, since the Bank does not normally exert significant influence over the operations of the companies it invests in.

2.3 PROVISIONS FOR LOSSES

Provisions made are classified as general or specific. The determination of what constitutes appropriate provisions is based on the risk category of the particular project and based on the credit risk assessment methodology adopted by the Bank. General provisions are made as part of the project analysis and routinely assigned over the life of a project, which are applied in two stages: at commitment and at disbursement. Specific provisions are assigned on a case-by-case basis. As of 31 December 2000 the amount of US$ 1,255 thousand reflects a provision for general portfolio risks.



2.4 INCOME AND EXPENSES

Interest income is recorded on an accrual basis. Front-end fees are recorded as income when the agreement is signed or becomes effective, whichever is the later date. Loan commitment and guarantee fees and fees received in respect of services provided over a period of time are recorded as income on an accrual basis matching the period during which the commitment exists or the services are provided. Other fees are taken to income when received. Dividends are recognized when received. General administrative expenses are recorded on an accrual basis.

2.5 STAFF RETIREMENT PLAN AND TERMINATION BENEFITS

Current service costs in respect of both defined benefit and contribution schemes (IKA) are recognized as an expense in the current period. The Bank has approved a pension plan and provisioned for all employees who are eligible to participate (see note 12), but has not been implemented as at 31 December 2000.

Upon termination staff are entitled to any termination indemnities in accordance with the termination policy of the Bank. No provision has been recorded as staff termination is not expected in the near future.

2.6 TAXATION

In accordance with Article 52 of the Agreement, the Bank, its assets, property, income and its operations and transactions are exempt from all taxation and all customs duties. The Bank is also exempt from any obligation for payment, withholding or collection of any tax or duty. No tax shall be levied on salaries or emoluments paid by the Bank to employees. Said tax exemptions are enforced by the Headquarters Agreement of Article 12, and have been implemented by the Greek Government by virtue of the ratification of Law 2707/No.78/13.04.1999.

2.7 DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business the Bank is a party to forward foreign exchange contracts and currency swap agreements. These instruments are used to hedge currency exposure associated with the Bank's assets and liabilities.

2.8 OFF-BALANCE-SHEET ITEMS

All signed commitments and contracts are disclosed as off-balance-sheet items.

3. INCOME FROM LOANS AND EQUITY INVESTMENT

As a newly established financial institution, total income from loans including net fees and commissions in the year was US$ 1,416 thousand both from project and trade financing. As at 31 December 2000 the Bank had a net outstanding balance of US$ 35,081 thousand in loan and equity disbursements. In addition, commitments as of year-end 2000 are an amount of US$ 24,114 thousand primarily to be disbursed for project finance operations.

4. INCOME FROM PLACEMENTS AND SECURITIES

The majority of interest income came from placements with other financial institutions. The Bank also invested a portion of its capital into money market instruments during the latter part of the year. The Bank became independent of EBRD, as a trustee, in the first quarter of the year and is committed to effectively manage its liquid assets in order to protect its capital and maximize overall return, while continuing to meet the Bank’s liquidity requirements. The overall quality of liquid asset investments remained high, invested in financial institutions with single A credit grade rating or better.

5. INTEREST EXPENSE AND NET LOSS ON FOREIGN EXCHANGE

It is Bank policy to hedge its share capital with the SDR component currencies in order to ensure the Bank is not adversely affected by currency fluctuations. Accordingly, interest expense and net loss on foreign exchange are primarily due to the exchange gains and losses and hedging costs arising on hedging of share capital.

6. GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses in the accompanying profit and loss statements are analysed as follows:

Expressed in US$ (000)	Year to 31 December 2000	Year to 31 December 1999
Salaries and benefits	6,022	2,740
Other administrative expenses	2,422	2,054
General administrative expenses	**8,444**	**4,794**

7. SUBSCRIBED SHARE CAPITAL

In accordance with Article 4 of the Agreement, the initial authorized capital stock of the Bank shall be one billion SDR divided into one million shares having a par value of one thousand SDR each. All participating members have fully subscribed to their portion of the initial authorized capital stock in accordance with Article 5 of the Agreement. The subscribed share capital is analysed as follows:

