Black Sea Trade & Development Bank

2001

Annual Report

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Undersecretariat of Treasury
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Chief of Economic & Trade Mission
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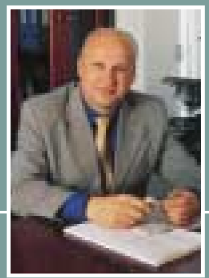
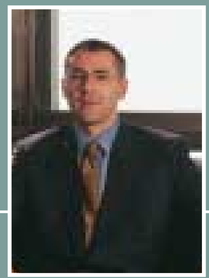
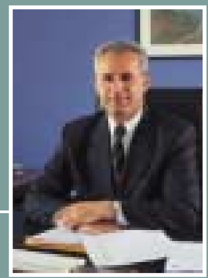
Management

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Oleg RYBACHUK
Vice President Banking

Andrei VERNIKOV
Vice President Finance

Charalampos TSAROUCHAS
Secretary General

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Chairman

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BSTDB Director
Bulgaria

Marian GJERMENI
BSTDB Director
Albania

David APTSIAURI
BSTDB Director
Georgia

To the Board of Governors

March 2, 2002

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 2001. The Bank's third 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.

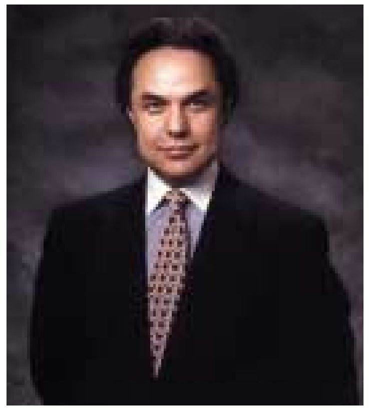
The Board of Directors is pleased to report that the Bank achieved in its third operational fiscal year a positive income from its core businesses, although the overall result was impacted by foreign exchange re-evaluation losses. The Bank continued to expand its project and trade finance operations at a rapid rate, thus fulfilling its mandate of promoting economic development and regional co-operation in the Black Sea Countries.

Mustafa Gürtin

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

Statement by the President

The development and expansion of the operations and activities of the Black Sea Trade and Development Bank during 2001 reflect the Bank's concerted efforts to consolidate its position as a regional international financial institution and to contribute to the economic development of the Black Sea Region, in line with its mission and mandate.



The bank's operations encountered adverse economic conditions that prevailed in the global economy. The economic problems in this respect came about as a result of factors such as the contraction in the US economy, which was followed by reduced import demand from Europe, together with the prolonged recession in Japan. These factors in turn led to weaker trade and foreign direct investment flows into emerging markets. The events of September 11 further worsened the global economic outlook. The effects of reduced trade and capital flows on a global scale were relatively less pronounced in the economies of the BSTDB member countries. The relatively low exposure of the economies of these countries to the US and EU economies in terms of trade and capital flows contributed to the relative immunity of the Black Sea Region to adverse conditions in the world's leading economies. This position of the Black Sea Region was reflected in BSTDB's performance in 2001. During the course the year, BSTDB was able to make good use of its expert knowledge of the Region to develop new financial products, to identify market niches and priority sectors for project and trade financing and to establish new business relationships. Thus the Bank took further steps towards becoming a significant regional player in key sectors such as energy, port & maritime infrastructure, manufacturing and small and medium-sized enterprises (SMEs). In this respect 2001 may be considered as a year of strong expansion and significant propagation of BSTDB's activities. As of end-2001, projects pertaining to all of the Bank's 11 member countries had reached various stages of the Bank's project cycle and the projects themselves had become much more ambitious in terms of size and scope compared to a year earlier. This is very much in line with the buoyant real economic growth exhibited by most of the BSTDB shareholder countries and with the Bank's development strategy.

Nevertheless, even with its favorable growth prospects our Region still continues to be somewhat overlooked by foreign direct investment and by international lenders. This leaves BSTDB a great deal of scope to expand its presence and activities on a broader scale.

During the course of 2001, a total of eleven project finance operations amounting to 87 million US dollars were approved by the Board of Directors. Some one-third of the total amount of these operations pertained to the transportation sector and 66% was accounted for by SMEs, manufacturing and energy sector projects. As regards trade finance operations, during 2001 seven operations, amounting to 47.9 million US dollars were approved by the Board of Directors.

The achievements I have summarized above constitute a clear indication of the fact that in the short period of time BSTDB has been in existence we have succeeded in realizing a satisfactory degree of market penetration in our Region.

I am convinced that as global economic conditions improve and stabilize in the period ahead, BSTDB will be able to multiply its achievements. My conviction is based on our expertise on the Black Sea Region, on our unique stock of knowledge on the latter's needs and on the experience we have accumulated with regard to efficiently meeting market requirements.

Our specialist knowledge of the Black Sea Region, supported by the conscientious efforts of our staff, will continue to be the driving engine of our future achievements.

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

1 Main Events in Year 2001

January

Mr. Charalambos Tsarouchas is appointed Secretary General of BSTDB. He replaces Mr. Nicolas Zachariadis.

February

BSTDB signs an agreement with Yapi Kredi in Turkey to finance a hydroelectric power station in the Black Sea region.

BSTDB Country Mission to Georgia.

March

The First Investment Bank of Bulgaria (FIB) joins the BSTDB Trade Finance Program. BSTDB extends a 5 million US dollar credit line to FIB.

BSTDB hosts an international Business Opportunities Meeting in Thessaloniki. In the course of the Meeting, BSTDB and other International Financial Institutions, such as the World Bank and the European Bank for Reconstruction and Development, explain the international procurement procedures to contractors, suppliers, consultants and potential clients.

April

BSTDB extends a 1 million US dollar loan to “Progress”, a food producer in Georgia.

BSTDB provides a 9.2 million US dollar loan to support environmentally safe manufacturing in Bulgaria. The loan will finance new investments by KCM, a major zinc and lead producer in the city of Plovdiv.

A BSTDB Delegation attends the Annual Meeting of the European Bank for Reconstruction and Development in London. EBRD and BSTDB are associated in many projects in the Black Sea Region such as the Trans-Balkan Gas pipeline, an ammonia project in Southern Russia as well as in financing of Small- and Medium-sized Enterprises.

Unionbank of Bulgaria joins the BSTDB Trade Finance Program. A credit line of 1.5 million US dollars is extended by BSTDB.

The construction of a tanker ship co-financed by a BSTDB loan of 10 million US dollars for Avin International (Greece) is launched by the Nikolayev Shipyards (Ukraine). The tanker will be fully operational in the summer of 2002.

May

Mrs. Valentina Siclovan and Mr. Oleg Rybachuk are appointed Vice Presidents Banking of BSTDB, replacing Mrs. Daniela Bobeva.

BSTDB holds its Third Annual Meeting and Black Sea Business Day in Tbilisi (Georgia). The Business Day is inaugurated by President Eduard Shevardnadze of Georgia.

Two commercial Georgian Banks join the BSTDB Trade Finance Program. BSTDB signs credit agreements for a total of 2.5 million US dollars with the Bank of Georgia and with the Microfinance Bank of Georgia.

BSTDB starts its Trade Finance Program in Russia, with a 10 million US dollar credit line extended to Vneshtorgbank. The pre-export facility will enable Vneshtorgbank, the leading bank in its field in the Russian Federation, to finance at least 20 million dollars of export transactions a year.

The President of BSTDB, Mr. Ersoy Volkan, and the Minister of Economy, Industry and Trade of Georgia, Mr. Ivane Chkartishvili, sign a Memorandum of Understanding to facilitate economic development through small business development and export promotion.

June

BSTDB’s Vice President Banking, Oleg Rybachukspeaks at the Regional Conference hosted in Thessaloniki by the Multilateral Investment Guarantee Agency (MIGA), part of the World Bank Group.

July

BSTDB establishes a Technical Cooperation Fund provided by the Government of the Hellenic Republic. The Contribution Agreement creating a Euro 800.000 Fund is signed in Athens by Mr. Ersoy Volkan, BSTDB President, and Mr. Yiannis Zafeiropoulos, Deputy Minister of National Economy of Greece.

Mr. Andrei Vernikov is appointed Vice President Finance of BSTDB. He replaces Mr. Andrey Kasiyanenko.

BSTDB Country Mission to Romania.

August

BSTDB participates, with a 15 million US dollar loan, in the financing of Togliatti Azot, a major ammonia producer in Southern Russia. The company, situated in the Samara region, is one of the largest exporters of ammonia and urea in the world.

September

BSTDB Country Mission to Georgia.
BSTDB Country Mission to the Russian Federation.

BSTDB Country Mission to Armenia.

The President of BSTDB attends the official inauguration of the Tarutino Gas Compressor station in the Odessa region in Ukraine, built under the first BSTDB loan agreement signed in December 1999.

BSTDB signs a Memorandum of Understanding with Inter-Balkan and Black Sea Business Centre (DIPEK).

The Black Sea - EU Conference hosted by BSTDB in Thessaloniki discusses ways to promote closer cooperation in the Region. The conference is inaugurated by Ms. Anna Diamantopoulou, Member of the European Commission. The European Commission presents its study on the future economic trends in the Black Sea Region.

October

BSTDB Country Mission to Ukraine.

BSTDB Country Mission to Turkey.

BSTDB’s President attends the first Black Sea Ministerial Conference on Transport, hosted by BSEC in Antalya (Turkey).

A BSTDB delegation participates in the Meeting of the Council of Ministers of Foreign Affairs of the BSEC countries in Antalya.

November

BSTDB Country Mission to Moldova.

BSTDB signs an agreement on the expansion of the Trans-Balkan Gas Pipeline, linking seven Member Countries. The share of BSTDB in the financing of the project amounts to 6 million US dollars.

BSTDB Country Mission to Bulgaria.

BSTDB announces the financing of a major grain terminal project in the port of Ilychevsk (Ukraine), with a 9 million US dollar loan. The maximum annual capacity of the new terminal will be 6 million tons.

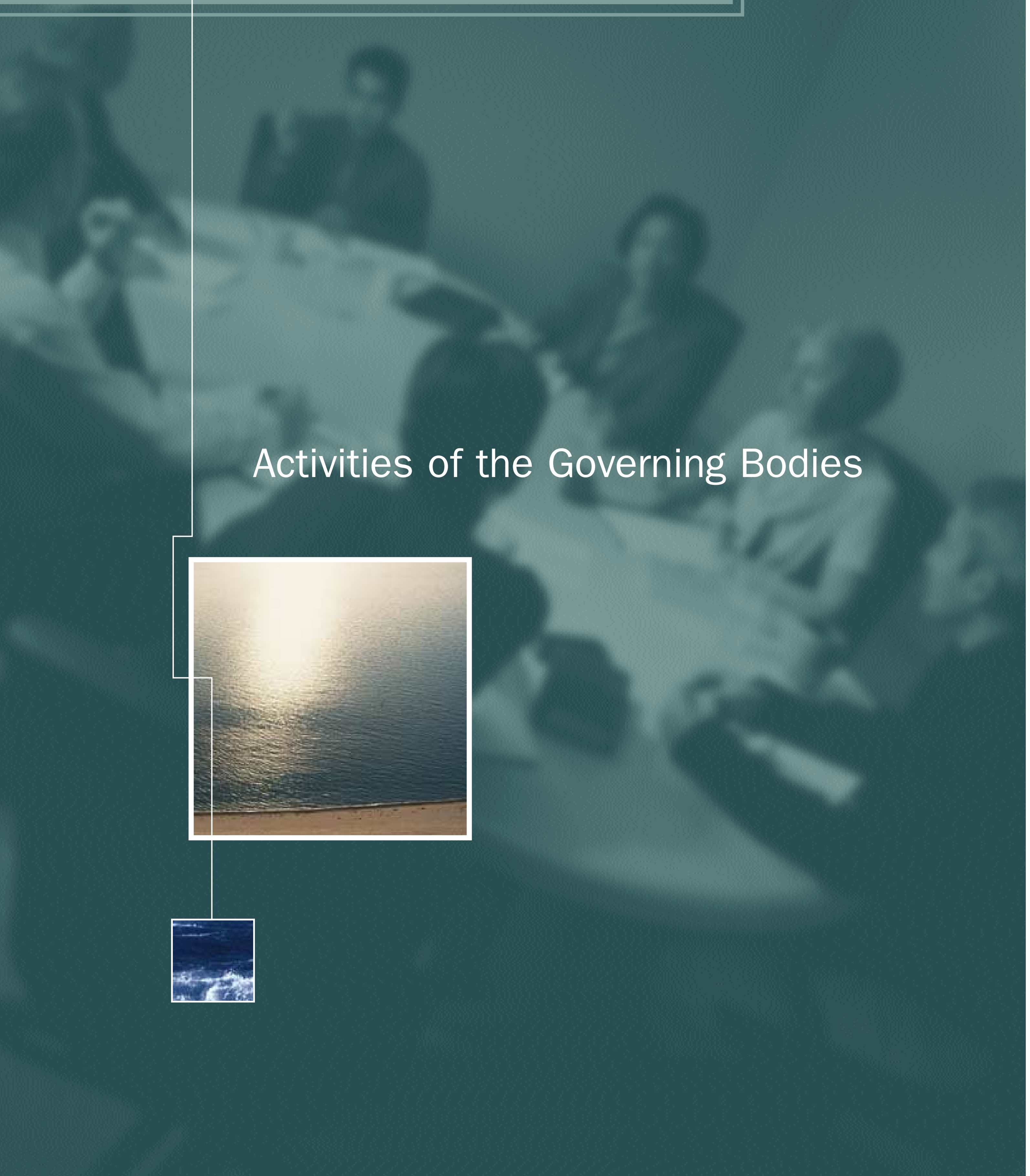
BSTDB Country Mission to Azerbaijan.

December

BSTDB signs a Memorandum of Understanding with the Islamic Development Bank.

BSTDB supports the development of Small and Medium-sized Enterprises (SMEs) in Romania through the provision of a 10 million US dollar credit line to Banc Post, one of the largest Banks in the country.

BSTDB develops its support to SMEs in the Russian Federation through a 4 million US dollar loan extended to KMB Bank, a bank specializing in SME financing in Russia.



Activities of the Governing Bodies

Board of Governors

The Board of Governors held its Third Annual Meeting on 20-21 May 2001 in Tbilisi, Georgia. BSTDB is the first international financial institution to have its annual meeting in the Caucasus. This reflects the growing importance the Bank attaches to this region and to the economies of its smaller Member Countries in particular. The Board approved the financial statements of the Bank for the year 2000 showing a positive net income for a second year following the inauguration of the Bank in 1999. The Board gave a positive assessment of the policy and operational activities of the BSTDB, which remained focused on projects in the priority sectors of energy, transport, including the ports and maritime sector, manufacturing and telecommunications, as well as on trade financing.

The Board elected Mr. Svetoslav Gavriisky, Governor of the National Bank of Bulgaria, Chairman of the BSTDB Board of Governors, and the Governors for Albania and the Hellenic Republic as Deputy Chairmen of the Board for the period until the next Annual Meeting, scheduled to take place on 14 April 2002 in Thessaloniki, Greece.

Board of Directors

In the year 2001 the Board of Directors of the Bank held seven meetings. Its main activities included the approvals of 18 new project and trade finance operations, approval of the first Special Fund and of the Bank's Country Strategies 2002-2004 for Armenia, Georgia, Moldova, Romania, the Russian Federation, Turkey and Ukraine.

Additionally, the Board of Directors approved amendments to existing policies and procedures designed to strengthen the corporate structure and performance. Revisions were adopted for the Accounting Policy and the policy on Selection and Hiring of Consultants.

In its December meeting, held at the Permanent Secretariat of the Organisation for Black Sea Economic Cooperation, the Board received H.E. Olexander Motsyk, Deputy State Secretary of the Ministry of Foreign Affairs of Ukraine representing Ukraine as BSEC Chair-Country, who presented the latest developments in the BSEC Economic Agenda as a roadmap for future development of cooperation in the Black Sea Region.

3

The Black Sea Region and World Economic Developments

Global Economic Outlook and Prospects

During most of 2001, conditions in the global economy deteriorated dramatically. This compared unfavourably with 1999 and 2000 when strong investor confidence - together with other favourable factors in both industrialized economies and emerging markets produced high growth rates. These healthy conditions had led to a general supposition that the global economy was entering a prolonged boom period. Since the second half of 2000, the abrupt decline in expectations, (rather than any significant change in real macroeconomic indicators), burst the worldwide equity markets bubble, causing a progressive weakening of economic performance in industrialized countries.

The September 2001 terrorist attacks on the US and the subsequent economic consequences exacerbated this tendency and significantly increased uncertainty in the global economy.

Contraction of the US economy, followed by the decline in import demand from Europe and a lack of meaningful signs of recovery from Japan, resulted in a decline in world output to below 1 per cent – a level not seen for some time. This slowdown has serious implications for the economies of developing countries. Indeed, declining export levels have adversely affected virtually all emerging markets, including those of the Black Sea Region. In consequence, the world economy is experiencing its most severe deceleration in output since the 1974 oil crisis.

As well as causing a decline in import demand, increased security concerns and growing uncertainty worldwide about economic prospects manifested themselves in other areas. Perhaps most notably, investor preferences in the financial community have shifted from more risky investments towards those perceived as safer. This has become evident in increased credit spreads for most lending to emerging markets. This increased risk aversion, reduced exports and declines in FDI flows and other forms of financing, will damage emerging market economies including the Black Sea Region. Net private capital flows into emerging market economies are expected to decline considerably. Weaker capital flows into emerging markets and increasing pressure on these economies' external financing positions add to the need for net external official finance to reduce difficulties related to debt-servicing.

On the basis of GDP weighted at purchasing power parity, world growth in 2001 is forecast to have slowed to 2.2 %, from 4.7 % in 2000. Underlying this is the recession in the US economy where real GDP growth may only have reached 1.1 % in 2001. This reflects a sharp contraction in investment in the first half of the year and deteriorating consumer confidence, especially after the September 11th attacks on the US.

