Black Sea Trade & Development Bank

Stronger Support for Growth in Challenging Times

2015 Annual Report

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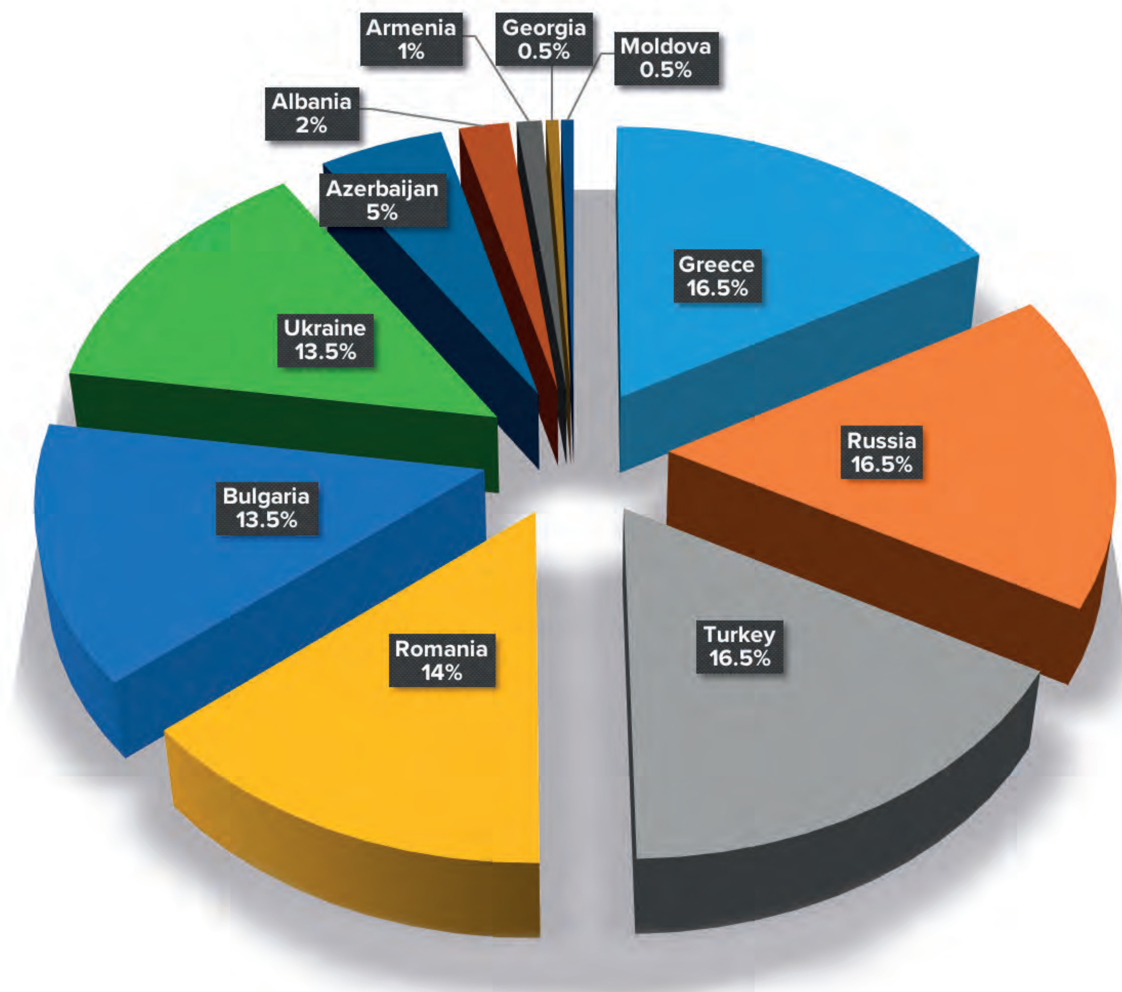
Who We Are

The Black Sea Trade and Development Bank (BSTDB), an international financial institution with headquarters in Thessaloniki, Greece, was established by Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey, and Ukraine. BSTDB started operations in June 1999 and has an authorized capital of EUR 3.45 billion.

Shareholder Structure



BSTDB supports economic development and regional cooperation in the Black Sea Region through trade and project finance lending, guarantees, and equity participation in private enterprises and public entities in member countries.

The Bank is managed by a Board of Governors, a Board of Directors, a President, three Vice Presidents and a Secretary General. The Board of Governors is the highest decision making body of the Bank. It is comprised of one Governor and one Alternate Governor appointed from the 11 Member States of the Bank. Subject to the Board of Governors' overall authority, the Board of Directors is responsible for the direction of the Bank's general operations. The President is the Chairman of the Board of Directors and the Bank's chief executive. The President, the Vice Presidents and the Secretary General form the Management Committee and represent the senior management of the Bank.

Highlights of 2015

In 2015, the first year of the implementation of the newly approved Medium Term Strategy and Business Plan for the period of 2015–2018, the Bank accelerated its portfolio growth in response to the demand for its services in the Black Sea region. The Board of Directors approved 25 new operations for EUR 487.2 million, which represents a 39.6% increase over 2014. During the year, the Bank signed 25 loan agreements for EUR 480.2 million, an increase of 125.5% compared to 2014, mainly covering the sectors of manufacturing, utilities and the financial sector. Disbursements to business clients in member countries reached EUR 378.8 million over the year. At the year end, the Bank's outstanding portfolio grew to over EUR 1.1 billion, up 15.8% compared to 2014. Those results exceeded the Bank's business plan objectives for 2015.

The Bank registered a positive net income in 2015, for the eleventh consecutive year. It amounted to EUR 15.2 million, up 8.5% over 2014.

BSTDB has substantially improved the quality of its operational portfolio, with the share of non-performing loans decreased from 5.5% in 2014 to 1.2% of the outstanding portfolio. The Bank had only two non-performing loans at end-2015.

BSTDB established a EUR 1 billion Euro Medium Term Note Programme, which will provide a framework for the Bank's future bond issuance. Under the Programme, the Bank issued its debut local currency bonds in Romanian Leu. Additionally, the Bank issued a bond in the Georgian Lari domestic market reinvesting the proceeds in the local economy and helping eliminate foreign exchange risk for the borrower.

The Bank continued raising funds in international capital markets to increase its development financing in member countries. BSTDB issued its second Swiss Franc (CHF) bond in the amount of CHF 100 million maturing in December 2019. The issuance attracted investors from private banks, asset managers, pension funds and insurance companies.

BSTDB developed further its business cooperation with Observer institutions. A new USD 100 million, 8-year loan facility provided by KfW (Germany) was signed to finance economic and social infrastructure projects and to help develop the SME sector in the Black Sea Region.

A high level seminar on a number of performance evaluation issues was delivered in partnership with IFC, at the Bank's premises, as part of a long term cooperation and knowledge sharing.

The Bank improved its visibility and transparency by establishing corporate presence on key social media platforms – Facebook, Twitter and LinkedIn.

BSTDB was named the winner of the "Best Regional Development Bank" Global Award 2015 by the Capital Finance International, a reputable British international business publication.

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 2015 as endorsed by the Board of Directors. The Seventeenth Annual Report 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.

Ihsan Ugur Delikanli
President
Chairman of the Board of Directors

Statement by the President

For the Black Sea Region, 2015 continued a declining trend in economic performance observed over the last few years, resulting in negative growth for the first time since the large post-global financial crisis recession of 2009.

In spite of such unfavorable conditions, 2015 was a record year for the Bank. BSTDB's Board of Directors approved 25 new operations for EUR 487.2 million, and the Bank's signings (commitments) reached EUR 480.2 million. As a result, the Bank's outstanding portfolio grew to EUR 1,113.5 million by 31 December, up 15.8% compared to end 2014.

BSTDB's financial results were also strong. For 2015, operating income increased 26.5% over 2014 levels while income before provisions increased 48.8% to EUR 23.0 million. Net income also grew at a healthy pace, up 8.5% to EUR 15.2 million from EUR 14.0 million in 2014.

The Bank's quantitative accomplishments were matched by its qualitative achievements. Operational quality at entry was enhanced and project performance remained at high levels. The level of non-performing loans was significantly reduced, from 5.5% at end 2014 to 1.2% at end-2015. The Bank achieved greater operational diversification and enhanced its presence in high profile public private partnership operations and projects with multiple country beneficiaries and a high degree of regional cooperation. In addition, it expanded its range of product offerings, issuing its first local currency bond to support the deepening and broadening of local financial sectors. The Bank's efforts were acknowledged by Capital Finance International, which named BSTDB winner of the Best Regional Development Bank Global Award 2015, as well as two awards for high profile operations in the energy and health

sectors, the first of which involves an energy pipeline which will benefit up to six member countries, and the second for a structured finance deal involving a public private partnership to improve health care delivery in a rapidly growing urban area.

With communication, information sharing, and research generation playing an ever more prominent role in the activities of multilateral development banks, BSTDB has sought to enhance the profile and image of the Black Sea Region while developing its role as a knowledge based institution. The Bank established social media accounts on Facebook, Twitter, and Linkedin during 2015, promoting not just the Bank's activities but important regional events, sharing information on the Region, developing a growing legion of followers, and laying the basis for sustained dissemination that will hopefully become a "must visit" point for whomever is interested in the Region and its activities.

BSTDB also expanded the work it prepares on economic activities in the Black Sea Region, by country and collectively as a unit, and sought to raise the profile of the Region as a place of promise and opportunity via its much anticipated Annual Business Day event and other regionally focused forums.

Of course, none of this was achieved in isolation, and special mention needs to be made of the commitment of BSTDB's shareholders to the institution. At a particularly difficult period of time, facing economic challenges and financial uncertainties that often defy conventional policies and modes of operation, they have continued to demonstrate their dedication to the Bank's role and the enhancement of its profile at every opportunity.

BSTDB in turn, draws great strength from this backing, redoubling its charge to promote economic development and regional cooperation for the benefit of its member countries and the banks, firms and agencies active therein.

Three terms perhaps best summarize the evolving role of the Bank: support, nurture, and connect.

Support comes from the financing and risk mitigation that the Bank provides in order to assist clients to meet their goals and objectives, thus developing a diversified base of operations that provides a broad product range to large, medium, small and even micro companies. Nurture relates to the growing need to help long standing clients and other established firms to move in new directions and innovate, and to foster new, underserved, perhaps more isolated or less well known firms to grow and meet their potential. Connect concerns the information sharing role of the Bank, and extends to helping clients to gain access to critical information, establishing ties among client firms or reaching out to external parties to form new relationships.

With resources scarce and needs rising, development banks need to leverage their status to support their client base, nurture innovation and emerging potential, and create connections that facilitate knowledge exchange and bring parties together.

Board of Governors

As of 31 December 2015

Republic of Albania

Governor:	Mr. Erjon LUCI, Deputy Minister of Finance
Alternate Governor:	position vacant

Republic of Armenia

Governor:	Mr. Arthur JAVADYAN, Chairman, Central Bank of Armenia
Alternate Governor:	Mr. Andranik GRIGORYAN, Director, Financial System Stability & Development Department, Central Bank of Armenia

Republic of Azerbaijan

Governor:	Mr. Samir SHARIFOV, Minister of Finance
Alternate Governor:	Mr. Shahin MUSTAFAYEV, Minister of Economy and Industry

Republic of Bulgaria

Governor:	Ms. Karina KARAIVANOVA, Deputy Minister of Finance
Alternate Governor:	Ms. Gergana BEREMSKA, Director, International Financial Insitutions and Cooperation Directorate, Ministry of Finance

Georgia

Governor:	Mr. George KADAGIDZE, President, National Bank of Georgia
Alternate Governor:	Mr. Nodar KHADURI, Minister of Finance

Hellenic Republic

Governor:	Mr. George STATHAKIS, Minister of Economy, Development & Tourism
Alternate Governor:	position vacant

Republic of Moldova

Governor:	Mr. Anatol ARAPU, Minister of Finance
Alternate Governor:	position vacant

Romania

Governor:	Ms. Anca Dana DRAGU, Minister of Public Finance
Alternate Governor:	Mr. Gyorgy ATTILA, Secretary of State, Ministry of Public Finance

Russian Federation

Governor:	Mr. Sergey STORCHAK, Deputy Minister of Finance
Alternate Governor:	Mr. Igor KOVAL, Director of the Department for Investment Policy and Development of Public-Private Partnership, Ministry of Economic Development

Republic of Turkey

Governor:	Mr. Cavit DAGDAS, Acting Undersecretary of Treasury, Undersecretariat of Treasury
Alternate Governor:	position vacant

Ukraine

Governor:	Mr. Aivaras ABROMAVICIUS, Minister of Economic Development and Trade
Alternate Governor:	Mr. Sergiy KRUGLYK, Director, Foreign Relations Department, National Bank of Ukraine

Board of Directors

As of 31 December 2015

Republic of Albania	
Director:	Ms. Gelardina PRODANI, General Secretary, Ministry of Finance
Alternate Director:	position vacant
Republic of Armenia	
Director:	Mr. Vardan ARAMYAN, First Deputy Chief of Staff, Office of the President of the Republic of Armenia
Alternate Director:	Mr. Nerses MKRTCHIAN, Director, Multilateral & Bilateral Economic Cooperation Department, Ministry of Foreign Affairs
Republic of Azerbaijan	
Director:	Mr. Famil ISMAYILOV, Deputy Head, International Relations Department, Ministry of Finance
Alternate Director:	position vacant
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. David LEZHAVA, Deputy Minister of Finance
Alternate Director:	Mr. Giorgi TABUASHVILI, First Deputy Minister of Finance
Hellenic Republic	
Director:	Mr. Ilias XANTHAKOS, Secretary General, Ministry of Economy, Development and Tourism
Alternate Director:	position vacant
Republic of Moldova	
Director:	Ms. Elena MATVEEVA, Head, Public Debt Department, Ministry of Finance
Alternate Director:	Ms. Ina GOREA, Deputy Chief, On-Lending Directorate, Public Debt Department, Ministry of Finance
Romania	
Director:	Ms. Diana PELIGRAD BLINDU, Senior Advisor, General Directorate for International Financial Relations, Ministry of Public Finance
Alternate Director:	Mr. Stefan PETRESCU, Head of Operation Division, External Public Finance, Ministry of Public Finance
Russian Federation	
Director:	Mr. Evgeny STANISLAVOV, Director, Department of Economic Cooperation, Ministry of Foreign Affairs
Alternate Director:	position vacant
Republic of Turkey	
Director:	Mr. Hakan TOKAC, Director General, Foreign Economic Relations, Undersecretariat of Treasury
Alternate Director:	position vacant
Ukraine	
Director:	Mr. Valeriy PIATNYTSKYI, Advisor to the Prime Minister, Cabinet of Ministers of Ukraine
Alternate Director:	Mr. Vitaliy LISOVENKO, Deputy Minister of Finance

Audit Committee

As of 31 December 2015

Mr. Famil ISMAYILOV, Director for the Republic of Azerbaijan and Chairperson of the Audit Committee;

Ms. Gelardina PRODANI, Director for the Republic of Albania and Audit Committee member;

Mr. Vardan ARAMYAN, Director for the Republic of Armenia and Audit Committee member;

Mr. Valeriy PIATNYTSKYI, Director for Ukraine and Audit Committee member.

Management

As of 31 December 2015

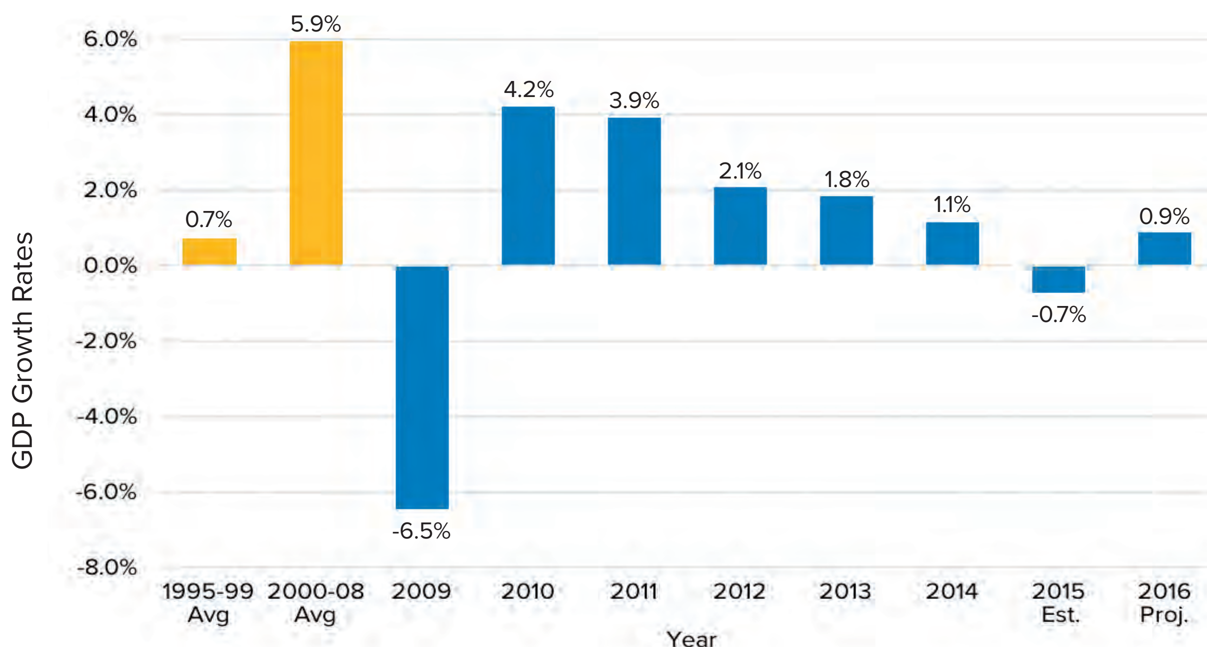
Serafeim Tsokas	**Valentina Siclovan**	**Ihsan Ugur Delikanli**	**Igor Leshukov**	**Nina Stavreva**
Secretary General	Vice President Finance	President Chairman of the Board of Directors	Vice President Banking	Vice President Operations

Economic Overview of the Black Sea Region in 2015[1]

After several years of steadily declining but positive rates of economic growth, the Black Sea Region – as defined by the twelve countries comprising the Black Sea Economic Cooperation (BSEC) – moved into recession and experienced an outright contraction in 2015. Figure 1 shows this trend, as well as how average real GDP output change for the Region in 2015 slipped into negative territory, falling by -0.7%.

This represented the second year of negative growth in this century for the Black Sea Region, and the first since the severe recession experienced in 2009 in the aftermath of the global financial crisis of 2008. It also underscores the lingering effects upon the Region's economies from the global crisis.

Figure 1: Black Sea Region Average Annual Real GDP Growth



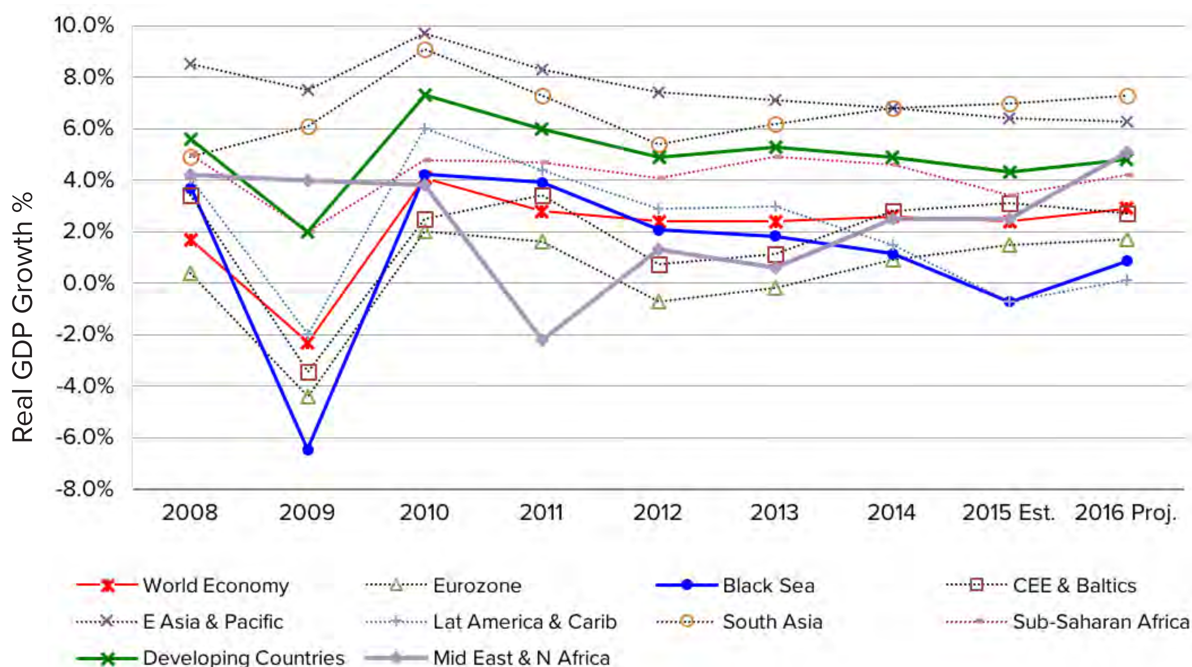
Source: National Statistical Agencies & IMF-IFS

For while nearly seven years have passed from the financial crisis, and six from the subsequent recession, the Black Sea Region has not sustained the recovery initially achieved during the 2010–2011 period. Instead, those two years appear as a one-off bounce back from the sharp contraction of 2009, aided by fortuitous factors such as the recovery of global commodity prices upon which certain economies depend. However, they were followed by subsequent years of ever slowing growth. Even as the rest of the global economy recovered, and in particular emerging market regions returned to robust rates of growth that have averaged 5.5% between 2010–2015, growth in the Black Sea Region has sagged, averaging 2.1% over this time frame and falling into recession in 2015.

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 reports of the World Bank, the IMF's World Economic Outlook publications (and their updates) and the Economist Intelligence Unit. As many figures at the time of writing represent estimates for 2015, actual final figures may differ in detail, but the overall trends discussed in this section will not be altered.

With global growth slowing to 2.4% in 2015, the Black Sea Region was the weakest performing region, together with Latin America and the Caribbean (See Figure 2). Growth was weaker than in the Eurozone, which has been among the weakest performing areas of the world economy over the last few years, and it was well off the 3.1% outcome achieved by the Central and Eastern European and Baltic states ("CEE & Baltics")[2], most of whom joined the European Union in 2004 and, as former "transition" countries, are often compared to the countries of the greater Black Sea Region.

Figure 2: Global GDP Growth Since 2008 by Region



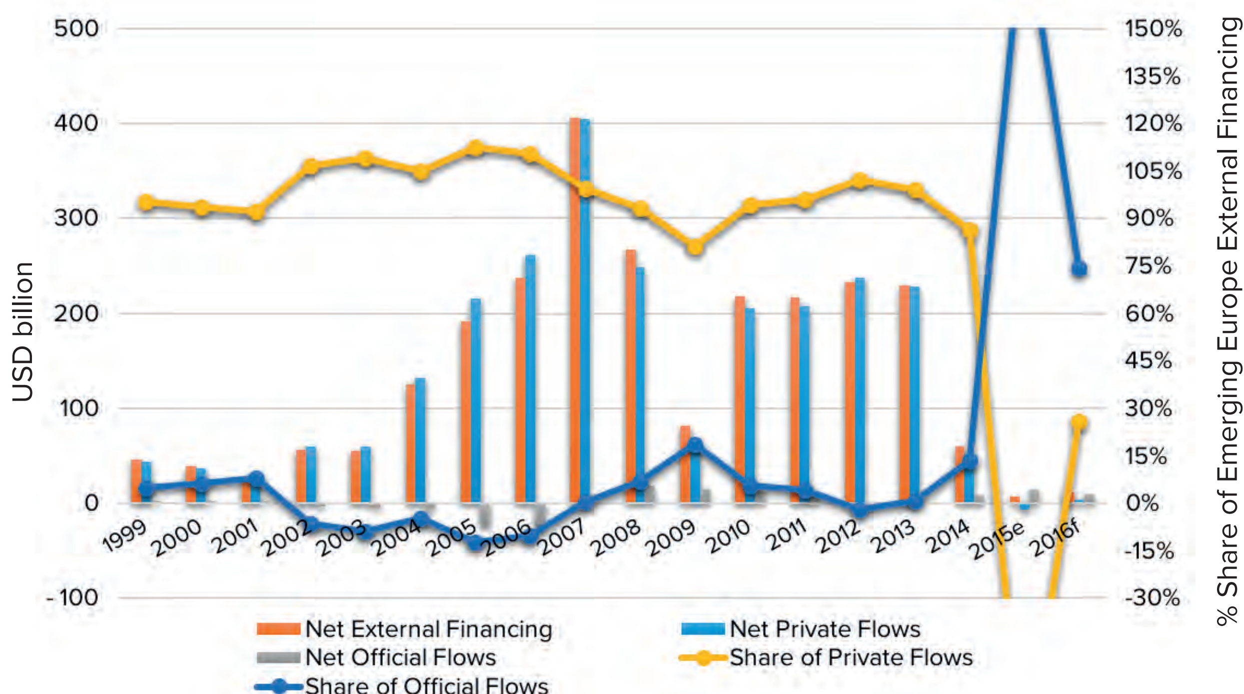
Source: National Statistical Agencies, World Bank & IMF-IFS

While the final outturns were disappointing, they hide variation among member states, and they contain a silver lining, as there is ample evidence that the downslide has bottomed out and the regional economy is braced for a modest upturn in 2016, based upon factors that are potentially more sustainable than the previous growth drivers, which ultimately proved ephemeral and vulnerable to external influences and turmoil in global financial markets.

The factors contributing to the poor economic performance in 2015 were by and large carry overs from 2014 and even late 2013. On a global level, the decline in commodity prices exacerbated increasingly unfavorable terms of trade for commodity exporters. Particularly hard hit were energy producing countries such as Azerbaijan and Russia. And while the decline in energy prices should have been a boon for net importers, the benefits were more muted than usual for two reasons. First and most directly, a number of countries have tight economic links with Russia, and the downturn in economic activity created secondary negative shocks in their domestic economies, partly through remittance levels sent by emigrant workers, but also through lower demand for exports from Russia. Second, in contrast to previous instances of energy price falls generating windfalls for net importers, in 2015 the boost to consumption in fuel importing countries was limited, as households have used the extra money to pay accumulated debts or other obligations, or to increase their savings "cushion" in the face of the high uncertainty of economic outlooks.

2 EU members since 2004: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia; and Croatia, which joined the EU in 2014.

Figure 3: Capital Flows to Emerging Europe (Black Sea Region and CEE & Baltics)



Source: International Institute of Finance

Another factor that impacted economic performance was the asymmetric monetary policies followed by key global economies, in particular by the United States and the Eurozone members, and the uncertainties and imbalances which this created. The US Federal Reserve inclined towards monetary tightening, even as the European Central Bank embarked on further quantitative easing and moving into negative interest rates, in order to stimulate more activity in Eurozone economies. While the Eurozone's monetary easing had some positive spillover effects, particularly for western BSEC countries in the Balkans whose financial systems are closely tied to western Europe, the US monetary tightening had a universal, highly negative impact on financial outflows from emerging markets. As Figure 3 shows, net financial flows for Emerging Europe (which contains eleven BSEC members) were no exception, with the impact more dramatic for countries with lower investment, trade and financing linkages with Eurozone economies- such as those in the eastern part of the BSEC Region.

