Black
Sea
Trade &
Development
Bank

2002

Annual Report

Table of Contents

Board of Governors

Chairman
Minas STAVRAKAKIS
Ministry of Economy and Finance
Greece

Vice Chairmen
Adriana BERBERI*
Deputy Minister of Finance
Albania

Vardan KHACHATRYAN
Minister of Finance & Economy
Armenia

Governors
Heydar K. ASADOV
Deputy Minister of Finance
Azerbaijan

Svetoslav GAVRIISKY
Governor
Bulgarian National Bank

Merab KAKULIA
Vice President
National Bank of Georgia

Mariana DURLESTEANU
Vice Minister of Finance
Moldova

Mihai Nicolae TANASESCU
Minister of Public Finance
Romania

Ivan S. MATEROV
First Deputy Minister for Economic Development & Trade
Russian Federation

Faik OZTRAK
Undersecretary of Treasury
Turkey

Olexander SHLAPAK
Minister of Economy and European Integration
Ukraine

Alternate Governors
David AVETISSIAN
Deputy Minister of Finance and Economy
Armenia

Vadim A. KHUBANOV
Deputy Board Chairman
National Bank of Azerbaijan

Dimitar B. RADEV
Bulgaria

David KERESSELIDZE
Deputy Director of International Economic Relations
Ministry of Foreign Affairs
Georgia

Giannis PAPANIKOLAOU
Director General
International Centre for Black Sea Studies
Greece

Tatiana LAPICUS
Head of Economic and International Relations
State Chancellery
Moldova

Cristian DIACONESCU
Secretary of State
Ministry of Foreign Affairs
Romania

Sergei I. KOLOTUKHIN
Deputy Minister of Finance
Russian Federation

Aydin KARAOZ
Deputy Undersecretary of Treasury
Turkey

Sergeiy YAREMENKO
Board Member
National Bank of Ukraine

* as of December 2002

Board of Directors

Chairman
Mustafa GÜRTIN
President
Black Sea Trade and Development Bank

Members
Marian GJERMENI
Director of Monetary Operations
Bank of Albania

Arthur JAVADYAN
Board Member
Central Bank of Armenia

Samir SHARIFOV
Executive Director
State Oil Fund
Azerbaijan

Sophia KASSIDOVA*
Deputy Minister of Economy
Bulgaria

David APTSIAURI
First Deputy Minister of Foreign Affairs
Georgia

Vassilios KANELLAKIS
General Director of Policy, Planning and Implementation
Ministry of Economy and Finance
Greece

Lilia RAZLOG*
Head of Public Debt Department
Ministry of Finance
Moldova

Diana PELIGRAD
Head of Division
General Directorate for External Public Finance
Ministry of Public Finance
Romania

Andrei I. DENISOV
Deputy Minister of Foreign Affairs
Russian Federation

Andriy GONCHARUK
First Deputy Secretary of State
Ministry of Economy and European Integration
Ukraine

Alternate Directors
Davit SARGSYAN
Advisor to the Chairman
Central Bank of Armenia

Adalet N. ALIYEV
Chief of Foreign Economic Relations
Ministry of Finance
Azerbaijan

Nina STAVREVA
Head of State Treasury and Debt
Ministry of Finance
Bulgaria

Georgi CHIKAVA
Head of Credit Operations Division
National Bank of Georgia

Nikolaos SYMEONIDIS
Director for International Organisations and Policies
Ministry of Economy and Finance

Lidia GRACHILA
Head of International Financial Department
Ministry of Finance
Moldova

Mioara IONESCU
General Director
Ministry of Finance
Romania

Anatoli S. CHERNYSHOV
Russian Federation

Melih NEMLI
Deputy Director General of Foreign Economic Relations
Undersecretariat of Treasury
Turkey

* as of September 2002
* as of November 2002

Audit Committee

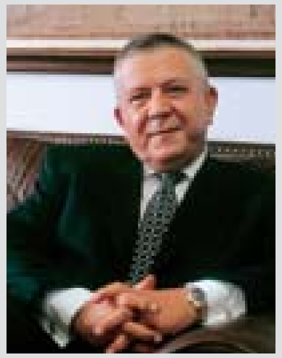
Chairman

Sofia KASSIDOVA
BSTDB Director
Bulgaria

Marian GJERMENI
BSTDB Director
Albania

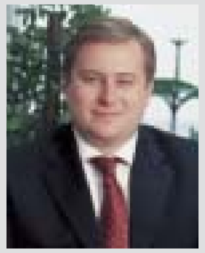
David APTSIAURI
BSTDB Director
Georgia

Management

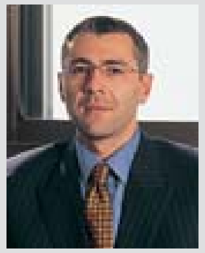


Mustafa GÜRTIN
President

Valentina SICLOVAN
Vice President Banking



Vitaly LISOVENKO
Vice President Operations



Andrei VERNIKOV
Vice President Finance

Charalampos TSAROUCHAS
Secretary General

To the Board of Governors

The Board of Directors of the Black Sea Trade and Development Bank has reviewed and endorsed this Annual Report for the fiscal year ended 31 December 2002. The Bank's Fourth 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 Bank continued to expand its project and trade finance operations in 2002, 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 Black Sea Trade and Development Bank continued to consolidate its presence in the Black Sea Region and to broaden the scope of its operations during the course of 2002, with the aim of effectively contributing to the advancement of its member countries, in accordance with its mandate of promoting economic development and regional cooperation in the Black Sea Region.

The stagnant economic conditions that prevailed in most of the industrialized nations during 2002 imposed serious limitations upon trade and capital flows into the Black Sea Region. Furthermore, the increased uncertainty and higher risks associated with emerging markets – as perceived by the international financial community – culminated in reduced appetite and higher margins for risks involving these markets. Accordingly, and with a view to compensate for the relatively narrower domain of economically and financially viable business opportunities, during 2002 BSTDB assigned particular importance to projects in the manufacturing and energy sectors of its shareholder countries, in line with the developmental priorities of the Black Sea Region, and exercised utmost care to fully abide by its stringent lending principles. Through these financing activities and the new business relationships that were established during the course of the year, our Bank was able to take further decisive strides towards promoting additional economic activity in the key sectors of its countries of operations. This policy line contributed significantly to upgrading the infrastructure, increasing employment and ultimately adding to the economic development process of the Black Sea Region at large.

Regardless of the weaknesses exhibited by the world economy during 2002, and the risks that were implied by this outlook, as well as by the spillover effects of increased political instability in many regions of the world, the Black Sea Trade and Development Bank was able to register a satisfactory increase in its project and trade finance activities, while maintaining a portfolio that is well-diversified across the priority sectors of the Bank's countries of operations. This positive outcome owes a great deal to the relative immunity of most of the Black Sea Region economies to adversities in the global economic environment.

In fact, during 2002 the BSTDB Board of Directors approved 14 project and corporate finance operations and 7 trade finance operations amounting to a total of US$ 212 million. Taking account of the significant positive externalities that are certain to ensue from these financings, their combined ultimate contributions to the economic development of the Black Sea Region should amount to significant multiples of the sums that were actually financed.

Alongside these achievements in increasing the business volume of the Bank, during the course of 2002, we have endeavoured to make positive changes to the organizational structure of BSTDB. These changes are expected to enhance the Bank' s operational efficiency in the period ahead.

Our concern to further improve the profile of the BSTDB has prompted the management to adopt a conservative approach to accounting policies and provisioning practices. During 2002, utmost care was exercised when streamlining costs at all operational levels and this policy was meticulously adhered to throughout the year. These efforts, in addition to our intensive efforts to develop new cooperative and mutually beneficial business relationships with international financial institutions, while at the same time strengthening those established in the past, were rewarded by an improvement in the Bank's overall operational results, despite the fact that financial returns worldwide stood at their lowest levels for the last 40 years.

I firmly believe that our achievements and increased volume of activity in 2002 will enhance BSTDB's recognition in the international financial community and constitute a further step towards achieving our broad mission of making best use of the economic potential of the Black Sea Region, for the ultimate benefit of its people.

It is my conviction that the strong commitment of BSTDB's management and staff to our mission will enable us to expand our reach much further in the period ahead.

March 2003

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

Main Events in Year 2002

January

BSTDB extends a credit line of USD 4 million to the International Bank of Azerbaijan (IBA) to promote trade in the Black Sea Region. This facility, the first BSTDB operation in the country, will assist IBA in extending short to medium-term import financing to those of its customers who import goods from other BSTDB member countries.

February

The BSTDB Board of Governors elects Mr. Mustafa H. Gürtin President of the Bank for a period of 4 years, commencing February 16, 2002. Mr. Gürtin replaces Mr. Ersoy Volkan, the first President of BSTDB, who completed his term in office.

BSTDB signs a Memorandum of Cooperation with the Export-Import Bank of the United States (Ex-Im Bank) in Washington. Under the agreement, Ex-Im Bank's short-, medium-, and long-term financing products can be used to support trade in goods and services in all BSTDB member countries. The agreement will enable BSTDB to act as an obligor or guarantor on specific transactions and also provide for a parallel financing arrangement.

March

BSTDB provides a loan of USD 8 million for the construction of a new oil terminal in the Port of Poti (Georgia).

April

A delegation of the BSTDB top management pays an official visit to the Russian Federation to update the Bank's country strategy for Russia.

BSTDB expands its Trade Finance Programme in Russia to include Probusinessbank with a revolving credit line of USD 3.5 million. The credit line includes Pre-Export Finance and Multiple Buyer Credit facilities. Probusinessbank plans to use the facilities to provide financing to Russian exporting and importing companies primarily doing business with the countries of the Black Sea region.

A delegation of the BSTDB top management pays an official visit to Ukraine. The delegation meets the Vice Prime Minister and key Ukrainian officials responsible for Economy, Finance, Transport and Trade, as well as representatives from the National Bank with the objective of updating the Bank's country strategy for Ukraine.

A BSTDB delegation participates in the Meeting of the Council of Ministers of Foreign Affairs of the BSEC Member States.

BSTDB holds its 4th Annual Meeting of the Board of Governors in Thessaloniki. The Board of Governors designates the Hellenic Republic to chair the Board of Governors until the next Annual Meeting scheduled for June 2003. The Board elects Mr. Minas Stavrakakis as its Chairman, replacing Mr. Svetoslav Gavriiski, the BSTDB Governor for Bulgaria.

BSTDB hosts the 3rd Black Sea Business Day on the occasion of its Annual Meeting in Thessaloniki. The Business Day focuses on opportunities and prospects for trade and investment in the Black Sea region, and gathers more than 400 participants representing both government bodies and the international banking and business community. The Business Day is inaugurated by H.E. Mr. Kemal Dervis, Minister of State of the Republic of Turkey, and by H.E. Mr. Akis Tsochadzopoulos, Minister of Development of the Hellenic Republic.

BSTDB signs a Guarantee Facility with KfW (Germany) for its Euro 5 million credit line to Banca Romaneasca S.A. (Romania) under the EU SME Finance Facility. Banca Romaneasca will utilize the financing for medium-to-long term lending to small and medium-sized enterprises (SME) in Romania.

May

A delegation of the BSTDB top management pays an official visit to Romania to update its country strategy.

A BSTDB delegation participates in the EBRD Annual Meeting in Bucharest. The Delegation holds talks with national delegations of the BSTDB member countries, as well as with IFIs and private investors active in the Black Sea region. BSTDB participates in the Romanian Investment Forum in Bucharest.

BSTDB extends a revolving credit line in the amount of USD 1 million to Commercial Bank - Bulgaria Invest A.D. (CBBI), which was selected as a financial intermediary for the BSTDB Trade Finance Programme in Bulgaria. The Pre-Export Finance Facility will be used by CBBI to advance sub-loans to Bulgarian exporters primarily in the small and medium-size enterprise sector.

June

BSTDB signs a USD 18 million loan agreement with Rompetrol Group NV ("TRG"). The loan, with a maturity of 5 years, will be used to develop the production facilities of TRG's refineries near Constanta and Ploiesti in Romania, as well as for the Group's working capital needs.

The BSTDB Board of Directors appoints Mr. Vitaly Lisovenko Vice President Banking, following the proposal of the Government of Ukraine, and upon the recommendation of BSTDB's President and Chairman of the Board of Directors.

July

A delegation of the BSTDB top management pays an official visit to the Republic of Bulgaria to meet key Bulgarian officials with the objective to update the Bank's country strategy and operational priorities for Bulgaria.

August

BSTDB signs a USD 10 million loan to support the restructuring and pre-privatization process of Romania's largest oil company, SNP Petrom. BSTDB's loan is for a term of 8 years. Additional financing of 140 million dollars is provided by the EBRD and a group of commercial banks.

September

A BSTDB delegation participates in "Kuban 2002", the Economic Forum in Sochi, meeting with the authorities and the business community of Southern Russia.

A delegation of the BSTDB top management pays an official visit to the Republic of Moldova to meet the Prime Minister and key government officials, in order to update the BSTDB country strategy and operational priorities.

A BSTDB delegation attends the IMF/World Bank Annual Meetings in Washington, holding a series of meetings with IFIs and leading international investors.

October

A delegation of the BSTDB top management pays an official visit to the Republic of Albania. The delegation meets the Prime Minister, the Ministers of Economy, Finance, and Transport, and officials from the Central Bank to discuss the BSTDB country strategy and priorities for Albania.

A BSTDB delegation headed by the President participates in the Meeting of the Council of Ministers of Foreign Affairs of the BSEC member countries in Tirana.

A BSTDB delegation participates in the meeting of the Board of Directors of the BSEC Business Council in Tirana.

A delegation of the BSTDB top management pays an official visit to the Republic of Azerbaijan to update its country strategy and business priorities. The delegation meets key government officials and makes a presentation to the Azeri banking and business community.

BSTDB, together with EBRD, IFC, and LfS Financial System GmbH, establishes the Azerbaijan Microfinance Bank and makes a 35% equity investment. The Azerbaijan Microfinance Bank will provide financial services to micro and small sized enterprises in Azerbaijan with the objectives of encouraging entrepreneurship and enhancing economic activity by small businesses.

November

A delegation of the BSTDB top management pays an official visit to Georgia. The delegation meets senior government officials responsible for Economy, Finance, Industry and Trade, as well as representatives of the National Bank and various commercial banks. The objective of the mission is to update the Bank's country strategy and operational priorities for Georgia.

A BSTDB delegation participates in the Plenary Session of the BSEC Parliamentary Assembly in Athens.

A BSTDB delegation headed by Mr. Mustafa Gürtin, President, pays an official visit to the Republic of Armenia to meet the Prime Minister and Ministers of Finance and Economy, Trade, and Transport, as well as the Governor of the Central Bank with the objective of updating the BSTDB country strategy and operational priorities for Armenia.

BSTDB commits USD 4 million - together with the Izmirlian Foundation (IF) - to offer direct medium and long-term financing to Armenian small and medium-sized enterprises (SMEs). The Netherlands Management Cooperation (NMCP) will provide technical assistance. A BSTDB – IF Joint Finance Facility will be opened in Yerevan to administer credit lines to local SMEs. The project constitutes BSTDB's first investment in Armenia.

December

BSTDB signs a Pre-Export Finance Agreement in the amount of USD 3 million with Mosnarbank, which has been selected as a financial intermediary for the BSTDB Trade Finance Program in Russia. The credit line represents the first of many opportunities to cooperate with Mosnarbank.

BSTDB signs a financing agreement providing a USD 18.5 million loan to ALROSA Co Ltd. (Russia) to support an investment program for rehabilitation of its mining production. The loan has a maturity of 6 years and will facilitate purchases of equipment and services from Ukrainian mining machinery manufacturers to be used for the expansion of production at one of the ALROSA mining complexes. The project will serve to reinforce business relations between the Russian mining sector and Ukrainian heavy machinery manufacturing.

BSTDB announces it will make available USD 17 million to finance the development of the Galata Gas Field, located off shore in the Black Sea close to Varna in Bulgaria. The Galata project will have a direct development impact in Bulgaria, as well as a regional co-operation effect: Ukrainian and Greek companies have already been selected as suppliers for the project.

Board of Governors & Board of Directors

Board of Governors

The Bank held the Fourth Annual Meeting of its Board of Governors on 14 April 2002 in Thessaloniki and approved the financial statements of the Bank for year 2001. The Board of Governors welcomed the decision of the Meeting of the Committee of Senior Officials of the BSEC Member Countries in Antalya, Turkey in October 2001, to elaborate the basic documents of the BSEC Project Development Fund with the assistance of the Bank. It noted with satisfaction that cooperation with the BSEC Working Group on Banking and Finance resulted in the preparation of the Rules and Regulations of the Fund, which provide for the utilization of that facility, in a way that would complement and not duplicate the existing financial facilities administered by BSTDB.

Mr. Minas Stavrakakis, Secretary General of the Ministry of Economy and Finance and Governor for the Hellenic Republic, was elected Chairman of the Board of Governors for the period until the Fifth Annual Meeting of the Bank, scheduled to take place on 1 June 2003 in Thessaloniki. The Governors for Albania and Armenia were elected as Vice Chairmen for the same period.

Board of Directors

In the year 2002 the Board of Directors continued to play a leading role in strengthening the Bank as a leading financial institution for the region by providing strategic guidance and supporting the Bank's initiatives in both its banking and administrative activities. During its 5 regular meetings the Board approved 21 project, corporate and trade finance operations. Including guarantees and equity participations, the total amount approved reached USD 221 million. The members of the Board played an important coordination role during the Bank's country missions for the elaboration and update of the Bank's 2002-2004 country strategies for Albania, Azerbaijan, Armenia and Greece.

In line with the Bank's strategy for institutional development, amendments to the Bank's Procurement Rules and Procedures, Internal Purchasing Procedures and Project Cycle were approved by the Board. The Bank's Pension Plan, after several years of meticulous work by an internal Pension Committee and a number of external consultants, was adopted by the Board and subsequently implemented.

Global Economic Outlook and Prospects

The global economy concluded 2002 on a weak note and appears set to remain in a similar condition for the first half of 2003, after which the outlook may improve gradually, returning to a growth path of around the long-term trend, in 2004. This somewhat protracted global economic growth forecast for the next two years, suggests that any improvement in the prospects of the US economy will be modest at best in the first quarter of 2003, improving gradually thereafter, provided that international expectations support any nascent recovery. While cyclical factors and an easing of macroeconomic policies in the United States and elsewhere did improve expectations and, particularly in the latter half of 2002, led the global economy to the initial phase of a recovery, economic growth during 2003 in most of the developing regions of the world appears set to be weaker than was suggested by various forecasts made during 2002.

The nascent recovery of the US economy has been made possible firstly by an effective response from the US corporate sector to the stagnation in the economy experienced in 2002. Significant reductions in real labour costs, and swift adjustment of inventories, have combined to enable US corporations to stave off a credit crunch. Meanwhile, a series of effective fiscal stimuli have prevented the stagnation of the US economy from becoming deeper. Low inflation and a moderate level of public debt have also contributed to the speed of the recovery process.

Against the backdrop of this generally improving outlook for 2003, the prospect of rising energy prices is beginning to emerge as a potential problem in the economic outlook of the USA and of industrialized countries as a group. The adverse effects of rising energy prices may become quite pronounced in many industries and are likely to create upward pressure on inflation, curtail economic growth and significantly increase business costs in large segments of the economies of the US and other industrialized countries. This possibility is causing increased concern in an economic environment where, due to weak demand, many companies, both in the US and elsewhere, have virtually exhausted their pricing power. This “soft” outlook of the US economy extended into early January 2003.

The impact of the uptrend in energy prices on US consumer prices is already becoming evident. This impact may be dampened somewhat by OPEC's decision, in January 2003, to raise its oil production by 6.5 %, in an emergency move designed to offset the effect of the Venezuelan oil strike and to try to hold down prices in advance of the military conflict in Iraq. Wider instability in the Middle East constitute a serious source of uncertainty and could have repercussions for the global economy at large, during the course of the year.