Not withstanding the series of interest-rate cuts implemented through the year, and a package of tax cuts, the US economy is likely to stage only a modest recovery in 2002, with a higher probability of further strengthening in 2003. As a result of the economic outlook in the US and in the absence of significant indigenous factors to stimulate growth, the economies of the European Union as a whole are expected to record growth of only 1.5% in 2001 and 1.3% in 2002, with increased growth in 2003.

The economic outlook as at end-2001 is, itself, likely to contribute to the slowdown of the US economy by raising domestic investment concerns and causing yet more deterioration of business confidence. Since the US economic growth in recent years has been predominantly consumption-driven, significant recovery of the US economy may be delayed at least into the latter part of 2002. Given the significant susceptibility of the European Union to developments in the US economy, Europe's principal economies remain vulnerable to factors similar to those that may prolong the US recession.

The slowdown in the Euro area (where most economies were approaching the peak of the business cycle in early 2001) and in industrialized countries, in general, will have a dampening effect on their economies. This will probably be more visible on the export performance of Southeastern European countries amongst which Bulgaria, Greece, Romania and Turkey may be more severely impacted than others. Countries characterised by greater economic stability and relatively higher credit ratings may be able to benefit from the significantly lower interest rates available in international financial markets, thereby offsetting the adverse effects on their balance of payments arising from weaker external trade positions.

Looking ahead into 2002, a strong rebound of the global economy appears unlikely. Continued overcapacity in the US, the EU and Japan, the likely need in the US for the current negative savings ratio to be eliminated, the continued impact of the terrorist attacks on confidence in the US and elsewhere, and - not least - the continued vulnerability of many emerging markets, reduce the probability of a sharp turnaround in the global economy. Hence, any recovery of economic growth in industrialized countries during 2002 is expected to be moderate and gradual, at best. The United States may be expected to lead any such recovery, partly as the result of a lagged positive response to the interest rate cuts implemented in 2001, as well as to sizeable security-enhancement investments and reconstruction spending.

THE BLACK SEA REGION

During the course of 2001, the majority of the Black Sea Region economies recorded satisfactory growth and the extent to which most of them became exposed to major cyclical and force majeure developments elsewhere in the world, remained limited. This was mainly due to the still relatively low volume of trade between the Black Sea Region and the industrialized countries of Europe and the US. This enabled the Region in general, to remain relatively less exposed to the adverse impact of unfavourable global economic conditions. Nevertheless, Greece and Turkey (and perhaps to a lesser extent Bulgaria and Romania) are likely to experience some weakening of their current account balances because of their greater trade flows with the EU and the US. The macroeconomic repercussions of such possible deterioration of external balances may be mitigated somewhat in 2002, by buoyant domestic fixed investment and consumer demand.

In general progress towards economic restructuring in the Black Sea Region was evident, although its distribution across the constituent countries remained somewhat uneven. These restructuring efforts focused particularly on the industrial sector - specifically high-tech development, on agricultural reform and on the rehabilitation of the service industry.

Adherence to market reforms has tended to sustain forward momentum in a substantial number of the Regions economies. Many countries in the Region advanced steadily in this respect, with large-scale privatization and institution-building initiatives. Because of the variance both in the approaches chosen by different countries in their large-scale privatization efforts, and in the market values of the assets that were up for privatization, revenues related to the latter have not been uniform across the Region.

Most countries of the Black Sea Region continued to face significant challenges in upgrading their infrastructure networks. Success in this respect requires increased commercialisation and competition in the provision of infrastructure services, reforms in the tariff structure and regulatory and institutional development. Those countries, that registered progress in realising such reforms, did so primarily in response to increased demand for cost-effective services from the private sector, which itself faced more intensive international competition, than in past years. Additionally, some countries' increased efforts to achieve progress in institutional reforms, particularly in their energy and telecommunication sectors, reflected the requirements for EU accession.

Trade between the countries of the Black Sea Region and the European Union is expected to grow considerably during the current decade, with the trade balance becoming positive for The Black Sea Region as a whole. Increased trade is likely to become most evident in raw materials, energy products, and manufactured goods.

Developing the financial sectors of the Black Sea Region countries has been one of the most challenging areas in the reform agenda. Regardless of the difficulties in this respect, during 2001 banking sector reform has continued to advance in most countries of the Region, driven by the growing demand for financial services originating from the real sector, and the concern to bring the quality of financial services into line with those in the European Union.

The challenging economic environment that is expected to continue to face the countries bordering the Black Sea in 2002 will increase the urgency of implementing fiscal and monetary policies that aim to maintain both domestic and external balances. The uncertainties that govern external balances and the deferral of decisions by economically better-off countries to channel FDI flows to emerging markets, suggest that the role of such flows in financing the investments necessary to sustain economic development and growth may be constrained during 2002. Accordingly, governments of such countries are likely to give higher priority to increasing the attractiveness of their respective economies for higher FDI flows. Possible ways of achieving this include enhancing competitiveness and lowering inflation and unemployment while ensuring more stable sources of financing to help reduce the effects of structural deficits. Given that the September 2001 events and their ensuing effects have reduced the flexibility and effectiveness of conventional fiscal and monetary policy measures, tighter fiscal policies implemented in 2002 may limit economic growth.

Overview of the BSTDB Member States

A L B A N I A

Economic growth in Albania during 2001 reached 7.3 %, being the fourth consecutive year of GDP growth in excess of 7 %, and making Albania the fastest consistently growing economy in BSEC over this period. This impressive performance was achieved on the back of dynamic growth in the construction, transport, and services industries. Manufacturing industry grew at a satisfactory, albeit relatively slower pace, mainly because of the prolonged adverse effects of power shortages, and together with agriculture continued to decline in importance as a share of the economy. The high growth sectors benefited from the substantial remittances of Albanian emigrants, which amounted to over 10 % of GDP, as well as from the availability of international assistance. Inflation remained low, as a result of the successful application of tight monetary policy, with consumer prices increasing by 3 %, in average year-on-year terms. Exchange rate stability, which dampened the effects of imported inflation, low energy and food prices, as well greater fiscal discipline, all contributed to the low inflation rate. The foreign trade deficit should increase slightly in real terms due to some deterioration in export performance arising from the economic stagnation in Albania's main trading partners in the European Union. Still, the annual volume of merchandise exports is expected to grow by 17.3 % in US Dollar terms with respect to year 2000, while imports of goods may grow by as much as 12 per cent. The current account is likely to post a deficit in 2001, estimated at 5.4 % of real GDP, compared with the 4.1 % deficit recorded in the previous year. Foreign direct investment (FDI) should maintain the momentum acquired in the second half of 2000, thus helping the capital account to sustain a surplus.

The state budget is expected to post a slightly lower deficit, relative to GDP, than was the case in 2000, reflecting the above-target performance of public revenue and expenditure schemes. The GDP share generated by private business should increase in 2001, relative to the 70 % level achieved in the previous year, as a result of progress in privatisation, successful implementation of schemes promoting SMEs, and proliferation of new private enterprises during 2001. An important side effect of these developments was the decline in unemployment to 15.1% in the third quarter of 2001, from 16 % in the previous quarter and from 18 % in the same period of the previous year.

The pace of economic reform in Albania slowed in 2001, and a number of planned privatizations were delayed. Structural reforms are still needed in the industrial sector, and accelerated energy sector reform and development have become imperative in order to expand capacity. Energy shortages and irregularities threaten the continuation of high economic growth and render business activity rather challenging.

A R M E N I A

Armenia achieved strong real GDP growth in 2001, estimated at 9.6 %, thus maintaining its robust growth trend, Since 1994, Armenia's GDP has grown by 45 % cumulatively, driven by continuous industrial restructuring. In 2001, industrial production rose by 3.8% (8.5% excluding the energy sector), while total investment amounted to US$ 270 million of which some US$ 90 million was foreign investment. Growth was particularly favourable in the transport and telecommunications sectors while improvement in agriculture was also noted. These advances, together with declining unemployment resulted in buoyant economic activity in 2001 as industrial production rose by 3.8%, while revenues from the sale of goods produced increased by 14.8% and exports rose by 14.1 per cent. The trade deficit fell by 10.4% year-on-year, due to the growth in merchandise exports, while imports of goods decreased by 0.6 per cent. The overall trade balance is expected to remain unchanged during 2002, as is the case regarding the current account deficit, which is estimated to be contained at about 9.3% of Armenia's GDP – almost at the same level as in the previous year.

Budget deficit levels have proved sustainable and non inflationary at an average of around 5 % of GDP. This has been due in part to the availability of external support in concessional form, but mainly to the Governments demonstrable commitment to maintaining stability and willingness to impose austerity measures when necessary. Furthermore, Armenia has a strong and credible track record of maintaining a tight monetary policy, strictly limiting credit extended to the Government by the Central Bank. Thanks to improved budget planning and better revenue collection, the arrears position has greatly improved, with no new arrears accumulated during 2001 and a plan to eliminate previous arrears by 2003.

During 2001, Armenia continued the substantial macroeconomic progress achieved and sustained over the last few years, despite a series of endogenous and exogenous shocks. As a result, Armenia has achieved an adequate level of economic liberalization with free market price setting, a more open foreign trade regime, and a consistently implemented privatisation program. In the future, the government is expected to concentrate efforts on further rationalising public expenditure, as well as on implementing additional privatisation and on improving enterprise restructuring. The latter should lead to increasingly competitive exports and a more investment-friendly business environment. All these factors should sustain robust growth and stabilize the country's external position, while the additional funding assistance agreed upon by the US is expected to further assist improvement of the country's financial position in 2002.

A Z E R B A I J A N

Azerbaijan made impressive economic progress, embarking on a non-inflationary sustainable economic growth path and continuing the successful stabilization program started in 1995. Real GDP grew at around 9.6 % in 2001, thanks to increased investment, higher exports of oil and oil-related products and buoyant activity in the energy sector related service industries.

Azerbaijan's foreign trade balance of goods ran a surplus estimated at 9.9% of the country's 2001 real GDP, although the falling trend in oil prices that started in September 2001 reduced export revenues and resulted in a trade deficit in the third quarter of 2001. Expenditure on imports is expected to show a small, if any, increase due to lower imports of capital goods used in the development of new energy fields. Declining oil revenues were reflected in a shrinking current account surplus in the third quarter of 2001. The current account balance for the whole of 2001 should yield a deficit approaching 3.4 % of GDP, in real terms. This reflects mainly lower oil revenues and increased services debits related to the development of the oil sector.

Macroeconomic stabilization advanced further in 2001, thanks to fiscal and monetary policies designed to contain inflation. The Consumer Price Index is estimated to show an increase of only 1.6% in annual average terms. Tight fiscal policy is targeting a budget deficit of 2 % of GDP for 2001. The government is unlikely to encounter significant impediments to achieving this target. In the first three quarters of 2001, the budget balance recorded a surplus equal to 0.7 % of GDP. Meanwhile, monetary policy adopted a counter inflationary stance allowing the Manat to depreciate by only 4.6 % year-on-year in nominal terms against the US Dollar, as of end-2001. Greater effort should be devoted, however, to structural reforms aimed at diversifying the economy away from the oil sector and towards a competitive manufacturing industry.

The key challenge faced by Azerbaijan is securing a balanced development of the country, particularly by stimulating the growth of the private non-oil sector. Fast progress in privatization and reform of the financial sector will be critical in this respect. A strong private sector development in the non-oil business would enhance country's long-term growth prospects and provide enhanced opportunities for the country's human capital.

BULGARIA

Bulgaria's real GDP growth rate is estimated to be 4.5 % in 2001, after a record growth of 5.8 % in 2000. Robust real GDP growth rates of 4 % and 5% are projected for 2002 and 2003 respectively. The budget deficit was limited to 0.9 % of GDP in 2001, and the government is committed to contain the deficit to 0.8 % of GDP in 2002, while targeting to achieve a broadly balanced budget in 2003 and maintain it in the medium term. The currency board arrangement puts strict limits on the money supply, which led to a substantial deceleration of inflation to an estimated 4.8 % in 2001.

The banking sector restructuring was successful in achieving stability and restoring confidence. The government's stake in the Central Cooperative Bank was sold in November 2001 to a strategic investor. As of December 2001, around 80 % of the banking sector was in private hands. The gross external debt of Bulgaria as of 31 December 2001 amounted to US$ 9,894.4 million, reflecting a decrease by 4.5 % compared to end-2000. The ratio of gross external debt to GDP steadily decreased from 86.5 % of GDP in December 2000 to 73.3 % at the end of 2001. In November 2001, the government successfully launched a EUR 250 million bond issue, maturing in March 2007, and having a 7.25 % fixed annual coupon. The rating assigned by Fitch to this issue was B+, in line with the long-term credit rating for Bulgaria's sovereign debt. The success of the issue, which was four times oversubscribed, reflects the international capital markets' increased confidence in the country.

Continuing the growth pattern, but at a slower pace, Bulgaria's exports increased by 5.6% in 2001 compared with the previous year. The deceleration of Bulgaria's exports in 2001 is attributable to the downturn of economic growth in Europe, Bulgaria's main export destination. In 2001, Bulgaria's imports of goods increased by 11.1% compared with 2000, thus outpacing the growth of exports and contributing to widening the current account deficit.

Bulgaria's current account deficit is offset, so far, by foreign direct investments net inflows, thereby avoiding an increase in foreign debt,. The growing services surplus, due principally to sharply rising tourism revenues, helped to offset the trade deficit. In 2001 the external current account deficit increased to 6.4% of the official GDP projection.

The stabilization of the macroeconomic conditions and the progress in the structural reform make the country increasingly attractive for foreign investors. Government's commitment to improve the business climate is expected to lead to further increases in the level of FDI in the country.

Privatization has advanced considerably in recent years, and by the end of 2001 more than half the assets of state-owned enterprises have been privatized. The highest share of state ownership remains in the energy, communications, and railway transport sectors. The government intends to privatize the remaining large enterprises by the end of 2002. Notwithstanding progress in economic performance, job losses associated with structural reforms could not be fully compensated by job creation. As a consequence, persistent high unemployment is among the key challenges in Bulgaria.

Further progress towards EU accession remains a top priority for the Bulgarian government and should help safeguard the uninterrupted implementation of its structural reform programme.

GEORGIA

Georgia's economy has seen in 2001 better growth prospects than in previous years. The country's GDP is estimated to have grown by 4 % in real terms during 2001 representing a clear acceleration from the previous year. This advance is based on strong growth in some service industries, specifically transport, and a considerable rebound in agriculture following the 2000 drought. Growth was hindered by an industrial output fall, rooted in power shortages.

Industrial contraction, along with the economic crisis in Turkey, (Georgia's main trading partner accounting for over 20 % of its exports and about 15 % of its imports) resulted in declining export revenues which, in conjunction with increasing imports, expanded the country's trade deficit. The current account deficit is projected to amount to 9.7 % of GDP. That ratio would be reduced to 6.4% after taking transfers into account.

External public debt stood at US$ 1.7 billion as of end-2001. Approximately half of this was accounted for by multilateral debt and half by bilateral debt, with Turkmenistan and Russia accounting for most of the bilateral debt, and the major part of multilateral debt being owed to Paris Club donors. Georgia reached agreement with the IMF on a three-year US$141 million Poverty Reduction and Growth Facility Loan in early 2001. This was followed by agreements with the Paris Club and Russia on debt restructuring, which should provide the country with a measure of relief through 2003. However, there was no agreement with Turkmenistan, Georgia's largest bilateral creditor.

Georgian exports have grown at double digit rates, albeit from a low beginning level and with little increase in exports of manufactured goods. Georgia became a member in the World Trade Organization in July 2000. Import, export, and exchange restrictions, as well as capital controls, have been largely eliminated since then. In the coming years, WTO membership should boost Georgian exports, by providing better access to markets and preferential tariff rates. Georgia continues to run high trade deficits, but these have declined steadily, reaching an estimated 6.4% of GDP for 2001. Inward FDI flows to Georgia amounted to US$ 672 million between 1995-2000. Among BSEC countries, Turkey and Russia are the two main investors in Georgia.

During 2001, inflation followed a declining trend, under the pressure of relatively tight monetary policy and falling food and oil prices. Power shortages, leading to higher utility prices, countered this trend. The consumer price index is projected to have increased at an annual rate of 5 % as of end-2001. Tight monetary policy contributed to a stable Lari, Georgia's national currency, against the US Dollar, although the low level of Georgia's international reserves may pose a threat to the Lari's relative stability in 2002. Financial support for the country's oil sector, expected from multi-lateral lenders during 2002, should help alleviate the country's energy-related problems.

GREECE

Despite unfavourable global economic conditions, Greece's real GDP growth, which has been consistently over 3 % since 1997, reached 3.9 % in 2001. While this figure represents a downward revision from original estimates, due to the global economic downturn, it was among the highest in the EU, and more than double the EU average. Industrial production increased by 1.3 % in the first nine months of 2001. In October industrial output rose by 2 % year-on-year, following a 2.6 % rise in the month before, suggesting that the September 11th events had only limited immediate impact on the Greek economy. Industry should maintain the same trend beyond 2001, as suggested, inter alia, by positive economic sentiment in manufacturing.

Greece's GDP expansion in 2001 was based on two factors. A strong fixed investment growth rate of around 8 % for the year (in particular, intensive construction activity related to preparations for the 2004 Athens Olympic games, coupled with interest rates falling towards the Eurozone average, after Greece's accession to the European Monetary Union, enhanced investment activity). Private consumption is also expected to have increased by over 3 % in 2001, benefiting from credit expansion, tax cuts and moderate real wage increases.
Greece's current account deficit is estimated to have shrunk to about 4 % of GDP in 2001, from over 5 % a year earlier. This was due to a lower trade deficit the result of a significant rise in exports offsetting a rise in import expenditures. Higher net receipts from tourism and travel services are likely to lead to a significantly larger invisibles' surplus, while the invisible incomes account is also expected to post an increase due to higher net interest receipts. Meanwhile, foreign direct investment registered a net inflow of more than 1 billion Euro, and portfolio investments showed a net inflow of around 10 billion Euro.