	At 31 December 2000		At 31 December 1999	
	SDR (000)	US$ (000)	SDR (000)	US$ (000)
Subscribed share capital	1,000,000	1,302,910	1,000,000	1,372,510
Less: callable shares	(700,000)	(912,037)	(700,000)	(960,757)
Less: payable shares	(125,000)	(162,864)	(150,000)	(205,877)
Called-up share capital	175,000	228,009	150,000	205,876
Cumulative translation adjustment		8,610		(602)
Advance against future call		36		1,963
Paid-in share capital	**175,000**	**236,655**	**150,000**	**207,237**

In accordance with paragraph 2 under Article 6 of the Agreement, payment for the portion of the shares [fully paid 10%] shall be made by each Member State within 60 days after the date on which it becomes a member of the Bank. At year end 2000 four Member States (Armenia, Azerbaijan, Georgia and Moldova) have not deposited their total share capital amount of the initial fully paid shares. The balance of share capital due but not received at 31 December 2000 was US$ 2,587 thousand (SDR 1,985 thousand) and at 31 December 1999 was US$ 5,378 thousand (SDR 3,918 thousand).

In accordance with paragraph 3 under Article 6 of the Agreement, payment for the portion of the shares [subscribed 20%] shall be made by each member by promissory notes or other obligation issued by such member. Such promissory notes shall be paid to the Bank in eight equal successive annual instalments. At year end 2000 five Member States (Greece, Romania, Russian Federation, Turkey and Ukraine) had issued promissory notes. Furthermore, three instalments, out of the total of eight equal annual instalments, were due to the Bank and six Member States (except Greece, Romania, Russian Federation, Turkey and Ukraine) had not fully paid. The balance of share capital short-term subscription receivable at 31 December 2000 was US$ 22,376 thousand (SDR 17,174 thousand) and at 31 December 1999 was US$ 21,849 thousand (SDR 15,919 thousand). Bulgaria has fully paid its three installments an amount of US$ 13,254 thousand (SDR 10,125 thousand) and issued promissory notes as of 09 January 2001.

ANNUAL REPORT 2000 VIII. FINANCIAL MANAGEMENT

The translation gains or losses on share capital subscription called-up are credited or debited to the "Cumulative translation adjustment" to duly reflect the fluctuations of the SDR value of the members' equity.

The capital subscription status and voting power of each member at 31 December 2000 is analyzed as follows:

		Subscribed	Callable	Payable	Paid	Voting Power
Member	Shares	Expressed in US$ (000)				
Albania	20,000	26,058	18,241	7,817	3,252	1.7%
Armenia	20,000	26,058	18,241	7,817	2,484	1.3%
Azerbaijan	20,000	26,058	18,241	7,817	1,297	0.7%
Bulgaria	135,000	175,893	123,125	52,768	17,589	8.9%
Georgia	20,000	26,058	18,241	7,817	2,556	1.3%
Greece	165,000	214,980	150,486	64,494	37,590	19.1%
Moldova	20,000	26,058	18,241	7,817	1,499	0.8%
Romania	135,000	175,893	123,125	52,768	24,536	12.5%
Russian Fed.	165,000	214,980	150,486	64,494	37,598	19.1%
Turkey	165,000	214,980	150,486	64,494	37,622	19.1%
Ukraine	135,000	175,893	123,125	52,768	30,779	15.5%
Total	**1,000,000**	**1,302,910**	**912,037**	**390,873**	**196,802**	**100.0%**

8. OTHER DEPOSITS AND SHARE CAPITAL REPLENISHMENT PORTION NOT RECEIVED

In accordance with Article 6 of the Agreement each Member State shall be free to select the currency or currencies and the proportion thereof in which the payment will be made. The portion of the national currency of the respective Member State in each payment shall not exceed fifty (50%) per cent of the amount due for such payment.

Romania exercised this option and its 50% contribution to the ten per cent fully paid share capital equivalent to SDR 6,750 thousand or ROL 66,021,750 thousand was deposited in a local currency account with the Central Bank of Romania. The value of this contribution converted in US Dollars at 31 December 1999 was US$ 3,617 thousand while at 31 December 2000 was US$ 2,550 thousand due to the depreciation of Romanian's currency against the US Dollar.