Adding uncertainty to the prospects for an imminent fully-fledged recovery, the US job market has as yet to exhibit clear signs of any substantial improvement, with the unemployment rate standing at 6 %, its eight-year high, as of end-2002. Most of the private-sector jobs lost over the past two years were in manufacturing. Moreover, the decline in worldwide foreign direct investment - *essentially due to the prolonged economic slowdown concentrated in the industrialized world* - adds to the uncertainty regarding the timing of any recovery in the global economy at large, that might be witnessed in 2003.

On the optimistic side, followig the end of the conflict in Iraq, the Fed's stimulative monetary policy, which is likely to continue during 2003, *(assisted by the current reasonable level of price stability)* and the already-strong productivity gains, should combine to keep aggregate demand afloat and increase the pricing power of firms, while at the same time lifting corporate profits and increasing the purchasing power of households.

In addition, US core inflation *(which excludes food and energy prices)* is exhibiting a decline as of the beginning of 2003, essentially due to low mortgage rates and hence declining housing prices, which account for over a third of core CPI.

Furthermore, despite continued factory job losses, there are some positive signs as regards the employment market. The length of the average working week and the amount of overtime in manufacturing industries are both rising. The combination of a longer average workweek and a likely productivity increase should result in some output growth.

The proposed US economic stimulus package, and particularly the elimination of the existing tax on dividend incomes, which it includes, *(to the extent that it is implemented)* should provide additional impetus to US economic recovery in 2003. The package also includes accelerated income tax cuts and investment incentives for small enterprises. The package proposes tax cuts totalling US$ 70 billion in 2003 and US$ 674 billion over the next ten years, half of which will result from the elimination of the dividends tax and lowering taxes on returns on capital. These proposals, which amount to a sizeable fiscal stimulus for the US economy at large, are likely to reduce unemployment and have a considerable impact on economic growth in the process. At the same time, the elimination of the dividend tax is expected to encourage investment activity and set the stage for long-run economic growth and sustainable prosperity, thereby leading to higher levels of investment activity and boosting prospects for long-term growth and productivity. An important source of uncertainty relates to the length of time that may need to elapse before the intended effects of the stimulus package feed through the US and eventually the global economy.

Moreover, there are a number of downside risks to the US stimulus package associated mainly with market vulnerability and these could ultimately reflect negatively on the performance of the global economy in 2003 and delay economic recovery. In fact, an important risk that stands in front of the effectiveness of the measures proposed by the Bush administration is that the additional funds that would become available to high income *(i.e. dividend-earning)* taxpayers might be invested or spent outside the US market. Such an outcome appears not unlikely, given that further US corporate bankruptcies following those seen in 2002, still loom as a possibility. If such an outcome were to materialize, US household spending could retrench, positive effects of the stimulus package would accrue to the recipient countries instead of the US and tax cuts could cause the US budget deficit to widen further. Another factor that might limit the effectiveness of the proposed measures is that their ultimate impact on increasing the US total stock of plant and equipment is likely to prove quite limited. In addition, any continuation of the vulnerability of the US asset markets and erosion of asset values could reduce or even nullify the expected effects of the proposed stimulus measures. Consequently, any rebound in investment could be short-lived and lead to a retrenchment of household spending. Should the package fall short of restoring confidence in the US economy, foreign investors would most likely reduce their holdings of US assets, the recovery of US investment activity would stall and instability in foreign exchange markets would increase. Considered in aggregate, all these factors suggest that a strong recovery of the US economy may not become evident before the third quarter of 2003.

A number of more general risks to a fully-fledged recovery of the global economy and of emerging markets in particular, should also be borne in mind. In the first instance, dependence on volatile capital inflows renders industrialized and developing economies alike, vulnerable to fluctuations in global financial markets. This dependence particularly slows down FDI flows to developing countries, which in any case have been declining since 1999 and are relatively small, compared to the aggregate volume of domestic investment in industrialized countries and regions. To the extent that financial market vulnerability continues, any investment rebound could be short-lived and household spending could retrench, at the first sign of waning market confidence.

Efforts in some developed countries towards privatising state enterprises and further opening industries to competition have enabled these countries to successfully harness the additional competition created to their benefit. This trend is likely to continue in 2003. Nonetheless, in many developing countries there are still considerable barriers to competition *-particularly in the services sectors-* due to the prevalence of private monopolies that continue to operate under imperfectly competitive conditions. In addition, many infrastructural projects in progress have faced payment problems, due to the inability of contracts to stand firm in the face of sharp contractions in demand. Even in countries where some degree of success with regard to privatisation has been registered, such barriers to competition and shortcomings related to adequately adjusting the legislative and institutional environment, have undermined the potential benefits of privatisation and resulted in delayed growth and below-optimal resource allocation.

Forecasts for the 2003 economic outlook of the Eurozone fall short of providing grounds for optimism, as European recovery lags behind that of the US. Declining equity prices, which in 2002 saw falls of greater magnitude than in the US, have eroded investor confidence as well as asset values, and are likely to continue to undermine consumption and investment growth and hence the prospects of a fully-fledged Eurozone economic recovery in 2003. In Germany *-the Eurozone's largest economy-* structural rigidities are hampering economic recovery, while consumer confidence is eroding rapidly, as unemployment increases. Given this outlook, any radical monetary policy actions or structural measures appear unlikely to be implemented in the Eurozone at large and, in any case, under current circumstances their effectiveness might be rather limited. Viewed in aggregate, therefore, current indicators point to sluggish growth in the Eurozone during 2003.

The Euro is expected to continue appreciating against the US Dollar and thus *-together with the weaknesses of the US economy-* to negatively affect the Eurozone's export performance. Accordingly, exports are unlikely to drive the region into a significant economic recovery in the period ahead, although the downward pressure the stronger currency will exert upon import prices and thereby on Eurozone inflation, may, to some extent, offset this. Such an outcome would permit the European Central Bank to reduce interest rates, thereby assisting the Region's economic recovery. Concerns related to the Eurozone's inflation performance, as well as to rising unemployment and to the fiscal policies being implemented in some of the Eurozone countries, altogether limit the number of policy options available to the ECB and keep the latter in cautious mode as regards implementing effective cuts in interest rates. Meanwhile, business sentiment and capital investment are likely to remain weak throughout the year, due to the already existing excess capacity. This will be another factor curtailing the Eurozone growth in 2003, and one which is unlikely to be alleviated by the US, which continues to experience difficulties as regards financing its current account deficit. Moreover, the constraints imposed by the Stability and Growth Pact and by the high debt levels of many European economies, seriously limit any stimulative fiscal policy actions.

Albania

Albania's GDP growth rate decelerated to 4.5% in 2002, from 6.5% the year before, although the government expects GDP growth to stabilize at around 6% over 2003-2006. The decline in 2002 may be attributed to power shortages, to structural problems as regards methods of revenue collection, to delivery and marketing problems in the agricultural sector, which accounts for over 50% of GDP, and to a fall in investment. Foreign investment also remained low and contributed to delays in the large-scale privatisation programme. The shortfall in privatisation revenues led the government to cut public expenditure, including investment, in order to achieve its program targets. Public investment declined with negative consequences on domestic demand. Economic growth in 2002 stemmed essentially from domestic credit expansion and from remittances from Albanians working abroad. Such remittances underpinned consumer expenditure, construction activity, especially of new residences, and the establishment of small businesses. The remittances provided half of foreign currency inflows to the country, thus contributing significantly to the financing of the trade deficit. Another important source of trade deficit financing was tourism receipts, the value of which was twice the value of goods exported. The value of exports of goods decreased, year-on-year, in the first half of 2002, before staging a recovery late in the year, while imports recorded an increase in nominal terms. Meanwhile, the trade deficit widened in the year to September, leading to a significant expansion of the current account deficit. Consumer price inflation was 4 per cent. Electricity shortages, problems with the distribution of agricultural products, a sharp increase in food prices following last September's floods and rises in rent and utility prices, constituted the main inflationary factors. Inflation was nevertheless kept in check by a strict monetary policy and by the appreciation of the Lek, which was helped mainly by Albanian workers' remittances. The combined outcome of these factors was that the Lek appreciated in nominal terms against both the US Dollar and the Euro.

The below-potential GDP growth rate, coupled with fiscal and external imbalances may disrupt the long-term stability of Albania's economy. Economic policy should therefore focus on promoting growth. The growth target for 2003 is set at 6 %, and is projected to be achieved mainly through boosting private investment and accelerating structural reforms. Fiscal policy aims at budget consolidation with a budget deficit set to decline to 6.6 % of GDP at the end of 2003, as a result of a revenues increase to be achieved through improving tax collection, customs administration and expanding the tax base. Meanwhile, public spending prioritisation would channel expenditures to education, public health, social security, energy and infrastructure. Inflation is expected to be contained in 2003, thanks to a tight monetary policy and to the stability of the Lek. Improvement in the current account balance would be based on export expansion and increasing tourism receipts. Export growth is projected to be based on improving the infrastructure and energy supply, while the uncertainty over the world economic recovery, especially in Europe, poses a risk. Furthermore, other factors, such as the limited availability of external financing resources, institutional shortcomings that remain in relation to fiscal administration, and the moderate pace of energy sector restructuring, impose limitations to competitiveness and may somewhat weaken Albania's export performance in 2003. The increasing need for imported capital equipment to assist infrastructure-building and corporate restructuring, points to the necessity for further international economic assistance.

Armenia

The Armenian economy exhibited a solid performance in 2002, with real GDP growing at some 9 %, annual inflation standing at around 3 %, coupled with a comfortable level of foreign exchange reserves, and continued narrowing of the fiscal and current account deficits. The IMF revised its growth projections for the Armenian economy from 7.5 to 9.5 percent. Economic growth was primarily export-led, fuelled by continued expansion in agriculture and key industries, particularly diamond-cutting, food processing, construction and tourism. Furthermore, unemployment declined significantly during 2002. The higher level of tax collection during the year and the authorities' decision to proceed swiftly with privatisation and reform in the energy, water, and irrigation sectors, combined to indicate a firm commitment to sustainable economic growth. Nevertheless, real GDP growth is expected to slow from 9.6 % in 2001 to an annual average of 6.2 % in 2002 - 2003. The Central Bank is committed to a monetary policy of adhering to a reserve money corridor and to the pursuit of a flexible exchange-rate policy. The 3 to 4 % target for 2003 - 2004, as regards the average nominal depreciation of the national currency, appears likely to be met.

A significant development planned for Armenia's economy during 2003 will be the privatisation of low-voltage power grids. This should constitute a positive factor, as regards the continuation of IMF financing aimed at consolidating the country's infrastructure. However, despite recent strong economic growth and a number of positive developments, Armenia remains short of attracting significant volumes of foreign direct investment and is dependent upon assistance from international financial institutions. In December 2002, Armenia secured a US$ 20 million loan from the World Bank, and arrived at an agreement with the latter, regarding further financing in 2003. As part of this agreement, Armenia has agreed to privatise its power utilities.

Armenia's output is expected to continue growing in 2003, as the current reform program continues to transform the economy. Successful implementation of the program should improve Armenia's investment climate and generate a significant increase in the volumes of much needed foreign direct investment inflows. The program is also expected to remove the remaining constraints on external trade, while reducing transport and energy costs, and enhancing access to external financing. Over the foreseeable future, GDP growth is expected to stem primarily from rapid private sector development and from increased capacity utilization. Such growth is expected to be led by demand in the CIS markets and by increasing penetration into those of the Middle East and Europe. The expected recovery in the domestic diamonds' and semi-precious stones' processing industries during the course of 2003, should enhance export revenues, while the recent surge in oil prices should also contribute towards increasing Armenia's foreign currency revenues.

Prospects for the Armenian economy appear favourable, although several challenges remain. To sustain the high rates of growth experienced in recent years and to further reduce unemployment and all its associated negative consequences, Armenia needs to significantly improve fiscal revenue collection, while increasing spending on basic infrastructure and on the social sectors, reforming its energy, water and irrigation sectors and at the same time, strengthening its banking system. Private sector growth in Armenia will hinge on enhanced financial intermediation, further bank consolidation, and increased ability of banks to collect collateral.

Azerbaijan

A favourable investment climate prevails in Azerbaijan's oil and gas sector and foreign direct investment into this part of the country's economy is expected to amount to US$ 550 million annually, between 2003 and 2005. This being said, structural reform in the non-energy sectors of the economy has been slower than would have been desirable. During 2002, the country's foreign exchange reserves continued to grow, while exports increased by 16,7 % and foreign direct investment by 20 %. Due to the strategic importance of the oil and gas sectors to Azerbaijan's development, business activities of foreign companies in this sector enjoy a high level of political support, which reduces their riskiness for foreign investors and financiers.

Inflows of FDI into the oil and gas sector should keep growth buoyant over 2003 and probably beyond. This, in addition to expected high oil prices in 2003, owing to problems in the Middle East, will result in Azerbaijan's real GDP growth being sustained at a high level. This being said, Azerbaijan's GDP growth will remain highly sensitive to fluctuations in world oil prices. Oil-sector development will have important spillover effects in construction, transport and communications. Other sectors may require some acceleration in privatisation and restructuring, so as to enable them to generate similar spillover effects. More importantly, in terms of Azerbaijan's long-term sustainable development, a diversification of production and exports from hydrocarbons towards other high value-added sectors would significantly reduce the sensitivity of the country's economy to unforeseeable fluctuations in world oil prices.

The tight monetary and fiscal policies likely to be pursued in 2003 should ensure exchange-rate stability and low consumer price inflation, while high oil-related FDI inflows should enable continued economic growth, originating mainly from the oil sector. However, delays in the implementation of structural and administrative reforms, resulting from over-reliance on the high oil prices of the past few years, may continue, as long as oil prices remain relatively high. While the slow pace of structural reforms is not expected to have a significant effect on Azerbaijan's overall long-term economic growth, owing to substantial level of development of the hydrocarbons sector, it might nevertheless have some adverse effect on growth in many non-oil related sectors, such as manufacturing. Under these circumstances, Azerbaijan's internal and external balances face the risk of becoming increasingly sensitive to oil price fluctuations. The government may agree to some reforms in the energy sector, such as raising energy tariffs in line with IMF recommendations, but further efforts may need to be made to ensure a higher level of payments from end-users.

Consumer price inflation in Azerbaijan is expected to continue on its moderately upward trend in 2003 and 2004, as rapid oil-sector development boosts employment and wages, resulting in increased domestic demand. The government's expenditure commitments may exert additional upward pressure on consumer prices. While a surge in inflows of foreign currency may result in some growth in money supply, this is unlikely to increase inflation to any significant extent, since money demand is likely to be fuelled by strong real GDP growth. This implies that in 2004 the risk of inflation rising significantly will not be substantial.

Bulgaria

Bulgaria's successful performance under its current economic program backed by the IMF Stand-By Arrangement and centred on the Currency Board, has been supported by a prudent and flexible fiscal regime and a strict income policy. The effective implementation of these policies, has contributed to robust growth, decelerating inflation, and a stronger-than-forecast external position. The country's GDP is expected to have grown by 4.2 % in 2002, resulting primarily from domestic demand expansion, especially fixed investment. The external position was stronger in 2002 compared to the previous year, reflecting strong tourism receipts particularly in the second and third quarters of the year, as well as subdued imports and lower than originally foreseen interest payments. Exports performed well, despite the economic slowdown in the EU, which is the recipient of 56% of Bulgaria's total exports. Total export growth was sound, with consumer goods recording the highest growth rate and accounting for almost 36 % of total. Unemployment, while still relatively high, declined significantly in 2002. Tight controls on government spending and the possible worsening of consumer expenditure, due to energy price rises, may also have some limiting effect on economic growth. Inflation was lower than in 2001 with the 12-month rate decelerating to 3.2% as of end-November and reflecting the appreciation of the Euro, moderate wage increases and lower food prices. The weakening of the USD against the Euro *- to which the Leva is pegged -* has restrained inflation pressures on import prices, including oil; while volatile food prices that carry a weight of over 4% in the CPI basket, steep rises in electricity tariffs and higher prices for medicine and tobacco, fuelled inflation. The target for the 2002 budget deficit set at 0.8 % of GDP is likely to be realized, thanks to the government's cautious approach towards spending and to improved and timely revenue collection.

The trade deficit is expected to narrow. Imports increased by 3.5 % year-on-year in the first eleven months of 2002, while the trade deficit amounted to 9.4 % of GDP in the same period; 3.7 % lower compared to its level in the same period of the year before. In addition to strong tourist receipts, this favourable development in the trade deficit has resulted in the current account deficit shrinking to below 4 % of GDP. However, inflows of foreign direct investment slowed, partly due to unforeseen delays in the implementation of the privatisation program.

Growth in 2003 will depend on the extent of economic recovery in the EU, on domestic demand and on the pace of economic and institutional reforms. Corporate restructuring and reforms in the utilities sector should eventually increase gross investment and improve efficiency. Swift and effective further modernization of Bulgaria's economy is imperative, given that the fixed exchange rate regime adopted by the currency board and the strength of the Euro may lead to real appreciation of the Bulgarian Leva, with adverse impacts on the nominal competitiveness of the country's production. Competitiveness faces additional risks that are rooted in inflation differentials between Bulgaria and the Eurozone, as well as in continuing inflationary pressures resulting from further adjustments of energy and public goods prices and the delayed restructuring of those energy intensive industrial sectors. The volatility of food prices, will also continue to be a source of inflationary pressures, but overall, with the exception of prolonged oil price shocks, headline inflation is expected to decline in 2003. Risks remain as regards the sustainability of the current fiscal policy, which schedules a balanced budget by 2005, comprised of tax cuts planned in 2003 to stimulate growth and a slowing of cuts in public expenditure, due to pressures for higher social spending. Additional risks stem from potential pressures for subsidies and debt relief from state-owned enterprises and municipalities. The former still account for some 30 % of GDP. The privatisation process should accelerate FDI inflows. The weakening of the USD and low interest rates should alleviate some of the public debt burden. Tourism should also play a significant role in narrowing the current account deficit.

Georgia

During 2002, Georgia made some evident progress in implementing its three-year economic program. Economic growth was relatively robust, despite a difficult external environment and inflation remained moderate. The centrepiece of Georgia's economic program for 2001-2003 is fiscal consolidation, aimed at assisting the country to achieve sustainable economic growth and reduced poverty, to put the economy on a path to fiscal sustainability, to establish the government's ability to meet its commitments, and to underpin efforts to resolve the large external debt burden. Accordingly, the program provides a coherent framework for supporting economic stability and growth. The budget envisages further deficit reduction, which should assist this process. In this respect, a rise in tax revenues will help safeguard an increase in social spending, against the background of overall expenditure restraint.

Looking ahead, a determined effort to press ahead with critical reforms will be essential to achieve the program's medium-term objectives of ensuring debt sustainability, of creating a favourable business and investment climate, and of making significant inroads into poverty. Recent reforms in the fiscal sphere have strengthened expenditure management and revenue administration, while the tax package adopted in June 2002 removes several exemptions and reverses the steady erosion of the tax base seen in recent years. Further strengthening the tax and customs administration and enhancing the efficiency of the tax system will, therefore, be crucial to achieving the level of revenue collection that is consistent with debt sustainability, while creating room for priority spending aimed at reducing poverty.

On structural reforms, progress will be particularly important in the energy and financial sectors. Implementation of the government's energy debt strategy will constitute a significant step towards the financial viability of the sector.

At the core of Georgia's medium-term policy agenda are plans for a comprehensive set of structural reforms, in particular institutional reforms designed to strengthen governance and promote more transparent markets, all in an effort to rationalize fiscal policy and achieve a level of economic growth that would be sustainable in the long run. The economic program also includes measures to address the problem of energy sector debts and to promote the effectiveness and transparency of fiscal and financial institutions, particularly in the tax collecting agencies.