The 2001 state budget is projected to register a modest surplus. Fiscal policy capitalized on the reduced debt servicing costs resulting from the convergence of Greek interest rates to the Eurozone average on improved tax collection. However, the deterioration of economic conditions after September 11th, affected revenues adversely and led the government to revise its fiscal target downwards from a surplus of 0.5 %, to 0.1 % of GDP. Fiscal policy is expected to remain tight aiming to further reduce the public debt from the 99.6 % of GDP level that was achieved in 2001.

Despite oil price volatility and a rapid decline in interest rates, the latter fueling a large expansion in credit to the private sector, the increase in inflation during 2001 was moderate at 3.4 %, within the Maastricht parameter. While the overall debt level remains above the 60 % 'Maastricht' target, it continued its downward trend for the fifth consecutive year, dropping below 100 % of GDP.

The most significant recent economic development for Greece in 2001, was entry into the European Monetary Union (EMU), having successfully achieved and sustained the 'Maastricht' macroeconomic criteria mandated for accession eligibility. As a result, Greece introduced the Euro as its official currency as of 1 January 2002, along with 11 other European Union Members.

MOLDOVA

Moldova recorded strong GDP growth of 6.1 % in 2001, benefiting from significant improvement in agriculture, achieved on the back of successful farm privatization implemented in recent years. This suggests that the pattern of economic decline that characterized the 1990s has changed, and that the economy is on an upswing, building favorably upon the modest growth initially achieved in 2000. During 2001, industrial output registered an annual increase of 14.2 %, particularly as a result of the uptrend that emerged after May. Exports, of which 60% were agriculture-related products, improved, driven essentially by robust import demand from Russia. With over 64% of total exports in 2001 Russia was Moldova's main trading partner. During the course of the year, total exports were up by 23.6 % and imports by 15 %, compared to the previous year. Accordingly, the trade deficit contracted only slightly year-on-year, maintaining a share of around 15 % of the country's GDP. That in turn contributed to a relatively high current account deficit, amounting to over 5 % of GDP. This generally favourable economic outlook has been achieved in a stable macroeconomic setting in which inflation has declined to single digit levels and fiscal deficits have been lowered and are no longer financed by unsustainable or inflationary means. The exchange rate and reserves are stable, domestic confidence is returning and demand and to some extent investment have picked up.

While the overall outlook for Moldova's economy is encouraging and there has been evident progress, the economy continues to face numerous difficulties. Many of these derive from the lack of diversification in both the economy at large, with its high reliance on agriculture and food processing, and in its export destinations, with Moldova being dependent on a limited number of countries for its exports. As a result, Moldova has a large structural trade deficit, which results in high current account deficits that in turn require external financing, mainly from multi-lateral lenders. Due to these essentially structural factors, Moldova has accumulated a large volume of external debt, two thirds of which is public or publicly guaranteed. Accordingly, the country faces a sharp debt servicing 'spike' in 2002, which will require careful management and strategic choices. Any failure in these respects may threaten some of the stabilization achievements of the last few years.

Moldova is still a long way behind pre-independence levels of economic development, emigration rates and poverty levels remain high, and the business environment needs to improve further to attract greater volumes of investment. The latter is particularly important, since Moldova's manufacturing base is small and focused on food processing. Having achieved macroeconomic stability, and a base of growth, the challenge for the Government is to continue reforms, which further establish a favourable environment for sustained private sector growth. Accordingly, over the coming years, attracting foreign investment and improving export performance, particularly in manufacturing, will be critical in order to achieve higher growth rates, create new employment opportunities, and increase welfare.

ROMANIA

During the course of 2001, Romania followed up strongly on the modest economic recovery of 2000. The economic program adopted by the Government centered on resuming economic growth, containing inflation and strengthening the financial sector. The annual GDP growth of 5.3 % was driven by buoyant private sector activity in industry and construction, as well as by agriculture. Total consumption increased by 5.8%, with private consumption growing especially fast at a rate of 6.8 % and gross fixed capital formation at 6 per cent. The real rate of growth of GDP in 2001 was 5.3 %, which was above government expectations, thanks to strong export performance, high rate of growth of industrial output of 8.2 %, and productivity gains. The GDP growth rate for 2002 may be lower than initially projected, due to the economic contraction in the European Union, the main export destination for Romanian goods. However, resilience in consumption in Italy and Germany in particular (accounting for over 40 % of Romania's exports) may reduce the negative impact of slower growth rates in the EU on Romania's export-led growth.

Inflation came down slowly, but in line with the program target, to 30.3 % year-on-year at end-December. Consumer Price Inflation is projected to slow down to 22 % year-on-year by end December 2002. This would help reduce nominal interest rates with a subsequent positive impact on public finances, through a reduction in the sizable interest cost of domestic public debt.

The consolidated budget deficit in 2001 reached 3.5 % of GDP, thus meeting official targets, while the primary surplus declined to 0.6 % of GDP. Declining real interest rates and renewed access to international capital markets - following improvements in sovereign debt credit rating - helped reduce the burden of domestic public debt servicing, with positive impact on the overall budget performance.

The Romanian government's economic policy priorities in 2002 will focus on reducing the budget deficit and implementing structural reforms, including accelerating privatisation and restructuring the financial sector, so as to meet the conditions of its stand-by agreement with the IMF, which commits the Romanian government to reduce the consolidated budget deficit by means of fiscal tightening. Sustaining the improvements achieved during 2001, as regards the country's energy policy, the acceleration of the privatization process, the consolidation of the financial and banking system, the strengthening of financial discipline, and the consolidation of the administrative capacity to apply the reforms should altogether assist the Romanian economy in reducing the adversities brought about by the global slowdown and by economic policy tightening. The country's banking system remains vulnerable to shocks in spite of the reforms that have been implemented in recent years, particularly as regards strengthening supervision.

RUSSIA

The Russian economy continued to show steady growth in 2001, with GDP growing by 5.3 % year-on-year. Growth of investment accelerated strongly in the second half of the year, resuming its position as the leading factor in Russian economic expansion. GDP growth decelerated from the formidable 8.3 % rate registered in 2000, to an estimated rate of around 5 % in real terms. Declining oil prices, the slowdown in global demand and the somewhat sluggish pace of restructuring contributed to a deceleration of GDP growth. In contrast, private consumption and fixed investment were the main driving engines that accelerated GDP expansion, especially in the second half of the year. The same trends were also evident in both the trade and current account balances. Increased exports mitigated concerns about foreign exchange reserve levels and the ability of Russia to service its sizeable external debt. Together with the improved fiscal balance, such concerns prompted Russia to plan for future debt spikes by announcing the establishment of a reserve fund, thus further improving the image of the economy and paving the way to a series of credit rating upgrades during 2001. One side effect of the large inflow of capital, however, was the kindling of post-devaluation pressures on price levels. Despite increased monetization of the economy, average inflation grew at nearly 22 % in 2001, and inflationary expectations remain stubbornly high, rendering difficult any efforts to decelerate inflation to single digit levels. Given the nominal stability of the ruble, this has amounted to a sizeable appreciation of the real exchange rate.

Investment growth remained heavily concentrated in fuels and transportation which, together, accounted for almost two thirds of the growth of investment, with pipeline transport of crude oil accounting for the major portion of this growth. This structure raises some concerns as regards the sustainability of investment expansion and balanced growth of the Russian economy, in the face of oil price volatility and suggests that investment remains highly sensitive to possible future declines in world market prices for oil, which would result in a reduction in the revenues of the country's energy sector.

Fiscal policy remained fairly stringent, diverting additional revenues resulting from improved tax and customs administration systems and new tax legislation, to debt servicing. Buoyant economic growth improved fiscal and current account conditions, as well as accumulated foreign exchange reserves, while debt restructuring efforts supported the reduction of external debt from almost 90 % of GDP in 1999 to an estimated 47 % as of end-2001. Russia's external liquidity position, and hence its ability to service its debt, improved dramatically. The smooth approval of the 2002 budget in mid-December provided concrete evidence of a willingness to improve budgetary discipline, which was also reflected in the decision to make a part of public spending in 2002 contingent upon realization of government's planned revenues for the year.

Notwithstanding the promising developments witnessed in 2001, some inefficiency in the operational environment of enterprises and operating methods of companies, continue to hinder the development of the Russian economy. These issues were addressed at least in part during 2001 by legislative reforms that gathered momentum particularly in the second half of the year and which included amongst others, the new Bankruptcy Law, the Corporate Conduct Code and the Customs Code. These reforms appear to have advanced to an extent that would provide an effective shield against the adverse effects of possible further falls in oil prices. Continuation of structural reforms will play a key role in sustaining favourable expectations for the Russian economy during 2002 and it will help attract additional external and domestic investment. Restructuring of the financial sector should play an especially important role, for while some radical financial and banking sector reforms were considered in 2001, the financial sector remains one of the weaker areas of the economy. Retained earnings remain the principal source of financing, and the relatively modest financial intermediation or mobilization of capital to finance new investment needs to be enhanced.

TURKEY

The Turkish economy exhibited an unfavourable outlook throughout 2001. Real GDP fell by 9.1 % in 2001, as private consumption collapsed and fixed investment expenditure came to a virtual standstill. Low consumer and business confidence, a significant reduction in bank credit combined with high real interest rates, fiscal tightening and higher import costs that resulted from the devaluation, all contributed to this outlook. Sluggish external demand for Turkish exports and the damaging effects – particularly on tourism – of the September 11th terrorist attacks, exacerbated fundamental economic problems. Unemployment rose to 8 % in the third quarter of 2001 compared with 6.9 % a year earlier, mirroring the stagnant economic outlook. The January-September 2001 foreign trade deficit, at US$7.5bn, pointed to reduced external demand, but higher tourism earnings helped produce a current-account surplus of US$2.5bn in the nine-month period. Following from these developments inflation increased 2.5-fold annually, compared with December 2000. High interest rates and decline in credits pressurised the real sector, in particular SMEs.

The consolidated general government deficit in 2001 represented 21.4 % of GDP, already having remained at very high levels for a prolonged period. Despite a primary surplus, the cost of servicing increasing public debt contributed to large public sector deficits, whose cost is constantly increasing, due to persistent high real interest rates. Inflation accelerated in 2001 to 68.5 % year on year. The devaluation and weaker domestic demand resulted in a surplus on the current-account balance of 2.8% of GDP (exports increased by 7.5 %, but imports declined sharply by 27.1 %), which will help to ease the burden of Turkey's external debt repayments.
Gross foreign debt continued to expand rapidly,

standing at US$ 122.6 billion (87.6 % of GDP) as at end-2001. External debt service amounted to 37.3% of current account receipts, at end-2000 and is projected to have increased to 43% in 2001.

Recovery of the Turkish economy following the recurrent economic crises of the last two years is expected to be relatively slow and moderate. This is due to a host of factors including slow wage growth and lower employment, impaired investor confidence, outstanding banking sector and corporate debt problems, tight fiscal policy and political uncertainty. The risk of domestic debt rescheduling emerged as a serious threat and, in mid-November, the IMF announced that it would provide Turkey with financial assistance under a new stand-by agreement scheduled to last for three years, this being in addition to the amount still available under the existing programme. During 2002, Turkey is expected to repay some US$5.5bn of IMF debt outstanding. IMF approval for a new stand-by accord and the associated financing depends on fulfillment of a number of preconditions that include the ratification of key legislation on public procurement, liberalization of the tobacco market, as well as due implementation of fiscal austerity measures. Additional international support from the international financial community should avert new financial crises, although a number of risks remain. These include the possibility of a deeper and more prolonged downturn in the US, with significant negative implications for the EU. Inflationary expectations will remain hard to break, but provided that the 2002 economic targets are not compromised, consumer price inflation may fall to a level near 40% by end-2002. The current-account surplus should also narrow in 2002, as external demand for Turkish exports and tourism revenues weaken, thus offsetting the positive effects of the TL devaluation. The economic outlook, as at end-2001, implies that during 2002 Turkey will need to spend considerable effort towards achieving the tight fiscal targets that were agreed with the IMF. Turkey's macroeconomic programme and structural reform policies for 2002-2004, which are supported by the 3-year stand-by arrangement with the IMF, will play a significant role in rationalizing Turkey's public sector debt in 2002 and placing the country on a sustainable growth path.

UKRAINE

Ukraine made significant progress in 2001 towards attaining greater macroeconomic and financial stability. Encouragingly, the strong growth took place in an environment of fiscal balance and decelerating inflation. Real GDP posted a growth rate of 9.7%, driven mainly by buoyant domestic demand and originating predominantly from fixed investment that expanded by around 17 per cent. Exports of goods and services grew by 6%, implying a slowdown with respect to the year 2000. This was essentially due to narrowing international markets, simultaneously with some growth in domestic demand that together created a substitution effect from external towards domestic demand. The 20% VAT imposed by Russia - Ukraine's main trading partner - on imports, reduced the competitiveness of Ukrainian exports to Russia. Increasing demand for both capital and consumer goods, stemming from accelerated investment activity and the ensuing rise in real incomes, were the main factors underlying the increase in imports. Counterbalancing fluctuations in exports and imports are expected to result in some reduction of Ukraine's merchandise trade surplus. Nevertheless, the current account surplus should remain unchanged, due to the observed increase in the volume of transfers.

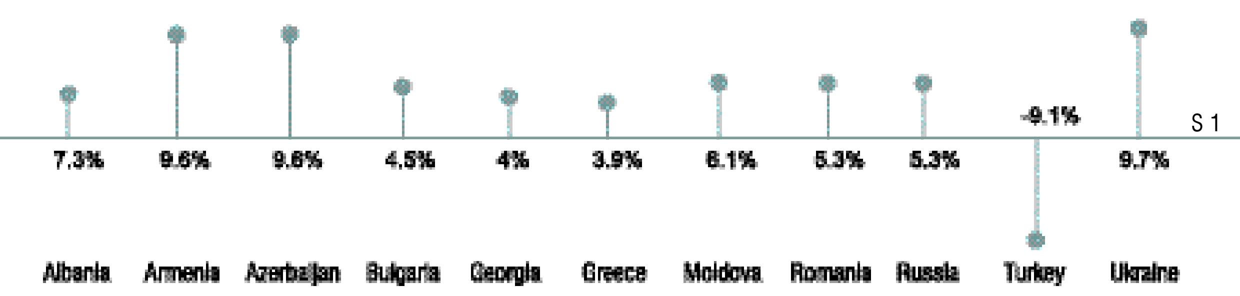
Ukraine's budget was in balance in 2001, following the budget surplus achieved in 2000 for the first time, and without any expenditure arrears. Inflation fell to 12% and has maintained a downward trend which is based on a series of 'healthy' economic fundamentals, including better fiscal policy, strong economic growth and increased monetization which have increased real demand for hryvnia, and current account surpluses which have helped the currency appreciate, reducing any inflationary pressure from imports. Alongside these favourable fiscal and monetary developments, Ukraine successfully renegotiated its sovereign debt with both private creditors and with the Paris Club, further easing pressures on the economy.

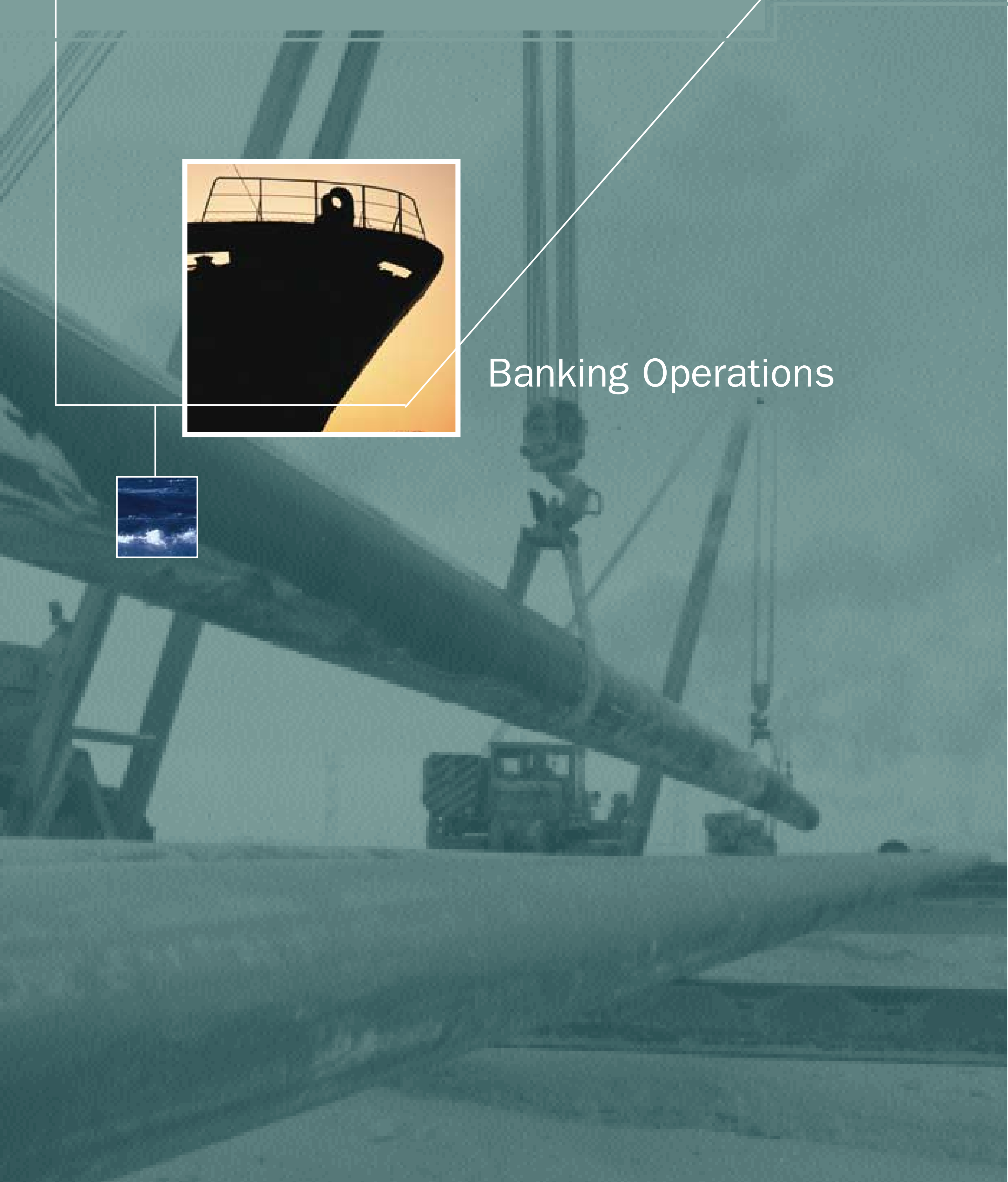
Inflation in Ukraine declined dramatically in 2001. As of year-end 2001, the consumer price index recorded a 6.1% increase, which compares with a 25.8% rate a year earlier. Much lower food prices and a relatively stable hryvnia - Ukraine's national currency - together contributed significantly to deflating the economy. However, Ukraine's monetary policy exhibited a rather expansionary stance in 2001, with money supply rising by an estimated 35% and the Ukraine's Central Bank refinancing rate being cut by 14.5 basis points between January and December 2001.