At 31 December 2000 an amount of US$ 6,244 thousand is due from Romania in order to replenish the value of its contribution. In addition, in accordance with the Agreement, Romania has to pay quarterly interest to the Bank on the SDR equivalent balance of the account held in local currency at its Central Bank. The accrual interest due at 31 December 2000 was US$ 1,291 thousand and is included in "Receivables and accrued interest" in the accompanying 31 December 2000 balance sheet.

The replenishment portion and the interest amount are expected to be paid to the Bank in accordance with the Rules and Regulations under Article 19.1(c) of the Agreement approved by the Board of Directors.

Expressed in US$ (000)	Year to 31 December 2000	Year to 31 December 1999
Value of share capital in central bank	2,550	3,617
Amount due for replenishment of share capital	6,244	5,648
Total share capital contribution	**8,794**	**9,265**

9. PROPERTY, TECHNOLOGY AND EQUIPMENT

Property, technology and equipment in the accompanying balance sheets are analyzed as follows:

Expressed in US$ (000)	Year to 31 December 2000	Additions	Year to 31 December 1999
Buildings (leasehold improvements)	64	49	15
Furniture, office accessories and vehicle	355	102	253
Computers and office equipment	668	298	370
Software	709	698	11
Total property, technology and equipment	1,796	1,147	649
Less: accumulated depreciation	(411)	(304)	(107)
Net book value	**1,385**	**843**	**542**

10. OTHER ASSETS

Other assets are principally composed of guarantee deposits and prepaid expenses.

ANNUAL REPORT 2000 VIII. FINANCIAL MANAGEMENT

11. BORROWINGS

The Bank utilizes short-term financing in the form of credit lines from major commercial banks.

12. PAYABLES AND ACCRUED INTEREST

Payables and accrued interest in the accompanying balance sheets are analyzed as follows:

Expressed in US$ (000)	Year to 31 December 2000	Year to 31 December 1999
Interest accrued on borrowings	304	0
Social contribution	57	6
Pension plan provision	1,129	0
Suppliers and other accrued expenses	511	181
Payables and accrued interest	**2,001**	**187**

13. GENERAL RESERVE

In accordance with Article 36 of the Agreement, the Board of Governors shall determine annually what part of net income or surplus of the Bank from operations shall be allocated to reserves, provided that no part of the net income or surplus of the Bank shall be distributed pro rata based on paid-in shares to members by way of profit until the general reserves of the Bank shall have attained the level of ten (10%) per cent of the subscribed capital including all paid, unpaid but payable, and unpaid but callable share capital.

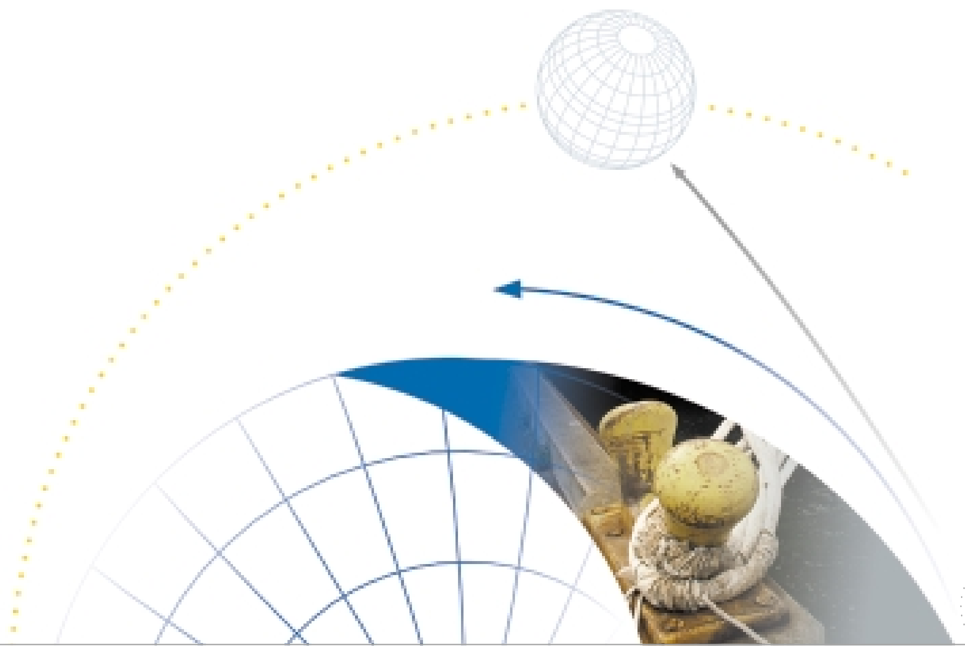
Based on the above, a general reserve has been provisioned as proposed by the Board of Directors in the 13th BoD Meeting held on 03 March 2000, to the Board of Governors. The decision of the Board of Governors for such allocation was taken in the Second Annual Meeting held on 17 April 2000. The amount transferred to such reserve was US$ 2,059 thousand (equivalent to SDR 1,500 thousand at year end 1999 exchange rate).

