ASSISTING THE REGION'S RECOVERY

ANNUAL REPORT | 2010

Black Sea Trade & Development Bank

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Board of Governors

As of 31 December 2010

Republic of Albania

Governor: Mr. Nezir HALDEDA, Deputy Minister, Ministry of Finance
Alternate Governor: position vacant

Republic of Armenia

Governor: Mr. Arthur JAVADYAN, Chairman, Central Bank of Armenia
Alternate Governor: Mr. Vahe VARDANYAN, Director, Financial Sector Policy & Analysis Department, Central Bank of Armenia

Republic of Azerbaijan

Governor: Mr. Samir SHARIFOV, Minister, Ministry of Finance
Alternate Governor: Mr. Shahin MUSTAFAYEV, Minister, Ministry of Economic Development

Republic of Bulgaria

Governor: Ms. Boryana PENCHEVA, Deputy Minister, Ministry of Finance
Alternate Governor: Mr. Stefan SOTIROV, Head, European Financial Institutions Division, External Finance and International Cooperation Directorate, Ministry of Finance

Georgia

Governor: Mr. George KADAGIDZE, President, National Bank of Georgia
Alternate Governor: Mr. Kakha BAINDURASHVILI, Minister, Ministry of Finance

Hellenic Republic

Governor: Mr. Ioannis DRYMOUSSIS, Secretary General Ministry of Economy, Competitiveness & Shipping
Alternate Governor: Prof. Panagiotis KORLIRAS, Chairman, Board of Directors & Scientific Director, Centre of Planning & Economic Research (CPER)

Republic of Moldova

Governor: Mr. Veaceslav NEGRUTA, Minister, Ministry of Finance
Alternate Governor: position vacant

Romania

Governor: Mr. Gheorghe IALOMITIANU, Minister, Ministry of Public Finance
Alternate Governor: Mr. Bogdan Alexandru DRAGOI, Secretary of State, Ministry of Public Finance

Russian Federation

Governor: Mr. Dmitri V. PANKIN, Deputy Minister, Ministry of Finance
Alternate Governor: Mr. Sergey BELYAKOV, Director, Investment Policy & Public-Private Partnership Development Department, Ministry of Economic Development

Republic of Turkey

Governor: Mr. Ibrahim H. CANAKCI, Undersecretary of Treasury, Undersecretariat of Treasury
Alternate Governor: Mr. Cavit DAGDAS, Deputy Undersecretary of Treasury, Undersecretariat of Treasury

Ukraine

Governor: Mr. Vasyl TSUSHKO, Minister, Ministry of Economy
Alternate Governor: Mr. Anatoliy SHAPOVALOV, First Deputy Governor, National Bank of Ukraine

Board of Directors

As of 31 December 2010

Republic of Albania

Director: Mr. Xhentil DEMIRAJ, General Director, General Debt Management Directorate, Ministry of Finance

Alternate Director: Mr. Resmi HIBRAJ, Director of Borrowing, General Debt Management Directorate, Ministry of Finance

Republic of Armenia

Director: Mr. Vardan ARAMYAN, Deputy Minister, Ministry of Finance

Alternate Director: Mr. Nerses MKRTCHIAN, Director, Multilateral & Bilateral Economic Cooperation Department, Ministry of Foreign Affairs

Republic of Azerbaijan

Director: Mr. Mikayil JABBAROV, Director, Administration of State Historical Architectural Reserve “Icherisheher”, Cabinet of Ministers of the Republic of Azerbaijan

Alternate Director: Mr. Famil ISMAYILOV, Deputy Head, International Relations Department, Ministry of Finance

Republic of Bulgaria

Director: Ms. Milena BOIKOVA, Director, Government Debt & Financial Markets Directorate, Ministry of Finance

Alternate Director: Mr. Nikola SHERLETOV, Parliamentary Secretary, Ministry of Finance

Georgia

Director: Mr. Dimitri GVINDADZE, Deputy Minister, Ministry of Finance

Alternate Director: position vacant

Hellenic Republic

Director: Mr. Petros KONTOS, Director, International Economic Organizations Directorate, Ministry of Economy, Competitiveness & Shipping

Alternate Director: Ms. Zoe DRIVA EVANGELOPOULOU, Director, Ministry of Economy, Competitiveness & Shipping

Republic of Moldova

Director: Ms. Elena MATVEEVA, Director, Public Debt Department, Ministry of Finance

Alternate Director: Ms. Ina GOREA, Deputy Head, On-lending Directorate, Public Debt Department, Ministry of Finance

Romania

Director: Ms. Diana PELIGRAD BLINDU, Head Operations I, General Directorate for Treasury & Public Debt, Ministry of Public Finance

Alternate Director: Mr. Stefan PETRESCU, Head of Operation Division, External Public Finance, Ministry of Public Finance

Russian Federation

Director: Mr. Alexander GORBAN, Director, Economic Cooperation Department, Ministry of Foreign Affairs

Alternate Director: position vacant

Republic of Turkey

Director: Mr. Memduh Aslan AKCAY, Director General, General Directorate for Foreign Economic Relations, Undersecretariat of Treasury

Alternate Director: Mr. Evren DILEKLI, Deputy Director General, General Directorate for Foreign Economic Relations, Undersecretariat of Treasury

Ukraine

Director: Mr. Valeriy PYATNYTSKIY, Deputy Minister, Ministry of Economy

Alternate Director: Mr. Andriy KRAVETS, Deputy Minister, Ministry of Finance

Audit Committee

As of 31 December 2010

Ms. Milena Boikova / Director for the Republic of Bulgaria, Chairperson

Mr. Mikayil Jabbarov / Director for the Republic of Azerbaijan, Member

Mr. Vardan Aramyan / Director for the Republic of Armenia, Member

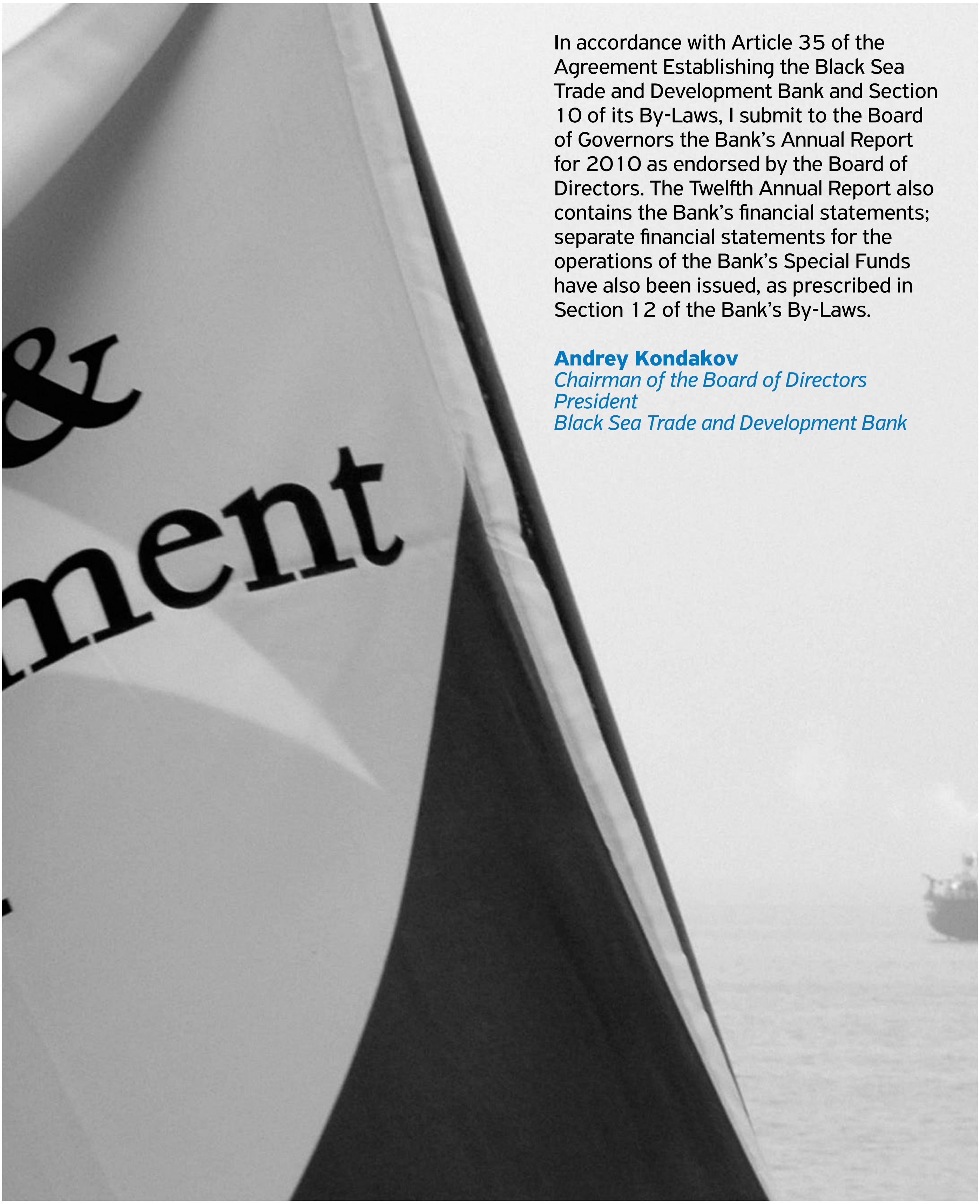
Mr. Xhentil Demiraj / Director for the Republic of Albania, Member

Management

As of 31 December 2010

Vitalii Mygashko	**Valentina Siclovan**	**Andrey Kondakov**	**Mustafa Boran**	**George Kottas**
Vice President Operations	Vice President Finance	President Chairman of the Board of Directors	Vice President Banking	Secretary General

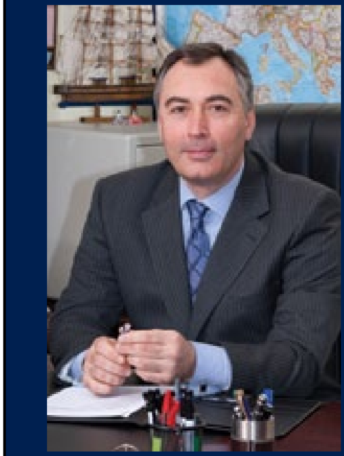
To The Board Of Governors



In accordance with Article 35 of the Agreement Establishing the Black Sea Trade and Development Bank and Section 10 of its By-Laws, I submit to the Board of Governors the Bank's Annual Report for 2010 as endorsed by the Board of Directors. The Twelfth Annual Report also contains the Bank's financial statements; separate financial statements for the operations of the Bank's Special Funds have also been issued, as prescribed in Section 12 of the Bank's By-Laws.

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

Statement by the President



The term resurgence best portrays the macroeconomic performance of the Black Sea region in 2010. Having demonstrated a characteristic resiliency and ability to adjust in the face of adversity, the majority of Black Sea countries returned to growth in 2010. The financial sectors of these countries were largely in good shape and thus weathered the financial crisis of late 2008 and retained adequate levels of capitalization, with timely and effective support provided by emergency government programs.

Nevertheless, the region was among the hardest struck by the economic downturn which followed the financial crisis, and suffered a real decline in GDP of -6.3 percent. Most countries 'bottomed out' in the second quarter of 2009 and then began a recovery which continued into, and was sustained through, 2010. Demand for exports returned, domestic demand rose and capital inflows resumed, at rates more moderate than those which had proven destabilizing at the time the crisis struck. The turnaround from year to year was over 10 percent as for 2010 real annual GDP growth reached 3.8 percent. More importantly, the growth appears to be driven by more sustainable factors such as export growth, stable demand and recovering investment (albeit more slowly) rather than rapid external inflows which overheated certain economies and left others dependent upon continued inflows and vulnerable to sudden changes in market mood. While the countries of the Black Sea are unlikely to return to the booming growth of the period from 2000-2008, they are well placed to grow steadily in coming years at rates which will permit further decreases in poverty levels, and convergence in living standards and incomes towards the levels of Western Europe.

For the Black Sea Trade and Development Bank, 2010 was a year of important developments which we expect will pave the way for the Bank to expand its activities and meet future targets. It was also a year of recovery in operational terms, as the Bank was able to move beyond a difficult but necessary policy to slow down new operational development, in view of market volatility and uncertainties concerning regional access to capital markets. During 2008-09, the emphasis instead was upon safeguarding the interests of shareholders and focusing upon maintaining the high quality of the existing portfolio, increasing efficiencies, and consolidating activities internally. New operational approvals and commitments (signings) slowed down as a result, and the growth of the outstanding portfolio was temporarily reversed.

By way of contrast, in 2010 operational activity gathered pace. For the year, disbursements (including rollovers and renewals) increased 45 percent relative to 2009 to EUR 219 million. The overall active portfolio of operations grew to the end of 2010 by 6.7 percent to EUR 673 million, relative to 2009. It should be noted that this does not disclose fully the extent of new operational activity, since many operations initiated and developed during the year had not yet reached the stage of disbursement and implementation by year's end. Promisingly, new Board approvals in 2010 reached EUR 215 million, up 36 percent from 2009's levels, while new signings for the year were EUR 199 million, an increase of 90 percent over 2009.

The Bank also maintained its solid record of profitability for the sixth consecutive year, with income before provisions increasing by 87 percent relative to 2009 to EUR 19.1 million, and net income rising to EUR 10.7 million. This was achieved while maintaining the high quality of the operational portfolio, without any new problem projects appearing during the year.

The Bank's policy of caution and consolidation, followed by managed expansion, was vindicated in September 2010 when its credit rating by Moody's was upgraded to A3. This rating is higher than the individual sovereign rating of any of the Bank's shareholders and approximately four notches higher than the average credit rating for the Black Sea region. The upgrade will improve BSTDB's ability to borrow at more competitive rates on international capital markets, and in turn to pass on those lower costs to its regional clients, thus benefiting shareholders and enhancing the Bank's capacity to meet its mandate. Furthermore, the upgrade was particularly beneficial as it occurred against a general mood of risk aversion and lingering perceptions of uncertainty in international capital markets.

Another significant development during 2010 was the update of the Bank's Medium Term Strategy and Business Plan for the period 2011-14, which was approved by our Board of Governors in December. This document maps out the key strategic objectives and operational goals for the Bank in the coming four year period, and will be complemented by individual Country Strategies which break down operational directions and targets for each Member within the overall operating context.

The updated Medium Term Strategy and Business Plan lays out ambitious operational targets for the institution, and underscores enhancing regional cooperation to a greater extent, as well as resource mobilization with external actors (public and private) active in the Black Sea region. In terms of new priorities, its points of emphasis include (i) diversifying into new sectors and geographic areas of concentration, (ii) introducing new instruments or enhancing the use of existing ones (such as equity) in order to increase the resource mobilization capacity of clients and to meet their evolving business needs in a fast shifting operating environment, (iii) gradually shifting operational focus to more public sector and quasi-public sector activities, and (iv) promoting operations that may spur innovation and induce modernization in areas such as renewable energy and environmental efficiency and clean-up. In short, it seeks to meet the priorities of shareholders and to continue in areas where the Bank has been successful, while also improving efficiencies where needed and branching into new directions in order to meet changing client needs.

Other highlights during the year are enumerated further in the rest of this report, but of particular significance is the welcoming of two new observers to BSTDB during 2010 - the World Bank's private investment arm, the International Finance Corporation, and the French Development Finance Institution – PROPARCO. The granting of Observer Status to these two institutions brought the total number of Bank Observers to eight and is emblematic of the efforts to reach out to external entities with an interest in the Black Sea region, in order to seek ways to cooperate more closely, coordinate strategies, mobilize resources and seek new operational opportunities and other activities that promote or otherwise deliver value to the Black Sea region.

For the Bank, 2010 was the first year of its second decade of operations, during which it will seek to build upon its track record of growth, quality and sustained profitability in order to fulfill its dual mandate of promoting economic development and regional cooperation. As ever, responsiveness, thoroughness, effectiveness and high standards of quality remain key internal objectives for the institution in order to meet successfully the expectations of our member states and the requirements of our partners in development.

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

Highlights of 2010

In December 2010 BSTDB Board of Governors approved the Bank's Medium-Term Strategy and Business Plan for the period 2011-2014. The strategy sets out targets, among which the portfolio growth of outstanding operations to reach SDR 1.0 billion (appx. EUR 1.16 billion) at end-2014. BSTDB will aim to achieve a further rating upgrade by 2014 and to obtain a comparable rating from a second leading credit rating agency. The Bank will diversify sectors of operation, gradually shifting to more public sector or quasi-public sector and related cross-country activities. In addition, through its resource mobilization efforts, the Bank will introduce new financiers to the region and seek to attract a multiple of the resources it directly applies, thus improving client access to financing. The Board also decided to adopt EUR as functional and reporting currency starting with 2011.

The Bank was upgraded from Baa1 to A3 with stable outlook by Moody's Investors Service in September 2010, thus joining the group of A-rated financial institutions. The main reasons for BSTDB upgrade are the strong shareholders support and the resilience of the Bank's asset quality, liquidity and profitability despite the difficult environment in the Black Sea region during the global crisis.

The Bank's active loan portfolio of approved operations increased to EUR 1.15 billion. In 2010 the Bank has approved 23 operations for the total amount of EUR 215 million. 25 operations were signed for EUR 199 million. In line with the countercyclical role of multilateral financial institutions, BSTDB increased its exposure to Greece by almost 62% of signed operations. In 2010 the Bank realized a profit of EUR 10.7 million and income before provisions stands at EUR 19.1 million compared to EUR 10.2 million in 2009, or an increase of about 75%.

BSTDB granted Observer Status to International Finance Corporation (IFC) and PROPARCO, which brought the number of Observer institutions to eight.

In March 2010, BSTDB signed a Memorandum of Understanding with respect to a Debt Co-Financing Initiative launched by EIB, NIB and several European bilateral donors agreed to co-finance investments with the 2020 European Fund for Energy, Climate Change and Infrastructure (the "Marguerite Fund"). The Marguerite Fund is designed to contribute to the European Economic Recovery Plan which purports to finance the implementation of strategically important projects in Energy/Climate, Renewable Energies and Transport sector infrastructures.

The Bank joined a Master Cooperation Agreement led by the International Finance Corporation (IFC), which helps bridge private sector financing gaps in emerging markets by making it easier and faster for lenders to co-finance projects.

BSTDB hosted meetings of two working groups of financial institutions – members of EDFI engaged in cooperation on environmental and social issues, and development impact evaluation. BSTDB also hosted the 11th Annual International Human Resources Conference organized by AHRMIO (Association for Human Resources Management in International Organizations) in Thessaloniki.

Economic developments in the Black Sea Region during 2010[1]

Economic overview

Although the effects of the global financial crisis of September 2008 and its subsequent economic downturn lingered into 2010, the majority of the Black Sea region[2] experienced a recovery in output. Continuing a trend that began in many countries in the second half of 2009, real GDP growth in 2010 picked up pace and reached an estimated 3.8%. Most of the Black Sea region recorded positive growth, one year after having suffered sharp and sizeable contractions which had brought the previous period of robust development to a sudden halt. For the period from 2000-2008 as a whole, real GDP growth in the Black Sea region averaged 5.9% per annum, equivalent to cumulative growth of 68% in real terms. And between 2002-2008, all Black Sea countries posted positive growth, every year.

Figure 1: Black Sea Region Average Annual Real GDP Growth 2000-2010

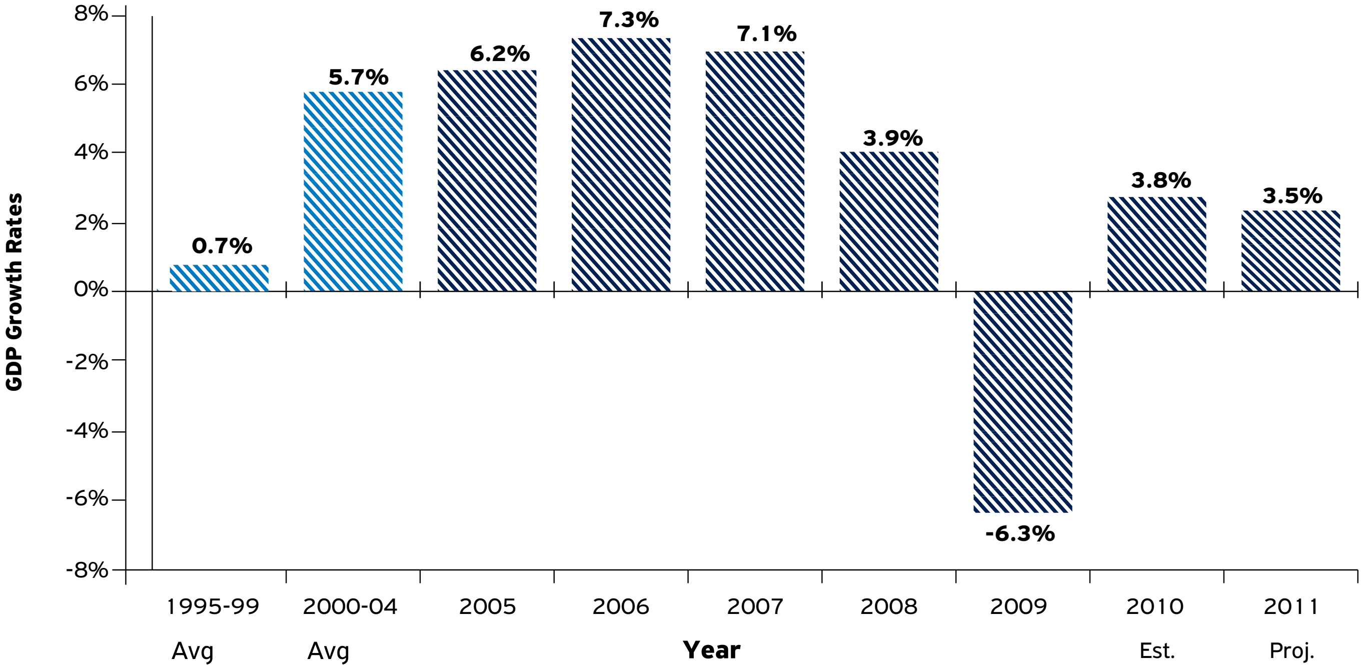


Figure 1 shows how the region recovered in 2010 after the sharp contraction in 2009, returning to positive growth- albeit at a lower level than that observed during most of the sustained period of high growth between 2000-2008. Several factors contributed to the rapid recovery. Part of the output decline in late 2008 and early 2009 was due to panic, and this resulted in overreactions with domestic demand collapsing suddenly and extensively. With stabilization of the situation, the recovery from the collapse appeared rapid as private domestic demand picked up. The same largely applies to external demand.

[1] Note on Sources: Black Sea Region data based on BSTDB calculations from National Statistical Agencies of the countries of the Black Sea Region and the International Monetary Fund IFS Database. Additional sources referred to include Global Economic Prospects 2011 of the World Bank (plus GEPs 2009 & 2010), the IMF's World Economic Outlook publications (and their updates) and the Economist Intelligence Unit. As many figures represent estimates for 2010, actual final figures may differ in detail, but the overall trends discussed in this section will not be altered.

[2] The Black Sea Region includes eleven BSTDB member countries - Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey, Ukraine, as well as Serbia (a member of BSEC).

For the region as a whole, exports declined approximately 32% in 2009 and then grew by 20% in 2010, a level about four-fifths of the peak 2008 level and on a par with 2007. A similar situation occurred with respect to imports, which shrank 34% in 2009 and then grew around 17% in 2010. This is further corroborated by the sharp drop in commodity prices that occurred as demand dropped, and then their recovery in late 2009 and throughout 2010 as demand returned. Table 1 shows a more detailed summary of key macroeconomic indicators for 2010, broken down by country.

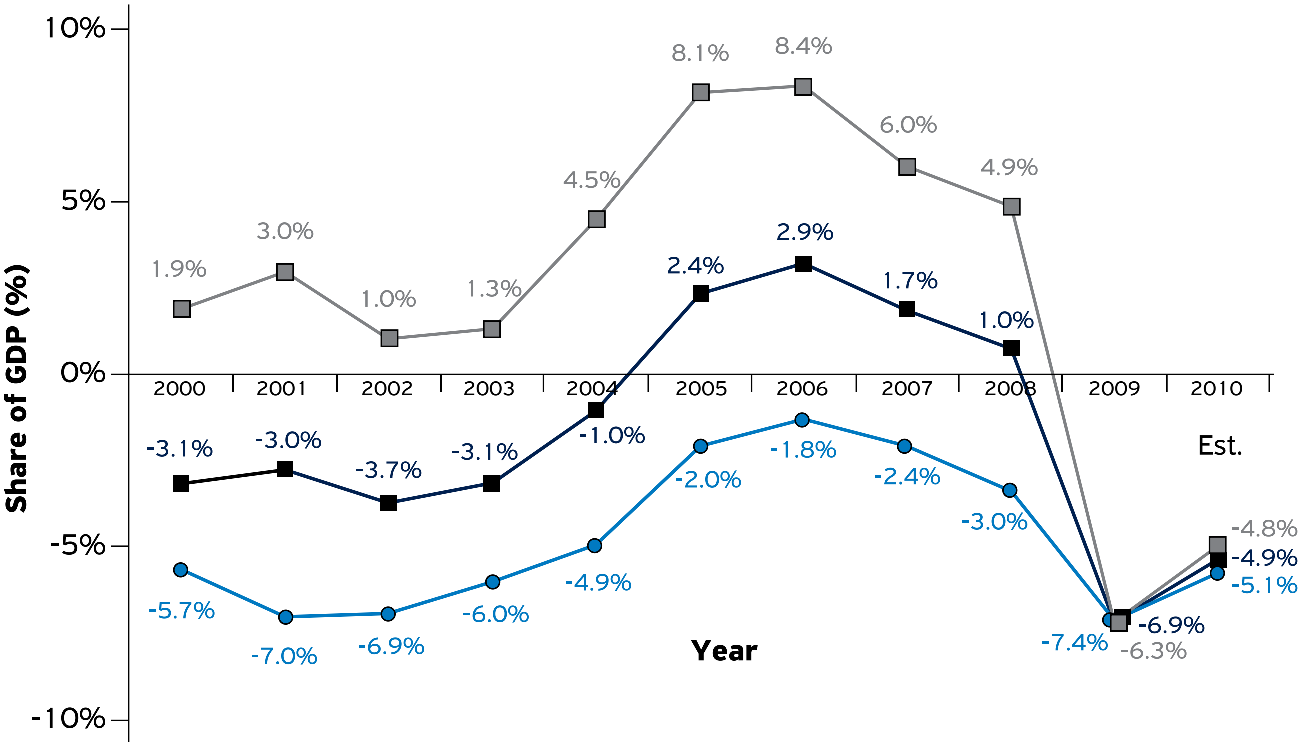
Table 1: Summary of Key Economic Indicators for 2010

	GDP Growth	Industrial Output Growth	Budget / GDP	Avg. Inflation	Credit Growth	Current Account Bal / GDP	Public Foreign Debt / GDP	FDI / GDP
Albania	3.4%	3.0%	-3.2%	3.6%	5.7%	-12.4%	62.8%	6.6%
Armenia	2.1%	9.7%	-4.9%	8.2%	44.3%	-14.0%	44.0%	6.2%
Azerbaijan	5.0%	2.6%	14.3%	5.7%	17.3%	29.5%	14.1%	1.3%
Bulgaria	0.2%	2.0%	-3.9%	3.0%	1.1%	1.0%	16.2%	4.45%
Georgia	6.4%	0.0%	-5.1%	7.1%	17.8%	-10.6%	42.0%	5.4%
Greece	- 4.5%	- 5.8%	-10.4%	4.7%	23.2%	- 6.5%	144.5%	0.8%
Moldova	6.9%	7.0%	-2.5%	7.4%	13.7%	-8.3%	31.8%	3.4%
Romania	-2.0%	5.5%	-6.5%	6.1%	11.6%	-4.2%	34.0%	2.1%
Russia	4.0%	8.2%	-3.6%	6.9%	31.9%	4.9%	9.5%	2.8%
Serbia	1.7%	2.5%	-4.1%	6.5%	32.7%	-6.5%	39.1%	3.1%
Turkey	8.9%	12.9%	-3.6%	8.6%	33.9%	-6.6%	12.1%	0.9%
Ukraine	4.2%	11.2%	-5.2%	9.4%	6.3%	-2.1%	39.3%	4.7%

Another factor behind the recovery was that the financial sector in most Black Sea countries suffered limited damage during the crisis. On the one hand, the banking sectors in most countries is relatively small, and in the past its relative underdevelopment has been viewed as a challenge for purposes of trying to mobilize greater resources for investment and growth. In the context of the crisis, the limited size of the sector meant that there was less damage to be done to the economies. On the other hand, the financial sectors were less exposed to toxic assets to begin with, and even after contagion spread, support was successfully provided by governments to the financial sector in all countries, even those which faced serious downturns and significant challenges. Despite the economic constraints, some Black Sea countries responded rapidly to the onset of financial crisis by quickly undertaking financial system support programs. These programs successfully stabilized the financial sector, restoring confidence in the system. Although non-performing loans increased and have remained stubbornly high in some financial systems, for the most part regional banks are adequately capitalized, they avoided the worst effects of the liquidity crisis.