Improved fiscal management achieved a reduction of the general government's deficit to an estimated 1% of GDP in 2001, from 1.3% the year before. Tighter expenditure controls, reduced budget offsets, cuts in tax privileges and social subsidies and higher tax revenues all contributed towards a strong budget performance. The decline in the budget deficit, along with rapid GDP growth, debt restructuring and lower interest rates, helped gross general government debt, as a ratio to GDP, to decrease from 37% at the end of 2000 to an estimated 32% a year later.

Despite some improvement in investment levels, perceptions of Ukraine as a risky commercial environment remain. Such perceptions have kept levels of foreign direct investment low, while hindering development of new small and medium enterprises. Thus, poverty levels that had accelerated during the 1990s remain high, wage levels low, and the distribution of economic growth uneven.

The Black Sea Region in 2001: A Year of Steady Growth





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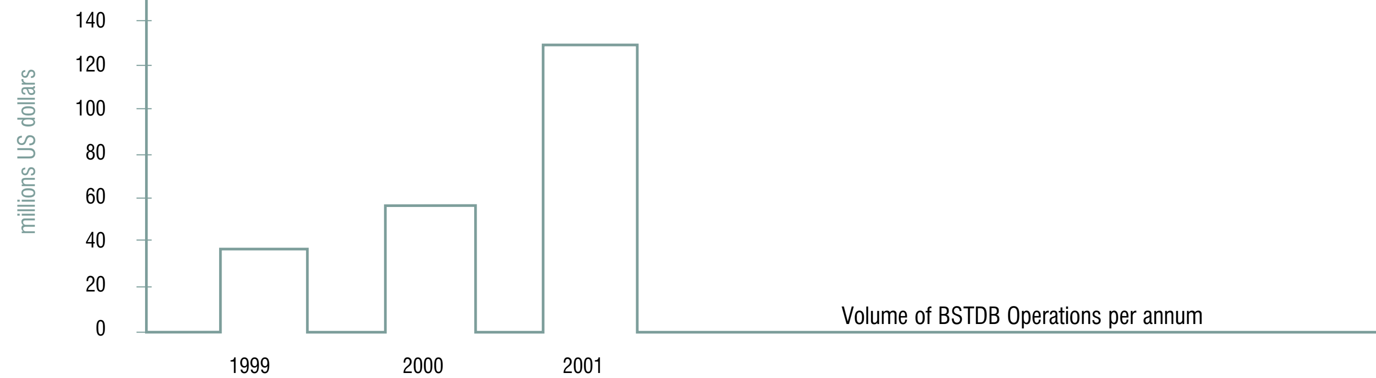
Banking Operations

Entering 2001, a key operational objective of the Black Sea Trade and Development Bank was to begin turning the first two years of planning, preparation and marketing into tangible banking results that could be measured in the size and scope of the portfolio, in the quality of credits and the sectoral and geographic reach. The portfolio at the end of 2000, covering projects approved since the commencement of operations in June 1999, stood at 14 operations totaling 104.43 million US dollars. During 2001, 18 additional project finance and trade finance operations were approved by the Bank's Board of Directors for a total of 134.92 million US dollars. Thus, in the course of 2001, the Bank more than doubled the size of its outstanding portfolio, relative to the first two years of operations. Factoring in project cancellations, the Bank's portfolio at the end of 2001 stood at 32 Board-approved operations totaling 239.35 million US dollars in loans and investments.



Volume of BSTDB Operations per annum

Operational Priorities

The Bank's operational priorities during 2001 remained largely the same as those set out in its 1999 three year Business Plan and as described in the Country Strategies developed individually for each Member Country of the Bank. The emphasis continued to be on implementation of approved projects and in sectoral and geographic expansion of operations.

Seven new Country Strategies were prepared for the upcoming 2002-2004 period replacing the previous Country Strategies that had been prepared for 1999-2001. An additional four new Country Strategies are planned to be submitted in early 2002. Operationally, the strategy for both trade finance and project finance remains to adopt a flexible approach enabling the Bank to respond promptly to changes in economic and market conditions. With over two years of operational experience, the Bank is now better able to adapt its range of products and services to the specific requirements of each Member Country. For example, in certain countries the trade finance program is shifting more attention to working directly with selected firms that are active throughout the BSEC Region. In other countries, the trade finance program will continue to seek Member Country based financial intermediaries for basic, shorter term pre-export and import financing products. For project finance, emphasis is placed on the so-called 'bankability' of projects, wherein primacy is given to developing financially sustainable quality operations, based on the tenet that sustainability best serves the fulfillment of the Bank's dual mandate: support economic development and promote regional cooperation.

Operational Marketing

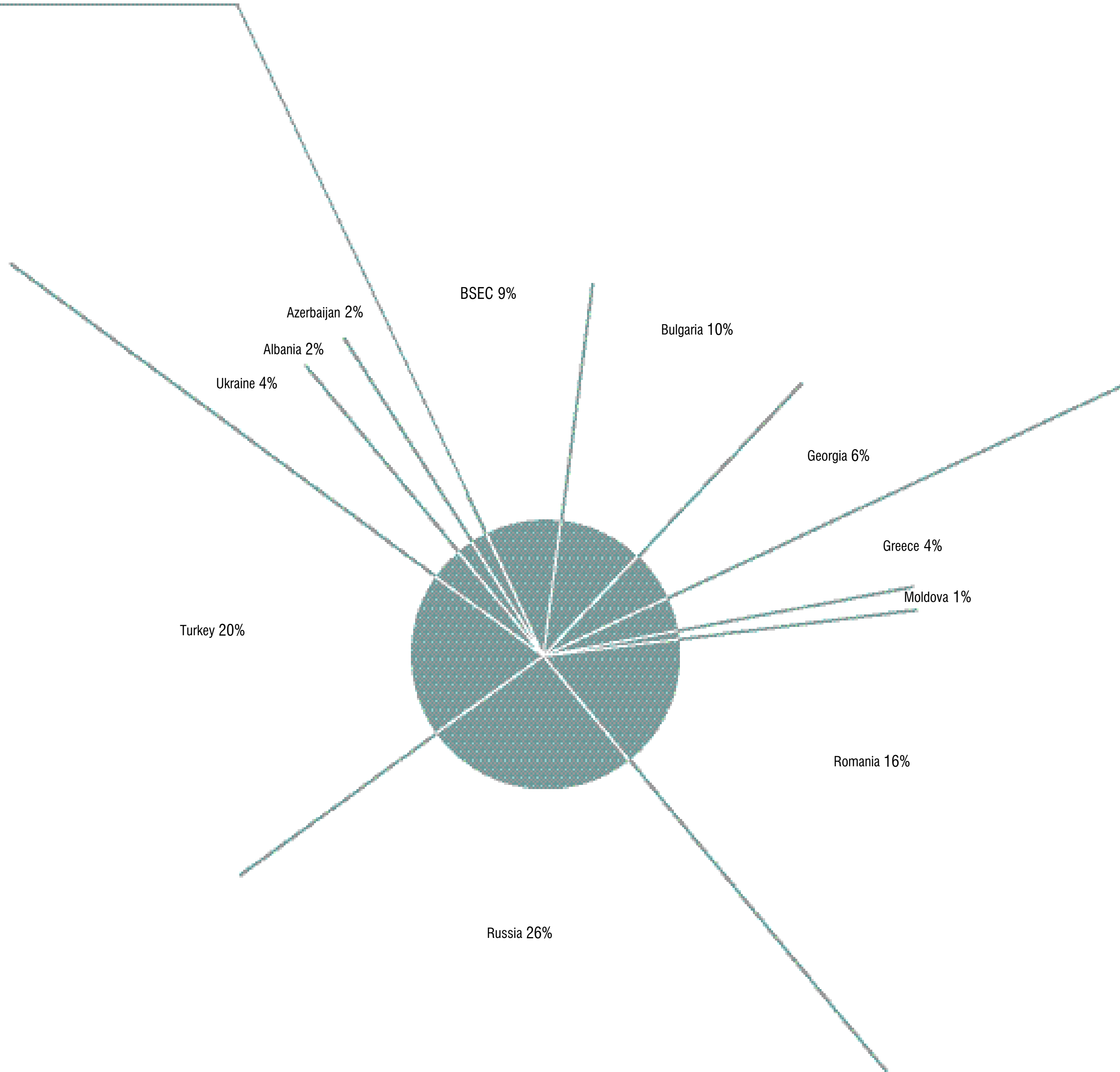
For a relative 'newcomer' to the international market such as the Black Sea Trade and Development Bank, generation of business opportunities requires an active operational marketing strategy promoting not only the institution, but more importantly the Black Sea Region as a promising business destination. Consequently, the Bank's approach covers a wide range of activities and targets a broad audience that includes potential client firms and financial institutions, key government agencies, other international institutions, bilateral donors, media, academia, and other fora where there are key decision makers with an interest in the Black Sea Region. Through its operational marketing activities, the Bank aims to:

- identify new operations that require BSTDB involvement,
- raise the profile of the Bank,
- expand awareness concerning opportunities in the BSEC Region,
- and discover new activities that meet specialized needs in the Black Sea market and generate value, such as new financial instruments and cooperation with strategic partners.

The Bank is thus active on a number of stages, undertaking direct contacts with eligible financial intermediaries, strategic investors and potential sponsors within the Region, and with interested firms based outside. Thanks to the geographic location of its headquarters, it stays in close contact with all Member Country Governments and their key agencies. In addition, the Bank maintains a regular dialogue with business, industrial, and banking associations throughout the region, it participates in numerous specialized business meetings and conferences, and makes frequent presentations on prospects for the Region, business opportunities, new financial instruments and products. An important marketing tool was the second Black Sea Business Day in Tbilisi, Georgia, which attracted over 250 targeted participants who focused on Regional prospects and business opportunities*.

Other key groups in which the Bank participates include the BSEC sector working groups that focus on sectors such as energy, transport and telecommunications, and the Stability Pact for Southeastern Europe, in which four BSTDB Member Countries are direct beneficiary countries, and others are involved as Donors or Observers. In September 2001, the Bank hosted a conference on EU-BSEC relations and prospects, a vital linkage for the Region given that one Member is already a Member of the EU, three more are candidates for accession, and trade flows between the BSEC Region and the EU have grown steadily in the course of the 1990s, with plenty of additional room for growth. These events not only led to the enrichment of the Bank's project 'pipeline', they led to new contacts, and an improved awareness of the BSEC Region itself, and its aspirations in a broader Europe-wide context.

* *See page 48*



BSTDB Portfolio – Share of Operations By Country

Project Finance Activities

In fulfilling its dual mandate to support economic development and promote regional cooperation, the Bank places highest priority on financially sound operations which include the following features:

- investments in one Member Country by one or more firms from another Member Country,
- investments which receive funding from financial institutions of another Member Country,
- upstream and downstream linkages that provide benefits to the economy of more than one Member Country,
- strong positive externalities and wide benefits such as multiplier effects, the introduction of new technologies or best practices which may be applied elsewhere,
- sustained employment growth.

As in previous years, most of the project finance operations carried out during 2001 represented joint ventures or investments involving firms from one or more Member Countries. Project finance activity doubled in 2001 relative to 2000 with 11 operations amounting to 87.0 million US dollars approved by the Board of Directors, compared with six operations for 43.5 million US dollars the year before. The average size of each operation increased slightly to 7.9 million US dollars, in line with the overall BSTDB project finance average.

However, the variance of individual operations was wide, from a minimum of one million US dollars to a maximum of 18 million US dollars, near the Bank's maximum single obligor limit. Such a range is a reflection of the need to target financial products appropriately and to adapt to different economic situations. Opportunities for larger sized projects exist primarily in large member countries, whereas in small countries investments of 3-10 million US dollars overall are quite sizeable in the local context. Given that the Bank finances as a matter of policy no more than 35% of an operation, the Bank recognizes that in smaller countries it may take a stake as small as one million US dollars for certain investments. While this results in higher project preparation cost ratios for smaller countries, it demonstrates the commitment to supporting bankable projects in all Member Countries, and meets the developmental mandate of the Bank. It also ensures that external resources are being mobilized and that the Bank is playing catalytic role rather than a basic financing one. Indeed, the Bank is able to provide even lower amounts of financing through its operations targeted for small and medium enterprises*.

The range of financial products provided by BSTDB similarly reflects the diverse needs of the region. Standard loans, strategic equity stakes, working capital loans, and credit lines represent a sample of the array of products provided and tailored to the individual needs of each country and each operation. In terms of sectors, 2001 featured a preponderance of transport projects, especially ports. However, in line with the Banks overall priorities operations were also approved for the energy sector, the manufacturing sector and the financial sector. Along with telecommunications, these represent sectors that generate strong externalities, thus helping to best meet the developmental mandate of the Bank, while also providing significant scope for cross-border cooperation among the countries of the Region.

* see page 36

Port of Ilychevsk Capacity Improvement Project

The project provides financing to an international group, with long term investment interests in Ukraine's agriculture and infrastructure sectors, to increase the capacity and efficiency of the grain terminal in the port of Ilychevsk in Ukraine, 25 kilometers southwest of Odessa. The Port handles cargoes between the Black Sea destinations of Batumi and Poti (Georgia), Burgas and Varna (Bulgaria), Constantsa (Romania), Istanbul (Turkey) and Thessaloniki (Greece). Additionally, new international traffic flows include the Far East, the Middle East, and other countries in the EU.

The grain terminal, which is Ukraine's first deep water loading facility, was put into operation in 1998 to handle agricultural bulk commodities. The project will have significant implications for commodity flows through the Black Sea, expanding storage capacity to 135,000 tons, and including two large high speed vessel loading systems, a large self use rail marshalling yard, a modern laboratory, computerized weight systems, two rail discharge systems capable of 17,000 tons per day inbound handling, import capabilities for discharge and rail wagon loading, plus additional territory and excellent prospects for further expansion. The maximum annual capacity of the terminal will be 6 million tons, making it one of the leading installations of its type in the Black Sea region.

Terms and conditions of the operation:

BSTDB financing	9 million US dollars
Type of financing	Loan
Maturity	Seven Years

The Trade Finance Program

The Bank's trade finance program seeks to contribute to the following objectives:

- increasing intra-regional trade by assisting Member Country exporting and importing firms,
- improving the competitive position of exporting firms in the Member Countries vis a vis external firms,
- supporting the diversification of Member Country exports and the generation of foreign exchange,
- mitigating exporters' and importers' risks in transactions, and
- strengthening financial institutions in the Region.

The Bank's trade finance products are structured according to these objectives and include short-term pre-export finance and multiple buyer facilities, as well as medium-term single buyer and supplier credits. In 2001, BSTDB' Board of Directors approved 7 operations for pre-export finance and multiple buyer credit facilities amounting to 47.9 million US dollars in six member countries. The facilities are provided on a revolving basis, allowing quick disbursements and re-borrowing capability. The total amount of trade finance operations approved by the Board of Directors reached 97.1 million US dollars as of end of 2001.

The BSTDB Trade Finance strategy is in the first place to develop a network of financial intermediaries in member countries, through which to offer trade finance products. The strategy is designed to build a strong loan portfolio and introduce BSTDB to the market in as prudent, effective and risk averse manner as possible. Moreover, by working with financial intermediaries in member countries, BSTDB is able to build business ties and source direct co-financing transactions.

In the coming years, while continuing to seek acceptable financial intermediaries for short and medium term trade finance products, the Bank will also look for direct financing transactions, not involving financial intermediaries. In addition to marketing structured trade finance capabilities directly to companies, the Trade Finance teams will seek co-financing and risk-sharing opportunities with existing financial intermediaries, as well as leading international commercial banks, IFI's, and ECA's.

Pre-Export Finance Facility to Turk Eximbank

This Project represents a good example of implementation of Pre-export Finance in the Member Countries. Turk Eximbank was selected as the first financial intermediary for lending Trade Finance Products of BSTDB in Turkey. Turk Eximbank is the official ECA of the Country supporting exports with various programs including loans, guarantee and insurance.

The Pre-Export Finance Facility with Turk Eximbank has been operational since 22 August 2000. It is a revolving credit line with indefinite availability period and maximum individual disbursement tenor of 180 days. The Facility's amount is up to BSTDB's Single Obligor Limit, which currently stands at 18.4 million US dollars. Funds disbursed to Turk Eximbank are on-lent to their clients – Turkish exporting companies – solely for the purpose of their producing and performing under export contracts. The credit line provides Turk Eximbank with additional funding, specifically targeted at promotion of Turkish exports to countries in the BSEC region.