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, placements with other financial institutions and investments with maturities of three months or less.

15. COMMITMENTS AND OTHER CONTINGENCIES

The Bank has entered into a lease for their office facilities commencing on 01 November 1998 for a period of three years. On 01 December 1999 an additional floor has been leased and on 01 October 2000 an additional one and a half floors have also been leased, all for a period of three years and in the same building to accommodate the staff joining the Bank. The related future commitments with respect to the above lease agreements are US$ 498 thousand for 2001 and US$ 465 thousand for 2002 and 2003.



ANNUAL REPORT 2000 VIII. FINANCIAL MANAGEMENT

PROFIT AND LOSS STATEMENT

For the year ended 31 December 2000

Expressed in thousands of Special Drawing Rights	Year to 31 December 2000	Year to 31 December 1999
Interest and similar income		
From loans	706	0
From placements with financial institutions	9,139	6,556
From investment securities	360	0
Interest expense and similar charges	(742)	0
Net interest income	9,463	6,556
Net fees and commissions	384	0
Net income (loss) on foreign exchange	(294)	22
Operating income	**9,553**	**6,578**
General administrative expenses	6,427	3,513
Depreciation	237	69
Income before provisions	**2,889**	**3,582**
Provision for losses	963	0
Net income for the year	**1,926**	**2,996**

The accompanying notes are an integral part of these financial statements.

BALANCE SHEET

At 31 December 2000

Expressed in thousands of Special Drawing Rights	At 31 December 2000	At 31 December 1999
Assets		
Cash and bank balances	187	270
Placements with financial institutions	107,238	131,371
Investment securities	46,297	0
Other deposits	1,957	2,635
Total deposits and securities	155,679	134,276
Loans	27,200	0
Equity investment	688	0
Less: provision for losses	(963)	0
Net loans and equity investment	26,925	0
Receivables and accrued interest	2,569	1,436
Share capital replenishment portion not received	4,793	4,115
Share capital due but not received	1,985	3,918
Share capital short-term subscription receivable	17,174	15,919
Paid-in share capital not received	23,952	23,952
Property, technology and equipment	834	465
Intangible assets	544	8
Less: accumulated depreciation	(315)	(78)
Net property, technology and equipment	1,063	395
Other assets	144	58
Total Assets	**210,332**	**160,117**
Liabilities		
Borrowings	15,734	0
Payables and accrued interest	1,536	136
Total liabilities	17,270	136
Members' Equity		
Subscribed share capital	1,000,000	1,000,000
Less: callable share capital	(700,000)	(700,000)
Less: payable share capital	(125,000)	(150,000)
Cumulative translation adjustment	6,945	(612)
Advance against future call	28	1,430
Paid-in share capital	181,973	150,818
General reserve	1,500	0
Net income for the year	1,926	2,996
Retained earnings	7,663	6,167
Total members' equity	193,062	159,981
Total Liabilities and Members' Equity	**210,332**	**160,117**
Off-balance-sheet items		
Commitments	18,508	0