Georgia's persistent budget deficits may continue to constitute a risk to maintaining macroeconomic stability during 2003. The government's economic policy will continue to focus on improving budget performance. This calls for accelerating critical reforms aimed at reducing poverty, enhancing the business environment and placing the growth of the stock of debt on a sustainable path. To this end, further structural reforms in the energy and financial sectors appear indispensable. While the government is in fact committed to raising taxes in the energy sector and to accelerating measures aimed at improving governance and transparency in the financial sector, appearances at present suggest that reform attempts in the foreseeable future may be constrained by the remaining institutional shortcomings. Unless the government broadens the tax base and swiftly implements radical measures to improve revenue collection, budget targets may prove difficult to achieve. While during the course of 2002 a number of amendments were made to Georgia' s tax system, these moves may increasingly complicate the tax system and ultimately create larger loopholes. In any case, the changes implemented during the course of 2002 may prove insufficient to draw individuals and many of the local firms into the formal economy or to attract urgently-needed foreign investment into the non-oil sectors, unless effective steps are taken to ensure that the new fiscal regulations are enforced in a transparent manner.

Greece

Greece's gross domestic product recorded an above-target growth rate of 4.0 %, on the back of strong household consumption and fixed investment. The latter was assisted by the EU structural fund programme and by buoyant construction activity related to preparations for the 2004 Olympic Games that are to be held in Athens. Low interest rates also provided support to domestic demand, especially for private residences, through mortgages. On the other hand, the performance of the external sector curtailed overall GDP growth. Accordingly, exports slowed down somewhat, being hit by the stagnant economic conditions in the EU and by the appreciation of the Euro. A bearish stock market also had negative repercussions for business investment, and constituted a further factor curtailing GDP growth. Slowing exports, in tandem with growing imports *(resulting from increasing domestic demand for imported commodities),* as well as rising oil import costs, altogether inflated the trade deficit. Inflows of EU structural funds partly offset the trade deficit in 2002 and are likely to continue doing so in 2003 and 2004. The capital account recorded an outflow, in excess of €510 million, to finance Greek investments abroad. Overall, in 2002 Greece's current account deficit widened with respect to the previous year. In 2003, Greece's current account deficit should narrow gradually from close to 6 % of GDP in 2002. This will check the rate of increase of imports, while lowering domestic prices of oil slightly in 2003, compared to the previous year, assuming the impact on oil prices of the US-led war against Iraq remains limited. The consumer price index recorded a 3.5 % year-on-year increase as of December 2002, while inflation averaged 3.9 % for the whole year.

Deficits reappeared in the state budget, after Eurostat *(the EU statistical agency)* introduced a new classification, which considers sales of securitization and privatization bonds, as public borrowing and not as transfer of assets, and fund transfers to public enterprises as subsidies and not as acquisitions of assets. Greece's budget deficit is expected to amount to 1.4% of GDP and the application of this new methodology is likely to add another 8 % to the country's public debt targeted at a level below 100 % of GDP by end-2004. These developments, especially the rather high public debt to GDP ratio, have imposed significant constraints on fiscal policy and point to a need to implement measures that would enable a reduction of the ratio of public debt to GNP. The income tax cuts planned for 2003, may help revive private consumption and, consequently, economic growth. Meanwhile, inflationary pressures are expected to continue during 2003, to the extent that they stem from buoyant growth, increasing oil prices, and weak competition in many sectors, especially services. Such factors may be offset partly, by the strong Euro. Persistence of inflationary tendencies might erode cost competitiveness and give rise to pressures for wage increases. Neverthless, strong productivity growth should restrain unit labour costs from escalating. Exports are expected to remain weak, given that a swift economic recovery is not foreseen in the main export markets for Greek products. The strengthening of the Euro is also likely to contribute to a weaker export performance in the period ahead. Should imports continue to grow, in addition to declining exports, the trade deficit would deteriorate and the share of domestically produced goods as a proportion of domestic demand might also decline, eventually curtailing industrial production and thereby hindering growth and employment prospects. Demand for Greek exports of goods and services should recover gradually in late 2003-2004, benefiting from some strengthening of the global economy and from a sharp increase in tourist arrivals, as well as from buoyant construction activity related to the 2004 Olympic Games. Continued inflows of EU funds, low interest rates and hence favourable credit terms in the domestic market, as well as increased rationalization of the fiscal and economic regulatory system, in addition to further privatization, should combine to set the stage for Greece's continued economic growth, in the period ahead.

Moldova

Moldova's GDP growth continued in 2002 recording a 7.2 % year-on-year rate. The primary drivers of growth were industry and exports. Exports to the European Union and to Central and Eastern Europe were buoyant, while exports to CIS countries, recorded a more modest expansion. Imports grew faster than exports, namely by 23 % year-on-year, compared to a growth of 20.4 % in exports, thereby widening the already sizeable trade deficit, estimated to be around 20 % of GDP. The trade deficit was offset by a surplus of transfers from abroad, consisting mainly of humanitarian and technical assistance, and inflows of expatriate workers' remittances. Nevertheless, the current account posted a deficit estimated at around 7 % of GDP. Double-digit real wage increases supported expansion of domestic private consumption. External debt - *especially debt servicing* - obligations continue to pose a threat to the economy, and particularly to current account stability. The country's stock of foreign debt - *not taking into account the debt due to energy imports* - increased by 8.7 % in 2002. In 2001, debt repayment had accounted for more than 50 % of budget revenues and for about 18 % of goods and services exports' revenues. In addition, 13.7 % of public sector expenditure in 2002 was accounted for by government debt servicing. Moldova fell short of repurchasing its US$ 75 million of European bonds, although it successfully restructured its Eurobond debt. The possibility of further debt restructuring in 2003 should not be excluded totally.

Moldova's foreign debt sustainability depends on sound economic growth and on maintaining its fiscal position. Fiscal policies implemented during the year have been prudent, adopting a tight stance that led to the elimination of the budget deficit. In 2002, budget revenues increased by 18 % with respect to 2001. The government plans an income tax rate cut by 5 percentage points for 2003. This would limit the increase of fiscal revenues and thus place the emphasis of fiscal consolidation on broadening the tax base and on rationalization of public expenditures, so as to enable the government to achieve its target of 0.8 of GDP budget deficit for 2003 and make possible the allocation of one-third of budget revenues to foreign debt servicing. Year-end inflation was reduced to 4.4 % in 2002 from 9.8 % the year before. The inflation rate was contained by means of a tight monetary policy and the associated exchange rate stability. The Leu is estimated to have depreciated by less than 6 % against the US$ in nominal terms in 2002, aided partly by inflows of expatriate workers' remittances and by the improvement of the macroeconomic fundamentals. The relative stability of Moldova's national currency is expected to continue in 2003, provided that the National Bank refrains from easing monetary policy. Inflows of remittances are expected to continue, as are inflows of external financing from international organizations and aid sponsors. Such a state of affairs should compensate for any possible difficulties in servicing the foreign debt that might pose a risk to the country's current economic stability. Moldova's economic growth in the period ahead depends heavily on export expansion. Limited access for the country's production - *especially of agricultural commodities that constitute the major part of the country's output* - to Western European markets, leaving Russia and CIS countries in general as its leading trade partners, make export expansion, hence economic growth, somewhat vulnerable. Meanwhile, the continuing economic slump in the EU provides some cause for concern, as regards Moldova's long-run export growth sustainability. An increasing diversification of the production base, along with exports promotion to more reliable markets, both requiring a revival of new investment, would improve the country's economic growth prospects.

Romania

Romania recorded favourable macroeconomic developments in 2002. GDP is estimated to have risen by 4.5 % - 4.7 %, on the back of strong export expansion and solid growth in gross fixed investment. The 11- month growth rate of industrial production for 2002 was 6.1 % year-on-year. Fiscal policy remained prudent, managing to contain the consolidated budget deficit at 2.9% of projected GDP, below the government's 3 % target for the year. The financing deficit of the social security system, estimated at almost 0.8 % of the projected GDP, constituted the major part of the consolidated budget deficit. The government achieved a balanced public debt almost equally split between foreign and domestic debt, with over 50 % of the former having a 10-year maturity. External public debt stood at 34 % of the projected GDP and its service was equivalent to 19.1 % of receipts from exports of goods and services. Year-end inflation was at 17.8 %, with disinflation being aided by a strict fiscal policy, but mainly by the weakness of the US Dollar to which domestic energy prices are linked. The Leu appreciated against the US Dollar, while depreciating against the Euro. These developments improved the nominal competitiveness of Romania's exports to the EU, which constitute some 68 % of total, and also assisted export growth, at a time of sluggish economic conditions in the Eurozone. In addition, high interest rates contributed to the disinflation of the economy.

Romania's current account balance registered a deficit of only US$ 15 million as of January 2003, 81.7% lower as compared to January 2002. Exports grew to a historical high of 22 % year-on-year in 2002 and resulted in a narrowing of the trade deficit by 17 per cent. The current account deficit narrowed by almost 30 % year-on-year, aided by the shrinking trade deficit and higher current transfers, stemming mainly from unrequited transfers and from EU funds, which altogether grew by 37 % year-on-year, in net terms. Meanwhile, Romania's medium and long-term foreign debt amounted to US$ 15.55 billion as of end-January 2003, implying an annual increase of 2.4 per cent. On the whole these favourable developments, one of the outcomes of which has been a net international position that is close to balance, reflect the success of the macroeconomic adjustment policies and structural reforms that were implemented in recent years, to bring about a notable strengthening of foreign investment flows into the country. Romania's continuing commitment to macroeconomic stabilization and reform is expected to boost investor confidence and investment, while assisting sustainable economic growth.

The minimum wage increase that came into effect in January 2003, together with acceleration in domestic demand, may trigger inflationary pressures during 2002. Additional inflationary risks for 2003 stem from rising oil prices, as well as from planned increases in utilities tariffs, in excise duties and in indirect taxes. Tight monetary policy and the slowdown of the Leu's crawl should compensate for inflation risks. However, the Leu's exchange rate should be kept at levels that will sustain the competitiveness of Romania's exports, especially while the anaemic economic recovery in the Eurozone *(Romania's main trading partner)* poses some risk to the growth of exports. The expected continuation of the dollar's weakness may also act as a counter inflationary factor for the Romanian economy at large. Fiscal consolidation is expected to continue in 2003, although a rather loose income policy in the public sector, losses and somewhat soft budget constraints at state enterprises, altogether pose some risks with regard to the containment of the fiscal deficit. Tax administration improvement, further rationalization of tax rates and the widening of the tax base are expected to compensate for fiscal risks and keep improvement on track. Continued structural reforms, especially in the energy sector, and further improvement of the business climate, accompanied by an acceleration of privatization, would combine to secure sustained economic growth in the period ahead.

Russia

Private consumption, fuelled by a recovery in real incomes and some revival in investment activity, was the main driving engine of Russia' s GDP growth in 2002. This was coupled with controlled inflation. The shortcomings that remain with regard to achieving an efficiently functioning financial sector and those that relate to the restructuring of economically strategic industries featured amongst significant impediments to Russia making full use of its potential for faster economic growth.

Russia's improved relations with the international financial community in 2002 have greatly improved the chances of success for the country's efforts towards WTO accession. During the course of 2002, both the EU and the US upgraded Russia to market economy status, for trade policy purposes. The key negotiation issues that remain outstanding as regards the country's WTO accession process are: Russia's two-tier energy pricing system, the current limits on foreign ownership of Russian enterprises in the finance and telecommunications sectors and the extent of harmonization between Russian legislation and the WTO guidelines. Russia's position on opening its telecoms industry to foreign competition softened in 2002, as consideration was given to a 49 % limit on foreign holdings in Russian telecoms companies.

The poor economic growth performance expected in the EU and particularly Germany in 2003, may have negative repercussions for Russia's export performance, although such impact should be mitigated in part, by the fact that 70 % of Russia's export revenues derive from oil and metal exports whose world prices are developing along an uptrend. The final outcome of the situation in Iraq carries a high degree of significance for Russia, to the extent that it will be a significant determinant of the future course of world energy prices. In the short run, gains that would accrue to Russia's economy from a spike in oil prices and the strong likelihood of oil prices remaining high, at least until the situation in Iraq stabilizes, should offer good prospects for Russia. In the longer run however, the potentially strong negative impact of higher oil prices on the price competitiveness of the country's non-oil exports could offset short term gains, in a global economic environment where the recovery of the US and EU economies remains fragile.

Russia's federal budget for 2003 envisages some fiscal loosening and has accordingly relaxed the target for the relative budget surplus. The 2003 monetary policy guidelines of the Central Bank of Russia provide for a mild nominal depreciation of the national currency, in addition to further reforms in the financial sector. The main challenge facing the Central Bank, as regards achieving financial stability, is that of effectively sterilizing foreign currency inflows with the limited number of monetary policy instruments that are presently available. Gradual liberalization of the capital account should assist their efforts in this respect.

Turkey

Turkey's domestic and international relations have been the subject of considerable changes during the course of 2002 and the extent to which the economic reforms are implemented will affect the economic performance of the country in 2003. As of end 2002, strong signs emerged providing sound evidence of a revival from economic crisis. Turkey's economy grew 6.2 % year-on-year in the first nine months of 2002, on the back of strong growth in industrial production and favourable agricultural output. Year-end consumer price inflation stood at 29.7 % the lowest level in nearly 20 years. Even assuming that the exchange rate remains stable in real terms in 2003-2004, further major declines in consumer price inflation from the 29.7 % level, may prove more challenging to achieve. Growth in 2003 is essentially expected to be driven by a restoration of confidence and by private sector consumption and investment. As regards the country's external balances, exports in the first 11 months of 2002 stood at a record level of US$ 35 billion. In 2003 - 2004 Turkey's current-account deficit is expected to widen to 1.5-2 % of GDP, from 0.1 % in 2002. Import expenditure may be expected to continue rising rather steeply, as a result of stronger private consumption, gross fixed investment growth, and higher non-oil commodity prices. At the same time, external demand for Turkish goods and services may be held back by a slow recovery in domestic demand growth in the OECD, particularly in the US and in the Euro area, which are Turkey's main export markets. The short-lived armed conflict in Iraq is not expected to have any significant adverse effects on Turkey's tourism performance.

The new government's economic program does not envisage major changes from the strategy and the targets of the existing IMF-supported stabilization program. Accordingly, the government is set to pursue an economic program designed to reduce the debt stock to sustainable levels, by way of fiscal discipline and by generating a primary surplus that should secure sustainable macroeconomic stability. The program does not propose any changes to the fundamentals of monetary policy and underlines the determination to preserve the independence of the Central Bank of Turkey, secured under the legal arrangements that were introduced in 2001. Some of the measures and policies featuring on the government's economic agenda *(such as tax amnesty, reduction of VAT rates on electricity and highway construction)* aim at reviving domestic demand. However, their compatibility with the primary surplus *(of the public sector)* target of 6.5% of the GNP, requires uncompromizing implementation of radical measures aimed at improving public balances. Since the November 2002 general elections, global financial markets have taken an optimistic view of Turkey's economic prospects. This has contributed to a sharp decline in government security yields and to a visible stabilization of the national currency. To enable continued disinflation, debt reduction, and rapid sustained growth, Turkey's government targets a public sector primary surplus of 6.5 % of GNP in 2003. Recognizing the need to achieve this target, the government introduced a set of comprehensive measures aimed at increasing revenues, which include raising some tax rates increasing the clawback on revolving fund revenues, disposition of some state-owned property and improving collection of tax arrears through a "Tax Peace" plan. Simultaneously, measures to reduce public expenditures have been introduced.

These include limiting current expenditures, tighter controls on the growth of state-financed health expenditure, rationalizing the investment program and imposing limits on staff recruitment in the public sector. On the other hand, in response to the unfolding events in Iraq, the Turkish government has announced that it has introduced new measures imposing controls in selected expenditure items, which would yield around 1.2 % of GNP in savings. Thus, the precautionary measures against the effects of Iraqi war, together with the previously secured 6.5 % are altogether expected to yield a primary surplus in the order of 7.7 % GNP in 2003. The government's targets for 2003 of 5 % growth and 20 % inflation remain feasible, but require strict adherence to the program. Assuming that the government perseveres with the implementation of the reform programme, Turkey should register a healthy GDP growth rate in 2003. Furthermore, provided negotiations towards Turkey's accession to the European Union start in 2004 as expected, the flow of economic assistance funds into the country should provide a significant contribution to the financial resources required to foster sustainable economic growth.

Ukraine

Ukraine's economy exhibited a downturn during 2002, highlighting a pressing need for structural reforms. Ukraine's GDP growth rate declined in 2002, with macroeconomic data underlining the fact that economic recovery in 2003 is likely to remain fragile, unless major policy changes and sustained reforms are duly implemented. GDP growth is expected to slow down further in 2003 to about 4 %, as a result of the global economic slowdown in 2001 and part of 2002, as well as because of insufficient structural reforms.

Reforms undertaken so far in the banking and energy sectors *(including changes to the tax code and pension reform, as key measures to attract a larger number of foreign investors)* have begun gradually to reduce the size of the unrecorded economy, while at the same time enhancing government revenues.

The decline in electricity production halted in 2002, thanks to the economic recovery and the government's reform efforts. Electricity production is expected to increase further, as economic recovery and reforms continue. A permanent resolution to Ukraine's energy-related problems should pave the way for optimising usage of its rich natural resources and lead to rapid and sustainable economic development in the period ahead. This should create the baseline conditions for effective private sector development. In any case, achieving a firm recovery of output remains a major challenge for Ukraine's economy.

Privatisation is expected to continue over the years ahead. Although a number of Ukraine's state-controlled electricity distributors have been sold, some delays to the privatisation plans may be expected. As economic conditions improve, strategic investors are expected to bring in much needed investment and improve efficiency, thus helping to stabilise the sector and reduce transmission losses, which currently account for as much as 20 % of output. This should in turn ensure sufficient excess production. Prospect for energy exports to Central Europe improved further in 2002, following the reconnection of the Ukrainian and Russian electricity grids in August.