The sharp increase in outflows that began in the second half of 2014 deteriorated further in 2015, and net flows for 2015 established new records for worst performance. Private flows turned negative for the first time, something which did not occur even in 2009 in the aftermath of the global financial crisis and the extended freezing of capital markets which followed. Official flows, which include bilateral creditors and international financial institutions (namely, the IMF and development banks), increased by 195% relative to 2014, with IFIs increasing their net lending 5.6 times to USD 17.4 billion, their highest levels since 2009–2010. However, even this dramatic rise was outpaced by the much larger level of private outflows, leaving net flows negative.

Another consequence of the flight of financing from emerging markets towards the United States was a dramatic strengthening in the value of the US dollar. This in turn created a new set of difficulties, of which the most significant was the depreciation of local currencies. In some economies, this had a destabilizing effect, as the volatility it engendered had a dampening effect on economic activity. The currency depreciation also generated a "pass-through" of inflationary pressures, leading to sharp rises in price levels in the most affected economies. A third pernicious effect was that the US dollar's appreciation resulted in an increase in external debt levels, both

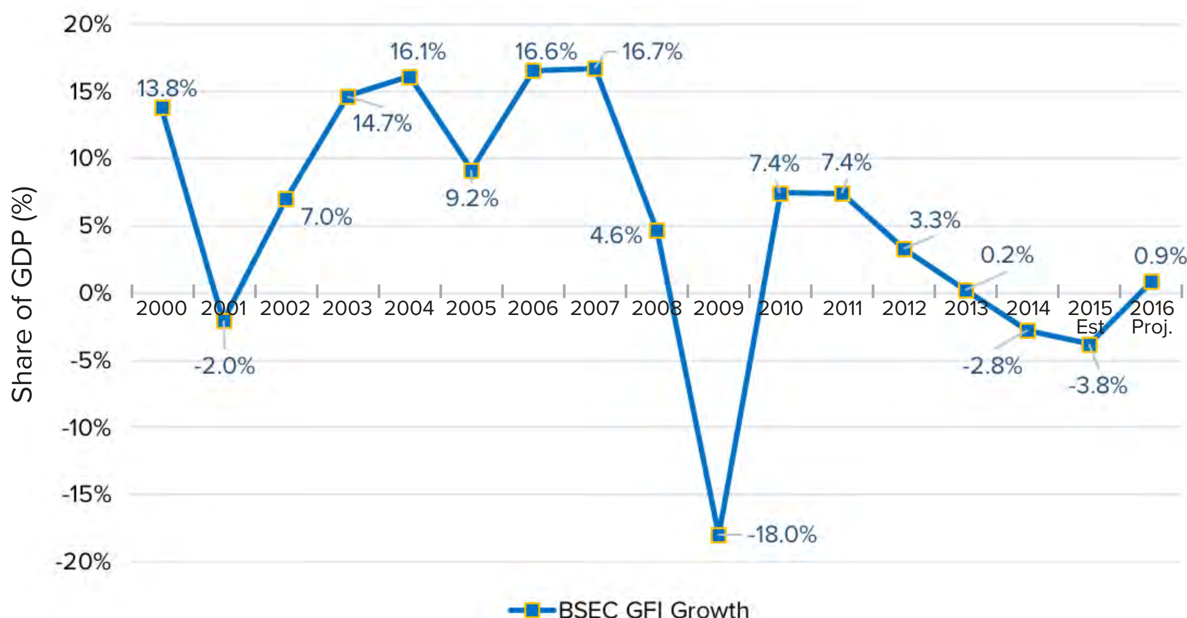
public and private, for dollar borrowing. For economies with high levels of external dollar debt, the rise appeared dramatic.

International trade was also a casualty of the combination of currency depreciation, economic volatility and worsening terms of trade for key exporters. Not only were dollar values lower, the economic slowdown resulted in reduced economic activity. As a result, total Black Sea Region export of goods fell to levels below those of 2010, and as a share of GDP declined by -25.1% in 2015, relative to 2014, with declines sharpest in energy exporters. Similarly, import of goods region-wide fell below 2010 levels and as a share of GDP declined by -24.8% in 2015. This resulted in a regional trade surplus of +2.1% of GDP, which in turn underpinned a regional current account surplus of +1.0% of GDP.

Private consumption, the largest contributor to GDP on the demand side, predictably shrank by -3.9% across the Region, relative to 2014. In an effort to offset some of this decline via counter-cyclical spending, government consumption rose by an estimated 1.6% in 2015. However, as state spending accounts for only about 17–18% of regional GDP, it could not fill the gap made by the contraction of private consumption, which accounts for nearly 60% of GDP.

Gross fixed investment also declined in 2015, by -3.8%. As a share of GDP expenditure, it fell from 19.7% to 18.5%, underscoring the weakness in investment that has afflicted the Region. Figure 4 shows the declining trend in gross fixed investment in recent years, where a healthy recovery in 2010 and 2011 following the 2009 recession has been succeeded by years of steady decline. A quick comparison with Figure 1 shows a strong positive correlation between rates of growth of GDP and rates of growth of gross fixed investment.

Figure 4: Annual Change in Gross Fixed Investment in the Black Sea Region (Weighted Average)



Source: Economist Intelligence Unit

The two move together, and the trend in declining GDP since 2010 is matched very closely by a declining trend in gross fixed investment over the same period, although the level of change of investment tends to outpace that of GDP, both during upturns and during downturns. The significance of this pattern is that the slowdown raises concerns about regional economic growth prospects; investment rates affect not only current growth, but also long term wealth creation capacity of an economy and hence its potential growth. This applies both to public and to private investment. In this respect, the investment contraction is doubly

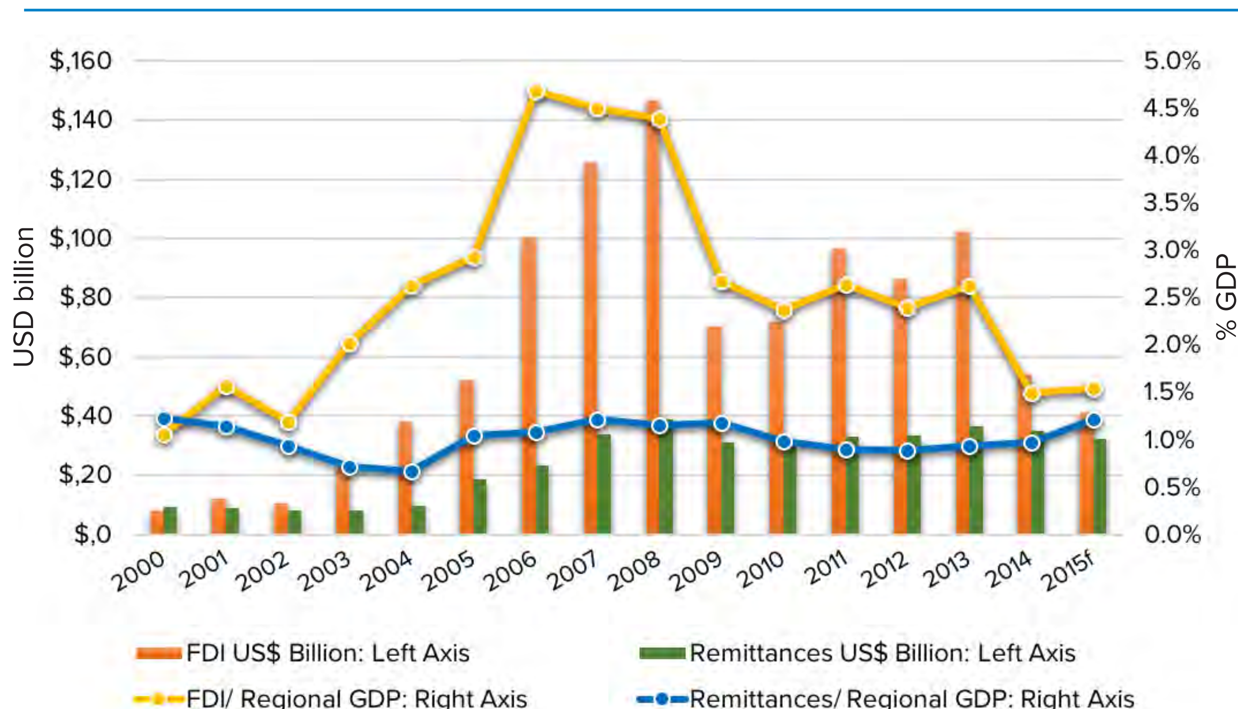
damaging for the Black Sea Region, as it negatively affects current growth as well as the ability to achieve higher growth in the future.

In terms of sector of origin, the so-called "supply" side of GDP, both the services and industrial sectors of the economy contracted by -1.3% and -0.9% respectively in 2015, relative to 2014. By contrast, agriculture achieved 3.8% of growth in 2015, and after years of considerable year on year volatility, grew for the third consecutive year. However, as agriculture accounts for only around 6% of GDP formation in the Black Sea Region, its positive outturns were outweighed by the contractions in the much larger services sector, which accounts for around 62% of GDP formation, and the industry sector, which accounts for around 31% of GDP formation.

Although the services sector experienced the largest contraction in 2015, over the years it is the sector that has accounted for the bulk of economic growth, and thus has expanded so that it accounts for over 60% of GDP production. Interestingly, during the 2000–2008 boom period, the services sector grew rapidly while the industrial sector held steady and agriculture steadily declined as a share of the economy. During the 2009 recession, services contracted by -4.2% and industry by -8.9%. While the industrial sector recovered in 2010 (+6.4%) and 2011 (+4.3%) helping to underpin the regional recovery, it is the protracted very weak growth of the industrial sector which has correlated most closely with the downward trend in GDP after 2011. Every year between 2012–2014, the industry sector grew by less than 1.0%, prior to the outright contraction of 2015. As a consequence, during this time frame the industrial sector has declined from accounting for nearly 34% of GDP to the aforementioned 31%.

Foreign direct investment (FDI) experienced another weak year and fell to levels last observed in the early part of the previous decade (See Figure 5). On the heels of a 47% reduction in FDI in 2014, FDI declined by a further -24% in FDI, amounting to an estimated USD 41 billion (from USD 54 billion in 2014). While a part of this decline is attributable to the appreciation of the US dollar, since countries from the European Union are the principal source of FDI in the Black Sea Region, it still represents the lowest level of FDI observed since 2004, in nominal terms. As a share of GDP, the 1.5% figure for 2014 and 2015 is on par with the 2000–2002 period, before the Black Sea Region began attracting sizeable amounts of investment from abroad.

Figure 5: FDI and Remittances in the Black Sea Region 2000–2015



Sources: National Statistical Agencies, IMF-IFS, World Bank

These FDI figures are disappointing, but not surprising in light of the sharp decline in net capital flows (See Figure 3) and the general weakness in gross fixed investment (See Figure 4). What is surprising and noteworthy is how remittances have held up. The Black Sea Region is an important crossroads of population movements, with high levels of immigration in some countries – Russia was the third largest remittance "source country" globally in 2014, with outward flows reaching an estimated USD 33 billion – and high levels of emigration in others.

Figure 5 shows how remittance inflows to BSEC member countries amounted to an estimated USD 32.3 billion in 2015. In nominal dollar terms, this figure represents the second consecutive year of decline in remittance levels, from USD 36.5 billion in 2013 to USD 34.9 billion in 2014, and represents a decline of -7.4% relative to 2014. However, if one corrects for the appreciation of the dollar, remittances to the Black Sea Region rose in terms of Euros and other local currencies, and this is evident in the growth of remittances as a share of GDP, from 0.9% in 2013, to 1.0% in 2014, and an estimated 1.2% in 2015.

With external sources of financing such as lending and portfolio investment turning sharply negative, remittances – despite their small decline – emerged in 2015 as the second most important source of financing into the Black Sea Region, after FDI. They even outpaced official flows such as International Financial Institution (IFI) lending and development aid. As Figure 5 shows, remittances have also been impressively stable over the years, hovering around the 1.0% of GDP mark without significant year-to-year fluctuation.

In terms of poverty alleviation impact, remittances have proven to be better targeted than other sources of financing. The largest sources of emigration tend to be countries or regions of countries with high levels of poverty and or unemployment. As a result, remittances flowing to the population most affected by the unemployment or poverty, achieving higher impact. In this respect, remittances compare favorably to development assistance as well, as the latter is much smaller in overall size, is often influenced by political priorities more so than need, typically flows through central government channels before being expended for ultimate beneficiaries. And while the Region-wide amount of 1.2% of GDP may appear small, it hides significant variation among countries. Whereas for larger and wealthier countries remittances typically account for 0.5% of GDP or less, for the four smallest and generally poorest countries in the BSEC Region, remittances account for at least 10% of GDP, and reach as high as 27%. In these countries, remittances represent the most important source of foreign capital inflows, and in addition to helping alleviate poverty, they also help cover a substantial portion of the large structural trade deficits of countries and help ameliorate chronic current account imbalances.

Much of the migration in the Black Sea Region is "internal", in that it involves intra-regional flows among BSEC countries, but the Region is also host to growing numbers of migrants from North Africa, Central Asia, and most dramatically, the Middle East. The ongoing conflicts in Syria and Iraq have resulted in a number of BSEC countries becoming hosts to sharply rising numbers of migrants and refugees in transit towards Western Europe. While most factors contributing to the economic downturn of recent years appear to have played out and made their impact felt, the refugee crisis in the Middle East has continued unabated into 2016 and represents a growing source of potential political and economic risk.

Indeed, one of the "silver linings" of the economic performance in 2015 is that, for the most part, the contraction appears to have bottomed out during the course of the year, and prospects for 2016 in the Black Sea Region appear more positive. Most of the focus on reasons behind the economic downturn in 2014–2015 were justifiably on (i) falling commodity and energy prices, (ii) regional geopolitical conflicts and sanctions, (iii) the variable monetary policies of large global economies, and (iv) the ensuing financial turmoil and capital outflows.

While energy prices have continued to slide into early 2016, the impact of the large decline of the last couple of years has mostly been felt, and there is not much room for further significant declines. Currency devaluations have helped to mitigate terms of trade shocks and to restore current account imbalances

caused by falling export revenues by reducing imports, which became more expensive. Therefore, while the possibility of further destabilizing increases in the value of the dollar cannot be excluded, the likelihood has decreased, not least because further dollar appreciation would have harmful effects on the US economy as well.

Table 1: Summary of Key Economic Indicators for 2015

Country	GDP Growth	Inflation	Cur Acct Bal/GDP	Budget/ GDP	Public Debt/GDP	FDI/GDP
Albania	2.8%	1.9%	-10.0%	-3.9%	71.6%	11.5%
Armenia	3.0%	3.7%	-2.6%	-4.6%	46.0%	1.7%
Azerbaijan	1.1%	4.0%	-0.4%	-0.5%	28.3%	14.2%
Bulgaria	3.0%	-0.1%	1.4%	-2.9%	28.9%	4.5%
Georgia	2.8%	4.0%	-11.7%	2.5%	41.3%	9.7%
Greece	-0.2%	-1.7%	0.0%	-6.4%	174.2%	0.9%
Moldova	-0.5%	9.7%	-7.2%	-1.7%	35.4%	4.2%
Romania	3.8%	-0.6%	-1.1%	-1.5%	39.4%	2.1%
Russia	-3.7%	15.5%	5.3%	-3.5%	18.8%	0.4%
Serbia	0.7%	1.9%	-4.8%	-3.8%	77.4%	5.3%
Turkey	4.0%	7.7%	-4.5%	-1.2%	32.9%	2.3%
Ukraine	-9.9%	48.7%	-0.2%	-1.4%	80.2%	-9.9%
Black Sea Region	-0.7%	11.4%	1.0%	-2.8%	38.7%	-0.7%

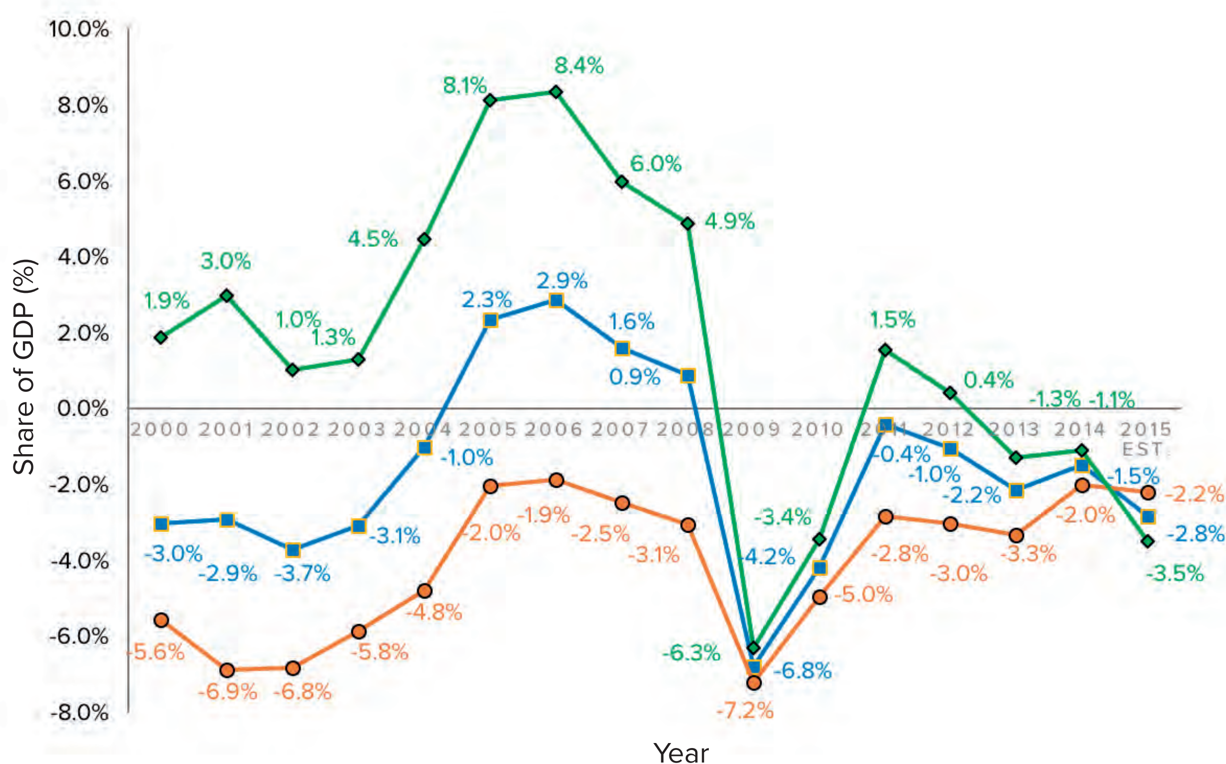
Source: National Statistical Agencies & IMF-IFS

Regional geopolitics remain complicated, but conflict levels have abated and a measure of stability has returned. Sanctions and counter-sanctions linked to the conflicts remain in place, but have to a large degree made their impact felt, most notably through the capital outflows and deleveraging pressures that they precipitated in certain economies. The pace of capital outflows has diminished considerably, and in some parts of the Black Sea Region has improved. More specifically, while fears about contractionary monetary policy from the US Federal Reserve helped precipitate outflows from many emerging markets, the expansion of the European Central Bank's quantitative easing policies has, to some extent through limited increases in capital flows, begun to benefit economies in the western part of the Black Sea Region which are more tightly linked to the economies of the EU.

As Table 1 shows, while the Black Sea Region overall experienced a contraction, there was considerable variation from country to country. As a rule, countries in the western part of the Black Sea Region enjoyed improved economic growth performance in 2015, relative to 2014, while countries in the eastern part of the Black Sea Region experienced worse outturns.

The variable performance extends to other key macroeconomic indicators. After several years of generally low, single digit inflation, a number of eastern BSEC countries experienced increases in 2014 as a result of pass through from currency devaluations. Western BSEC countries were less affected by devaluations due to the lower volatility of the Euro in 2015, their closer linkages to the EU, and the fact that some use the Euro or have currencies linked to the Euro. Deflationary pressures proved to be a bigger problem in these countries, and a number posted negative changes in consumer price levels for the year.

Figure 6: Trends in Average Fiscal Deficit of Black Sea Region as a Share of GDP



Note: Black Sea Region Average-Blue, Russia Alone-Green, Black Sea Region Minus Russia-Orange

Source: National Statistical Agencies & IMF-IFS

The economic slowdown had a modestly negative impact on fiscal balances. On the one hand, counter-cyclically motivated government spending grew moderately, while on the other hand reduced economic activity resulted in lower receipts from taxes and other sources of revenue. Figure 6 shows that for the Region as a whole, the weighted average fiscal deficit expanded from -1.5% of GDP for 2014 to -2.8% for 2015.

Such an outcome is broadly consistent with the historical pattern of fiscal responsibility that Black Sea Region countries have established over the years. Items such as government spending have an added importance since they are under the control of regional governments, in contrast to exogenous factors such as financial market volatility, monetary policies, commodity prices, many geopolitical developments, etc, which are determined by global factors, by the most globally influential economies or by other means outside the control of the Black Sea countries.

Unable to affect these external influences, which can nevertheless have significant impact domestically, governments have focused instead on areas they are able to affect. In addition to government expenditures and revenues, most governments have been careful to maintain low or moderate levels of public debt that may be sustainably serviced. Since the 2008 financial crisis they have also paid attention to reducing private external debt levels alongside public ones, since continued dependence upon external financing had proven a major source of vulnerability, and resulted in more severe recessions in more “exposed” economies during the 2009 downturn.

Another area of control in which governments have made significant strides is with respect to the business environment of a country. According to the World Bank’s Doing Business annual surveys, Black Sea Region countries have consistently been among the best reformers over the last decade, and in the 2016 report, eleven out of the twelve countries were credited with undertaking business reforms in

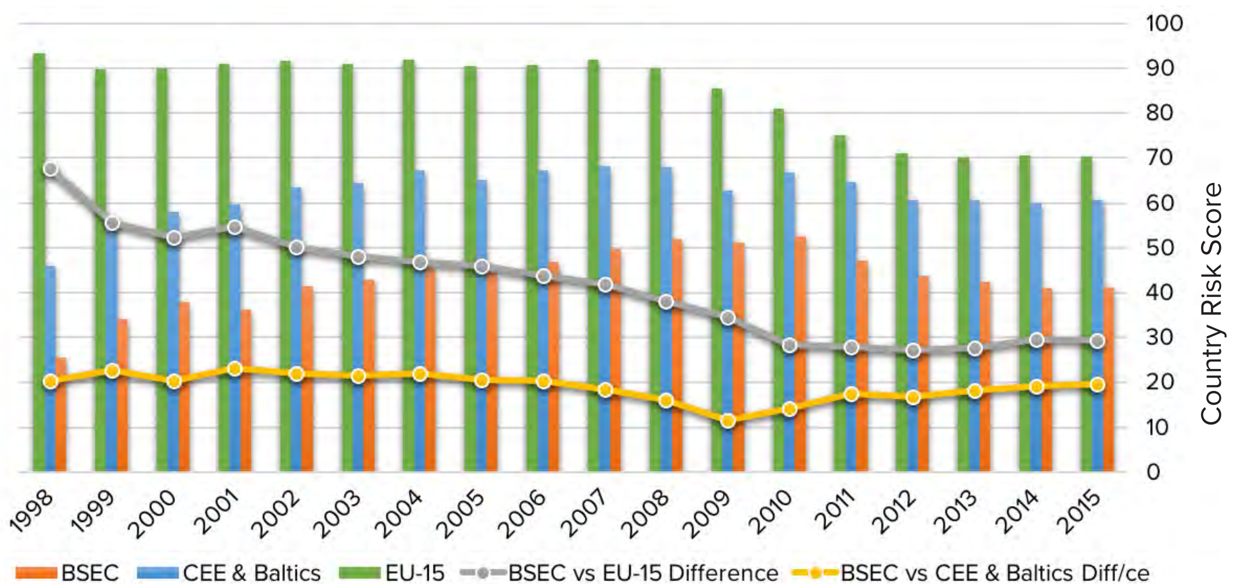
2014–2015 that made it easier to do business, for a lengthy list of significant measures such as starting a business, dealing with construction permits, registering property, obtaining credit and electricity, protecting minority investors, reducing transaction costs for international commerce, enforcing contracts, resolving insolvency, and reducing taxes and tax payment costs.

The fruits of these efforts have yet to materialize in terms of increased domestic and foreign investment and sustained higher growth, and events in recent years have underscored how exogenous political and economic developments can overwhelm the best intentions of small and medium sized economies, not least the negative perceptions which they generate and can be even harder to overcome. However, they do offer grounds for optimism, in that the Region has turned a corner after the downward trend of previous years, and is poised to embark upon a new business cycle of sustained growth in the upcoming period.

Figure 7 shows country risk scores based upon Euromoney's Country Risk surveys[3]. For purposes here, country risk is defined as the weighted sum of a collection of scorings including (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 the implementation thereof; and (v) overall the ability of economic entities to operate smoothly. Country risk is a particularly useful measure for gauging the business environment, since it relates to 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.

For the Black Sea Region, a lengthy period of improving country risk scores from 1998–2010 has been followed by a period of worsening scores from 2011–2014, with stabilization of the downward trend achieved in 2015.

Figure 7: Trends in Regional Euromoney Country Risk Scores & Relative Differences



Source: Euromoney Country Risk

3 Euromoney's *Country Risk* survey is arguably the most comprehensive index in the scope of categories (nine) which it covers. The figure provides simplified regional representations based only on arithmetic averages. They are not weighted to take into account the relative size of the economy or other factors. The figure was prepared solely 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).

Beyond the absolute score levels, an interesting question is how the Black Sea Region has fared relative to key comparable regions, such as the Central and Eastern European and Baltic States and the original EU 15 members. Relative to CEE & Baltics, Figure 7 shows that BSEC countries have maintained a relatively steady level of difference in absolute terms, although there has been a slightly rising trend since 2009, which in turn contrasts to the slightly declining trend of the previous decade. Relative to the original EU 15 members, the trend is even more interesting. After steady declines in country risk levels from 1998–2010, the Black Sea Region experienced a very small uptick (e.g. a slight deterioration) from 2010–2012, and then stabilization.