By way of contrast, public sector demand was lower as most governments either implemented programs of fiscal retrenchment, or pulled back on fiscal stimulus programs undertaken at the peak of the crisis in order to mitigate some of the negative consequences of the economic downturn. All countries experienced fiscal deterioration in 2009. The economic downturn resulted in contraction of the revenue base of governments, as less economic activity translated into lower generation of taxes. At the same time, expenditures rose in part due to automatic mechanisms such as increased payout of unemployment benefits to compensate who lost jobs, and in part due to deliberate initiatives on the part of governments to increase spending in response to the contraction of private spending. Significantly, one factor permitting governments to undertake such fiscal stimulus programs was the fact that in most Black Sea countries public debt levels were at a very manageable level, if not actually low. This provided the necessary headroom for these governments to borrow in order to finance the spending increases.

Figure 2: Trends in Average Fiscal Deficit of The Black Sea Region as a Share of GDP



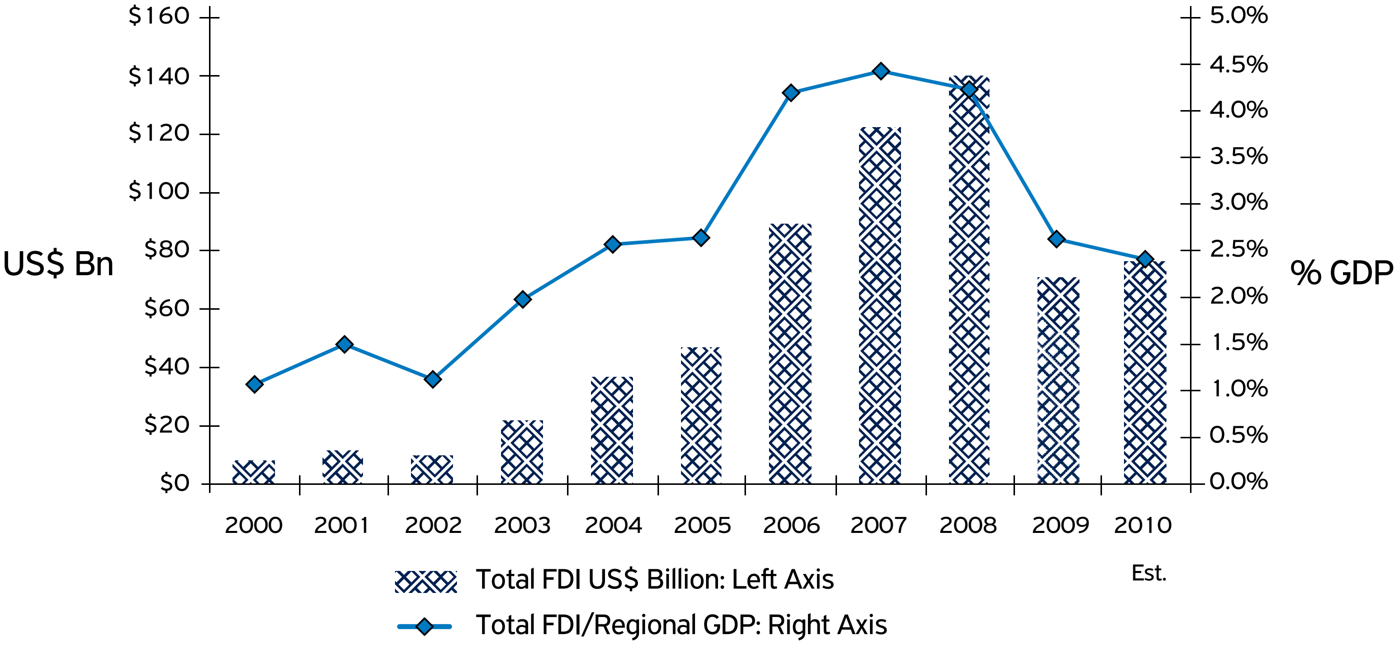
Note: Black Sea Region Average - **Black**, Russia Alone - **Gray,** Black Sea Region Minus Russia - **Blue**

With growth returning in most countries in 2010, governments sought to rein in their budget deficits and to limit further debt growth. Figure 2 shows fiscal trends in the Black Sea region, and how following the sharp deterioration 2008-09, governments began to reverse the deterioration in 2010 with an adjustment equal to two percent of GDP.

Investment was also lower, and has proven slower to recover than consumption. Public investment was more restrained in 2010 due to the rollback of the stimulus programs, but it is private investment that has been particularly slow to re-emerge from the crisis. Part of the reason for the sluggishness may be that investments take longer to plan and implement, thus if new investment plans were shelved or otherwise cancelled at the peak of the crisis, there will be a time lag before investment levels show a degree of recovery, particularly since the collapse in demand in late 2008-09 created the impression that there exists excess capacity in many economies. However, with demand rebounding, higher levels of investment will be needed in order to avoid growth bottlenecks and possible side effects such as greater inflationary pressures or diversion of demand to higher imports.

Another reason for the sluggishness is that the financial crisis is over, financial systems have survived intact and economies are recovering, but lingering effects from the crisis remain, in particular a heightened risk aversion in credit markets which translates into higher margins for borrowers but also fears that greater sensitivity to changes in conditions may result in renewed tightening or even freezing of credit markets as in late 2008. In other words, the near unthinkable happened once, and there is no reason to believe it could not happen again if triggered by some shock or other adverse event. This makes firms contemplating investment warier, reducing their propensity to invest.

Figure 3: Foreign Direct Investment in the Black Sea Region 2000-2010



This applies not only to domestic investment but also to foreign direct investment (See Figure 3). After several years of rising investment levels, including FDI above four percent of GDP for the three year period 2006-2008, FDI dropped by over 50% in 2009 relative to 2008 from USD 143 billion- or 4.3% of regional GDP- to USD 69 billion, an amount equivalent to 2.6% of regional GDP. In 2010, there was a small 8.4% increase in FDI in nominal terms to around USD 75 billion, but as a share of regional GDP, FDI fell to 2.4%, the lowest level since 2003, when the economic boom of the previous decade was still in its relatively early stages.

Developments in the Financial Sector

Although FDI was sluggish, and the situation in capital markets remains potentially volatile and vulnerable to renewed shocks, financial flows gradually picked up over the course of the year, even putting upward pressure on the exchange rates of some countries and raising renewed concerns about overheating. Similarly, the financial sectors in most Black Sea countries fared well in 2010. Banks returned to profitability for the most part, after having suffered losses in 2009. Having maintained adequate capitalization even at the peak of the crisis, they were in position to resume normal financial intermediation activities and did not need to deleverage. The relatively stable, if not healthy, state of financial systems permitted most government to reduce, or terminate, economically costly and politically unpopular bank support schemes. Lending growth resumed, albeit more prudently and at more modest rates of growth than in the last years of the boom period, during which many elements of unsustainable overheating had materialized.

Significantly, there exists a heightened awareness that excessive reliance on external capital inflows can be dangerous for local financial systems, since it increases vulnerability to external shocks or sudden changes of market mood. As a result, countries have begun to place greater emphasis on increasing the level, and improving the efficiency, of the mobilization of local capital resources. This involves increasing confidence in local banking systems and augmenting local deposits. Locally based sources of financing are generally considered more stable for the financial system in question, and less inclined to flee when signs of distress emerge (or, for that matter, pressures in the home country of a financier, which may force that financier to repatriate capital in order to meet needs at home).

As confidence increases, locally owned capital that was previously exported abroad may return, and citizens become more inclined to trust local financial institutions and to deposit their savings. Levels of dollarization- the degree to which key foreign reserve currencies such as the dollar are preferred to the domestic currency for storing value and conducting transactions in a locale- tend to decline to the benefit of the domestic currency, under such conditions. In some countries, untapped sources of financing such as remittances may also enter the financial system, thus increasing amounts available to finance investment and growth.

Thus, developing and deepening local markets will be a key policy priority in coming years. However, the development of local financial systems will take time, and the pre-crisis boom in external inflows represented a rational (if excessive) response to an important bottleneck that threatened to limit economic growth, due to the shortage of available local financial resources. Therefore, an additional challenge for governments will be to conduct monetary and fiscal policies, as well as financial regulation, in a manner which welcomes needed external capital in a manageable and sustainable manner. This will involve striking a balance that promotes investment on the one hand, while minimizing vulnerability to adverse changes in market conditions on the other hand.

Table 2 shows some key financial indicators for 2010 by country. They depict a much improved situation relative to 2009, with increased stability and a return to credit growth at more sustainable rates. Non-performing loans remain stubbornly high, and indicate that there remain lingering problems, even though they decreased in most countries during 2010.

Table 2: Main Financial Indicators for 2010

	Credit GDP	Credit Growth	Loans to Deposits Ratio	Non-Performing Loams	Solvency Ratio
Albania	70.1%	5.7%	63.8%	12.2%	16.2%
Armenia	26.3%	44.3%	135.2%	4.9%	28.4%
Azerbaijan	22.6%	17.3%	168.2%	5.4%	20.2%
Bulgaria	73.1%	1.1%	119.0%	11.9%	17.5%
Georgia	33.8%	17.8%	107.6%	12.5%	17.4%
Greece	143.3%	23.2%	118.4%	8.2%	11.7%
Moldova	35.5%	13.7%	88.8%	13.3%	30.1%
Romania	49.5%	11.6%	116.3%	11.9%	14.7%
Russia	39.3%	31.9%	95.8%	9.6%	18.4%
Turkey	49.4%	33.9%	88.5%	3.7%	19.0%
Ukraine	78.6%	6.3%	54.1%	17.0%	20.8%

In terms of the composition of the source of external capital inflows, private financing from abroad rose in 2010 relative to 2009, but remained at levels beneath those of the peak years of 2007-08. This lends further strength to the impression that recovery of flows has taken hold, but that they are likely to grow more moderately, which is more likely to prove viable and stable in coming years.

Private inflows far exceeded the levels of official financing provided by the IMF, international financial institutions and donors. As a result, the share of official financing dropped to below five percent of the total, after having spiked in 2009 in response to the freezing of capital markets. Official financiers had mobilized in order to offer counter-cyclical financing to governments and business encountering stress as a result of the 2008 financial crisis, in an effort to mitigate some of the negative effects of the economic downturn (in combination with the aforementioned local fiscal stimulus programs in many countries). In 2010, official financing to most countries declined as emergency programs drew to a close and the need for such financing declined.

Business Environment Developments

The sluggish outturn with respect to FDI in the Black Sea region (Figure 3 on pg. 14) was representative of a general mixed picture with respect to FDI globally. FDI is important, as it represents an easily measurable indicator of (i) attractiveness of a country or region for foreign firms and (ii) how well the investment environment of a country or region is perceived. It is also considered the most stable form of inflow from abroad, since it finances real investment in the economy and is thus far less liquid than other inflows (into capital markets, for example) which can reverse rapidly with a shift in sentiment.

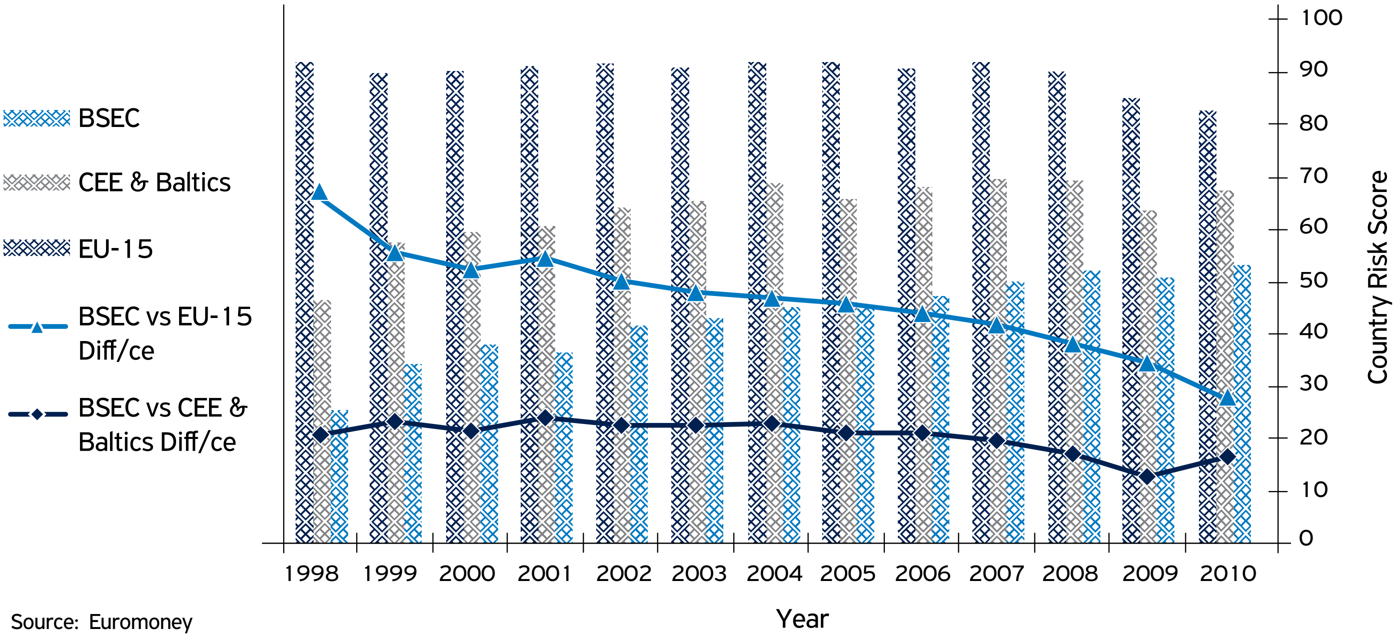
Global FDI into Emerging Markets declined by 36.7% in 2009 relative to 2008, before recovering somewhat and growing 8.7% in 2010[3]. FDI in the Black Sea region moved in a similar manner, albeit with a more pronounced drop in 2009. It also resembled the pattern observed for the Central European and Baltic countries[4] that joined the EU in 2004 (collectively 'CEE & Baltics'). These former transition countries are frequently compared to the Black Sea region since they are more advanced economically and are considered to have 'transitioned' more quickly. The CEE & Baltics also experienced a drop in FDI of over 50% in 2009 relative to 2008, followed by a slightly larger recovery in 2010 on the order of 22%, but still well below the levels achieved in the years prior to the 2008 crisis. As a share of GDP, FDI into the CEE & Baltics reached 2.3%, very close to the 2.4% of GDP observed for the Black Sea region.

FDI levels have stabilized and even begun a recovery in the Black Sea region after the sharp drop in 2009, and they are at a level- relative to the size of the economy- observed during the 2003-2005 period when the economic boom was picking up (and well above the one percent of GDP levels characteristic of the years prior to 2003). Lingering risk aversion in global credit markets, the Eurozone debt crisis and the slow recovery of European Union (EU) countries from the 2008 crisis negatively affects the amount of FDI into the Black Sea region, since the EU remains the largest trade partner and source of financing and investment for the Black Sea countries. At the same time, better economic growth prospects in the Black Sea region and the expectation of higher returns, together with low global interest rates and ample global liquidity, should improve the attractiveness of the region for external investors.

While the situation with FDI shows recovery but remains mixed, other measures of business environment demonstrate a more consistently favorable direction for the Black Sea region. Country risk is an especially useful measure of the business environment, since it assesses the likelihood of a non-business event occurring, or a non-business related situation transpiring, which would threaten (i) normal operation of a company (ii) the value of assets, and/or (iii) the profitability of loans and investments. Declining country risk is directly correlated to an improving business environment.

[3] From the International Institute of Finance, Capital Flows to Emerging Market Economies, 24 January 2011.
[4] Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia.

Figure 4: Trends in Regional Euromoney Country Risk Scores & Relative Differences



Source: Euromoney

For example, the Black Sea region continued its positive trend in Euromoney's Magazine's periodic Country Risk surveys[5]. Figure 4 shows collective country risk scores for the Black Sea region, the CEE & Baltic states, and the 15 EU members (prior to the expansion of 2004). Since the 1998 Russian financial crisis, the Black Sea region has steadily improved its measures of country risk[6]. The improvement is observable both in absolute terms, as the score has more than doubled from 25.6 in 1998 to 52.6 in 2010, but also, significantly, in relative terms. The difference between the Black Sea region and the EU 15 has steadily declined from 67.8 in 1998, to 28.5 in 2010. This improvement partly reflects a decline in the score of the EU 15 as a result of the Eurozone crisis. However, for the most part it underscores the significant and sustained improvement of the Black Sea region. Relative to the CEE & Baltics the difference over this period has improved from 20.6 to 14.8, a reflection of the smaller difference to begin with between the Black Sea and CEE & Baltic regions, as well as the fact that CEE & Baltics have substantially improved over this period as well, albeit less impressively than the Black Sea.

Other measures of business environment or country risk proxies include Transparency International's *Corruption Perceptions Index*, EBRD's *Transition Indicator Scores*, and the World Bank's *Doing Business Report*, and the World Economic Forum's *Financial Development Report* and *Global Competitiveness Report*. Most of these reports also show improvement over time in the business environment of the countries of the Black Sea region, even if progress from year to year is sometimes uneven as countries undertaking intensive reforms improve abruptly in relative terms to other countries.

[5] Euromoney's Country Risk survey is a comprehensive index, covering nine categories. Figure 4 provides simplified regional representations based only on arithmetic averages. They are not weighted to account for the relative size of economies other factors. The figure was prepared for illustrative purposes, and shows the evolution of country risk scores over time. For the bars, an increase in score means an improvement (e.g. lowering) of country risk, with 100 representing the maximum (e.g. lowest risk) score. For the lines, a declining trend indicates decreasing differences in country risk scores between the regions being compared (e.g. convergence of scores and country risk levels).

[6] Country risk is defined as the weighted sum of (i) macroeconomic performance and stability, (ii) security, political and social stability, (iii) perceptions of public and private governance including implementation capacity, transparency, and corruption, (iv) quality and clarity of a country's legal and tax frameworks and the quality of their implementation, (v) and overall the ability of economic entities to operate smoothly.

Table 3: Sovereign Credit Ratings Comparison 1999 vs. 2010

	December 1999			December 2010		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch
Albania	-	-	-	B1	B+	-
Armenia	-	-	-	Ba2	-	BB-
Azerbaijan	-	-	-	Ba1	BB+	BBB-
Bulgaria	B2	B	B+	Baa3	BBB	BBB-
Georgia	-	-	-	-	B+	B+
Greece	A2	A-	BBB+	Ba1	BB+	BBB-
Moldova	B2	-	B-	B3	-	-
Romania	B3	B-	B-	Baa3	BB+	BB+
Russia	Ca	SD	CCC	Baa1	BBB	BBB
Turkey	B1	B	B+	Ba2	BB	BB+
Ukraine	B3	-	-	B2	B+	B

The positive trends in the business environment may also be seen in the region's sovereign credit ratings (See Table 3) [7] . Every country has 'entered the market' and received sovereign ratings, an indication of growing maturity and economic progress since such ratings facilitate their ability to raise funds on international capital markets and help to set benchmarks, which in turn facilitates the greater development of domestic financial markets. Moreover, despite a series of downgrades in the aftermath of the financial crisis and economic downturn, caused by negative perceptions as to their impact, a number of countries obtained upgrades during 2010. In view of the positive growth prospects and low debt levels characteristic of most countries, several also have a positive outlook attached to their current rating, meaning that they are in line for a further upgrade in the near future. As at end 2010, the Black Sea region has five countries rated investment grade, while at the end of 1999 it only had one.

External Trade

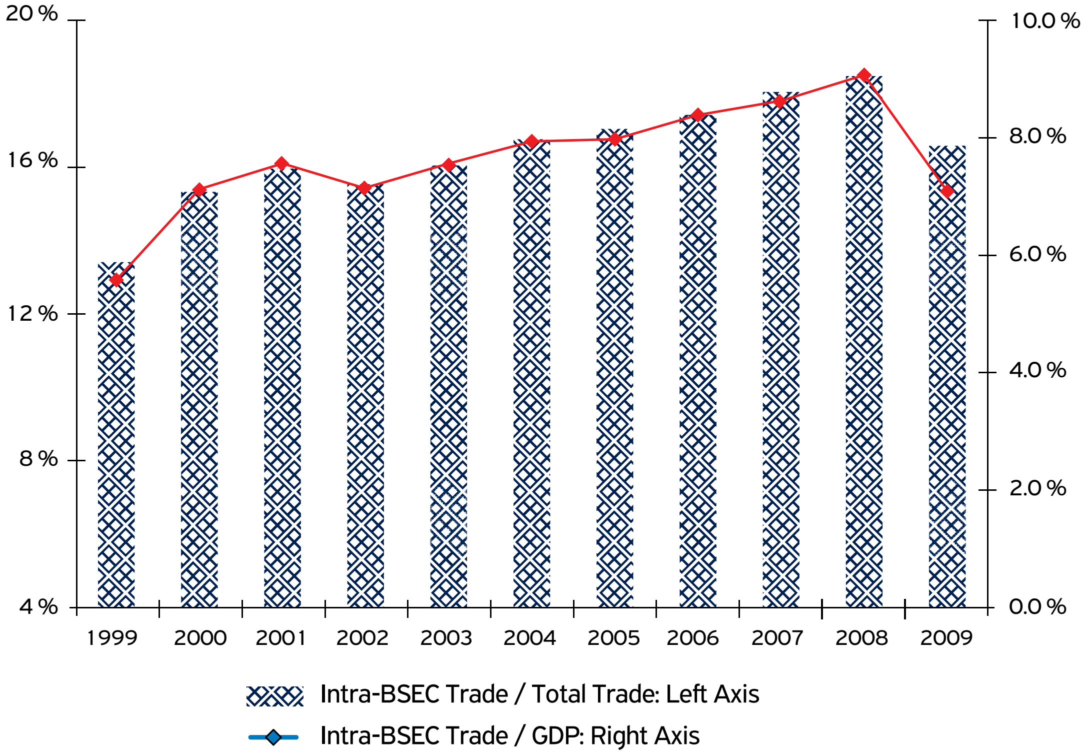
Regional trade outturns for 2010 confirm that trade flows began to recover in 2010 after the precipitous decline suffered in 2009 in the aftermath of the global financial crisis and the subsequent economic downturn that hit Eastern Europe. BSEC countries' international trade turnover increased 19% in 2010 relative to 2009, after dropping 33% in 2009 relative to the peak year of 2008. Export growth, at 20.2%, was slightly higher than the estimated import growth of 17.5%. Total BSEC exports (USD 680 billion) and imports (USD 639 billion) for 2010 were well below the figures reached in 2008 (USD 830 billion & USD 827 billion respectively) but were very comparable to the trade figures for 2007. Interestingly, total trade in 2007 amounted to USD 1,301 billion while in 2010 it reached an estimated USD 1,320 billion. This pattern was observed for most BSEC countries individually.

As a share of GDP, the results are slightly more muted, but also show a degree of recovery after the contraction of 2009. Throughout the 2000s, BSEC external trade flows grew even faster than the fast growing economies of the region as many countries emerged from relative isolation and increased ties into the global economy. Thus, external trade turnover followed an upward trajectory, rising to as much as 49.8% of GDP in 2008. With the sharp fall in international trade that bottomed out in the second quarter of 2009, external trade fell sharply, to 42.3% of GDP, the lowest level of observed since 1999's 41.4% in the aftermath of the 1998 Russian financial crisis. Recovery in 2010 was slight, in this respect, as external trade turnover as a share of GDP rose more modestly to 43.1%. At a minimum, this suggests that decline in trade was a major factor behind the economic contraction of 2009, it has not yet fully recovered to peak pre-crisis levels, and that for 2010 external trade was a smaller 'engine of growth' in terms of its contribution to the economy.

[7] Long term sovereign credit ratings, which measure creditworthiness, are a useful proxy for business environment despite (i) the criticism under which they have come as a result of the global crisis, and (ii) their downward bias for emerging markets. They are easy to recognize and compare, and measure elements relating to country risk. Investment grade refers to a sovereign credit rating of Baa3 or better according to Moody's, and BBB- or better according to Standard & Poor's and Fitch.

In terms of intra-regional trade within the Black Sea, similar trends have been observed, but on a slightly more pronounced basis . Thus, intra-regional trade in BSEC peaked in 2008, but fell an even more precipitous 40% in 2009, versus the 33% overall drop. As a share of GDP, intra-BSEC trade slipped from 9.1% of GDP to 7.0%, a figure reminiscent of intra-regional trade levels in the first half of the 2000s. Figure 5 shows the evolution of intra-regional trade flows over the years and also shows how intra-regional trade as a share of total trade grew steadily from 1999-2008 before slipping in 2009. The observed recovery in overall external trade flows on the one hand, and in GDP growth on the other hand, suggests that the intra-regional trade flows and shares will show improvement in 2010. However, the greater volatility of these flows suggests that the intra-regional trade ties remain less fully developed or institutionalized than those with other trade partners of countries of the region, and that there exists ample room for growth.

Figure 5: Intra-Regional Trade Flows in the Black Sea Region 1999 – 2009



This in turn, corroborates the view that there is much untapped potential for further development of regional trade and investment, in order for countries to pursue higher growth, to achieve sustainable mutual gains, and to improve their competitiveness. A renewed focus on finding and taking advantage of regionally based opportunities could help Black Sea countries to boost their growth in coming years above the trajectory of 3-4% which appears likeliest at present. While the growth may not be on the order of the levels achieved during the boom period, it would likely be more sustainable, as it would be based on local considerations and less vulnerable to exogenous shifts of sentiment, such as those which left countries dependent upon continued external financing exposed at the onset of crisis in 2008.