Turk Eximbank has actively used this facility: the advanced funds were used to finance exports to virtually all BSTDB Member Countries, and for exports to the Czech Republic, CIS countries, Germany, Hungary, Netherlands, Spain, Switzerland, and USA. Due to the revolving character of the Facility and the high utilization rate, more than 36.8 million US dollars worth of Turkish exports receive BSTDB's support every year through Turk Eximbank.

Working with financial intermediaries helps BSTDB promote intra-regional trade among the BSEC countries. Turk Eximbank, as well as other leading commercial banks in Turkey and other Member Countries, are well positioned to deliver BSTDB's trade finance products to a large number of the local companies. Moreover, in this way BSTDB can support the countries' financial services sector, rather than compete with it. BSTDB provided similar Pre-Export Finance Facility to financial intermediaries in other Member Countries, such as Bulgaria, Georgia, Romania, and Russia.

Terms and conditions of the operation:

BSTDB financing	18.4 million US dollars
Type of financing	Trade Finance Revolving Credit Line
Maturity	180 days for each disbursement

Focus on the Private Sector

The vast majority of the Banking loan portfolio is in the private sector, with only two operations receiving a sovereign guarantee. These operations amount to 7.1 million US dollars of the 239 million US dollar portfolio. The remaining 231.9 million US dollars, accounting for 97% of the portfolio, operate according to commercial market rules, without a sovereign guarantee, even in cases where state-owned or partially state-owned enterprises are involved as investors or as beneficiaries.

With many of BSTDB's Member Countries facing debt challenges and implementing IMF macroeconomic stabilization programs, the potential for sovereign projects is limited. One of the standard restricting conditions placed on countries with IMF programs concerns the extent to which they can contract non-concessional debt, e.g. issue sovereign guarantees for non-concessional loans. For some of the most heavily indebted countries with weak export performance, the limit is zero; for most others it is limited. Furthermore, public sector borrowing requirements for high priority investment projects are readily met by bilateral donors, and other international financial institutions which have concessional or quasi-concessional features. Effectively, this generally prices financial institutions without concessional features out of the market, or forces them to finance marginal projects. Rather than seeing this is as an opportunity foregone, the Bank has preferred to redefine its area of focus to provide value added to the companies in the BSEC Region where it is most needed: the private sector, especially small and medium sized enterprises. Structurally, these represent the vast majority of firms in the region and they account for the bulk of existing employment. Most importantly they are the fastest growing type of entity in BSEC economies, creating the great majority of the new employment opportunities in the Member Countries.

Support to Small and Medium Enterprises

The primary focus of BSTDB is on financing those projects and trade activities which demonstrate positive economic impact and which promote regional economic cooperation. In this context, the Bank witnessed an increased demand for financing from SMEs, the backbone of the domestic private sector in most Member Countries. This requirement appeared repeatedly during meetings of Bank officials with Black Sea countries authorities and representatives of the business community. Therefore, the Bank augmented its targeted operational exposure to an estimated 30% of its total portfolio, and included SME financing as a priority in its Country Strategies.

In 2001 the Bank finalized its SME Strategy, which was approved by the Board of Directors. In drafting the strategy the Bank interacted closely with officials from member countries, collected, analyzed and interpreted a large amount of data - including lessons learned from similar activities of other IFIs - and coordinated with other major institutions experienced in promoting development of the SME sector, such as: Chambers of Industry and Commerce in Member Countries, EU Directorate General Enterprises, UN-ECE and - last but not least - the BSEC Business Council.

The Bank has made provision for a range of financial instruments to support the development and increase the financing available to micro and small and medium size enterprises in its Member Countries. Instruments include equity, direct debt, credit lines through selected financial intermediaries, and guarantees. The three SME focused projects, totalling 23.75 million US dollars, approved in 2001 reflect this flexibility.

In Azerbaijan, the Bank invested 1.75 million US dollars directly in the newly established Azerbaijan Microcredit Bank, an institution which targets small firms and individuals for lending, and for providing micro-credits up to 30,000 US dollars in seed capital to initiate a business or to expand an existing business.

In Romania, the Banc Post Romania SME Credit Line utilizes Bank Post as an intermediary to on-lend to Romanian SMEs. BSTDB has approved a facility of up to 10 million US dollars over a six year period. In Southern Russia, BSTDB approved a framework agreement up to 12 million US dollars, under which credit lines may be established with eligible local financial intermediaries, for purposes of short term on-lending to SMEs in the Black Sea regions of Russia.

These operations joined two other explicitly SME focused operations, the implementation of which continued in 2001:

- the Trans-Balkan Equity Fund, providing for equity investments in SMEs in Albania, Bulgaria, and Romania, and
- the post-earthquake SME credit line through SYB Bank in Turkey.

SMEs are the unstated, but principal, beneficiaries of many other Bank operations as well, including all trade finance programs that provide pre-export and/or import financing through local financial intermediaries.

Investments in SMEs through Participation in a Regional Equity Fund: the SEAF Trans Balkan Fund (TBF)

The primary focus of BSTDB on financing projects in SME sector is to facilitate access to funding by promising small and medium size enterprises that have a potential positive economic development impact. In this context, the Bank regards equity investment in SMEs as a major contribution to the strengthening of the sector, with an important element of know-how transfer and as a way to improve access to debt financing.

To this end, together with a number of other major development and commercial financiers, the Bank invested in the Trans Balkan Fund (TBF), focused on equity investments in SMEs. The Bank's contribution to the capital of the TBF is 4 million US dollars.

Of the Bank's member countries Albania, Bulgaria and Romania are eligible for investments made by TBF. There are already seven investment operations in Bulgaria and Romania, while potential investments in Albania are under consideration.

In Bulgaria the Fund has invested in Marker, a leading Bulgarian producer of notebooks and related products for school and office use, in TeleTek Electronics, a successful electronics manufacturer, and in US Meds a company that produces rapid diagnostic medical tests.

In Romania, TBF has committed a total of 1.4 million US dollars in TotalSoft, a company specialized in the development and implementation of software products, in ILS Distribution and Romphoto & GSM, a fast growing distribution and retail group of GSM services and photographic materials, and in Telezimex, an important distributor of electronic parts for repair shops.

Regional Challenges

Despite the doubling of activity, the introduction of new products, and the diversification of the types of financing provided and the sources of co-financing used, a number of regional challenges remain. Although the BSEC Region is undoubtedly on the upswing, with stabilised economies, improving market-oriented legal frameworks, and generally high growth rates, Member Countries face the difficulty of sustaining reforms and translating the higher growth rates into increases in living standards for significant portions of the population. At the same time, they need to pay attention to the distribution of the latest economic growth, and to avoid compartmentalisation of the increased prosperity in certain sectors or geographical areas.

Similarly, while BSTDB may have expanded substantially the scope of its operations, in terms of geography, sectors, and instruments provided, further effort is still required. The Bank has yet to implement operations in certain Member Countries for a range of reasons including limited investment opportunities, a difficult environment, a need to raise awareness. The Bank is committed to following a demand based approach in which resources for operations are allocated according to the presentation to the Bank of financially viable projects that fulfill its mandate. However, the Bank also wishes to conduct operations in all Member Countries, and to use successful project implementation as a catalyst for the development of further activities. Thus, for 2002 it is focusing increased attention on identifying project opportunities in underrepresented countries, and creatively tailoring financial solutions to meet local conditions in a prudent but innovative manner. At the same time, the Bank will seek strategic partnerships to provide financial instruments and products that are currently in short supply, and will place emphasis on identifying and initiating more region-wide, multi-country projects and programs that create positive regional cooperation impact.

Special Funds

Alongside regular operations, the Bank seeks to mobilize not just financial resources, but also know-how, access to information, and technical capacity. In order to meet these needs, and also to establish cooperation with external organizations that are interested in the Black Sea Region but may lack the contacts, the administrative resources and the time, BSTDB has launched its Special Funds Program. This Program seeks to develop donor supported activities for co-financing and technical assistance that meet specific Regional needs beyond the scope of regular project finance and trade finance operations. Special Funds take the form of trusts or other pools of financing resources, and are used either for studies or operational purposes that further the mandate of the Bank.

In 2001, the Bank established its first Special Fund, the 'Technical Cooperation Special Fund Between the Government of the Hellenic Republic and the Black Sea Trade and Development Bank'. In the future, the Bank hopes to attract Special Funds for other priority activities including the environment, export promotion, and regional cooperation structures.

Project Preparation Facility for Enterprises, Sponsors and Agencies in the BSEC Region

The objective of the Project Preparation Facility initiated by the Hellenic Republic is to contribute to the economic development of the Black Sea Economic Region's Member Countries by establishing a fund which extends technical assistance grants for the performance of high quality project preparation documentation including business plans, feasibility studies, and financial reporting methods and standards.

The intended beneficiaries for funding from the Project Preparation Facility are businesses and sponsors for projects who possess promising concepts for projects/ business undertakings, but who lack the know-how to articulate the concept in a form that fulfills informational requirements in a well established open market economy. The fund is open to enterprises, financial institutions, or sponsors which are undertaking projects that are eligible for funding from the Bank, and which demonstrate a need for the technical assistance.

Terms of the Special Fund:

Trust Fund Amount	€ 800,000
Type of financing	Grant
Maturity	Bank executed, on basis of the beneficiary's request

Contributing to the Environment

As an integral component of its objectives, the Bank has the mandate to promote environmental sustainability and soundness and cleaner technologies in a cost-effective manner. These objectives are contained within the Bank's Environmental Policy, and implemented through its internal procedures. 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 were incorporated into the Bank's policies and procedures. In 2001, the Bank continued its commitment to financing environmentally sound projects and adding environmental value within the primary sectors of investment.

In 2001 the Bank's second environmental project in the metallurgical industry was evaluated. This project in Bulgaria will assist in the upgrades necessary to meet Bulgarian and European Union environmental standards and will allow the commissioning of a metal recycling facility. The final results of the project will be not only reductions in air and wastewater emissions, but also significant energy savings and the removal of a source of pollution from metal slagheap. Within the same energy sector and in the same Member Country a full environmental analysis was also carried out for an energy efficiency project with the Sofia Municipality.

The Bank is committed to co-operating with other international financial institutions in a manner that presents a consistent approach to all its clients. BSTDB has been involved in a number of co-financed projects and has been working closely with these other institutions to maximise the environmental development potential while minimising the burden to the client.

Kombinat za Czvetni Metali S.A. (KCM) Environmental Improvement Program

This non-sovereign project represents the first application of BSTDB's environmental policy in a direct project context, by promoting the introduction of improved environmental technology and operating methods for a production facility. Prior to its privatization, KCM operations had been responsible for widespread contamination of the facility and the residential and agricultural areas around the facility, including heavy metals contamination that led to restriction of agricultural activities in the surrounding area and excessive wastewater discharges. In the absence of the environmental program, it would have become necessary to restrict or even terminate operations. This would have a serious detrimental impact on an already economically depressed area, as the facility employees 2,400 staff, generates 60 million US dollar annual exports (1.35% in Bulgarian annual export revenues), and contributes 7 million US dollars per annum in tax revenues.

The project supports specific elements within the overall framework of KCM's 75 million US dollar environmental improvement program. The main objectives include bringing the facility into environmental compliance with Bulgarian and EU requirements and preventing future environmental damage. It will focus on modernization of the basic production units to a level consistent within the international standards, clean up existing contamination, and include programs to increase the level of employee health and safety.

Terms and conditions of the operation:

BSTDB financing	9.2 million US dollars
Type of financing	Loan
Maturity	Six Years

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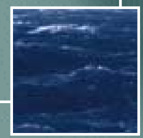


Finance Operations

The Finance Division encompasses the Treasury, Credit Risk, Accounting, Planning and Financial Control functions of the Bank. During 2001 the Division focused on introducing improved policies and procedures to enhance its accounting and control functions.

Treasury

BSTDB Treasury operations are conducted against a background of conservative risk limits and policy documents. The Financial Policies and Treasury Investment Authority documents are approved by the Board of Directors and provide a framework for Treasury activities at the highest level of authority of the Bank. More specific subsidiary documents detailing credit risk parameters, liquidity restrictions, interest rate and foreign exchange risk are approved on an ongoing basis by the appropriate executive committees.

It is the policy of the Bank to take no significant interest rate or foreign exchange positions, investing its SDR denominated capital and reserves in the appropriate weights of the SDR constituent currencies. Foreign exchange and interest rate exposures are monitored on a daily basis by the Asset Liability Management unit and monthly by the Banks Asset and Liability Committee.

As at 31 December 2001 treasury investments were held in short term deposits, euro commercial papers and eurobonds of up to 2 years maturity, denominated in the four SDR component currencies and rated at a minimum of single A by the major ratings agencies. The performance of the treasury investment activity is measured against external benchmarks (Merrill Lynch three month Libid indexes) and monitored by the Bank's Asset and Liability Committee.

Credit Risk

As the BSTDB continues to expand its product line, the task of evaluating and assigning risk measures for the various aspects of its exposure is continually evolving. Over the past year, the Credit Risk Department's duties have grown to include the assignment of provisions, as well as an expanded role in the monitoring of Treasury activities.

The Bank continues to employ a largely quantitative methodology for the evaluation of country risk and project risk, although it is becoming increasingly clear that the methodology needs to be expanded to include more diversity within the middle-range of the risk ratings. This is due to the fact that many of the BSEC economies are stabilizing their economies along similar lines, and more attention needs to be paid to individual risk factors within each country.

Sovereign Risk
Sovereign risk is rated on an internal scale of 1 to 5. The trend in the region in 2001 has been largely positive. With the exception of Turkey, the Bank has upgraded or maintained the internal rating of all of its member countries. Greece remains the highest rated country within BSEC, but Bulgaria and Romania, in particular, have witnessed a surge in investor interest as a result of their preparations for EU accession. In addition, Russia and Ukraine continued to register impressive growth, and the Caucasus region is showing signs of stabilization. Albania and Moldova have remained essentially unchanged in 2001, although both continue to experience problems with their perception among investors and international markets. Finally, after a difficult 2001, Turkey is showing signs of economic growth. Overall, BSTDB Member Countries will be expected to continue improving in 2002.

Portfolio Risk
Like Sovereign Risk, project risk is rated on a scale of 1 to 5. From the start of operations, the Bank was aiming at an average portfolio quality of 3, and this has been achieved in 2001. The Credit Risk Department monitors all assets in conjunction with the Banking Divisions on a regular basis. No assets deteriorated beyond their original risk assignment in 2001.

Provisioning
BSTDB has a conservative provisioning policy which assigns half of the total provisioning required for an asset at signing, and the other half at first disbursement. Trade Finance provisioning takes into account the tenor of a facility (if the facility is less than 360 days), and thus tends to be lower than Project Finance assets of a similar risk profile. The Bank aims at achieving a general provisioning account amounting to 10% of its portfolio, although this is not expected to be reached before 2005.

Accounting and Planning

The accounting policies adopted by the Bank are in compliance with International Accounting Standards (IAS) and changes in (IAS) are monitored to provide early notice of implications for the Banks operations. In the year 2001 the Board of Directors approved a revision to the Bank's Accounting Policies, under which the Bank adopted as of 1 January 2002, the Special Drawing Right (SDR), its unit of account for authorized capital pursuant to Article 4 of the Agreement, as its reporting currency, replacing the United States Dollar (USD).

The planning department has responsibility for the Banks strategic and corporate planning . This activity includes long and medium term strategy, formulation of operational priorities, country and sector strategies, preparation of the annual budget and the resource allocation process. It may also include the preparation of operational policy papers supporting the implementation of specific strategy initiatives. During the year, the Guidelines for Planning and Budgeting Document was prepared and approved by the Board of Directors. The document aims to prioritise the Bank's operational objectives within the scope of its mission and includes a planning cycle to ensure effective utilisation of resources, while also establishing review and control processes to monitor actual performances against targets.

The Bank is committed to budgetary discipline within the framework of its policies and guidelines. In December the Budget for 2002 was finalized and approved, detailing the Bank's institutional strategies for the coming year through work programmes and objectives. The budget reflects management decisions on:

- operational priorities,
- business targets,
- revenues,
- administrative expenses,
- the capital expenditures program, and
- staff requirements.

Implementation of the 2001 budget was regularly monitored and the results reported to the Board of Directors on a quarterly basis.

The Accounting, Planning and Budgeting Department supports the Bank's corporate governance structure by providing appropriate financial and management information. It co-ordinates with the Bank's external auditors during audits and accounting and financial policy reviews. During the course of the year it was determined that an upgrade to the Banks accounting system was required to further enhance and streamline accounting processes. Implementation of the new system is scheduled for early in 2002.