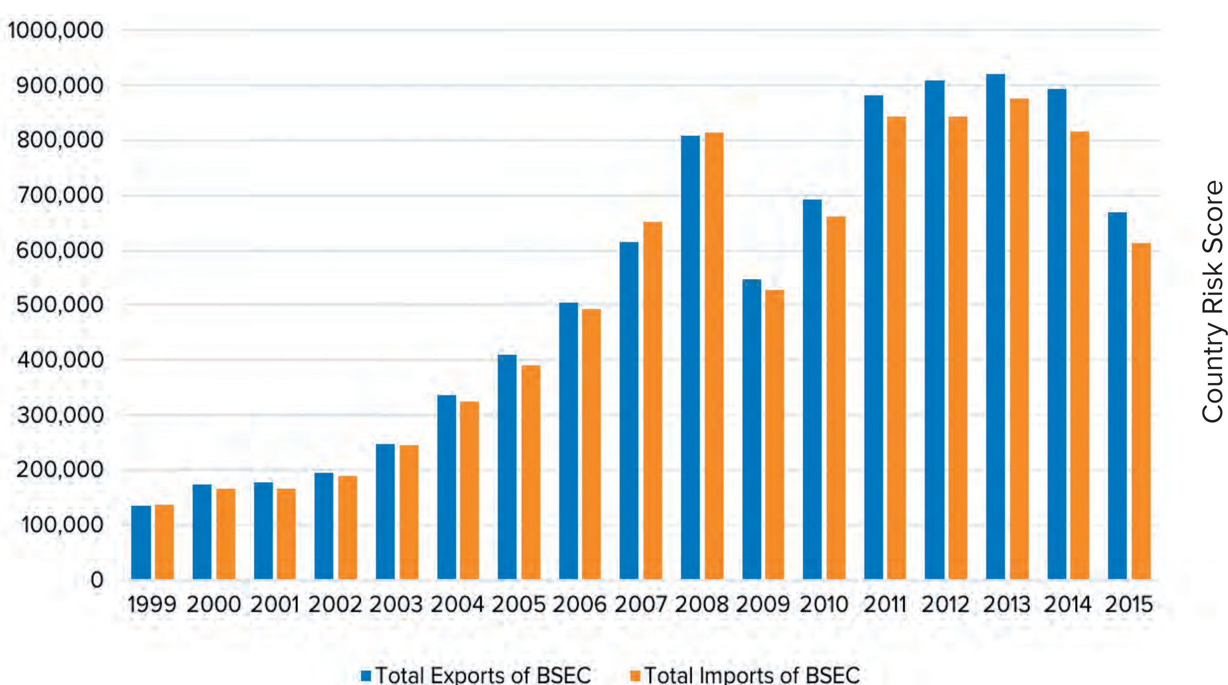
The decline in continued convergence is a cause for concern and underscores the need for Black Sea countries to intensify reforms and undertake measures to improve their business environments and overall profiles. However, the steady differences between EU-15 and BSEC scores hint at the negative influence of post-financial crisis economic difficulties of the EU – specifically the protracted Eurozone crisis and the weak efforts to create a common banking regime – on its immediate vicinity: the Black Sea Region. With a slightly earlier timeframe, the EU-15 roughly parallels the BSEC trends, worsening from 2009–2013 and then stabilizing over 2014–2015. The EU collectively is a major economic actor, and also represents the principal trade partner and source of investment and other forms of financing for the Black Sea Region. Hence, its influence over the neighboring Black Sea Region is very large and in the same way it used to represent a source of stability finance and positive externalities during the 2000–2008 period of high growth, it has had a more ambivalent impact in recent years, exporting uncertainty, policy and financial volatility, and poor growth prospects. Put differently, the poorer scores attained by the Black Sea Region in recent years have not resulted in a widening gap versus the most developed, stable and wealthy economies of Western Europe. Instead, they have moved more or less in lockstep, suggesting that, beyond the aforementioned problem of negative perceptions which have bedeviled the Region (arguably unfairly and excessively), a considerable portion of the Black Sea Region's outturns may be attributed to trends in Western European economies, given the greater influence and reach of the latter.

In Focus: Financial Sector in the Black Sea Region

Impact of the Global Crisis on the Black Sea Region

The global financial crisis which erupted in September 2008 expanded quickly in the transition and emerging market economies of Central, Eastern and South-Eastern Europe. Access to capital markets dried-up, capital flows reversed, investment stagnated, and through investment and trade channels, mostly with Western Europe, the demand contraction resulted in significant output decline. By 2009 deceleration in economic activity was significant. Consequently, large investment projects were either postponed or cancelled. Heightened risk aversion accompanying the contagion from the global crisis reversed years of economic progress.

External Trade of the BSEC Region 1999–2015 (USD million)



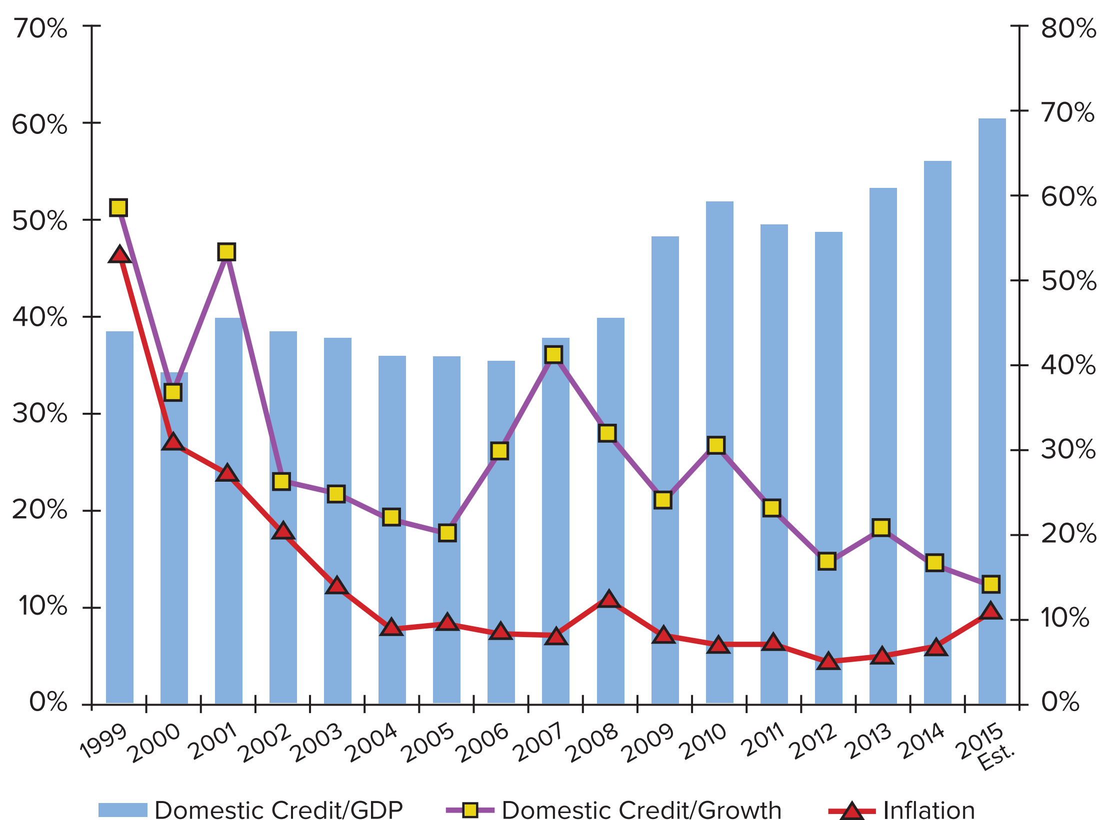
Source: IMF-IFS

The impact of the crisis on the Black Sea Region has been negative and large. Further to the decline in economic activity, deterioration of public finances and increased unemployment, there was a contraction of foreign trade. The decline in foreign and internal demand was exacerbated by a slump in commodity prices. This decline continued on an accelerated pace, threatening the macroeconomic stability of commodity exporting countries.

Stock markets in the Region collapsed, bank credit stagnated, foreign-owned banks started repatriating funding from parent banks, leading to a marked liquidity crunch. Banks in the Region experienced steep de-leveraging and balance sheet adjustments, with banks turning unwilling to provide new credit to the economy.

These developments raised fears of large scale insolvency, as the banking sector was highly exposed to currency risk because of high levels of private debt owed to foreign banks and foreign-currency exposure in their domestic lending activities. At the same time the proportion of non-performing loans (NPL) increased sharply. Credit to businesses and consumers dried up, thus generating further uncertainty that affected negatively investment decisions.

Credit Growth in BSEC Region 1999–2015



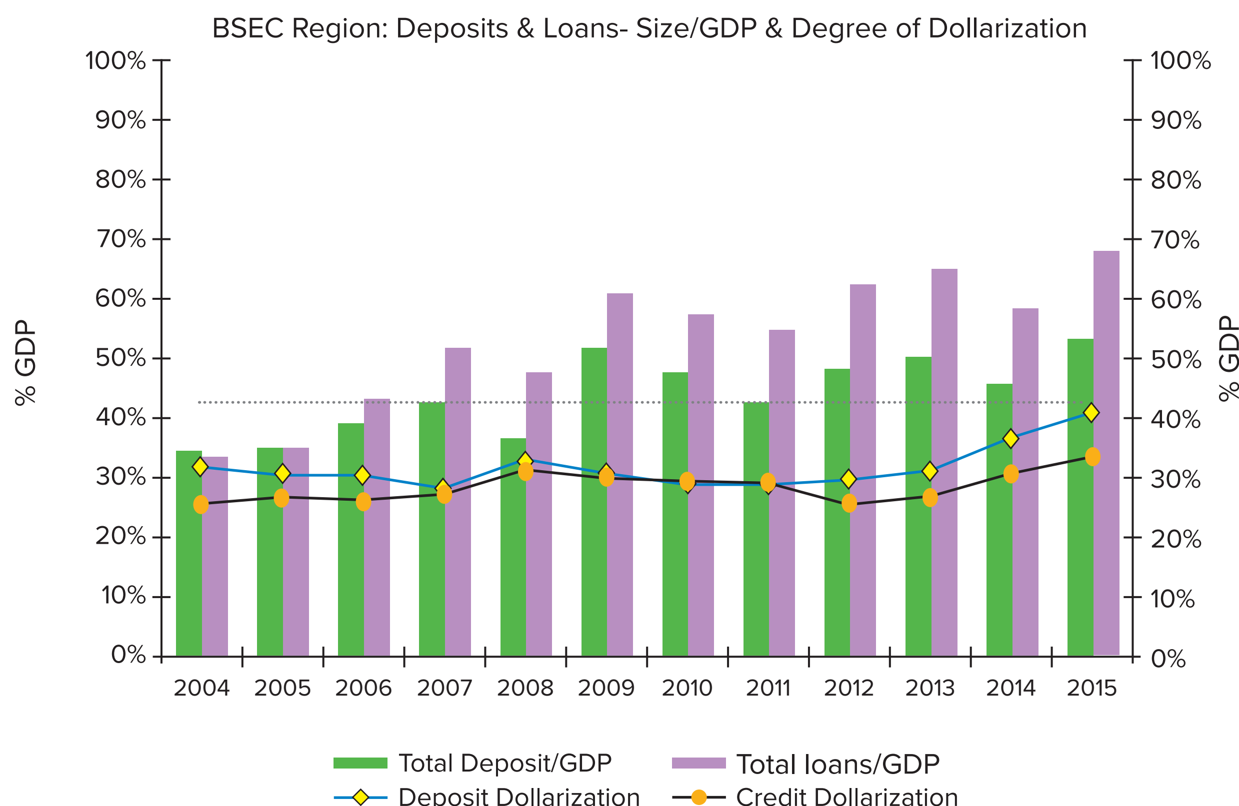
Source: National Central Banks

Consequently, regional currencies came under terrible pressure and some countries experienced massive depreciation of their currencies. However, depreciation of currencies benefited exporters, which, in conjunction with the decline in domestic demand, helped the adjustment of the external balance.

Nevertheless, currency depreciation was negative for banks, as in most BSTDB member countries, the percentage of foreign currency component of deposits and loans was excessive in relative terms.

The banking sectors in the countries of the Black Sea Region are relatively simple in their structure, and the product range straightforward. However, banks remained highly vulnerable to external shocks induced by fast and deep deleveraging, sudden steep increases in the cost of funds or access to capital markets.

The following graph depicts the extent of "dollarization" and its evolution over time in the Black Sea Region, and compares it to the overall size of the financial sectors and the evolution in the levels of loans and deposits. While the chart represents an aggregation across the region and hides country by country specificities, a level of over 40% is generally accepted in conventional wisdom as representing heightened risk.



Sources: BSEC Central Banks, IMF-IFS

On top of the general stress induced by contagion and the inadequacy of some early response measures taken in haste and under panic, specific country conditions ranging from overreliance on one sector of economic activity, to oversized public sector, and more generally the lack of sustainability, masked during the "great moderation" years of rapid growth, burst into a plethora of problems.

Policy Response to Challenges

Governments in the region adopted policies and implemented measures aimed at addressing the negative effects of what became a succession of financial, economic and public sector financing crises. Many policies were aimed at reducing the scope and role of the state, free resources for employment in the private sector, and improve tax collection. In addition, to stimulate credit and economic activity, central banks reduced policy rates and reserve requirements, making thus additional liquidity available to banks.

Throughout the period, even though the ratio of non-performing loans to total loans has increased, the solvency ratio remained comfortably high and the ability of regional banks to withstand future shocks coming from the economy was still adequate. However, this was just a snapshot, the worst was still to come, deleveraging pressure was strong, while foreign currency exposure remained large.

Financial markets are global in nature and interconnected. No localized solution may be either sufficient or successful in the long-term. Therefore, in an attempt to prevent the ensuing liquidity crisis turn into a solvency crisis, to restore the health of the banking sector and increase confidence under the leadership of large international financial institutions (IFIs), crucial international policy cooperation was secured and funding was provided.

The result was the European Bank Coordination Initiative, also known as the “Vienna Initiative”, which played a vital role in helping avert a systemic crisis. The initiative involved the IMF, international financial institutions such as the World Bank, EIB, and EBRD, the European Commission, regional and parent bank country authorities, the European Central Bank, other interested parties and many western banks with large operations in the Central, Eastern, and South-Eastern Europe.

The Vienna Initiative proved to be an effective instrument for preventing massive deleveraging through the provision of incentives and subsidies to western parents of banks in emerging Europe. Parent banks have continued to support their local holdings or pledged to do so, thus maintaining their exposure and in certain instances recapitalized subsidiaries as needed.

In addition, foreign official assistance was provided to assist the countries to address macroeconomic imbalances, prevent financial sector collapse and restore economic competitiveness through a set of wide-ranging structural reforms in the labor and product markets. In cases of countries with floating, managed or adjustable exchange rates regimes, there was also some scope for exchange rate adjustment, while in others the focus was on achieving internal devaluation.

Notwithstanding the importance of these measures for restoring macroeconomic equilibrium, their demand contraction nature also generated high unemployment, increased income inequality and therefore increased poverty, while fiscal austerity also saw a decline in the quality of public services like health and education. Furthermore, the demand contraction has led to an undesirable collapse in credit and has also been a driving force behind the rapid increase in non-preforming loans (NPLs).

Authorities of member countries, in a combination of public provision of capital and facilitation of private participation, recapitalized the systemic banks, while other smaller banks were subject to various forms of resolution. As a result, the number of banks declined, with consolidation resulting in fewer but stronger banks. Regulatory requirements were tightened, and supervision strengthened. In various ways, central banks have supported or sponsored private sector driven resolution of non-performing loans, reducing the burden on banks with a view to facilitate credit growth. Notwithstanding success achieved in reducing the overall level of NPLs, credit growth remains a still unfulfilled desire, with many SMEs lacking adequate access to funding.

At the end of 2015, in general terms banking sectors in member states were stronger than they were when the crisis erupted. In particular, larger economies were able to successfully implement measures aimed at stabilizing and strengthening their banking sectors, although steady access to external funding remains an issue of concern and subject to investor sentiment and perception of risk.

Nevertheless, the banking sectors in certain member countries are still fragile and potentially vulnerable to exchange rate movements, as they are highly dollarized, and access to foreign financing as loans to deposit ratios are high. Some risks remain, in particular related to the resolution of the large proportion of non-performing loans, currency devaluation and the recent decline in remittances that may affect the banks’ funding base with negative implications for stability.

Loans and Deposits 2015

Country	Deposits/GDP (%)	Loans/GDP (%)	Loans to Deposits (%)
Albania	63.6	35.8	56.4
Armenia	38.6	45.5	117.9
Azerbaijan	39.9	43.1	92.6
Bulgaria	77.1	62.9	81.5
Georgia	36.3	51.6	142.2
Greece	66.4	112.6	169.5
Moldova	41.2	31.3	76.0
Romania	36.7	31.5	85.8
Russia	43.8	57.7	131.6
Turkey	63.8	76.0	123.4
Ukraine	36.8	48.9	132.9

Source: National central banks

Lessons Learned and Prospects Going Forward

Financial intermediation is a necessary prerequisite for efficient use of available capital and economic growth, but supply driven rapid credit growth creates conditions for potentially huge financial and economic problems down the road.

Previous crises had demonstrated that unwillingness by foreign banks to maintain trade and other credits precipitate sovereign defaults and currency runs. A sudden outflow of capital therefore has the potential to escalate into a full-fledged currency and balance of payments crisis with potentially devastating consequences.

What history teaches is that solid financial systems need not be large, but should be well regulated and supervised, liquid and should only expand credit to the extent it meets two conditions: (i) that there is a credit demand for viable operations; and (ii) that credit growth is mainly supported by the growth in the domestic deposit base, with external sources limited to long-term funds from international capital markets.

Although integration in the global economy provides opportunities for faster growth, there are channels of contagion through which global shocks are easily passed to the domestic economies, which often are not well equipped to withstand such shocks. It appears, therefore, that locally capitalized and relatively large domestic banks focused on the domestic market, are better suited than subsidiaries of foreign banks to understand local conditions, pursue increases in lending based on the available increases in domestic deposits, and effectively intermediate to the benefit of all parties involved. The reason is that these financial institutions are intrinsically linked to, and see their fortunes in the successful operation of the domestic economy and the growth of the domestic market.

The recent financial crisis has shown that what was generally considered a weakness – the small size and simple structure of the bank dominated financial sector – with a low ratio of loans to GDP, in this instance proved in many cases to be a strength, allowing the banks to be resilient to a variety of shocks, while the link between economic shocks and financial shocks proved to be weak, with less risk of reinforcing each other.

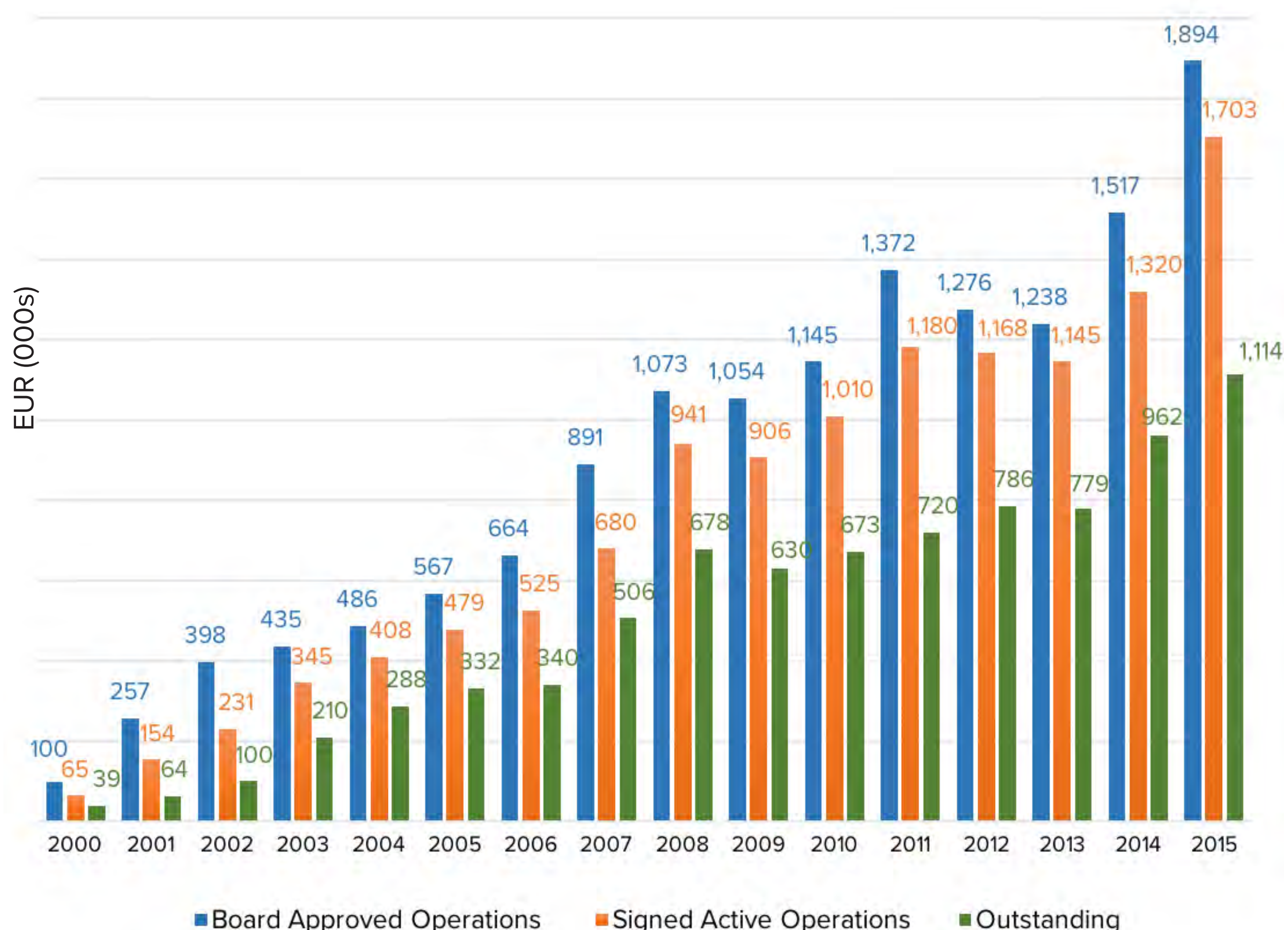
Given the high uncertainty regarding the state of the global economy and investors' high risk aversion, capital flows to emerging markets in general, and to the Black Sea region in particular, are volatile and may change direction suddenly and unexpectedly. Therefore, the importance of development banks for stable provision of financing may not be overstated.

BSTDB in the Black Sea Region

PORTFOLIO DESCRIPTION

Since the beginning of operations in June 1999, the Bank has approved 322 operations amounting to about EUR 4.2 billion. Throughout this period, there were 278 signed operations for a total signing amount of EUR 3.4 billion. A total of 228 operations for about EUR 2.6 billion were repaid. At end-2015, there were 120 operations in the active[4] outstanding portfolio for EUR 1.1 billion. At end-2015, the Bank had only two non-performing loans, representing 1.2% of the value of the total outstanding portfolio.

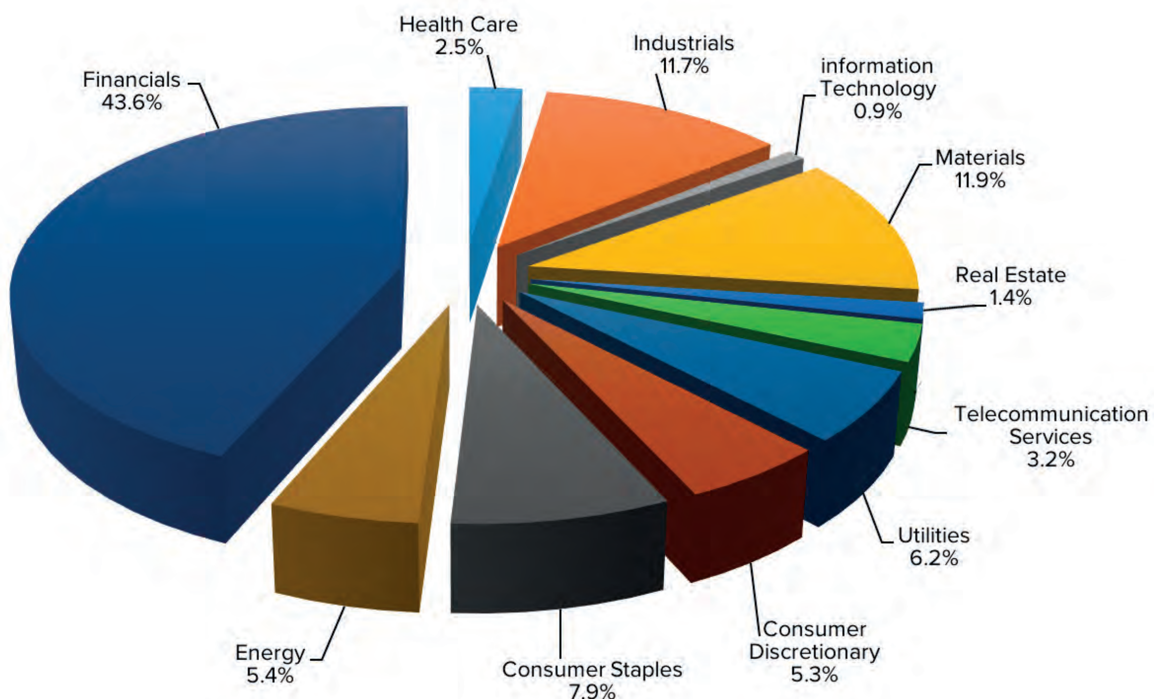
BSTDB Portfolio Development 2000–2015



Source: BSTDB

4 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).