[8] Overall export and import estimates for 2010 were available at the time of publication for BSEC countries, but due to measurement lags, full figures for 2010 were not available for the individual country breakdown. Therefore only figures up to 2009 are discussed for the Region, and shown in the figure.

BSTDB in the Black Sea Region

Activities and Achievements

Summary of Performance under Medium-term Strategy and Business Plan 2007-2010

BSTDB has completed eleven years of operations during which it has achieved financial sustainability and a high quality portfolio. It has to a large degree met shareholder expectations and enjoys their strong support. This was reinforced in 2008, when the Board of Governors authorized a three fold increase in the authorized capital, and a doubling of the subscribed capital to SDR 2 billion [9] , which was subscribed by, and allocated to, Founding Members. The Bank's investment grade risk rating from Moody's was upgraded to A3 in September 2010. In short, the Bank has successfully proven the validity of the concept of a regional development finance institution in the Black Sea region which supports cooperation among and economic progress in the Founding Member States.

In June 2009, the Bank's Board of Governors approved the Long Term Strategic Framework – "The Next Ten Years" which laid out the Bank's vision and strategic objectives and provided general direction for the institution.

The long-term vision of the BSTDB is that: "By 2020, the BSTDB intends to be recognized globally, and by its shareholders in particular, as one of the prominent development finance institutions for the Black Sea region, providing well-focused development assistance and solutions. Thus, BSTDB would become a preferred partner in the region for clients, multilateral and bilateral donors and other partners in development."

Portfolio Quality

The Bank has build up a portfolio of good quality assets and viable projects, mainly comprised of short-term revolving facilities and medium to long term project and corporate finance loans, complemented by occasional equity investments and guarantee products. This asset strategy provides a flexible approach to market conditions using relatively moderate levels of exposure concentration, while at the same time helping the Bank to generate sufficient cash-flow to cover expenditures, maintain quality and expand the asset portfolio.

The Bank maintains a strong asset quality following a careful due diligence process and strict monitoring procedures. As of 31 December 2010, the Bank had only one fully provisioned loan classified as non-performing.

The Bank seeks to ensure that at all times its operations are well balanced among member countries, well diversified in terms of products and maturity, and tailored to meet specific country needs.

[8] 1 SDR = USD 1.55 = EUR 1.16 (December 2010)

Co-Financing

The Bank values its cooperation with other financiers in mobilising investment in the Black Sea region and realising cross-country operations. Such operations possess high shareholder value for the Bank and are therefore priority activities.

In the course of 2010, 63% of signed portfolio was co-financing. In terms of total signed active portfolio[10] in the amount of EUR 1 billion, 42% of operations are co-financing. The share of co-financed active operations to total active outstanding portfolio is 47%.

In 2010 the bank co-financed the following operations:

1 Istanbul Sabiha Gokcen Airport in Turkey with EUR 29 million for a total amount of EUR 336 million with ABN AMRO Bank and Yapi ve Kredi Bankasi A.S.

2 Suvorovo Wind Farm in Bulgaria with EUR 11 million for a total amount of EUR 108.5 million with EBRD and equity holders.

3 Pulkovo Airport in Russia with EUR 15 million for a total amount of EUR 1.193 billion with EBRD, IFC, Vnesheconombank, Eurasian Development Bank, Nordic Investment Bank, other Commercial Banks and equity holders.

4 Kaluga Industrial Park in Russia with EUR 6.75 million for a total amount of EUR 22.49 million with EBRD.

5 Emerging Europe Accession Fund in Albania, Bulgaria, Moldova, Romania, Turkey and Ukraine with EUR 7 million for a total amount of EUR 94 million with AXXESS CAPITAL N.V and EBRD.

6 Hygeia Tirana Hospital in Albania with EUR 10 million for a total amount of EUR 63.8 million with EBRD and Equity and Sponsor Subordinated Debt.

7 Alternatifbank in Turkey with EUR 22.6 million for a total amount of EUR 79.1 with IFC and FMO.

[10] The active operations in the Bank's portfolio are those currently in any of the phases from Board approval to full repayment (approved, signed, disbursed and in repayment).

Special Funds

The Bank administers a Special Fund (the Hellenic Fund) established in July 2001 by a Contribution Agreement between the Government of the Hellenic Republic and BSTDB. The Fund was instituted with an initial amount of EUR 800,000 and was replenished with EUR 500,000 in 2003. The Fund is tied to consulting companies based in Greece. However, up to 25% of an assignment cost may be allocated to consultants who are nationals of the Bank's other member countries. Altogether, the Hellenic Fund has allocated around EUR 958,000 to consulting assignments since inception and out of this amount EUR 887,000 were in fact disbursed. The sectors benefiting from these funds have included manufacturing, telecoms, oil & gas, transportation, agribusiness and banking. These funds were distributed among nine Member States - Albania, Armenia, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, and Ukraine.

The Bank also administers a Technical Cooperation Special Fund (the "Fund") established with the Development Bank of Austria (the "OeEB"). The OeEB contributed to the Fund an initial amount of EUR 500,000 provided by the Government of Austria as Official Development Assistance (ODA). The Fund is an untied facility offering financing for a wide range of technical assistance services related to project preparation and training needs of BSTDB clients in the countries of the Black Sea region. The Fund represents the first financial facility of this kind provided to BSTDB by a non-regional institution. All BSTDB member countries are eligible, except for Bulgaria, Greece, Romania and Russia. In 2010, the Fund has financed due diligence in the health and energy sectors as well as training programs of BSTDB Financial Intermediaries, for a total amount of EUR 137,986 in Albania, Armenia and Georgia.

Selected BSTDB Financings in 2010

Tirana Hospital Project, Albania

BSTDB provided long term EUR 10 million debt financing to Hygeia Hospital Tirana ShA (Albania) a member of Hygeia Group (Greece), for partially financing the construction and start up operating costs of a private hospital in Tirana.

Hygeia Hospital Tirana ShA is a subsidiary company of the Hygeia Group, Greece. The Hygeia Group was established in 1970 and at present is the leader in the healthcare sector in Greece and one of the largest private providers of health care services in the Eastern Europe.

Total project costs are EUR 63.8 million, co-financed with the EBRD (also EUR 10 million). The financial and market due diligence report for the Project was financed by the Technical Cooperation Special Fund provided by the BSTDB Observer institution - Development Bank of Austria (the "OeEB") and administered by the BSTDB.

BSTDB Amount:	EUR 10 million
Type of financing:	Corporate Loan
Maturity:	10 years

Environment Protection

BSTDB is committed to promoting environmentally sound and sustainable development in all its financing activities, therefore all its operations are required to be at a minimum environmentally neutral. The Bank favors operations with strong environmental impact, which apply cleaner technologies and energy efficiency, the use of renewable sources, waste reduction and resource recovery and recycling. Thus, the Bank seeks to ensure that all the potential environmental risks arising from any given operation are properly identified, assessed and mitigated. Environmental implications are analyzed and efficient mitigation measures are proposed in the overall decision-making process for each of the Bank's commitments. For on-going operations the Bank closely monitors the environmental aspects of its financing.

In undertaking its environmental mandate the Bank is guided by its Environmental Policy and Environmental Assessment Procedures document. Assessment of the environmental acceptability of proposed transactions together with the environmental performance of the potential Clients is carried out in line with these procedures, as well as relevant best practices applied by other IFIs. All operations that pass the Banks Concept Clearance stage are subject to Environmental Assessment. In the case of environmentally complex operations, which require an Environmental Impact Assessment for instance, or an Environmental Audit, the Bank commissions relevant studies. These studies focus on both the environmental acceptability of the project and the environmental performance of the potential borrower. Public consultations are also considered if the operation is a source of contention locally.

The Bank closely cooperates with its counterparts elsewhere with a view to harmonizing environmental requirements applied by IFIs to their financing. To emphasize its commitment to this harmonization process the Bank actively participates in a number of working groups such as the Multilateral Financial Institutions (MFI) Working Group on Environment and the European Development Financial Institutions (EDFI) Working Group on Environment and Social matters. In relation to the latter BSTDB hosted in September 2010 the meetings of the two EDFI working groups on Environmental and Social Issues, and Development Impact Evaluation which aimed at fostering co-operation among its members and strengthening links with institutions of the European Union.

Selected BSTDB Financings in 2010

Suvorovo Wind Farm Project, Bulgaria

BSTDB provided a long term loan to Eolica Bulgaria AD for the construction and operation of a 60MW wind farm located in the municipality of Suvorovo in north-eastern Bulgaria. The project represents a total investment of EUR 103 million, jointly provided by EBRD and BSTDB (A-loans), as well as commercial banks (B-loans).

The project is supported by a reputable sponsor, Grupo Impresarial Enhol, S.L., which has a solid track record in development and operation of the wind farms in Europe.
The project is expected to have a long-term positive environmental impact, as it will reduce the CO2 emissions and will contribute to the expansion of renewable energy markets in Bulgaria and assist the country in achieving its target of sourcing 16% of its electricity consumed from renewable sources by 2020.

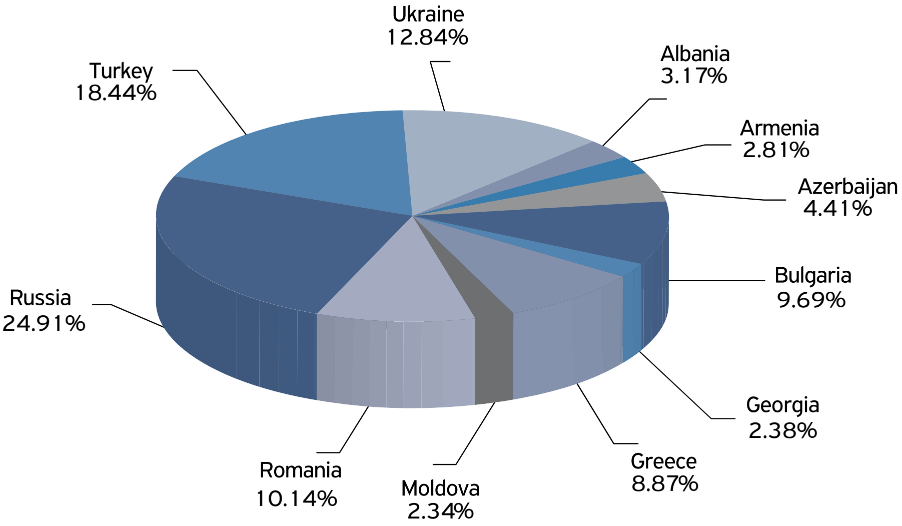
BSTDB Amount:	EUR 11 million
Type of financing:	Term Loan
Maturity:	16 years

Portfolio Description

Since the beginning of operations in June 1999 until end-2010, the Bank has approved 225 operations amounting to EUR 2.18 billion, distributed as follows: 9 in Albania, 13 in Armenia, 20 in Azerbaijan, 23 in Bulgaria, 15 in Georgia, 12 in Greece, 14 in Moldova, 22 in Romania, 49 in Russia, 24 in Turkey, and 24 in Ukraine. During the same period of time, 192 operations amounting to EUR 1.7 billion were signed.

The cumulatively approved operations, by country, sector of economic activity, and product type are graphically exemplified by the following structure:

BOARD APPROVED OPERATIONS 1999-2010 / BY COUNTRY



Source: BSTDB

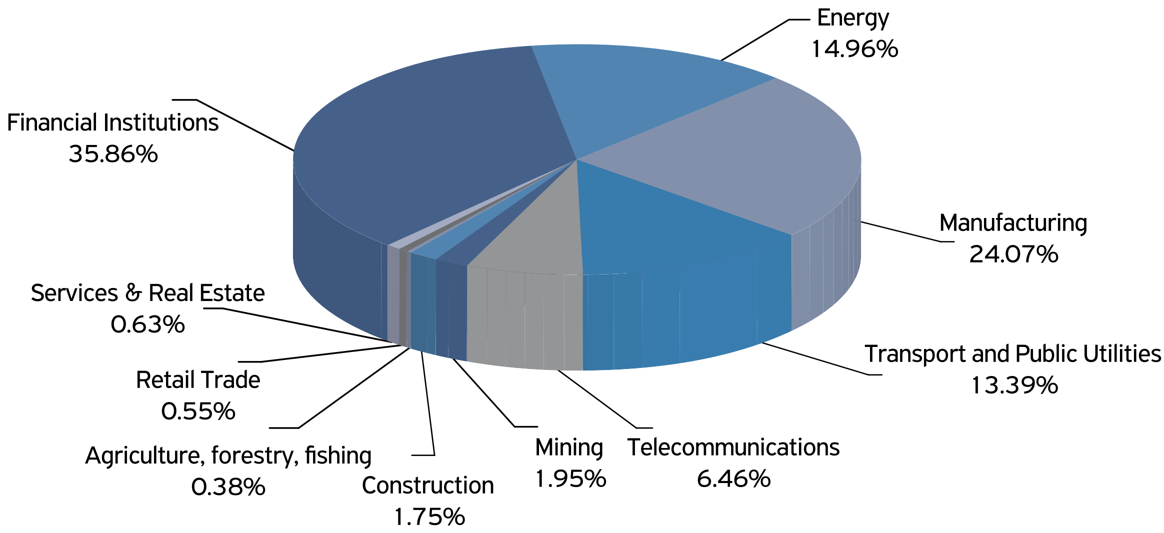
Selected BSTDB Financings in 2010

Bridge Plaza Project, Azerbaijan

BSTDB provided a mid-term loan to Azservis LLC, a private Azeri company, for completion of construction of Bridge Plaza office building in Baku and for refinancing of its existing short term loans. BSTDB financing of USD 4.5 million supported client's efforts to finalize the 14-storey A-class office building in a prime location in Baku. BSTDB support contributed to direct and indirect job creation, and to the development of real estate sector in Azerbaijan. Client's existing business relationship with PASHA Bank OJSC was further consolidated, as PASHA Bank guaranteed the BSTDB loan. Bridge Plaza operates successfully with a high occupancy rate.

Total Project Cost:	USD 20 million
BSTDB Loan:	USD 4.5 million
Maturity:	5 years

BOARD APPROVED OPERATIONS 1999-2010 / BY SECTOR



Source: BSTDB

Selected BSTDB Financings in 2010

Kaluga Industrial Park Project, Russia

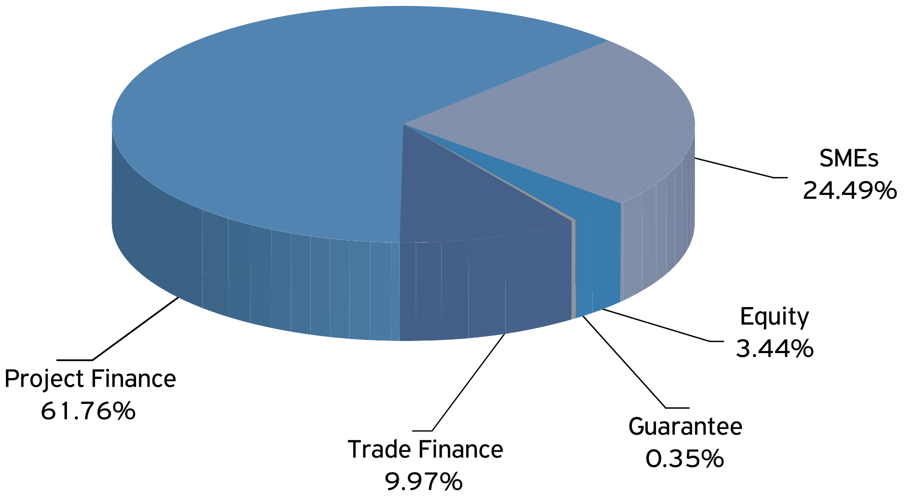
Provision of senior debt and equity financing to "A-Park", a project company established for the purpose of construction and operation of an international standard warehouse and office complex in Kaluga region, Russia.

The borrower is owned by a group of Russian private real estate developers, as well as Kaluga regional government, the EBRD & BSTDB.

The operation promotes cooperation between BSTDB countries, as it is designed to improve warehousing and handling infrastructure that supports trade and increases commercial activities between these countries. It is also expected to contribute to competition on the commercial real estate market, bringing benefits to the clients and creating new jobs.

Total Project Cost:	EUR 22.5 million
BSTDB Financing:	EUR 8.55 million, including
(a) Senior Loan:	EUR 6.75 million
(b) Equity:	EUR 1.8 million

BOARD APPROVED OPERATIONS 1999-2010 / BY PRODUCT



Source: BSTDB

Selected BSTDB Financings in 2010

Pulkovo airport project, Russia

BSTDB provided a project finance loan of EUR 15 million to The Northern Capital Gateway LLC for financing of costs related to expansion, operation and maintenance of Pulkovo Airport in St. Petersburg, Russia. The operation is the first Russian PPP (public-private partnership) project.
The Northern Capital Gateway LLC is a limited liability company representing the winning consortium “Northern Gateway consortium” for the construction, operation and maintenance of the Pulkovo Airport.

The operation will have a strong developmental impact and will result in construction of a new terminal building, which will serve both domestic and international passengers. It is expected to improve reliability of air traffic in St. Petersburg region and adjacent areas serviced by Pulkovo hub, facilitate creation of new jobs as well as transfer of advanced technologies.

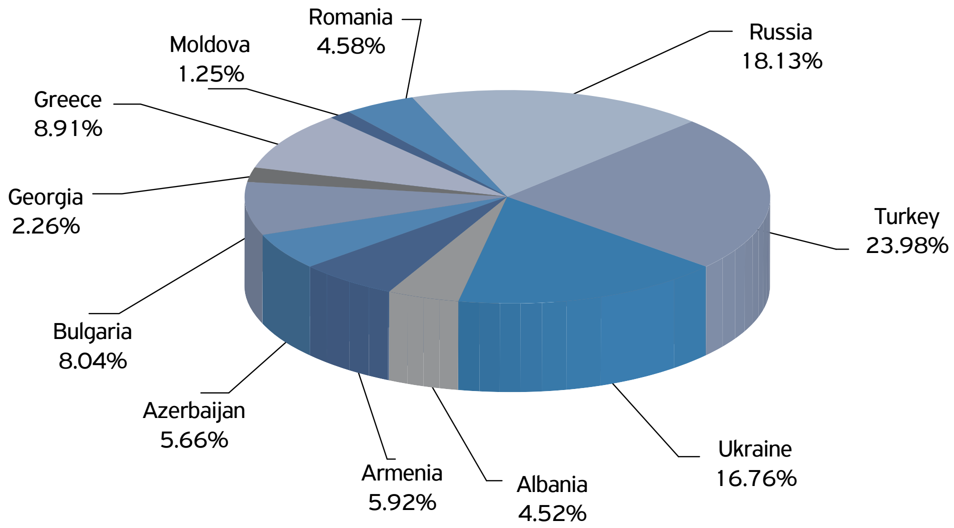
Total project costs are estimated at EUR 1.193 billion, and this transaction is co-financed with the EBRD, the IFC, Eurasian Development Bank, Nordic Investment Bank, VEB of Russia, as well as a number of major commercial banks.

The Pulkovo Airport development project was awarded with the highest prizes of the Infrastructure Investor journal in two nominations – International PPP Deal of the Year and European PPP Deal of the Year.

BSTDB Amount:	EUR 15 million
Type of financing:	Project Finance Loan
Maturity:	15 years

Outstanding and monitored in the active portfolio of the Bank are 89 operations for a total amount of EUR 673 million.

OPERATIONS OUTSTANDING BY COUNTRY



Source: BSTDB

Selected BSTDB Financings in 2010

Alternatifbank Subordinated Loan, Turkey

BSTDB co-financed together with IFC and FMO a portion of subordinated loan of total amount of USD 105 million to Alternatifbank. This financing qualifies as Tier II capital of Alternatifbank and supports its growth strategy focusing on small and medium sized enterprise (SME) segment.

One of the BSTDB key objectives is support of SME development. This sector is crucial for development of a vibrant private economy. In order to achieve this objective, BSTDB makes financing available to SMEs through a range of intermediaries. The Bank aims to be simultaneously additional and complementary to other financiers, in order to maximize the development impact of its operations.

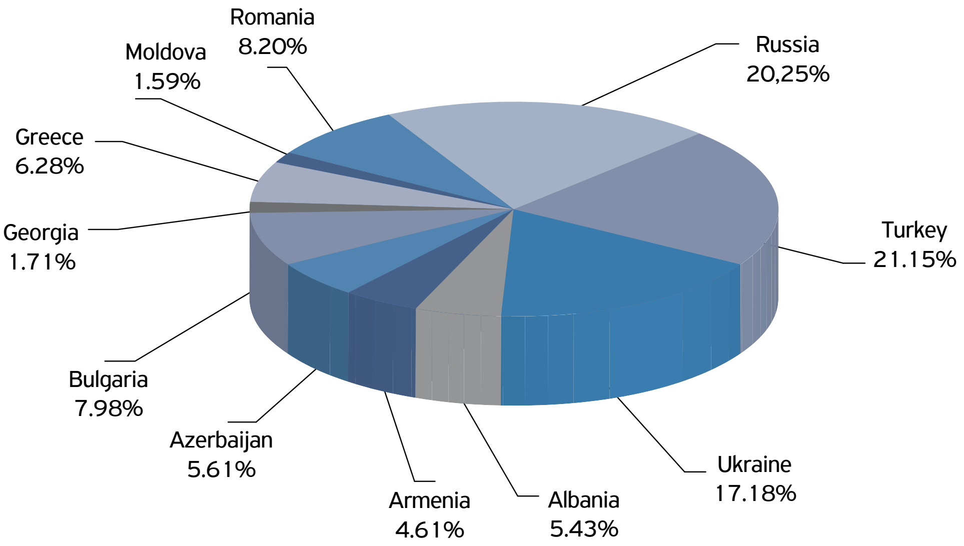
Providing financing alongside with other multilateral development finance institutions through selected capable financial intermediaries improves the outreach capability of the Bank together with its effectiveness.

This operation is the first BSTDB subordinated loan in Turkey and the first operation co-financed by the IFC within the framework of the Master Cooperation Agreement, signed in 2010.

Total Project Cost:	**USD 105 million**
BSTDB Loan:	**USD 30 million**
Maturity:	**10 years**

At the end of 2010, the Bank's active portfolio had the following structure:

BOARD APPROVED OPERATIONS / BY COUNTRY



Source: BSTDB

Selected BSTDB Financings in 2010

Emerging Europe Accession Fund

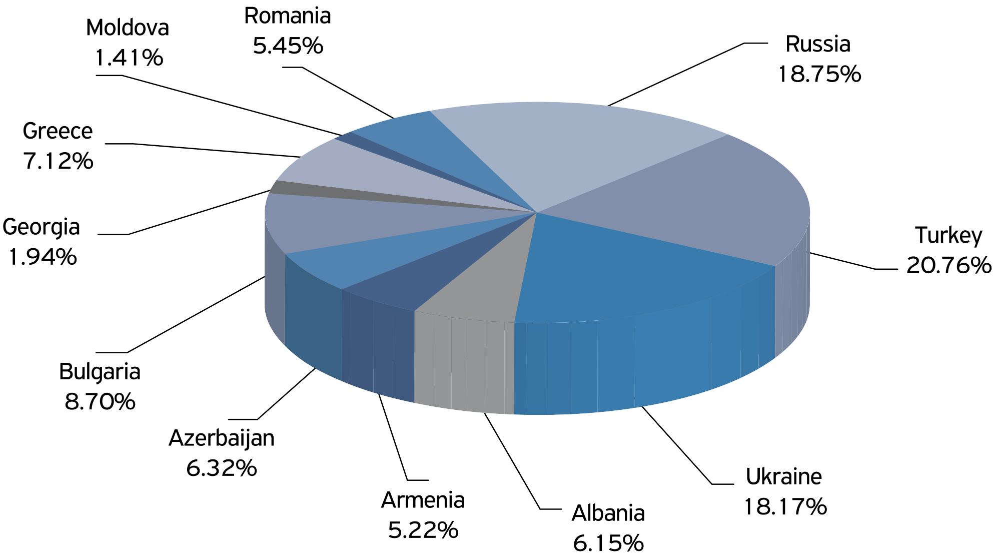
BSTDB has committed to provide an equity investment of EUR 7 million into a new private equity fund, Emerging Europe Accession Fund, which has had its First Closing on 30 September 2010 and has raised EUR 94 million commitments from initial investors. The Fund's targeted capitalization is EUR 150 million.

Emerging Europe Accession Fund is a follow up of the Balkan Accession Fund and is managed by the same manager, Axxess Capital. The Fund will be investing into mania, Bulgaria, Turkey, Moldova, Albania and Ukraine. It will target equity and quasi-equity investments into lower mid-market companies enjoying competitive advantages and good growth prospects in to B2B services, manufacturing, logistics and distribution, financial services, healthcare, IT&C.

Through this investment the Bank contributes to the development of capital market for the small and medium sized companies in the region and supports SMEs in getting access to financial resources to finance their development and growth. The Fund will be helping the beneficiaries to adopt the best business and corporate governance practices and increase the value of the businesses.