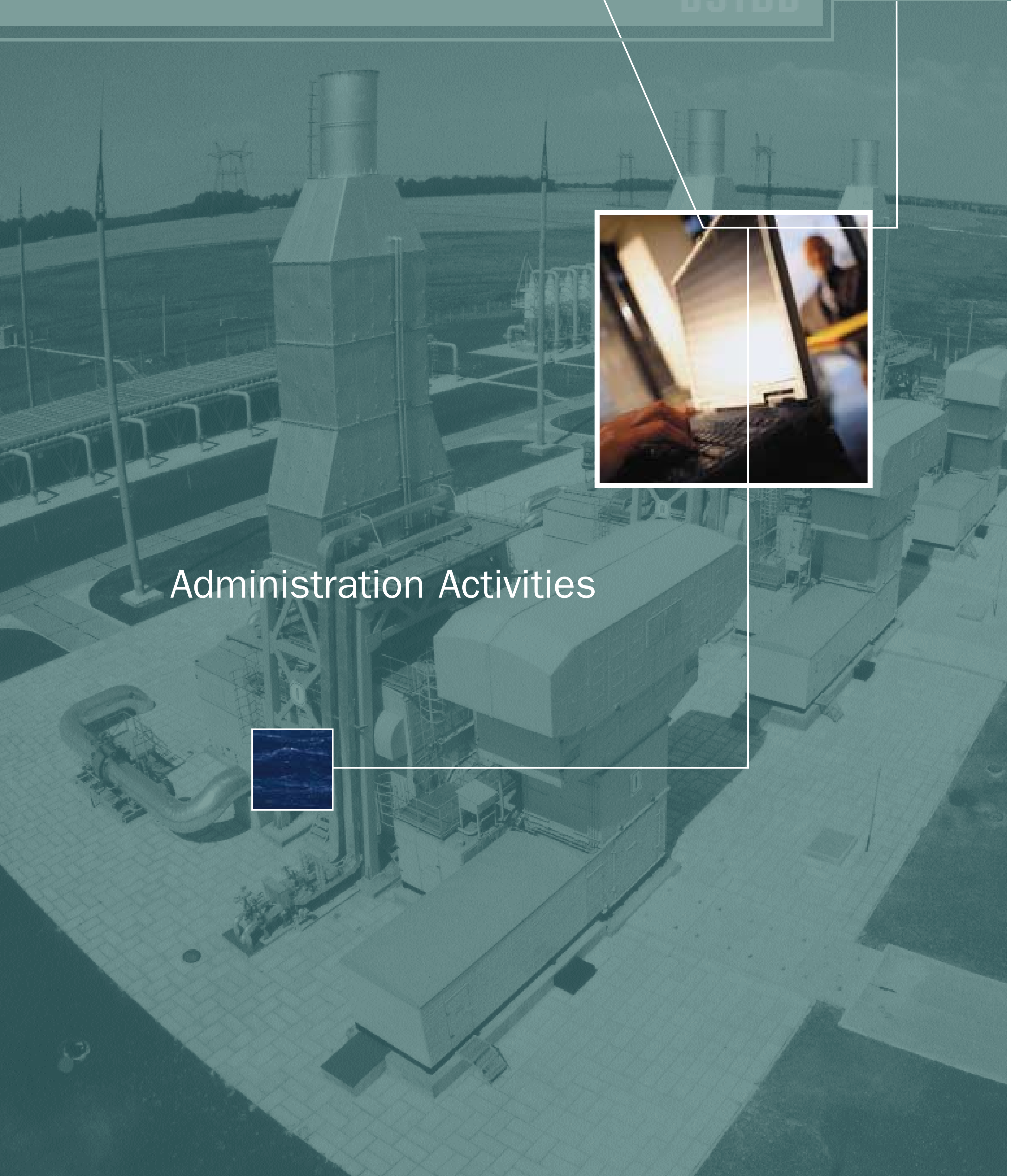
Financial Control

The main objective of the Controllers Department is to ensure a strong internal frame-work for those processes involving operational and financial risk, specifically payment procedures and related computer systems.

Financial Control ensures that all loan disbursements comply with the Banks rules, regulations and procedures. By the end of 2001, project and trade finance loans and equity investments outstanding had almost doubled from a year earlier. In 2001 the fourth installment (from the eight equal annual installments) of the Bank's paid-in share capital became due bringing the aggregate amount to SDR 200 million. In accordance with the rules and regulations under Article 19.1(c) of the Agreement as approved by the Board of Directors, the Controllers Department undertook measures to address the problem of late payment resulting in a substantial reduction of outstanding arrears.

Financial control oversaw the Bank's first special fund agreement, the Technical Cooperation Special Fund provided by the Government of the Hellenic Republic.

In 2002, a key priority will be to monitor implementation of the new accounting system to ensure financial controls are maintained and where possible enhanced.



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Administration Activities

The Administration Division continued, in 2001, to adapt its support functions to the development of the Bank. As BSTDB is becoming a fully-fledged International Financial Institution, the main emphasis of the Administrative Division has been to create the optimal working conditions for project and trade finance operations. A major contribution has been made by improving the flow of information, both in technical terms through advanced information technologies and in terms of content with the creation of the Information Centre and the reinforcement of PR and Media activities.

The excellence of Human Resources management is one of the main conditions of lasting success of BSTDB as a regional development institution. After three years of intensive recruitment activities, HR is concentrating its efforts on compensation and training policies, necessary for the Bank to remain competitive with other International Financial Institutions active in the Black Sea Region.

Information Centre
In the year 2001, the Information Centre was reorganized to expand the services it provides to other Banks units, with specific emphasis on assisting business generatiion. New procedures were introduced for its operation and a detailed work plan was developed, following extensive discussions with the users of its services, aimed to attain full coverage of their needs by the end of the year 2002.

Internal Information and Support
A single-point-of-reference information portal was introduced to facilitate the operations of the Bank's administrative support services and the internal dissemination of information. The portal will evolve in the year 2002 with the development of additional applications on the already purchased Intranet platform. This portal has facilitated the improvement of support to the expatriate personnel of the Bank and their families.
Meanwhile, the additional space leased near the end of the year 2000 in the Bank's provisional offices was duly prepared and the respective staff was relocated successfully.

Cost-effective Purchasing Policies
Internal regulations with regard to administrative and purchasing procedures were reviewed and better adapted to the Bank's operational environment. New travel rules were approved and implemented to improve flexibility for business-related travel. The year 2001 also saw the start of an extensive effort to standardize vendors with a view to improve the cost effectiveness of administrative expenses and obtain higher standards relating to the response of the Bank to the users' internal purchasing needs.

Information Technology

IT Network Infrastructure
It is deemed essential that the organizational IT infrastructure be able to withstand and to support the growing technological and business demands of the Bank. To meet these demands, the Bank has moved ahead by implementing a gigabit backbone network where all computers can have access through network switches. This allows for faster access and retrieval of information as well as allowing the IT Department to monitor all traffic on the network.

IT Applications
The Bank has moved ahead with the purchasing of a Human Resources (HR) management system to assist the HR Department to better manage its recruitments, its payroll and its human resources.

Managing the Accumulated Knowledge in the Bank
BSTDB, as all other financial institutions, is a knowledge-based institution, and in view of effective management the accumulation of knowledge is an important task. A wealth of knowledge already exists within the walls of the organization coming from the mind of the human capital, from back-office databases, from time-tested policies and procedures and from external sources. The Bank evaluated a number of knowledge based Portals which led to the purchase of the most effective product in the market.

Public Relations & Publications

In 2001 BSTDB made a substantial effort to develop its image as a major international financial institution for the Black Sea region. The Bank's promotional policy mainly focused on establishing corporate relations and business generating activities in its Member States.

Institutional and Media Relations
Attaching prime priority to close contacts in the member countries, BSTDB continued to enhance its network of cooperation agreements with government bodies. A Memorandum of Understanding between the BSTDB and the Ministry of Economy, Industry and Trade of Georgia set a framework for cooperation in the fields of small business support and export promotion, while a Cooperation Agreement with the Ministry of Industry, Science and Technology of the Russian Federation envisaged close interaction in selection of bankable investment projects, financing leasing projects and other projects of mutual interest in Russia.

BSTDB also strengthened its institutional links and coordination with the Organization for the Black Sea Economic Cooperation and its related bodies. Thus BSEC and the BSEC Business Council were closely associated with the Black Sea Business Day in Georgia and the Black Sea EU Conference sponsored by BSTDB.

BSTDB continued to establish corporate contacts with international institutions and organizations active in the Black Sea region seeking cooperation opportunities and synergies. A Cooperation Agreement was signed with the Inter-Balkan and Black Sea Business Center (Greece) to promote BSTDB wider contacts with the business community in its countries of operation. A Memorandum of Understanding with the Islamic Development Bank aims at facilitating interaction between the two IFIs in their common member countries of Albania, Azerbaijan and Turkey. Institutional contacts were also established with the United Nations Economic Commission for Europe, the World Trade Organisation, United Nations Conference on Trade and Development, and with the International Trade Center. Established business relations with major IFIs were further developed at business level.

BSTDB Business Generating Events

Black Sea Business Day

As part of its continuing effort to promote international recognition and business links with major organizations in the Black Sea region and to support the promotion of banking activity*, BSTDB initiated a number of international business generation events. The Second Black Sea Business Day, hosted by BSTDB in Tbilisi (Georgia) in May on the occasion of its Third Annual Meeting, gathered more than 250 business participants and officials. Principle subjects for discussion included opportunities of doing business in the energy, ports and maritime sectors, as well as investing in the smaller countries of the Black Sea region. The event which was inaugurated by H.E. Eduard Shevardnadze, President of Georgia, provided a unique opportunity for businessmen to meet international investors, development banks, rating agencies, and commercial banks to share their experience and to discuss projects. The BSTDB Annual Meeting and the Black Sea Business Day were the first international events of this scale to be held by an IFI in the Caucasus.

Black Sea –EU Conference

Attaching special importance to building closer links with the European Union, BSTDB hosted the Black Sea-EU Conference in Thessaloniki in September 2001. BSTDB and the European Commission agreed to work together to foster cooperation in the region concentrating on concrete business initiatives. The Conference defined key prospective areas for business collaboration including joint projects to be defined in the energy sector, transport infrastructure and the environment. The conference was inaugurated by Mrs. Anna Diamantopoulou, European Commissioner.

Business Opportunities Conference

Implementing its mandate to attract investors into the Black Sea region, BSTDB hosted a regular meeting of IFI procurement officers in Thessaloniki in March 2001, and a Business Opportunities Conference linked to the Meeting. The Conference succeeded to introduce borrowers, contractors and consultants from the Black Sea region, to representatives of the multilateral development banks to explore business opportunities. The meeting focused on the procurement procedures applied by major development banks, on harmonization in the area, and other aspects of doing business with international financial institutions.

Human Resources

BSTDB recognizes that human resources are a key factor in the future success of the institution. During 2001 the HR Department focused on maintaining an environment conducive to high standards of performance, by further refining its strategies and policies. As part of this process, 2001 saw the start of a major program aimed at introducing an HR management software system designed to automate record keeping. The system will automate the record keeping and data processing activities in most of the HR areas of responsibility, will interlink and streamline the workflows, will facilitate interaction with the staff and increase the degree of transparency of the activities.

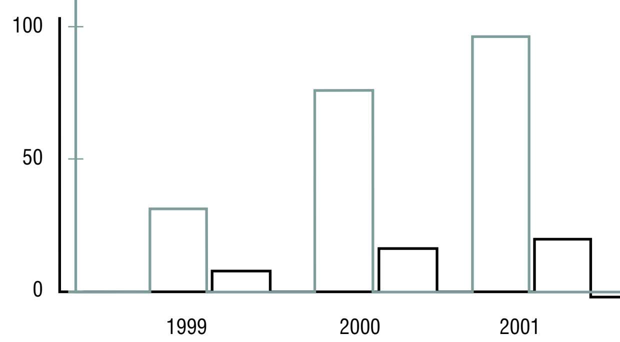
Operational Structure of the Bank
Reporting to the President and the respective Division Heads (i.e. Vice Presidents and Secretary General) are operational departments, as designated in the Bank's Organization Chart. During 2001 the Bank continued to develop its corporate structure in line with its business strategy. The Board of Directors, in 2000, had approved the seperation of responsibility for Project and Trade Finance into two Divisions. With the full support of the Human Resources Department, the Bank finalized the distribution of country and sector responsibilities between the two Divisions and their constituent departments.

* *See page 30*

Organizational Structure

Recruitment
The Bank continued, in 2001, to attract qualified professionals with the international experience in specific areas of direct relevance to the Bank's needs. The Bank's recruitment policies provide for hiring of employees on a wide geographical basis, preference being given to the citizens of the Member Countries. At the end of the year 2001 the Bank's staff totaled 99 employees, including representatives of all of the Member Countries of the Bank.
The Bank strives to maintain its status as a competitive employer by following the best international standards and practices and through active cooperation with other IFIs and international organizations.

Progress of the Bank's Recruitment Process

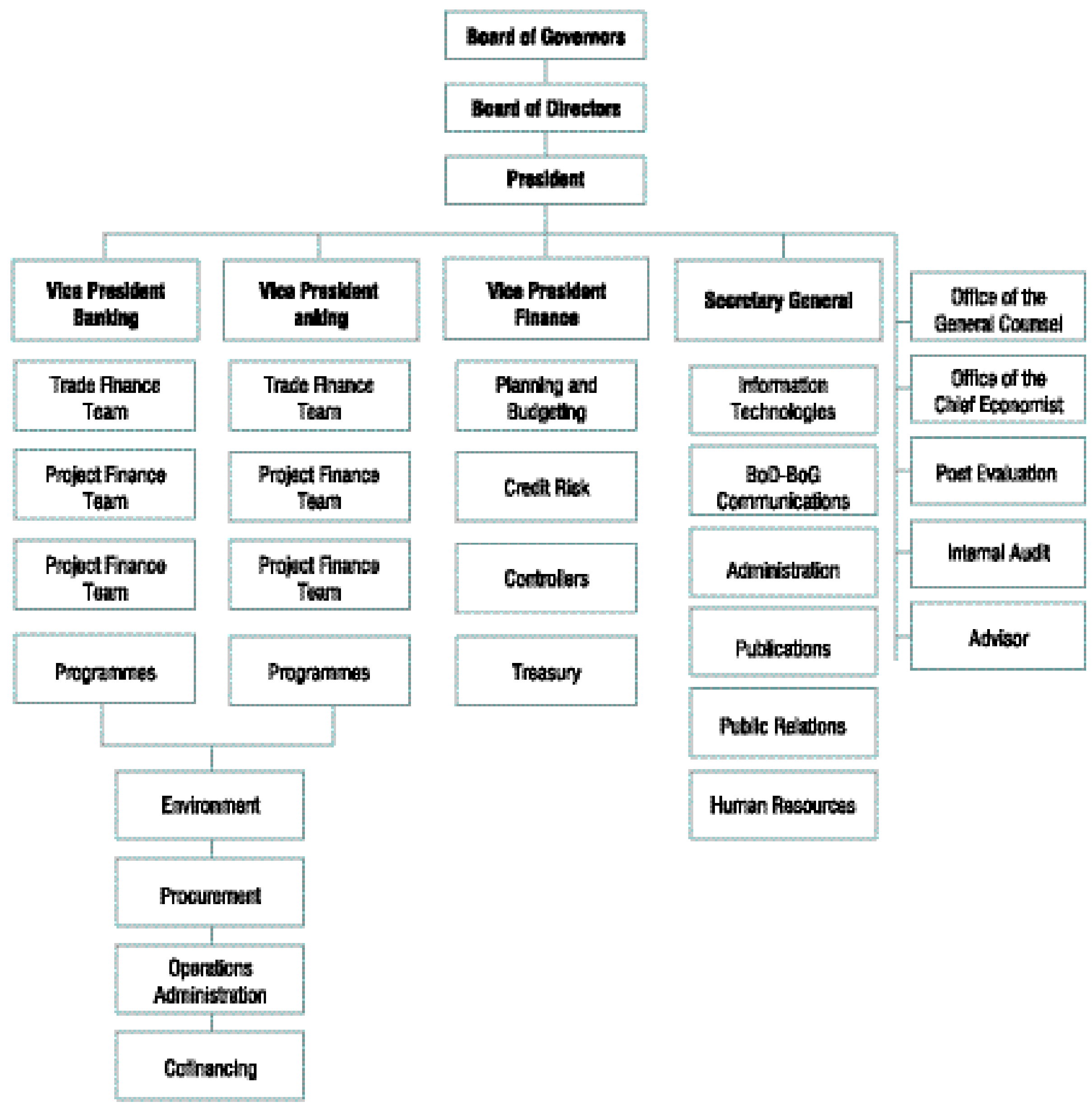


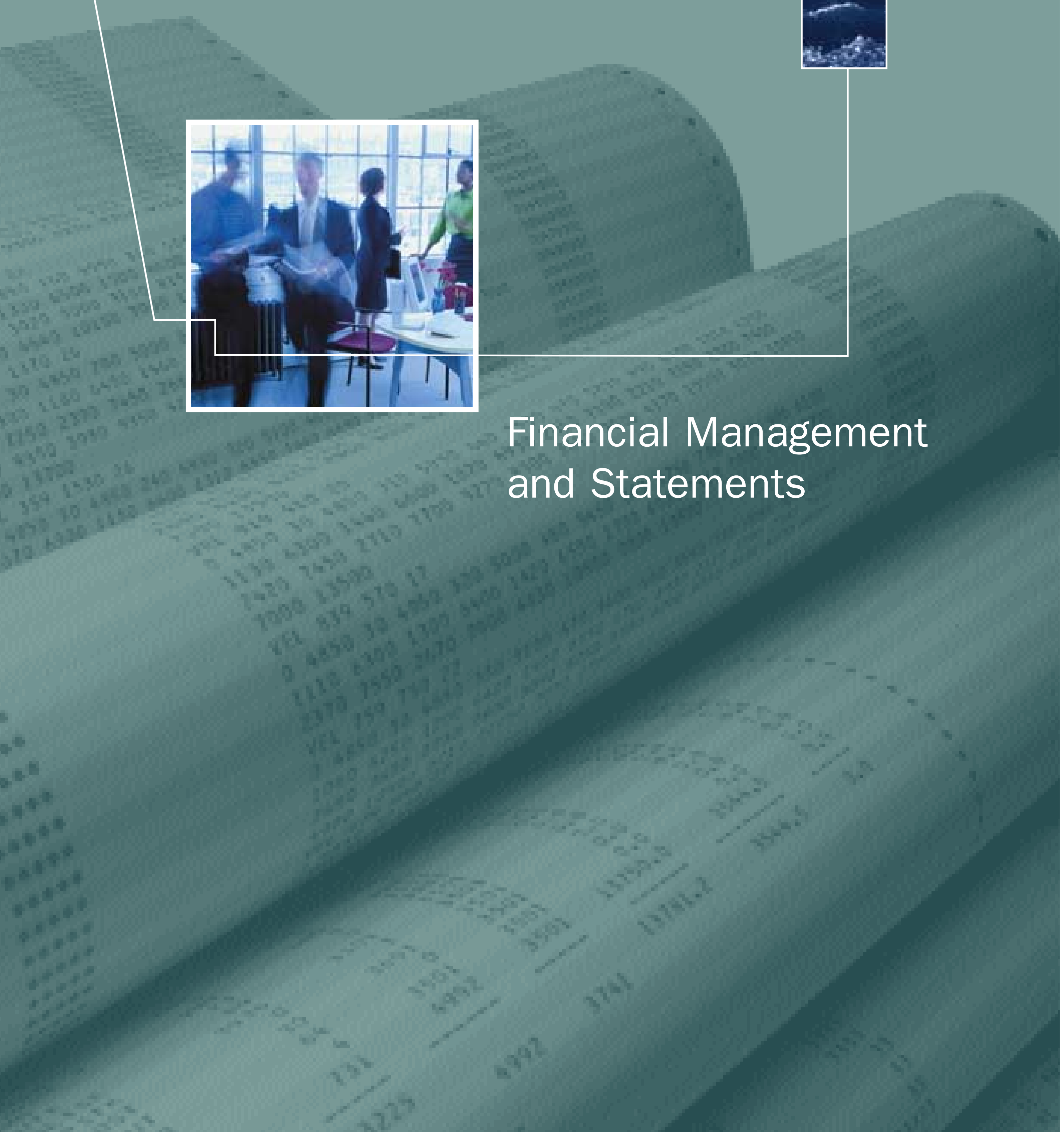
		1999	2000	2001
Staff Members		37	76	99
Number of Nationalities		10	15	17

Compensation Policies
BSTDB operates a market-oriented staff compensation policy designed to match the employment standards of other international financial institutions. To help attain this objective, the Bank conducts periodic reviews of the salary levels for different categories of employees, benchmarking against those of other international financial institutions. The Bank's benefit system aims at ensuring the short- and long-term well-being and financial security of the employees, while being responsive to the changing organizational needs and adhering to sound fiscal standards.