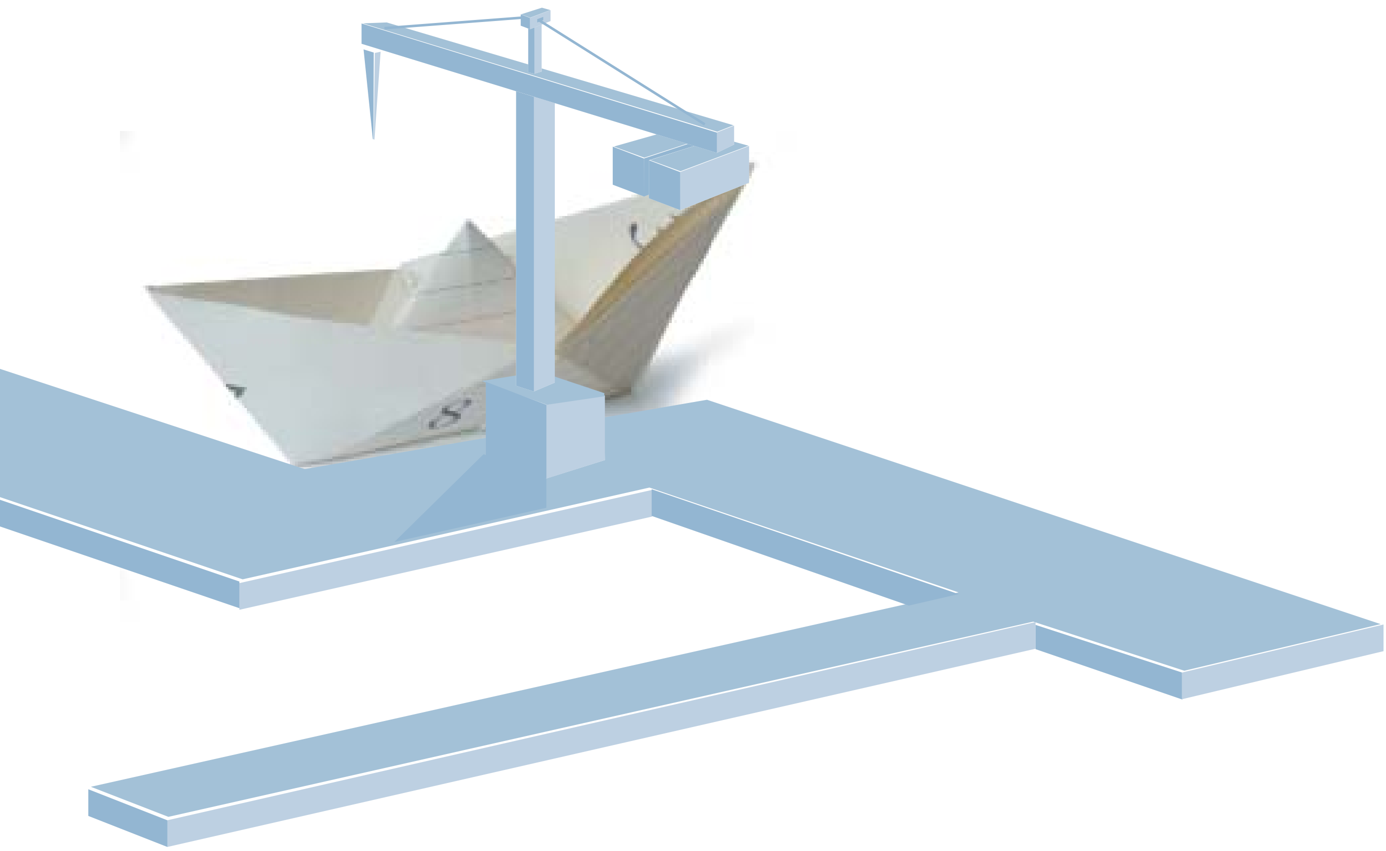
Ukraine's comparatively modest level of foreign exchange reserves and the low liquidity ratio of short-term assets to liabilities provide cause for some concerns. During 2002 Ukraine's foreign exchange market remained stable and in line with forecasts. The moderate nominal depreciation of the national currency helped revive economic activity, especially in export-oriented sectors, sustaining price stability in the domestic market. Among structural reforms implemented during 2002, the strengthening of the budget constraints, as well as the first positive results of agrarian reform, which enabled Ukraine to regain its prominent position as a grain exporter, should altogether yield significant benefits for the further development of Ukraine's economy. Reforming the fiscal system further, by way of removing distortionary exemptions and incentives, additional improvements in budget expenditure management, infrastructure modernization and further reforms at the sectoral level, are all issues that remain to be addressed in the period ahead.

These issues notwithstanding, Ukraine's strong growth and current account performance continued in 2002 and enabled some increase in the country's foreign exchange reserves. Sustaining these favourable trends should allow Ukraine to maintain debt service payments in 2003.

Positive economic developments during 2002 have led to a decline in interest rates and in the extent of dollarization of the economy, while bringing about an increase in monetization, as well as greater confidence in the country's banking system on the part of economic agents and households. According to preliminary results for 2002, real GDP growth amounted to 4.1 %, against the backdrop of declining inflation, the latter being the result of the increase in production volumes in agriculture, as well as in food and processing industries. Foreign exchange rate stability, adherence to monetary growth targets, as well as to the planned increases in prices, combined to enable the maintenance of overall price stability in the consumer market.

Positive developments in 2002 notwithstanding, the high-risk profile of Ukraine's banking sector and the imperfections that remain in the underlying legislation, prevent the interest rates charged by commercial banks from declining to levels that would be required to activate the country's economic potential. The somewhat shallow stock market and structural inefficiencies of the financial transmission mechanisms, constitute significant barriers to private sector investment activity. Further development of the country's economy will depend to a significant extent on resolving these structural problems. Taking into account the significant sums in foreign currency, due to be paid in 2003 as external debt repayments, the tasks facing Ukraine's monetary policy in 2003 would appear more challenging than was the case in previous years.

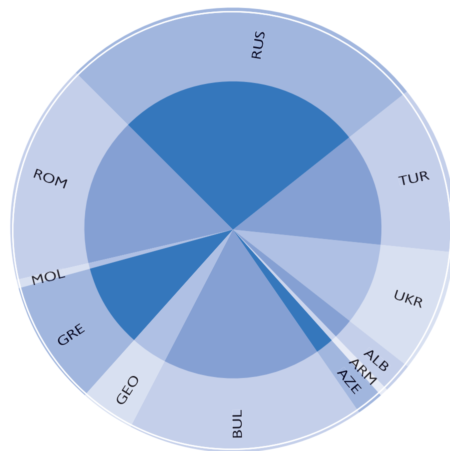
Banking Operations



The Bank's Board of Directors approved 23 new operations in 2002. Among these, 14 were project and corporate finance operations and 7 tradefinance operations. Total BoD approvals since the beginning of the Bank's operations reached USD 416 million, of which USD 221 million were approved in 2002.

The Bank identified and originated a large number of potential project and trade finance operations in all Member Countries, with special attention being given to the Bank's priority sectors of energy, manufacturing, transport, telecommunications and the financial sector.

Breakdown of BoD Approved Operations 1999-2002 (% of total)



Albania	2.23 %
Armenia	0.60 %
Azerbaijan	1.99 %
Bulgaria	17.22 %
Georgia	3.99 %
Greece	9.14 %
Moldova	0.62 %
Romania	16.13 %
Russia	26.81 %
Turkey	12.32 %
Ukraine	8.94 %

The Bank has developed detailed rules and procedures incorporated in policy and strategy documents, which were approved by the Board of Directors. These documents specify in detail the types of operations the Bank may enter into, the risk exposure limits (project, single obligor, country), risk analysis, the financial instruments to be used (loans, equity, guarantees, forfaiting, leasing, underwriting, etc.), pricing, and general and specific conditions for project cycle, trade finance cycle, disbursements, repayments, interest calculation and payment. They form a unified body of guidelines, rules and procedures that govern the operations of the Bank.

The Bank is a market driven institution, and, as such, it allows the availability of good projects to determine the composition of the portfolio. There are no quotas or preconceived allocations for the Bank's funds, but the Bank attempts to service adequately all of its Member Countries. The Bank has made all possible efforts to identify and finance financially viable and economically sustainable projects with strong development and cooperation impact in all of its Member Countries. The demand for the Bank's funds is high and increasing. The Bank has become a strong, independent, professional institution able to mobilize funds within the region, and attract funds from outside for projects which best serve development needs and co-operation among the Member Countries.

Projects of a cross-border nature, or which demonstrate improved regional cooperation/ integration effects and have demonstrable development impact receive top priority.

All projects are assessed according to their contribution to shareholder value and the mandate that the Shareholders have given to the Bank.

The Bank aims to maintain a customer responsive approach, and a high level of efficiency, as well as avoid unnecessary bureaucracy. Operationally, it aims to be dynamic, responsive, and profitable. The Bank maintains a commercial orientation, focusing on niches where it can provide high value added and can avoid over-stretching its capacity. To the extent possible, it seeks to enhance regional integration in all operations.

The Bank's focus is on building a good quality portfolio of assets principally made up of short-term trade finance facilities and high-yield medium term project finance loans, complemented by relatively safe and reasonably sized direct equity investments. Special attention is given to new product development and to regional and/or sectoral development programs, such as guarantees, leasing, forfaiting and SMEs support.

BoB Approved Projects by Sector as of end 2002 (% of total)

Financial Institutions	15.59 %
Agriculture, Forestry, Fishing	0.34 %
Energy	30.29 %
Manufacturing	33.82 %
Mining	6.23 %
Telecommunications	1.28 %
Transportation and Public Utilities	12.46 %

Operational Priorities

The Bank's operational priorities during 2002 were the ones identified in the three-year country strategies for 2002-2004, which were developed individually for each of the Bank's Member Countries.

In setting its operational priorities, the Bank adopted a flexible approach that enabled it to meet a growing demand and to adapt its response in accordance with evolving economic and market conditions. The Bank maintains the view that it must achieve development impact and enhance regional cooperation in its operations as a commercially minded institution. The Bank is not oriented towards maximization of profits, but full cost recovery is a precondition for all operations, and in any case positive financial results testify to the strength and viability of an operation. Within this framework, the Bank's operational priorities include:

- Financing viable cross-country projects for promotion of co-operation among Member Countries;
- Financing projects particularly in targeted sectors such as energy, manufacturing, telecommunications and infrastructure, with strong cooperation and development impact;
- Effectively utilising financial intermediaries to reach out to SMEs and to provide support to export oriented companies in Member States;
- Investing in business generation.

Business Development

The Bank utilizes all available marketing tools to promote the Black Sea Region to the international business community. It also aims to provide a focused statement of the BSTDB's underlying mandate with a clear explanation of priorities.

Operational marketing activities focus on:

- identifying new operations that require Bank involvement;
- raising the profile of the Bank;
- expanding international awareness of the considerable opportunities available in the BSEC Region.

In order to consolidate its position in the Region, the Bank has enhanced its established relationships with various international financial institutions and official development agencies, while at the same time expanding and improving cooperation with commercial investors and creditors.

The Bank's marketing is active on a number of levels, engaging with key interlocutors, including national and regional government officials, firms, business associations, official agencies, interested investors, bilateral donors and financial institutions.

The Bank targets strategic investors and potential sponsors from within the Region and from other countries by means of a regular dialogue with business, industrial, and banking associations throughout the region, as well as bilateral contacts, conferences and seminars. The Bank's Black Sea Business Day provided an excellent start to the year's promotional activities. The event focused on Regional prospects and business opportunities, in particular in the area of SMEs and the conference benefited from the presence of prominent speakers representing some of the most important political and economic organizations in the Black Sea region.

The Bank participated in BSEC working groups that brought together government officials and business representatives to focus upon sectoral issues of regional concern. These events generated fruitful discussion of challenges and prospects for the various sectors, as well as leading to new contacts and helping to identify opportunities.

The Stability Pact for Southeastern Europe is another forum in which BSTDB has become actively involved.

Operational Activity in 2002

During 2002 the Bank's Board of Directors approved one operation for Albania, one for Armenia, three for Bulgaria, one for Georgia, two for Greece, one for Moldova, four for Romania, five for the Russian Federation, one for Turkey, and two for Ukraine.

Project Finance

The Bank focused on financing corporate and project finance operations in the priority areas, particularly manufacturing and energy. The SME sector also saw significant activity, in line with the Bank's country and sector strategies.

The Bank prioritised the financing of projects with a strong developmental impact, as exemplified by sustainable infrastructure development or strong employment growth.

Trade Finance

The objectives of the trade finance program are to:

I. increase intra-regional trade by assisting importers in the Member Countries to purchase goods from other Member Countries;

II. improve the competitive position of exporters in the Member Countries by providing post-shipment financing to their clients;

III. increase exports from the region, thus helping Member Countries to generate additional foreign exchange and, wherever possible, to diversify their markets;

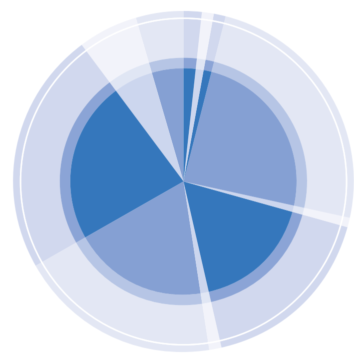
IV. mitigate exporter's risk in transactions by providing BSTDB reimbursement undertaking; and

V. strengthen financial institutions in the Region by providing additional liquidity and reimbursement undertaking for their letters of credit.

The Bank seeks to establish credit facilities for financial intermediaries in Member Countries. BSTDB products currently available to these parties include the pre-export financing program and the multiple buyer/ seller credit program. In addition to its trade finance operations through financial intermediaries, the Bank will enter into high value trade finance operations directly with importers or exporters.

During 2002 the Bank widened its range of acceptable financial intermediaries to include leasing companies.

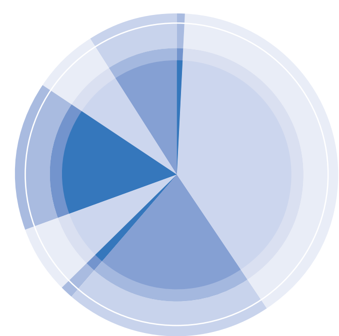
BoD Approved Projects[1] by Country of Operation in 2002 (% of total)



Albania	1.72 %
Armenia	1.13 %
Azerbaijan	1.13 %
Bulgaria	24.45 %
Georgia	0.90 %
Greece	17.09 %
Moldova	1.17 %
Romania	19.18 %
Russia	23.03 %
Turkey	5.69 %
Ukraine	4.52 %

1 Includes corporate/project finance and trade finance operations

Projets Signed by Country of Operation in 2002 (% of total)



Azerbaijan	6.8 %
Bulgaria	14.9 %
Georgia	6.6 %
Greece	9.0 %
Moldova	0.8 %
Romania	39.7 %
Russia	20.7 %
Turkey	1.3 %

Country Priorities

Albania

In view of the small domestic market and the limited size of most enterprises, the Bank considers projects of a relative smaller size than might otherwise be the case.

Albania's electricity sector constitutes an area of priority for the Bank, since it represents the primary potential bottleneck to the continuation of Albania's impressive growth over the last few years. The Bank explored opportunities to participate in the development of new thermo-electric power capacity in Albania, and it will evaluate further potential projects involving rehabilitation of power transmission and distribution networks.

In telecommunications, the Bank aims to support the entry of the private sector in the telecommunications sector (both fixed and mobile) in order to facilitate development of telecommunications infrastructure and to improve the quality of services. The emphasis is on developing regional and rural networks, especially the introduction of modern wireless technology to help increase penetration levels.

The Bank trade finance activities in Albania focus on seeking ways to work with the Albanian Guarantee Agency, which is in the process of developing export-oriented products for the market. Efforts to maximize support to Albania's export sector are high on BSTDB's list of priorities. The Bank remains in contact with those banks that represent acceptable risk, in order to be ready to service their requirements for additional funding, as they arise.

Despite a challenging environment for direct operations, BSTDB pursues as many operations as possible, seeking out opportunities to deliver equipment for utilities and assistance in other areas, all of which may help to develop Albania's infrastructure.

Armenia

An important priority in Armenia is the transport sector, as improved transport links are vital for Armenia to develop further. Due to the size composition of firms, the main interest is focused on small and medium enterprises, particularly in areas such as precious and semi-precious stones cutting, manufacturing and light industries-such as textiles, clothing, and carpets, agribusiness/food processing-, transport and tourism. Additional sectors that show growth potential include chemicals, telecommunications and construction materials.

In the energy sector, rehabilitation and expansion of electricity production utilizing renewable energy sources is a key priority, and in the case of Armenia this mainly involves small to medium-sized hydropower projects, either in the public or, more likely, in the private sector.

In trade finance, the Bank will continue the development of a network of cooperating financial intermediaries through which short-term trade finance products such as pre-export financing and multiple buyer credits will be provided for the end-benefit of Armenian firms. BSTDB has moved cautiously to offer structured short and medium-term financing, and contemplated entering into arrangements with sector-specific companies to provide specialized financing.

Azerbaijan

The country has promising prospects for the oil sector, which has been the main driver of its strong economic growth. Through a pragmatic policy, the government succeeded in attracting substantial foreign direct investments in the oil sector. Oil and oil-related products are the main export items. However, the non-oil sectors suffer from insufficient access to finance and consequently their progress is slow.

The Bank continues to assist the country in developing the non-oil sector, particularly small and medium-sized enterprises, through provision of financing through specialized financial institutions. Fast progress in privatization and furthering the reform of the financial sector will be critical in this respect. A strong private sector development in the non-oil sectors (manufacturing, services, agriculture) would enhance the country's long-term growth prospects.

BSTDB aims to support the economic development of Azerbaijan by providing financing for bankable operations in the country, with special emphasis in the following areas: trade financing - particularly for promoting imports of capital goods and manufacturing equipment from other BSEC countries-, the energy sector, infrastructure, telecommunications, transportation, agriculture and agribusiness, manufacturing and development of micro, small and medium-sized enterprises.

Bulgaria

BSTDB aims to support economic development in Bulgaria, in particular by enhancing the country's export potential and facilitating foreign direct investment, originating especially from other BSEC member countries. The Bank remains ready to provide financing for economically viable operations in the country, in particular for the following sectors: trade; rehabilitation, modernization and expansion in the energy sector; modernization of the telecommunication and transportation sectors; tourism; manufacturing; and agribusiness sectors. Special attention is given to SMEs in the above-mentioned sectors of economic activity.

Increased attention will be given to projects that would yield benefits for other Member Countries of the Bank, in particular cross-border projects with Greece, Romania and Turkey. BSTDB focuses on small and medium-scale projects with development and cooperation impact.

Georgia

BSTDB seeks economically viable and bankable projects with a focus mainly on energy, transport, telecommunications, manufacturing, agribusiness, and the financial sector. The Bank concentrates on small to medium-scale projects in the private sector, targeting niches in areas other than those covered by other IFIs. The Bank in particular attempts to promote the co-operation of Georgia with other countries in the Region, by financing small and medium size infrastructure projects.

For trade finance, supporting, expanding and diversifying Georgian exports remains the main strategic objective, along with the more general goal of encouraging increased trade with other BSEC Countries. The structure of Georgian foreign trade suggests that short-term products are the most appropriate for the market at present. Therefore, the Bank has essentially continued to offer the Pre-Export Finance and the short-term Multiple Buyer Credit Products through financial intermediaries in Georgia. In selected cases of medium-term operations, priority is given to import financing of capital goods (manufacturing equipment) from other Member Countries, such equipment to be used for expansion of local production and export.

The Bank has continued to provide support for institutional development, working in close cooperation with the authorities for the establishment of an adequate legal and institutional structure for export promotion.

Greece

Devising an operational strategy for Greece is a challenge for BSTDB, because as the wealthiest BSEC Member, the scope for providing genuine value added is limited, for the most part, to projects with high regional cooperation impact.

For project finance, the Bank's focus is on building a low risk portfolio by developing corporate, multi-purpose loans, for firms that have an extensive presence in the Black Sea Region. Funding is mainly directed to cross-country activities that benefit regional development of the Bank's Members.

The Bank finances projects designed to promote the co-operation of Greece with other countries in the Region, and to support enhanced co-operation and co-ordination with Greek investors. Manufacturing is particularly important since Greek firms are already among the largest investors in the BSEC Region, and have developed extensive markets. There also exists significant scope for and interest from the Bank to participate in shipping finance.

On the trade finance front, BSTDB has held extensive discussions with the Greek Export Credit Insurance Organization (ECIO) to develop close cooperation aimed at increasing Greek exports in the BSEC Region. This cooperation has included development of a Framework Agreement for cooperation with commercial banks operating in Greece and with ECIO, under which specific transactions could be supported quickly and efficiently. The Framework Agreement sets out in detail the nature and methods of cooperation, structures, pricing parameters and risk parameters for projects that could be co-financed by the parties involved.

The Bank is also contacting Greek manufacturing exporters directly, so as to improve their competitiveness by offering to support them in their effort to generate business abroad, especially within the BSEC Region.

Moldova

In view of the small domestic market of Moldova and the limited size of most enterprises, the Bank considers smaller projects than would normally be the case. Emphasis is given to identifying and developing projects with those foreign companies that have long-term business relations in Moldova, and on identifying co-financing opportunities with international financial institutions and foreign and domestic commercial banks active in Moldova.

The Bank seeks to support the manufacturing sector, in particular food processing industries, light industry, and promising areas such as glass container production, packaging materials, and containers.

The operational priorities of the Bank in Moldova also include support for capacity expansion and quality improvement of the electricity transmission/inter-connection facilities. In telecommunications, the Bank has sought opportunities associated with the modernization investment program of fixed line operators, and continued to seek opportunities to work with licensed mobile telephone operators seeking to expand mobile GSM services.

The trade finance strategy for Moldova concentrates on the development of a network of cooperating financial intermediaries, through which short-term trade finance products such as pre-export financing and multiple buyer credits will be provided for the end-benefit of Moldovan firms.