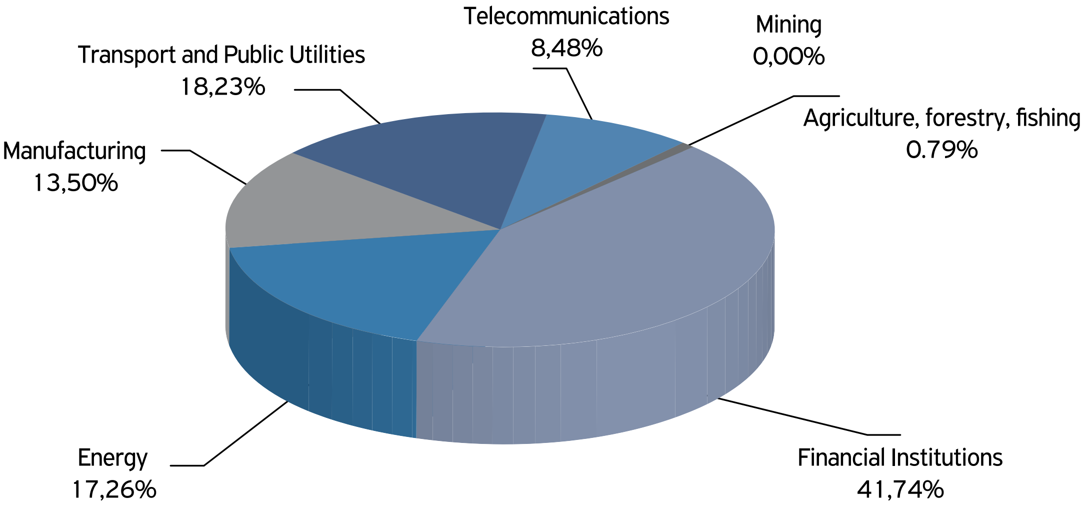
BSTDB Amount:	EUR 7 million
Type of facility	Equity

SIGNED OPERATIONS / BY COUNTRY



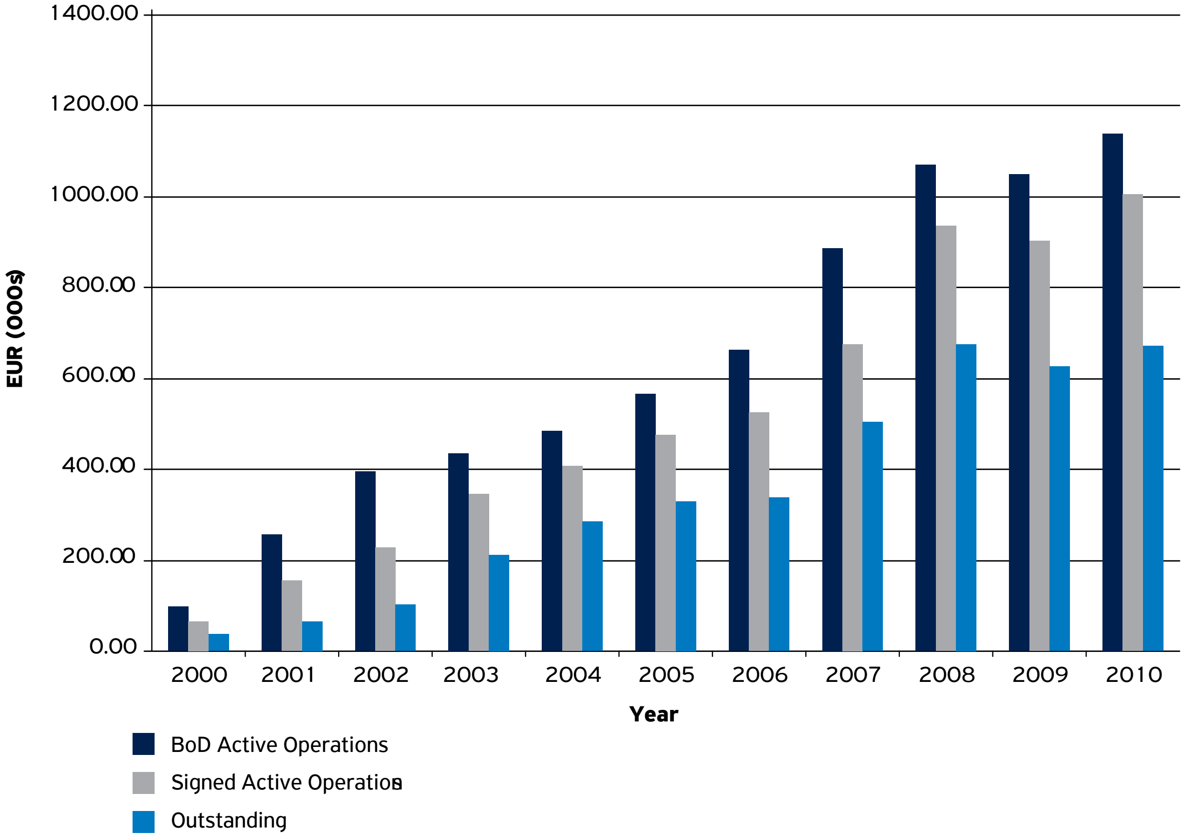
Source: BSTDB

SIGNED OPERATIONS / BY SECTOR



Source: BSTDB

BSTDB PORTFOLIO DEVELOPMENT 2000 - 2010



Source: BSTDB

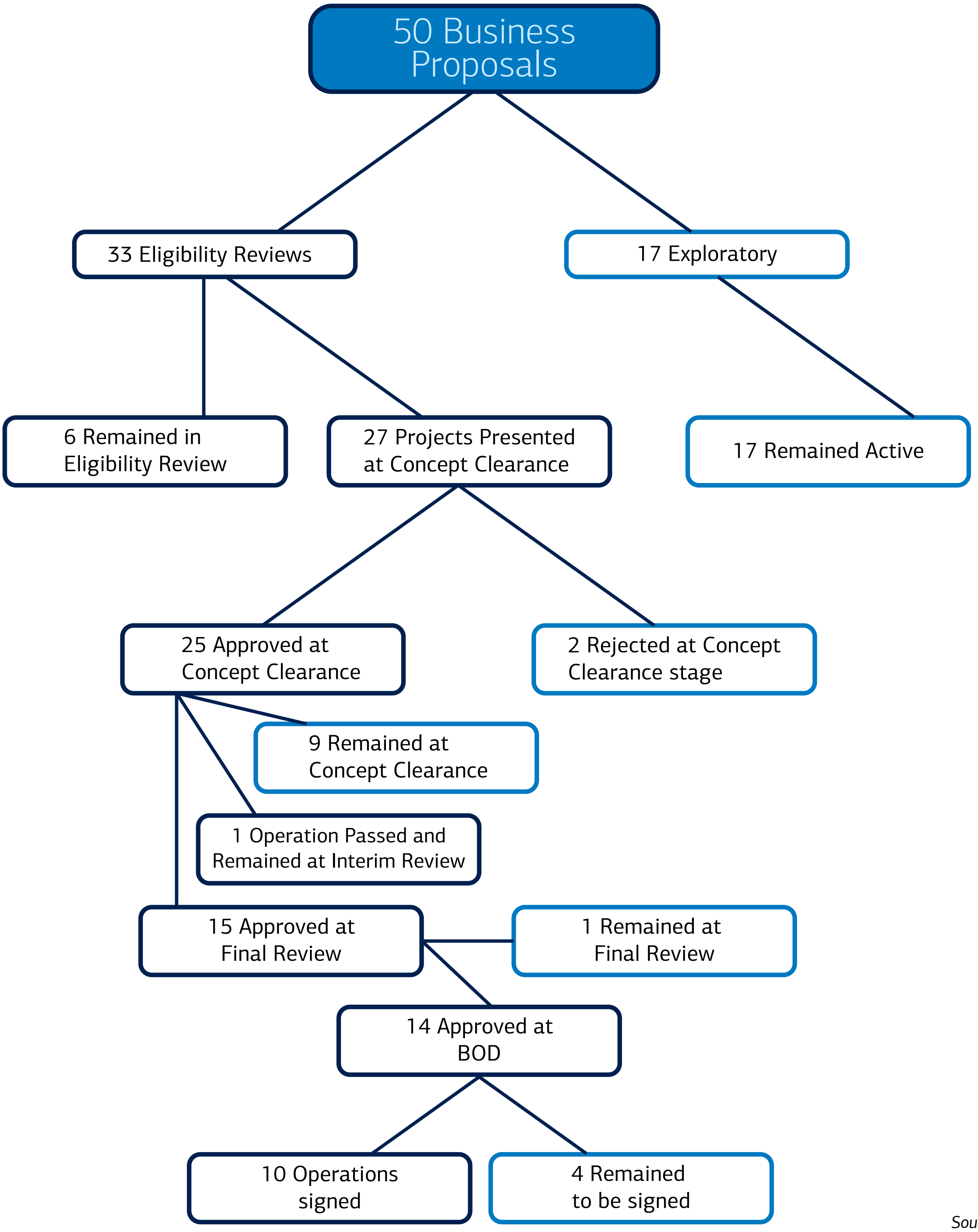
Developments During 2010

In 2010 the Bank's Board of Directors approved 23 operations, half of which were extended through financial intermediaries mostly in support of SMEs development and expansion of trade, for a total amount of EUR 215 million.
During the same period the Bank disbursed EUR 219 million for 33 operations in the active portfolio.

During the period January-December 2010 the Bank identified 50 new business opportunities, which are now in various stages of the operations cycle. From the 16 projects approved at concept clearance (almost 1/3rd of all identified operations, which fact denotes the efforts made by front office personnel, but also difficulties in finding bankable operations at a time of feeble economic recovery), 14 were approved by the Board of Directors. The difference up to the 23 Board approved operations is made of operations identified in previous years. A number of 10 operations await approval in 2011.

At the end of 2010 the Bank's active portfolio consisted of 95 Board approved operations of EUR 1.15 billion, of which were outstanding 89 operations totaling EUR 673 million.

The business generation activity of the Bank in 2010 is described in the following diagram:



50 Business Proposals
33 Eligibility Reviews
17 Exploratory
6 Remained in Eligibility Review
27 Projects Presented at Concept Clearance
17 Remained Active
25 Approved at Concept Clearance
2 Rejected at Concept Clearance stage
9 Remained at Concept Clearance
1 Operation Passed and Remained at Interim Review
15 Approved at Final Review
1 Remained at Final Review
14 Approved at BOD
10 Operations signed
4 Remained to be signed

Source: BSTDB

Use of Resources

Resources Management

Human Resources

BSTDB recognizes that human resources are a key factor in the success of the institution and strives to maintain its status as a competitive employer by following the best international standards and practices.

HR Development

In 2010, the BSTDB continued implementing the HR Reform, supporting the achievement of the institutional goals as set out in the BSTDB Strategy. The development of the policies has positively advanced addressing e.g. recruitment and appointment, benefits and allowances. New systems were introduced benefiting the management of human resources.

Staffing and Recruitment

The BSTDB conducts recruitment on a wide geographical basis, with preference given to the citizens of the Member States. At the end of 2010, the BSTDB had a total of 100 employees, from 14 member and non member countries.

Staff Development

The BSTDB offers learning opportunities addressing the development needs of its staff in context to the organization's business requirements. In 2010, the majority of these opportunities focused on the further development of the professional and technical skills of the staff. Emphasis was placed on reflecting the organization's business needs in staff development. Efforts and resources were especially concentrated on the development of new processes, and streamlining of the existing ones.

Staff Benefit System

The BSTDB operates a market-oriented staff compensation and benefits system designed to match the employment standards of other international financial institutions.

The BSTDB medical, life and long-term disability insurance plan provides adequate coverage emphasizing on preventive medical care. In 2010, the addition of a post-separation medical coverage to the BSTDB insurance plan was negotiated and finalized.

The BSTDB pension plan, implemented in January 2003, is comprised of a fully funded defined benefit scheme and a matched defined contribution component. This combination offers the flexibility crucial for best meeting the needs of a multi-national work force.

Information Technologies

The IT strategic initiatives for 2010 were well aligned with the institutions strategic plan. The mission of the IT department is to provide efficiency by managing IT cost & ensure budgeting discipline, and increase staff productivity by introducing innovating IT solutions which could add value to the organization. The IT Department has carried out the following initiatives in 2010:

- Implemented a virtual desktop (VDI) infrastructure environment using the VMware infrastructure, allowing a large number of users to use their virtual desktop to work in house but also remotely.
- Digitized a large number of its records that were in hard copies making it easier for staff to locate information online.
- Completed a number of SAP projects related to the HR Master Data for all staff within the organization and has also implemented the SAP Travel module. During the end of the year, it has carried out a currency change over project in SAP where the Bank had to change its currency from SDR to EUR. This project is to be completed in early 2011.
- Developed a new web site to better communicate the mission, vision and goals of the Bank, providing information to different group of visitors.

External Relations and Communications

In 2010 the Bank strengthened its institutional relations with other international organizations and business associations, while supporting joint action to analyze the global economic crisis and its impact on the Black Sea region and to formulate recommendations on policy and operational responses.

To this end, the Bank sponsored regional business events, including 1st Regional Greek-Turkish Forum, 8th Eurasian Academic Conference on Internal Audit and Corporate Governance, Vienna Economic Talks in Chisinau, Moldova and the Black Sea Business Forum organized by Turkish Business Confederation (TUSCON) in Trabzon.

Enhanced cooperation with the Organization of the Black Sea Economic Cooperation (BSEC) and its family institutions remained an important priority. The Bank intensified its collaboration with BSEC Business Council and Parliamentary Assembly of BSEC. BSTDB organized a joint exhibition stand with BSEC Business Council at the 75th Thessaloniki International Fair promoting closer regional business cooperation with an emphasis on green technologies and environmentally friendly and energy efficient projects. The Bank maintained its involvement in the activities of BSEC working groups dealing with the preparation of the Black Sea Ring Highway and the Motorways of the Sea projects initiated by BSEC.

BSTDB cooperation with the European Commission and EU institutions was continued on regular basis in the framework of the MOUs signed with the EC and IFIs on cooperation in the new EU member states, candidate and potential candidate, as well as EU accession countries.

While maintaining the established institutional relations with Observer institutions, the Bank continued to attract other IFIs to coordinate and develop joint business activities in the Black Sea region. In June 2010 BSTDB granted the Observer Status to IFC and PROPARCO, which brought the number of BSTDB Observer institutions to eight.

The Bank joined a Master Cooperation Agreement (MCA) led by the IFC, which helps bridge private sector financing gaps in emerging markets by making it easier and faster for lenders to co-finance projects with MCA participating institutions.

BSTDB signed a Memorandum of Understanding with respect to a Debt Co-Financing Initiative launched by EIB, NIB and several European bilateral donors agreed to co-finance investments with the 2020 European Fund for Energy, Climate Change and Infrastructure (the "Marguerite Fund"). The Marguerite Fund is designed to contribute to the European Economic Recovery Plan which purports to finance the implementation of strategically important projects in Energy/Climate, Renewable Energies and Transport sector infrastructures.

BSTDB maintained contacts and information exchange with European bilateral development finance institutions in the framework of EDFI Interact Group.

In 2010 BSTDB renewed its membership in the Institute of International Finance (Washington).

BSTDB hosted meetings of two working groups of financial institutions – members of the Association of Development Finance Institutions (EDFI) engaged in cooperation on environmental and social issues, and development impact evaluation. BSTDB also hosted the 11th Annual International Human Resources Conference organized by AHRMIO (Association for Human Resources Management in International Organizations) in Thessaloniki.

Planning and Budgeting

The Bank's planning and budgeting process is centred on the Bank's four year Medium-term Strategy and Business Plan. The Medium-term Strategy and Business Plan focuses on each major operational and financial activity in the Bank, is further detailed at country level in the respective country reports, and is implemented through annual budgets. The budget documentation includes short-term strategies, operational targets, work programs and related financial reports.

The Bank's planning process is carried out within the directives of Board of Directors approved policies and guidelines and aims to prioritise the Bank's operational objectives within the scope of its mission statement. This process incorporates the formulation of operational priorities, country and sector strategies, preparation for the annual budget and resource allocations. The process may also include the preparation of operational policy papers supporting the implementation of specific strategy initiatives.

The Bank is committed to budgetary discipline to ensure effective utilisation of resources. Execution of the Annual Budget is monitored on an ongoing basis and the results reported to the Board of Directors on a quarterly basis.

Financial Management

Business Volume[11]

In this year of operation, the Bank's total assets reached SDR 701 million (appx. EUR 815 million) at the end of the year against SDR 733 million (appx. EUR 798 million) at end 2009. The size of the Bank's outstanding loan and equity portfolios were SDR 579 million (appx. EUR 673 million) compared to SDR 582 million (appx. EUR 633 million) in the previous year. Funds committed but not yet disbursed stood at SDR 71 million (appx. EUR 82 million).

Revenues

Total income from lending activities was SDR 29,499 thousand (appx. EUR 34,286 thousand) during the year from SDR 31,742 thousand (appx. EUR 34,559 thousand) in 2009. Treasury activities in 2010 generated total interest income of SDR 3,821 thousand (appx. EUR 4,441 thousand) from its available for sale and held to maturity portfolios. Operating income for the year was SDR 28,918 thousand (appx. EUR 33,611 thousand) compared to SDR 20,990 thousand (appx. EUR 22,853 thousand) in 2009, an increase of almost 38%. This increase derived from net profit on sale of an equity investment and associated realized gains.

Expenses

Interest expense for the year was SDR 10,793 thousand (appx. EUR 12,545 thousand) compared to SDR 13,671 thousand (appx. EUR 14,884 thousand) in 2009. This reduction was due principally to the lower borrowing requirements as the Bank used more internal generated funds for its lending activities.

Administrative expenses, including depreciation, in 2010 were SDR 12,515 thousand (appx. EUR 14,546 thousand), an increase of SDR 879 thousand (appx. EUR 1,022 thousand) over the previous year. Administrative expenses include salaries, benefits and other administrative costs.

Salaries and benefits, in the amount of SDR 8,851 thousand (appx. EUR 10,287 thousand) showed a decrease of SDR 112 thousand (appx. EUR 130 thousand) from the previous year. This included a supplementary amount of SDR 126 thousand (appx. EUR 147 thousand) recognised in the actuarial valuation of the Bank's staff retirement plan. Other administrative costs had an increase from the previous year in an amount of SDR 193 thousand (appx. EUR 224 thousand).

Overall, administrative expenses were well within the 2010 Budget, reflecting the Bank's focus on budgetary discipline and effective cost controls.

Net Income

Income before impairment during the year was SDR 16,403 thousand (appx. EUR 19,065 thousand) compared to SDR 9,354 (appx. EUR 10,184 thousand) in 2009, or an increase of about 75%. Impairment losses in an amount of SDR 7,185 thousand (appx. EUR 8,351 thousand) were due to a specific provision charge to one of the Bank's loan operation.

The Bank posted net income for the year of SDR 9,218 thousand (appx. EUR 10,714 thousand). The quality of the lending portfolio remained sound, experiencing only one additional impaired operation.

Capital Base

Initial Share Capital

The initial authorised share capital of the Bank was SDR 1 billion divided into one million shares having a par value of SDR 1,000 each. Member States subscribed to all of the initial authorised share capital. Each of Armenia, Georgia and Moldova voluntarily agreed to reduce its share from 2 percent to 1 percent in June 2004 leaving SDR 30 million unsubscribed.
At the Board of Governors meeting in October 2008 it was decided that Azerbaijan would take up this 3 percent of unsubscribed shares. The additional subscription amount was fully paid in 2009.

The initial subscribed capital was paid according to the following pre-agreed schedule:

- Payment of the paid-in portion of the subscribed capital, equivalent to 10 percent of the subscribed number of shares (totalling SDR 100 million), was paid in cash by the Member States within 60 days of the date on which they became Member States.

[11] For greater ease of comparison, both Euro and SDR figures are mentioned here.

- In 1998, payment of the paid-in portion of the subscribed capital, equivalent to 20 percent of the subscribed number of shares (totalling SDR 200 million), was secured by promissory notes or other obligations issued by each Member State, and actual payment for these shares was made by each Member State in eight equal successive annual instalments between 1998 and 2005.

- Payment for the remaining callable portion of the subscribed capital, equivalent to 70 percent of the shares (totalling 700 million), represents a firm commitment on the part of the Member States to pay such amount when due in conformity with the relevant provisions of the Establishing Agreement.

New Share Capital

The Board of Governors decided in December 2007 to approve an increase to the Bank's authorised capital from SDR 1 billion to SDR 3 billion. They further approved an SDR 1 billion increase in the subscribed capital to be subscribed by the existing Member States, thereby increasing subscribed capital to SDR 2 billion. An announcement that this additional SDR 1 billion was fully subscribed was made after the Board of Governors meeting in October 2008. Georgia declined to take up its 1 percent allocation and this was taken up by Romania. Upon completion of the subscription: Greece, Russia and Turkey remained the largest shareholders of the Bank with 16.5 percent stake each, followed by Romania with 14 percent, Bulgaria and Ukraine with 13.5 percent each, Azerbaijan with 5 percent, Albania with 2 percent, Armenia and Moldova with 1 percent each, and Georgia with 0.5 percent stake.

The new subscribed capital will be paid according to the following schedule:

- Payment of the paid-in portion of the new subscribed capital, equivalent to 10 percent of the subscribed number of shares (totalling SDR 100 million), will be paid in cash by the Member States in 2010;

- Payment of the paid-in portion of the new subscribed capital, equivalent to 20 percent of the subscribed number of shares (totalling SDR 200 million), will be made by each Member State in eight equal successive annual instalments between 2011 and 2018; and

- Payment for the remaining callable portion of the new subscribed capital, equivalent to 70 percent of the shares (totalling 700 million), represents a firm commitment on the part of the Member States to pay such amount when due in conformity with the relevant provisions of the Establishing Agreement.

- The Board of Governors may also authorise additional subscriptions from the remaining SDR 1 billion of authorised capital in three instances:

- To satisfy demand for shares expressed by Member States;

- If in conformity with the provisions of Article 3 (Membership) of the Establishing Agreement, any BSEC Member State not yet member of the Bank (currently Serbia) wishes to subscribe for BSTDB shares; or

- If in conformity with the provisions of Article 3 (Membership) of the Establishing Agreement, a multilateral bank or financial institution expresses a desire to become a member

Gearing Ratio

The Establishing 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 Bank's institutional gearing ratio, the statutory limit on the total amount of ordinary operations (outstanding loans, equity investments and guarantees) is 150% of the Bank's unimpaired subscribed capital, reserves and surpluses, which at the end of 2010 stood at about SDR 2.1 billion (appx. EUR 2.4 billion).

The operational gearing ratio was set at 100% of the Bank's unimpaired paid-up capital, reserves and surpluses and the usable portion of callable capital that limit the total amount of operations at approximately SDR 1.9 billion (appx. EUR 2.2 billion).

Provisioning

The IFRS – compliant provisioning policy is designed to ensure that the level of general provisions is commensurate with overall portfolio risk levels. While each operation contributes to the general provisions, specific provisions are only allocated if and when a specific operation encounters difficulties. Total provisions at end of 2010 stood at SDR 37,283 thousand (appx. EUR 43,334 thousand), equivalent to 6.6% of the outstanding loan portfolio.

The institutional target to be achieved for general provisions and reserves, over time, is set at 10% of total outstanding exposures, less the gross value of non-performing operations.

Reserves and Surplus

Reserves represent the internal generation of capital through the retention of earnings. Pursuant to the Bank's financial policies, reserves are the ultimate protection of the Bank's capital against impairment resulting from credit losses, in excess of provisions, or losses due to market, operational and compliance risks. The Bank targets a level of profitability guided by the desire to build an appropriate cushion of reserves against the risks inherent to its normal operations and subsequently to grow its capital base consistent with its financial and growth objectives.

In addition to building up a cushion of reserves, the Bank also sets aside retained income to enable it to maintain the real value of its capital funds and increase its investment headroom through internally generated funds.

Market Risks

Market risk management is conducted within a framework of conservative risk limits and policy documents approved by the Board of Directors. 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 exposure. Asset and liability maturities and interest rate tenors are matched wherever possible.

Operational Risks

The Bank, like all financial institutions, is exposed to operational risks, defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, which are risks other than those falling within the scope of credit and market risk. The definition includes legal risk but excludes strategic and reputational risk.

Appropriate measures are taken to achieve a high level of operational risk awareness and to enhance the operational risk management system. The Bank adopts market best practices and methods to manage and coordinate its operational risks. Key processes for the management of operational risk include, amongst others: (i) internal controls (e.g.: the 'four eyes principle', proper segregation of duties) within its offices and departments (ii) the establishment of disaster recovery and business continuity plans that take into account different types of plausible scenarios to which the Bank may be vulnerable (iii) the purchase of corporate and property insurance policies to confront potential losses which may occur as a result of various events and natural disasters and (iv) the approval process of New Products to identify and assess the operational risk related to each new product, activity, process and system.

The Bank utilizes the Standardized Approach (SA) as issued by the Basel Committee to monitor operational risk incurred[1]. Should the Bank quantify the operational risk embedded in its operations, it would, with the use of SA amount to SDR 6.8 million (appx. EUR 7.9 million) for 2010 and SDR 6.4 million (appx. EUR 7.0 million) for 2009, constituting a fraction of the Bank's total reserves amount, which represents the ultimate protection of the Bank's capital against impairment resulting from credit losses in excess of provisions, or losses due to market, operational and compliance risks. There is no general accepted methodology for calculating risks associated with compliance and other "black swan" type of events.

The reserves of the Bank are adequate to cover all potential losses arising from events of an operational risk nature and because the Establishing Agreement requires the Bank to maintain reserves at a relatively high percentage of its portfolio[2] there is no need to make supplementary allocations.

[1] International Convergence of Capital Measurement and Capital Standards, a Revised Framework, June 2004.

[2] No part of the net income or surplus of the Bank shall be distributed to Members by way of profit until the general reserves of the Bank shall have attained the level of ten (10) percent of the subscribed capital including all paid, unpaid but payable, unpaid but callable capital. (Art. 36 – Allocation of Net Income).

Short Term Liquidity

The Bank's short term liquidity totalling SDR 104,986 thousand (appx. EUR 122,024 thousand) as at 31 December 2010 was invested in two types of money market instruments:

- Short-term deposits with institutions long term rated at a minimum of A2/A either Moody's or Standard & Poor's credit rating agency.

- Euro commercial paper rated at a minimum short term A1/P1 by either Moody's or Standard & Poor's credit rating agency.

Investments are denominated only in SDR component currencies and performance is monitored monthly against the Merrill Lynch 3 month Libid index.

The Banks liquidity ratio calculated as liquid assets over 12 months net cash requirements including signed undisbursed commitments, stood at 82% on 31 December 2010.

Borrowings

By the end of 2010, the Bank had issued a bond for USD 125 million and had signed loan agreements equivalent to EUR 139 million and USD 140 million. As the size of the Bank's operation portfolios continue to increase, and taking into consideration its minimum liquidity requirements, the Bank will access sources of long term funds in 2011.

The Bank has a long term investment grade credit rating from Moody's Investor Service of A3 and a short term rating P2.

Risk Analysis

An independent financial analysis is performed for each of the Bank's operations. Corporate entities are initially subject to an assessment of creditworthiness based on historical financial statements. This is followed by cash flow modelling for the life of the proposed operation and stress testing of key assumptions. For financial institutions risk analysis is based on quantitative methodology (i.e. capitalisation, asset quality, liquidity and foreign exchange risk) supported by comparisons of key ratios to industry standards.

Risk Mitigation

The Bank 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 either public or private sector borrowers, it normally requires certain guarantees and, in all cases, ensures that the parties involved share risks in a reasonable manner.

Evaluation

The Bank conducts assessments of completed and ongoing operations, programs, activities and strategies through rigorous systematic analyses. This evaluation process serves two key objectives: (i) accountability – to reveal the results and impact of the Bank's operations and (ii) learning – to derive lessons learned from past experience, maintain a corporate memory and enhance future performance.

Preferred Creditor 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.

- 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.

Corporate Governance

Management Structure

The BSTDB is committed to maintaining effective corporate governance through a framework of responsibilities and controls. Transparency and accountability supported by clearly defined reporting systems enable maintenance of an appropriately controlled business environment.

The BSTDB's governing constitution is set out in the Agreement Establishing the Bank. This document requires that the institution be managed by a Board of Governors, a Board of Directors, a President, Vice Presidents, a Secretary General and such officers and staff, as may be necessary.

Each of the Member States of the Bank is represented on the Board of Governors. All powers of the Bank are vested in the Board of Governors. With certain exceptions the Board of Governors has delegated the exercise of these powers to the Board of Directors, while still retaining overall authority.

The Board of Directors, chaired by the President of the Bank, is responsible for guiding the general operations of the Bank. Each of the Bank's Member States appoints a Director and an Alternate Director with full powers to act for the Director, when the Director is not present.

The Audit Committee is established by and reports directly to the Board of Directors. The composition of the Audit Committee is three Board of Director members, one being appointed as Chairman.

The President, as chief executive of the Bank, is its legal representative. In this capacity, and as Chairman of the Management Committee, he conducts the current business of the Bank under the direction of the Board of Directors. The President is appointed by the Board of Governors.

The Management Committee comprises of the President (as Chairman), three Vice Presidents and the Secretary General. In the absence of the President, one of the Vice Presidents chairs the meetings of the Management Committee. The Vice Presidents and Secretary General are appointed by the Board of Directors on the recommendation of the President.