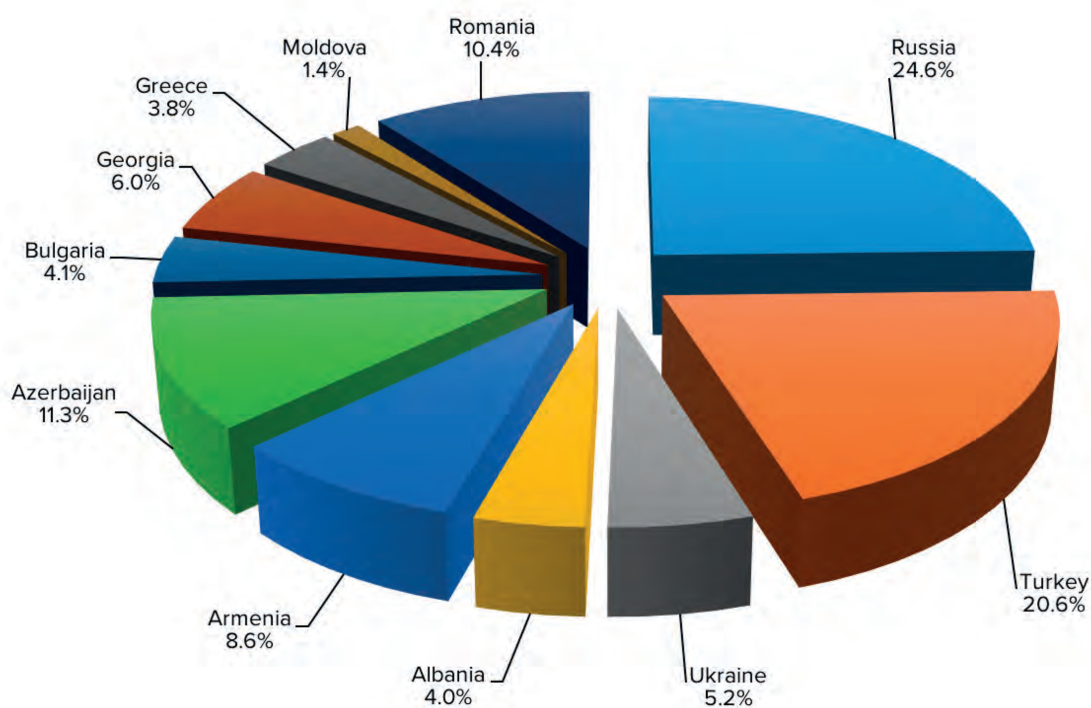
Cumulative Signed Operations by Sector



Source: BSTDB

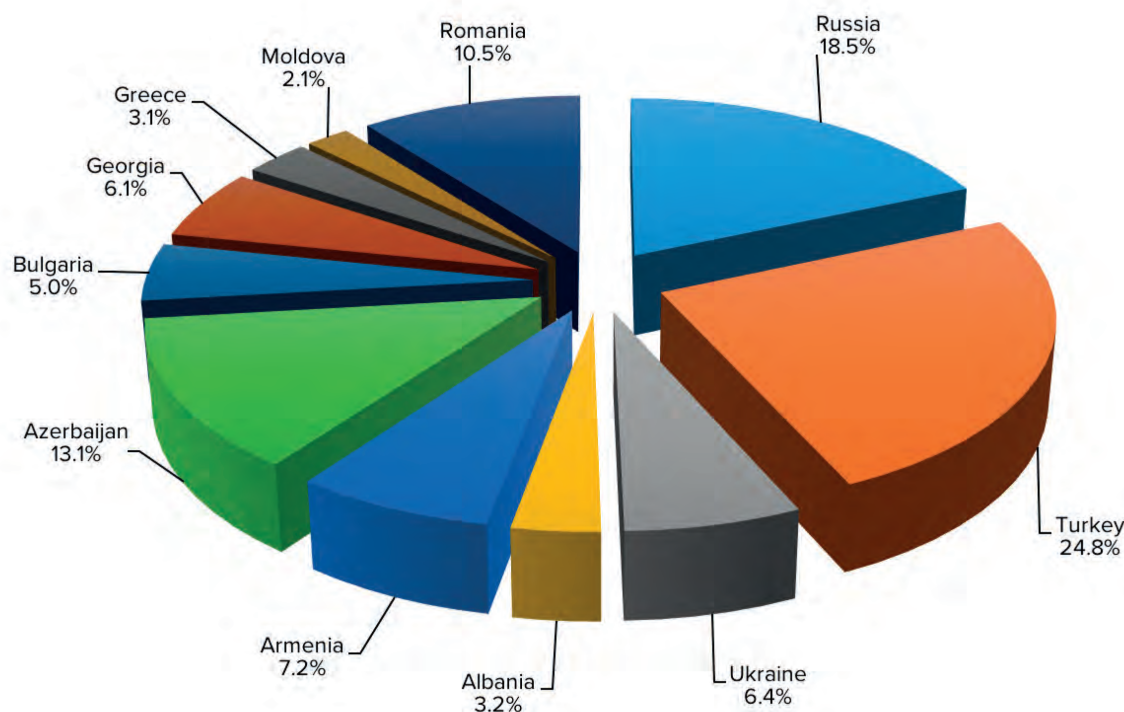
As of end-2015 the outstanding operations of the Bank (cumulative disbursements less repayments for active operations) represented EUR 1.1 billion, distributed by country as per the following graph:

Outstanding Operations by Country



Source: BSTDB

Active Signed Operations by Country



Source: BSTDB

2015 Portfolio Developments

In 2015, as a result of business development efforts, the Board of Directors approved 25 new operations for a total of EUR 487.2 million. This represents a 39.6% increase over 2014. Twenty-five new operations were signed for a total of EUR 480.2 million, an increase of 125.5% compared to 2014. As a result, the Bank had 120 outstanding operations to 96 clients at the end of 2015.

Portfolio structure by sector remained broadly in line with the Bank's historical trends. As in previous years, the most significant exposures were in financial institutions, materials, industrials, consumer staples and utilities. Significant exposure to financial institutions reflects BSTDB's strategic focus on the SME sector development, trade finance, leasing and mortgage lines of credit extended through financial intermediaries in member countries. The Bank's participation in regional SME equity funds represented a further 3.6% of the outstanding portfolio.

Enhanced effort was put into increasing the share of the real (i.e. non-financial) sector, which reached 56.4% of outstanding portfolio at year-end. Two thirds of the new approvals in 2015 went to the real sector. The sectorial structure was well diversified, with projects originating from various industries and economy sectors: manufacturing, agribusiness, healthcare, energy, IT, financing small and medium enterprises, leasing, trade finance, etc.

Co-Financing

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

In the course of 2015, 59.4% of signed portfolio was co-financing. In terms of total signed active portfolio in the amount of EUR 1.7 billion, 41.3% of operations are co-financing. The share of co-financed active operations to total active outstanding portfolio is 45.1%.

In 2015 the Bank co-financed the following operations:

1. Acron Corporate Loan (Russia) with USD 40 million for a total amount of USD 525 million with Bank of China, HSBC, International Investment Bank, ROSBANK, Societe Generale, AO Unicredit Bank & others.

2. Ucar Agro Poultry Business (Azerbaijan) with USD 15 million for a total amount of USD 55.5 million with Azerbaijani Fund for Entrepreneurship Support, Yapi Kredi and equity.
3. Gurmat Geothermal Power Plant (Turkey) with USD 65 million for a total amount of USD 970 million with TSKB, Isbank, EBRD and equity.
4. Ankara Etlik (Turkey) with EURO 60 million for a total amount of Euro 878 million with EBRD, IFC, DEG, SACE lenders and commercial lenders.
5. Shah Deniz Stage 2 (Azerbaijan) with USD 60 million for a total amount of USD 2,843 million with EBRD, Asian Development Bank (ADB) and equity.
6. Kernel Secured Pre-Export Finance (Ukraine) with USD 20 million for a total amount of USD 350 million with BNP PARIBAS S.A., ARAB Bank Switzerland, Banque de Commerce et de Placements S.A., Citicorp North America Inc., IIG Bank Malta, EFA Dynamic Trade Finance Fund Ltd, NATIXIS, Cooperatieve Centrale Raiffeisen-Boeren, ING Bank N.V. and Unicredit Bank Austria AG.
7. Armenian Airports (Armenia) with Euro 25.0 million for a total amount of Euro 123.2 million with Credit Suisse AG London Branch, EBRD and DEG.

Technical Cooperation 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 set up with an initial amount of EUR 800,000 and was replenished in 2003 with the amount of EUR 500,000. This was the Bank’s first special fund and responds to a need expressed by the Bank for higher quality of the information provided by the Bank’s prospective clients.

The Hellenic 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 other member countries of the Bank.

Since its inception, the Hellenic Fund disbursed around EUR 1.3 million for 37 consulting assignments. The companies benefitting from these funds operate in manufacturing, telecommunications, oil and gas, transportation, agribusiness, renewable energy, tourism, real estate, retail and banking. The Hellenic Fund has been used for consultancy services in nine BSTDB member countries: Albania, Armenia, Bulgaria, Georgia, Greece, Moldova, Romania, Russia and Ukraine.

In 2015, the Hellenic Fund financed two new assignments related to the commercial and financial due diligence of potential projects for the Bank in Greece and Armenia. The total amount of the Hellenic Fund used in 2015 was EUR 52,951.

Also, the Bank administers a Technical Cooperation Special Fund (the Fund), established in Oct. 2008 with the Development Bank of Austria (OeEB). 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 eligible countries of the Black Sea region. The Fund represents the first financial facility of this kind, provided to BSTDB by an institution not based in the BSTDB countries of operation. It can be used for assignments in the BSTDB member countries that are eligible to receive ODA.

In 2015, the Fund co-financed two due diligence assignments for the appraisal of two projects in Azerbaijan. The cost of the assignments was financed 50% by the Fund and 50% by the appraised companies.

Since its establishment, the Fund has disbursed EUR 313,000, mainly for project preparation assignments.

Selected BSTDB Financings in 2015

TBC Bank (Georgia)

In 2015, BSTDB extended its first time product denominated in a member state local currency: a Georgian Lari (GEL) 48 million (approximately USD 20 million) SME loan was provided to TBC Bank, a leading Georgian bank. The loan has been funded by the Bank by issuing GEL-denominated bonds.

TBC Bank shall use the loan for on-lending to small and medium-sized enterprises (SMEs), hence the loan is expected to have favorable economic benefits for the Georgian economy via additional tax revenue, new jobs creation and multiplier effects in the economy.

An important development impact of the Bank loan stems from GEL lending: the foreign currency risk for local sub-borrowers is minimised, as they are funded in local currency.

Along with providing funding to the local SMEs, the related GEL bond issue for funding the loan supported the development of the Georgian capital market. The bond is the first local issuance in a BSTDB member country with the aim of making investment in the same currency.

The bond issue carried BSTDB's A-/A2 credit ratings and met the National Bank of Georgia's quality requirement as a liquid asset for Georgian banks.

BSTDB sold the 3-year bonds at a price of par, with a floating coupon that resets quarterly, based on the National Bank of Georgia's 3-month Certificate of Deposit. The bonds will mature in November 2018.

In addition, BSTDB provided a USD 10 million finance facility to TBC Bank for SME financing, with a three year maturity.

BSTDB amount	GEL 48 million
Type of financing	loan for SME finance
Maturity	3 years

BSTDB amount	USD 10 million
Type of financing	loan for SME finance
Maturity	3 years

Alro/Vimetco Corporate Loan (Romania)

A long-term corporate loan has been provided for the capital expenditures of Alro Group in Romania. Alro is one of the largest aluminum producers in Central and Eastern Europe with installed annual production capacity of 265,000 tons of electrolytic aluminum. The main markets for the aluminum manufactured by Alro are within the EU, USA and Asia. The Company is ISO 9001 certified for quality management and has NADCAP and EN 9100 certificates for aerospace production.

Group's business plan focuses on delivering increased value to its shareholders, customers, employees and the community within which it operates. Its core strengths include: effective vertical integration, expertise in value-added products, favorable geographic spread and its proximity to attractive end-markets. The plan is based on Group's ambitious strategy for global expansion – growing its businesses both organically as well as through acquisitions.

In accordance with Alro Group's strategy in Romania, several projects with an overall cost of USD 190 million will be undertaken by Alro Group during 2015–2019 to ensure capacity increase of its high value-added production, energy efficiency and environmental safety and protection.

BSTDB loan is expected to bring a positive development impact by generating additional export and tax revenues, supporting the further development of a successful company in Romania and promoting cooperation among BSTDB member states via investments and exports.

The operation has been assigned the environmental and social (E&S) Category B+ with potentially medium-high E&S risks and impacts. The due diligence concluded that Alro's production of primary aluminum and alloys, recycling, as well as manufacturing of aluminum products are not likely to generate significant E&S risks and impacts, as the Borrower has put in place comprehensive and efficient preventive and mitigations measures. Alro proved to be compliant with the national and EU environmental, labor, and health and safety legal and regulatory requirements, with monitoring data for emissions, discharges and waste generation, including hazardous, as well as resource and energy use, being well below the authorized values. The Bank's support will assist the Borrower in further improving its E&S performance associated with manufacturing of primary aluminum and alloys, recycling, and aluminum products, namely in areas of E&S management systems, pollution prevention and abatement, labor and working conditions, energy efficiency and recycling. Over the years Alro SA has invested in pollution prevention and management over 20 million USD, some of the most important achievements being replacement of the fluorine-content gas wet with gas dry scrubbing technology, subsequently increasing the retention efficiency from 65% to over 99%.

In addition to that, the loan is expected to bring a positive development impact by generating additional export and tax revenues, supporting the further development of a successful company in Romania and promoting cooperation among BSTDB member states via investments and exports.

Total project cost	USD 190 million
BSTDB amount	USD 60 million
Maturity	7 years
Type of financing	corporate finance loan

Etlik Integrated Health Campus (Turkey)

A project finance facility was provided to a special purpose vehicle, Ankara Etlik Hastane Saglik Hizmetleri Isletme Yatirim A.S., to design, finance, construct, operate and transfer an integrated health campus with a total capacity of 3,566 beds, through a Public Private Partnership ("PPP") model.

The Project is expected to have positive economic benefits for the Turkish economy, especially for the Ankara region, during both the construction and the operational phase. The most relevant of these are new employment creation, demonstration effects, upstream linkages with suppliers, a favorable multiplier effect in the region and most importantly improved and expanded provision of healthcare for the public.

Etlik project will be a modern state-of-the-art facility with positive impact on consumer choice and quality of services provided. The healthcare sector is rapidly growing in Turkey due to a growing (and eventually aging) population. As such, Etlik Integrated Health Campus would serve to relieve bottlenecks and overloading of current healthcare services.

The Operation has been assigned the E&S Category A and was subject to EIA under the requirements of the international lending institutions. The assessment concluded that the project will meet both national and international standards for pollution prevention and abatement, including medical and radioactive waste management, infectious disease control, labor and working conditions, patient's rights, and local communities' health, safety and security. The hospital will create approximately 4,000 jobs during the construction phase, and 10,000 during operation and it is expected to provide high quality medical services to 50,000 patients daily. The key benefit and positive impact of the project is that it will increase access to healthcare, improve the efficiency and quality of healthcare services in a cost-effective manner and will also be available to the most vulnerable social layers of the Ankara population, free of charge, through the so-called "green card" health insurance system.

As a PPP in the rapidly growing health sector, the potential for positive demonstration effects of this operation is large. First, the project itself involves the construction and operation of a modern integrated health campus, a model which is fairly new to Turkey and to the BSEC region. Second, it involves a public-private partnership, and is an interesting "case study" that could serve as a model for other PPP-type initiatives in the health sector in Turkey and other BSTDB member countries.

Another positive element is that the large size of the project requires a high degree of external resources mobilization, with the involvement of IFIs (EBRD, IFC, BSTDB) and the Italian Export Credit Agency (SACE).

Total project cost	approximately EUR 1.1 billion
Debt financing	EUR 878 million
BSTDB amount	EUR 60 million
Maturity	18 years
Type of financing	project finance loan

Gurmat Geothermal Power Plant (Turkey)

The Bank has co-financed the construction and operation of the Efeler geothermal power plant in Turkey. BSTDB has provided a USD 65 million loan to Gurmat Elektrik Uretim A.Ş., a subsidiary of Guris Holding, a leading Turkish renewable energy company. The BSTDB financing came alongside loans from the European Bank for Reconstruction and Development (EBRD), the Industrial Development Bank of Turkey and Işbank, a leading Turkish commercial bank. The Efeler power plant is located near the western town of Germencik, the area in Turkey with the greatest potential for geothermal energy. The plant has five units, all of which are already operational. Following the full construction completion in 2015, the plant has reached the capacity of 170 MW, making it one of the ten largest geothermal plants in the world.

The project will expand the capacity of Turkey to tap into cleaner energy resources and will also create new employment opportunities in the region. About 600 new jobs have been created during the construction phase and 140 during the operating phase of the project. In addition, the operation will assist the country to lower its dependency on conventional energy sources.

The operation has been assigned the E&S category A. As a green-field development the geothermal energy generation project was subject to EIA process according to the national environmental law, and the Company has received the appropriate positive EIA certificate. The Company has received all the permits, approvals and licenses required by the national law and the project has been structured to meet the good E&S practices applied by the geothermal industry, as well as the leading international performance requirements and standards. The geothermal power plant will convert heat into electricity by utilizing naturally occurring hot water and driving it through steam turbines connected to electric generators to produce electricity. The plant is a good example of a renewable energy technology as it relies on Earth's core thermal energy generated by its radioactive decay, which is virtually unlimited and will help the country offset its energy supply from conventional fossil fuel-based sources by clean carbon-free energy.

The operation shall add value to the Turkish economy by generating electrical energy in anticipation of a further growth of population, national economy (GDP) and energy consumption. The transition impact of the operation stems from two factors: (i) demonstration of new products through increasing the share of renewable energy in the country's energy mix and (ii) more widespread private ownership through supporting a privately developed project in Turkey, where the state still holds a significant share in electricity generation.

Total project cost	around USD 970 million
BSTDB amount	USD 65 million
Maturity	15 years
Type of financing	project finance loan

Shah Deniz Stage 2 (Azerbaijan)

BSTDB provided a long-term loan to Lukoil Overseas Shah Deniz Ltd. for the second stage of the exploration and production project aiming to further develop the Shah Deniz offshore gas and condensate field in Azerbaijan.

The Shah Deniz offshore gas and condensate field (Shah Deniz) is situated in the South Caspian Sea. It is the largest natural gas field in Azerbaijan and one of the largest in the world. It commenced the production in 2006 (Shah Deniz Stage 1). The proposed investment is a continued field development of Shah Deniz that will add a further 16 billion cubic meters of gas production per annum (bcma) to the existing capacity of around 10 bcma currently available under the Shah Deniz Stage 1.

The Shah Deniz project is one of the largest off-shore gas development projects in Azerbaijan, seeking to nearly triple the gas production of the country and provide a boost to economic growth, which has flagged in recent years, while previous oil and gas fields have peaked or matured.

The operation has been assigned the E&S Category A. The offshore exploitation and exploration of hydrocarbon reserves and transfer onshore via subsea pipelines are associated with high risks that have the potential to generate significant adverse E&S impacts, which can be diverse, irreversible or unprecedented. The E&S due diligence concluded that the overall impacts on the environment due to the prevention and mitigation measures considered will be of minor to moderate significance. The socio-economic impacts, on the other hand, were assessed as being predominantly positive due to new employment, training and skills development, and procurement of goods and services on the local market. Development of Shah Deniz will also be likely to result in increased use of the regional road infrastructure, and temporary disruption of small-scale fishing and shipping. In this respect, the development of a Road Safety Management Plan, and a Livelihood Restoration Plan through a Small Scale Fishing Management Plan will take place through active engagement with the stakeholders. It will include identification of appropriate (financial and non-financial) livelihood restoration measures by agreement with stakeholders, for the duration of the temporary loss of access, which will apply during the construction period for approximately 9 months, after which access will be reinstated.

Notwithstanding the increased dependency upon energy production, which the project will surely bring, it has positive development impact on the Azerbaijani economy, increasing inflows of revenues and helping to improve living standards. Energy receipts are a particularly important source of revenue to the state budget, thus the project will also have a positive fiscal impact.

The operation has a considerable regional development impact through downstream benefits for Georgia and Turkey, and potential benefits for Albania, Bulgaria and Greece.

BSTDB won an award from the Infrastructure Journal Global magazine, a leading sector publication, for its involvement in the Shah Deniz Stage 2 project. The Infrastructure Journal Global Awards recognize excellence, achievement and innovation in the energy and infrastructure finance. BSTDB won the magazine's "European Oil & Gas Deal of 2015 Award" for providing the long-term financing for Borrower's share in the Shah Deniz Stage 2 project.

Total project cost	USD 2.8 billion
BSTDB amount	USD 60 million
Maturity	12 years
Type of financing	project finance loan

Kernel Pre-Export Finance Facility (Ukraine)

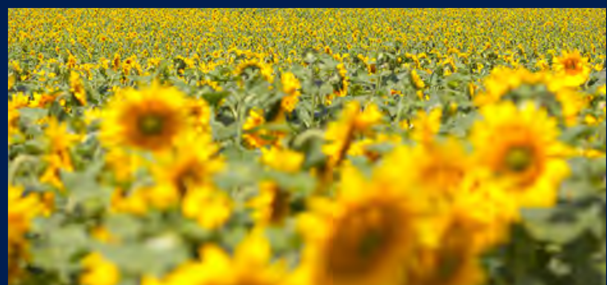
BSTDB participated in a syndicated secured loan of USD 350 million for Kernel Group in Ukraine. The loan is aimed to finance Kernel's sunflower seeds purchases, storage and processing until the seeds are processed into commodities for export.

Kernel is a leading Ukrainian agribusiness group with integrated activities. Handling about 7 million tons of agricultural commodities per year, Kernel supplies the international markets with grain and sunflower oil. The loan provided by the Bank supports the sunflower oil export activities of the group. It is also expected to have positive upstream and downstream effects: the oil seeds to be purchased with the loan proceeds are sourced from over 5,000 Ukrainian farmers and are to be processed by seven Ukrainian producers.

The operation has been assigned the E&S Category B+ with potentially medium to high risks and impacts, which are largely reversible and can be addressed through relevant mitigation measures. The E&S due diligence of Kernel concluded that the E&S risks and impacts associated with its business are well-managed due to comprehensive and efficient prevention and mitigation measures applied, including management systems. Its agribusiness activities are compliant with the national environmental, labor, and health and safety legal and regulatory requirements. Kernel also proved to be a responsible employer. It provides its employees with competitive working terms and conditions, has made substantial efforts to reduce its carbon footprint by switching most of its oilseed crushing plants to biomass, is employing advanced agricultural practices and modern equipment, and has proved to be a responsible member of the local communities.

Kernel sells its products all over the world, Turkey being one of the largest export destination for the group. Hence, by fostering trade among BSTDB member countries, the loan is expected to have positive regional cooperation impact.

Total project cost	USD 350 million
BSTDB committed amount	USD 20 million
Maturity	12 months
Type of financing	pre-export finance loan



MLS (Greece)

A secured corporate loan of EUR 3 million has been provided to MLS Multimedia S.A. (Greece) to support the implementation of the company's business plan during 2015–2019. The loan has a 5-year maturity and shall be used for capital expenditures (EUR 2 million) and working capital (EUR 1 million).

MLS produces multimedia and linguistic technology products, navigation systems and devices, smartphones and tablets. The company exports its products to Turkey, Saudi Arabia, Jordan, Chile, Morocco and Cyprus. It is the market leader in Greece for navigation systems.

The financing provided by the Bank will contribute to the diversification of the Greek economy: it supports the development of a Greek company specialized in high technology, a sector where the competitive advantages of Greece have not been yet realized. MLS business is based on research and development and the company employs highly qualified young professionals. The development of the company will result in establishing additional jobs for young people at times when the unemployment rate is high among young Greeks.

Total project cost	EUR 3 million
BSTDB amount	EUR 3 million
Maturity	5 years
Type of financing	corporate loan

Acron Corporate Loan (Russia)

The Bank participated with USD 40 million in a USD 525 million syndicated pre-export facility for JSC Acron (Russia). The syndicated loan shall be used for various corporate purposes, including repaying an existing bridge loan, financing the capital expenditures of the company and its working capital needs and repaying other financial indebtedness of the company.

Acron Group is among the leading vertically integrated mineral fertiliser producers in Russia and worldwide. The Group has chemical plants in Russia and China. It produces phosphate raw materials in Russia and develops potash deposits in Russia and Canada. Acron is a low cost producer with a focus on energy efficiency. It is a worldwide exporter with sales in 65 countries. Being listed on the London Stock Exchange, it is a transparent company with sound corporate governance and management.

The operation has been assigned the E&S Category B+ with medium-high risks and impacts, which, however, can be efficiently addressed through relevant prevention and mitigation measures. The due diligence concluded that Acron's production facilities are compliant with subject environmental, labor, and health and safety laws and regulations. It had developed and implemented comprehensive management systems similar to international systems for E&S management such as ISO and OHSAS, which allows Acron to address any E&S risks and impacts in a structured and continuous manner and respond adequately in cases of emergency. The Group had developed, and is enforcing strict occupational, health and safety rules, and is providing its employees with comprehensive terms and conditions of employment. In terms of the applied pollution prevention and mitigation measures, Acron is making continuous efforts in improving its performance; e.g. the newly installed ammonia production facilities employ some of the best available techniques with industry leading environmental performance. Overall, Acron proved to be a well-managed and transparent company, following good practices, being legally compliant, and a reputable and responsible employer.

By financing the export-oriented Acron, the Bank supports the objective of Russia to diversify its economic base and to reduce the share of raw materials exports in total country exports, while developing the manufacturing sector and other higher value added activities.

Total project cost	USD 525 million
BSTDB amount	USD 40 million
Maturity	5 years
Type of financing	corporate loan

Hatziioannou Corporate Loan (Greece)

A corporate loan of EUR 6.2 million was provided to Hatziioannou Industrial and Commercial S.A. (Greece) to finance the company's capital expenditure program during 2015–2016.

Hatziioannou Industrial and Commercial S.A. is a Greek manufacturer of packaging solutions for consumer goods and industrial purposes. The BSTDB loan will help upgrade the company's technological base and expand its production capacity and product range. The company has a strong export-oriented profile, supplying its products to many countries, including the BSTDB member countries Albania, Bulgaria, Romania and Russia.

The Operation has been assigned the E&S Category B with medium to low potential to generate negative impacts and risks. The Borrower's production facilities are legally compliant and its manufacturing processes are certified according to the leading global standards, such as BRC Global Standard for Packaging and Packaging Materials, which guarantees the high quality of the packaging, its safety and standardized operational criteria, to ensure that the Company will fulfill its legal obligations and will provide protection to the end consumer. The Borrower has also proved to have a good performance in terms of occupational health and safety, labor standards and terms and conditions of employment, as well as with regard to pollution prevention and mitigation.

The loan is in line with the Bank's commitment to accelerate its lending within Greece at a time of utmost need, in the country's current challenging economic conditions, ensuing scarce funding for businesses. The company is an industry leader and a major employer in Kilkis, a less-developed region of Greece. The loan will support the company's efforts to further improve its production processes and cost structure, thus contributing to strengthening its competitive advantages and export profile.

Total project cost	up to EUR 6.2 million
BSTDB amount	EUR 6.2 million
Maturity	7 years
Type of financing	corporate loan

Credo LLC (Georgia)

During the past few years BSTDB has expanded, along with lending to banking financial intermediaries, its micro, small and medium loan facilities to the non-banking financial sector. In line with this, a loan of USD 6 million for micro, small and medium sized enterprises (MSME) was provided to Credo LLC in Georgia. Credo provides sustainable financial services to micro, small and medium businesses, with a preference for rural activities and those businesses that create income and employment opportunities with poverty alleviation impact.

The loan is an example of BSTDB's financial support to MSME in its member countries. Through this facility BSTDB aims to contribute to the economic development in Georgia and also to strengthen the non-bank financial sector in the country.

The loan to Credo, which is a new financial partner for BSTDB, also landmarked a new product launched by the Bank: 50% of the proceeds of the loan is to be allocated by Credo to financing sub-loans to women-led beneficiaries – either women individual entrepreneurs or legal entities having women as shareholders or in key management positions.

BSTDB amount	USD 6 million
Type of financing	loan for micro, small and medium-sized enterprises (50% women-led beneficiaries)
Maturity	3 years

Inecobank (Armenia)

Inecobank has been an active financial partner for BSTDB in Armenia since 2006. In 2015, the Bank provided its third SME finance facility to Inecobank for an amount of USD 5 million and a maturity of three years.

The loan responds to the growing demand for medium-term funding for Armenian SMEs, and through it, the Bank supports the increasing number of SMEs in the country. By offering easier access to capital resources, the loan contributes to the private sector development.

In general, the loan is expected to have favorable economic benefits for the Armenian economy via additional tax revenue from increased economic activity following the financing provided, increased employment and multiplier effects in the economy.

BSTDB amount	USD 5 million
Maturity	3 years
Type of financing	loan for SME finance

SME Leasing and Micro-finance Facility to ICS Total Leasing and Finance S.A. (Moldova)

In 2015, BSTDB signed a second loan agreement with Total Leasing and Finance (TLF) for financing eligible SMEs in Moldova through leasing and micro-loans. The first SME leasing facility to TLF was signed in June 2012. Since the beginning of the relationship with BSTDB, TLF has proved to be a well-managed, reliable partner and diligent borrower. After 10 years of operation in the Moldovan leasing market, TLF became a market leader in the leasing sector, while as of 2010 it has diversified its activity by additionally providing SME and micro loans. TLF ranks 5th in the microfinance sector in Moldova, with an 8.7% market share, and enjoys support from IFIs in its shareholding and funding structure.