STATEMENT OF CHANGES IN MEMBERS' EQUITY

For the year ended 31 December 2000

Expressed in thousands of Special Drawing Rights	Share capital Subscribed	Callable	Payable	General Reserve	Surplus	Total
At 31 December 1998	**1,000,000**	**(700,000)**	**(176,386)**	**0**	**6,167**	**129,781**
Paid-in share capital			25,000			25,000
Cumulative translation Adjustment			2,110			2,110
Advance against future call			94			94
Net income for the year					2,996	2,996
At 31 December 1999	**1,000,000**	**(700,000)**	**(149,182)**	**0**	**9,163**	**159,981**
Paid-in share capital			25,000			25,000
Cumulative translation Adjustment			7,557			7,557
Advance against future call			(1,402)			(1,402)
General reserve				1,500	(1,500)	0
Net income for the year					1,926	1,926
At 31 December 2000	**1,000,000**	**(700,000)**	**(118,027)**	**1,500**	**9,589**	**193,062**

STATEMENT OF CASH FLOWS

For the year ended 31 December 2000

Expressed in thousands of Special Drawing Rights	Year to 31 December 2000	Year to 31 December 1999
Cash flows from operating activities		
Net income for the year	1,926	2,996
Provision for losses	963	0
Depreciation	237	69
Total adjustments	1,200	69
Receivables and accrued interest	(1,133)	(1,267)
Other assets	(86)	(17)
(Increase) in operating assets	(1,219)	(1,284)
Payables and accrued interest	1,400	78
Increase in operating liabilities	1,400	78
Net cash flows from operating activities	3,307	1,859
Cash flows from investing activities		
Funds advanced for loans and equity investment	(27,888)	0
Purchase of property, technology and equipment	(905)	(379)
Net cash used in investing activities	(28,793)	(379)
Cash flows from financing activities		
Increase in paid-in share capital	31,155	27,204
(Increase) in share capital portion not received	(678)	(1,657)
Decrease in share capital due and not received	1,933	5,020
(Increase) decrease in share capital S.T. receivable	(1,255)	9,081
Paid-in share capital received	31,155	39,648
Borrowings	28,574	0
Repayments of borrowings	(12,840)	0
Net cash provided by financing activities	46,889	39,648
Net increase in cash and cash equivalents	**21,403**	**41,128**
Cash and cash equivalents at beginning of year	134,276	93,148
Cash and cash equivalents at end of year	**155,679**	**134,276**

The accompanying notes are an integral part of these financial statements.

CAPITAL SUBSCRIPTION AND VOTING POWERS

At 31 December 2000

Member	Shares	Subscribed	Callable	Payable	Paid	Voting Power
		Expressed in SDR (000)				
Albania	20,000	20,000	14,000	6,000	2,496	1.7%
Armenia	20,000	20,000	14,000	6,000	1,907	1.3%
Azerbaijan	20,000	20,000	14,000	6,000	995	0.7%
Bulgaria	135,000	135,000	94,500	40,500	13,500	8.9%
Georgia	20,000	20,000	14,000	6,000	1,962	1.3%
Greece	165,000	165,000	115,500	49,500	28,851	19.1%
Moldova	20,000	20,000	14,000	6,000	1,150	0.8%
Romania	135,000	135,000	94,500	40,500	18,832	12.5%
Russian Fed.	165,000	165,000	115,500	49,500	28,857	19.1%
Turkey	165,000	165,000	115,500	49,500	28,875	19.1%
Ukraine	135,000	135,000	94,500	40,500	23,623	15.5%
Total	**1,000,000**	**1,000,000**	**700,000**	**300,000**	**151,048**	**100.0%**

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

ARTHUR ANDERSEN

To the Board of Governors of the
Black Sea Trade and Development Bank

We have audited the accompanying balance sheets of the Black Sea Trade and Development Bank (hereinafter called the Bank) as of December 31, 2000 and December 31, 1999 and the related profit and loss statements and statements of changes in members' equity and cash flows for the years ended December 31, 2000 and December 31, 1999. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2000 and December 31, 1999 and the results of its operations and cash flows for the years then ended, in accordance with International Accounting Standards and the overall principles of the European Community's Council Directive on the Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions.