Romania

BSTDB provided significant support in the following areas: trade financing in support of exports; promotion of SMEs; and rehabilitation, modernization and expansion in the energy sector, including power, gas and oil, with a view to increase efficiency and reduce pollution.

At the same time, increased attention is given to projects that could yield benefits for neighboring Member Countries of the Bank, in particular cross-border projects with Bulgaria, Moldova and Ukraine.

In trade finance, the Bank continues to focus on expanding its cooperation with those Romanian banks that have an established operating record and substantial experience in trade financing. The Bank is also prepared to finance direct trade finance operations for high profile companies.

Russia

The strategic goal for BSTDB in Russia is to achieve high co-operation and development impact by financing visible, large-scale, cost-effective, low-to-medium-risk transactions with the involvement of financially sound and reputable sponsors/borrowers.

Activities cover a range of sectors with emphasis on transportation, manufacturing, export-oriented industries, and SME development. Other areas of interest include:

I. mining projects involving cooperation with other BSEC countries;

II. supporting telecommunications development in Southern regions such as the expansion of mobile networks; and

III. infrastructure opportunities that have high development impact.

The trade finance strategy for Russia has focused on the continuous development of a network of cooperating financial intermediaries, through which short-term trade finance products such as pre-export financing and multiple buyer credits may be provided for the end-benefit of Russian firms.

Turkey

Turkey has a number of sectors which benefit from competitive advantage and which have proved very flexible and dynamic in the past. In 2002, however, the increase in the Bank's activities in Turkey has been somewhat limited. The relative high exposure reached in the past years and local economic conditions explain the Bank's limited ability to provide significant additional amounts in support of the Turkish economy. Notwithstanding these limitations, the Bank was able to assess a large number of projects in many different sectors, ranging from real estate to social infrastructure, and to provide financing in those instances where the development and cooperation impact were most important.

In trade finance, BSTDB mainly supports Turkish exports in the Region, as well as the expansion of foreign investments in other Member Countries, undertaken by Turkish entrepreneurs.

Ukraine

Project generation in Ukraine to date has been successful for the Bank. Energy is a priority area for BSTDB operations in Ukraine, and, in the oil and gas sector, the Bank focuses on the rehabilitation and improvement of energy transportation and handling infrastructure, and the upgrading of downstream refinery facilities to improve production quality, expand utilization capacity, and raise environmental quality. The Bank also supports the development of the transportation and telecommunication sectors.

In trade finance, the Bank has expanded its network of cooperating financial intermediaries through which short-term trade finance products, such as pre-export financing and multiple buyer credits are made available for the end-benefit of Ukrainian firms. In addition, BSTDB has taken significant steps towards gradually moving into the second phase of its trade finance strategy, which involves activities such as:

I. providing structured short-and medium-term financing in support of key sectors in the Ukrainian economy;

II. providing import financing for capital equipment necessary to update and improve Ukrainian production facilities;

III. entering into arrangements with companies to provide specialized financing, especially for the metal-producing sector;

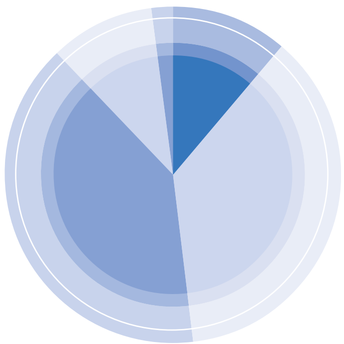
IV. establishing marketing relationships with companies to provide direct financing; and

V. seeking opportunities for co-financing.

Priority Sectors for Bank Operations

Although experience to date has shown that the Bank is able to generate business in all sectors, in 2002 increasingly priority has been given to the sectors where Bank involvement is perceived as contributing most towards achieving the best possible results in terms of regional cooperation and development impact.

Projects Approved by the BoD in 2002 by sector



Financial Institutions	11.17 %
Energy	36.91 %
Manufacturing	39.79 %
Mining	10.06 %
Telecommunications	2.07 %

Manufacturing

Manufacturing is one of the fastest growing sectors in many Member Countries of the Bank. It offers employment and creates opportunities to expand exports into new markets. In addition to the high development impact, projects in manufacturing have the potential of increasing international competitiveness of regionally produced goods and promoting high value added economic activities.

Many newly established SMEs are in services, but also in manufacturing, in particular light industry. Support for this sector is almost synonymous with providing impetus to the development of a domestically owned private sector, with positive implications for the evolving class of entrepreneurs.

Strong market demand creates the opportunity for the Bank to offer specific financial products. To this end the Bank cooperates with international financial institutions, official development agencies of developed countries, and commercial financiers. It increasingly represents an important regional source for medium-and long-term financing in forms that are tailored to the needs of firms and financial institutions. The Bank is active in this sector in all Member Countries. About 40% of the Bank's lending portfolio is in manufacturing.

Box 1

ALROSA Project

The operation involves a senior secured corporate loan facility of $18.5 million to the Russian joint-stock company ALROSA, the major Russian diamond mining and marketing company with US $1.86 billion of net sales and US$ 306 million of net income in 2001. The Company is the largest producer of rough diamonds in the world – third largest in terms of carats and the second largest in terms of US$ value of diamond sales.

BSTDB financing will support the project involving expansion of the Aykhal production complex, which is one of the principal mining operations of the Company. The project is one of the highest priority projects in the long-term investment program of ALROSA aimed at improvement of diamond mining efficiency, development of deeper horizons of the diamond bearing rock and general increase in diamond production.

Specifically, the loan proceeds will be used for the purchase of equipment and services from Ukrainian mining machinery manufacturers.

The financing of the BSTDB crystallized the interest of a western commercial bank to provide a parallel facility of the size equal to BSTDB one and under the same terms and conditions.

Terms and conditions of the operation:

Amount	US$ 18.5 million
Type of financing	Structured Term Loan
Maturity	7 Years

Energy

Energy is one of the priority sectors for BSTDB. Energy, and in particular oil and gas, is of special importance for the Black Sea region, as both the significant energy resources that are available and the region's geographical location as a conduit for energy resources, represent major competitive advantages.

The sector is becoming increasingly competitive. Pipelines, energy grids/networks and other upstream and downstream facilities are gradually, being privatized and/or opened to foreign investment. Companies in the region are large, successful and active on the global market. Opportunities for cross-country financing in this sector are growing.

The Bank's energy strategy establishes a structured framework for the prioritization and assessment of available project opportunities, and emphasizes the following priority directions:

- Rehabilitation and expansion of the cross-country intra-regional energy transportation infrastructure;
- Niche energy production and processing opportunities in oil, gas and electricity generation;
- Local sustainable development oriented projects, which incorporate strong components of social development and environmental amelioration.

In 2002 the BSTDB Board of Directors approved 4 investment operations in the energy sector. In addition to projects in the energy sector, a number of projects in mining were considered by the Bank, one of which has been approved for financing.

Box 2

GALATA, Block III

The transaction involves a BSTDB senior secured loan of US$ 17 million to be provided to the joint borrowers PETRECO S.a.r.l. (Luxembourg) and PETRECO EOOD (Bulgaria), which are 100% subsidiary companies of MELROSE RESOURCES plc. (UK), an independent oil and gas exploration and production company.

The financing supports development of the natural gas field of the Black Sea coast of Bulgaria (Block III, Galata off-shore gas field) near Varna and production of natural gas in amount of at least 1.4 billion cubic meters for sale in the local market. The borrowers jointly hold the development Concession for the field awarded by the Bulgarian Government.

Independent reviews of the field were conducted with positive confirmations of estimated reserves. After Project completion, the field will be able to produce around 400 million m^3 of high quality natural gas annually.

The Project covers various capital and operating costs including: (i) manufacturing and installation of the offshore production platform; (ii) drilling of the two production wells; (iii) construction of the compressor station; (iv) construction of the on-shore and offshore pipeline. Major elements of the Project budget will be sourced from other BSEC member-countries including Greece and Ukraine.

The facility was structured as a limited recourse project financing and co-arranged with International Finance Corporation on equal and pro-rata basis.

Terms and conditions of the operation:

Amount	US$ 17 million
Type of financing	Term Loan
Maturity	5 Years

Financial Sector

BSTDB has carried out extensive preparatory work to address the financing needs of the financial sector, with a view to promoting regional trade, but also to assist the development of the SME sector and to help increase the competitiveness of the regionally produced goods on the global market and to expand exports outside the region.

The Bank is developing working relations with a large number of financial institutions in the Member Countries that are seeking opportunities to expand their operations in the Black Sea Region. In particular, the Bank intends to focus on opportunities commensurate with its size and mandate, which are related to the financing of activities conducive to economic integration and cooperation in the region.

The Bank is offering short-term pre-export finance and multiple buyer credit facilities to selected financial intermediaries, guarantees, and structured finance operations.

The Small and Medium-sized Enterprises (SME) sector is an area where important human and financial resources are devoted for provision of both financial and non-financial support. BSTDB's financing activities in the SME sector have considerable value added, making targeted funding available on reasonable terms that are market based.

The Bank gives priority to identifying and supporting SMEs involved in export-oriented activities, which are an expression of regional cooperation (inter alia through cross-border investments and subcontracting), or which have high returns both in terms of developmental and regional cooperation impact.

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

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

In 2002 BSTDB extended its activities to cover micro-finance institutions, leasing companies and guarantees in Member Countries.

Box 3

Micro Finance Bank Azerbaijan (AMB)

Promotion of micro, small and medium-sized enterprises through the provision of financing will nurture entrepreneurship, create new employment and help diversify Azerbaijan's economy in direct support of the government's Poverty Reduction Strategy. The promotion of micro, small and medium-sized enterprises, along with the reform of the financial sector, investment in infrastructure, acceleration of the privatization process and the restructuring of potentially viable large enterprises, are the most promising routes for the diversification of Azeri economic development, as well as one of the main transition challenges.

The economic and social benefits of micro finance can be large. The challenge is to mainstream good practice in micro finance operations and increase the outreach to the low-income households and small companies on a sustainable basis on one hand, and, on the other hand, prove to be a commercially viable institution. Both issues are well addressed by the proposed structure of the Project.

The objective of the AMB will be to provide financial services according to best practices, and especially credit, to private micro and small enterprises in Azerbaijan on a commercially viable and sustainable basis.

The equity investment will provide much needed access to working capital and investment finance for Azerbaijani individuals and MSES, which are currently not available in the country. AMB will provide micro finance services aimed at reducing poverty. The Project will assist hundreds of households in lifting themselves out of poverty in the next 5-6 years and in improving their standards of living. The Project aims at bringing the poor into the formal financial system, so as to enable them to access credit and accumulate small savings in financial assets.

Providing micro finance services efficiently to this excluded segment of the market remains a major challenge for the BSTDB Member Countries. However, given that the Bank has adopted regional development and cooperation as its objective, it must respond to this challenge effectively. Supporting the development of sustainable micro-finance institutions that can reach this segment provides BSTDB with an opportunity to respond to this challenge and make a significant contribution to its objective, as well as to the development of the overall financial system in its Member Countries.

BSTDB is participating in the project with equity alongside a number of other international financiers and development agencies, including KfW and IFC.

Terms and conditions of the operation:

Amount	US$ 1.75 million
Type of financing	Equity Investment
Maturity investment horizon	5-7 Years

Co-financing

Co-financing is an important consideration in all Bank operations, and an imperative, as project finance rules and procedures stipulate that the Bank can only finance a maximum 35% of total project cost for loans, and 33% for equity investments. In its operations, the Bank has achieved in 2002 a mobilization ratio of 3.44 to 1, demonstrating a high level mobilization of external resources for the region. This external resource mobilization accounted for 59% of total project cost.

The Bank's co-financing partners include:
- international financial institutions;
- export credit agencies;
- commercial banks;
- official co-financing institutions (bilateral donors).

In 2002 the principal co-financiers in Bank operations were other international financial institutions, in particular the European Bank for Reconstruction and Development and the International Finance Corporation, as well as official development agencies of EU countries, in particular KfW. The Bank has also established good working relations with the other IFIs active in the BSEC region, and is seeking co-financing opportunities with institutions such as the Council of Europe Development Bank, the European Investment Bank, and the World Bank. The Bank has established contacts and has explored a number of possibilities for cooperation with all these institutions.

Although co-financing with commercial banks and other private partners was markedly lower, it represents an area in which the Bank will be seeking to expand co-financing substantially during 2003.

The principal cofinanciers of the Bank in 2002 were IFC, EBRD, JBIC (Japan), Cyprus Popular Bank, Marubeni (Japan), ETEBA (Greece), SEAF (EU/Netherlands), Norfund (Norway), SECO (Switzerland), DEG (Germany), Finnfund (Finland).

Special Funds

BSTDB was seeking a Project Preparation Facility in order to facilitate preparation of its operations. The Bank received, in 2001, €800,000 from the Government of the Hellenic Republic to initially fund the Technical Cooperation Special Fund (*the Hellenic Fund*) under the Contribution Agreement between the Government of the Hellenic Republic and the Bank dated 4 July, 2001. A certain part of this fund has been successfully used for preparation of a number of projects.

According to the Agreement, the Bank provides the Government of Greece with regular quarterly reports and with an annual review of progress on the activities that have been financed from the Fund, the amounts disbursed therefrom, and, where appropriate, the indirect benefits to Greece of the activities carried out.

The Fund as provided by the Greek Government is administered by the BSTDB according to the Rules and Regulations pertaining to its establishment.

This is the Bank's first Special Fund, and it also comes from one of the Bank's shareholders. Furthermore, it responds to a real need expressed by the project and trade finance teams, concerning the quality of information (feasibility studies, technical studies, financial accounts) provided by our prospective clients. BSTDB always acts on the basis of a written request from prospective clients to help them upgrade their work from the proceeds of the Fund, whenever the Bank considers that additional or higher quality information is required. The Fund is tied to consulting firms based in Greece. However, up to 25% of the assignment cost may be allocated to consultants who are nationals of the BSTDB Member Countries.

As the initial advance of €800,000 is expected to be fully utilized by mid-2003, the Bank requested the Hellenic Government, as a sole contributor to the Hellenic Fund, for a replenishment in the amount of €500,000, which was received on January 2003.

The disbursements from the Fund totalled about €315,000 in 2002. These resources have been used to complete three assignments in the telecom, oil & gas, and banking/insurance sectors.

Box 4

Georgia Export Promotion Program

The Bank engaged consultants (Kantor Management Consultants) in support of its Export Promotion Program in Georgia. There exists high interest in establishment of an export credit and/or insurance system (ECIS) in Georgia. Access of Georgian firms to those financial products currently unavailable will improve the competitiveness of the Georgian economy, bring higher levels of foreign exchange inflows and increase output..

The main objectives of the commissioned feasibility study were:

- Clarify the environment in which Georgian companies operate and identify financing sources and products currently available to Georgian companies for export purposes;
- Analyze and summarize all significant efforts undertaken so far by IFIs, donors, and development and governmental agencies related to trade facilitation in Georgia;
- Explore options for institutional arrangements through which ECIS could be delivered and propose the most suitable option(s) to deliver the proposed financial products.

On the bases of the above, the narrow focus of the study was to explore comprehensively what it would take to set up a full fledged ECA in terms of cost requirements and staff & management requirements. On the business activity side, the study had to estimate the level of activity necessary for the ECA to:

I. break even, and
II. attain certain rates of return, on the basis of the detailed start-up requirements.

The Bank believes that when the study is completed, the Georgian Government will have the necessary information to make an informed decision about whether or not to proceed with the establishment of an ECA.

Environment

As an integral component of its objectives, the Bank has a mandate to promote environmental sustainability and soundness and cleaner technologies in a cost-effective manner.

From the outset of its operations, environmental considerations have been incorporated into the Bank's policies and procedures. As the number and variety of projects under evaluation by the project teams has increased, so has the environmental profile of the Bank's operations.

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

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

Procurement

In September 2002, the Board of Directors approved the Bank's new policy document on procurement, the *Procurement Principles and Rules*. This document sets out the principles and rules that apply to clients when they contract to procure:

a. goods, works and services (including associated services), and

b. consulting services, that are financed by the Bank. The document comprises five sections, with the first two being of general application and the others specifically addressing: Procurement Rules for Public Sector Operations; Procurement in Private Sector Operations; Procurement in Operations through Financial Intermediaries and Procurement of Consultant Services.

The Bank continues to participate effectively in the biannual Heads of Procurement meetings of the multilateral development banks. Recent focus has been applied to the harmonization of the 'guidelines' and 'rules' of these various institutions, aiming at more effective implementation by their common public sector borrowers with consequent reductions in transaction costs. There are a few areas of work under deliberation and, in due course, the Bank's *Procurement Principles and Rules* will be amended accordingly. This documentation will be published on the Bank's website in 2003 as will standard tender documents when these are finalized.

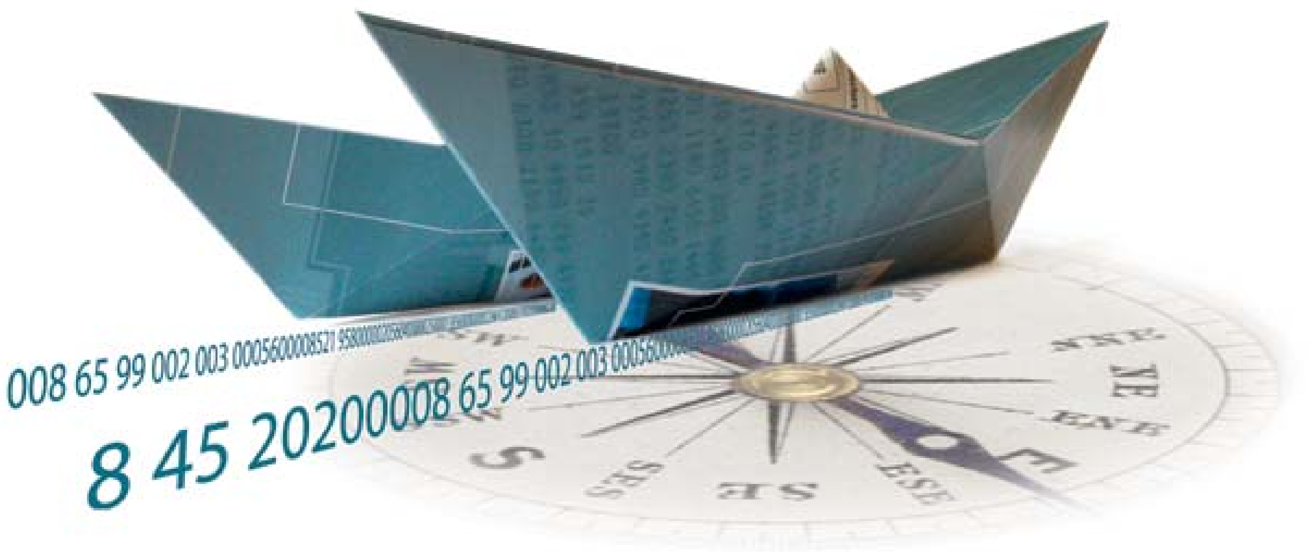
The Bank is committed to international competitive tendering in the public sector of major contracts without country restriction or impediment, although, in some cases, a margin of preference may be applied to suppliers and contractors from Member Countries in the determination of contract awards in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

The Bank has established its own Database of Consultants. This database is being compiled for sector and discipline based services to meet foreseen Bank needs. The objective is to assist Bank staff in selecting qualified firms to assist in their projects, but it is unique in that it enables consultants to promote their services in a concise and readily accessible format that is tailored to bankers' needs. In due course this information may be made available to Bank clients, albeit on a strictly informational basis without any recommendation or notion of preference.

Finance

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 at the highest level. 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 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 ("ALCO").

As at 31 December 2002 treasury investments were held in short term deposits, euro commercial paper and eurobonds of up to 2 years maturity, denominated in the four SDR component currencies and rated at a minimum of long term A/A2 or short term A2/P2 by Standard & Poors and Moody's. The performance of the treasury investment activity is measured against the Merrill Lynch 3 month Libid index and monitored by the Bank's ALCO.