Compliance

The Compliance function of the Bank assists Senior Management in managing effectively the compliance risks faced by the Bank. To this end, it identifies, assesses, advises on, monitors and reports accordingly on the Bank's compliance risk.

The Bank has defined Compliance Risk as the risk of legal sanctions, material financial loss, or loss to reputation the Bank may suffer as a result of its failure to comply with laws, its own regulations, code of conduct, and standards of best/good practice. Compliance risk is sometimes also referred to as integrity risk, because a bank's reputation is closely connected with its adherence to principles of integrity and fair dealing.

Legal, financial and anti-fraud, corruption, money laundering and terrorism financing due diligence is integrated into the Bank's normal approval of new business and to the monitoring of existing activity. The Bank screens all transactions to ensure that they do not represent a money laundering or terrorist financing risk.

The Bank provides regular anti-fraud, corruption, money-laundering and terrorism financing training to its staff, in order to increase awareness of such concerns and raise skill levels.

Reporting and Disclosure

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. Pursuant to Article 35 of the Establishing 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 Secretary.

In its financial reporting, the Bank aims to provide appropriate information on risk and performance. Industry best practice guides the evolving disclosure practice both in public financial reports and management information reporting.

Internal Audit

Internal Audit is an independent, objective, assurance, and consulting activity that examines and evaluates the activities of the Bank as a service to management and the Board of Directors (primarily through its Audit Committee). The Audit Committee has the responsibility, inter alia, of satisfying itself that the internal audit process is adequate and efficient through reviewing the policy, the scope, the work program and the reporting relating to the Bank's internal audit.

According to the Bank's Internal Audit Charter, the internal Audit Department's main objective is to help management and the Board of Directors discharge their responsibilities and accomplish the objectives of the Bank by bringing systematic, disciplined approach to evaluate and improve effectiveness of risk management, control, and governance processes. Internal Audit's mission is to foster an environment of continuous improvement in controls and risk awareness.

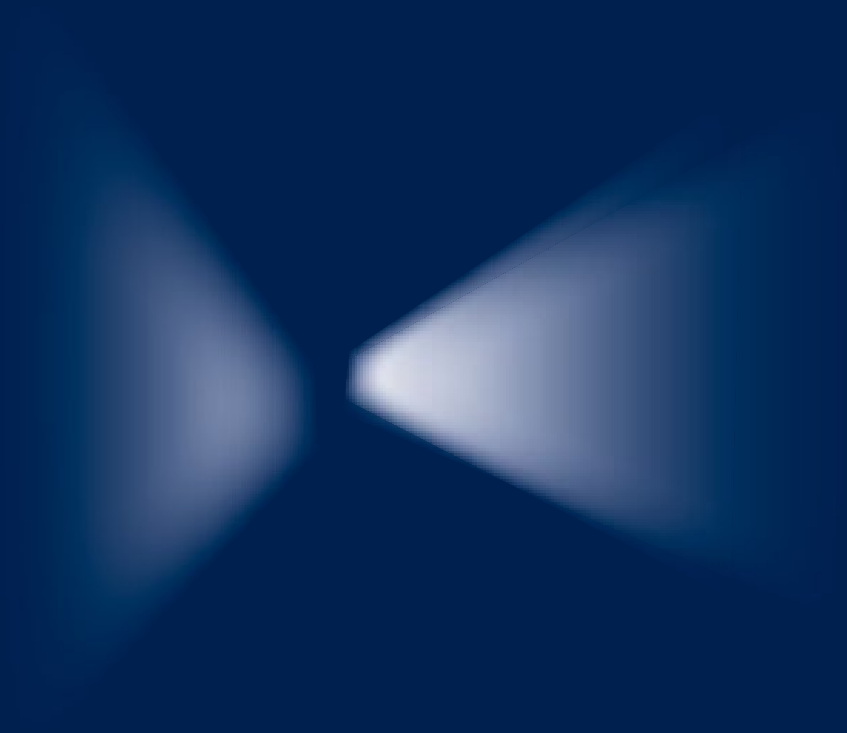
External Auditors

The External Auditors are appointed by the Board of Governors upon the recommendation of the Board of Directors. They are qualified outside auditors of international reputation and appointed for a term of one year, renewable further on such terms and conditions as approved by the Board of Directors.

The External Auditors' services are limited only to audit related services, but may be subject to certain exceptions that are in the interest of the Bank. The performances and independence of the External Auditors are assessed by the Audit Committee.

In addition, the External Auditors review and offer their opinion on management's assertion as to the effectiveness of internal controls over financial reporting. This opinion is given as a separate report to the audit opinion. At the conclusion of their annual audit, the External Auditors prepare a management letter for the Board of Directors, which is reviewed in detail and discussed with the Audit Committee, setting out External Auditor's views and management's response on the effectiveness and efficiency of internal controls and other matters.

Enterprise Risk Management



Enterprise Risk Management

Including Internal Controls Over Financial Reporting

Enterprise Risk Management (ERM) is a fundamental approach for the management of an organization. Based on the landmark work of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the 1990s, its Internal Control – Integrated Framework and Enterprise Risk Management - Integrated Framework, have become primary tools for organizational risk management. The value of enterprise risk approach is well recognized and stands as a requirement for well-controlled organizations.

A longstanding requirement of organizations to maintain systems of internal control, requiring management to certify and independent auditor to attest to the effectiveness of those systems, has become even more compelling in recent years.

An organization needs internal controls to provide greater assurance that they will achieve their operating, financial reporting, and compliance objectives.

Internal Control, according to the definition established by COSO, is a process, effected by an entity's board of directors, management and other personnel, designed to provide assurance regarding the achievement of objectives in the effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulations.

A robust system of internal controls ensures that the policies, procedures, and practices designed and approved by the management and the Board of Directors are functioning properly and as designed.

Recognising the need for effective internal controls, since 2008, the Bank formalized its existing mechanism and established a functioning, consolidated and on-going mechanism to be able to certify in the Annual Report as to the effectiveness of internal controls over external financial reporting, using the COSO's Internal Control Framework and Enterprise Risk Management, as a basis.

Since 2009, the Bank proceeded with a further improvement of its existing mechanism to the establishment of an Enterprise Risk Management system. The implementation of Enterprise Risk Management exercise involved the identification and inclusion in scope of additional processes to facilitate a Bank-wide system of controls, including automated information controls.

The Enterprise Risk Management exercise (ERM) was implemented following COSO's Internal Control Framework and Enterprise Risk Management methodology, as a basis. The exercise was broken down and executed in 5 phases, as indicated in figure 1.

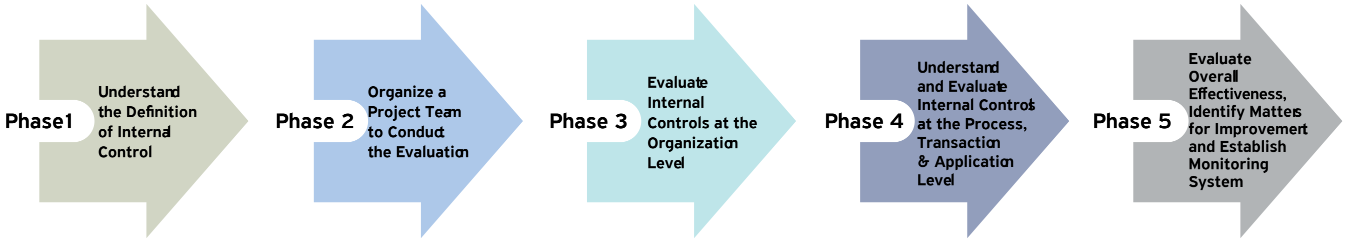

Phase1
Understand the Definition of Internal Control
Phase 2
Organize a Project Team to Conduct the Evaluation
Phase 3
Evaluate Internal Controls at the Organization Level
Phase 4
Understand and Evaluate Internal Controls at the Process, Transaction & Application Level
Phase 5
Evaluate Overall Effectiveness, Identify Matters for Improvement and Establish Monitoring System

Figure 1 – Enterprise Risk Management - Phases

The definition of internal control (phase 1), applicable to the Bank's environment and objectives was established, after thorough analysis of the Bank's internal environment and research on international standards, COSO Internal Control – Integrated Framework, COSO Enterprise Risk Management –Integrated Framework and IT Governance Institute's Control Objectives for Information and related Technology (CoBIT). In defining the internal controls emphasis was given to the five control components to the COSO integrated framework: Control Environment, Risk Assessment, Control Activities, Information & Communication, and Monitoring.

A Working Group with representatives from all the Bank's Divisions has been established (phase 2), to assist in the documentation of internal processes and the evaluation of the internal controls mechanism.
Each process is documented in 3 ways: in a Narrative, a Flowchart and a Risk Assessment Matrix.

- A **Narrative** describing in detail the process (scope, objectives, inputs, outputs, systems, steps)
- A **Flowchart** describing the flow of transactions
- A **Risk Assessment Matrix** including Identification of the risks and description of the key controls and related assertions and COSO components

The evaluation phase commences by considering internal controls at the organization or corporate governance level. Internal controls at the entity level are identified, documented and evaluated (Phase 3).

According to COSO ERM, risk assessment allows an entity to consider the extent to which potential events have an impact on achievement of objectives.

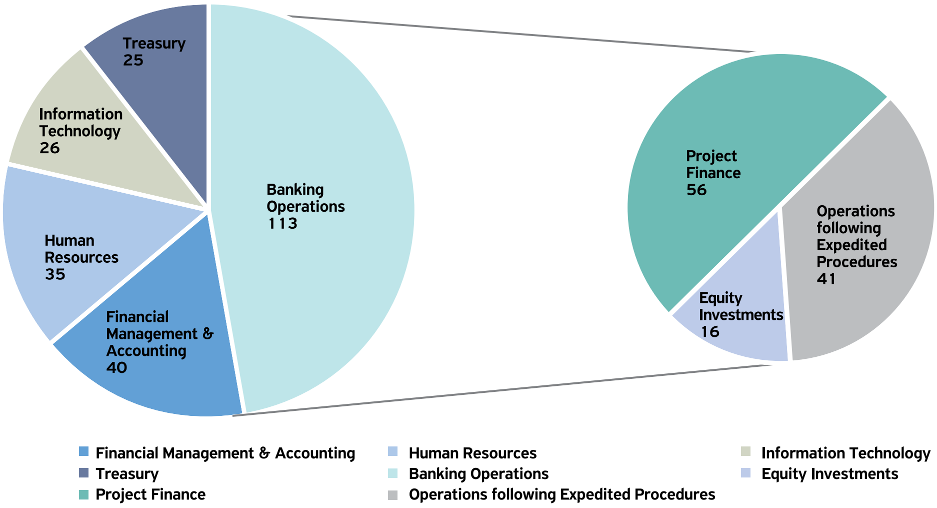
Factors that are considered during the overall risk assessment are, the following:
- The size and complexity of the organization
- The nature of the organization's operations
- The purpose for which monitoring is being conducted, and
- The relative importance of the underlying controls in meetin g the organization's objectives

Internal processes assessed to be significant as a result of materiality analysis of the Bank's financial statements and having taken into consideration the risk assessment criteria of COSO, are evaluated at a process, transaction and application level (phase 4).

The major processes that were in scope of the Enterprise Risk Management (including Internal Controls over Financial Reporting) exercise for 2010 were the following:

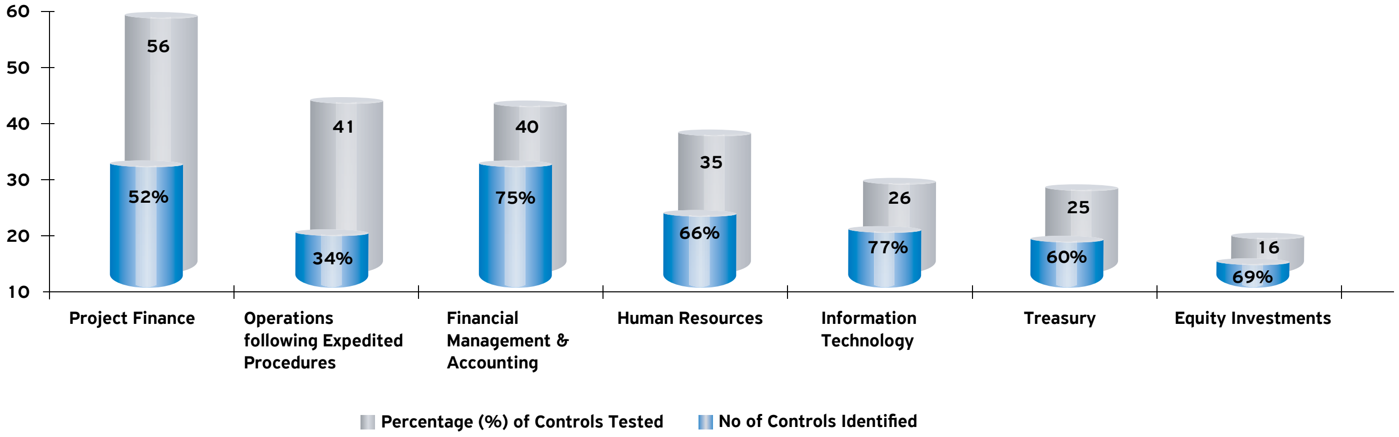
- Banking Operations
  - Project Finance
  - Operations Following Expedited Procedures
  - Equity Investments
- Financial Management & Accounting
- Treasury Operations
- Information Technology
- Human Resources

Figure 2 - Processes and number of controls per process



Each process was analyzed in several sub-processes and controls were identified to facilitate the evaluation of the design and operating effectiveness of each business cycle. All controls identified were verified to evaluate design effectiveness and all key controls were tested to evaluate operating effectiveness. In figure 3, the total number of controls in each process and the respective percentage of key controls that was tested are indicated.

Figure 3 - Controls Coverage per Process



Finally, an overall assessment of the effectiveness and efficiency of internal controls was performed. The assessment of the effectiveness of internal control relates to whether the COSO components, acting together, and implemented according to management's judgment, achieve the objectives of internal control over financial reporting. Assessing the effectiveness of design and operating effectiveness of internal control requires judgment.

Based on the assessment performed by the Bank, the internal controls over financial reporting were assessed as effective. For the weaknesses identified which were not classified as material weaknesses, a remediation plan was produced and a monitoring system was established.

Upon the overall assessment of the effectiveness of internal controls over financial reporting, an annual certification statement was issued, signed by the President and the Vice President Finance and subject to review and an attestation of the Bank's external auditors.

The external auditors review and offer their opinion on management's assertion as to the effectiveness of internal controls over financial reporting. This opinion is given as a separate report to the audit opinion on the Financial Statements.

Management's Attestation and Independent Auditor's Report

Internal Control Over External Financial Reporting

Responsibility For External Financial Reporting
Management's Responsibility

Management's Report Regarding The Effectiveness Of Internal Controls Over External Financial Reporting

The management of the Black Sea Trade and Development Bank ("the Bank") is responsible for the preparation, integrity, and fair presentation of its published financial statements and all other information presented in this report. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

The financial statements have been audited by an independent accounting firm, which has been given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Directors and committees of the Board. Management believes that all representations made to the external auditors during their audit were valid and appropriate. The external auditors' report accompanies the audited financial statements.

Management is responsible for establishing and maintaining effective internal control over external financial reporting for financial presentations in conformity with IFRS. The system of internal control contains monitoring mechanisms, and actions are taken to correct deficiencies identified. Management believes that internal controls for external financial reporting, which are subject to scrutiny and testing by management and internal audit, and are revised as considered necessary, support the integrity and reliability of the financial statements.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention of overriding controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statements. Furthermore, the effectiveness of an internal control system can change with circumstances.

The Bank's Board of Directors has appointed an Audit Committee, which assists the Board in its responsibility to ensure the soundness of the Bank's accounting practices and the effective implementation of the internal controls that management has established relating to finance and accounting matters. The Audit Committee is comprised entirely of members of the Board of Directors. The Audit Committee meets periodically with management in order to review and monitor the financial, accounting and auditing procedures of the Bank and related financial reports. The external auditors and the internal auditors regularly meet with the Audit Committee, with and without other members of management being present, to discuss the adequacy of internal controls over financial reporting and any other matters which they believe should be brought to the attention of the Audit Committee.

The Bank has assessed its internal controls over external financial reporting for 2010. The Bank's assessment was based on the criteria for effective internal control over financial reporting described in the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). Based upon this assessment, management asserts that, at 31 December 2010, the Bank maintained effective internal controls over its financial reporting as contained in the Financial Statements for 2010.

The Bank's external auditors have provided an audit opinion on the fairness of the financial statements presented within this report. In addition, they have issued an attestation report on management's assessment of the Bank's internal control over financial reporting, as set out on page 45.

Andrey Kondakov
President

Valentina Siclovan
Vice President Finance

Black Sea Trade and Development Bank
Thessaloniki, Greece
April 29, 2011

Report of the Independent Auditors

To The Board Of Directors And Governors of
The Black Sea Trade And Development Bank

We have audited Black Sea Trade and Development Bank ("the Bank") internal controls over financial reporting as at 31 December 2010 based on the criteria for effective internal controls over financial reporting described in the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organisations of the Treadway Commission.

Management is responsible for maintaining effective internal controls over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assertion over the effectiveness of the Bank's internal control over financial reporting, based on our audit.

We conducted our audit in accordance with the International Standard on Assurance Engagements (ISAE) 3000. Our audit included obtaining an understanding of internal control over financial reporting, evaluating the management's assessment and performing such other procedures as we considered necessary in the circumstances. We believe that our work provides a reasonable basis for our opinion.

A bank's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A bank's internal controls over financial reporting include those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the bank; (2) provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the bank are being made only in accordance with the authorisation of the bank's management; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the bank's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

In our opinion, the Bank maintained effective internal control over financial reporting, in all material respects, as at 31 December 2010 based on the criteria for effective internal controls over financial reporting described in the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organisations of the Treadway Commission.

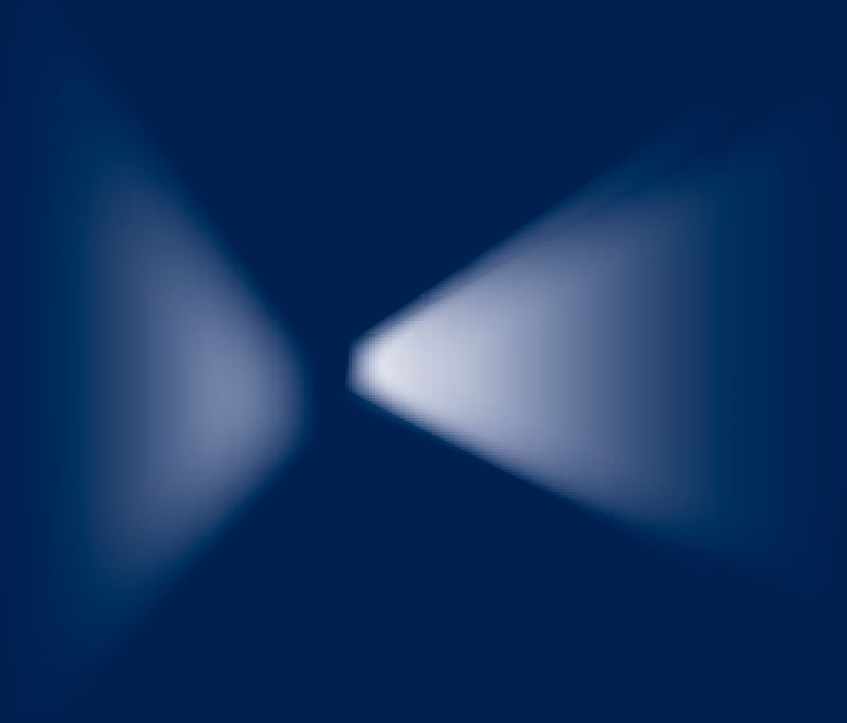
We have also audited, in accordance with International Standards on Auditing, the financial statements of the Bank and, in our report dated April 29, 2011, we have expressed an unqualified opinion.

29 April 2011

ERNST & YOUNG (HELLAS) CERTIFIED AUDITORS ACCOUNTANTS SA
11th Km National Rd. Athens – Lamia
GR – 144 51 Metamorphosis
Athens, Greece

Financial Statements and Notes

FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2010
TOGETHER WITH AUDITOR'S REPORTS



INCOME STATEMENT

For the year ended 31 December 2010

Presented in thousands of SDR	Note	2010	2009
Interest and similar income	2	29,795	32,023
Interest and similar expense	3	(10,793)	(13,671)
Net interest income		**19,002**	**18,352**
Fee and commission income	4	3,525	2,825
Fee and commission expense		(299)	(340)
Dividend income	10	846	40
Net profit on sale of equity investments	10	2,132	0
Net gains from available-for-sale equity investments	10	3,533	0
Net (losses) gains from available-for-sale treasury assets		(38)	95
Net income (loss) on foreign exchange		219	26
Other expense		(2)	(8)
Operating income		**28,918**	**20,990**
Administrative expenses	5,20	12,211	11,345
Depreciation and amortisation	13,14	304	291
Income before impairment		**16,403**	**9,354**
Impairment losses (releases) on loans	6	7,185	(353)
Net income for the year		**9,218**	**9,707**
Earnings per share	17	0.026	0.032

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

Presented in thousands of SDR	Note	2010	2009
Net income for the year		9,218	9,707
Net (losses) gains from available-for-sale financial assets	18	(4,775)	6,568
Total comprehensive income for the year		**4,443**	**16,275**

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

STATEMENT OF FINANCIAL POSITION

At 31 December 2010

Presented in thousands of SDR	Note	2010	2009
Assets			
Cash and bank balances	19	73,247	11,203
Placements with financial institutions	19	3,896	0
Debt investment securities:			
Available-for-sale	7	49,066	58,058
Held-to-maturity	7,19	25,056	100,812
Total deposits and securities		151,265	170,073
Loans	9,11	563,324	568,587
Less: impairment losses on loans	6	(37,283)	(30,108)
Loans net of impairment		526,041	538,479
Equity investments:			
Available-for-sale	10,11	15,619	13,284
Other assets	12	6,854	9,917
Property and equipment	13	248	280
Intangible assets	14	664	572
Total Assets		**700,691**	**732,605**
Liabilities			
Borrowings	15	256,609	360,351
Derivatives financial instruments	8	174	1,129
Payables and accrued interest	16	3,079	2,824
Deferred income	4	5,425	4,867
Total liabilities		265,287	369,171
Members' Equity			
Authorised share capital	17	3,000,000	3,000,000
Less: unallocated share capital	17	(1,000,000)	(1,000,000)
Subscribed share capital	17	2,000,000	2,000,000
Less: callable share capital	17	(1,400,000)	(1,400,000)
Less: payable share capital	17	(230,968)	(298,501)
Advance against future call	17	26	32
Paid-in share capital		369,058	301,531
Reserves	18	26,668	27,685
Retained earnings		39,678	34,218
Total members' equity		435,404	363,434
Total Liabilities and Members' Equity		**700,691**	**732,605**
Off-balance-sheet items			
Commitments	11	70,838	88,459

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

STATEMENT OF CHANGES IN MEMBERS' EQUITY

For the year ended 31 December 2010

Presented in thousands SDR	Share capital					
	Subscribed	Callable	Payable	Reserves	Retained earnings	Total
At 31 December 2008	**2,000,000**	**(1,400,000)**	**(299,968)**	**18,309**	**27,319**	**345,660**
Paid-in share capital			1,499			1,499
Total comprehensive income				6,568	9,707	16,275
General reserve				2,808	(2,808)	0
At 31 December 2009	**2,000,000**	**(1,400,000)**	**(298,469)**	**27,685**	**34,218**	**363,434**
Paid-in share capital			67,533			67,533
Total comprehensive income				(4,775)	9,218	4,443
Advance against future call			(6)			(6)
General reserve				3,758	(3,758)	0
At 31 December 2010	**2,000,000**	**(1,400,000)**	**(230,942)**	**26,668**	**39,678**	**435,404**

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

Presented in thousands of SDR	Note	2010	2009
Cash flows from operating activities			
Net income for the year		9,218	9,707
Adjustment for:			
Impairment losses on loans		7,185	(353)
Depreciation and amortisation		304	291
Interest and similar income		(5,894)	(7,526)
Interest and similar expense		1,639	1,411
Realized gains on equity investments	10	(5,665)	0
Foreign exchange adjustments on provisions		(10)	(377)
Operating income before changes in operating assets		6,777	3,153
Derivative movements		(955)	2,090
Increase in other assets		1,430	1,506
Decrease in accounts payable		28	199
Increase in deferred income		558	126
Interest and similar income received		7,526	10,130
Interest and similar expense paid		(1,411)	(4,134)
Fair value movements		(4,775)	6,568
Cash generated from operations		9,178	19,638
Proceeds from repayment of loans		330,867	243,421
Proceeds from repayment of equity investments		6,162	1,799
Proceeds from sale of equity investments	10	1,870	0
Funds advanced for loans		(325,604)	(205,262)
Funds advanced for equity investments		(4,703)	(5,318)
Net cash from operating activities		17,770	54,278
Cash flows from investing activities			
Proceeds from available-for-sale investment securities		37,405	9,332
Purchase of available-for-sale investment securities		(25,626)	(32,553)
Purchase of property, technology and equipment		(364)	(444)
Net cash from (used) in investing activities		11,415	(23,665)
Cash flows from financing activities			
Payments received from share capital		67,533	8,812
Decrease in advance against future call		(6)	0
Paid-in share capital received		67,527	8,812
Proceeds from borrowings		148,031	221,128
Repayments of borrowings		(251,772)	(320,072)
Net cash from (used) in financing activities		(36,214)	(90,132)
Net increase (decrease) in cash and cash equivalents		**(7,029)**	**(59,519)**
Cash and cash equivalents at beginning of year		112,015	171,534
Cash and cash equivalents at end of year	19	**104,986**	**112,015**

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

Accounting Policies

Summaries of the Bank's significant accounting policies applied in the preparation of these financial statements are presented in this section. These policies have been consistently applied to all the financial periods being presented, unless otherwise indicated.

Establishment Of The Bank

Agreement Establishing The Bank

The Black Sea Trade and Development Bank (the "Bank"), whose headquarters is located at 1 Komninon Street, Thessaloniki, in the Hellenic Republic, was established as an international financial organisation under the Agreement Establishing the Bank dated 30 June 1994 (the "Establishing Agreement"). In accordance with Article 61 of the Establishing Agreement, following establishment of the Bank, the Establishing Agreement entered into force on 24 January 1997. The Bank commenced operations on 1 June 1999.

The purpose of the Bank is to accelerate development and promote cooperation among its shareholder countries. As a regional development institution it is well placed to mobilise financial resources and to improve access to financing for businesses in the whole region as well as for those active only in its individual Member Countries. The Bank offers project and trade financing facilities, equity participations and guarantees. Bank financing of projects and programs is available directly or in cooperation with other national and international development institutions. The Bank may also, where appropriate, provide technical assistance to potential clients.

As at 31 December 2010 the Bank's shareholders comprised 11 countries: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russian Federation, Turkey and Ukraine.

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 (the "Headquarters Agreement") signed on 22 October 1998.

Approval of Financial Statements

The financial statements for 2010 were submitted by the Management Committee to the Board of Directors for approval on 29 April 2011, and were approved on that date. Pursuant to Article 23 of the Establishing Agreement, these financial statements shall be subject to approval by the Board of Governors in their Annual Meeting to be held on 19 June 2011.