Arthur Andersen

Athens, Greece,
20 February 2001

ANNEX A

BOARD OF GOVERNORS

As of 31 December 2000

COUNTRY	PRINCIPAL	ALTERNATE
ALBANIA	Adriana BERBERI Deputy Minister, Ministry of Finance	
ARMENIA	Vartan KHACHATRYAN Minister of Finance and Economy	Armen PETROSSIAN Ambassador Extraordinary &Plenipotentiary of Armenia in the Hellenic Republic
AZERBAIJAN	Heydar K. ASADOV Deputy Minister, Ministry of Finance	Vadim KHUBANOV Deputy Chairman of the Board National Bank of Azerbaijan
BULGARIA	Svetoslav GAVRIISKI Governor, Bulgarian National Bank	Dimitar B. RADEV Deputy Minister, Ministry of Finance
GEORGIA	Merab KAKULIA Vice President National Bank of Georgia	David KERESSELIDZE Deputy Director International Economic Relations Ministry of Foreign Affairs
GREECE	Minas STAVRAKAKIS Secretary General International Economic Relations Ministry of National Economy	Giannis PAPANIKOLAOU Director General International Center for Black Sea Studies
MOLDOVA	Victor CHIRIAC First Deputy Minister Ministry of Finance	Tatiana LAPICUS Head of International Relations Department, State Chancellery
ROMANIA	Decebal Traian REMES[1] Minister of Finance	Mircea Ionut COSTEA Deputy Minister, Ministry of Finance
RUSSIAN FEDERATION	Ivan MATEROV First Deputy Minister for Economic Development&Trade	Sergei I. KOLOTUKHIN Deputy Minister, Ministry of Finance
TURKEY	Selcuk DEMIRALP Undersecretary of Treasury Ministry of State	Ferhat EMIL Deputy Undersecretary of Treasury
UKRAINE	Victor YUSHCHENKO Prime Minister	

1 Replaced by H.E. Mihai Nikolae TANASESCU, Minister of Public Finance, as of January 2001

BOARD OF DIRECTORS

As of 31 December 2000

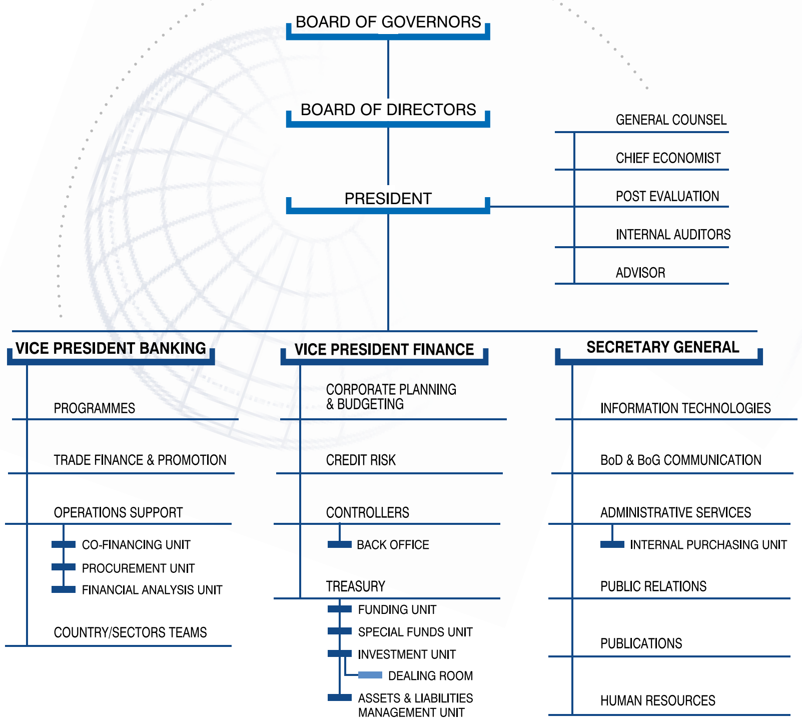
COUNTRY	PRINCIPAL	ALTERNATE
ALBANIA	Marian GJERMENI Director, Monetary Operations Department National Bank of Albania	
ARMENIA	Arthur JAVADYAN Board Member, Central Bank of Armenia	
AZERBAIJAN	Samir SHARIFOV Director, FX & Foreign Relations Department, National Bank of Azerbaijan	Adalet N. ALIYEV Division Chief, Foreign Economic Relations, Ministry of Finance
BULGARIA	Roumen AVRAMOV Member of the Managing Board Bulgarian National Bank	Nina STAVREVA Head, State Trasury & Debt Department Ministry of Finance
GEORGIA	David APTSIAURI Deputy Minister Ministry of Foreign Affairs	Georgi CHIKAVA Head, Credit Operations Division National Bank of Georgia
GREECE	Vassilios KANELLAKIS General Director International Economic Relations Ministry of National Economy	
MOLDOVA	Lidia GRACHILA Head, International Finance Department Ministry of Finance	Fiodor CHIRIAC Economist Coordinator, International Relations Department Ministry of Finance
ROMANIA	Valentina SICLOVAN Director General, General Directorate for External Public Finance[1] Ministry of Public Finance	Mioara IONESCU General Director, Ministry of Finance
RUSSIAN FEDERATION	Ivan I. SERGEEV Deputy Minister of Foreign Affairs	Anatoli S. CHERNYSHOV Deputy Minister of Trade
TURKEY	Aydin KARAOZ Deputy Treasurer, Undersecretariat of Treasury[2]	Melih NEMLI Deputy Director General of Foreign Economic Relations, Undersecretariat of Treasury
UKRAINE	Oleg RYBACHUK Chief of Prime Minister's Administration	Serhiy KRUHLYK Chief, Economic & Trade Mission Embassy of Ukraine