The operation supports the development of the real economy, which is one of the BSTDB's key priorities, particularly in the current challenging environment, where access to long term funding is limited. Other BSTDB countries are important trade partners for Moldova, therefore the loan is likely to have regional cooperation benefits to the extent that SMEs that benefit from financing under the loan, engage in export activities to other BSTDB member countries.

Total project cost	EUR 4.5 million
BSTDB amount	EUR 4.5 million
Maturity	5 years
Type of financing	leasing facility of EUR 2.7 million and SME and microfinance loan facility of EUR 1.8 million

Trade Finance Facility to Absolut Bank (Russia)

Absolut Bank JSC was a BSTDB financial intermediary back in 2006 with a long term facility which was prepaid in 2007 following the acquisition of Absolut Bank by KBC Group. In April 2015, BSTDB renewed its business relationship with Absolut Bank by signing a new loan agreement for a revolving trade finance facility of EUR 30 million.

Absolut Bank has grown to the 30th position in the top 50 Russian banks and has an already significant and dynamically developing trade finance activity.

The loan shall be used by Absolut Bank for on-lending to enterprises involved in importing or exporting activities to and from Russia and support the development of the real economy sector. Other BSTDB countries are important trade partners to Russia, therefore the loan will have a positive economic impact not only to the Russian economy, but also to the regional cooperation, by enhancing intra-regional trade.

Amount	EUR 30 million
BSTDB amount	EUR 30 million
Maturity	360 days (revolving)
Type of financing	revolving trade finance facility

Total Project cost	USD 5 million
BSTDB amount	USD 5 million
Maturity	360 days (revolving)
Type	revolving trade finance facility

Trade Finance Facility to Creditwest Bank (Ukraine)

BSTDB extended a USD 5 million trade finance facility to CJSC Creditwest Bank in Ukraine. Creditwest Bank has a dynamically developing trade finance activity and shall use the proceeds of the BSTDB loan to extend short-term pre-shipment and/or post-shipment export and/or import financing to its customers in Ukraine.

With this trade finance loan, BSTDB will channel short-term funding to Ukrainian importers and exporters, including small and medium-sized enterprises, which cannot be otherwise accessed by BSTDB directly.

With the BSTDB financing, Creditwest Bank will be able to diversify its funding base and establish a successful track record in working with International Financial Institutions (IFIs). The trade finance facility is in line with one of BSTDB's strategic objectives to support the development of the financial sector in its member countries.

Success Stories

BSTDB – SAS Group (Armenia)

The Bank is proud to have financed through the years the development of SAS Group LLC, a leading retailer in Armenia and a significant employer in the country. The cooperation started back in 2008 and keeps expanding. SAS Group now operates nine stores in Yerevan and two in Tbilisi, Georgia. The most recent milestone was the opening of the unique “SAS Food Court” in Yerevan, in December 2015. Certain highlights of this ongoing success story are outlined below.

2008: First Loan – Supermarkets

In 2008, SAS Group was a successful Armenian supermarket chain operating three outlets in Yerevan. To support the Group’s bold development plans, BSTDB provided a first loan of USD 7.6 million for the construction of five additional supermarkets. The development path has been continued since then and SAS Group is now one of the leading food and fashion retailers in the Caucasus Region.

2010: Second Loan – Fashion Retailing

A second loan of USD 3 million was provided by the Bank in 2010 to finance the expansion of SAS Group in Georgia. The loan enabled the company to open two fashion retail stores in Tbilisi, based on a franchising agreement with Next clothing brand from the United Kingdom.

2014: Third Loan – “SAS Food Court”

In 2014, an additional loan of USD 7.5 million was approved by the Bank to finance the new investments planned by the Group for 2014–2015: the expansion of SAS supermarket chain, modernisation of bakeries and kitchen facilities at existing stores and launching an online supermarket. The jewel in the crown is the “SAS Food Court” in Yerevan, which has given life to the concept of a “ready-to-eat” food store in the Armenian capital. The Food Court is now the place where people can sample different dishes ranging from pizzas

to homemade dairy and sweets, all under one roof. The launching of the “SAS Food Court” alone has led to the creation of around 200 new jobs.

Development Impact in Armenia and across the Region

In short, the long-term relationship of the Bank with SAS Group has supported the development of the Group and its efforts to enhance efficiency and competitiveness. It has generated strong development impact in Armenia, and has also created opportunities for foreign partnerships, with a transformational effect in the countries of the Black Sea Region where the Group is active.

Aram Sargsyan, Co-founder of SAS GROUP, says:

“We understood that the cooperation with the Black Sea Trade and Development Bank would allow us to implement development projects, which would ensure multiplier effects in the economy of our country. Hence, in the third stage of our cooperation we stressed development of the production component, which might positively impact on the whole value chain and, accordingly, accelerate job creation and SME development. Now we are enjoying the results, with thousands of new jobs created not only in our group but within the cluster we are leading”.

EDPR (Romania)

Sustainable Energy Projects among Top BSTDB Priorities

Since its inception, BSTDB considers the sustainability of its operations as one of its key principles and it has incorporated it in the core of the Bank's business model. BSTDB regards climate change as a serious challenge that is not bound by political or geographical borders and affects the state of the environment and well-being of people globally. BSTDB recognizes the importance of biodiversity conservation and the vital services the ecosystems provide to humans and businesses, such as clean air, carbon storage and sequestration and climate regulation. Therefore, the Bank commits to promote through its operations sustainable use of living natural resources and protection and conservation of biodiversity.

Renewable energy is helping improve energy security, reduce greenhouse gas (GHG) emissions and triggers high returns for the domestic economies by generating local added value and job creation. By investing in renewable energy, countries reduce their energy dependency and minimize their exposure to potential increases in fuel prices, protecting the local economy. In addition to this, renewable energy operations contribute to combatting climate change, sustaining clean air and protecting biodiversity, due to their zero NOx and SOx emissions and due to their carbon-free nature. Compared to the conventional processes, renewable operations provide better living standards for the community and protect global health.

First BSTDB Solar Energy Project in Romania

BSTDB's mid-term strategy for Romania puts more emphasis on the renewable energy projects such as wind, hydropower and solar plants. In 2014, in line with this priority, BSTDB provided, together with other IFI's, long term loans to six special purpose vehicles (SPVs) incorporated under the Romanian law and controlled by EDP Renováveis SA (EDPR). The loan was used for the construction, operation and refinancing costs of a 50.4 MW solar Photo Voltaic (PV) park in southern Romania (Mehedinti, Dolj and Olt counties). EDPR is a leading company in the renewable energy sector and has as major shareholder EDP Group, the largest generator, distributor and supplier of electricity in Portugal. EDPR produces clean and green energy without emissions, controlling its ecological footprint. The project co-financed by the Bank consists of six separate solar plants which contribute to the expansion of the renewable energy market in Romania and will support Romania in achieving its target of sourcing about 38% of its electricity consumption from renewable sources by the year 2020.

Strong Development Impact, Tangible Benefits for Local Communities

The project generates carbon-free electricity, uses local labor and mobilizes funding from outside Romania. More than 90% of EDPR and subcontractors' employees are from local communities, hence generating positive impact on the local economy. Also, by means of additional contributions to local taxes, the project has led to an increase in the local councils' budget. A responsible corporate citizen, EDPR has involved itself in awarding Green Education scholarships to best local students and supported the local councils to promote cultural and social initiatives such as buildings restoration and conservation.

BSTDB Helps Enhancing Best Corporate Practices

EDPR is strongly committed to sustainable development as proven by company strategy for sustainability and the goals in the business plan for 2014–2017. These goals address company performance based on three pillars of sustainability: economic, social and environmental, and at the same time, they aim at controlling the company's impact on the economy, the community and nature. One of the EDP Group goals is to ensure high ethical business standards and practice. EDP Group was listed in Ethisphere 2015 rankings for being one of "The World's Most Ethical Companies", according to the Ethisphere Institute, which promotes the standards of ethical business.

(Source: http://www.edpr.com/).

Total project cost	about EUR 67.4 million
BSTDB amount	EUR 10 million
Type of financing	project finance loan
Maturity	14.3 years

João Pedro Burnay Summavielle, Head of Finance, says:

"As a result of BSTDB lending, our company implemented the Environmental and Social Impact Assessment (ESIA) guidelines. Combined with the practices already implemented in the company, this helped us become more actively involved in performing environmental and social actions that targeted first of all the local communities where we are present with investments. We believe that the Stakeholder Engagement Plan helped us perform an excellent relationships management with all our stakeholders: authorities, local communities, companies, etc."

Sustainability Overview

Foreword

BSTDB's approach to sustainability consists of integrating E&S sustainability principles in an inclusive, systematic and structured manner into the core of its development finance model. Thus, pollution prevention and mitigation, respect for fundamental human rights in the working environment, protection of the Black Sea against pollution, addressing climate change, promoting efficient use of natural resources, protection and conservation of biodiversity, disclosure of information on environmental and social performance of its operations and engagement in open dialogue with stakeholders, are all part of the Bank's day-to-day practice. This approach evolved over the years and at present it is a constituent part of BSTDB's portfolio management, policies, internal procedures and practices, and is timely updated and enhanced so that it can support the Bank in achieving its development objectives, as well as its Borrowers in the Member States in achieving a better E&S performance.

Sustainability Approach

All operations considered by BSTDB are subject to a thorough E&S due diligence, which allows the Bank to take informed decisions on whether to provide financing to the assessed prospective operations, and if so, what are the E&S issues that need to be addressed during planning, financing and implementation stages. BSTDB categorizes its operations into A, B+, B, C and FI categories, depending on 1) the associated potential E&S risks and impacts; and 2) the scope of E&S assessment necessary to identify, assess and mitigate these risks and impacts.

The E&S due diligence of operations financed directly by BSTDB focuses on the following issues depending on their relevance to each particular case: the E&S management applied by the Borrower; labor and working conditions and how people are treated in the working environment; the applied pollution prevention and abatement measures and how efficiently the resources are being used; potential risks on the local communities, their health, safety and security; issues related to land acquisition, involuntary resettlement and economic displacement; impacts on biodiversity, ecosystem services and sustainable use of living natural resources; protection of any cultural heritage; and potential risks and impacts on Indigenous Peoples if present in the area of influence of the operation.

The E&S assessment of operations financed by BSTDB through Financial Intermediaries (FIs) focuses on the capability of such FIs to manage E&S risks and impacts associated with their business activity in a manner that is compliant with the requirements of the Bank's E&S Policy and the national legislation in effect, including the country's commitments under international law. If these are found to be satisfactory the Bank would normally delegate the function and responsibility for E&S issues to its FI Borrower.

Category A operations are subject to Environmental and Social Impact Assessment (ESIA) process and require meaningful consultation with the public that may be affected by such operations. This includes setting of procedures for public notification, disclosure of related information about the operation and its potential E&S risks and impacts, public review and comment.

BSTDB seeks to apply good international E&S practices in all the operations it finances. By good practices, the Bank recognizes the performance standards and requirements of the leading Multilateral Development Banks (MDBs), development agencies, the European Union (EU) E&S standards, the International Labor Organization (ILO) Core Labor Standards, the World Health Organization (WHO) standards, relevant International Maritime Organization (IMO) conventions, as well as relevant international conventions, such as Convention on the Protection of the Black Sea Against Pollution, and the multilateral environmental agreements under the United Nations Economic Commission for Europe (UNECE), in particular the Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters (Aarhus Convention), and Convention on Environmental Impact Assessment in a Transboundary Context (Espoo Convention).

All operations considered by BSTDB need to comply with the following minimal E&S requirements: 1) National and applicable EU environmental, labor, health and safety, and public information laws and regulations, including national commitments under international law; 2) Availability of permits, approvals, licenses and certificates required under relevant laws and regulations; 3) Category A operations need to meet the requirements applied by EU, namely the Environmental Impact Assessment (EIA) Directive and relevant sector-specific and cross-cutting directives, or the requirements applied by WB/IFC. Category A operations that are likely to generate trans-boundary impacts need to meet the requirements stipulated under the Espoo and Aarhus Conventions, irrespective of whether the country of operation is a party to the Convention; and 4) Meet the requirements of the BSTDB Environmental and Social Exclusion List.

BSTDB's E&S sustainability approach also provides for informing the public in a transparent and timely manner about the E&S aspects associated with its operations. This information is posted on the Bank's website as Operation Summary Documents (OSDs) and includes general information about the operation financed, as well as information on E&S categorization, the potential risks and impacts, and how these will be addressed throughout the life of the BSTDB financing. OSDs are disclosed to the public after such operations are approved by the Bank's Board of Directors.

BSTDB also discloses to the general and/or interested public relevant E&S information of its Category A operations. For private sector operations this information is disclosed not later than 30 calendar days before the Board of Directors meeting, and 60 calendar days for public sector operations. This information is disclosed on the Bank's website and is open for public comments.

All the operations financed by the Bank are monitored against the agreed E&S compliance requirements in order to ensure that relevant E&S terms and conditions stipulated in the legal agreement are met. In addition to that, monitoring helps the Bank to determine whether the prevention and mitigation measures employed in managing the E&S risks and impacts are effective or need adjustments.

In 2015, BSTDB signed 25 operations, which in terms of the associated E&S risks and impacts were categorized into: Category A – 3 operations, Category B+ – 7 operations, Category B – 2 operations, Category C – 2 operations, and Category FI – 11 operations. Category A operations were subject to ESIA and meaningful consultation and engagement with stakeholder, as well as to public disclosure of a minimum 30 calendar days before the Bank's Board of Directors approval. Many of these operations have a strong developmental impact, create job opportunities, apply cleaner and energy efficient technologies, and promote use of renewable. Likewise, the Bank favored dealing with clients which employ transparent, responsible and accountable business models, paying due regard and constantly improving their E&S performance. (Please refer to the "Selected BSTDB Financing in 2015" Section to learn more about the sustainability component of BSTDB operations).

Institutional Aspects

The E&S issues associated with the Bank's activities are lead by its E&S Sustainability Office. It provides independent advisory, support and review functions on E&S risks and impacts, works closely with business generating units in ensuring that the operations considered by the Bank for financing are sound and meet the requirements of its E&S Policy and the sustainable development principles the Bank has committed to follow. It also develops and implements relevant policies and procedures and participates in promotion of BSTDB activities through its website, social media, publications, meetings and forums.

BSTDB has committed to allocate the necessary resources in order to ensure that the E&S policy statements, its procedures and practices are effectively followed and implemented, fully integrated into its operation cycle, and applied in a systematic manner to all the operations financed by the Bank.

International Cooperation on Sustainability

Over the years, BSTDB has established a long-lasting and fruitful cooperation with governmental bodies from its Member States, as well as partner multilateral and bilateral financial institutions, businesses, civil society and the general public, in ensuring that its sustainable development objectives are met effectively, efficiently and in a transparent manner.

Since its establishment, the Bank has been closely cooperating with its partner Multilateral Financial Institutions (MFI), within the Working Group, on E&S (WGESS) Standards. WGESS is a high level forum represented by the heads of E&S departments of MFIs and development agencies around the world, which aims at harmonizing the E&S assessment practices by sharing experiences, discussing issues of concern, developing common approaches and working in partnership.

Similarly, BSTDB is actively involved at the European level in the European Development Finance Institutions (EDFIs) Working Group on E&S Issues. This is another high-level forum that brings together all the European Bilateral Financial Institutions in joining efforts to harmonize their E&S practices and achieve higher development effectiveness of their financing.

Annual Evaluation Overview:
INDEPENDENT EX-POST EVALUATION

Introduction

According to the BSTDB's Evaluation Policy, the Independent Evaluation Office of the Bank presents this annual evaluation overview to highlight key findings and trends from the conducted post-evaluations since 2000.

This overview and other evaluation products ensure accountability and quality management improvement of the Bank's performance, based on a rigorous, internationally harmonized independent evaluation of the BSTDB operations. Each annual evaluation overview is presented to the Management, the Board of Directors and the Board of Governors to highlight key findings and trends in operational and institutional performance.

The evaluation overviews aggregate and compare the findings of the conducted post-evaluations on an annual cumulative basis. They produce an overall picture of performance and reveal important trends and causal links. These reports do not contain commercially sensitive/operation-specific information and, therefore, represent the main vehicle for broader disclosure and accountability on the Bank's overall performance.

The annual evaluation overview presents a synthesis of the findings of the Bank's evaluated operations over the past 15 years, focusing on BSTDB's mandate fulfillment and overall performance. It preserves the corporate memory of the Bank by distilling the essence of "Lessons Learned" from the Bank's evaluations in a diversity of operations.

Independent Evaluation: Methodology and Adherence to Highest IFI Standards

The BSTDB Post Evaluation Policy commits the independent evaluation to Good Practice Standards on Evaluation, as maintained by the Evaluation Cooperation Group (ECG) of the International Financial Institutions (IFIs). These standards, inter alia, ensure the organizational and behavioral independence of the evaluation function, safeguarding the important accountability role of the evaluation to the Boards of Directors/Governors. The Evaluation Office officially became an observer at ECG in 2010, when it started to maintain a pro-active role in enhancing and applying the respective IFI-specific standards in independent evaluation. In 2012 and 2013, the ECG, represented by IFC and EIB, performed a comprehensive peer review on the BSTDB's Evaluation Office, assessing its methodology, rigor and overall practice against the respective IFI standards. The review concluded that BSTDB meets the key standards on evaluation independence and made a number of enhancement recommendations that were implemented by BSTDB in 2013. Subsequently, in April 2014, the Bank's Independent Evaluation Office was officially admitted as a full member of ECG, acknowledging its commitment to highest IFI standards in evaluation.

The current evaluation overview provides an overall picture of BSTDB's performance over the period 2000–2015, with an emphasis on the latest trends and developments (2011–2015), based on the analysis of 103 evaluations of completed operations and a dozen of related evaluation studies.

The analysis covers three five-year periods, to smooth out annual fluctuations, as required by the applicable evaluation methodology. The 2011–2015 data is compared with the target of reaching 70% positively performing sample of evaluated operations, as set in the Bank's previous and current Medium-Term Business Plans.

The IFI-harmonized evaluation methodology uses 4 ratings for ranking performance of operations, 2 positive and 2 negative: Excellent, Satisfactory, Partially Unsatisfactory, Unsatisfactory. These ratings apply to each of the 5 evaluation criteria:

- RELEVANCE: Consistency of operation objectives with the BSTDB mandate;
- EFFECTIVENESS: Extent to which objectives are achieved;
- EFFICIENCY: Extent to which benefits are commensurate with inputs;
- SUSTAINABILITY: Likelihood that results will be maintained;
- INSTITUTIONAL IMPACT: Covers improvements in norms and practices.

The ratings on those 5 criteria form the overall rating, a single measure of overall operation's performance.

Performance of Evaluated Operations

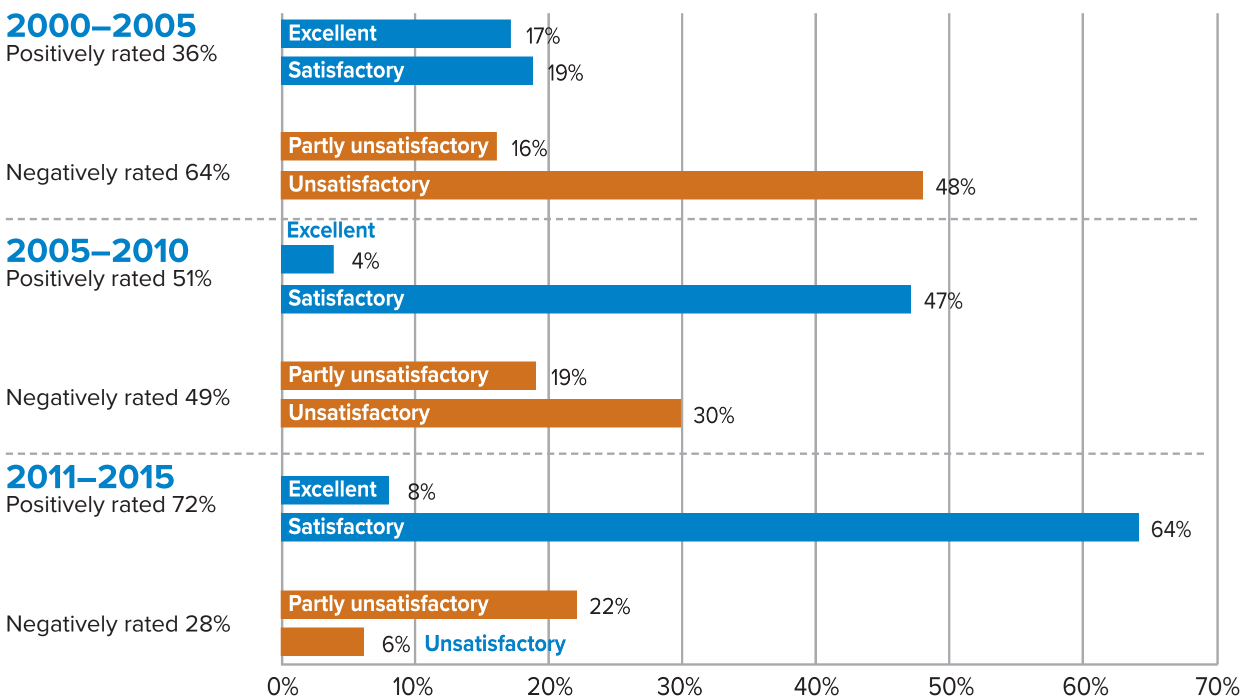
1. Overall Performance

BSTDB has a positively rated (Excellent or Satisfactory) overall performance in 56% of all evaluated operations (2000–2015). In the latest aggregate period (2011–2015) BSTDB's positively rated operations reached 72%, the highest level of all periods. This denotes a substantial positive trend (upwards from 36% in 2000–2005 and 51% in 2005–2010), indicating an achievement of the 70% target set in the Bank's Medium-Term Business Plan.

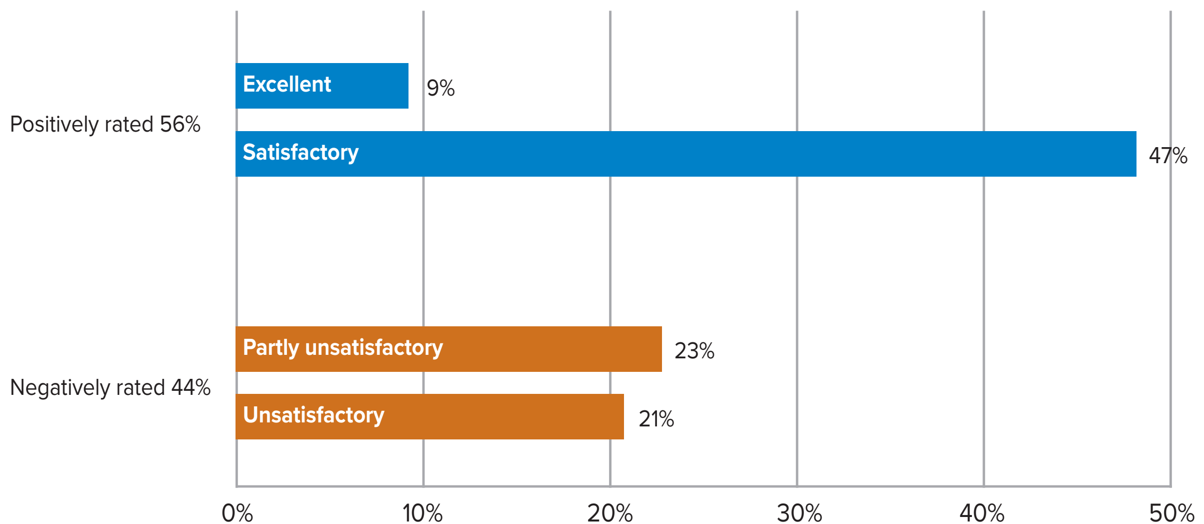
On the upper end of the ratings, the share of "Excellent" ratings moved from 17% in 2000–2004, to 4% in 2005–2010 and 8% in 2011–2015.

The share of BSTDB operations rated negatively (Partly Unsatisfactory or Unsatisfactory), indicates improvement, as the lowest-rated share (Unsatisfactory) decreased from 48% in 2000–2005 to just 6% in 2011–2015.