Basis Of Preparation Of Financial Statements

The accompanying financial statements are a complete set of financial statements and are in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board. The financial statements have been prepared on a historical cost basis except for those financial assets that have been measured at fair value. The Bank has not adopted any IFRS before their effective dates.

The Bank's unit of account is Special Drawing Rights ("SDR") for its authorised share capital, in accordance with Article 4 of the Establishing Agreement. Pursuant to this, the Bank's functional currency is the SDR component currencies, and the Bank's presentation currency is the SDR as defined by the International Monetary Fund ("IMF"). The value of the SDR is based on the weighted average of the values of a basket of major international currencies and the SDR interest rate is a weighted average of interest rates on short term instruments in the markets for the currencies in the valuation basket.

Foreign Currencies

Foreign currency transactions are initially recorded in SDR by applying to the foreign currency amount the exchange rate between the SDR and the foreign currency at the rate prevailing on the date of transaction.

Exchange gains and losses arising from the translation of monetary assets and liabilities at the end of year exchange rates are taken to income. Exchange rates used by the Bank at the financial position date were as follows:

			31 December 2010	31 December 2009
1 SDR	=	United States dollar	1.54003	1.56769
	=	Euro	1.16229	1.08875
	=	Japanese yen	125.71265	144.88600
	=	Pound sterling	0.99775	0.96801
	=	Azerbaijan manta	1.23172	1.25964
	=	Romanian lei	4.97598	4.63308

Recognition And Derecognition Of Financial Instruments

The Bank recognises a financial asset or financial liability in its statement of financial position when, and only when, it becomes a party to the contractual rights or obligations.

The Bank derecognises a financial asset or a portion of financial asset when, and only when, it loses control of the contractual rights that comprise the financial asset or a portion of the financial asset. The Bank derecognises a financial liability when, and only when, a liability is extinguished, that is when the obligation specified in the contract is discharged, cancelled or expires. The evaluation of the transfer of risks and rewards of ownership precedes the evaluation of the transfer of control for derecognition transactions.

Cash And Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash on hand, placements with other financial institutions and debt securities with original maturities of three months or less. These are highly liquid assets that are readily convertible to a known amount of cash and are subject to insignificant risk in value.

Financial Assets

The Bank classifies financial assets in the following categories; loans and receivables, held-to-maturity investments and available-for-sale financial assets. Their classification is determined at the time of initial recognition.

Held-to-maturity investments and available-for-sale financial assets are recognised on a trade date basis, which is the date the Bank commits to purchase or sell the asset. All loans are recognised when cash is advanced to borrowers at settlement date.

The Bank did not reclassify any non-derivative financial assets out of the fair value through profit or loss category in any particular circumstance. Nor did the Bank transfer any financial assets from the available-for-sale category to the loans and receivables category.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. Subsequently, loans are measured at amortised cost using the effective interest rate method less any provision for impairment or uncollectability. All revenues generated are reported in income.

Held-to-Maturity

Financial assets with fixed or determinable payments, and fixed maturity dates are classified as held-to-maturity when the Bank has the positive intention and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest rate method, less any impairment in value. Amortized cost is computed as the amount initially recognised including the premium or discount that may arise on the date of acquisition, as well as transaction costs. Interest arising from these investments is reported in income.

Available-for-Sale

Financial assets such as the Bank's equity investments or held bonds are classified as available-for-sale are intended to be held for an indefinite period of time, and may or may not be sold in the future. After initial recognition at cost, these financial assets are measured at fair value. The fair value of the available for sale securities that are traded in organized financial markets is determined by reference to quoted market bid prices. For those where there is no active market the fair value is determined using accepted valuation techniques.

The unrealized gains and losses that arise from fluctuations in fair value are recognised as a separate component of equity until the financial asset is sold or derecognised for any other reason or until the investment is determined to be impaired, at which time, the cumulative gain or loss previously reported in equity is included in income. Foreign exchange gains or losses and any income accrued, by using the effective interest rate method, for these assets are recognised directly in income. Dividends received are included in income.

Financial Liabilities

Financial liabilities include borrowings and other liabilities.

Borrowings

Borrowing transactions are recognised in the statement of financial position at the time the funds are transferred to the Bank. They are initially stated at cost, which comprises the fair value of the funds transferred, less any transaction costs. In instances where the Bank uses derivative instruments to hedge the fair value of borrowing transactions, such borrowings are subsequently carried in the statement of financial position at fair value where the amortised cost value is adjusted to fair value by the hedged risks, with any changes in value recognised in income. Relevant interest expenses are reported in income using the effective interest rate method.

Other Liabilities

All other liabilities that are not derivatives or designated at fair value through profit or loss are recorded at amortised cost. The amounts include accrued finance charges on borrowings and other accounts payable.

Derivatives

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

Derivatives can include interest rate and cross currency swaps, forward foreign exchange contracts, interest rate future contracts, and options on interest rates and foreign currencies. Such financial instruments are initially recognised in the statement of financial position at cost and are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in fair value of derivatives are included in income. Fair values are obtained from quoted market prices, to the extent publicly available, discounted cash flows and options pricing models as appropriate.

Currently, given the market sensitivity, the Bank is only involved with foreign exchange forwards.

Impairment

An impairment loss for the Bank is the amount by which an asset's recorded carrying amount exceeds its expected recoverable amount.

Financial Assets Carried at Amortised Cost

For amounts due from loan and receivable portfolios, losses under guarantees, commitments, held-to-maturity and other investments carried at amortised cost, the Bank first assesses whether objective evidence of impairment exists individually for those that are individually significant, or collectively for those that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed asset, whether significant or not, it includes the asset in a group of assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest,
- Cash flow difficulties experienced by the borrower,
- Breach of loan covenants or conditions,
- Initiation of bankruptcy proceedings,
- Deterioration in the borrower's competitive position, and
- Deterioration in the value of collateral.

If there is objective evidence that an impairment loss has been incurred, that the Bank will not be able to collect all amounts due (principal and interest) according to original contractual terms, such assets are considered and classified as "non-performing". The amount of the loss is measured as the difference between the asset's carrying amount and the present value of expected future cash flows (excluding future credit losses that have not yet been incurred). The carrying amount of such an asset is reduced to its estimated recoverable amount through the use of an allowance for impairment account and the amount of loss is recognised in income. Interest income continues to be accrued based on the original effective interest rate of the asset. The Bank ceases to accrue interest on those assets classified as non-performing for more than 90 days, or earlier when there is reasonable doubt as to actual collection, and for which the recoverable amount is determined primarily in reference to fair value of collateral.

An asset together with the associated allowance is written off when all or part of it is deemed uncollectible, liquidation or all legal and other avenues for recover or settlement are exhausted, or in the case of debt forgiveness. Write-offs are charged against previously established allowances and reduce the principal amount of an asset. Whenever an amount of the estimated impairment loss increases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased by adjusting the allowance account. Recoveries of such assets written off in earlier periods are included in income.

The present value of the estimated future cash flows is discounted at the asset's original effective interest rate as determined under the contract. If an asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, assets are grouped on the basis of the Bank's internal credit grading methodology that considers credit risk characteristics such as asset type, industry and geographical location. The Bank's collective evaluation of impairment, as approved internally by the Credit Committee, is based on the banking systems in the BSEC countries. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss experience.

If the amount of impairment subsequently decreases due to an event occurring after a write-down, the release of the provision is credited to the provision for asset losses expense. Unwinding of the discount is treated as income and remaining provision is then reassessed.

Available-for-Sale Financial Assets

At each financial position date the Bank assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. For equity investments carried at fair value, a significant or prolong decline in the fair value below its cost is considered in determining whether the assets are impaired. If any such evidence exists, the cumulative impairment loss, which is measured as the difference between the acquisition cost and the current fair value, net of any impairment loss previously recognised in net income, is removed from reserves and included in income. Impairment losses once recognised and included in income on these equity investments carried at cost, are not reversed.

For debt securities the Bank assesses at each financial position date whether there is objective evidence of impairment. The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Downgrading of the issuer below minimum eligibility levels for Treasury exposures,
- Issuer failure to pay amounts contracted under the security,
- Covenant breaches, default events and trigger level failures,
- Deterioration of credit enhancement including diminution of collateral value, and
- Legal proceedings such as bankruptcy, regulatory action or similar.

If any such evidence exists, the cumulative impairment loss measured as the difference between the acquisition cost and the current fair value is removed from reserves and included in income. If in a subsequent period the impairment indications of such securities cease to exist, related to an event after the impairment loss was recognised, that loss is reversed through income.

Non Financial Assets

At each financial position date the Bank reviews the carrying value of the non financial assets and assesses whether there is any indication of impairment. If such indications exist an analysis is performed to assess whether the book value of the specific assets can be recovered. The recoverable amount is the higher amount between the net value of sale (value of sale reduced by sale expenses) and of the value in use (as calculated from the net cash flows). If the carrying value of an intangible asset exceeds its recoverable value, then an impairment loss is recorded in income.

Renegotiated Loans

When necessary, the Bank seeks to restructure loans that may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Risk Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. These loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Financial Guarantees

Issued financial guarantees are initially recognised at their fair value, being the premium (fee) received and subsequently measured at the higher of the unamortised balance of the related fees received and deferred, and the expenditure required to settle the commitment at the financial position date. The latter is recognised when it is both probable that the guarantee will require to be settled and that the settlement amount can be reliably estimated. Financial guarantees are recognised within other financial assets and other financial liabilities.

Property And Equipment

Property 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. The annual depreciation rates applied were as follows:

• Expenditure on leasehold buildings and improvements are depreciated over the remaining term of the lease	-
• Transportation vehicles	20.0 %
• Furniture and office accessories	20.0 %
• Personal computers	33.0 %
• Office and telecommunication equipment	20.0 %

Intangible Assets

Intangible assets comprise software expenditures and other intangible assets. These assets are amortized on a straight-line basis over the best estimate of their useful lives, which is normally five years. Their carrying values are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Taxation

In accordance with Article 52 of the Establishing 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. Also no tax shall be levied on salaries or emoluments paid by the Bank to employees. These 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 2380/No.38/7.3.1996.

Other Provisions

The Bank raise provisions for potential obligations and risks when the following circumstances exist (a) there is an existing legal or constructive obligation as a result of past events (b) for the obligation to be settled an outflow of resources embodying economic benefits is possible and (c) a reliable estimate of the amount of the obligation can be made.

Share Capital And Dividends

In accordance with Article 36 of the Establishing 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 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.

Reserves

In accordance with the Establishing Agreement of the Bank the general reserve is created from the profits of the Bank, as mention above. It is maintained for meeting any unforeseeable risks or contingencies that may not qualify as provisions and is normally built-up from released provisioning charges during the year.

The revaluation reserve regards changes in fair value of available-for-sale investments of the Bank.

Retained Earnings

Retained earnings are the surpluses of the Bank and consist of amounts being allocated from prior year incomes and the unallocated current year's net income.

Netting Of Financial Assets And Liabilities

The netting off of assets and liabilities in the financial statements is permitted if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Revenues And Expenses

Interest income and expense are recorded in income for all interest bearing instruments on an accrual basis using the effective interest rate method based on actual contractual terms, with the exception being those assets that are individually identified as impaired for which interest is recognised through unwinding the discount arising from the present value calculations applied to the expected future cash flows. The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (inflows and outflows) through the expected life of the financial instrument, or when appropriate, a shorter period to the carrying amount of a financial asset or financial liability.

In accordance with IAS 18, front-end fees and where applicable commitment fees pertaining to loans are amortised through income using the effective interest rate method over the life of the loans. This calculation however, does not include costs that any other party is directly responsible for as: taxes, notary fees, insurance, registration, etc. In the case of early repayment, cancellation or acceleration the outstanding deferred income from the related fees is recalculated taking into account the new maturity date. If the commitment expires without a loan being drawn down, the related fee is recognised as income on expiry.

Other commitment and guarantee fees and fees received in respect of services provided over a period of time are recognised as income on an accrual basis matching the period during which the commitment exists or the services are provided. Additionally, fees from negotiation, cancellation, arrangement, etc are recognised on completion of the related transaction. Dividends are recognised when received. Administrative expenses are recorded on an accrual basis.

Staff Retirement And Termination Benefits

The Bank has established a pension plan, where the fund's assets are held separately from the Bank's own assets, for all its permanent employees, consisting of three pillars:

- The first pillar is a defined benefit scheme financed entirely by the Bank. The Bank's contributions are determined on the basis of actuarial valuations using the projected unit credit method, performed annually by qualified, independent actuaries. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting year exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plan.

- The second pillar is a defined contribution scheme to which both the employee and the Bank contribute equally at a rate of 0-7.5% of basic salary. Each employee determines his/her contribution rate and the mode of investment of the contributions.

- The third pillar is a defined contribution scheme funded entirely by each employee, up to 40% of basic salary.

As an alternative, local staff are entitled to retirement benefits from the Greek State Social Insurance Fund ("IKA"), which is a defined contribution scheme.

Current service costs in respect of both the pension plan and IKA are recognised as an expense and included in "Administrative expenses".

The Bank may offer termination benefits to employees that are terminated before the normal retirement age. These indemnities, including any related retirement benefits, are recognised in income as an expense in the same period which they are incurred.

Government Grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Grants relating to fixed asset expenditures are recognised in income on a straight-line basis over the same period as that applied for depreciation purposes. Those relating to administrative expenses are recognised in income matching with the expense incurred. The balance of grants received or receivable that has not been taken to income is carried in the statement of financial position within "Other liabilities".

Operating Leases – The Bank As A Lessee

For the Bank, an operating lease is a lease other than a finance lease. Under such agreements, all the risks and benefits of ownership are effectively retained by the lessor. The Bank has entered into this type of lease for its Headquarters building. Payments made under operating leases are charged to income on a straight-line basis over the period of the lease term. Any benefits received or that are receivable are also recognised on a straight-line basis over the lease term. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor, by way of penalty, is recognised as an expense in the period which the termination takes place.

Use Of Judgement And 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. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Consequently, the specific considerations regarding the use of management judgement in each area of estimate have been outlined in the respective accounting policy and disclosure note. The Bank's critical accounting judgements and estimates are as follows:

- Provisions for the impairment of loan operations. The Bank's method for determining the level of impairment of loan operations is described in the "impairment" accounting policy and further explained under credit risk. Portfolio provisions for the unidentified of loan operations at 31 December 2010 were SDR 18,296 thousand.

- Staff retirement benefits. The Bank's has established a pension plan for its staff which is described in "staff retirement and termination benefits" accounting policy and is detailed under staff retirement plan. The present value of retirement benefit obligations is sensitive to the actuarial and financial assumptions used, including the discount rate applied. At the end of each year, the Bank determines the appropriate discount rate and other assumptions to be used to determine the present value of estimated future pension obligations, based on interest rates of suitable long-term bonds and on currencies as the EUR and USD. The Bank's liability to the staff retirement plan at 31 December 2010 was SDR 782 thousand.

Actual results could differ from those estimates mentioned above, although such differences are believed not material and do not affect these financial statements.

New Accounting Standards And Interpretations Of IASB

A) Changes in accounting policies and disclosures.
The accounting policies adopted are consistent with those of the previous financial year and except as follows. The Bank has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2010:

- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transaction (Amended).
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended).
- IAS 39 Financial Instruments: Recognition and Measurement – eligible hedged items.
- IFRIC 17 Distributions of Non-cash Assets to Owners.
- Improvements to IFRSs (May 2008).
- Improvements to IFRSs (April 2009).

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Bank, its impact is described below.

IFRS 2: Group Cash-settled Share-based Payment Transactions (Amended).

The amendment is effective for annual periods beginning on or after 1 January 2010. This amendment clarifies the accounting for group cash-settled share-based payment transactions and how such transactions should be arranged in the individual financial statements of the subsidiary. This interpretation has not yet been endorsed by the EU. The Bank does not expect that this amendment will have an impact on the financial position or performance of the Bank.

IFRS 3: Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended).

The revised IFRS 3 introduces a number of changes in the accounting for business combinations which will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Such changes include the expensing of acquisition-related costs and recognising subsequent changes in fair value of contingent consideration in the profit or loss (rather than by adjusting goodwill). The amended IAS 27 requires that a change in ownership interest of a subsidiary is accounted for as an equity transaction. Therefore such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The Bank does not expect that this amendment will have an impact on the financial position or performance of the Bank.

IAS 39: Financial Instruments: Recognition and Measurement (Amended) – eligible hedged items.

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Bank does not expect that this amendment will have an impact on the financial position or performance of the Bank.

IFRIC 17: Distributions of Non-cash Assets to Owners.

The interpretation provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Bank does not expect that this amendment will have an impact on the financial position or performance of the Bank.

Amendments resulting from improvements to IFRSs (April 2009) to the following standards which had, or that did not have, an effect on the accounting policies, financial position or performance of the Bank.

- **IFRS 2:** Share-based Payment. Clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of IFRS 2 even though they are out of scope of IFRS 3 (revised). If an entity applies IFRS 3 (revised) for an earlier period, the amendment shall also be applied for that earlier period.

- **IFRS 5:** Non-current Assets Held for Sale and Discontinued Operations, effective for annual periods beginning on or after 1 January 2010. Clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.

- **IFRS 8:** Operating Segment Information, effective for annual periods beginning on or after 1 January 2010. Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- **IAS 1:** Presentation of Financial Statements, effective for annual periods beginning on or after 1 January 2010. The terms of a liability that could result, at any time, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- **IAS 7:** Statement of Cash Flows, effective for annual periods beginning on or after 1 January 2010. Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2009 upon cash settlement.

- **IAS 17:** Leases, effective for annual periods beginning on or after 1 January 2009. The amendment removes the specific guidance on classifying land as a lease so that only the general guidance remains.

- **IAS 18:** Revenue the Board has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:

  - Has primary responsibility for providing the goods or service.
  - Has inventory risk.
  - Has discretion in establishing prices.
  - Bears the credit risk.

- **IAS 36:** Impairment of Assets, effective for annual periods beginning on or after 1 January 2010. The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes.

- **IAS 38:** Intangible Assets, effective for annual periods beginning on or after 1 July 2009. Clarifies that if an intangible asset acquired in business combination is identifiable only with another intangible asset, the acquirer may recognise the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also, clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used. If an entity applies IFRS 3 (revised) for an earlier period, the amendment shall also be applied for that earlier period.

- **IAS 39:** Financial Instruments: Recognition and Measurement, effective for annual periods beginning on or after 1 January 2010. The amendment clarifies that:

  - A prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.
  - The scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an

acquiree at a future date, applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken (Applicable to all unexpired contracts for annual periods beginning on or after 1 January 2010).

- Gains and losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognised financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss (Applicable to all unexpired contracts for annual periods beginning on or after 1 January 2010).

- **IFRIC 9:** Reassessment of Embedded Derivatives, effective for annual periods beginning on or after 1 July 2009. The Board amended the scope paragraph of IFRIC 9 to clarify that it does not apply to possible reassessment, at the date of acquisition, to embedded derivatives in contracts acquired in a combination between entities or business under common control or the formation of a joint venture. If an entity applies IFRS 3 (revised) for an earlier period, the amendment shall also be applied for that earlier period.

- **IFRIC 16:** Hedges of a Net Investment in a Foreign Operation, effective for annual periods beginning on or after 1 July 2009. The amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied.

B) Standards issued but not yet effective and not early adopted.

IFRS 9: Financial Instruments – Phase 1 financial assets, classification and measurement.

The new standard is effective for annual periods beginning on or after 1 January 2013. Phase 1 of this new IFRS introduces new requirements for classifying and measuring financial assets. Early adoption is permitted. This interpretation has not yet been endorsed by the EU. The Bank is in the process of assessing the impact this new standard will have on its financial statements.

IAS 24: Related Party Disclosures (Revised).

The revision is effective for annual periods beginning on or after 1 January 2011. This revision relates to the judgment which is required so as to assess whether a government and entities known to the reporting entity to be under the control of that government are considered a single customer. In assessing this, the reporting entity shall consider the extent of economic integration between those entities. Early application is permitted and adoption shall be applied retrospectively. The Bank does not expect that this amendment will have an impact on the financial position or performance of the Bank.

IAS 32: Classification on Rights Issues (Amended).

The amendment is effective for annual periods beginning on or after 1 February 2010. This amendment relates to the rights issues offered for a fixed amount of foreign currency which were treated as derivative liabilities by the existing standard. The amendment states that if certain criteria are met, these should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment is to be applied retrospectively. The Bank does not expect that this amendment will have an impact on the financial position or performance of the Bank.

IFRIC 14: Prepayments of a Minimum Funding Requirement (Amended).

The amendment is effective for annual periods beginning on or after 1 January 2011. The purpose of this amendment was to permit entities to recognise as an asset some voluntary prepayments for minimum funding contributions. This Earlier application permitted and must be applied retrospectively. The Bank was not obligated to a minimum funding requirement from any country it operates for post-employee defined benefits and other long-term employee defined benefits. The Bank's defined benefit schemes are currently in deficit, consequently this interpretation will have no impact on the financial position or performance.

IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments.

The interpretation is effective for annual periods beginning on or after 1 July 2010. This interpretation addresses the accounting treatment when there is a renegotiation between the entity and the creditor regarding the terms of a financial liability and the creditor agrees to accept the entity's equity instruments to settle the financial liability fully or partially. IFRIC 19 clarifies such equity instruments are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability.

The Bank does not expect that this amendment will have an impact on the financial position or performance of the Bank as no such transactions are anticipated.

Amendments to IFRS 1: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for accounting periods beginning on or after 1 July 2010). Relief is given to first-time adopters from providing comparative information for the disclosures required by the amendments to IFRS 7 Financial Instruments: Disclosure in the first year of application. This amendment does not apply to the Bank.

In May 2010 the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The effective dates of the improvements are various and the earliest is for the financial year beginning 1 July 2010. Early application is permitted in all cases and this annual improvements project has not yet been endorsed by the EU.

- **IFRS 1:** First-Time Adoption, effective for annual periods beginning on or after 1 January 2011. This improvement clarifies the treatment of accounting policy changes in the year of adoption after publishing an interim financial report in accordance with IAS 34 Interim Financial Reporting, allows first-time adopters to use an event-driven fair value as deemed cost and expands the scope of 'deemed cost' for property, plant and equipment or intangible assets to include items used subject to rate regulated activities.

- **IFRS 3:** Business Combinations, effective for annual periods beginning on or after 1 July 2010. This improvement clarifies that the amendments to IFRS 7 "Financial Instruments: Disclosures", IAS 32 "Financial Instruments: Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement", that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).

  Moreover, this improvement limits the scope of the measurement choices (fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets) only to the components of non-controlling interest that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets.

  Finally, it requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses.

- **IFRS 7:** Financial Instruments: Disclosures, effective for annual periods beginning on or after 1 January 2011. This improvement gives clarifications of disclosures required by IFRS 7 and emphasises the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments.

- **IFRS 7:** Financial Instruments: Disclosures as part of its comprehensive review of off balance sheet activities (Amended). The amendment is effective for annual periods beginning on or after 1 July 2011. The purpose of this amendment is to allow users of financial statements to improve their understanding of transfer transactions of financial assets (e.g. securitisations), including understanding the possible effects of any risks that may remain with the entity which transferred the assets. The amendment also requires additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The amendments broadly align the relevant disclosure requirements of IFRSs and US GAAP. This interpretation has not yet been endorsed by the EU. The Bank does not expect that this amendment will have an impact on the financial position or performance of the Bank.

- **IAS 1:** Presentation of Financial Statements, effective for annual periods beginning on or after 1 January 2011. This amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

- **IAS 12:** Deferred tax: Recovery of Underlying Assets (Amended). The amendment is effective for annual periods beginning on or after 1 January 2012. This amendment concerns the determination of deferred tax on investment property measured at fair value and also incorporates SIC-21 "Income Taxes — Recovery of Revalued Non-Depreciable Assets" into IAS 12 for non-depreciable assets measured using the revaluation model in IAS 16. The aim of this amendment is to include a) a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and b) a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. This interpretation has not yet been endorsed by the EU. The Bank does not expect that this amendment will have an impact on the financial position or performance of the Bank.

- **IAS 27:** Consolidated and Separate Financial Statements, effective for annual periods beginning on or after 1 July 2010. This improvement clarifies that the consequential amendments from IAS 27 made to IAS 21 "The Effect of Changes in Foreign Exchange Rates", IAS 28 "Investments in Associates" and IAS 31 "Interests in Joint Ventures" apply prospectively for annual periods beginning on or after 1 July 2009 or earlier when IAS 27 is applied earlier.

- **IAS 34:** Interim Financial Reporting, effective for annual periods beginning on or after 1 January 2011. This improvement provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements.

- **IFRIC 13:** Customer Loyalty Programmes, effective for annual periods beginning on or after 1 January 2011. This improvement clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

- **Amendments to IFRS 7:** Financial Instruments: Disclosures (effective for accounting periods beginning on or after 1 January 2011). The IASB issued Amendments to IFRS 7 to enhance the transparency of disclosure requirements for the transfer of financial assets. The amendments will assist users to understand the implications of transfers of financial assets and the potential risks that may remain with the transferor. The Bank is in the process of assessing the impact this new standard will have on its financial statements.

- **Amendments to IFRS 1:** Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (effective for accounting periods beginning on or after 1 July 2011). These amendments to IFRS 1 introduce a new deemed cost exemption for entities that have been subject to severe hyperinflation. They also remove the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions. This amendment does not apply to the Bank.

Risk Management

Risk is inherent in the Bank's activities but is managed through an ongoing process of identification, measurement and monitoring, and is subject to risk limits and controls. A conservative approach to risk taking together with effective risk management, are critical to the Bank's continuing operations and profitability. The Board of Directors has approved risk management policies and guidelines that are delegated to the Management of the Bank for the identification and control of risk.

The Bank's lending risk management policy documents describe the procedures for approval, management and review of lending activity exposures. The Bank's Treasury investment policy documents define the risk parameters to be observed by the Treasury in managing its exposures. The Bank is exposed to risks identified in this section.

Financial Risk

The Bank exposure to financial risk is through its financial assets and liabilities including any receivables from these financial assets. Two key aspects of financial risk are (i) credit risk and (ii) liquidity risk.

Credit risk

The Bank is subject to credit risk, which is the risk that customers or counterparties will be unable to meet their obligations as they fall due. Credit risk arises principally from the Bank's lending activities. Regular reviews are conducted of all exposures within the lending portfolios, typically on a semi-annual basis, though exposures that are perceived to be more vulnerable to possible default are reviewed more frequently.

At each review there is (i) an assessment of whether there has been any change in the risk profile of the exposure (ii) recommendations of actions to mitigate risk and (iii) reconfirming or adjusting the risk ratings, and for equity investments, reviewing of fair value. Where relevant, the level of collective impairment or specific provision is evaluated and reconfirmed or adjusted. Responsibility for operations considered to be in jeopardy may be transferred from the original lending department to a corporate recovery team in order to most effectively manage the restructuring and recovery process.

Provision and reserve amounts are calculated each month using the Bank's IFRS compliant methodology, which is based on loan loss experiences in the BSEC countries banking systems. The loan loss data is updated semi-annually and provides objective evidence of impairment, using separately each country's risk profile adjusting it for current circumstances when necessary, upon which to estimate provisions for losses.