1 As of January 2001
2 As of January 2001

ANNEX B

ORGANISATION STRUCTURE

As of 31 December 2000



ANNEX C

CONTACTING BSTDB

as of June 2001

President	Ersoy Volkan
PRESIDENT'S DIVISION	
Office of the General Counsel	Daud Ilyas
Office of the Chief Economist	Ahmet Imre
Post Evaluation	Todor Dimitrov
Office of the Internal Auditor	Zenon Hadjiantonoglou
Advisor	Celal Karatekelioglu
BANKING DIVISION	
Vice Presidents Banking	Valentina Siclovan
	Oleg Rybachuk
PROGRAMMES	Panayotis Gavras
	Ghinea Arminio Iorga
PROJECT FINANCE	
SECTOR TEAMS	
Manufacturing, Tourism, Transportation, Financial Sector	Orhan Aytemiz
	Umberto Del Panta
Infrastructure, Energy, Telecommunications, High Technology	Gueorgui Horozov
	Konstantin Limitovski
TRADE FINANCE	Steven Beck
	Nejdet Sarizosen
OPERATIONS SUPPORT	
Financial Analysis	Elif Tunali Nikoglou
	Spiridon Michalitsianos
Procurement	Colin Conway
Environment	Hilary Hoagland Grey
Co-financing	Nikolay Danev
FINANCE DIVISION	
Vice President Finance	Andrey Kasiyanenko
Corporate Planning & Budgeting	Nicolas Papavramidis
Credit Risk	George Pahinis
Controllers	Georgeta Buzica
Treasury	Pierre Van Peteghem
DIVISION OF THE SECRETARY GENERAL	
Secretary General	Charalampos Tsarouchas
Information Technologies	Christos Georgiou
BoD & BoG Communications	Robert de Bruin
Administrative Services	Kostis Zevgaridis
Public Relations	Valery Aksenov
Publications	Ralitsa Lalova
Human Resources	Neslisah Aytug