Performance of Bank's operations for 2000–2005, 2005–2010, 2011–2015



Cumulative results for 2000–2015

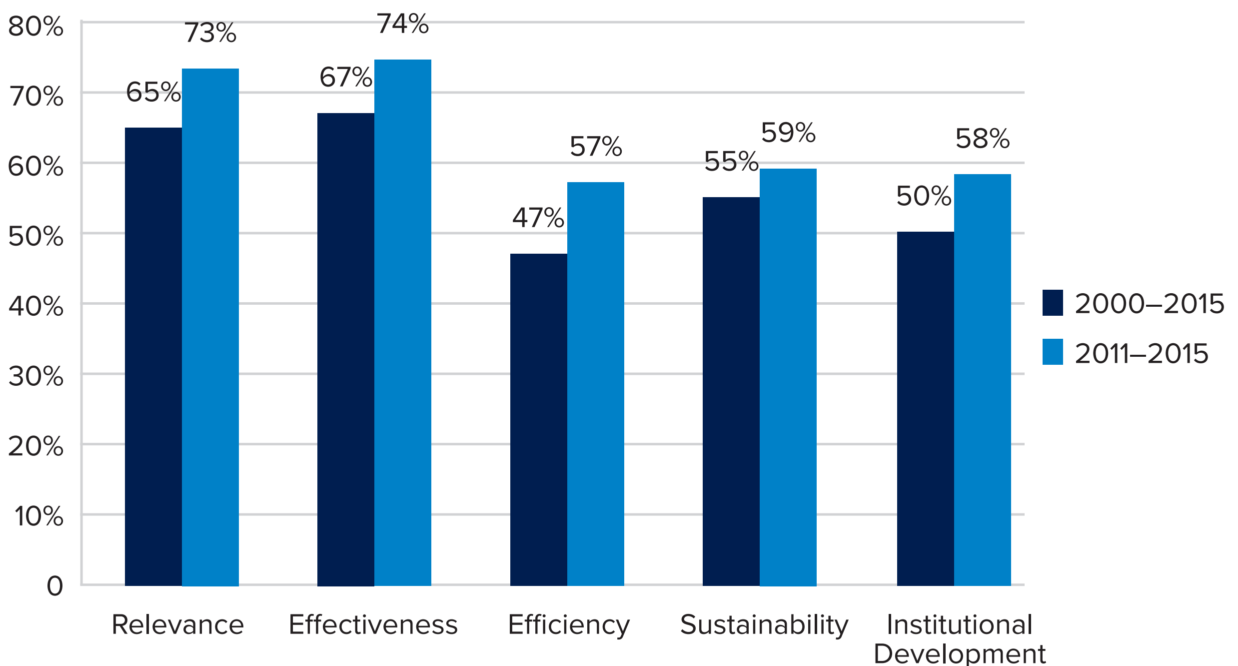


2. Relevance, Effectiveness, Efficiency, Sustainability and Institutional Development

A more analytical review of the evaluation ratings under each of the five criteria (Relevance, Effectiveness, Efficiency, Sustainability and Institutional Development) is helpful to understand the broader picture, as well as where the Bank needs more efforts, to enhance overall performance. An outline of the share of positively rated operations, out of all 103 evaluated operations since 2000, is presented below:

- Relevance of operations – 65% (2000–2015) and 73% (2011–2015) positively rated
- Effectiveness – 67% (2000–2015) and 74% (2011–2015) positively rated
- Efficiency – 47% (2000–2015) and 57% (2011–2015) positively rated
- Sustainability – 55% (2000–2015) and 59% (2011–2015) positively rated
- Institutional Development – 50% (2000–2015) and 58% (2011–2015) positively rated

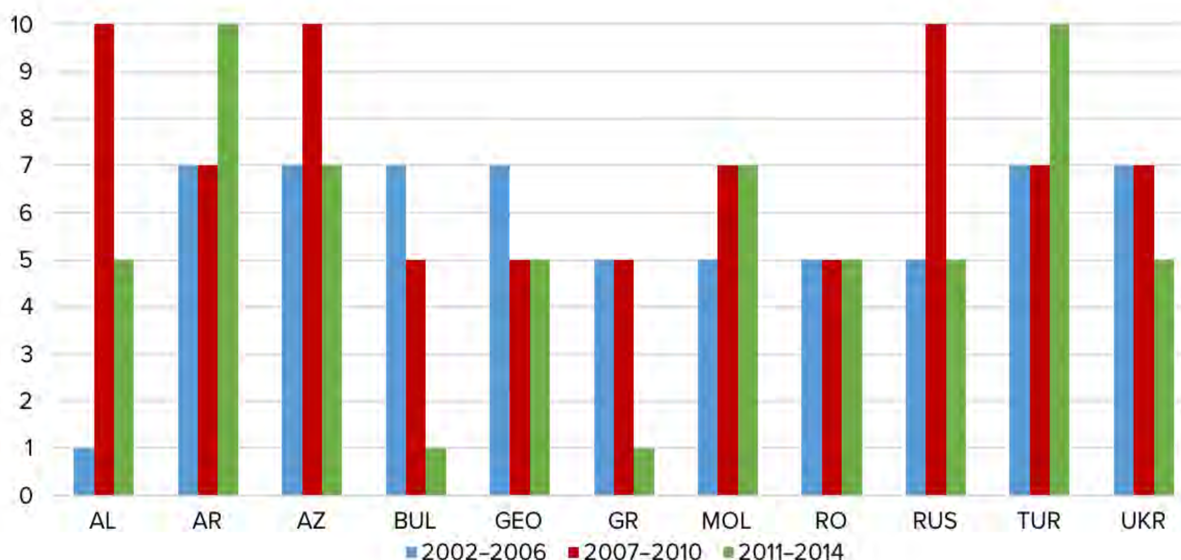
PERFORMANCE DETAILS: 2000–2015



Performance of Completed Country Strategies

While evaluations at the project level demonstrate a trend of improvement over the reviewed periods, the positive performance ratings (Excellent or Satisfactory) of the Country Strategies declined from 64% in 2007–2010 to 36% in 2011–2014. This challenge requires better team structuring/effort looking beyond the project level, with a particular attention to implementation and monitoring of multiannual country targets.

Country Strategies' Performance



Note: 1 = Unsatisfactory; 5 = Partly Unsatisfactory; 7 = Satisfactory; 10 = Excellent

Independent Validation of Self-Evaluation Reports

The Bank's Operation Teams prepare self-evaluation reports on each operation (Operation Completion Reports – OCRs). The Independent Evaluation Office's evaluation normally differs in performance ratings relative to the ratings assigned by the operation teams in the respective OCRs. The divergence between the OCRs and the independent evaluations, expressed in binary terms (i.e. reflecting only the cases where the independent evaluation resulted in a change from positively rated self-evaluation to negatively rated[5], or vice-versa) is as follows:

- The overall OCR performance ratings issued during 2011–2015 (42 operations) were validated by the Evaluation Office without change in 64% of the cases.
- For the same period, the OCR ratings that were upgraded and downgraded by the independent evaluation were 2% and 34% of the total, respectively.

Benchmarking with Peer IFIs

All aspects of evaluated performance are subject to rigorous peer IFI benchmarking since 2004. These comparisons are conducted regularly on the basis of data and time aggregation, to ensure validity and overall consistency.

Since 2008, BSTDB maintains its performance generally in line with the comparable IFIs. The dramatic increase in the share of well-performing operations from 36% in 2005 to 72% in 2015 came as a result of proactive measures to analyze and mitigate shortfalls, such as volume-dominated incentives ("approval culture"

5 Positive: Excellent or Satisfactory; Negative: Partly Unsatisfactory or Unsatisfactory

– focusing on volumes of new operations with less effort on the quality and sustainability), as well as related waves of premature cancellations.

The last 5-year data places the Bank within the average portfolio growth range among IFIs. It is noteworthy that Bank's purpose related exposure (investments in mandate-related instruments, e.g. loans, equity and guarantees in the Bank's member countries, 92%) is the highest among all IFIs, and the growth of this exposure is among the highest as well. This is explained by the relatively high capital adequacy, combined with the Bank's approach to invest mostly in purpose lending instruments. As the purpose related exposure and its growth are proxy indicators for mandate relevance, the high ranking of BSTDB deserves acknowledgement, as it implies that almost all of the shareholder's resources are invested in mandate-related activities. The relatively conservative approach and lowest leverage contribute to the Bank's top 10% rank in terms of capital adequacy.

During recent years, the portfolio structure of the Bank with reference to other IFIs and the Bank's own targets revealed a relatively high share of financial sector operations. However, already in 2015, the Bank was able to reduce this share to 43.6%, well below the threshold levels of 49% and 45%, set by the Bank's Mid-Term Strategy for end of 2015 and 2018 respectively.

The assessment of the Bank's liquidity indicates an assets/debt ratio among the best and a short-term/gross debt ratio – at the lower end of the spectrum. The former ratio reflects the very high capital adequacy, addressed above as a limitation towards the goal of mobilizing external resources. The latter ratio, on the other hand, implies a relatively high share of short-term debt, presenting certain maturity mismatch vis-à-vis the longer-term lending portfolio.

The Bank's income/equity and income/assets ratios are close/above IFIs' average. BSTDB also demonstrates a remarkably low degree of earnings volatility, well below IFI average figures. This reflects a conservative approach, a high degree of financial resilience, even in times of global turbulence.

Follow-up of Evaluation Recommendations

To date, all evaluation recommendations accepted by the Management, Audit Committee and the Board of Directors have been either implemented or are under implementation. There are no outstanding issues.

Conclusions

1. Overall performance in line with the BSTDB Medium-Term Business Plan

There is a clear upward trend, with latest results (72%) being in line with the target of 70% positively rated operations, set in the Bank's Medium-Term Business Plan.

2. Performance of Country Strategies requires further attention

While operation performance increased over the years, the implementation of the latest completed Country Strategies (2011–2014) has declined (from 64% to 34% positive evaluation ratings), requiring particular attention. The independent evaluation recommended on several occasions a closer monitoring and communication of country targets, in order to ensure better and more balanced results in the next periods. It also acknowledged that recent efforts have already offset the negative trend of the last programing period: during 2015, the first year of the 2015–2018 Country Strategies, the respective annual targets were reached in 8 of the 11 countries (73%).

3. Incentive-based enhancement of self-evaluation quality

The quality of operational self-evaluations varies widely, exhibiting inadequate realism standards. Various measures were already undertaken by the Evaluation Office and Management in the context of the Bank's Performance Management Policy and have contributed to recent improvements. This process should be further assessed and strengthened.

4. Comparisons with IFI peers

Since 2008, BSTDB has maintained its performance generally in line with the comparable IFIs, indicating certain advantages and lags. The Bank will continue to perform peer benchmarking, both generally and with a particular focus, in order to stay abreast of good practice and latest developments in development finance.

Use of Resources

RESOURCES MANAGEMENT

Human Resources

Human capital and staff resources are a key factor in the success of BSTDB. The institution strives to maintain its status as a competitive employer following international standards and best practices, applying meritocratic recruitment, and a remuneration system that promotes excellence and positive incentives.

HR Development

The year 2015 was marked by the implementation and improvement of certain important HR policies, within the framework of the final stage of the HR Reform design and implementation. The recruitment and appointment policy was thoroughly revised; the benefits and allowance package was updated; the preparatory work for the full-fledged implementation of the new performance management system was finalized; and the approval for a series of comprehensive reviews envisaged in the Bank's remuneration policy was obtained.

The revision of the recruitment and appointment policy was aimed at making the recruitment process more straightforward and expedient, while maintaining its transparency and equitability at all stages. The lessons learnt from the recruitment exercise of 2015 were used to eliminate technical discrepancies and loopholes.

The benefits and allowances package was improved through the addition of a general purpose loan to the list of benefits available to eligible staff, in line with the best practices of the other IFIs.

The preparatory work for the implementation of a new performance management system, including comprehensive staff training conducted by a reputable consultant, was finalized. The new performance management system features increased objectivity, introduces performance-related rewards, and links individual performance to the performance of the institution through a process of cascading objectives at different organizational levels: institutional objectives are cascaded down from institutional to departmental level and thus are included in the calculation of individual performance scores.

The remuneration policy envisages a series of comprehensive reviews aimed at maintaining the equitability of the Bank's internal and external relativities. In 2016, these reviews will be conducted within a framework of a three-stage project involving the review and update of the Bank's job descriptions, their evaluation based on a globally recognized job evaluation system, and the subsequent basic salaries' internal and external comparison.

Staffing and Recruitment

BSTDB conducts recruitment on a wide geographical basis. While preference is given to citizens of the member countries, recruitment is competitive and is based on the professional qualifications of the candidates. In 2015, the Bank realized a successful recruitment exercise, having hired 9 new employees and having brought the total headcount to 108 employees.

Staff Development

BSTDB offers learning opportunities, addressing the development needs of its staff within the context of organizational business requirements. The policy on training, learning and development establishes a clear link between the institution's business needs and the development of professional and technical skills of the staff. The year 2015 marked a notable shift to addressing the learning and development needs of the staff via in-house group training activities, which was reflected in the drastic increase (by 233% compared to 2014) of the number of such activities.

Staff Benefit System

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 temporary incapacity/long-term disability insurance plan provides adequate coverage emphasizing preventive medical care. The BSTDB also offers an optional post-separation medical coverage.

The BSTDB pension plan, launched in January 2003, is comprised of a fully funded defined benefit and a matched defined contribution component. This combination offers the necessary flexibility for best meeting the needs of a multinational workforce.

Information Technologies

The IT Department has successfully carried out a major upgrade to its Enterprise Information Management (EIM) system, based on the OpenText software, to the latest version of 10.5. At the same time, it has introduced Tempo Box, by OpenText, a software solution that allows BSTDB staff a fast, easy and secure way of sharing files and working closely with customers.

A new Business Continuity Plan (BCP) has been created and approved, which was successfully tested in 2015, providing the organization with the tools to recover its critical functions in case of serious disruption of its business.

The Bank has introduced a green IT initiative to reduce its carbon footprint by adapting energy efficient technologies. IT has acquired new hardware for its data center and it has consolidated its equipment, which have brought considerable reductions in the consumption of energy and cooling. Also, it has introduced a new centralized printing facility that allows BSTDB staff to securely manage their printed materials, and has led to considerable savings in paper and consumables.

In order to implement the new performance management system at BSTDB, IT has implemented a web-based solution to monitor its strategic objectives and the related performance measures, based on the Balance Scorecard methodology.

External Relations and Communications

The external relations and communications activities support BSTDB's strategic and business objectives by facilitating cooperation with Member States' governments, development community, and business circles. In 2015, the External Relations and Communications department strived to increase the Bank's international profile and support for business generation, inter alia, through establishing corporate presence on key social media platforms, accelerated promotional activities and information support for Bank's project preparation and implementation.

Corporate Presence on Social Media

In order to showcase the Bank's activities before wider international and business audiences, BSTDB opened corporate accounts on Twitter and LinkedIn in March, followed by that on Facebook in June 2015. Corporate presence on social media will also promote the Black Sea Region as an investment destination and present the Bank as a core member of the international development community. By the end of the year, the BSTDB social media accounts demonstrated a solid performance outpacing those of peer IFIs of comparable size.

Support for Business Generation and Project Preparation

During the year, the External Relations and Communications department contributed to the corporate business generation efforts by organizing business and press conferences, presentations, B2B meetings and other promotional events.

In June 2015, BSTDB hosted a regional Business Forum under the auspices of the Government and the National Bank of Georgia in Tbilisi, on the occasion of the Annual Meeting of the Board of Governors. The event gathered over 250 policy makers, international experts, investors and business representatives to discuss the development of entrepreneurship and access to capital in the region, in particular for SMEs. On that occasion, BSTDB bankers discussed project proposals with interested businesses.

Following the adoption of the Bank's Medium-Term Strategy for 2015–2018 and corresponding country strategies, the Bank initiated presentations for national business communities to introduce its priorities and products. In November and December, such presentations, followed by B2B meetings, took place in Moldova and Romania identified as priority countries for the Bank's portfolio growth. The program of country presentations in other member states continued in 2016.

The BSTDB President, senior management and staff contributed to discussions held at many regional business fora, including the Istanbul Finance Summit "Navigating Through

the Global Low Growth and Low Interest Rate Environment" sponsored by BSTDB in September, as well as the conference on "The Development of Bilateral Business and Investments in Greece and Turkey" held in Thessaloniki in March.

Multilateral Consultations with the Development Community

During 2015, BSTDB strengthened institutional and business contacts with its Observers and other International Financial Institutions (IFIs) and development banks active in the Black Sea Region, with the view of sharing knowledge, attracting additional resources for development projects in the region and promoting synergies.

In October 2015, BSTDB hosted an annual meeting of the Secretaries General of International Financial Institutions in Thessaloniki. The discussions focused on best practices in Board-related matters, including self-evaluation process and learning strategies, as well as staff performance assessment, IFIs staff exchange mechanisms and collaboration with host-country governments.

BSTDB has actively participated in multilateral working groups and consultation mechanisms established by IFIs in the areas of environment, risk management, legal matters, information disclosure, independent evaluation and other fields to facilitate knowledge sharing aimed at increasing developmental effectiveness. The Bank participated in the Portfolio Management Forum in London, UK, to the Special Operations Seminar (a periodic meeting of the DFI Heads of Corporate Recovery), in the periodic Heads of Procurement Meeting of the Multilateral Development Banks in Washington, D.C. and in the 9th Meeting of Development Finance Institutions on Corporate Governance in Mexico, where the Bank's representative was elected Chairman of the Development Finance Institutions Working Group on Corporate Governance for 2015–2016.

BSTDB maintained information exchange in the framework of the Interact Group of the Association of the European Development Finance Institutions (EDFI) and the Institute of International Finance (IIF).

Institutional Support for Regional Cooperation

BSTDB maintained the established strategic dialogue with key regional institutional players, such as the Organization of the Black Sea Economic Cooperation (BSEC), the Parliamentary Assembly of BSEC, the BSEC Business Council and the International Center for Black Sea Studies. The Bank maintained its involvement and support for BSEC project-oriented activities, including information sharing and technical assistance in the establishment of a Project Implementation Unit at the BSEC Secretariat in Istanbul.

BSTDB is extending its support for regional cooperation in areas beyond its direct business mandate. In June, the Bank sponsored the "International Scientific Conference on Professional Education" organized under the auspices of BSEC in Chisinau, Moldova. The Conference addressed the importance of education and vocational training for the economies of the Black Sea Region. The Bank contributed to the international effort to help Georgian capital Tbilisi to recover after a devastating flood that happened in June 2015, by donating USD 50,000 to a special fund ("Tbilisi Zoo Fund").

Administrative and Consultancy Services

During 2015, the Administrative Services Department continued efforts to improve the overall efficiency of the department and provide higher quality of service to the Bank staff.

- A new internal space allocation scheme was implemented in targeted areas, to accommodate the hiring of new banking personnel (20% additional personnel in the corresponding division).
- The telecommunications switchboard was upgraded, in collaboration with the IT department, to provide new capabilities for distant connection to staff members travelling on business, setting the basis for the implementation of an array of new systems in 2016.
- The Bank's professional insurance contracts were extended, in collaboration with the Compliance Office, to cover new Treasury activities.

- Building maintenance activities were centralized to induce accountability and swift response time, while the cost of heating fuel dropped by 25%, reducing accordingly its participation in the carbon footprint of the organization's activities in its premises.
- The expenses for stationary and consumables were reduced by 28%, reflecting the new arrangements for monitoring their consumption and reducing the unnecessary variety of available items.

During 2015, the Project Implementation and Monitoring Department revised and updated the Bank's Procedures for the Selection and Employment of Consultants. The new procedures enhance controls by adopting a stricter framework for the tendering and contracting process, strengthening the role and composition of evaluation committees in competitive selection assignments, and adopting an integrity check prior to any consultancy contract. At the same time, they emphasize feedback on the quality of consultancy services by mandating a consultant evaluation form to be filled out for each assignment and increase efficiency by shortening submission time frames, simplifying publication requirements, and allowing for full electronic submission of offers.

FINANCIAL MANAGEMENT

Business Volume

In 2015, the Bank's total assets were EUR 1,289,311 thousand at the end of the year against EUR 1,057,063 thousand at end 2014, representing a 22% expansion. The Bank increased the size of the outstanding loan and equity portfolios to EUR 1,113,532 thousand, compared to EUR 961,982 thousand in the previous year, an increase of 15.8%. Funds committed but not yet disbursed stood at EUR 205,466 thousand at the end of the year.

Revenues

Interest income from lending activities was EUR 52,193 thousand for the year, from EUR 39,854 thousand in 2014. Treasury activities in 2015 generated interest income of EUR 890 thousand from its investment portfolios. Operating income for the year was EUR 41,400 thousand compared to EUR 32,718 thousand in 2014.

Expenses

Interest and similar expense for the year was EUR 15,956 thousand compared to EUR 11,705 thousand in 2014. This increase was due principally to the higher borrowing amounts required to fund the increased lending activities.

Administrative expenses in 2015, including depreciation, were EUR 18,447 thousand, an increase of EUR 1,155 thousand over the previous year. Administrative expenses include salaries, benefits, and other administrative costs.

Personnel expenses, to the amount of EUR 13,896 thousand, showed an increase of EUR 822 thousand from the previous year. Other administrative costs also had an increase from the previous year to an amount of EUR 433 thousand.

Overall, administrative expenses were well within the 2015 Budget, reflecting the Bank's focus on budgetary discipline and effective cost controls.

Net Income

Income before impairment during the year was EUR 22,953 thousand compared to EUR 15,426 thousand in 2014. Net impairment losses to an amount of EUR 7,739 thousand were primarily due to an increase of specific provision in a few of the Bank's existing operations.

The Bank posted net income of EUR 15,214 thousand for the year, while the quality of the lending portfolio remained sound.

Capital Base

Initial Share Capital

The initial authorized share capital of the Bank was EUR 1.15 billion divided into one million shares having a par value of EUR 1,150 each. Member States subscribed to all of the initial authorized share capital. Each of Armenia, Georgia and Moldova voluntarily agreed to reduce its share from 2% to 1% in June 2004 leaving EUR 34.5 million unsubscribed. At the Board of Governors meeting in October 2008, it was decided that Azerbaijan would take up this 3% of unsubscribed shares. The additional subscription amount was fully paid in 2009.

New Share Capital

The Board of Governors decided in December 2007 to approve an increase to the Bank's

authorized capital from EUR 1.15 billion to EUR 3.45 billion. They further approved a EUR 1.15 billion increase in the subscribed capital to be subscribed by the existing Member States, thereby increasing subscribed capital to EUR 2.3 billion. An announcement that this additional EUR 1.15 billion was fully subscribed was made after the Board of Governors meeting in October 2008. Georgia declined to take up its 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% stake each, followed by Romania with 14%, Bulgaria and Ukraine with 13.5% each, Azerbaijan with 5%, Albania with 2%, Armenia and Moldova with 1% each, and Georgia with 0.5% stake. In October 2011, the Board of Governors accepted Moldova's request and reduced its portion of the subscribed capital, from 1% to 0.5%, and, therefore, those shares were released to unallocated.

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

- Payment of the paid-in portion of the new subscribed capital, equivalent to 10% of the subscribed number of shares (totaling EUR 114 million), was to be paid in cash by the Member States in 2010.
- Payment of the paid-in portion of the new subscribed capital, equivalent to 20% of the subscribed number of shares (totaling EUR 228 million), was to be made by each Member State in eight equal successive annual installments between 2011 and 2018.
- Payment for the remaining callable portion of the new subscribed capital, equivalent to 70% of the shares (totaling EUR 797 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.

As of 31 December 2015 the paid-in share capital was EUR 576 million.

The Board of Governors may also authorize additional subscriptions from the remaining EUR 1.15 billion of authorized 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 a member of the Bank (currently Serbia) wishes to subscribe for BSTDB shares.
- 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 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 2015 stood at about EUR 3.7 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, which limits the total amount of operations to approximately EUR 2.3 billion.

Provisioning

Provisions are recorded in two ways:

- Collective provisioning rate applied to the entire portfolio.
- Specific provisions applied against certain assets and are determined following an impairment test, carried out if evidence of credit deterioration is found during regular monitoring.

Starting with 2011, BSTDB has moved to a Basel II approach to include Loss Given Default and Discount Factors for security.

At the end of 2015, total provisions for loans stood at EUR 26,556 thousand, equivalent to 2.5% of the outstanding loan portfolio.

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 share 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 growth of 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 share 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.

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 constant safe storage of the Bank's Vital Records; (iv) 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 (v) 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] and the adequacy of its operational risk-related capital charges (Reserves).

Should the Bank quantify the operational risk embedded in its operations, it would, with the use of SA, amount to EUR 7.9 million for 2015 and EUR 7.6 million for 2014, 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.

Based on the above quantified operational risk, it is deemed that the Reserves of the Bank are adequate to cover, at least, all potential losses arising from events of an operational risk nature. Consequently, there is no need to make supplementary allocations, for operational risk purposes. It is noted that the Establishing Agreement requires the Bank to maintain reserves at a relatively high percentage of its portfolio[2].

Short-Term Liquidity

As indicated in the statement of cash flows, the Bank's short-term liquidity totaling EUR 189,044 thousand as of 31 December 2015, was invested in two types of money market instruments:

- Short-term deposits with institutions long term rated primarily at A2/A by either Moody's or Standard & Poor's credit rating agency.
- Euro commercial paper short-term rated primarily at A1/P1 by either Moody's or Standard & Poor's credit rating agency.

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 (Article 36 – Allocation of Net Income).

Investments are primarily denominated in EUR or USD 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, stood at 71% on 31 December 2015.

Borrowings Utilized

As of end-2015, the Bank had issued several multi-year fixed rate bonds: for CHF 300 million, RON 22 million and for EUR 12 million, the proceeds of which were swapped to meet the Banks currency funding requirements through the use of derivative instruments. The Bank had also issued a Georgian domestic fixed rate bond for GEL 48 million to fund a loan in local currency. In addition, the Bank had outstanding borrowings totaling EUR 228.5 million, principally from other IFIs and National Development Banks.

As the size of the Bank's operations portfolio continues to increase, and taking into consideration its minimum liquidity requirements, the Bank will access sources of long term funds in 2016.

The Bank has a long term investment grade credit rating from Moody's Investor Service of A2 and a short term rating of P1. The Bank also has a long term investment grade credit rating from Standard and Poor's Investor Service of A- and a short term rating of A2.

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 modeling 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. capitalization, 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.

Independent Evaluation

The Bank conducts assessments of completed and current operations, programs, activities, and strategies through rigorous systematic analyses, according to highest international standards. The 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.

The Independent Evaluation Office is an official member of the Evaluation Cooperation Group of the International Financial Institutions and adheres to all applicable good practice standards and peer reviews of the Group. It conducts various evaluation studies and reports all key findings and recommendations to the Board of Governors and Board of Directors, as well as other stakeholders via the Bank's Annual Report.

The Evaluation Office manages a database of lessons learned from internal and external evaluations, in order to enhance the quality and risk-resilience of new operations. It also maintains various forms of cooperation with similar institutions on methods, practices and insights.

Preferred Creditor Status

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

- 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

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.

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 four 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 Compliance and Operational Risk Management Office (DCR) of the Bank assists management in effectively managing 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.

With regard to internal integrity issues, DCR monitors, administers and advises on Code of Conduct-related issues for Bank Officials and staff.

With regard to the financing operations, anti-fraud, corruption, money laundering, terrorism financing and sanctions due diligence is – among other types of due diligence – integrated into the Bank's normal approval of new business and into the monitoring of existing activity. The Bank screens all transactions to ensure that they do not represent such risks. The Head of the Compliance function advises the business groups, as needed, inter alia, on the Customer Due Diligence process and integrity issues.

Reporting and Disclosure

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 in compliance with 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 being satisfied with the adequacy and efficiency of the internal audit process, through reviewing the policy, scope, work program and 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 a systematic, disciplined approach to evaluate and improve effectiveness of risk management, control and governance processes. The Internal Audit's mission is to foster an environment of continuous improvement in controls and risk awareness.

Enterprise Risk Management

Recognizing the need for effective internal controls and acknowledging that Enterprise Risk Management (ERM), including internal controls over financial reporting, is a fundamental approach for the management of an organization, the Bank has established a functioning, consolidated and on-going Enterprise Risk Management system. This system includes certification in the Annual Report as to the effectiveness of internal controls over external financial reporting, using the standards and practices prescribed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), Internal Control Framework and Enterprise Risk Management.

Upon the overall assessment of the effectiveness of internal controls over financial reporting, coordinated by the Internal Audit Department and a Working Group with representatives of all the Divisions of the Bank, an annual certification statement is 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.

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 the External Auditor's views and Management's response on the effectiveness and efficiency of internal controls and other matters.

Together with Auditor's Report

INTERNAL CONTROLS 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 controls over external financial reporting for financial presentations in conformity with IFRS. The system of internal controls 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 controls, including the possibility of human error and the circumvention of overriding controls. Accordingly, even an effective internal controls system can provide only reasonable assurance with respect to financial statements. Furthermore, the effectiveness of an internal controls 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 2015. The Bank's assessment was 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 (COSO). Based upon this assessment, management asserts that, at 31 December 2015, the Bank maintained effective internal controls over its financial reporting as contained in the Financial Statements for 2015.

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 controls over financial reporting.

Ihsan Ugur Delikanli
President

Valentina Siclovan
Vice President, Finance

Black Sea Trade and Development Bank
Thessaloniki
21 April 2016

INDEPENDENT REASONABLE ASSURANCE

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

Report on the effectiveness of internal control over financial reporting

We were engaged by the Board of Directors of the Black Sea Trade and Development Bank to report on the effectiveness of the Black Sea Trade and Development Bank's ("the Bank") internal control over financial reporting, as of 31 December 2015, in the form of an independent reasonable assurance conclusion about whether the internal control over financial reporting is effective, based on criteria established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organisations of the Treadway Commission (the COSO criteria).