For credit risks incurred by the Bank's Treasury in its investment and hedging activities, the Board of Directors has approved policies and guidelines for the determination of counterparty and investment exposure limits. The Bank's Risk Management assigns and monitors these counterparty and issuer credit risk limits. Treasury credit risks are also reviewed on a monthly basis by the Bank's Asset and Liability Committee.

The table below summarises the maximum exposure to credit risk and indicates the worst-case scenario, without taking into consideration collateral, other credit enhancements or impairment provisions.

Presented in SDR (000)	At 31 December 2010	At 31 December 2009
Cash and bank balances	73,247	11,203
Placements with financial institutions	3,896	-
Investment securities	74,122	158,870
Loans	563,324	568,587
Equity investments	15,619	13,284
Other assets	6,854	9,917
On-balance-sheet	**737,062**	**761,861**
Undrawn commitments	70,838	88,459
Total	**807,900**	**850,320**

Analysis By Rating Agency

The table below provides an analysis of financial investments in accordance with their Moody's rating as follows:

	2010				
Presented in SDR (000)	Aaa – Aa3	A1 – A3	Baa1 – Baa3	Unrated	Total
Analysis by Moody's rating					
Cash and bank balances	77,143	-	-	-	77,143
Investment securities	13,759	25,056	35,307	-	74,122
Equity investments	-	-	-	15,619	15,619
At 31 December	**90,902**	**25,056**	**35,307**	**15,619**	**166,884**
Of which issued by					
Governments	-	-	21,666	-	21,666
Corporates	13,759	25,056	13,641	15,619	68,075
Deposits at banks	77,143	-	-	-	77,143
At 31 December	**90,902**	**25,056**	**35,307**	**15,619**	**166,884**
Of which classified as					
Available-for-sale	13,759	-	35,307	15,619	64,685
Held-to-maturity	-	25,056	-	-	25,056
Amortised cost	77,143	-	-	-	77,143
At 31 December	**90,902**	**25,056**	**35,307**	**15,619**	**166,884**

	2009				
Presented in SDR (000)	Aaa – Aa3	A1 – A3	Baa1 – Baa3	Unrated	Total
Analysis by Moody's rating					
Cash and bank balances	11,203	-	-	-	11,203
Investment securities	20,805	100,812	37,253	-	158,870
Equity investments	-	-	-	13,284	13,284
At 31 December	**32,008**	**100,812**	**37,253**	**13,284**	**183,357**
Of which issued by					
Governments	-	-	21,833	-	21,833
Corporates	20,805	100,812	15,420	13,284	150,321
Deposits at banks	11,203	-	-	-	11,203
At 31 December	**32,008**	**100,812**	**37,253**	**13,284**	**183,357**
Of which classified as					
Available-for-sale	20,805	-	37,253	13,284	71,342
Held-to-maturity	-	100,812	-	-	100,812
Amortised cost	11,203	-	-	-	11,203
At 31 December	**32,008**	**100,812**	**37,253**	**13,284**	**183,357**

Collateral and Credit Enhancements

The Bank mitigates credit risk by holding collateral and other credit enhancements against exposure to customers and counterparties where it believes such security is necessary. The Bank defines security as mechanisms, procedures and assets negotiated in transactions that are meant to protect it against loss in case of non-performance. Security includes, but is not limited to, material assets, financial instruments, covenants and comfort letters.

- Loans and advances. The Board of Directors approved guidelines for taking security under lending operations set the amounts and types of collateral and other credit enhancements. The main types of collateral that may be obtained by the Bank are: mortgages on properties and equipment, pledges of equity shares and investment instruments, assignment of rights on certain contracts, cash or blocked deposits and other third party guarantees. When needed the Bank reassesses the change in the market value of collateral and, if necessary, requests the pledging of additional collateral in accordance with the relevant agreement.

- Other financial instruments. Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Investment securities, treasury bills and other eligible bills are generally unsecured.

Liquidity Risk

Liquidity risk concerns the ability of the Bank to fulfil its financial obligations as they become due, and is a measure of the extent to which the Bank may require funds to meet those obligations. The Bank's liquidity management is concentrated on the timing of cash in-flows and out-flows, as well as the adequacy of available cash and liquid securities. For this, the Bank estimates and relates all expected cash flows from assets and liabilities.

The Bank's commitment to maintaining a strong liquidity position is established in policies, approved by the Board of Directors, including a minimum liquidity ratio of 50% liquid assets to the next twelve months net cash requirements. The Bank's liquid assets are maintained in short-term placements and negotiable securities.

The table below presents the cash flows payable on financial liabilities placed into relevant maturity groups, based on the remaining period from the financial position date to the contractual maturity date. It indicates the earliest maturity dates that the Bank's counterparties have the ability to demand repayment. The figures represent undiscounted cash flows and therefore do not match to the statement of financial position.

Presented in SDR (000)	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	**Total**
Borrowings		67	81,986	171,983	16,143	**270,179**
Derivative financial instruments		174				**174**
Payables and accrued interest		2,297	782			**3,079**
Deferred income	5,425					**5,425**
Financial Liabilities at 31 December 2010	**5,425**	**2,538**	**82,768**	**171,983**	**16,143**	**278,857**
Borrowings		131	229,935	146,322	5,480	**381,868**
Derivative financial instruments		1,129				**1,129**
Payables and accrued interest		2,025	799			**2,824**
Deferred income	4,867					**4,867**
Financial liabilities at 31 December 2009	**4,867**	**3,285**	**230,734**	**146,322**	**5,480**	**390,688**

For the Bank's financial assets, the majority mature from one year and over taking into consideration the latest possible repayment date.

Market Risk

Market risk refers to the probability of losses due to changes in the market prices of financial instruments, interest rates and exchange rates. The Bank funds its operations by using its capital and by borrowing in the international capital markets. The Bank aims to match, wherever possible, the currencies, tenors and interest rate characteristics of its borrowings with those of its lending portfolios. When necessary, the Bank uses derivative instruments to reduce its exposure to exchange rate and interest rate risk.

Foreign Exchange Risk

The Bank's policy to invest its SDR denominated capital and reserves in the SDR constituent currencies at the appropriate weights. The Bank monitors its assets and liabilities in the SDR basket currencies in order to ensure it takes no significant foreign exchange risks. In doing so the Bank matches, to the extent practicable, the lending obligations in any one currency (after swap activities) with liabilities in the same currency.

To avoid currency mismatches, borrowers are required to service their loans in the currencies disbursed by the Bank. Furthermore, it is Bank policy to minimize currency fluctuations on its capital by matching the currency composition of its net assets to that of the SDR basket. The effect of any currency fluctuations to the net exposure of the Bank is minimal.

The table below provides a currency breakdown of the Bank's assets and liabilities as at 31 December 2010

Presented in SDR (000)	United States dollar	Euro	Japanese yen	Pound Sterling	Other	Special drawing right	**Total**
Assets							
Cash and bank balances	6,206	2,736	63,734	466	105		**73,247**
Placements with financial institutions	3,896						**3,896**
Investment securities	13,640	32,638		27,844			**74,122**
Loans	336,823	226,501					**563,324**
Impairment losses on loans	(33,739)	(3,544)					**(37,283)**
Equity investments	146	5,801			9,672		**15,619**
Other assets	3,874	1,977		108		895	**6,854**
Property and equipment						248	**248**
Intangible assets						664	**664**
Total assets	330,846	266,109	63,734	28,418	9,777	1,807	**700,691**
Liabilities and Equity							
Borrowings	171,896	84,713					**256,609**
Derivative financial instruments						174	**174**
Payables and accrued interest	1,160	1,914		5			**3,079**
Deferred income						5,425	**5,425**
Members' equity						435,404	**435,404**
Total liabilities and equity	173,056	86,627	0	5	0	441,003	**700,691**
Net assets (liabilities)	157,790	179,482	63,734	28,413	9,777	(439,196)	**0**
Derivative financial instruments	14,590	(24,985)		11,025	(804)	174	**0**
Net currency balance at 31 December 2010	**172,380**	**154,497**	**63,734**	**39,438**	**8,973**	**(439,022)**	**0**
Correct SDR weights *	180,165	154,866	64,258	39,733	0	439,022	
Currency position at 31 December 2010	(7,785)	(369)	(524)	(295)	8,973	0	
Net currency balance at 31 December 2009	**143,798**	**136,722**	**46,082**	**33,855**	**5,112**	**(365,569)**	**0**

* As per IMF rule (effective as of 1 January 2005).

The table below provides a curr ency breakdown of the Bank's assets and liabilities as at 31 December 2009.

Presented in SDR (000)	United States dollar	Euro	Japanese yen	Pound Sterling	Other	Special drawing right	**Total**
Assets							
Cash and bank balances	3,587	2,156	5,341	56	63		**11,203**
Investment securities	75,725	50,267		32,878			**158,870**
Loans	411,907	156,680					**568,587**
Impairment losses on loans	(25,932)	(4,176)					**(30,108)**
Equity investments	2,469	4,083		820	5,912		**13,284**
Other assets	5,616	2,309		112		1,880	**9,917**
Property and equipment						280	**280**
Intangible assets						572	**572**
Total assets	473,372	211,319	5,341	33,866	5,975	2,732	**732,605**
Liabilities and Equity							
Borrowings	328,204	32,147					**360,351**
Derivative financial instruments						1,129	**1,129**
Payables and accrued interest	1,370	1,443		11			**2,824**
Deferred income						4,867	**4,867**
Members' equity						363,434	**363,434**
Total liabilities and equity	329,574	33,590	0	11	0	369,430	**732,605**
Net assets (liabilities)	143,798	177,729	5,341	33,855	5,975	(366,698)	**0**
Derivative financial instruments		(41,007)	40,741		(863)	1,129	**0**
Net currency balance at 31 December 2009	**143,798**	**136,722**	**46,082**	**33,855**	**5,112**	**(365,569)**	**0**
Correct SDR weights *	147,375	137,666	46,426	34,102	0	365,569	
Currency position at 31 December 2009	(3,577)	(944)	(344)	(247)	5,112	0	
Net currency balance at 31 December 2008	**138,490**	**123,875**	**44,454**	**28,748**	**3,369**	**(338,936)**	**0**

* As per IMF rule (effective as of 1 January 2005).

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 Management Unit monitors 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 as at 31 December 2010.

	Interest Bearing						
Presented in SDR (000)	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and bank balances	73,245					2	**73,247**
Placements with financial institutions	3,896						**3,896**
Investment securities	25,056	2,787	9,956	36,323			**74,122**
Loans	116,761	159,074	244,439	43,050			**563,324**
Impairment losses on loans						(37,283)	**(37,283)**
Equity investments						15,619	**15,619**
Other assets						6,854	**6,854**
Property and equipment						248	**248**
Intangible assets						664	**664**
Total assets	218,958	161,861	254,395	79,373	0	(13,896)	**700,691**
Liabilities and Equity							
Borrowings		48,700	126,920	80,989			**256,609**
Derivative financial instruments						174	**174**
Payables and accrued interest						3,079	**3,079**
Deferred income						5,425	**5,425**
Members' equity						435,404	**435,404**
Total liabilities and equity	0	48,700	126,920	80,989	0	444,082	**700,691**
Interest rate risk at 31 December 2010	**218,958**	**113,161**	**127,475**	**(1,616)**	**0**	**(457,978)**	**0**
Interest rate risk at 31 December 2009	**199,603**	**18,948**	**177,814**	**(18,057)**	**0**	**(378,308)**	**0**

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 as at 31 December 2009.

	Interest Bearing						
Presented in SDR (000)	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and bank balances	11,202					1	**11,203**
Investment securities	100,812		22,360	35,698			**158,870**
Loans	134,430	219,881	188,601	25,675			**568,587**
Impairment losses on loans						(30,108)	**(30,108)**
Equity investments						13,284	**13,284**
Other assets						9,917	**9,917**
Property and equipment						280	**280**
Intangible assets						572	**572**
Total assets	247,444	219,881	209,961	61,373	0	(6,054)	**732,605**
Liabilities and Equity							
Borrowings	47,841	200,933	32,147	79,430			**360,351**
Derivative financial instruments						1,129	**1,129**
Payables and accrued interest						2,824	**2,824**
Deferred income						4,867	**4,867**
Members' equity						363,434	**363,434**
Total liabilities and equity	47,841	200,933	32,147	79,430	0	372,254	**732,605**
Interest rate risk at 31 December 2009	**199,603**	**18,948**	**177,814**	**(18,057)**	**0**	**(378,308)**	**0**
Interest rate risk at 31 December 2008	**110,509**	**26,201**	**176,918**	**40,193**	**0**	**(353,821)**	**0**

Sensitivity Analysis

The Bank interest rate sensitivity analysis comprises of two elements. Firstly, there is the differential between the interest rate the Bank earns on its assets and the cost of borrowing to fund these assets. For this element the Bank does, as closely as possible, match interest rate periods, thus minimising sensitivity. Secondly, there is the absolute rate earned on assets that are funded by the Bank's equity resources. The majority of these equity resources are currently invested in the Bank's loan portfolio at floating rates; therefore, subjecting earnings on equity resources to some degree of fluctuation. As the Bank matures and its financial position grows it is the intention that earnings on equity resources be stabilised by an increased investment in fixed rate instruments.

The table below details the re-pricing gap by currency as end of 2010 and as end of 2009. A parallel upward or downward shift in the SDR curve of 50 basis points would have generated the maximum loss or gain respectively.

Presented in SDR (000)	At 31 December 2010	At 31 December 2009
United states dollar	(11,400)	(52,600)
Euro	155,400	83,900
Japanese yen	-	-
Pound sterling	1,400	5,800
Total re-pricing gap	145,400	37,100
Shift of 50 basis points in the SDR curve	**727**	**185**

Operational Risk

The Bank defines operational risk as all aspects of risk related exposure other than those falling within the scope of financial and market risk. This includes the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and legal risk. The Bank has a low tolerance for losses arising from the operational risks it is exposed to.

Where any such risks are identified, appropriate mitigation and control measures are put in place. The Bank's operational risk management focuses on proactive measures to mitigate the operational risk.

Classification And Fair Value

The table below identifies the Bank's financial assets and liabilities in accordance with IAS 39 categories as at 31 December 2010.

	At 31 December 2010					
Presented in SDR (000)	Held-to-maturity	Derivatives held for hedging	Loans and receivables	Available-for-sale	At amortised Cost	Carrying Amount
Assets						
Cash and bank balances					73,247	**73,247**
Placements with financial institutions					3,896	**3,896**
Investment securities	25,056			49,066		**74,122**
Loans			563,324			**563,324**
Impairment losses on loans			(37,283)			**(37,283)**
Equity investments				15,619		**15,619**
Other assets			6,854			**6,854**
Total financial assets	**25,056**	**0**	**532,895**	**64,685**	**77,143**	**699,779**
Liabilities						
Borrowings					256,609	**256,609**
Derivative financial instruments		174				**174**
Payables and accrued interest					3,079	**3,079**
Deferred income					5,425	**5,425**
Total financial liabilities	**0**	**174**	**0**	**0**	**265,113**	**265,287**

The table below identifies the Bank's financial assets and liabilities in accordance with IAS 39 categories as at 31 December 2009.

	At 31 December 2009					
Presented in SDR (000)	Held-to-maturity	Derivatives held for hedging	Loans and receivables	Available-for-sale	At amortised Cost	Carrying Amount
Assets						
Cash and bank balances					11,203	**11,203**
Investment securities	100,812			58,058		**158,870**
Loans			568,587			**568,587**
Impairment losses on loans			(30,108)			**(30,108)**
Equity investments				13,284		**13,284**
Other assets			9,917			**9,917**
Total financial assets	**100,812**	**0**	**548,396**	**71,342**	**11,203**	**731,753**
Liabilities						
Borrowings					360,351	**360,351**
Derivative financial instruments		1,129				**1,129**
Payables and accrued interest					2,824	**2,824**
Deferred income					4,867	**4,867**
Total financial liabilities	**0**	**1,129**	**0**	**0**	**368,042**	**369,171**

Fair Value Hierarchy

Bank held the below financial instruments measured at fair value, and uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- **Level 1:** Quoted (unadjusted) prices in active markets for identical assets or liabilities,

- **Level 2:** Other techniques for which all inputs that have a significant effect on the recorde fair value are observable, either directly or indirectly, and

- **Level 3:** Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observ able market data.

Financial instruments measured at fair value as at 31 December 2010.

Presented in SDR (000)	Level 1	Level 2	Level 3	Carrying Amount
Available-for-sale:				
Investment securities	49,066			**49,066**
Equity investments	1,020		14,599	**15,619**
Derivative financial instruments		(174)		**(174)**
At 31 December 2010	**50,086**	**(174)**	**14,599**	**64,511**

Financial instruments measured at fair value as at 31 December 2009.

Presented in SDR (000)	Level 1	Level 2	Level 3	Carrying Amount
Available-for-sale:				
Investment securities	58,058			**58,058**
Equity investments	3,134		10,150	**13,284**
Derivative financial instruments		(1,129)		**(1,129)**
At 31 December 2009	**61,192**	**(1,129)**	**10,150**	**70,213**

Classification

Investment securities classified as “available for sale” include government and corporate bonds and their fair value has been determined using quoted prices.

Investment securities classified as “held to maturity” include European commercial papers and notes with an initial maturity lower than 12 months; they are carried at amortised which is estimated to be their fair value due to their short term nature. No market prices are available.

Equity investments classified as “available for sale” include investments in that are not quoted on an exchange (i.e. private equity), the fair value of which has been estimated with techniques that use inputs not based on observable market data.

Capital Management

The Bank’s initial authorised share capital was SDR 1 billion, which is fully subscribed by the shareholding states. In December 2007 the Board of Governors approved a tripling of the Bank’s authorised share capital to SDR 3 billion and authorised the offering of SDR 1 billion to the existing Member States for subscription, with the objective of increasing subscribed capital to a total of SDR 2 billion. This increase will allow the Bank to implement its operational strategy to a substantial degree. The Bank does not have any other classes of capital.

In October 2008 the above new shares in the amount of SDR 1 billion that were offered for subscription to the Bank’s shareholding states were fully subscribed and allocated. Accordingly, the Bank’s paid-in share capital was doubled from SDR 300 million to SDR 600 million. The remaining SDR 1 billion of authorised share capital has not yet been allocated.

The capital usage of the Bank is guided by statutory and financial policy parameters. Article 15 of the Establishing Agreement limits the total amount of outstanding loans, equity investments and guarantees made for ordinary operations to 150% of the Bank’s unimpaired subscribed capital, reserves and surpluses, establishing a 1.5:1 institutional gearing ratio. Additionally, disbursed equity investments shall not at any time exceed an amount corresponding to the Bank’s total unimpaired paid-in capital, surpluses and general reserve. At the 36th meeting of the Board of Directors, the operational gearing ratio was set at 100% of the Bank’s unimpaired paid-up capital, reserves and surpluses, and the usable portion of the callable capital. This limit on the total amount of operations is approximately SDR 1.9 billion.

The Bank preserves an actively managed capital to prudently cover risks in its activities. As a multilateral financial institution, the Bank is not subject to regulatory capital requirements. However, the Bank uses standards proposed by the Basel II Capital Accord as a benchmark for its risk management and capital framework. Pursuant to Article 5 of the Establishing Agreement, the Board of Governors shall at intervals of not more than five years review the capital stock of the Bank. In substance, the primary objective of the Bank’s capital management is to ensure adequate capital is available to support the Bank’s operations.

Notes to the Financial Statements

1. Segment Reporting

The Bank is a multilateral financial institution dedicated to accelerating development and promoting cooperation among its shareholder countries. The Bank operates in a specific geographical area and the primary reporting format for business segments includes Lending and Treasury operations. Lending activities represent investments in projects such as loans, equity investments and guarantees, which in accordance with the Establishing Agreement, are made to accelerate development and promote co-operation among the Bank's shareholder countries. Treasury activities include raising debt finance, investing surplus liquidity, and managing the Bank's foreign exchange and interest rate risks.

	2010			2009		
Presented in SDR (OOO)	Lending	Treasury	Total	Lendiang	Treasury	Total
Income statement						
Interest income	25,974	3,821	29,795	28,917	3,106	32,023
Fees and commission income	3,525	-	3,525	2,825	-	2,825
Total segment revenues	29,499	3,821	33,320	31,742	3,106	34,848
Less: interest expense	(10,512)	(281)	(10,793)	(13,465)	(206)	(13,671)
Less: fees and commission expense	(299)	-	(299)	(340)	-	(340)
Net fair value, foreign exchange and other	6,509	181	6,690	32	121	153
Less: administrative expenses	(11,623)	(588)	(12,211)	(10,789)	(556)	(11,345)
Less: depreciation and amortisation	(240)	(64)	(304)	(222)	(69)	(291)
Segment income before impairment	13,334	3,069	16,403	6,958	2,396	9,354
Less: impairment losses on loans	(7,185)	-	(7,185)	(353)	-	(353)
Net income for the year	**6,149**	**3,069**	**9,218**	**7,311**	**2,396**	**9,707**
Financial position						
Segment assets	549,426	151,265	700,691	562,532	170,073	732,605
Segment liabilities	265,113	174	265,287	368,042	1,129	369,171
Members' equity	-	-	435,404	-	-	363,434
At end of year			**700,691**			**732,605**

The geographical segment reporting of the Bank is presented in the following note "Operational analysis".

2. Interest And Similar Income

Interest and similar income is analysed as follows:

Presented in SDR (000)	Year to 31 December 2010	Year to 31 December 2009
From loans	25,974	28,917
From placements with financial institutions	20	53
From investment securities available-for-sale	3,103	2,090
From investment securities held-to-maturity	693	963
From derivative financial assets at fair value	5	-
Interest and similar income	**29,795**	**32,023**

3. Interest And Similar Expense

Interest and similar expense is analysed as follows:

Presented in SDR (000)	Year to 31 December 2010	Year to 31 December 2009
From borrowed funds	3,930	8,330
From issued debt	5,274	3,228
From derivative financial liabilities at fair value	222	168
Amortised issuance and arrangement costs	1,301	1,896
Other charges	66	49
Interest and similar expense	**10,793**	**13,671**

4. Fees And Commission Income

Fees and commission income is analysed as follows

Presented in SDR (000)	Year to 31 December 2010	Year to 31 December 2009
Front-end fees	1,651	1,559
Commitment fees	882	689
Management fees	236	223
Appraisal fees	23	-
Prepayment/cancellation fees	434	14
Other	299	340
Fees and commission income	**3,525**	**2,825**

The deferred income balance as of 31 December 2010 was SDR 5,425 thousand and as of 31 December 2009 was SDR 4,867 thousand. Such amounts are recognised in income over the period from disbursement to repayment of the related loan in accordance with IAS 18.

5. Administrative Expenses

Administrative expenses is analysed as follows:

Presented in SDR (000)	Year to 31 December 2010	Year to 31 December 2009
Salaries and benefits	7,611	7,785
Staff retirement plan	1,240	1,178
Other administrative expenses	3,360	3,167
Total	12,211	12,130
Host country reimbursement	-	(785)
Administrative expenses	**12,211**	**11,345**

6. Impairment Losses On Loans

Loans are stated net of provisions. A summary of the movements in provisions for impairment were as follows:

Presented in SDR (000)	Collective	Specific	Total
At 1 January 2009	23,703	7,135	30,838
Release for the year	(353)	-	(353)
Foreign exchange adjustments	(252)	(125)	(377)
At 1 January 2010	23,098	7,010	30,108
Charge for the year	-	12,040	12,040
Release for the year	(4,855)	-	(4,855)
Foreign exchange adjustments	53	(63)	(10)
At 31 December 2010	**18,296**	**18,987**	**37,283**

At 31 December 2010 the Bank categorised two loans as impaired with an exposure amount of SDR 30,837 thousand (2009: one loan with an exposure amount of SDR 7,010 thousand) and the provision on these assets amounted to SDR 18,987 thousand (2009: SDR 7,010 thousand), as collateral held is estimated not to have significant value.

7. Debt Investment Securities

Debt investment securities are analysed as follows:

Presented in SDR (000)	Year to 31 December 2010	Year to 31 December 2009
Government bonds	21,666	21,833
Corporate bonds	27,400	36,225
Commercial papers	25,056	100,812
Debt investment securities	**74,122**	**158,870**

8. Derivative Financial Instruments

The table below shows outstanding forward foreign exchange contracts the Bank had engaged. The first column shows the sum of notional amounts, which is the amount of a derivative's underlying asset, and is the basis upon which changes in the value is measured.

	At 31 December 2010		At 31 December 2009	
Presented in SDR (000)	Notional Amount	Fair Value	Notional Amount	Fair Value
Currency swap purchases	32,541	32,477	42,080	41,579
Currency swap sales	32,536	32,651	42,600	42,708
Derivative financial instruments	**5**	**(174)**	**(520)**	**(1,129)**

9. Loans

The Bank offers a range of loan facilities directed to investments for both project and trade financing, tailored to meet an individual operation's requirements. Loans may be denominated in any convertible currency, or a combination of convertible currencies in which the Bank is able to fund itself.

Presented in SDR (000)	At 31 December 2010	At 31 December 2009
At 1 January	568,587	606,746
Disbursements	214,829	169,598
Less: repayments	(217,059)	(202,452)
Foreign exchange movements	(3,033)	(5,305)
At end of year	563,324	568,587
Less: impairment losses on loans	(37,283)	(30,108)
Loans net of impairment	**526,041**	**538,479**

The Bank classifies loan facilities as either standard, overdue, doubtful or non-performing. Non-performing are those that are primarily impaired and which associated interest is not being accrued. As of 31 December 2010 all loan facilities are classified as standard and there were two that were impaired.

Renegotiated loans that are included in the total above as of 31 December 2010 were SDR 30,317 thousand (2009: SDR 10,053 thousand).

Interest is generally based on Libor for USD loans and Euribor for EUR loans plus a margin. Margins are dependent on the risk category of each loan and typically range from 1.5% to 7.0%. The fair value of the loan portfolio is approximately equal to carrying value plus accrued interest as all loans bear a variable interest rate and are given at market terms and conditions. Further analysis of the loan portfolio is presented in note 11 "Operational analysis".

10. Equity Investments

A primary focus of the Bank is to facilitate access to funding for those small and medium size enterprises with the potential for positive economic developmental impact. With this objective in mind, the Bank, together with a number of other institutions invested in the entities as detailed below.

		At 31 December 2010		At 31 December 2009	
Presented in SDR (000)	% of investment	Cost	Fair Value	Cost	Fair Value
SEAF Trans-Balkan Fund LLC	18.33	-	146	-	556
Access Bank, Azerbaijan	19.99	6,787	8,652	3,176	5,288
Transgaz Romania	0.72	739	1,020	793	625
Balkan Accession Fund	9.09	5,508	5,041	4,093	4,307
Teleset Networks	6.10	-	-	2,734	2,508
A-Park Kaluga, Russia	19.99	688	688	-	-
Emerging Europe Accession Fund	7.40	72	72	-	-
Available-for-sale		**13,794**	**15,619**	**10,796**	**13,284**

The valuation of such investments, which are unlisted, has been projected using the latest audited accounts as of the 31 December 2009, as management considers that is the best available estimate of the investments fair value as of 31 December 2010.

An increase of SDR 1,825 thousand since the acquisition of the investments was due to an unrealized gain in fair value, attributable to the Bank's participation.