During 2002 a number of key Treasury policy documents were revised, in line with the developing requirements of the Bank's business. Included in this process were an updated version of the - Board of Directors approved - Treasury Investment Authority document, an enhanced and wider ranging - ALCO approved - Asset Liability Financial Risk Management Document and a revamped document detailing Front Office / Back Office procedures.

The Treasury department has recently focused on developing the Bank's ongoing funding strategy by establishing relationships with a range of government agencies as potential providers of long-term funding, continuing to raise BSTDB's profile in the commercial banking sector, and by entering the preparatory stages of a credit rating exercise.

Risk Management

The Risk Management Department (RMD)is responsible for the evaluation of country risk and project risk, as well as the assignment of provisions and the monitoring of Treasury activities.

Sovereign Risk

The evaluation of Sovereign Risk remains the primary task of the RMD. Sovereigns are rated on a scale of 1 to 5. 2002 saw few changes in the internal ratings of the Member Countries. Over the course of the year, the region as a whole saw continued improvement in individual domestic investment conditions and operating environments.

Portfolio Risk

With the increasing maturity of the portfolio, project review cycles began in earnest in 2002. While no project slipped into default, two were downgraded preemptively and additional provisions assigned. In spite of this, overall portfolio quality improved year-on-year due to the addition of several large projects co-financed with other IFIs, and the internal implementation of tighter security guidelines. RMD also began the practice of monitoring Sectoral portfolio distribution with the intention of devising and implementing sectoral concentration limits once the overall portfolio volume justifies such a development.

Provisioning

The most significant changes in Risk Management in 2002 occurred in the provisioning methodology. The Bank migrated from a two-step assignment system to pro-rata provisioning at disbursement. The new methodology eliminates idle project provisions without diluting the Bank's protection against losses. The Bank's aim of achieving a general provisioning amount of 10% of its portfolio remains unchanged.

Accounting, Planning and Budgeting

The accounting policies adopted by the Bank are in compliance with International Financial Reporting Standards (IFRS) and changes in IFRS are monitored to provide early notice of implications for the Bank's operations. The Bank's corporate governance structure is supported by the provision of appropriate financial and management information. 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).

During the course of the year the Bank continued to enhance and streamline accounting procedures in coordination with the Bank's External Auditors through audits and accounting and financial policy reviews. Towards the end of the year the SAP compliance process was completed for the accounting system modules.

The planning function embraces the strategic and corporate planning activities of the Bank including the long and medium-term strategy which supports the 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. The *Guidelines for Planning and Budgeting* document, as approved by the Board of Directors, aims to prioritize the Bank's operational objectives within the scope of its mission. It presents a planning cycle to ensure effective utilization 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 budgetary policies and guidelines. In December 2002, the Budget for 2003 was finalized detailing the Bank's institutional strategy for the coming year according to work programmes and objectives. The budget reflected management decisions on:

- Operational priorities;
- Business targets;
- Revenues;
- Administrative expenses;
- The capital expenditures program; and
- Staff requirements.

Compliance with the Budget for 2002 was regularly monitored and the results were reported to the Board of Directors on a quarterly basis.

Financial Control

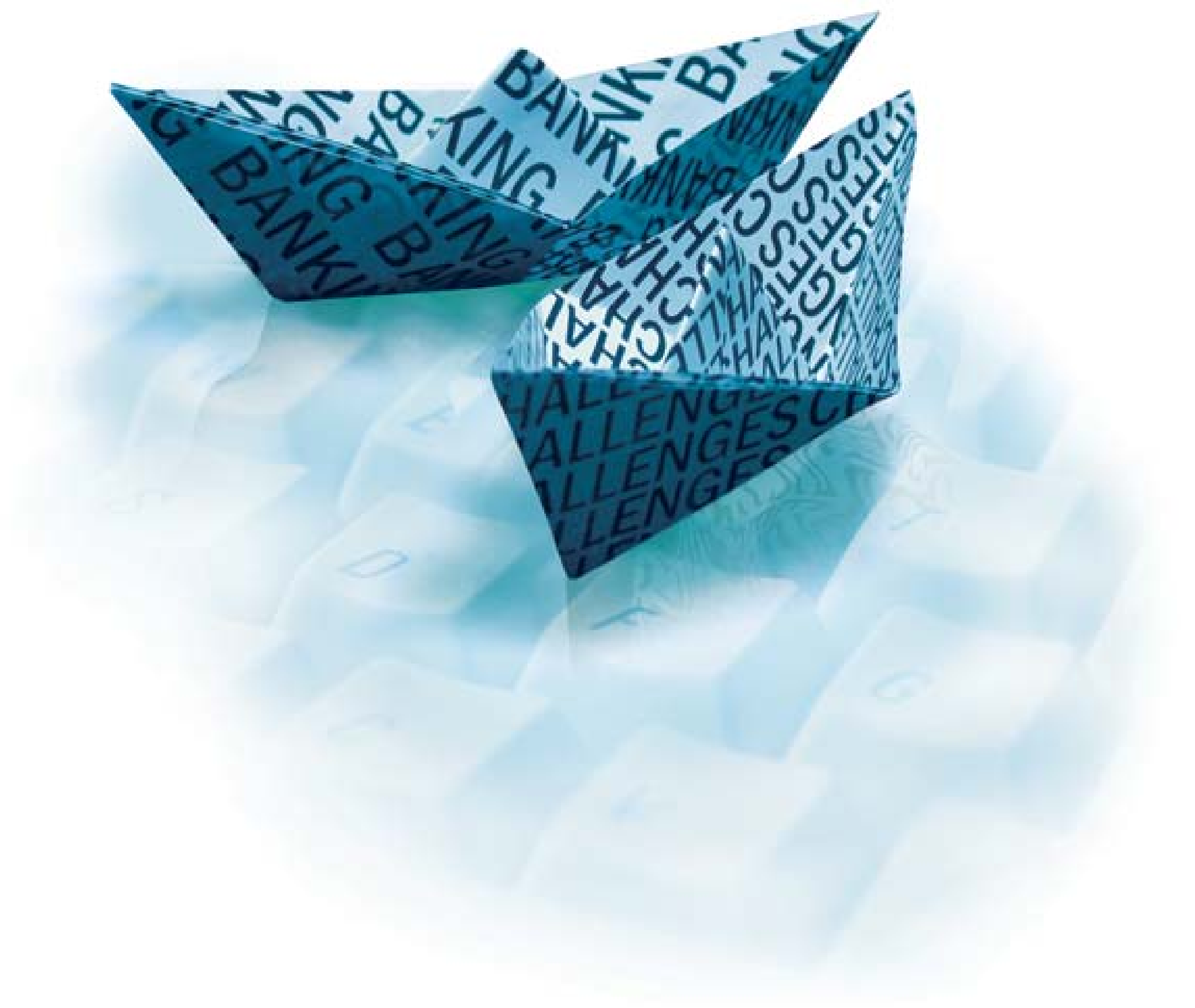
The main objective of the Financial Controllers Department (Controllers) is to ensure that all the disbursements of funds related to treasury operations, loans, technical assistance funds, administrative expenses, salaries, allowances, benefits are in compliance with the Bank's rules, regulations and procedures. Another important task of this Department is to provide financial administration of the Bank's lending portfolio.

Controllers participate in the management of the Technical Cooperation Special Fund provided by the Government of the Hellenic Republic.

During 2002, the Bank made substantial efforts to improve its policies and internal procedures in accordance with the best industry practice. Controllers were actively involved in this process, coping with the challenges of a changing business environment and significantly improving the Bank's services.

Administration Activities

In the year 2002, the Department expanded the services provided by its Information Centre to cover all primary sectors of BSTDB banking activities and migrated the dissemination of relevant collected information into the Bank's newly established Intranet. This improved the width and depth of information coverage and, combined with the development of an appropriate metadata structure for external information, it allowed the use of improved search facilities to optimise the time spent on development, research and documentation of project proposals. At the same time, information subscriptions were transformed to Intranet-centred ones, which allowed users' direct access of to up-to-date information. The Department also conducted extensive user training and research into user requirements to ensure optimum utilisation of the new system.



The introduction of the Bank's Intranet in 2002 has led to the creation of a single-point-of-reference portal of information, which facilitates the internal operations relating to the Bank's administrative support services and the internal dissemination of information. The first successful trials in 2001 further evolved in the year 2002 with the improvement of relevant user interfaces and the development of appropriate applications on the Intranet platform. The completion of this project within 2003 will extend to all facets of electronic document and records management.

Updated policies and procedures regulating institutional purchasing were adopted in 2002 with a view to becoming better adapted to the Bank's operational environment and to improving the transparency and flexibility of the relevant processes. Similarly, new systems were introduced for the monitoring of budget developments in the areas of institutional purchasing and travel costs, improving the Bank's responsiveness to unforeseen requirements for related expenditures.

Finally, following a thorough audit, the Department introduced additional security measures to the Bank's premises, which significantly extended the respective coverage.

Information Technologies

During 2002, the IT department has undertaken a number of tasks to enhance operation of the Bank's IT resources. The goal of the IT department remains to support the essential functions and business operations of the Bank and to contribute to its on going business development.

Implementation of the Human Resources Software

The IT department in coordination with the respective business unit has purchased, developed and installed the Human Resources Management System (HRMS). HRMS provides the BSTDB Human Resources Department with a centralized System allowing enhanced management of its human resources capital, by means of accurate and timely information for employees and management, historical information on employees, and automated production of the Bank's payroll.

Intranet Development

Following the purchasing of the Intranet software, the IT department, in coordination with the Administrative service department, has successfully installed, configured and implemented the Intranet system of BSTDB. The Intranet is built according to BSTDB's business needs in order to facilitate communication, collection, dissemination and access to information. The Intranet functions as an integrating mechanism for people, processes, and information which interact together and lead to the creation of an organizational "information network".

Banking Database

In order for the Bank to electronically monitor its project pipeline, the IT department, with the assistance and feedback of the Operations Division, has developed a client/server application which captures the needed information at each step of the project cycle and will produce reports for the Bank's management. Parts of this application will be become available soon on the Bank's Intranet allowing BSTDB employees easy access.

Banking Application System (BASYS)

During 2002, the IT Department continued to assist the business units of the Bank to put in operation the different modules of the Banking Application System (BASYS).

Financial Accounting Software

The IT department assisted the Finance Division in the evaluation and selection of an accounting software system suitable for the Bank's needs. This process has led to the selection of the SAP, FI/CO, considered one of the leading software products in the Banking industry, and providing the Bank with the flexibility to acquire additional software from the same provider, to meet its future business needs.

Public Relations & Publications

Corporate Relations

In 2002, BSTDB substantially enhanced awareness of its financing activities in the region by means of a promotional policy mainly focused on developing corporate contacts and business generating opportunities.

Attaching prime priority to maintaining close contacts with governments of the member states, BSTDB's newly appointed President and top Management paid official visits to 10 countries during the year 2002, meeting with senior government officials responsible for economy, industry, finance, trade and SME promotion, as well as central (national) and investment bankers, and business leaders. These visits reconfirmed the relevance of the BSTDB country strategies and priorities while helping to identify new needs within the member countries and further opportunities for the bank to contribute to national economic development programs. The visits were used to promote the bank's services in its countries of operation and to inform the local commercial and financial community of business opportunities offered by BSTDB.

In parallel with the country visits and in addition to further developing working contacts in the governments and banking and business communities of the 11 Member States, the Bank strengthened links and explored synergies with other institutions established by its member countries for the Black Sea Region – Organization for the Black Sea Economic Cooperation (BSEC), BSEC Business Council, BSEC Parliamentary Assembly and International Center for Black Sea Studies. The Bank contributed to the elaboration of the BSEC Economic Agenda, and provided expertise and assistance in establishing the BSEC Project Development Fund. Contacts and coordination of effort with the BSEC family institutions acquired an increasingly regular and well-structured character, with working meetings being held on managerial as well as expert levels.

Heads of the BSEC family institutions are constant participants in all major BSTDB events.

BSTDB continued developing its institutional and business relations with major international organizations active in the Black Sea region. In 2002, a Memorandum of Cooperation was signed with the Export-Import Bank of the United States (EXIM Bank) opening new short-to long-term financing opportunities to support trade in goods and services in all BSTDB Member Countries. Established relations with major IFIs and international economic institutions (EBRD, EIB, IFC, NIB, IsDB, CEB, Japan Bank for International Development, KfW, WTO, etc.) were further developed at business level.

Special importance was attached to developing closer relations with the European Commission, seeking opportunities for joint action under EU programs in the accession countries. Within this framework, relations were developed with the major European Commission Directorates that develop and monitor financing activities in the Black Sea Region: External Relations, Economy and Finance, Enlargement and Regional Development, as well as with the European Investment Bank, which remains the largest international investor in the Black Sea Region.

Business Generation Events

BSTDB hosted the third Black Sea Business Day in Thessaloniki in April 2002 with great success. The conference, focused on opportunities and prospects for trade and investment in the Black Sea region, gathered more than 400 participants representing governments, IFIs and the international banking and business community. The Business Day was inaugurated by H.E. Mr. Kemal Dervis, Minister of State of the Republic of Turkey and H.E. Mr. Akis Tsochadzopoulos, Minister of Development of the Hellenic Republic. Armenia and Romania were also represented at the ministerial level.

During the year BSTDB maintained a presence at major global and regional business events thus promoting its own activities, and establishing new contacts. Extensive meeting programs were initiated with government officials, IFIs, private banks and investors during the BSTDB participation in the Annual Meetings of the IMF/World Bank in Washington, and the Annual Meeting of EBRD in Bucharest. Additionally, BSTDB delegations actively participated in the Balkan Forum (Thessaloniki), European Economic Summit 2002 (Salzburg), the 4th South East Europe Economic Forum (Sofia), the "Kuban 2002" Economic Forum in Southern Russia (Sochi), the Romanian Investment Forum (Bucharest), and in many meetings under the auspices of BSEC, the Stability Pact for South Eastern Europe and other regional initiatives. A BSTDB presentation to Greek companies active in the region was organized in cooperation with the Athens Chamber of Commerce.

Media Relations

During 2002, BSTDB organized two successful press conferences linked to the Annual Meeting and Black Sea Business Day, as well as the public announcement of the Hellenic Republic Technical Assistance Fund. Press coverage of BSTDB activities was higher in 2002 than in 2001, as both the Greek and the international press became aware of the fact that the Bank is now reaching a new stage in its development and will be able to play a significant role in the financing of projects in the Black Sea region. Besides a large number of profiles of the Bank's activities in Bulgarian, Greek, Georgian and Romanian economic publications, the Financial Times published a profile of BSTDB's new President and the International Herald Tribune published three major articles on the occasion of the Black Sea Business Day.

Publications and Development of the BSTDB website

During 2002, the Public Relations Department enhanced the BSTDB website to include more business-oriented information on signed and ongoing projects. It is anticipated that the new site will enable the Bank to present information in a more dynamic and attractive format and to encourage an ongoing dialogue with enterprises and financial institutions interested in working with BSTDB.

In close cooperation with the other institutions of the "Black Sea Family", BSTDB sponsored and launched in 2002 a quarterly "Black Sea Newsletter" with news on the activities of BSEC PERMIS, PABSEC, BSEC Business Council, ICBSS, and the Bank itself.

The general brochure on the Bank's activities was updated and republished in English and, for the first time, in Russian.

Human Resources

BSTDB recognizes that human resources are a key factor in the ultimate success of the institution. During 2002 the Human Resource Department (HR) focused on maintaining an environment conducive to high standards of performance, by further refining its strategies and policies. As part of this process, HR continued its modular implementation of software packages designed to eventually combine as a comprehensive system offering fully automated personnel record keeping. 2002 saw implementation of HR Management and Payroll modules as well as the development of the electronic workflows to allow online application forms for HR services via the Intranet platform.

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 2002 the Bank continued to develop its corporate structure in line with its business strategy. After a thorough analysis of the existing situation, the Board of Directors approved the reorganization of the two Banking Divisions into a Banking and an Operations Division. This reorganization was made with the purpose of achieving a better use of the existing manpower, of supporting more efficiently the front office operations and of facilitating concentration on specific sectors. With full support of the HR Department, the Bank finalized the reorganization and reshaped the two Divisions and their constituent departments.

Recruitment

The Bank continued, in 2002, to attract qualified professionals with international experience in specific areas of direct relevance to the Bank's needs. The Bank's recruitment policies provide for the hiring of employees on a wide geographical basis, preference being given to the citizens of the Member Countries. At the end of 2002 the Bank's staff totaled 97 employees, including representatives of all of the Member Countries of the Bank, as well as some citizens of non-member countries.

The Bank's Expatriate Desk assists newly hired employees' relocation and adaptation to Greece by offering routine day-to-day assistance and by the provision of a welcoming package containing useful information, tips and advice.

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	2002
Staff Members	37	76	99	97
Nationalities	10	15	17	17

Compensation Policies

BSTDB operates a market-oriented staff compensation policy designed to match the employment standards of the other IFIs. To help to attain this objective, the Bank conducts periodic reviews of the salary levels of different categories of employees, benchmarking them against those of the other IFIs. The Bank's benefits 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 year 2002 saw the finalization of the concept of the Bank's Pension Plan. The Plan is administered as a trust fund, unbundled, implemented in Guernsey, Channel Islands. The first Trustee of the Pension Plan is the Royal Bank of Canada Trustees (Guernsey) Limited. The first Investment Manager of the Plan is Barclays Global Investors. The combination of defined benefit and defined contribution elements in the design of the Pension Plan reflects the desire of the Bank 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 programs.

Financial Management

A. FINANCIAL RESULTS

In 2002 the BSTDB achieved a positive income from core businesses before provisions. The Bank has adopted a conservative provisioning policy designed to mitigate the credit risks arising from its operations.

REVENUES

In its third year of operation, the Bank increased the size of its lending portfolio resulting in higher revenues from banking operations. The Bank increased its lending volume by about 52% in comparison to the prior year. Project and trade finance operations provided a total income of SDR 5,400 thousand versus SDR 3,600 thousand in 2001.

The Bank's liquid funds, primarily derived from equity, were invested by the Treasury to provide net interest income of SDR 4,521 thousand.

Total operating income for the year was SDR 9,771 thousand, including SDR 9,152 thousand in net interest income and SDR 640 thousand in net fees and commissions.

EXPENSES

General administrative expenses, including depreciation, for the year were SDR 8,821 thousand, an increase of SDR 485 thousand on 2001. General administrative expenses include salaries, benefits and other administrative costs.

Salaries and benefits, in the amount of SDR 6,252 thousand, increased by SDR 936 thousand on the previous year. This was due to an increase in the average staff number during the year. New staff appointments are expected to continue in the year 2003 as the Bank further builds up operations requiring additional professional staff.

Overall, general administrative expenses were well within the 2002 Budget, reflecting the Bank's effective cost controls.

OUTLOOK FOR THE YEAR 2003

The BSTDB is projected to have positive results in 2003 before provisions, 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 2003 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, the 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 2002 two hundred twenty five million SDR 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 five 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

The BSTDB will continue to develop its borrowing capacity in order to ensure that 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, the BSTDB has not yet applied for a credit rating from any of the rating agencies. The Bank has engaged the services of a leading Investment Bank as its ratings advisor and will solicit a rating from a leading agency in due course.

C. PRINCIPLES OF FINANCIAL MANAGEMENT

FINANCIAL DOCUMENTATION

The BSTDB has developed a number of major policy documents defining the framework of the Bank's financial management which include: Financial policies, Treasury investment authority, Accounting policy, Portfolio risk management and investment policies, Depreciation policy, Country risk rating system, Provisioning policy, Guidelines for the appraisal and selection of financial intermediaries and Rules and regulations under Article 19.1(c), describing procedures of the Bank's maintenance of value for its share capital contributions.

The BSTDB's financial management is based on:

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

LIMITATION ON THE USE OF THE BANK'S CAPITAL

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

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

The Bank also intends to follow in its operations capital adequacy requirements as provided by the Bank of International Settlements (BIS), Basle.