The Bank has entered the final stages of the implementation of its Pension Plan, designed to provide attractive benefits for long-term career planning, while retaining short-term flexibility.

Training
It is one of the Bank's priorities to emphasize the professional growth of the individual within both current and future jobs. The Bank views it as a necessary condition for the fulfillment of its mandate and the achievement of its institutional goals that its employees possess the required technical and market-related competencies. Within the framework of this approach, the Bank focuses on training needs and the necessary training programmes.





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Financial Management and Statements

A. Financial results

In 2001 BSTDB achieved a positive net income from core businesses, excluding foreign exchange losses. Foreign exchange revaluation losses resulting from investment of the Bank's SDR denominated equity in the appropriate weights of the SDR constituent currencies had a negative impact on the overall result.

Revenues

In its second year of operation, the Bank's increased the size of its lending portfolio resulting in higher revenues from banking operations. Project and trade finance operations provided a total income of US$ 4,850 thousand. Treasury invested the Bank's liquid funds, primarily derived from equity, to provide a major part of the Bank's income. Net interest income for the year was US$ 11,826 thousand.

Expenses

General administrative expenses, including depreciation, for the year were US$ 10,476 thousand, an increase of US$ 1,728 thousand on 2000. General administrative expenses include salaries, benefits and other administrative costs.

Salaries and benefits, in the amount of US$ 6,681 thousand, increased by US$ 659 thousand on the previous year. This was due to an increase in staff appointments during the year. This process is expected to continue in the year 2002 as the Bank further builds up operations requiring additional professional staff.

Other administrative expenses for the year were US$ 3,333 thousand, an increase of US$ 911 thousand from 2000. A rise also occured in recorded depreciation as the Bank made major capital expenditures on items including information technology systems.

Overall, general administrative expenses were well within the 2001 Budget, reflecting the Bank's effective cost controls.

Outlook for 2002

BSTDB is projected to be profitable in the year 2002, while implementing its manageable growth strategy. The financial results will, however, remain sensitive to negative event risk affecting the loan portfolio. With this in mind, one of the Bank's priorities in 2002 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, BSTDB's initial authorized 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 authorized capital stock. The subscribed capital is composed of:

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

The aggregate par value of the initial authorized fully paid shares is SDR 100 million and that of the capital paid 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 2001 two hundred 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 four of the eight equal annual installments of the twenty per cent shares payable by promissory notes. The total initial authorized capital stock of the Bank of SDR one billion remained unchanged.

Borrowings

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 guaranteed by, its member countries of operations; and
- not reschedule its loans to private sector borrower 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, 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

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.

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

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

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 target 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

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

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 2001 treasury investments, held in short term deposits, commercial paper and bonds denominated in the four SDR constituent 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

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.

Financial planning and control

BSTDB is committed to budgetary discipline within the framework of budgetary policies and guidelines. The planning and budgeting process 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 utilization of resources to best achieve the Bank's evolving priorities and objectives. Review processes and monitoring 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 will provide regular audit of the Bank.

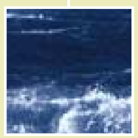
D. REPORTING AND DISCLOSURES

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 Financial Reporting 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 for 2001 is the third report published following the commencement of operations of the Bank.

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 organization.

Financial Statements



Financial Statements

PROFIT AND LOSS STATEMENT

For the years ended 31 December 2001 and 2000

Expressed in thousands of United States Dollars	Note	Year to 31 December 2001	Year to 31 December 2000
Interest and similar income			
From loans	3	3,547	910
From placements with financial institutions	4	2,147	12,023
From investment securities	4	6,396	462
Interest expense and similar charges	12	264	956
Net interest income		11,826	12,439
Net fees and commissions	3	1,303	506
Net income (loss) on foreign exchange	5	(4,604)	(393)
Other income		26	0
Operating income		**8,551**	**12,552**
General administrative expenses	6,19	10,014	8,444
Depreciation	10	462	304
Income before provisions		**(1,925)**	**3,804**
Provision for losses	9	1,581	1,255
Net income (loss) for the year		**(3,506)**	**2,549**

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

BALANCE SHEETS

At 31 December 2001 and 2000

Expressed in thousands of United States Dollars	Note	At 31 December 2001	At 31 December 2000
Assets			
Cash and bank balances		198	244
Placements with financial institutions	4,13	36,522	139,722
Investment securities	4	151,402	60,321
Other deposits	8	0	2,550
Total deposits and securities	15	188,122	202,837
Loans	9	71,278	35,439
Equity investment	9	1,297	897
Less: provision for losses	9	(2,836)	(1,255)
Net loans and equity investment		69,739	35,081
Receivables and accrued interest	8	3,196	3,347
Share capital replenishment portion not received	8	1,073	6,244
Share capital due but not received	7	1,823	2,587
Share capital short-term subscription receivable	7	14,298	22,376
Paid-in share capital not received		17,194	31,207
Property, technology and equipment	10	1,416	1,087
Intangible assets	10	864	709
Less: accumulated depreciation and amortization	10	(873)	(411)
Net property, technology and equipment		1,407	1,385
Other assets	11	219	187
Total Assets		**279,877**	**274,044**
Liabilities			
Borrowings	12	3,107	20,500
Payables and accrued interest	13	2,642	2,001
Total liabilities		5,749	22,501
Members' Equity			
Subscribed share capital	7	1,256,730	1,302,910
Less: callable share capital	7	(879,711)	(912,037)
Less: payable share capital	7	(125,673)	(162,864)
Cumulative translation adjustment	5	11,391	8,610
Advance against future call	7	9	36
Paid-in share capital		262,746	236,655
General reserve	14	4,608	2,059
Retained earnings		6,774	12,829
Total members' equity		274,128	251,543
Total Liabilities and Members' Equity		**279,877**	**274,044**
Off-balance-sheet items			
Commitments	9	64,980	24,114

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

STATEMENT OF CHANGES IN MEMBERS' EQUITY

For the years ended 31 December 2001 and 2000

Expressed in thousands of United States Dollars	Share capital			General	Retained	
	Subscribed	Callable	Payable*	Reserve	Earnings	Total
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	30,092			9,212
Paid-in share capital			22,133			22,133
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**
Exchange rate difference on conversion of share capital	(46,180)	32,326	16,635			2,781
Paid-in share capital			23,337			23,337
Advance against future call			(27)			(27)
General reserve				2,549	(2,549)	0
Net (loss) for the year					(3,506)	(3,506)
At 31 December 2001	**1,256,730**	**(879,711)**	**(114,273)**	**4,608**	**6,774**	**274,128**

* The 31 December 2001 and 2000 balances are net of cumulative translation adjustment of US$ 11,391 thousand and US$ 8,610 thousands, respectively (shown separately on the balance sheets).

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

STATEMENT OF CASH FLOWS

For the years ended 31 December 2001 and 2000

Expressed in thousands of United States Dollars	Note	Year to 31 December 2001	Year to 31 December 2000
Cash flows from operating activities			
Net income (loss) for the year		(3,506)	2,549
Adjustment for:			
Provision for losses	9	1,581	1,255
Depreciation	10	462	304
Interest and similar income		(12,090)	(13,395)
Interest expense and similar charges		264	956
Operating profit before working capital changes		(13,289)	(8,331)
Other assets	11	(32)	(107)
Accounts payable	13	943	1,510
Cash generated from operations		(12,378)	(6,928)
Interest received		12,241	12,019
Interest paid		(566)	(652)
Net cash flows from operating activities		(703)	4,439
Cash flows from investing activities			
Proceeds from repayment of loans	9	37,880	0
Proceeds from maturity of investment securities	15	48,819	0
Funds advanced for loans and equity investment	9	(74,119)	(36,336)
Purchase of investment securities	15	(135,876)	0
Purchase of property, technology and equipment	10	(484)	(1,147)
Net cash used in investing activities		(123,780)	(37,483)
Cash flows from financing activities			
Increase in paid-in share capital	7	26,091	29,418
Decrease (increase) in share cap.portion not received	8	5,171	(596)
Decrease in share capital due but not received	7	764	2,791
Decrease (increase) in share capital S.T. receivable	7	8,078	(527)
Paid-in share capital received		40,104	31,086
Borrowings	12	29,891	37,230
Repayments of borrowings	12	(47,284)	(16,730)
Net cash provided by financing activities		22,711	51,586
Net increase (decrease) in cash and cash equivalents		**(101,772)**	**18,542**
Cash and cash equivalents at beginning of year		202,837	184,295
Cash and cash equivalents at end of year	**15**	**101,065**	**202,837**

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

NOTES TO THE FINANCIAL STATEMENTS

For the years ended 31 December 2001 and 2000

1. ESTABLISHMENT OF THE BANK

i. Agreement Establishing the Bank

The Black Sea Trade and Development Bank ("the Bank"), whose headquarter's office is located in the city of Thessaloniki, Komninon 1 Street, of the Hellenic Republic, is an international financial organization under the Agreement Establishing the Bank dated 30 June 1994 ("the Agreement"). At 31 December 2001 the Bank's share-holders comprised of 11 countries: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russian Federation, Turkey and Ukraine.

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

The Bank's accompanying financial statements and notes have been submitted by the Management Committee to the Board of Directors and approved on 1 March 2002. Pursuant to Article 23 of the Agreement, these financial statements are subject to the approval of the Board of Governors after reviewing the auditors' report.

ii. 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 1 June 1999.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the Bank's Accounting Policies, which comply with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board. Whenever IFRS 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 adjusted to fair values when appropriate. The Bank has not applied any IFRS before their effective date.The Bank adopted IAS 39, Financial Instruments: recognition and measurement, with effect from 1 January 2001. The standard provided for comprehensive guidance on accounting for financial instruments. There was no transition adjustment resulting from the adoption of this statement.

i. Foreign currencies

The Bank maintains its books and records in the United States dollar (US$) as it considered that the majority of the Bank's operations are performed in this currency. Also, the Bank prepares and publishes financial statements in the US dollar, and in addition in the Annual Report for reporting purposes presents its financial statements in SDR, which is the currency 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 US$ (functional currency) and the foreign currency at the date of the transaction and any exchange gains or losses arising from such transactions are taken to the profit and loss account. Exchange gains and losses arising from the translation of monetary assets and liabilities at year end exchange rates are also taken to the profit and loss account.

As further discussed in note 7, the Bank's authorized capital is denominated in SDR's. Hence, for the purpose of the preparation of the accompanying financial statements the following year end exchange rates were used:

- 31 December 2001, 1 SDR = 1.25673 US$
- 31 December 2000, 1 SDR = 1.30291 US$

ii.Investment securities

Investment securities are intended to be held near maturity and are carried on the balance sheets at amortised cost, by applying the effective interest rate method, net of any provisions. It is Bank policy to dispose such investment securities near to maturity, not earlier than three months from maturity.

iii. Loans, equity investments and provisions for losses

Loans are carried at the amortised cost by applying year end interest rate which approximates the effective interest rate. The adoption of this method as of the beginning of the year did not result in any material transitional adjustment. 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 represent unquoted investments and are recorded at cost less any provision for impairment given the absence of a reliable fair value measurement. 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 or loss on sale of equity investments.

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 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 exert significant influence over the operations of the companit invested.

The Bank measures regularly the impairment of its loans. Impairment test was not considered necessary for the loans of the Bank because there is no objective evidence for any specific loan losses. However, a general loan loss provision has been calculated on the bases of the credit risk assessment methodology as adopted by the Bank.

iv. Property, technology and equipment

Property, technology and equipment is stated at cost, less accumulated depreciation. Depreciation is provided so as to write off the cost of each asset to their residual values on a straight line basis over their estimated useful lives, except for leasehold buildings and improvements which are depreciated over the remaining term of the lease, where this period is shorter than their estimated useful lives.

v. Income and expenses

Interest income and expense are recorded on an accrual basis. Loan commitment and guarantee fees and fees received in respect of services provided over a period of time are recognized 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.

vi. Staff retirement plan and termination benefits

Presently, the Bank does not have any established pension plan. The Management Committee has approved the establishment of a defined contribution pension plan. Pending its implementation it has placed the amounts for all employees who are eligible to participate in special deposit accounts (see note 13). Current service costs in respect of both defined and social insurance contribution schemes (IKA) are recognized as an expense in the current period in accordance with IAS 19 (as revised).

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

vii. 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.

viii. 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 and are accounted for in accordance with IAS 39, at fair value with any revaluation of gain or loss posted in the profit and loss account. As of 31 December 2001 the Bank has not been engaged into any derivative transactions.

ix. Off-balance-sheet items

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

3. INCOME FROM LOANS, NET FEES AND COMMISSIONS

Total income from loans, including net fees and commissions, in the year was US$ 4,850 thousand deriving from both project and trade financing, and from the amounts that have been disbursed in loan and equity investments.

4. INCOME FROM PLACEMENTS AND SECURITIES

The majority of interest income came from treasury activities including placements with other financial institutions, purchases of money market instruments and held to maturity securities. The overall quality of liquid asset investments remained high, invested in financial institutions with single A credit rating or better.

5. NET INCOME (LOSS) ON FOREIGN EXCHANGE

It is Bank policy to minimize its exposure to currencies other than SDR by investing its SDR denominated share capital in the appropriate weights of the SDR component currencies. Under current accounting policy, the change in the US$ value of monetary assets and liabilities over the year is posted to the profit and loss account, resulting in a net currency conversion loss of US$ 4,604 thousand due to the adverse fluctuation of the US$ against the other SDR constituent currencies.

In their 25th Meeting, held on 14 December 2001, the Board of Directors has approved a revision of the Bank's accounting policies under which the Bank shall adopt as of 1 January 2002 the Special Drawing Right, its unit of account for authorized capital pursuant to Article 4 of the Agreement, as the reporting currency, changing from the United States Dollar.

6. GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses in the accompanying profit and loss statement are analyzed as follows:

Expressed in US$ (000)	Year to 31 December 2001	Year to 31 December 2000
Salaries and benefits	6,681	6,022
Other administrative expenses	3,333	2,422
General administrative expenses	**10,014**	**8,444**

The average number of staff included in salaries and benefits during the year were: regular 88 (2000: 58) and contract staff of 1 (2000:1). Staff numbers at 31 December 2001 were: regular staff 99 (2000: 76) and contract staff of 1 (2000:1).

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 2001		At 31 December 2000	
	SDR (000)	US$ (000)	SDR (000)	US$ (000)
Subscribed share capital	1,000,000	1,256,730	1,000,000	1,302,910
Less: callable shares	(700,000)	(879,711)	(700,000)	(912,037)
Less: payable shares	(100,000)	(125,673)	(125,000)	(162,864)
Called-up share capital	200,000	251,346	175,000	228,009
Cumulative translation adjustment	---	11,391	---	8,610
Advance against future call	---	9	---	36
Paid-in share capital	**200,000**	**262,746**	**175,000**	**236,655**

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 31 December 2001 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 2001 was US$ 1,823 thousand (SDR 1,451 thousand) and at 31 December 2000 was US$ 2,587 thousand (SDR 1,985 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 installments. At year end 31 December 2001 six Member States (Bulgaria, Greece, Romania, Russian Federation, Turkey and Ukraine) had issued promissory notes. Furthermore, four installments, out of the total of eight equal annual installments, were due to the Bank and five Member States (except Albania, Bulgaria, Greece, Romania, Russian Federation and Turkey) had not fully paid. The balance of share capital short-term subscription receivable at 31 December 2001 was US$ 14,298 thousand (SDR 11,377 thousand) and at 31 December 2000 was US$ 22,376 thousand (SDR 17,174 thousand).