Bank's responsibilities

The Bank's Management is responsible for maintaining effective internal controls over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying management's report.

Our responsibilities

Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on the evidence obtained. We conducted our audit in accordance with the International Standard on Assurance Engagements (ISAE) 3000. That standard requires that we comply with ethical requirements, including independence requirements, and plan and perform our procedures to obtain reasonable assurance about whether the internal control over financial reporting is effective, in all material respects.

The procedures selected depend on our judgment, including the risk assessment of material misstatement of the internal control effectiveness over financial reporting whether due to fraud or error.

Our engagement also included obtaining an understanding of internal controls over financial reporting, evaluating the management's assessment and performing such other procedures as we considered necessary in the circumstances. Reasonable assurance is less than absolute assurance.

A bank's internal control over financial reporting is a process 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 control over financial reporting includes 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 bank's assets; (2) provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards, and that receipts and expenditures of the bank are being made only in accordance with authorisations of the bank's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized 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 due to changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Conclusion

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

In our opinion, Black Sea Trade and Development Bank maintained, in all material respects, effective internal control over financial reporting, as of 31 December 2015, based on the COSO criteria.

21 April 2016
KPMG Certified Auditors A.E.
Athens, Greece

INCOME STATEMENT

For the year ended 31 December 2015

Presented in thousands of EUR	Note	2015	2014
Interest income	7	53,083	41,818
Interest expense	8	(15,956)	(11,705)
Net interest income		**37,127**	**30,3113**
Net fees and commissions	9	1,075	635
Dividend income	15	2,589	1,690
Net (losses) from debt investment securities		-	(179)
Net profit on purchase of loan		-	528
Foreign exchange income (losses)		601	(95)
Other income		8	26
Operating income		**41,400**	**32,718**
Personnel expenses	10,25	(13,896)	(13,074)
Other administrative expenses	10	(3,886)	(3,453)
Depreciation and amortization	17,18	(665)	(765)
Income before impairment		**22,953**	**15,426**
Impairment (losses) on loans	11	(7,717)	(1,406)
Impairment (losses) gains on guarantees		(22)	3
Net income for the year		**15,214**	**14,023**

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

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

Presented in thousands of EUR	Note	2015	2014
Net income for the year	7	15,214	14,023
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit liability (asset)	23	2,360	(4,318)
Other comprehensive income:			
Items that are or may be reclassified to profit or loss:			
Net change in available-for-sale financial assets	23	(24,703)	19,436
Total comprehensive (loss) income for the year		**(7,129)**	**29,141**

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

STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2015

Presented in thousands of EUR	Note	2015	2014
Assets			
Cash and cash equivalents	24	49,745	63,955
Debt investment securities:			
Available-for-sale	12,24	139,299	75,016
Derivative financial instruments – assets	13	3,485	-
Loans	14,16	1,049,732	877,122
Less: deferred income	14	(7,664)	(8,125)
Less: impairment losses	11,14	(26,556)	(47,734)
Loans net of impairment		1,015,512	821,263
Equity investments available-for-sale	15,16	63,800	84,860
Property and equipment	17	621	756
Intangible assets	18	483	414
Other assets	19	16,366	10,799
Total Assets		**1,289,311**	**1,057,063**
Liabilities			
Borrowings	20	540,948	341,215
Derivative financial instruments – liabilities	13	20,427	11,769
Payables and accrued interest	21	6,389	8,968
Total liabilities		567,764	361,952
Members' Equity			
Authorized share capital	22	3,450,000	3,450,000
Less: unallocated share capital	22	(1,161,500)	(1,161,500)
Subscribed share capital	22	2,288,500	2,288,500
Less: callable share capital	22	(1,601,950)	(1,601,950)
Less: payable share capital	22	(110,137)	(143,702)
Paid-in share capital		576,413	542,848
Reserves	23	53,450	71,389
Retained earnings		91,684	80,874
Total members' equity		721,547	695,111
Total Liabilities and Members' Equity		**1,289,311**	**1,057,063**
Off-balance-sheet items			
Commitments	16	205,466	90,860

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

STATEMENT OF CHANGES IN MEMBERS' EQUITY

For the year ended 31 December 2015

Presented in thousands of EUR	Share capital			Reserves	Retained earnings	Total
	Subscribed	Callable	Payable			
At 31 December 2013	**2,288,500**	**(1,601,950)**	**(168,579)**	**50,519**	**72,603**	**641,093**
Total comprehensive income						
Net income for the year	-	-	-	-	14,023	14,023
Other comprehensive income:						
Fair value reserve (available-for-sale financial assets)	-	-	-	19,500	(64)	19,436
Remeasurement of defined benefit liability (asset)	-	-	-	(4,318)	-	(4,318)
Total comprehensive income	-	-	-	15,182	13,959	29,141
Transactions with owners of the Bank						
Members' contributions:						
Paid-in share capital	-	-	24,882	-	-	24,882
Advance against future call	-	-	(5)	-	-	(5)
Transfer to general reserve	-	-	-	5,688	(5,688)	-
Total contributions and distributions	-	-	24,877	5,688	(5,688)	24,877
At 31 December 2014	**2,288,500**	**(1,601,950)**	**(143,702)**	**71,389**	**80,874**	**695,111**
Total comprehensive income						
Net income for the year	-	-	-	-	15,214	15,214
Other comprehensive income:						
Fair value reserve (available-for-sale financial assets)	-	-	-	(24,703)	-	(24,703)
Remeasurement of defined Benefit liability (asset)	-	-	-	2,360	-	2,360
Total comprehensive income	-	-	-	(22,343)	15,214	(7,129)
Transactions with owners of the Bank						
Members' contributions:						
Paid-in share capital	-	-	33,565	-	-	33,565
Transfer to general reserve	-	-	-	4,404	(4,404)	-
Total contributions and distributions	-	-	33,565	4,404	(4,404)	33,565
At 31 December 2015	**2,288,500**	**(1,601,950)**	**(110,137)**	**53,450**	**91,684**	**721,547**

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

Presented in thousands of EUR	Note	2015	2014
Cash flows from operating activities			
Net income for the year		15,214	14,023
Adjustment for:			
Impairment losses (gains)		7,739	1,403
Depreciation and amortization		665	765
Net interest income		(37,127)	(30,113)
Dividends on available-for-sale securities		(2,589)	(1,690)
Foreign exchange adjustment on provisions		3,894	5,165
Operating income before changes in operating assets		(12,204)	(10,447)
Changes in:			
Derivative financial instruments		5,173	27,979
Other assets		(2,387)	22
Accounts payable		(3,140)	4,341
Deferred income		(461)	1,979
Fair value movements		(24,703)	19,500
Cash generated from operations		(37,722)	43,374
Proceeds from repayment of loans		210,183	180,720
Proceeds from repayment of equity investments		2,579	3,656
Funds advanced for loans		(371,958)	(283,147)
Funds advanced for equity investments		(2,562)	(12,109)
Foreign exchange and other adjustments		10,208	(71,763)
Interest income received		49,903	40,829
Dividends received		2,589	1,690
Interest expense paid		(15,416)	(11,836)
Net cash from / (used in) operating activities		(152,196)	(108,586)
Cash flows from investing activities			
Proceeds from available-for-sale investment securities		64,283	21,588
Purchase of available-for-sale investment securities		(84,695)	(23,174)
Purchase of property, software and equipment		(601)	(470)
Net cash from / (used in) investing activities		(21,013)	(2,056)
Cash flows from financing activities			
Proceeds received from share capital		33,565	24,882
Decrease in advance against future call		-	(5)
Paid-in share capital received		33,565	24,877
Proceeds from borrowings		275,690	117,377
Repayments of borrowings		(75,957)	(62,506)
Net cash from / (used in) financing activities		233,298	79,748
Net (decrease) in cash and cash equivalents		**60,089**	**(30,894)**
Cash and cash equivalents at beginning of year		128,955	159,849
Cash and cash equivalents at end of year	24	**189,044**	**128,955**

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

NOTES TO THE FINANCIAL STATEMENTS

1. ESTABLISHMENT OF THE BANK

Agreement Establishing the Bank

The Black Sea Trade and Development Bank ("Bank"), whose headquarters are located at 1 Komninon Street, Thessaloniki, in the Hellenic Republic, was established as an international financial organization under the Agreement Establishing the Bank dated 30 June 1994 ("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 mobilize 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 financial position date, 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 ("Headquarters Agreement") signed on 22 October 1998.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB"). The financial statements for the year ended 2015 were submitted by the Management Committee to the Board of Directors ("BoD") for approval on 13 April 2016, while the Special Funds were respectively submitted on 21 April 2016 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 ("BoG") at their Annual Meeting, to be held on 12 June 2016.

Basis of Measurement

The financial statements have been prepared on a historical cost basis except for the available for sale financial assets and derivative contracts which are measured at fair value.

Functional and Presentation Currency

The Bank's functional currency is the Euro ("EUR") as defined by the European Central Bank ("ECB"). The Euro is most representative of the Bank's operations and environment, as a significant percentage of the Bank's lending operations are in Euro, and the administrative expenses and capital expenditures are primarily denominated and settled in this currency. The Bank's presentation currency is the EUR.

Judgments and Assumptions

The preparation of the financial statements in conformity with IFRS requires Management to make judgments and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimations uncertainty, and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements, are included in Note 4.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Foreign Currencies

Foreign currency transactions are initially recorded in EUR, by applying to the foreign currency amount the exchange rate between the EUR 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 denominated in foreign currencies at the end of year are recorded in the income statement.

The Bank uses the official exchange rates published for the EUR by the ECB. The exchange rates used by the Bank at the financial position date were as follows.

			31 December 2015	31 December 2014
1 EUR	=	United States dollar	1.08870	1.21410
	=	Pound sterling	0.73395	0.77890
	=	Azerbaijan manat	1.70066	0.94740
	=	Georgian lari	2.60650	-

Recognition and Derecognition of Financial Instruments

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

The Bank derecognizes a financial asset or a portion of financial asset when it loses control of the contractual rights that comprise the financial asset or a portion of the financial asset. The Bank derecognizes a financial liability 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 of change in value due to the movements in market rates.

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 recognized on a trade date basis, which is the date the Bank commits to purchase or sell the asset. All loans are recognized 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.

a) 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 amortized cost using the effective interest rate method less any provision for impairment or uncollectability. All other fees and relating income generated are reported in the income statement (see note 9).

b) 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. Amortized cost is computed as the amount initially recognized 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.

c) Available-for-sale

Financial assets such as equity investments, Euro Commercial Paper ("ECP") or bonds are classified as available-for-sale and 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 assets where there is no active market, the fair value is determined using accepted valuation techniques. These valuation techniques used are net asset value and earnings-based valuations using comparable information and discounting cash flows.

The unrealized gains and losses that arise from fluctuations in fair value are recognized as a separate component of equity until the financial asset is sold or derecognized 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 for these assets are recognized directly in income, by using the effective interest rate method. Dividends received are included in income.

Financial Liabilities

Financial liabilities include borrowings and other liabilities.

a) Borrowings

Borrowing transactions are recognized in the statement of financial position at the time the funds are transferred to the Bank. They are measured initially 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 amortized

cost value is adjusted to fair value by the hedged risks, with any changes in value recognized in income. Relevant interest expenses are reported in the income statement using the effective interest rate method.

b) Other liabilities

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

Offsetting of Financial Assets and Liabilities

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

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 recognized 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 the income statement. Fair values are obtained from quoted market prices, to the extent publicly available, discounted cash flows and options pricing models as appropriate.

a) Hedge accounting

In order to manage particular risks, the Bank applies hedge accounting for derivative transactions which meet specified criteria relative to debt securities issued by the Bank. A valid hedge relationship exists when a specific relationship can be identified between two or more financial instruments in which the change in value of one instrument (the hedging instrument) is highly negatively correlated to the change in value of the other (the hedged item). The Bank only applies hedge accounting treatment to individually identified hedge relationships on a one-to-one basis.

The Bank documents the relationship between hedging instruments and hedged items upon initial recognition of the transaction.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. Any fair value adjustment is recognized immediately in the income statement. At the financial position date the Bank did not have any cash flow hedge.

i) Fair value hedge

Changes in the fair value of the derivatives that are designated and qualify as fair value hedges, and that prove to be highly effective in relation to hedged risk, are included in the income statement as fair value hedges under “net gains or losses at fair value on hedging activities”, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

Impairment

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

a) Financial assets carried at amortized cost

For amounts due from loan and receivable portfolios, losses under guarantees, commitments, held-to-maturity and other investments carried at amortized 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 recognized, 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, or
- 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 as impaired. The amount of the loss is measured as the difference between the carrying amount of the asset 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 recognized 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 internally 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 by liquidation, or all legal and other avenues for recovery 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 recognized, the previously recognized impairment loss is increased by adjusting the allowance account. Recoveries of such assets written off in earlier periods are included in the income statement.

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 collateralized 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 rating methodology that considers credit risk characteristics such as asset type, industry and geographical location. The Bank's analysis is currently based on the Global Emerging Markets ("GEMs") database. The GEMs risk database standardizes the data collection process of member International Financial Institutions. The standardization process used by the Bank was also reviewed independently by Moody's Analytics. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss experience.

Impairment losses for guarantees are recognized while a guarantee is in effect and the amounts are determined based on the level of utilization of the guarantee. The methodology is consistent to that of loans, and such losses are included in “Other liabilities”.

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.

b) 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 recognized in net income, is removed from reserves and included in income. Impairment losses once recognized 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 recognized, that loss is reversed through income.

c) 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 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.

d) Renegotiated loans

When necessary, the Bank seeks to restructure loans that may involve extending the payment arrangements and the agreement of new loan conditions. These loans are generally renegotiated in response to an adverse change in the financial conditions of the borrower. Depending upon the degree to which the original loan is amended, this loan may continue to be recognized or will be derecognized and replaced with a new loan. Once the terms have been renegotiated, the loan is no longer considered past due, but the impairment will remain for at least another two quarters to review the performance of the loan.

Risk Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

Financial Guarantees

Issued financial guarantees are initially recognized at their fair value, being the premium (fee) received and subsequently measured at the higher of the unamortized balance of the related

fees received and deferred, and the expenditure required to settle the commitment at the financial position date. The latter is recognized 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 recognized 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	33.3%
• 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 all Member Countries. 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 also included and elaborated upon in Article 12 of the Headquarters Agreement with the Hellenic Government, ratified by Greek Law 2380/No.38/7.3.1996.

Provisions

The Bank raises non-risk management 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; (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 and Retained Earnings

In accordance with the Establishing Agreement of the Bank, the general reserve is created from the profits of the Bank for meeting any unforeseeable risks or contingencies.

The revaluation reserve represents the accumulated change in fair value of available-for-sale investments of the Bank, which have not been impaired.

The retained earnings of the Bank is the accumulated undistributed and unallocated net income over the years.

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 recognized 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 amortized cost of a financial asset or a financial liability and 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 amortized 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 recognized as income on expiry.

Other commitment and guarantee fees, as well as fees received in respect of services provided over a period of time, are recognized as income on an accrual basis matching the period during which the commitment exists or the services are provided. Additionally, fees from negotiation, cancellation, arrangement, etc are recognized on completion of the related transaction. Dividends are recognized 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 eligible employees, consisting of three pillars:

- The first pillar is a defined benefit scheme financed entirely by the Bank. The scheme's funding level and the Bank's contributions are determined on the basis of actuarial valuations performed annually by qualified, independent actuaries. The Bank is under the obligation to maintain the scheme fully funded, and to this effect, has always liquidated any past service deficit in the course of the year following the relevant actuarial valuation. Actuarial and asset gains or losses are recognized in "Other comprehensive income", and net gains or losses are included in remeasurements where any change in the effect of the asset ceiling, excluding those amounts that have been already included in personnel expenses, are also included.
- The second pillar is a defined contribution scheme to which both the employee and the Bank contribute equally at a rate of 0–12% 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, 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 recognized as an expense and included in "Personnel expenses".

The Bank may offer termination benefits to employees that are separated based on the Bank's separation policy. These benefits, including indemnities and any related retirement benefits, are recognized in income as an expense in the same period during which they are incurred.

Government Grants

Government grants are recognized 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 recognized in income on a straight-line basis over the same period as that applied for depreciation purposes. Those relating to administrative expenses are recognized in income matching with the expense incurred.

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 recognized 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 recognized as an expense in the period which the termination takes place.

New and Forthcoming Accounting Standards

The accounting policies have been consistently applied to all periods presented in the financial statements.

a) New currently effective requirements

- Amendment to International Accounting Standard 19 "Employee Benefits".
- Improvements to International Accounting Standards cycle 2010–2012.
- Improvements to International Accounting Standards cycle 2011–2013.

The above new standards and amendments to standards did not have an impact on the Bank's financial statements.

b) Forthcoming requirements

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2015; however, the Bank has not applied the following new or amended standards in preparing these financial statements.

- IFRS 9 Financial Instruments, which is effective for annual reporting periods beginning on or after 1 January 2018.
- IFRS 15 Revenue from Contracts from Customers, which is effective for annual reporting periods beginning on or after 1 January 2018.
- Annual Improvements to IFRS's 2012–2014 Cycle – various standards.
- IFRS 14 Regulatory Deferred Accounts.
- Accounting for Acquisition of Interests in Joint Operations (Amendments to IFRS 11).
- Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38).
- Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41).
- Equity Method in Separate Financial Statements (Amendments to IAS 27).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).
- Investment entities: Applying the Consolidated Exception (Amendments to IFRS 10, IFRS 12 and IAS 28).
- Disclosure Initiative (Amendments to IAS 1).

A number of the above new or amended standards permit early adoption, which the Bank has not adopted to do. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 9, IFRS 15 and the Amendment to International Accounting Standard 1. The remaining new or amended standards noted above are not expected to have a significant impact on the Bank's financial statements.

4. USE OF ESTIMATES

The preparation of financial statements involves management estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments 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 judgment in each area of estimate have been outlined in the respective accounting policy and disclosure note. The Bank's critical accounting judgments 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" of risk management. Portfolio provisions for loans not individually assessed as impaired amounted to EUR 8,498 thousand, as indicated in note 11.

  In determining the probabilities of default, the Bank applies a collective provisioning rate on the entire loan portfolio from the GEM's database, maintained by the European Investment Bank and the International Finance Corporation. This calculation formula of the GEM database takes into account Basel II criteria, such as loss-given default and discount factor multipliers.

  Furthermore, there was a net decrease on specific provisions during the period made for the identified impairment of EUR 22,729 thousand, which was due to a loan that was disposed and another loan that was written off. Specific Provisions are assigned according to the degree of potential impairment resulting from the impairment test that is conducted on the basis of objective evidence obtained through a risk asset review process.

  An impairment test includes projected cash in-flows and out-flows, available for debt service until maturity, which are discounted at the effective rate to reach a net present value for a particular operation, less any collateral that can be realized. Impairment losses incurred from specific provisions are recognized to the income statement.

- Staff retirement benefits. The Bank 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 in note 25. 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 the financial position date was EUR 1,183 thousand.

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

5. RISK MANAGEMENT

Risk is inherent in the Bank's activities and is managed through an ongoing process of identification, measurement and monitoring, as well as being 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 Policy Document defines 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's 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.

a) Credit risk

The Bank is subject to credit risk, which is the risk whereby customers or counterparties will be unable to meet their obligations as they fall due. Credit risk arises principally from the Bank's lending activities. All exposures are regularly reviewed 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, while for equity investments, there is 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 default rate, recovery rate and sector risk analysis provided by the GEMs risk database (see section of the accounting policies: Impairment). Default and Loss Given Default data is updated annually and provides objective evidence of impairment, using separately each operation's risk profile and adjusting it for current circumstances when necessary.

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 Department 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 summarizes the maximum exposure to credit risk and indicates the worst-case scenario, without taking into consideration collateral, other credit enhancements or provisions of impairment.

Presented in EUR (000)	At 31 December 2015	At 31 December 2014
Cash and bank balances	49,745	63,955
Debt investment securities	139,299	75,016
Derivative financial instruments	3,485	-
Loans	1,049,732	877,122
Other assets	16,366	10,799
On-balance-sheet	**1,258,627**	**1,026,892**
Undrawn commitments	205,466	90,860
Total	**1,464,093**	**1,117,752**

b) Analysis by rating agency

The tables below provide an analysis of financial investments in accordance with their Moody's rating as follows.

	2015				
Presented in EUR (000)	Aaa – Aa3	A1 – A3	Baa1 – Baa3	Unrated	**Total**
Analysis by Moody's rating					
Cash and bank balances	49,745	-	-	-	**49,745**
Debt investment securities	15,000	124,299	-	-	**139,299**
Equity investments	-	-	-	63,800	**63,800**
At 31 December	**64,745**	**124,299**	-	**63,800**	**252,844**
Of which issued by					
Governments	-	-	-	-	**-**
Corporates	15,000	124,299	-	63,800	**203,099**
Deposits at banks	49,745	-	-	-	**49,745**
At 31 December	**64,745**	**124,299**	-	**63,800**	**252,844**
Of which classified as					
Available-for-sale	15,000	124,299	-	63,800	**203,099**
Held-to-maturity	-	-	-	-	**-**
Amortized cost	49,745	-	-	-	**49,745**
At 31 December	**64,745**	**124,299**	-	**63,800**	**252,844**

	2014				
Presented in EUR (000)	Aaa – Aa3	A1 – A3	Baa1 – Baa3	Unrated	**Total**
Analysis by Moody's rating					
Cash and bank balances	63,955	-	-	-	**63,955**
Debt investment securities	-	75,016	-	-	**75,016**
Equity investments	-	-	-	84,860	**84,860**
At 31 December	**63,955**	**75,016**	-	**84,860**	**223,831**
Of which issued by					
Governments	-	-	-	-	**-**
Corporates	-	75,016	-	84,860	**159,876**
Deposits at banks	63,955	-	-	-	**63,955**
At 31 December	**63,955**	**75,016**	-	**84,860**	**223,831**
Of which classified as					
Available-for-sale	-	75,016	-	84,860	**159,876**
Held-to-maturity	-	-	-	-	**-**
Amortized cost	63,955	-	-	-	**63,955**
At 31 December	**63,955**	**75,016**	-	**84,860**	**223,831**

c) Credit risk in loans portfolio

The tables below provide an analysis of the Bank's internal probability of default rating scale from 1 (lowest risk) to 15 (highest risk) and how it corresponds to the external ratings of Moody's credit rating service. Most of the Bank's loans, as of the financial position date, were externally rated by major credit rating investor services.

Risk rating	Internal risk rating category	External rating equivalent	Grade of investment
1	Excellent	Aaa	Investment
1	Very strong	Aa1 – Aa3	Investment
2	Strong	A1 – A3	Investment
3,4,5	Good	Baa1 – Baa3	Investment
6,7,8	Fair	Ba1 – Ba3	Investment
9,10,11	Weak	B1 – B3	Investment
12,13,14	Special attention	Caa1 –Caa3	Classified
15	Expected loss	Ca – C	Classified

Loans that are neither past due nor impaired are categorized as standard within collective impairment, and those loans that are individually identified as impaired are categorized within specific impairment (see note 14 for further analysis).

	Presented in EUR (000)						
Internal risk rating category	Neither past due nor impaired	Past due but not impaired	Impaired	**Total**	Collective provisions for impairment	Specific provisions for impairment	**Total**
Excellent	-	-	-	**-**	-	-	**-**
Very strong	-	-	-	**-**	-	-	**-**
Strong	-	-	-	**-**	-	-	**-**
Good	77,327	-	-	**77,327**	652	-	**652**
Fair	393,433	-	-	**393,433**	3,318	-	**3,318**
Weak	507,471	-	-	**507,471**	4,280	-	**4,280**
Special attention	29,420	-	29,093	**58,513**	248	5,070	**5,318**
Expected loss	-	-	12,988	**12,988**	-	12,988	**12,988**
At 31 December 2015	**1,007,651**	**-**	**42,081**	**1,049,732**	**8,498**	**18,058**	**26,556**

	Presented in EUR (000)						
Internal risk rating category	Neither past due nor impaired	Past due but not impaired	Impaired	**Total**	Collective provisions for impairment	Specific provisions for impairment	**Total**
Excellent	-	-	-	**-**	-	-	**-**
Very strong	-	-	-	**-**	-	-	**-**
Strong	-	-	-	**-**	-	-	**-**
Good	95,507	-	-	**95,507**	812	-	**812**
Fair	307,613	-	-	**307,613**	2,615	-	**2,615**
Weak	414,105	-	-	**414,105**	3,520	-	**3,520**
Special attention	-	-	11,470	**11,470**	-	2,883	**2,883**
Expected loss	-	-	48,427	**48,427**	-	37,904	**37,904**
At 31 December 2014	**817,225**	**-**	**59,897**	**877,122**	**6,947**	**40,787**	**47,734**

d) 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, guarantees, covenants and comfort letters.

- Loans and advances. The Board of Directors approved guidelines for taking security under lending operations set the levels and types of collateral and other credit enhancements recommended for a given risk profile.

  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. As at 31 December 2015, the secured portfolio was 63.4 per cent (2014: 60.4 per cent) of the total outstanding loans.

- Other financial instruments. Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Bonds and Euro Commercial Paper held by the Bank as investment securities are generally unsecured. The Bank may hold cash or government securities as collateral against its derivative contract counterparties. At 31 December 2015 the Bank holds cash collateral in the amount of EUR 15,880 thousand (2014: EUR 10,230 thousand).

e) Liquidity risk

Liquidity risk concerns the ability of the Bank to fulfill 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 during which the Bank's counterparties have the ability to demand repayment.

The figures represent undiscounted cash flows and include estimated interest amounts, and therefore do not match the statement of financial position.

Presented in EUR (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	-	1,824	233,844	291,382	60,197	**587,247**
Derivative financial instruments	-	20,427	-	-	-	**20,427**
Payables and accrued interest	-	5,206	1,183	-	-	**6,389**
Financial Liabilities at 31 December 2015	**-**	**27,457**	**235,027**	**291,382-**	**60,197**	**614,063**
Borrowings	-	1,319	51,979	288,545	24,336	**366,179**
Derivative financial instruments	-	11,769	-	-	-	**11,769**
Payables and accrued interest	-	4,304	4,664	-	-	**8,968**
Financial Liabilities at 31 December 2014	**-**	**17,392**	**56,643**	**288,545**	**24,336**	**386,916**

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 possibility 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.

a) Foreign exchange risk

Exchange rate risk is the impact of unanticipated changes in foreign exchange rates on the Bank's assets and liabilities, and any impact that could mirror on the income statement. The Bank monitors its assets and liabilities in order to ensure the Bank takes no significant foreign exchange risks. In doing so the Bank matches, to the extent practicable, the assets in any one currency, after swap activities, with liabilities in the same currency.

Furthermore, to avoid currency mismatches, borrowers are required to service their loans in the currencies disbursed by the Bank.

The effect of any currency fluctuations on the net exposure of the Bank is minimal. The tables below provide a currency breakdown of the Bank's assets and liabilities.