RESERVES AND PROVISIONS

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

Specific provisions are made as part of a project analysis and at disbursement. 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 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 an early stage, given that a large part of the anticipated portfolio will consist of regional private sector operations, where the Bank will not benefit from sovereign guarantees.

CREDIT RISK

The BSTDB is exposed to credit risk in both ordinary operations and treasury activities. The majority of credit risk lies in the lending portfolio. The Bank addresses 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 Risk Management Department of the Bank. The Risk Management Department assigns ratings to countries, financial institutions and individual projects, based on a variety of quantitative and qualitative methodologies thus determining product pricing, tenor of instruments/investments, as well as the level of provisions.

Portfolio diversification

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

Risk mitigation

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

TREASURY

Given the relatively high credit risk profile of the lending portfolio, resulting largely from the region of operations, the Bank aims to minimize its exposure to other risks. Hence, Treasury operations are performed within conservative risk parameters. As at 31 December 2002 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.

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 appropriate weights of the SDR constituent currencies. Foreign exchange and interest rate exposures are monitored on a daily basis by the ALM Unit and monthly by the Bank's Asset and Liability Committee.

PRICING POLICY

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

FINANCIAL PLANNING AND CONTROL

The BSTDB is committed to budgetary discipline within the framework of budgetary policies and guidelines. The main function of the planning and budgeting process 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

The BSTDB's corporate governance structure is supported by appropriate financial and management information reporting. Through its reports and disclosures, the Bank, in line with its policy of maintaining industry best practice, follows the reporting conventions of other international financial institutions. The Accounting Policies adopted by the Bank are based on International Financial Reporting 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 2002 is the fourth 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 and Notes

INCOME (LOSS) STATEMENT

For the year ended 31 December 2002

The accompanying notes are an integral part of this statement

Expressed in thousands of SDR	Note	2002	2001 (as Restated)
Interest and similar income			
From loans	3	4,760	2,822
From placements with financial institutions	4	289	1,708
From investment securities	4	4,232	5,089
Interest expense and similar charges	14	129	210
Net interest income		9,152	9,409
Net fees and commissions	5	640	778
Net income (loss) on foreign exchange		(27)	(3,663)
Other income		6	21
Operating income		**9,771**	**6,545**
General administrative expenses	6,22	8,417	7,968
Depreciation and amortisation	12	404	368
Income before provisions		**950**	**(1,791)**
Provisions for losses	7	2,436	1,258
Net income (loss) for the year		**(1,486)**	**(3,049)**

BALANCE SHEET

At 31 December 2002

The accompanying notes are an integral part of this statement

Expressed in thousands of SDR	Note	2002	2001 (as Restated)
Assets			
Cash and bank balances	18	107	158
Placements with financial institutions	4,18	29,706	29,061
Investment securities	4,18	117,870	120,473
Total deposits and securities	18	147,683	149,692
Loans	10	85,081	56,717
Less: provision for losses	7	(3,939)	(2,066)
Net loans		81,142	54,651
Equity investments	11	2,499	1,032
Less: provision for losses	7	(478)	(191)
Net equity investments		2,021	841
Receivables and accrued interest	9	2,662	2,543
Share capital replenishment portion not received	9	854	854
Share capital due but not received	8	592	1,451
Share capital short-term subscription receivable	8	9,815	11,377
Paid-in share capital not received		11,261	13,682
Property, technology and equipment	12	1,205	1,127
Intangible assets	12	721	687
Less: accumulated depreciation and amortization	12	(1,099)	(695)
Net property, technology and equipment		827	1,119
Other assets	13	168	174
Total Assets		**245,764**	**222,702**
Liabilities			
Borrowings	14	443	2,472
Payables and accrued interest	15	3,004	2,103
Deferred income	17	1,116	453
Total liabilities		4,563	5,028
Members' Equity			
Subscribed share capital	8	1,000,000	1,000,000
Less: callable share capital	8	(700,000)	(700,000)
Less: payable share capital	8	(75,000)	(100,000)
Cumulative translation adjustment	8	0	9,064
Advance against future call	8	20	7
Paid-in share capital		225,020	209,071
General reserve	16	3,666	3,666
Retained earnings	17	12,515	4,937
Total members' equity		241,201	217,674
Total Liabilities and Members' Equity		**245,764**	**222,702**
Off-balance-sheet items			
Commitments	2.11	74,329	51,706
Foreign exchange contracts		1,987	0

STATEMENT OF CHANGES IN MEMBERS' EQUITY

For the year ended 31 December 2002 *The accompanying notes are an integral part of this statement*

Expressed in thousands of SDR	Share capital Subscribed	Callable	Payable	General Reserve	Retained Earnings	Total
At 31 December 2000 (as originally reported)	**1,000,000**	**(700,000)**	**(118,321)**	**1,638**	**9,745**	**193,062**
Change in accounting policy (note 17)					(194)	(194)
At 31 December 2000 (as restated)	**1,000,000**	**(700,000)**	**(118,321)**	**1,638**	**9,551**	**192,868**
Paid-in share capital			25,000			25,000
Cumulative translation adjustment through 31 December 2001			2,414		463	2,877
Advance against future call			(22)			(22)
General reserve				2,028	(2,028)	0
Net (loss) for the year					(3,049)	(3,049)
At 31 December 2001 (as restated)	**1,000,000**	**(700,000)**	**(90,929)**	**3,666**	**4,937**	**217,674**
Paid-in share capital			25,000			25,000
Reversal of cumulative translation adjustment (note 8)			(9,064)		9,064	0
Advance against future call			13			13
General reserve						0
Net (loss) for the year					(1,486)	(1,486)
At 31 December 2002	**1,000,000**	**(700,000)**	**(74,980)**	**3,666**	**12,515**	**241,201**

STATEMENT OF CASH FLOWS

For the year ended 31 December 2002 *The accompanying notes are an integral part of this statement*

Expressed in thousands of SDR	Note	2002	2001
Cash flows from operating activities			
Net income (loss) for the year		(1,486)	(3,049)
Adjustment for:			
Provisions for losses	7	2,436	1,258
Depreciation and amortisation	12	404	368
Interest and similar income		(9,281)	(9,619)
Interest expense and similar charges		129	210
Foreign exchange movements on provisions		(276)	0
Operating profit before working capital changes		(8,074)	(10,832)
Decrease (increase) in other assets	13	6	(25)
Increase in accounts payable	15	903	750
Increase in deferred income	17	663	259
Cash generated from (used for) operations		(6,502)	(9,848)
Interest received		9,162	9,740
Interest paid		(131)	(450)
Net cash from (for) operating activities		2,529	(558)
Cash flows from investing activities			
Proceeds from repayment of loans	10	59,164	30,142
Proceeds from maturity of investment securities		109,767	38,846
Funds advanced for loans and equity investment	10,11	(88,995)	(87,891)
Purchase of investment securities		(59,416)	(108,119)
Purchase of property, technology and equipment	12	(112)	(385)
Net cash (used in) from investing activities		20,408	(127,407)
Cash flows from financing activities			
Increase in paid-in share capital	8	25,000	25,000
Decrease in share capital portion not received	9	0	4,115
Collection against share capital due but not received	8	859	607
Decrease in share capital S.T. receivable	8	1,562	6,427
Increase (decrease) in advance against future call	8	13	(22)
Paid-in share capital received		27,434	36,127
Borrowings	14	20,451	40,097
Repayments of borrowings	14	(22,480)	(37,625)
Net cash provided by financing activities		25,405	38,599
Net increase (decrease) in cash and cash equivalents		**48,342**	**(89,366)**
Cash and cash equivalents at beginning of year		80,419	169,785
Cash and cash equivalents at end of year	18	**128,761**	**80,419**

NOTES TO THE FINANCIAL STATEMENTS

31 December 2002 (All amounts are expressed in thousands of SDR)

1. ESTABLISHMENT OF THE BANK

1.1 Agreement Establishing the Bank

The Black Sea Trade and Development Bank ("the Bank"), whose headquarters' office is located in the city of Thessaloniki, Komninon 1 Street, of the Hellenic Republic, was established as an international financial organization under the Agreement Establishing the Bank dated 30 June 1994 ("the Agreement"). At 31 December 2002 the Bank's shareholders 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 accompanying financial statements and notes for 2002 have been submitted by the Management Committee to the Board of Directors and approved on 4 April 2003. Pursuant to Article 23 of the Agreement, the annual balance sheet and income (loss) statement are subject to the approval of the Board of Governors after reviewing the auditors' report.

1.2 Headquarters Agreement

The status, privileges and immunities of the Bank and persons connected therewith in the Hellenic Republic are defined in the Headquarters Agreement between the Government of the Hellenic Republic and the Bank ("Headquarters Agreement"). The Headquarters Agreement was signed on 22 October 1998. The Bank commenced operations on 1 June 1999.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of financial statements

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 where required. The Bank has not applied any IFRS before their effective date.

The Bank adopted IFRS 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.

During 2001 the Board of Directors approved a revision in the Bank's reporting and measurement currency. Under this decision the Bank has adopted as of 1 January 2002 the Special Drawing Right (SDR), its unit of account for authorized share capital pursuant to Article 4 of the Agreement, as reporting and measurement, changing from the United States Dollar.

2.2 Foreign currencies

Effective 1 January 2002 the Bank maintains its books and records in the Special Drawing Right (SDR), its unit of account for authorized share capital, changing from the United States Dollar (US$) used in the previous years. The Bank prepares and publishes financial statements in the SDR, which is its reporting currency. The measurement currencies of the Bank are the SDR component currencies.

Foreign currency transactions are recorded on initial recognition in SDR's by applying to the foreign currency amount the exchange rate between the SDR and the foreign currency at the rates prevailing on the last day of the month, preceding the date of the transaction, as provided by the IMF. Exchange gains and losses arising from the translation of monetary assets and liabilities at period end exchange rates are taken to the income (loss) statement.

The year ended 31 December 2001 financial statements for comparative purposes were translated into SDR by taking the 1 January 2002 opening balances stated at US Dollars and applying the year end 2001 SDR exchange rate to the US$ (the year 2001 reporting and measurement currency).

For the purpose of the preparation of the accompanying financial statements the following period and year end exchange rates were used:

		At 31 December 2002	At 31 December 2001
1 SDR =	United States dollar	1.35952	1.25673
	Euro	1.29589	–
	Japanese yen	161.29300	–
	Pound sterling	0.84348	–

2.3 Investment securities

Investment securities are intended to be held near maturity and are carried on the balance sheet at amortised cost, by applying the effective interest rate method, net of any provisions for permanent impairment. It is Bank policy to dispose such investment securities near to maturity, not earlier than three months from maturity. The Bank's portfolio consists of commercial papers and quoted corporate bonds rated single A and above.

2.4 Loans and provisions for losses

Loans are originated by the Bank and are carried at the amortised cost by applying year-end interest rate that approximates the effective interest rate. The adoption of this method as of the beginning of 2001 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 income (loss) statement.

The Bank measures regularly the impairment of its loans. Impairment test was not considered necessary for the loans of the Bank because management has no internal indications or other 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, which apart from the risks pertaining to the individual borrower's financial position it takes also into account factors such as country risk, industry risk and currency risk.

During 2002 the Bank further refined its general provisioning methodology taken into account the experience gained and developments in market practices in the banking industry. The effect of such revision was that the existing provision is lower by approximately SDR 545 thousand.

2.5 Equity investments

Equity investments represent unquoted investments that are recorded at cost 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 income (loss) statement 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% 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 company it invested.

2.6 Property, technology and equipment

Property, technology and equipment are 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. The annual depreciation rates applied are as follows:

- Furniture, furnishings and appliances	20.0 %
- Personnel computers, related software and peripherals	33.3 %
- Office and telecommunication equipment	20.0 %
- Transportation vehicles	20.0 %

2.7 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. Dividends are recognized when received. General administrative expenses are recorded on an accrual basis.

2.8 Staff retirement plan and termination benefits

Presently, the Bank does not have any obligation for post retirement payments to its employees. Local staff is entitled to retirement benefits from the State Sponsored Social Insurance Fund (IKA). Accordingly, it does not have any established pension plan. The Management Committee has approved the establishment of a defined contribution pension plan. Pending its implementation it places regularly its contributions for all employees who are eligible to participate, in special interest bearing deposit accounts (see note 15). Employees upon termination or resignation are entitled to the refund of their contributions.

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).

The Management Committee has approved the Trustees and the establishment of the Bank's Pension Plan Trust Instrument and Rules as of January 2003. The related funds have been transferred to the Trustee (Royal Bank of Canada) in early 2003. Simultaneously the related liability due to the employees has been eliminated from the accounts.

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. An amount of SDR 53 thousand was paid for termination benefits during the year.

2.9 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 in Greece. The Bank is also exempt from any obligation for payment, withholding or collection of any tax or duty. No tax shall be levied on salaries or emoluments paid by the Bank to employees. Said tax exemptions are enforced by the Headquarters Agreement of Article 12, and have been implemented by the Greek Government by virtue of the ratification of Law 2707/No.78/13.04.1999.

2.10 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. As of 31 December 2002 and 2001 the Bank has not engaged into any derivative transactions.

2.11 Off-balance-sheet items

All signed commitments and contracts are disclosed as off-balance-sheet items. The amount of SDR 74,329 thousand relates to undrawn loan commitments of which SDR 4,607 thousand were for letters of guarantee.

2.12 Use of estimates

The preparation of financial statements involves management estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. INCOME FROM LOANS

Interest income from loans for the year was SDR 4,760 thousand deriving from both project and trade financing, and equity investments as analysed below:

	Year to 31 December 2002	Year to 31 December 2001
Project financing	3,272	1,765
Trade financing	1,488	1,034
Other	0	23
Income from loans	**4,760**	**2,822**

4. INTEREST INCOME FROM PLACEMENTS AND INVESTMENT SECURITIES

A major part of such interest income results treasury activities including placements with other financial institutions, 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 FEES AND COMMISSIONS

	Year to 31 December 2002	Year to 31 December 2001
Front-end fees	341	153
Commitment fees	141	99
Guarantee fees	13	0
Management fees	71	52
Reimbursement undertaking fees	7	0
Other	67	474
Net fees and commissions	**640**	**778**

Under the new accounting policy adopted, which is discussed in note 17 effective 2002, front-end fees pertaining to loans are amortized through the income (loss) statement using the effective interest rate method, over the maturity of the loans. In case of early repayment, cancellation or acceleration of the loans the outstanding deferred income for the related fees are recalculated taking into account the new maturity date.

6. GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses in the accompanying income (loss) statement are analyzed as follows:

	Year to 31 December 2002	Year to 31 December 2001
Salaries and benefits	6,252	5,316
Other administrative expenses (note 22)	2,165	2,652
General administrative expenses	**8,417**	**7,968**

The average number of staff included in salaries and benefits during the year were: regular staff of 98 (2001: 88) and contract staff of 1 (2001: 1). Staff numbers at 31 December 2002 were: regular staff of 97 (2001: 99) and contract staff of 1 (2001: 1).

7. PROVISIONS FOR LOSSES

A summary for movement of provisions for losses is as follows:

	Loans	Guarantees/ Other	Equity investments	Total
At 31 December 2001	2,066	0	191	2,257
Charge for the year	2,059	74	303	2,436
Foreign exchange adjustments	(238)	(22)	(16)	(276)
At 31 December 2002	**3,887**	**52**	**478**	**4,417**

8. 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 2002	At 31 December 2001
Subscribed share capital	1,000,000	1,000,000
Less: callable shares	(700,000)	(700,000)
Less: payable shares	(75,000)	(100,000)
Called-up share capital	225,000	200,000
Cumulative translation adjustment	0	9,064
Advance against future call	20	7
Paid-in share capital	**225,020**	**209,071**

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 2002 three Member States (Armenia, 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 2002 was SDR 592 thousand and at 31 December 2001 was SDR 1,451 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 State 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 2002 six Member States (Bulgaria, Greece, Romania, Russian Federation, Turkey and Ukraine) had issued promissory notes. Furthermore, five 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 2002 was SDR 9,815 thousand and at 31 December 2001 was SDR 11,377 thousand.

With the adoption of the SDR as reporting currency, the cumulative translation adjustment created in the previous years was reversed to retain earnings. This reversal did not affect the ending balance of members' equity.

The capital subscription status and voting power, with respect to the paid amount, of each member at 31 December 2002 is analysed as follows:

Member	Shares	Subscribed	Callable	Payable	Paid	Voting Power
		Expressed in thousands of SDR				
Albania	20,000	20,000	14,000	6,000	4,500	2.1%
Armenia	20,000	20,000	14,000	6,000	1,907	0.9%
Azerbaijan	20,000	20,000	14,000	6,000	2,205	1.0%
Bulgaria	135,000	135,000	94,500	40,500	30,375	14.2%
Georgia	20,000	20,000	14,000	6,000	2,000	0.9%
Greece	165,000	165,000	115,500	49,500	37,125	17.4%
Moldova	20,000	20,000	14,000	6,000	1,501	0.7%
Romania	135,000	135,000	94,500	40,500	29,521	13.8%
Russian Fed.	165,000	165,000	115,500	49,500	37,125	17.4%
Turkey	165,000	165,000	115,500	49,500	37,125	17.4%
Ukraine	135,000	135,000	94,500	40,500	30,355	14.2%
Total	**1,000,000**	**1,000,000**	**700,000**	**300,000**	**213,739**	**100.0%**

9. 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 capital payments 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 in the name of the Bank. As of 31 December 2002 Romania has paid an amount of SDR 7,095 thousand in order to replenish the value of its contribution and the related quarterly interest due to the Bank on the SDR equivalent balance, in accordance with the Agreement. Hence, an amount of SDR 854 thousand is due in order to fully replenish the value of its contribution. The accrual interest due at 31 December 2002 was SDR 144 thousand and at 31 December 2001 was SDR 121 thousand included in "Receivables and accrued interest" in the accompanying balance sheet.

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

10. LOANS AND GUARANTEES

The Bank offers a range of financial instruments for both project and trade activities, tailored to meet an individual operation's requirements. The Bank may also make equity investments and provide guarantees. Loans may be denominated in any convertible currency, or combination of convertible currencies in which the Bank is able to fund itself. Interest rates may be fixed or variable.

At 31 December 2002 the Bank has no amounts of loans or equity investments in non-accrual status due to overdue interest or principal repayments.

	Loans
At 31 December 2001	56,717
Disbursements	85,398
Less: repayments	(50,654)
Foreign exchange movements	(6,380)
At 31 December 2002	85,081
Less: accumulated provisions	(3,939)
Total net of provisions at 31 December 2002	**81,142**

As of 31 December 2002 loans represent 97% of the lending portfolio. The Bank does not consider that it has any concentration of credit risk in its loan portfolio; therefore, the above amount of SDR 3,939 thousand reflects a provision for general portfolio risks. Included in this amount is SDR 52 thousand that represents provision charges for letters of guarantee.

11. EQUITY INVESTMENTS

A primary focus of the Bank is to facilitate access to funding by providing small and medium size enterprises that have a potential positive economic development impact. To this extent, together with a number of other major development and commercial institutions, the Bank invested in the below equity investments where it owned share capital at 31 December 2002.

	Percentage of investments
SEAF Trans-Balkan Fund LLC	18
Micro Finance Bank of Azerbaijan	35

The SEAF Trans-Balkan Fund LLC and subsidiaries established in June 2000 is a small enterprise assistance fund. Of the member countries Albania, Bulgaria and Romania are eligible for investments made by the fund. The Bank is committed to increase its participation to the fund of to an amount of US$ 4 million. The most recent available condensed consolidated statement of assets, liabilities and members' capital of the fund at 31 December 2001 was as follows:

Fund condensed statement:	US$ (in 000)	SDR (in 000)
Current assets	7,504	5,971
Non current assets	100	80
Total Assets	**7,604**	**6,051**
Liabilities	2,403	1,912
Members' capital	6,649	5,291
Accumulated deficit	(1,448)	(1,152)
Total Liabilities	**7,604**	**6,051**

The above financial statements have been audited by independent public accountants who in their auditors' report dated 2 May 2002 emphasized the following matter (without qualifying the report).