ANNEX D

Variables	ALBANIA		ARMENIA		AZERBAIJAN		BULGARIA		GEORGIA		GREECE		MOLDOVA		ROMANIA		RUSSIA		TURKEY		UKRAINE	
	1999	2000[1]	1999	2000	1999	2000[(1), (2)]	1999	2000	1999	2000	1999	2000[(2), (3)]	1999	2000	1999	2000[(2), (3)]	1999	2000	1999	2000[1]	1999	2000
Real GDP growth in % terms	7.0	7,8	3,3	6.0	7,4	11,4	2,4	5.0[3]	2,9	1,9	3,5	3,9	-3.4	1,9	-3.2	2.0	3.2	7.0	-5.1	6.0	0.0	5.4
Inflation Annual Average	0.4*	-0.2*	0.8***	-0.7***	-8.5***	1.8***	0.4	10.4	19.2	4.1	2.6	3.2	39.3	31.3[3]	45.8	45.7	85.8	20.2	65.1	54.9	22.7	28.2[3]
Gross Investment (USDm)	617,6	699.6[3]	n.a	n.a	n.a	n.a	1,971.6[2]	2,219.6[3]	n.a	n.a	4.190	4.567	218	n.a	6,290	6,416	30,155	n.a	40,336	46,588	n.a	n.a
Gross Investment as % of GDP	16.8	19.0	n.a	n.a	n.a	n.a	15.9	17.9	n.a	n.a	26.4	27.7	18.8	n.a	18.5	18.2	16.3	n.a	20.3	22.0	n.a	n.a
Budget Balance as % of GDP	11.5	-9.5	-7.1[(ii)]	-5.9[1, (ii)]	-5.4	-0.8[(i)]	-1.0	-1.4[1]	-3.0[(ii)]	-1.1[3, (ii)]	-1.8	-0.8	-3.2	-1.2[3]	-2.6[(v)]	-4.9[(v)]	-2.2[(v)]	3.6[(v)]	-11.7	n.a	-2.4	0.5[3, (v)]
Interest Rate (Deposit Rate) %	8.5**	n.a	27,3	18,1	13.0****	10.0****	4.6[(iii)]	3.8[3]	14,6	n.a	8.9[(iv)]	6.3[(iv)]	27.6	24.9	61.2[(vi)]	50.0[(vi)]	13.7	n.a	78.4	n.a	55.0[(vii)]	41.7[(vii), 3]
Exports (USDm)	275[2]	300[2]	247[2]	284[1,2]	1,025	1,903	4,006	4,711[3]	238[3]	372[3]	12,895	15,803	469	480[3]	8,505	11,240	75,306	99,175	29,326	29,591	13,189	15,535
Imports (USDm)	938[2]	1,019.5[2]	808[2]	913[1,2]	1,433	1,399	5,087	5,867[3]	586[3]	898[3]	29,652	33,907	592	800[3]	9,592	11,941	39,460	46,036[3]	39,773	50,562	12,945	15,300[3]
Merchandise Trade Balance as % of GDP	-18.0	-20.8	29.5	33.1	-10.2	12.0	-8.7	-9.3[1]	-7.9[3]	-10.9[3]	-13.4	-16.4	-10.6	-24.9[3]	-3.2	-2.0	19.4	23.0[3]	-5.3	-9.9	0.8	0.7[3]
Current Account Balance as % of GDP	-8.0	-7.0	16.2[2]	17.9[1, 2]	-1.5	1,8	-5.5	-4.9[3]	-4.5[3]	-3.5[3]	-2.8	-3.9	-2.8	-8.1	-3.8	-4.1[1]	13.5	17.7	-0.7	-1.7	5.4	5.5[3]
FX Revenues (in USD m)	369.1[2]	360.0[2]	318.6[2]	318.3[1, 2]	672.6[2]	725	3.083	3,750[3]	n.a	n.a	18.122	15.500	185,7	230.2[3]	2,687	3,500	8,457	23,500	23,340	19,500	1,046	1,200
Exchange Rate (Local currency/ USD in annual average terms)	137.7[2]	143.8[2]	535.0[2]	539.6[1, 2]	4.126	4.475	1.836	2.123	2,02	1,98	305,6	363,6	10.52	12.43[3]	15,332.8	21,830	24.62	28.24	418,783	624,709	4,130	5,440

Source : IMF, EIU

NOTES

1 Projections
2 EIU data
3 Estimation
* Retail prices in annual average term
** 3 months deposits
*** Consumer Price Index
**** Refinancing rate in average terms

(i) Actual figure for the first 11 months of 2000
(ii) Primary central government budget balance
(iii) BNB basic rate
(iv) 1-year Treasury bill
(v) Central Government Balance
(vi) Commercial Bank Lending Rate
(vii) Interbank short-term interest rate
(n.a) Not available