The capital subscription status and voting power of each member at 31 December 2001 is analysed as follows:

Member	Shares	Subscribed	Callable	Payable	Paid	Voting Power
		Expressed in US$ (000)				
Albania	20,000	25,135	17,594	7,541	5,026	2.1%
Armenia	20,000	25,135	17,594	7,541	2,396	1.0%
Azerbaijan	20,000	25,135	17,594	7,541	1,678	0.7%
Bulgaria	135,000	169,658	118,761	50,897	33,932	14.5%
Georgia	20,000	25,135	17,594	7,541	2,513	1.1%
Greece	165,000	207,360	145,152	62,208	41,472	17.7%
Moldova	20,000	25,135	17,594	7,541	1,643	0.7%
Romania	135,000	169,658	118,761	50,897	32,859	14.1%
Russian Fed.	165,000	207,360	145,152	41,472	41,472	17.7%
Turkey	165,000	207,360	145,152	62,208	41,472	17.7%
Ukraine	135,000	169,658	118,761	50,897	29,689	12.7%
Total	**1,000,000**	**1,256,730**	**879,711**	**377,019**	**234,152**	**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 2000 was US$ 2,550 thousand and was included under "Other deposits" in the accompanying 2000 balance sheet. As of 31 December 2001 Romania has paid an amount of US$ 8,916 thousand, hence an amount of US$ 1,073 thousand is due 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. The accrual interest due at 31 December 2001 was US$ 152 thousand and at 31 December 2000 was US$ 1,291 thousand included in "Receivables and accrued interest" in the accompanying balance sheets.

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)	At 31 December 2001	At 31 December 2000
Value of share capital in central bank	0	2,550
Amount due for replenishment of share capital	1,073	6,244
Total share capital contribution	**1,073**	**8,794**

9. LOANS AND EQUITY INVESTMENTS

The Bank offers a range of loans and facilities in both project and trade financing, which may be tailored to meet an individual operation's requirements. The Bank may also make equity investments in a variety of forms and guarantees. The Bank acts as a financial intermediary operating on the basis of sound banking principles. Rates may be fixed (none at 31 December 2001) or variable, as well as revisable and convertible.

As of 31 December 2001 signed commitments for loans and equity investments of the Bank totaled US$ 137,555 thousand of which US$ 72,575 thousand were disbursed. At 31 December 2001 the Bank has no amounts of loans or equity investments in non-accrual status due to overdue interest or principal repayments.

As of 31 December there was no concentration of credit risk in the Bank's loan portfolio.

Expressed in US$ (000)	Loans	Equity investments	Total loans and equity investments
At 31 December 2000	35,439	897	36,336
Disbursements	73,719	400	74,119
Repayments	(37,880)	0	(37,880)
At 31 December 2001	71,278	1,297	72,575
Less: provisions at beginning of year	(1,015)	(240)	(1,255)
Less: provisions charge for the year	(1,581)	0	(1,581)
Provisions at 31 December 2001	(2,596)	(240)	(2,836)
Total net of provisions at 31 December 2001	**68,682**	**1,057**	**69,739**

As of 31 December 2001 the amount of US$ 2,836 thousand reflects a provision for general portfolio risks.

10. PROPERTY, TECHNOLOGY AND EQUIPMENT

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

Expressed in US$ (000)	At 31 December 2001	Additions	At 31 December 2000	Additions	At 31 December 1999
Buildings (leasehold improvements)	138	74	64	49	15
Furniture, office accessories and vehicle	445	90	355	102	253
Computers and office equipment	833	165	668	298	370
Intangibles	864	155	709	698	11
Total property, technology and equipment	2,280	484	1,796	1,147	649
Less: accumulated depreciation	(873)	(462)	(411)	(304)	(107)
Net book value	**1,407**	**22**	**1,385**	**843**	**542**

11. OTHER ASSETS

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

12. BORROWINGS

The Bank utilizes short-term financing in the form of borrowings from major commercial banks. The average year end interest borrowing rate was fixed by reference to the one month LIBOR rate. At 31 December 2001 the Bank had no committed credit facilities.

13. PAYABLES AND ACCRUED INTEREST

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

Expressed in US$ (000)	At 31 December 2001	At 31 December 2000
Interest accrued on borrowings	2	304
Social contribution	137	57
Pension plan obligation	1,954	1,129
Suppliers and other accrued expenses	549	511
Payables and accrued interest	**2,642**	**2001**

Pension plan obligation is covered by an equivalent amount of cash deposited under short-term time deposits to be used for the funding of the pension plan when established. At 31 December 2001 an amount of US$ 410 thousand represents employee contributions.

14. 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, the Board of Directors proposed an allocation to the general reserve to the Board of Governors. The decision of the Board of Governors for such allocation was taken in the third annual meeting held on 20 May 2001. The amount transferred to such reserve during the year was US$ 2,549 thousand (equivalent to SDR 1,926 thousand at year end 2000 exchange rate).

15. CASH AND CASH EQUIVALENTS

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

Expressed in US$ (000)	At 31 December 2001	At 31 December 2000
Up to 1 month	77,845	202,837
From 1 month to 3 months	23,220	0
Cash and cash equivalents	**101,065**	**202,837**
From 3 months to 1 year	52,831	0
From 1 year to 5 years	34,226	0
Total deposits and securities	**188,122**	**202,837**

For cash flow purposes the Bank considers as cash and cash equivalents balances maturing up to three months.

16. CURRENCY RISK

In accordance with Article 4 of the Agreement, the Bank's unit of account for authorized capital shall be Special Drawing Rights. In accordance with the Bank's accounting policies the reporting and functional currency is the United States Dollar. Pursuant to the Bank's financial policies, the Bank will take no significant foreign exchange position, investing its SDR denominated capital and reserves in the correct weights of the SDR constituent currencies.

The table below provides a currency breakdown of the Bank's assets and liabilities.

	United States dollars	Euros	Japanese yens	Great Britain pounds	Special Drawing Rights	Total
Assets						
Cash and bank balances	164	34				198
Placements with financial institutions	2,988	421	32,939	174		36,522
Investment securities	46,745	74,473		30,184		151,402
Loans	66,165	2,517				68,682
Equity investments	1,057					1,057
Receivables and accrued interest	1,948	659	437		152	3,196
Paid-in share capital not received					17,194	17,194
Property, technology and equipment	1,407					1,407
Other assets	25	165		29		219
Total assets	120,499	78,269	32,939	30,824	17,346	279,877
Liabilities						
Borrowings	2,400	707				3,107
Payables and accrued interest	2,098	544				2,642
Members' equity					274,128	274,128
Total liabilities and members' equity	4,498	1,251	0	0	274,128	279,877
Net currency balance at 31 December 2001	**116,001**	**77,018**	**32,631**	**30,824**	**(256,782)**	**0**
Correct SDR weights *	118,062	76,887	32,939	29,202		
Currency position at 31 December 2001	(2,061)	131	308	1,622		
Net currency balance at 31 December 2000	**102,373**	**55,135**	**35,321**	**23,666**	**(216,495)**	**0**

* As per IMF rule (effective as of 1 January 2001)

17. LIQUIDITY RISK

Liquidity is a measure of the extent to which the Bank may be required to raise funds to meet its obligations. The Bank's commitment to maintaining a strong liquidity position is established in policies, approved by the Management Committee of the Bank, that require a minimum target liquidity ratio of 50% of the net cash requirements for the next 12 months. Liquid assets are maintained in short-term placements and negotiable securities.

The table below provides an analysis of assets, liabilities and members' equity by relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment patterns allow for early repayment possibilities. Therefore, in the case of liabilities the earliest possible repayment date is shown, while for assets it is the latest possible repayment date. Those assets and liabilities that do not have a contractual maturity date are grouped together in the "maturity undefined" category.

Expressed in US$ (000)	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and bank balances	198						198
Placements with financial institutions	36,522						36,522
Investment securities*	41,125	23,220	52,831	34,226			151,402
Loans	138	19,374	14,974	26,661	7,535		68,682
Equity investments						1,057	1,057
Receivables and accrued interest	152	3,044					3,196
Paid-in share capital not received	17,194						17,194
Property, technology and equipment						1,407	1,407
Other assets	161			58			219
Total assets	95,490	45,638	67,805	60,945	7,535	2,464	279,877
Liabilities							
Borrowings	2,400					707	3,107
Payables and accrued interest	2,642						2,642
Members' equity						274,128	274,128
Total liabilities and members' equity	5,042	0	0	0	0	274,835	279,877
Liquidity position at 31 December 2001	**90,448**	**45,638**	**67,805**	**60,945**	**7,535**	**(272,371)**	**0**
Liquidity position at 31 December 2000	**226,654**	**4,605**	**596**	**14,838**	**2,568**	**(249,261)**	**0**

* The fair value of investment securities maturing up to one year approximates the book value.

18. INTEREST RATE RISK

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is determined on a financial instrument indicates to what extent it is exposed to interest rate risk. The Asset and Liability Unit monitors on a daily basis the interest rate exposure of the Bank.

The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of the financial instruments or, in the case of instruments that re-price to a market rate of interest before maturity, the next re-pricing date.

Expressed in US$ (000)	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and bank balances						198	198
Placements with financial institutions	36,522						36,522
Investment securities	41,125	23,220	52,831	34,226			151,402
Loans	138	56,621	11,923				68,682
Equity investments						1,057	1,057
Receivables and accrued interest						3,196	3,196
Paid-in share capital not received						17,194	17,194
Property, technology and equipment						1,407	1,407
Other assets						219	219
Total Assets	77,785	79,841	64,754	34,226	0	23,271	279,877
Liabilities							
Borrowings	2,400					707	3,107
Payables and accrued interest						2,642	2,642
Members' equity						274,128	274,128
Total liabilities and members' equity	2,400	0	0	0	0	277,477	279,877
Interest rate risk at 31 December 2001	**75,385**	**79,841**	**64,754**	**34,226**	**0**	**(254,206)**	**0**
Interest rate risk at 31 December 2000	**193,043**	**5,300**	**596**	**14,770**	**2,568**	**(216,277)**	**0**

19. OTHER CONTINGENCIES

The Bank has entered into a lease for its Headquarters office facilities. These are standard operating leases and include renewal options, periodic escalation clauses and are non-cancelable in the normal course of business. The related future commitments with respect to the above lease agreements are US$ 287 thousand for 2002 and US$ 156 thousand for 2003. Rent expense of the year totaled US$ 553 thousand for 2001 (US$ 391 thousand for 2000) and is included in general administrative expenses.

PROFIT AND LOSS STATEMENT
For the years ended 31 December 2001 and 2000

Expressed in thousands of Special Drawing Rights	Year to 31 December 2001	Year to 31 December 2000
Interest and similar income		
From loans	2,822	706
From placements with financial institutions	1,708	9,139
From investment securities	5,089	360
Interest expense and similar charges	210	742
Net interest income	9,409	9,463
Net fees and commissions	1,037	384
Net income (loss) on foreign exchange	(3,200)	(294)
Other income	21	0
Operating income	**7,267**	**9,553**
General administrative expenses	7,968	6,427
Depreciation	368	237
Income before provisions	**(1,069)**	**2,889**
Provision for losses	1,258	963
Net income (loss) for the year	**(2,327)**	**1,926**

BALANCE SHEETS
At 31 December 2001 and 2000

Expressed in thousands of Special Drawing Rights	At 31 December 2001	At 31 December 2000
Assets		
Cash and bank balances	158	187
Placements with financial institutions	29,061	107,238
Investment securities	120,473	46,297
Other deposits	0	1,957
Total deposits and securities	149,692	155,679
Loans	56,717	27,200
Equity investment	1,032	688
Less: provision for losses	(2,221)	(963)
Net loans and equity investment	55,528	26,925
Receivables and accrued interest	2,543	2,569
Share capital replenishment portion not received	854	4,793
Share capital due but not received	1,451	1,985
Share capital short-term subscription receivable	11,377	17,174
Paid-in share capital not received	13,682	23,952
Property, technology and equipment	1,127	834
Intangible assets	687	544
Less: accumulated depreciation and amortization	(683)	(315)
Net property, technology and equipment	1,131	1,063
Other assets	174	144
Total Assets	**222,750**	**210,332**
Liabilities		
Borrowings	2,472	15,734
Payables and accrued interest	2,101	1,536
Total liabilities	4,573	17,270
Members' Equity		
Subscribed share capital	1,000,000	1,000,000
Less: callable share capital	(700,000)	(700,000)
Less: payable share capital	(100,000)	(125,000)
Cumulative translation adjustment	9,408	6,945
Advance against future call	7	28
Paid-in share capital	209,415	181,973
General reserve	3,426	1,500
Retained earnings	5,336	9,589
Total members' equity	218,177	193,062
Total Liabilities and Members' Equity	**222,750**	**210,332**
Off-balance-sheet items		
Commitments	51,706	18,508

STATEMENT OF CHANGES IN MEMBERS' EQUITY

For the years ended 31 December 2001 and 2000

Expressed in thousands of Special Drawing Rights	Share capital Subscribed	Callable	Payable	General Reserve	Retained Earnings	Total
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**
Paid-in share capital			25,000			25,000
Cumulative translation Adjustment			2,463			2,463
Advance against future call			(21)			(21)
General reserve				1,926	(1,926)	0
Net (loss) for the year					(2,327)	(2,327)
At 31 December 2001	**1,000,000**	**(700,000)**	**(90,585)**	**3,426**	**5,336**	**218,177**

STATEMENT OF CASH FLOWS

For the years ended 31 December 2001 and 2000

Expressed in thousands of Special Drawing Rights	Year to 31 December 2001	Year to 31 December 2000
Cash flows from operating activities		
Net income (loss) for the year	(2,327)	1,926
Adjustment for:		
Provision for losses	1,258	963
Depreciation	368	237
Interest and similar income	(9,620)	(10,205)
Interest expense and similar charges	210	742
Operating profit before working capital changes	(10,111)	(6,337)
Other assets	(30)	(86)
Accounts payable	750	1,159
Cash generated from operations	(9,391)	(5,264)
Interest received	9,740	9,225
Interest paid	(450)	(654)
Net cash flows from operating activities	(101)	3,307
Cash flows from investing activities		
Proceeds from repayment of loans	30,142	0
Proceeds from maturity of investment securities	38,846	0
Funds advanced for loans and equity investment	(60,003)	(27,888)
Purchase of investment securities	(108,119)	0
Purchase of property, technology and equipment	(436)	(905)
Net cash used in investing activities	(99,570)	(28,793)
Cash flows from financing activities		
Increase in paid-in share capital	27,442	31,155
Decrease (increase) in share cap.portion not received	3,939	(678)
Decrease in share capital due and not received	534	1,933
Decrease (increase) in share capital S.T. receivable	5,797	(1,255)
Paid-in share capital received	37,712	31,155
Borrowings	24,363	28,574
Repayments of borrowings	(37,625)	(12,840)
Net cash provided by financing activities	24,450	46,889
Net increase (decrease) in cash and cash equivalents	**(75,221)**	**21,403**
Cash and cash equivalents at beginning of year	155,679	134,276
Cash and cash equivalents at end of year	**80,458**	**155,679**

CAPITAL SUBSCRIPTION AND VOTING POWERS

At 31 December 2001

Member	Shares	Subscribed	Callable	Payable	Paid	Voting Power
		Expressed in thousands of Special Drawing Rights				
Albania	20,000	20,000	14,000	6,000	3,999	2.1%
Armenia	20,000	20,000	14,000	6,000	1,907	1.0%
Azerbaijan	20,000	20,000	14,000	6,000	1,335	0.7%
Bulgaria	135,000	135,000	94,500	40,500	27,000	14.5%
Georgia	20,000	20,000	14,000	6,000	2,000	1.1%
Greece	165,000	165,000	115,500	49,500	33,000	17.7%
Moldova	20,000	20,000	14,000	6,000	1,307	0.7%
Romania	135,000	135,000	94,500	40,500	26,146	14.1%
Russian Fed.	165,000	165,000	115,500	49,500	33,000	17.7%
Turkey	165,000	165,000	115,500	49,500	33,000	17.7%
Ukraine	135,000	135,000	94,500	40,500	23,624	12.7%
Total	**1,000,000**	**1,000,000**	**700,000**	**300,000**	**186,318**	**100.0%**

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors
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, 2001 and 2000 the related profit and loss statement and statements of changes in members' equity and cash flows for the years ended December 31,2001 and December 31,2000. 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 audits.

We conducted our audits 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 audits provide 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, 200 l and 2000 and the results of its operations and its cash flows for the years then ended, in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and the overall principles of the European Community's Council Directive on the Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions.

Athens, Greece,
March 1, 2002

Arthur Andersen

Annex

Key Staff Members

Ersoy Volkan*
President

PRESIDENT'S DIVISION

Daud Ilyas
Office of the General Counsel

Ahmet Imre
Office of the Chief Economist

Todor Dimitrov
Post Evaluation

Zenon Hadjiantonoglou
Office of the Internal Auditor

Celal Karatekelioglu
Advisor

BANKING DIVISION I

Valentina Siclovan
Vice President Banking
Azerbaijan, Bulgaria, Georgia, Romania, Turkey

Ghinea Arminio Iorga
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Orhan Aytemiz
Sector Team
Manufacturing, Tourism, Transportation, Financial Sector

Gueorgui Horozov
Sector Team
Infrastructure, Energy, Telecommunications, High Technology

Nejdet Sarisozen
Trade Finance

BANKING DIVISION II

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Vice President Banking
Albania, Armenia, Greece, Moldova, Russia, Ukraine

Panayotis Gavras
Programmes

Umberto Del Panta
Sector Team
Manufacturing, Tourism, Transportation

Konstantin Limitovski
Sector Team
Infrastructure, Energy, Telecommunications, High Technology

Steven Beck
Structured Trade Finance & Financial Sector

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Cofinancing
Nikolay Danev

Procurement
Colin Conway

Environment
Hilary Hoagland Grey

Operations Administration
Sofica Mihai

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Andrei Vernikov
Vice President Finance

Nicolas Papavramides
Corporate Planning and Budgeting

George Pahinis
Credit Risk

Georgeta Buzica
Financial Controllers

Pierre Van Peteghem
Treasury

ADMINISTRATION DIVISION

Charalampos Tsarouchas
Secretary General

Christos Georgiou
Information Technologies

Ralitsa Raeva
BoD & BoG Communications

Kostis Zevgaridis
Administrative Services

Robert De Bruin
Valery Aksenov
Public Relations & Publications

Edward Katmazowski
Human Resources

**Replaced by Mustafa Gürtin as of the 16th of February 2002*

Black Sea Trade and Development Bank

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