"The financial statements included investments in portfolio companies valued at US$ 5,378 thousand as of 31 December 2001, whose values have been estimated by the Fund Manager in the absence of readily ascertainable market values. However, because of the inherent uncertainty of valuation, the Fund Manager's estimated values may differ from the values that would have been used had a ready market for the securities exited, and the differences could be material".

The Bank, given the above uncertainty, and the fact that losses are expected to continue in 2002 (as per unaudited information) provided a reserve of SDR 285 thousand that is in excess of its interest in the accumulated deficit as of 31 December 2001 (SDR 207 thousand).

The Micro Finance Bank of Azerbaijan (MFBA) was established in June 2002 for the purpose of making loans and engaging in other types of banking business with private micro and small enterprises and individuals in Azerbaijan. The 31 December 2002 condensed statements of the MFBA were prepared in accordance with IFRS and its financial position was as follows:

Fund condensed statement:	AZM (in 000)	SDR (in 000)
Current assets	20,760,369	3,121
Non current assets	3,245,154	488
Total Assets	**24,005,523**	**3,609**
Liabilities	80,833	12
Members' capital	24,500,000	3,684
Accumulated deficit	(575,310)	(87)
Total Liabilities	**24,005,523**	**3,609**

According to the above audited financial statements of this fund for the first financial year ended 31 December 2002, prepared in accordance with IFRS losses amounted to AZM 575,310 thousand (SDR 87 thousand). The related auditors' report emphasized on the following matter: "Azerbaijan economy has shown progress in achieving a lower rate of inflation, stable exchange rates and sustainable growth in recent years. However, the Azeri economy is largely dependent on oil prices and all sectors of the economy, including the banking sector, might be affected by fluctuations in oil prices".

Although the Bank believes that it is very early to assess facts about a permanent impairment in the value of this investment, as of 31 December 2002 it provided a provision for losses of SDR 193 thousand that exceeds its share in the losses of the MFBA (approximately SDR 30 thousand).

12. NET PROPERTY, TECHNOLOGY AND EQUIPMENT

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

	At 31 December 2002	Additions	At 31 December 2001
Buildings (leasehold improvements)	114	4	110
Furniture, office accessories and vehicle	363	9	354
Computers and office equipment	728	65	663
Intangibles (primarily software)	721	34	687
Total property, technology and equipment	1,926	112	1,814
Less: accumulated depreciation and amortization	(1,099)	(404)	(695)
Net book value	**827**	**(292)**	**1,119**

13. OTHER ASSETS

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

14. BORROWINGS

The Bank utilizes short-term financing in the form of borrowings from major commercial banks. At 31 December 2002 the Bank had no borrowings. The amount of SDR 443 thousand (SDR 562 thousand at 31 December 2001) represents an interest free amount granted by the Greek State to be used for financing of enterprises under certain conditions. An analysis of the fund's financial position is given in Appendix I.

15. PAYABLES AND ACCRUED INTEREST

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

	At 31 December 2002	At 31 December 2001
Interest accrued on borrowings	0	2
Social contributions	108	110
Pension plan obligation	2,547	1,554
Suppliers and other accrued expenses	349	437
Payables and accrued interest	**3,004**	**2,103**

As explained in Note 2.8, the pension plan has not yet been fully implemented; nevertheless, the obligation to the staff is covered by an equivalent amount of cash held in short-term time deposits to be used for the funding of the pension plan when established. At 31 December 2002 an amount of SDR 629 thousand represents employee contributions and employees upon termination or resignation are entitled to the refund of their contributions.

16. 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.

17. RESTATEMENT OF PRIOR YEAR'S ACCOUNTS

During 2002 the Bank at the approval of its Board of Directors, decided to change it accounting policy with respect to treatment of front-end fees from cash basis to deferral basis. Although the cash basis of accounting is also used by similar banks, the newly adopted deferral basis is deemed to present more relevant and accurate information about the Bank's performance throughout the years, considering the fact that substantial portion of loans granted to customers are of long-term nature.

This change in accounting policy has been accounted for retrospectively in accordance with the benchmark treatment of IFRS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies. The comparative statements for 2001, have been restated to comply to the changed policy. The effect of the change is a decrease in net fees and commissions of SDR 39 thousand in 2002 and SDR 259 thousand in 2001 with an increase in deferred income of SDR 492 thousand and SDR 453 thousand respectively.

Opening retained earnings for 2001 has been reduced by SDR 194 thousand, which is the amount of the adjustment relating to periods prior to 2001.

18. 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.

	At 31 December 2002	At 31 December 2001
Up to 1 month	102,378	61,942
From 1 month to 3 months	26,383	18,477
Cash and cash equivalents	**128,761**	**80,419**
From 3 months to 1 year	18,922	43,067
From 1 year to 5 years	0	26,206
Total deposits and securities	**147,683**	**149,692**

For cash flow purposes the Bank considers as cash and cash equivalents balances maturing up to three months (SDR 128,761 thousand).

19. CURRENCY RISK

In accordance with Article 4 of the Agreement, the Bank's unit of account for authorized capital shall be Special Drawing Rights (SDR). 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.

Expressed in thousands of SDR	United States dollar	Euro	Japanese yen	Pound sterling	Special Drawing Right	**Total**
Assets						
Cash and bank balances	96	11				**107**
Placements with financial institutions	7,717	2,199	19,564	226		**29,706**
Investment securities	11,773	70,216	9,918	25,963		**117,870**
Net loans	79,165	1,977				**81,142**
Net equity investments	2,021					**2,021**
Receivables and accrued interest	1,139	919	123	337	144	**2,662**
Paid-in share capital not received					11,261	**11,261**
Net property, technology and equipment					827	**827**
Other assets					168	**168**
Total assets	101,911	75,322	29,605	26,526	12,400	**245,764**
Liabilities						
Borrowings		443				**443**
Payables and accrued interest	2,720	284				**3,004**
Deferred income					1,116	**1,116**
Members' equity					241,201	**241,201**
Total liabilities and members' equity	2,720	727	0	0	242,317	**245,764**
Foreign exchange contracts	(1,987)	1,105	477	405		0
Net currency balance at 31 December 2002	**97,204**	**75,700**	**30,082**	**26,931**	**(229,917)**	**0**
Correct SDR weights*	97,580	75,580	29,935	26,822		
Currency position at 31 December 2002	(376)	120	147	109		0
Net currency balance at 31 December 2001	**92,304**	**61,284**	**26,210**	**24,528**	**(204,326)**	**0**

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

20. 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 thousands of SDR	Up to 1 month	From 1 month to 3 months	From 3 month to 1 year	From 1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and bank balances	107						**107**
Placements with financial institutions	29,706						**29,706**
Investment securities*	72,565	26,383	18,922				**117,870**
Net loans	206	17,417	13,133	45,336	5,050		**81,142**
Net equity investments						2,021	**2,021**
Receivables and accrued interest	144	2,518					**2,662**
Paid-in share capital not received	11,261						**11,261**
Net property, technology and equipment						827	**827**
Other assets	130			38			**168**
Total assets	114,119	46,318	32,055	45,374	5,050	2,848	**245,764**
Liabilities							
Borrowings						443	**443**
Payables and accrued interest		3,004					**3,004**
Deferred income	1,116						**1,116**
Members' equity						241,201	**241,201**
Total liabilities and members' equity	1,116	3,004	0	0	0	241,644	**245,764**
Liquidity position at 31 December 2002	**113,003**	**43,314**	**32,055**	**45,374**	**5,050**	**(238,796)**	**0**
Liquidity position at 31 December 2001	**71,971**	**36,315**	**53,953**	**48,495**	**5,996**	**(216,730)**	**0**

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

21. 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 thousands of SDR	Up to 1 month	From 1 month to 3 months	From 3 month to 1 year	From 1 year to 5 years	Over 5 years	Noninterest bearing	Total
Assets							
Cash and bank balances						107	**107**
Placements with financial institutions	29,706						**29,706**
Investment securities	72,565	26,383	18,922				**117,870**
Net loans	206	69,188	11,748				**81,142**
Net equity investments						2,021	**2,021**
Receivables and accrued interest						2,662	**2,662**
Paid-in share capital not received						11,261	**11,261**
Net property, technology and equipment						827	**827**
Other assets						168	**168**
Total assets	102,477	95,571	30,671	0	0	17,046	**245,764**
Liabilities							
Borrowings						443	**443**
Payables and accrued interest						3,004	**3,004**
Deferred income						1,116	**1,116**
Members' equity						241,201	**241,201**
Total liabilities and members' equity	0	0	0	0	0	245,764	**245,764**
Interest rate risk at 31 December 2002	**102,477**	**95,571**	**30,670**	**0**	**0**	**(228,718)**	**0**
Interest rate risk at 31 December 2001	**59,985**	**63,531**	**51,526**	**27,234**	**0**	**(202,276)**	**0**

22. OTHER CONTINGENCIES

The Bank has entered into lease contracts for its Headquarters office facilities the last one expiring until 2003. 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 SDR 137 thousand for 2003. Rent expense for the year included in general and administrative expenses totaled SDR 455 thousand (SDR 438 thousand in 2001).

23. SUBSEQUENT EVENTS

In February 2003 the Central Bank of the Hellenic Republic has officially recognized the Bank as a Multilateral Development Bank and has exempted its loan activities from country risk. Therefore, financial exposure of Greek banks and other Hellenic financial institutions to the Black Sea Trade and Development Bank are now to be treated as exposure to domestic Greek financial institutions for the purpose of reporting to the Central Bank.

A new long-term loan of approximately EUR 20 million was signed with Maritsa, an energy company operating in Bulgaria.

Appendix I

TECHNICAL COOPERATION FUND

For the year ended 31 December 2002 (All amounts are expressed in thousands of SDR)

The objective of the fund as initiated by the Hellenic Republic, is to contribute to the economic development of the Black Sea Region's Member Countries 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.

Fund statement of movement:	Year to 31 December 2002	Year to 31 December 2001
Balance of fund brought forward	617	562
Interest and other income	18	8
Disbursements	(188)	0
Other operating expenses	(4)	(8)
Balance of fund available	**443**	**562**

Fund balance sheet:	At 31 December 2002	At 31 December 2001
Assets		
Placements with other financial institutions	443	562
Total Assets	**443**	**562**
Liabilities		
Allocated fund balance	59	0
Unallocated fund balance	384	562
Total Liabilities	**443**	**562**

Creation of the fund
The Greek Technical Cooperation Fund is created and administrated under the terms and conditions of the Contribution Agreement between the Government of the Hellenic Republic and the Bank ("the Fund Agreement").

Significant accounting policies
The financial reports have been prepared under the historical cost convention. Contributions and disbursements are accounted for on a cash basis. Interest income and operating expenses are accounting for on an accrual basis.

Allocated fund balance and disbursements
The allocated fund balance represents all commitments approved by the Bank under terms of the fund net of cumulative disbursements.

Other operating expenses
Other operating expenses comprise administrative expenses directly related to the fund.

Auditor's Report

TO THE BOARD OF DIRECTORS
OF THE BLACK SEA TRADE AND DEVELOPMENT BANK

We have audited the accompanying balance sheet of the Black Sea Trade and Development Bank (hereinafter called the Bank) for the year ended December 31, 2002 and the related income (loss) statement and statements of changes in members' equity and cash flows for the year ended December 31, 2002. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements for the year ended December 31, 2001 were audited by other auditors who issued an unqualified opinion on March 1, 2002.

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

As discussed above the financial statements of the Bank as of December 31, 2001 and for the year then ended, were audited by other auditors. As described in Note 17, these financial statements have been restated for the accounting change with respect to treatment of front-end fees. We audited the adjustments described in Note 17 that were applied to restate the 2001 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review or apply any procedures to the 2001 financial statements of the Bank other than with respect to such adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2001 financial statements taken as a whole.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at December 31, 2002 and the results of its operations and its cash flows for the year then ended, in accordance with statements of International Financial Reporting Standards 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.

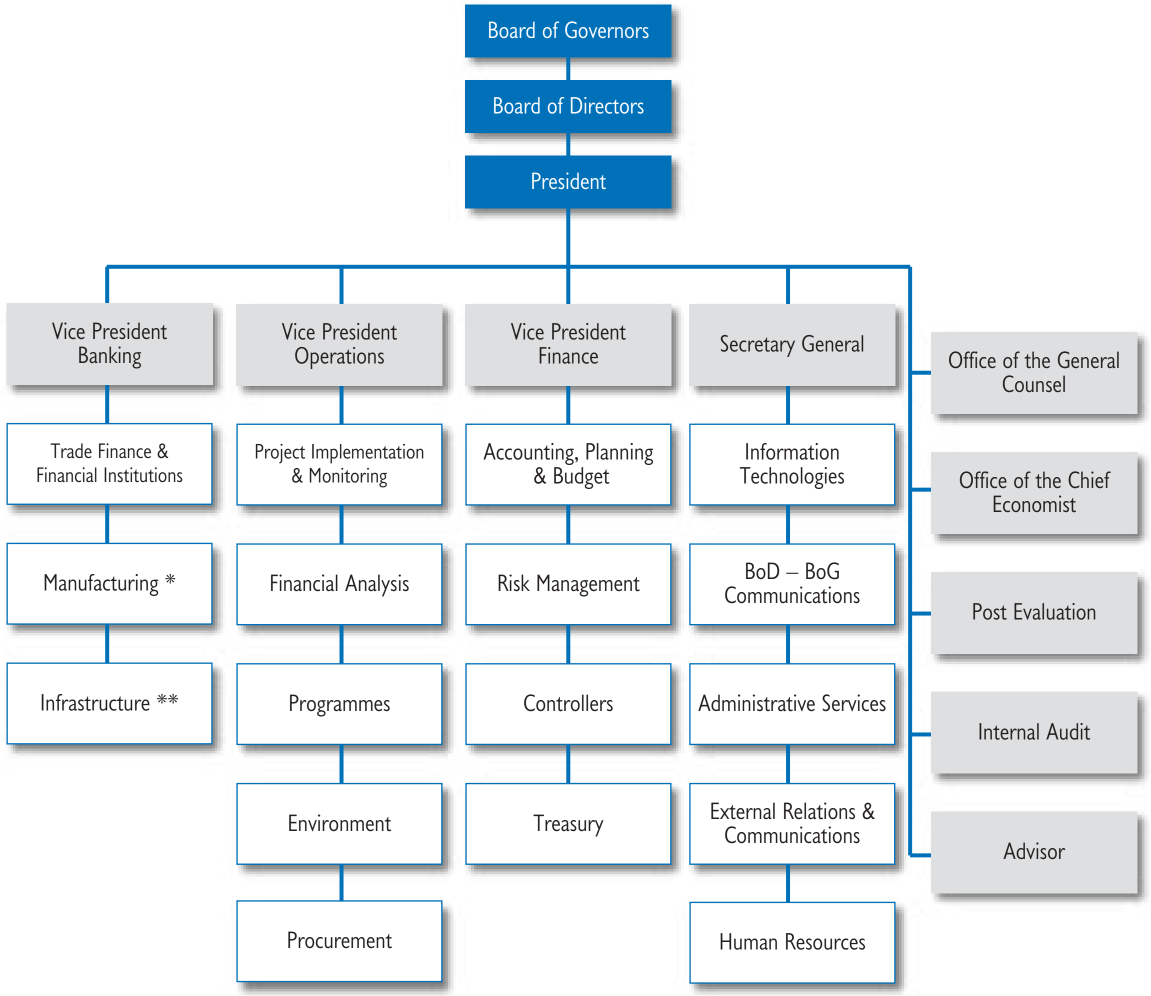
ERNST AND YOUNG

Athens, Greece
March 14, 2003

Annex A

Organizational Structure

As of 1 January 2003



* The principal activity areas of the Department are manufacturing, including agriculture, tourism and construction.

** The principal activity areas of the Department are infrastructure, including energy, telecommunications, transport and public utilities.

Annex B

Contacts

Mustafa Gürtin
President
Office:
Tel: +30 2310 290407
Email: poffice@bstdb.org

	Banking Division	Operations Division	Finance Division	Administration Division
Office of the General Counsel David Drake Tel: +30 2310 290435 Email: ddrake@bstdb.org	**Valentina Siclovan** **Vice President Banking** Office: Tel: +30 2310 290433 Email: vpboffice@bstdb.org	**Vitaly Lisovenko** **Vice President Operations** Office: Tel: +30 2310 290550 Email: vpooffice@bstdb.org	**Andrei Vernikov** **Vice President Finance** Office: Tel: +30 2310 290444 Email: vpfoffice@bstdb.org	**Charalampos Tsarouchas** **Secretary General** Office: Tel: +30 2310 290481 Email: sgoffice@bstdb.org
Marin Marinov Tel: +30 2310 290505 Email: mmarinov@bstdb.org	**Trade Finance & Financial Institutions** Nejdet Sarisozen Tel: +30 2310 290427 Email: nsarisozen@bstdb.org	**Project Implementation & Monitoring** Alexander Mostovoy Tel: +30 2310 290430 Email: amostovoy@bstdb.org	**Accounting, Planning & Budget** Nicolas Papavramides Tel: +30 2310 290449 Email: npapavramides@bstdb.org	**Information Technologies** Christos Georgiou Tel: +30 2310 290530 Email: cgeorgiou@bstdb.org
Office of the Chief Economist Ahmet Imre Tel: +30 2310 290417 Email: aimre@bstdb.org	**Manufacturing** Orhan Aytemiz Tel: +30 2310 290439 Email: oaytemiz@bstdb.org	**Financial Analysis** Michelle Amour Tel: +30 2310 290460 Email: mamour@bstdb.org	**Risk Management** George Pahinis Tel: +30 2310 290462 Email: gpahinis@bstdb.org	**BOG & BOD Communications** Ralitsa Raeva Tel: +30 2310 290487 Email: rraeva@bstdb.org
Post Evaluation Department Todor Dimitrov Tel: +30 2310 290403 Email: tdimitrov@bstdb.org	Umberto Del Panta Tel: +30 2310 290440 Email: udelpanta@bstdb.org	**Programmes** Ghinea Arminio Iorga Tel: +30 2310 290452 Email: gaiorga@bstdb.org	**Controllers** Georgeta Buzica Tel: +30 2310 290470 Email: gbuzica@bstdb.org	**Administrative Services** Kostis Zevgaridis Tel: +30 2310 290488 Email: kzevgaridis@bstdb.org
Internal Audit Department Zenon Hadjiantonoglou Tel: +30 2310 290421 Email: zhadjiantonoglou@bstdb.org	**Infrastructure** Gueorgui Horozov Tel: +30 2310 290441 Email: ghorozov@bstdb.org	Panayotis Gavras Tel: +30 2310 290453 Email: pgavras@bstdb.org	**Treasury** Pierre Van Peteghem Tel: +30 2310 290492 Email: pvanpeteghem@bstdb.org	**External Relations & Communications** Robert De Bruin Tel: +30 2310 290480 Email: rdebruin@bstdb.org
Pavlos Pavlides Tel: +30 2310 290583 Email: ppavlides@bstdb.org	Konstantin Limitovski Tel: +30 2310 290438 Email: klimitovski@bstdb.org	**Environment** Mircea Cojocaru Tel: +30 2310 290585 Email: cojocaru@bstdb.org		Valery Aksenov Tel: +30 2310 290494 Email: vaksenov@bstdb.org
Advisor Celal Karatekelioglu Tel: +30 2310 290415 Email: ckaratekelioglu@bstdb.org		**Procurement** Colin Conway Tel: +30 2310 290429 Email: cconway@bstdb.org		**Human Resources** Eileen Woods Tel: +30 2310 290565 Email: ewoods@bstdb.org

Black Sea Trade and Development Bank

1 Komninon str. 54624 Thessaloniki, Greece
Tel: (+30 2310) 290-400, fax: (+30 2310) 221-796, 286-590
e-mail: info@bstdb.org   internet: www.bstdb.org

colibri