During the year the Bank had received dividend income of SDR 846 thousand. Furthermore, the Bank had realized a net gain of SDR 3,533 thousand from its investment in the Access Bank by way of increase in share value, and a net profit from disposal of SDR 2,132 thousand from its investment in the Teleset Networks.

The Bank has a committed amount of SDR 7,826 thousand towards the above entities share capital, which as of 31 December 2010 has not been called-up. Further analysis of the equity investment portfolio is presented in note 11 "Operational analysis".

11. Operational Analysis

The analysis of operational activity of the Bank by geographical area, instrument and sector are presented below:

	At 31 December 2010		At 31 December 2009	
Presented in SDR (000)	Outstanding disbursements	Undrawn commitments	Outstanding disbursements	Undrawn commitments
Analysis by instrument				
Loans	563,324	63,012	568,587	84,671
Equity investments	15,619	7,826	13,284	3,788
At end of year	**578,943**	**70,838**	**581,871**	**88,459**
Analysis by country				
Albania	25,757	10,552	35,362	2,296
Armenia	33,947	974	34,618	5,741
Azerbaijan	38,206	6,629	34,193	8,199
Bulgaria	44,949	2,228	52,343	419
Georgia	12,987	1,948	16,133	-
Greece	51,106	-	23,823	-
Moldova	6,998	-	2,481	-
Romania	22,529	17,207	11,286	33,295
Russia	103,963	23,474	139,143	12,206
Turkey	137,151	-	103,865	22,515
Ukraine	96,091	-	123,761	-
Regional	5,259	7,826	4,863	3,788
At end of year	**578,943**	**70,838**	**581,871**	**88,459**
Analysis by sector				
Financial institutions	191,786	21,598	230,384	20,918
General industries*	253,558	29,805	227,743	31,531
Energy and infrastructure	133,599	19,435	123,744	36,010
At end of year	**578,943**	**70,838**	**581,871**	**88,459**

* Also includes transport and tourism.

The Bank is restricted to operating in its 11 Member States and individual country limits are set as a maximum at 30% of approved commitments. This limit is calculated on the basis of the Board of Directors approved operations, minus repayments and cancellations. Individual operations are further constrained by the Single Obligor Limit and by monitoring of Sectoral Exposure.

Operations are monitored according to a schedule prepared by the Bank's Risk Management in conjunction with the originating Banking Teams. Monitoring reports are completed by the Bank's Project Implementation and Monitoring on an individual basis and risk asset reviews are performed which may result in a downgrade or upgrade of an operation's status and, if a significant deterioration is noted, trigger an impairment test.

12. Other Assets

Other assets is analysed as follows:

Presented in SDR (000)	At 31 December 2010	At 31 December 2009
Accrued interest	5,894	7,526
Paid-in share capital not received	2	2
Advances and prepaid expenses	697	1,721
Other prepayments	201	209
Rental reimbursement receivable*	-	395
Guarantee deposits	60	64
Other assets	**6,854**	**9,917**

* The Hellenic Republic has in the prior year granted the rental expense.

13. Property And Equipment

Property and equipment is analysed as follows:

Presented in SDR (000)	Buildings (leasehold)	Vehicle	Furniture and office accessories	Computers and office equipment	Total
Cost					
At 31 December 2008	163	58	403	1,382	2,006
Additions	2	-	19	109	130
Disposals	-	-	(3)	(320)	(323)
At 31 December 2009	165	58	419	1,171	1,813
Additions	3	-	11	90	104
Disposals	-	-	(1)	(30)	(31)
At 31 December 2010	**168**	**58**	**429**	**1,231**	**1,886**
Accumulated depreciation					
At 31 December 2008	154	19	368	1,168	1,709
Charges	6	11	20	110	147
Disposals	-	-	(3)	(320)	(323)
At 31 December 2009	160	30	385	958	1,533
Charges	4	12	12	108	136
Disposals	-	-	(1)	(30)	(31)
At 31 December 2010	**164**	**42**	**396**	**1,036**	**1,638**
Net book value					
At 31 December 2010	**4**	**16**	**33**	**195**	**248**
At 31 December 2009	5	28	34	213	280
At 31 December 2008	9	39	35	214	297

14. Intangible Assets

Intangible assets comprising computer software are analysed as follows:

Presented in SDR (000)	Total
Cost	
At 31 December 2008	1,683
Additions	314
At 31 December 2009	1,997
Additions	260
At 31 December 2010	**2,257**
Accumulated amortisation	
At 31 December 2008	1,281
Charges	144
At 31 December 2009	1,425
Charges	168
At 31 December 2010	**1,593**
Net book value	
At 31 December 2010	**664**
At 31 December 2009	572
At 31 December 2008	402

15. Borrowings

Borrowing facilities arranged at end of the year are analysed below. In addition to medium or long-term borrowings, the Bank utilises short-term financing in the form of borrowings from commercial banks for cash management purposes. At 31 December 2010 the Bank has one issued debt security in the amount of SDR 80,989 thousand.

	At 34 December 2010		At 31 December 2009	
Presented in SDR (000)	Amount used	Borrowings arranged	Amount used	Borrowings Arranged
Euro	84,713	119,988	32,147	59,701
United States dollar	171,896	171,896	328,204	340,962
Total	**256,609**	**291,884**	**360,351**	**400,663**

The Interest rate on borrowings falls within a range of Euribor or USD Libor of +0 to +250 points. There is no collateral against the above borrowed funds. The fair value of the borrowings is approximately equal to their carrying value.

16. Payables And Accrued Interest

Payables and accrued interest is analysed as follows:

Presented in SDR (000)	At 31 December 2010	At 31 December 2009
Accrued interest	1,639	1,411
Social insurance fund (IKA) contributions	23	13
Pension plan obligation (see note 20)	782	799
Suppliers and other accrued expenses	635	601
Payables and accrued interest	**3,079**	**2,824**

17. Share Capital

In accordance with Article 4 of the Establishing Agreement, the initial authorised share capital of the Bank is one billion SDR divided into one million shares having a par value of one thousand SDR each. The authorised capital stock of the Bank may be increased at such time and under such terms as may seem advisable.

The Bank's capital stock is divided into paid-in shares and callable shares. Payment for the paid-in shares subscribed to by members is made over a, or similar to, period of years in accordance with Article 6 of the Establishing Agreement or as determined in advance by the Bank. The same Article states that payment of the amount subscribed to the callable shares is subject to call only as and when required by the Bank to meet its obligations.

Under Article 37 of the Establishing Agreement any member may withdraw from the Bank by transmitting in writing to the Bank at its Headquarters. Withdrawal by a member shall become effective and its membership shall cease on the date specified in its notice, but in no event less than six months after such notice is received by the Bank. However, at any time before the withdrawal becomes finally effective, the member may notify the Bank in writing of the cancellation of its notice of intention to withdraw. Under Article 39 of the Establishing Agreement after the date on which a member ceases membership, it shall remain liable for its direct obligations to the Bank, and also remain responsible for its contingent liabilities to the Bank, incurred as of that date. No member has ever withdrawn its membership, nor has any ever indicated to the Bank it might do so. Were a member to withdraw from the Bank, at the time a member ceases membership, the Bank shall arrange for the repurchase of such a member's shares by the Bank as part of the settlement of accounts with such a member, and be able to impose conditions and set dates pursuant to the same Article 39 of the Establishing Agreement.

Under Article 42 of the Establishing Agreement in the event of termination of the operations of the Bank, the liability of members for the unpaid portion of the subscribed capital of the Bank shall continue until all claims of creditors, including all contingent claims, have been discharged.

All participating members had fully subscribed to the initial authorised share capital in accordance with Article 5 of the Establishing Agreement. Subsequently, at the Sixth Annual Meeting of the Board of Governors held on 6 June 2004 three Member States, Armenia, Georgia and Moldova requested a fifty per cent reduction of their portion of subscribed capital, from 2% to 1% of the initial authorised capital the Board of Governors approved their request. On 5 October 2008 the new shares offered in the same structure as the initial authorised share capital, in the amount of SDR 1 billion were fully subscribed by the Member States. Furthermore, Azerbaijan also subscribed to the 3% of the initial authorised share capital that remained unallocated, while Romania subscribed both to their allocation of new shares and to those of Georgia. This subscription process followed a decision taken by the Board of Governors in December 2007 to triple the Bank's authorized capital to SDR 3 billion and to double the subscribed capital to SDR 2 billion, while leaving authorised capital of SDR 1 billion unallocated.

The issued share capital is analysed as follows:

	At 31 December 2010			At 31 December 2009
Presented in SDR (000)	Initial Capital	Capital Increase	Total	Total
Authorised share capital	1,000,000	2,000,000	3,000,000	3,000,000
Less: unallocated share capital*	(30,000)	(970,000)	(1,000,000)	(1,000,000)
Subscribed share capital	970,000	1,030,000	2,000,000	2,000,000
Less: shares not yet called	(679,000)	(721,000)	(1,400,000)	(1,400,000)
Less: shares called but not yet due	-	(200,000)	(200,000)	(298,501)
Less: shares called but not past due	-	(30,968)	(30,968)	-
Called-up share capital	291,000	78,032	369,032	301,499
Advance against future call	35	(9)	26	32
Paid-in share capital	**291,035**	**78,023**	**369,058**	**301,531**

* Shares available to new or existing Member States.

Initial Capital

In accordance with paragraph 2 under Article 5 of the Establishing Agreement, the initially authorised capital stock was subscribed by and issued to each Member as follows: 10% (SDR 100 million) fully paid and 20% (SDR 200 million) payable by promissory notes or other obligations which are not negotiable and non interest bearing in eight equal successive annual instalments in the years 1998-2005.

Capital Increase

The capital increase of SDR 1 billion is divided into SDR 300 million paid in capital and SDR 700 million callable capital. Pursuant to the Board of Governors decision in October 2008, the SDR 300 million paid in portion is divided into 10% (SDR 100 million) fully paid shares in 2010 and 20% (SDR 200 million) payable shares by promissory notes or other obligation issued by such member in eight equal successive annual instalments in the years 2011 to 2018.

Statement of Subscriptions

A statement of capital subscriptions illustrating the number of shares and the amount subscribed by each member is shown below, including their respective callable, payable and the amount paid. The capital subscription status at 31 December 2010 is analysed as follows:

		Subscribed	Callable	Payable	Paid
Member	Shares		Presented in SDR (000)		
Albania	40,000	40,000	28,000	6,000	6,000
Armenia	20,000	20,000	14,000	2,000	4,000
Azerbaijan	100,000	100,000	70,000	10,000	20,000
Bulgaria	270,000	270,000	189,000	27,000	54,000
Georgia	10,000	10,000	7,000	-	3,000
Greece	330,000	330,000	231,000	33,000	66,000
Moldova	20,000	20,000	14,000	3,000	3,000
Romania	280,000	280,000	196,000	43,468	40,532
Russian Fed.	330,000	330,000	231,000	33,000	66,000
Turkey	330,000	330,000	231,000	33,000	66,000
Ukraine	270,000	270,000	189,000	40,500	40,500
Total	**2,000,000**	**2,000,000**	**1,400,000**	**230,968**	**369,032**

Basic earnings per share is calculated by dividing the net income for the year attributable to ordinary share holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

Presented in SDR (000)	At 31 December 2010	At 31 December 2009
Net income attributable to ordinary share holders of the Bank	9,218	9,707
Weighted average number of ordinary shares for basic earnings per share	350,750	300,750
Basic earnings per share in SDR	**0.026**	**0.032**

18. Reserves

Reserves are analysed as follows:

Presented in SDR (000)	At 31 December 2010	At 31 December 2009
General	27,060	23,302
Available-for-sale revaluation	(392)	4,383
Reserves	**26,668**	**27,685**

The revaluation reserve has been adjusted relating to changes in fair value for an unrealized loss of SDR 4,775 thousand.

19. Cash and Cash Equivalents

Cash and cash equivalents are analysed as follows:

Presented in SDR (OOO)	At 31 December 2010	At 31 December 2009
Cash	2	1
Bank balances/placements and/or investments:		
Up to 1 month	102,197	112,014
From 1 month to 3 months	2,787	-
Cash and cash equivalents	**104,986**	**112,015**

The commercial papers held in the Bank’s portfolio and issued by other financial institutions were rated at a minimum of A1 by Standard and Poors or P1 by Moody’s, in accordance with internal financial policies.

20. Staff Retirement Plan

At normal retirement age (60 years), a staff member is entitled to a pension equal to 1% of his pensionable salary (i.e. average of the two best out of the last five years) multiplied by his/her years of service at the Bank, under the defined benefit scheme. Also upon retirement, a staff member will be entitled to receive in cash the full balance standing to the credit of his/her individual account for the second and third pillars.

Defined Benefit Scheme

The defined benefit scheme covers all eligible employees of the Bank. A qualified actuary performs an actuarial valuation of this scheme at each end of year using the projected unit method, which is rolled forward to the following year accounts. The most recent valuation date was 31 December 2010. The present value of the defined benefit obligation and current service cost was calculated using the projected unit credit method.

Presented in SDR (000)	At 31 December 2010	At 31 December 2009
Amounts recognised in the statement of financial position		
Present value of the defined benefit obligations	6,104	5,481
Fair value of plan assets	(5,902)	(5,374)
	202	107
Unrecognised actuarial gains	580	692
Net liability	782	799
Expenses for the year	756	679
Past service obligation	(8)	(38)
Contributions paid	(748)	(641)
At end of year	**782**	**799**
Amounts recognised in the income statement		
Current service cost	625	690
Interest cost	269	234
Expected return on plan assets	(254)	(237)
Amortisation of unrecognised gain	(10)	(46)
Past service obligation	126	38
Total included in administrative expenses	**756**	**679**
Principal actuarial assumptions used		
Discount rate	5.00%	5.25%
Expected return on plan assets	5.14%	4.76%
Future salary increase	3.50%	3.50%
Future pension increase	2.00%	2.00%
Average remaining working life of employees	13 years	14 years

The following table presents the major categories and reconciliation of the plan assets:

Presented in SDR (000)	At 31 December 2010	At 31 December 2009
Major categories of plan assets		
Cash instruments	26.50%	38.50%
Fixed interest	43.70%	33.91%
Equities	23.50%	20.92%
Other	6.30%	6.67%
Reconciliation of plan assets		
Market value at 1 January	5,374	4,338
Expected return	254	237
Contributions paid	748	641
Fund benefits	(124)	(113)
Expenses	(75)	(69)
Asset (loss) gain	(275)	340
Fair value of plan assets	**5,902**	**5,374**

The actual investment return on assets of the Fund was 6.60% (2009: 9.94%). The expected return on plan assets has been based on asset structure allowed by the Fund as well as the yield of high quality corporate bonds. The Bank estimate of contributions to be paid in 2011 will not materially differ from those paid in the current year.

The funding status at year end and at the end of the last four years was as follows:

Presented in SDR (000)	2010	2009	2008	2007	2006
Defined benefit obligations	6,104	5,481	4,021	3,632	3,347
Plan assets	(5,902)	(5,374)	(4,388)	(4,268)	(2,594)
Plan deficit (surplus)	202	107	(367)	(636)	753
Net experience adjustments on plan liabilities (assets)	**152**	**622**	**(268)**	**(1,159)**	**(89)**

Defined Contribution Scheme

The pension expense under this scheme was SDR 379 thousand (2009: SDR 387 thousand) and is included in “Administrative expenses”.

Greek State Social Insurance Fund

The pension expense of staff that is alternatively entitled to retirement benefits from this fund was SDR 105 thousand (2009: SDR 112 thousand) and is included in “Administrative expenses”.

21. Operating Leases

The Bank has entered into lease contracts for its Headquarters and other premises. These are operating leases and include renewal options and periodic escalation clauses. There is no commitment at end of period for non-cancellable lease contracts. Rental expenses for the year included in "Administrative expenses" totalled SDR 795 thousand (2009: SDR 804 thousand).

22. Related Parties

The Bank has the below related parties.

Key Management Personnel

Key management personnel comprise: the President, Vice Presidents and Secretary General. They are entitled to a staff compensation package that includes a salary, covered by medical insurance, participate in the Bank's retirement schemes and are eligible to receive other short term benefits. All amounts are paid in Euro which is the currency of the Host Country. The amounts paid to key management personnel in the period 2010 were SDR 820 thousand and in the year 2009 were SDR 961 thousand. Key management personnel do not receive post employment benefits, other long term benefits, termination benefits nor any share based payments.

The members of the Board of Directors are not personnel of the Bank and do not receive any fixed term salaries nor any staff benefits.

Special Funds

Special funds are established in accordance with Article 16 of the Establishing Agreement and are administered under the terms of rules and regulations adopted by the Bank. Special Funds are audited and their assets and fund balances are not included in the Bank's statement of financial position. During 2010 the Bank administered two special funds. Extracts from the audited financial statements are included under the "Summary of special funds".

23. Events After The Reporting Period

The Bank has decided to change its functional and presentation currency from the SDR component currencies to the Euro as of 1 January 2011, under the directions of the Board of Governors decision on 5 December 2010. It was concluded that the Euro is more representative of the Bank's operations and environment as the Bank's lending operations are increasing in Euro, and the administrative expenses and capital expenditures shall be primarily denominated and settled in this currency.

There are no other material events after the reporting period that would require disclosure or adjustment to these financial statements.

24. Summary Of Special Funds

With the Hellenic Government

The Technical Cooperation Special Fund's objective is to contribute to the economic development of the Black Sea Region's Member Countries. The Fund extends technical assistance grants for preparation of high quality project documentation including business plans, feasibility studies and financial reporting methods and standards. The movement in the Fund for the years 2010 and 2009 is shown below.

Presented in SDR (000)	At 31 December 2010	At 31 December 2009
Statement of movements		
Balance brought forward	372	365
Net income for the year	1	3
Less: disbursements	-	-
Foreign exchange movements	(23)	4
Balance of available funds	**350**	**372**
Financial position		
Placements with other financial institutions	350	372
Total Assets	**350**	**372**
Unallocated fund balance	350	372
Total Liabilities and Contributor Resources	**350**	**372**

With the Development Bank of Austria

The Technical Cooperation Special Fund's objective is to cover reasonable technical cooperation activities in the Bank's member countries, with a strong potential to generate an opportunity for the Development Bank of Austria to co-finance a project in the private sector in connection with a technical cooperation activity. The movement in the Fund for the years 2010 and 2009 is shown below.

Presented in SDR (000)	At 31 December 2010	At 31 December 2009
Statement of movements		
Balance brought forward	440	454
Net income for the year	-	4
Less: disbursements	(108)	(23)
Foreign exchange movements	(27)	5
Balance of available funds	**305**	**440**
Financial position		
Placements with other financial institutions	335	440
Total Assets	**335**	**440**
Allocated fund balance	30	-
Unallocated fund balance	305	440
Total Liabilities and Contributor Resources	**335**	**440**

Independent Auditor's Report

To The Board Of Directors Of
The Black Sea Trade And Development Bank

Report on the Financial Statements

We have audited the accompanying financial statements of the Black Sea Trade and Development Bank (the "Bank"), which comprise the statement of financial position as at 31 December 2010, the income statement and the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

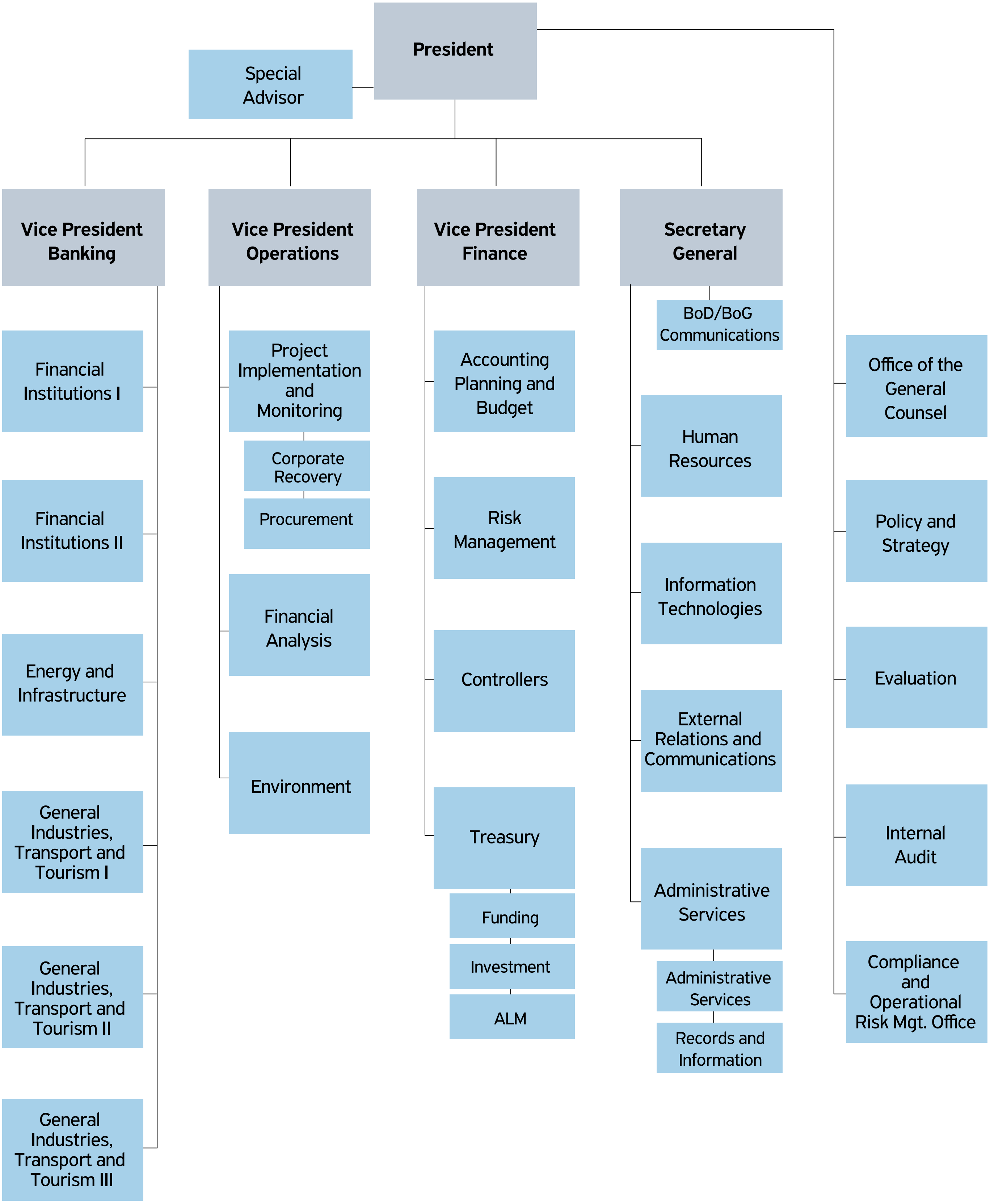
In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Black Sea Trade and Development Bank as at 31 December 2010 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

29 April 2011

ERNST & YOUNG (HELLAS) CERTIFIED AUDITORS ACCOUNTANTS SA
11th Km National Rd. Athens – Lamia
GR – 144 51 Metamorphosis
Athens, Greece

ANNEX A

ORGANIZATIONAL CHART



President

Special Advisor

Vice President Banking
- Financial Institutions I
- Financial Institutions II
- Energy and Infrastructure
- General Industries, Transport and Tourism I
- General Industries, Transport and Tourism II
- General Industries, Transport and Tourism III

Vice President Operations
- Project Implementation and Monitoring
  - Corporate Recovery
  - Procurement
- Financial Analysis
- Environment

Vice President Finance
- Accounting Planning and Budget
- Risk Management
- Controllers
- Treasury
  - Funding
  - Investment
  - ALM

Secretary General
- BoD/BoG Communications
- Human Resources
- Information Technologies
- External Relations and Communications
- Administrative Services
  - Administrative Services
  - Records and Information

- Office of the General Counsel
- Policy and Strategy
- Evaluation
- Internal Audit
- Compliance and Operational Risk Mgt. Office

* As of 31 December 2010

ANNEX B

CONTACT **BSTDB**

1 Komninon str. 54624 Thessaloniki - Greece
☎ +30 2310 290400, 📠 +30 2310 221796, 286590
info@bstdb.org, www.bstdb.org

Andrey Kondakov
President
Office:
☎ +30 2310 290560
op@bstdb.org

Special Advisor
Anatoly Sementsov
☎ +30 2310 290547
asementsov@bstdb.org

Office of the General Counsel
Michalis Spanopoulos
General Counsel
☎ +30 2310 290412
mspanopoulos@bstdb.org

Policy and Strategy
Ghinea Arminio Iorga
Head
☎ +30 2310 290452
gaiorga@bstdb.org

Panayotis Gavras
Head
☎ +30 2310 290453
pgavras@bstdb.org

Evaluation
Todor Dimitrov
Head
☎ +30 2310 290403
tdimitrov@bstdb.org

Internal Audit
Pavlos Pavlides
Head
☎ +30 2310 290583
ppavlides@bstdb.org

Compliance & Operational Risk Management Office
Zinon Chatziantonoglou
Head
☎ +30 2310 290421
zchatziantonoglou@bstdb.org

Mustafa Boran
Vice President Banking
Office:
☎ +30 2310 290407
vpboffice@bstdb.org

Financial Institutions I
Nejdet Sarisozen
Director
☎ +30 2310 290427
nsarisozen@bstdb.org

Financial Institutions II
Andrey Butin
Director
☎ +30 2310 290447
abutin@bstdb.org

Energy & Infrastructure
Director - Vacant
☎ +30 2310 290477
290407
ei@bstdb.org

General Industries, Transport and Tourism I
Alexey Alekseev
Director
☎ +30 2310 290496
aalekseev@bstdb.org

General Industries, Transport and Tourism II
Orhan Aytemiz
Director
☎ +30 2310 290439
oaytemiz@bstdb.org

Vitalii Mygashko
Vice President Operations
Office:
☎ +30 2310 290433
vpooffice@bstdb.org

Project Implementation & Monitoring
Alexander Mostovoy
Director
☎ +30 2310 290430
amostovoy@bstdb.org

Financial Analysis
Michelle Amour
Director
☎ +30 2310 290460
mamour@bstdb.org

Environment
Mircea Cojocaru
Head
☎ +30 2310 290585
mcojocaru@bstdb.org

Valentina Siclovan
Vice President Finance
Office:
☎ +30 2310 290444
vpfoffice@bstdb.org

Treasury
Christopher Best
Treasurer
☎ +30 2310 290456
cbest@bstdb.org

Risk Management
George Pahinis
Director
☎ +30 2310 290462
gpahinis@bstdb.org

Accounting, Planning & Budget
Nikolas Papavramides
Director
☎ +30 2310 290449
npapavramides@bstdb.org

Controllers
Georgeta Buzica
Director
☎ +30 2310 290470
gbuzica@bstdb.org

Orsalia Kalantzopoulos
Secretary General
Office:
☎ +30 2310 290481
sgoffice@bstdb.org

Human Resources
Anke Borngraber-Berthelsen
Director
☎ +30 2310 290426
abberthelsen@bstdb.org

Information Technologies
Christos Georgiou
Director
☎ +30 2310 290530
cgeorgiou@bstdb.org

Administrative Services
Kostis Zevgaridis
Director
☎ +30 2310 290488
kzevgaridis@bstdb.org

External Relations & Communications
Valery Aksenov
Director
☎ +30 2310 290494
vaksenov@bstdb.org