Presented in EUR (000)	Euro	United States dollar	Swiss franc	Other *	**Total**
Assets					
Cash and bank balances	34,036	15,692	-	17	**49,745**
Debt investment securities	75,002	64,297	-	-	**139,299**
Derivatives financial instruments	3,485	-	-	-	**3,485**
Loans	434,099	597,218	-	18,415	**1,049,732**
Deferred income	(2,732)	(4,758)	-	(174)	**(7,664)**
Impairment losses on loans	(8,486)	(17,915)	-	(155)	**(26,556)**
Equity investments	32,977	13,889	-	16,934	**63,800**
Other assets	6,460	7,869	1,520	517	**16,366**
Total	574,841	676,292	1,520	35,554	**1,288,207**
Liabilities					
Borrowings	74,843	165,596	277,260	23,249	**540,948**
Derivative financial instruments	20,427	-	-	-	**20,427**
Payables and accrued interest	2,651	2,230	1,167	341	**6,389**
Total	97,921	167,826	278,427	23,590	**567,764**
Net financial instruments	476,920	508,466	(276,907)	11,964	**720,443**
Derivative financial instruments	228,942	(510,824)	276,880	4,863	**(139)**
Currency balance at 31 December 2015	**705,862**	**(2,358)**	**(27)**	**16,827**	**720,304**

* Primarily represents the Access Bank equity investment which is denominated in Azerbaijan manats. This exposure is not hedgeable at reasonable cost.

Presented in EUR (000)	Euro	United States dollar	Swiss franc	Other *	**Total**
Assets					
Cash and bank balances	58,767	5,174	-	14	**63,955**
Debt investment securities	75,016	-	-	-	**75,016**
Loans	446,347	430,775	-	-	**877,122**
Deferred income	(5,469)	(2,656)	-	-	**(8,125)**
Impairment losses on loans	(3,794)	(43,940)	-	-	**(47,734)**
Equity investments	27,656	11,967	-	45,237	**84,860**
Other assets	4,822	4,962	954	61	**10,799**
Total	603,345	406,282	954	45,312	**1,055,893**
Liabilities					
Borrowings	91,865	83,071	166,279	-	**341,215**
Derivative financial instruments	11,769	-	-	-	**11,769**
Payables and accrued interest	6,109	1,850	1,009	-	**8,968**
Total	109,743	84,921	167,288	-	**361,952**
Net financial instruments	493,602	321,361	(166,334)	45,312	**693,941**
Derivative financial instruments	173,769	(339,816)	166,334	-	**287**
Currency balance at 31 December 2015	**667,371**	**(18,455)**	**-**	**45,312**	**694,228**

* Primarily represents the Access Bank equity investment which is denominated in Azerbaijan manats (see above).

b) 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 tables below provide 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 the financial position date.

	Interest bearing					
Presented in EUR (000)	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Non-interest bearing	**Total**
Assets						
Cash and bank balances	49,744	-	-	-	1	**49,745**
Debt investment securities	124,299	15,000	-	-	-	**139,299**
Derivative financial instruments	-	-	-	-	3,485	**3,485**
Loans	152,150	287,987	571,611	37,984	-	**1,049,732**
Equity investments	-	-	-	-	63,800	**63,800**
Other assets	-	-	-	-	16,366	**16,366**
Total	326,193	302,987	571,611	37,984	83,652	**1,322,427**
Liabilities						
Borrowings	-	46,047	247,149	247,752	-	**540,948**
Derivative financial instruments	-	-	-	-	20,427	**20,427**
Payables and accrued interest	-	-	-	-	6,389	**6,389**
Total	-	46,047	247,149	247,752	26,816	**567,764**
Derivative financial instruments	(177,225)	(111,518)	184,587	104,156	-	-
Interest rate risk at 31 December 2015	**148,968**	**145,422**	**509,049**	**(105,612)**	**56,836**	**754,663**

Presented in EUR (000)	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Non-interest bearing	Total
	Interest bearing					
Assets						
Cash and bank balances	63,953	-	-	-	2	**63,955**
Debt investment securities	30,016	45,000	-	-	-	**75,016**
Loans	155,345	235,443	393,253	93,081	-	**877,122**
Equity investments	-	-	-	-	84,860	**84,860**
Other assets	-	-	-	-	10,799	**10,799**
Total	249,314	280,443	393,253	93,081	95,661	**1,111,752**
Liabilities						
Borrowings	-	19,737	90,595	230,883	-	**341,215**
Derivative financial instruments	-	-	-	-	11,769	**11,769**
Payables and accrued interest	-	-	-	-	8,968	**8,968**
Total	-	19,737	90,595	230,883	20,737	**361,952**
Derivative financial instruments	(172,584)	(750)	-	173,334	-	-
Interest rate risk at 31 December 2014	**76,730**	**259,956**	**302,658**	**35,532**	**74,924**	**749,800**

c) Sensitivity analysis

The Bank's interest rate sensitivity analysis comprises 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 minimizing 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 Bank's intention that earnings on equity resources be stabilized by an increased investment in fixed rate instruments.

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

Presented in EUR (000)	At 31 December 2015	At 31 December 2014
Euro	234,000	(75,300)
United states dollar	(1,043,900)	207,500
Total re-pricing gap	(809,900)	132,200
Shift of 50 basis points in the EUR curve	**(4,050)**	**661**

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

a) Classification

Investment securities classified as "available for sale" include government and corporate bonds and Euro Commercial Paper, and their fair value has been determined using quoted prices.

Equity investments classified as "available for sale" include investments 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.

b) Financial assets and liabilities

The tables below identify the Bank's financial assets and financial liabilities in accordance with IAS 39 categories. The fair value of the financial assets and financial liabilities is disclosed as equal to the carrying value, plus accrued interest, as all bear a variable interest rate and are given at market terms and conditions.

	At 31 December 2015			
Presented in EUR (000)	Held-to-maturity	Loans and receivables	At amortized cost	**Carrying amount**
Assets				
Cash and bank balances	-	-	49,745	**49,745**
Loans	-	1,049,732	-	**1,049,732**
Deferred income	-	-	(7,664)	**(7,664)**
Impairment losses on loans	-	(26,556)	-	**(26,556)**
Other assets	-	16,366	-	**16,366**
Total financial assets	**-**	**1,039,542-**	**42,081**	**1,081,623**
Liabilities				
Borrowings	**-**	**-**	540,948	**540,948**
Payables and accrued interest	**-**	**-**	6,389	**6,389**
Total financial liabilities	**-**	**-**	**547,337**	**547,337**

	At 31 December 2014			
Presented in EUR (000)	Held-to-maturity	Loans and receivables	At amortized cost	**Carrying amount**
Assets				
Cash and bank balances	-	-	63,955	**63,955**
Loans	-	877,122	-	**877,122**
Deferred income	-	-	(8,125)	**(8,125)**
Impairment losses on loans	-	(47,734)	-	**(47,734)**
Other assets	-	10,799	-	**10,799**
Total financial assets	**-**	**840,187**	**55,830**	**896,017**
Liabilities				
Borrowings	**-**	**-**	341,215	**341,215**
Payables and accrued interest	**-**	**-**	8,968	**8,968**
Total financial liabilities	**-**	**-**	**350,183**	**350,183**

c) Fair value hierarchy

The 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 market prices in active markets for identical assets or liabilities,
- Level 2: Other techniques for which all inputs that have a significant effect on the recorded 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 observable market data.

The tables below identify the Bank's financial instruments measured at fair value.

Presented in EUR (000)	Level 1	Level 2	Level 3	**Carrying Amount**
Derivative financial instruments – assets	-	3,485	-	3,485
Available-for-sale:				
Debt investment securities	139,299	-	-	139,299
Equity investments	-	-	63,800	63,800
Derivative financial instruments – liabilities	-	(20,427)	-	(20,427)
At 31 December 2015	**139,299**	**(16,942)**	**63,800**	**186,157**

There have been no transfers between Level 1 and Level 2 during the year. For Level 1 and Level 2, the valuation techniques used are broker quotes and observable market data, or discounted cash flow models. For Level 3, the valuation technique used is the net asset value ("NAV"), and equity calculations are based on EBITDA and market data.

Presented in EUR (000)	Level 1	Level 2	Level 3	**Carrying Amount**
Available-for-sale:				
Debt investment securities	75,016	-	-	75,016
Equity investments	-	-	84,860	84,860
Derivative financial instruments – liabilities	-	(11,769)	-	(11,769)
At 31 December 2015	**75,016**	**(11,769)**	**84,860**	**148,107**

d) Fair value measurement in level 3

The table provides a reconciliation of the fair values of the Bank's Level 3 financial assets of the fair value hierarchy.

Presented in EUR (000)	At 31 December 2015	At 31 December 2014
At 1 January	84,860	52,934
Total gains or (losses) for the year recognized in the income statement	3,645	-
Total gains or (losses) recognized in other comprehensive income	(24,688)	24,828
Purchases, sales, issues and settlements	(17)	7,098
Transfers into or out of level 3	-	-
At end of year	**63,800**	**84,860**

e) Sensitivity analysis for level 3

The table below indicates a possible impact on net income for the Level 3 financial instruments carried at fair value at the financial position date, on an estimated 5% increase or decrease in net assets value of the equity investments based on the Bank's participation.

Presented in EUR (000)	Carrying amount	Favorable change	Unfavorable change
Equity investments	63,800	3,190	(3,190)

Capital Management

At the inception of the Bank, initial authorized share capital was SDR 1 billion, which was fully subscribed by the Member States. In December 2007 the Board of Governors approved an increase of the Bank's authorized share capital to SDR 3 billion and authorized 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. The increase allows 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 Member 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 authorized share capital has not yet been allocated.

Pursuant to Resolution 131 of the Board of Governors, a unanimously adopted first amendment to the Establishing Agreement became effective on 21 June 2013. As of this effective date, and as per Resolution 131 of the Board of Governors, the Bank's unit of account became the EUR and all of the Bank's authorized share capital was redenominated from SDR to EUR. The conversion rate applied was SDR to EUR fixed at 1:1.15.

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 in 2008, 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, which includes all callable capital, is approximately EUR 2.2 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.

6. OPERATING SEGMENTS

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 cooperation 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.

Presented in EUR (000)	31 December 2015 Lending	Treasury	Total	31 December 2014 Lending	Treasury	Total
Income statement						
Interest income	52,193	890	53,083	39,854	1,964	41,818
Net fees and commissions	1,074	1	1,075	634	1	635
Other income (expense)	2,596	1	2,597	2,242	(177)	2,065
Total segment revenues	55,863	892	56,755	42,730	1,788	44,518
Less: interest expense	(11,895)	(4,061)	(15,956)	(9,117)	(2,588)	(11,705)
Net fair value and foreign exchange	-	601	601	-	(95)	(95)
Less: personnel and other admin. expenses	(16,809)	(973)	(17,782)	(15,614)	(913)	(16,527)
Less: depreciation and amortization	(654)	(11)	(665)	(757)	(8)	(765)
Segment income before impairment	26,505	(3,552)	22,953	17,242	(1,816)	15,426
Less: impairment (losses) release	(7,739)	-	(7,739)	(1,403)	-	(1,403)
Net income for the year	**18,766**	**(3,552)**	**15,214**	**15,839**	**(1,816)**	**14,023**

Presented in EUR (000)	31 December 2015 Lending	Treasury	Total	31 December 2014 Lending	Treasury	Total
Financial position						
Segment assets	1,096,782	192,529	1,289,311	918,092	138,971	1,057,063
At end of year			**1,289,311**			**1,057,063**
Segment liabilities	547,337	20,427	567,764	350,183	11,769	361,952
Members' equity	-	-	721,547	-	-	695,111
At end of year			**1,289,311**			**1,057,063**

The geographical segment reporting of the Bank is presented in note 16 “Operational analysis”.

7. INTEREST INCOME

Interest and similar income is analyzed as follows:

Presented in EUR (000)	Year to 31 December 2015	Year to 31 December 2014
From loans and advances	52,193	39,854
From placements with financial institutions	6	1
From investment securities available-for-sale	151	1,086
From derivative financial assets at fair value	733	877
Interest income	**53,083**	**41,818**

Notes to the Financial Statements

8. INTEREST EXPENSE

Interest and similar expense is analyzed as follows:

Presented in EUR (000)	Year to 31 December 2015	Year to 31 December 2014
From borrowed funds	4,859	3,850
From issued debt	6,268	4,574
From derivative financial liabilities at fair value	3,951	2,483
From amortized issuance and arrangement costs	768	693
From other charges	110	105
Interest expense	**15,956**	**11,705**

9. NET FEES AND COMMISSIONS

Net fees and commissions is analyzed as follows:

Presented in EUR (000)	Year to 31 December 2015	Year to 31 December 2014
Guarantee fees	90	41
Management fees	326	272
Appraisal fees	184	33
Administration fees	32	12
Arrangement fees	116	-
Surveillance fees	81	67
Prepayment / cancellation fees	125	198
Other fees	121	12
Net Fees and commissions	**1,075**	**635**

10. PERSONNEL AND OTHER ADMINISTRATIVE EXPENSES

Administrative expenses are analyzed as follows:

Presented in EUR (000)	Year to 31 December 2015	Year to 31 December 2014
Salaries and benefits	10,958	10,828
Staff retirement plans	2,938	2,246
Personnel expenses	**13,896**	**13,074**
Professional fees and related expenses	811	573
Utilities and maintenance	1,327	1,350
Other administrative	1,748	1,530
Other administrative expenses	**3,886**	**3,453**

The average number of staff employed during the year was 104 (2014: 103). The number of staff at 31 December 2015 was 108 (2014: 103). Further analysis of the staff retirement plan is presented in note "Employee benefits".

11. IMPAIRMENT LOSSES ON LOANS

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

Presented in EUR (000)	Collective	Specific	Total
At 31 December 2013	9,303	31,860	41,163
Charge	2,217	6,336	8,553
Release	(4,941)	(2,206)	(7,147)
Foreign exchange adjustments	368	4,797	5,165
31 December 2014	6,947	40,787	47,734
Charge	2,664	9,747	12,411
Release	(1,506)	(3,188)	(4,694)
Against loan disposal	-	(25,641)	(25,641)
Against write-offs	-	(7,148)	(7,148)
Foreign exchange adjustments	393	3,501	3,894
At 31 December 2015	**8,498**	**18,058**	**26,556**

The Bank's collective impairment evaluation is currently based on the Global Emerging Markets ("GEMs") data base. The GEMs risk data base standardizes the risk rating and data collection process of member International Financial Institutions. The Bank's rating scorecards which determine operation risk levels were developed by the Bank with the assistance of Moody's Analytics.

At 31 December 2015, the Bank categorized four loans as impaired with an exposure amount of EUR 42,081 thousand (2014: five loans with an exposure amount of EUR 59,897) and provision on these assets amounted to EUR 18,058 thousand (2014: EUR 40,787). Management estimates that the allowance for the impaired loans is adequate to cover potential or unforeseen uncollectible amounts in the existing portfolio.

12. DEBT INVESTMENT SECURITIES

Debt investment securities are analyzed as follows:

Presented in EUR (000)	At 31 December 2015	At 31 December 2014
Corporate bonds	10,002	10,016
Commercial papers	129,297	65,000
Debt investment securities	**139,299**	**75,016**

13. DERIVATIVE FINANCIAL INSTRUMENTS, NET

The table below shows the Bank's outstanding forward foreign exchange contracts. The first column shows the sum of notional amounts, which is the amount of a derivative's nominal value, and is the basis upon which changes in the value are measured. The second column shows the market value of the notional amounts and also the net valuation attributable to fair value hedges.

Presented in EUR (000)	At 31 December 2015			At 31 December 2014		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		assets	liabilities		assets	liabilities
Currency swap purchases	185,000	185,000	-	110,000	-	110,000
Currency swap sales	(181,063)	(181,515)	-	(112,440)	-	(112,578)
Designated fair value hedges	-	-	(20,427)	-	-	(9,191)
Derivative financial instruments	**3,937**	**3,485**	**(20,427)**	**(2,440)**	**-**	**(11,769)**

The above derivative financial instrument contracts with financial counterparties have been documented under International Swaps and Derivative Association ("ISDA") Master Agreements with Credit Support Annexes ("CSA"s). Pursuant to such arrangements the Bank is eligible to offset assets and liabilities in the event of a counterparty default occurrence.

The Bank's hedge accounting is based on a clearly documented relationship between the item hedged and the hedging instrument, having a one-on-one relationship, which is documented at the time a hedge transaction is entered into. This relationship arises within the context of the Bank's borrowing activities in which the Bank's issued bonds are combined with swaps to achieve floating-rate debt in a currency sought by the Bank.

14. LOANS

The Bank offers a range of loan facilities directed to investments for both project and trade financing, and 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 EUR (000)	At 31 December 2015	At 31 December 2014
At 1 January	877,122	726,405
Disbursements	371,958	283,147
Less: repayments	(210,183)	(180,720)
Disposal	(25,641)	-
Write-offs	(7,148)	-
Foreign exchange movements	43,624	48,290
Loans total	1,049,732	877,122
Less: deferred income	(7,664)	(8,125)
Less: impairment losses	(26,556)	(47,734)
Loans net of impairment	**1,015,512**	**821,263**

During 2015, the Bank had disposed a loan and written off another loan reflecting the deteriorating environment in the region. These two operations were for many years impaired and categorized as non-performing.

As of 31 December 2015, all loan facilities are classified as standard apart from four that were impaired. Out of four impaired loans, two loans are categorized as non-performing with an exposure amount of EUR 12,988 thousand. As of this date, the amount of interest and similar income that has not been accrued related to impaired loans was EUR 10,589 thousand, out of which an amount of EUR 1,574 thousand was reduced for the reporting period primarily due to the write-offs.

At 31 December 2015, the Bank had two restructured loan operations for the reporting period.

Presented in EUR (000)	At 31 December 2015	At 31 December 2014
Collectively impaired	1,007,651	817,225
Less: deferred income	(7,664)	(8,125)
Less: allowance for impairment	(8,498)	(6,947)
Carrying amount	991,489	802,153
Individually impaired	42,081	59,897
Less: allowance for impairment	(18,058)	(40,787)
Carrying amount	24,023	19,110
Past due but not impaired	-	-
Total carrying amount at amortized cost	**1,015,512**	**821,263**

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 8.0%. 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 "Operational analysis".

15. 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.

Presented in EUR (000)	% of Investment	At 31 December 2015		At 31 December 2014	
		Cost	Fair Value	Cost	Fair Value
SEAF Caucasus Growth Fund	21.39	7,314	5,627	6,344	4,606
Access Bank, Azerbaijan	20.00	9,996	16,934	17,945	45,237
Balkan Accession Fund	9.09	6,094	7,508	7,582	7,392
A-Park Kaluga, Russia	19.99	1,714	641	1,714	1,018
Emerging Europe Accession Fund	10.15	3,630	7,498	3,100	2,443
Rusal	0.01	4	119	4	235
ADM Ceecat Recovery Fund	5.65	10,259	11,274	11,194	11,085
European Virgin Fund	21.05	9,494	8,143	7,149	7,126
Teamnet International	8.33	5,125	6,056	5,000	5,718
Natfood	0.01	-	-	-	-
Equity investments available-for-sale		**53,630**	**63,800**	**60,032**	**84,860**

The valuation of such investments, which are unlisted, has been estimated using the most recent management accounts or the latest audited accounts as of 31 December 2015, as management considers that is the best available estimate of the investments fair value. The techniques applied to perform these valuations include equity calculations based on EBITDA and market data.

The increase of EUR 10,170 thousand corresponds to the difference between acquisition cost and fair value as of 31 December 2015.

During the year the Bank had realized a dividend income of EUR 2,589 thousand from its investment in the Access Bank.

As of 31 December 2015, the Bank has a committed amount of EUR 10,063 thousand towards the above entities participation. Further analysis of the equity investment portfolio is presented in note “Operational analysis”.

As at 31 December 2015, the Bank has three equity investments where it holds slightly more than 20 per cent of the investee share capital, but does not exert significant influence, hence the investment is not accounted for as an investment in an associate under IAS 28.

16. OPERATIONAL ANALYSIS

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

	At 31 December 2015		At 31 December 2014	
Presented in EUR (000)	Outstanding disbursements	Undrawn commitments	Outstanding disbursements	Undrawn commitments
Analysis by instrument				
Loans	1,049,732	180,098	877,122	62,885
Equity investments	63,800	10,063	84,860	11,975
Guarantees	-	15,305	-	16,000
At end of year	**1,113,532**	**205,466**	**961,982**	**90,860**
Analysis by country				
Albania	44,050	574	29,631	2,039
Armenia	95,537	638	65,929	2,292
Azerbaijan	125,787	48,597	141,914	9,423
Bulgaria	45,292	976	57,853	1,092
Georgia	66,277	26,230	12,106	30,018
Greece	42,138	6,200	45,951	-
Moldova	15,171	4,838	16,444	2,047
Romania	115,652	42,581	120,532	1,391
Russia	276,508	592	227,275	592
Turkey	229,659	64,456	172,138	3,989
Ukraine	57,461	9,784	72,209	37,977
At end of year	**1,113,532**	**205,466**	**961,982**	**90,860**
Loans analysis by sector				
Consumer discretionary	52,994	62	47,208	12,515
Consumer staples	115,428	24,531	98,745	-
Energy	33,205	24,800	2,595	24,710
Financial institutions	447,657	36,946	434,985	24,302
Health care	22,930	46,225	9,120	-
Industrials	123,105	-	118,118	-
Information technology	10,500	-	7,500	-
Materials	113,751	47,534	77,348	1,358
Real estate	24,722	-	29,372	-
Telecom services	-	-	-	-
Utilities	105,440	-	52,131	-
At end of year	**1,049,732**	**180,098**	**877,122**	**62,885**

The Bank is restricted to operating in its 11 Member States and individual country limits are set as a maximum at 30% of planned 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 coordinated by the Department of Project Implementation and Monitoring, with inputs from the originated Banking Teams regarding the availability of financial data. Monitoring reports are completed by the Bank's Department of Project Implementation and Monitoring based on financial analysis prepared by the Department of Financial Analysis. Risk asset reviews, based on the mentioned monitoring reports, are performed by the Department of Risk Management, and may result in a downgrade or upgrade of an operation's status and, if a significant deterioration is noted, trigger an impairment test.

17. PROPERTY AND EQUIPMENT

Property and equipment are analyzed as follows:

Presented in EUR (000)	Buildings (leasehold)	Vehicle	Furniture and office accessories	Computers and office equipment	Total
Cost					
At 31 December 2013	531	95	557	1,438	2,621
Additions	203	-	41	142	386
Disposals	-	-	(30)	(120)	(150)
At 31 December 2014	734	95	568	1,460	2,857
Additions	56	-	48	175	279
Disposals	-	-	(22)	(50)	(72)
At 31 December 2015	**790**	**95**	**594**	**1,585**	**3,064**
Accumulated depreciation					
At 31 December 2013	282	52	474	1,008	1,816
Charges	163	19	37	216	435
Disposals	-	-	(30)	(120)	(150)
At 31 December 2014	445	71	481	1,104	2,101
Charges	174	19	43	178	414
Disposals	-	-	(22)	(50)	(72)
At 31 December 2015	**619**	**90**	**502**	**1,232**	**2,443**
Net book value					
At 31 December 2015	**171**	**5**	**92**	**353**	**621**
At 31 December 2014	289	24	87	356	756
At 31 December 2013	249	43	83	430	805

18. INTANGIBLE ASSETS

Intangible assets comprising computer software are analyzed as follows:

Presented in EUR (000)	Total
Cost	
At 31 December 2013	3,347
Additions	84
At 31 December 2014	3,431
Additions	322
At 31 December 2015	**3,753**
Accumulated amortization	
At 31 December 2013	2,687
Charges	330
At 31 December 2014	3,017
Charges	253
At 31 December 2015	**3,270**
Net book value	
At 31 December 2015	**483**
At 31 December 2014	414
At 31 December 2013	660

19. OTHER ASSETS

Other assets are analyzed as follows:

Presented in EUR (000)	At 31 December 2015	At 31 December 2014
Accrued interest	11,230	8,050
Advances and prepaid expenses	3,357	1,973
Other prepayments	184	184
Guarantee deposits	1,595	592
Other assets	**16,366**	**10,799**

20. BORROWINGS

Borrowing facilities arranged at the financial position date are analyzed below. In addition to medium or long-term borrowings, the Bank utilizes short-term financing in the form of ECP issuance or borrowings from commercial banks for cash management purposes. At 31 December 2015 the Bank had issued debt securities in the amount of EUR 312,463 thousand.

	At 31 December 2015		At 31 December 2014	
Presented in EUR (000)	Amount used	Borrowings arranged	Amount used	Borrowings arranged
Euro	74,843	94,843	91,865	121,865
United States dollar	165,596	165,596	83,071	83,071
Swiss franc	277,260	277,260	166,279	166,279
Romanian lei	4,834	4,834	-	-
Georgian lari	18,415	18,415	-	-
Total	**540,948**	**560,948**	**341,215**	**371,215**

The Interest rate on borrowings falls within an approximate range of Euribor or USD Libor of +0 to +300 points. There is no collateral against the above borrowed funds. The fair value of the borrowings is approximately equal to their carrying value.

21. PAYABLES AND ACCRUED INTEREST

Payables and accrued interest are analyzed as follows:

Presented in EUR (000)	At 31 December 2015	At 31 December 2014
Accrued interest	4,112	3,572
Social insurance fund (IKA) contributions	4	5
Pension plan obligation	1,183	4,664
Suppliers and other accrued expenses	1,058	716
Other	32	11
Payables and accrued interest	**6,389**	**8,968**

22. SHARE CAPITAL

From the Bank's inception, and in accordance with Article 4 of the Establishing Agreement, the Bank denominated its authorized share capital in the Special Drawing Right ("SDR") as defined by the International Monetary Fund ("IMF"). Resolution 131 of the Board of Governors ("BoG") unanimously adopted the requisite amendments to paragraph 1 of Article 4 and Articles 23 and 24 of the Establishing Agreement, to expressly include among the exclusive powers of the BoG the change of the Bank's unit of account, and the redenomination of all capital stock of the Bank. These amendments to the Establishing Agreement became effective on 21 June 2013 (the "Effective Date"). In accordance with such Resolution 131 of the Board of Governors as of the Effective Date, the Bank's unit of account became the EUR and the authorized capital stock of the Bank was redenominated into three billion four hundred and fifty million EUR (3,450,000,000), divided into three million (3,000,000) shares having a par value of one thousand and one hundred and fifty EUR (1,150) each, inclusive of all subscribed and unallocated shares. Accordingly, as of the Effective Date, all outstanding share capital commitments of participating members in respect of their subscribed shares were converted into EUR.

The authorized 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 (fully paid and payable in installments) and callable shares. Payment for the paid-in shares subscribed to by members was made over a period of years in accordance with Article 6 of the Establishing Agreement for the initial capital raising purpose of the Bank, and as determined in advance by the Bank, for capital increases (in the only capital increase of the Bank so far, the structure of payments specified was similar to the one in Article 6). The same Article states that payment of the amount subscribed to, in respect of 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 a notice 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, before the withdrawal becomes finally effective, the member may at any time 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. Any amount due to the member for its shares shall be withheld so long as the member, including its central bank or any of its agencies, has outstanding obligations to the Bank, which may, at the Bank's discretion, be applied to any such liability as it matures.

If losses are sustained by the Bank on any guarantees or loans which were outstanding on the date when a member ceased membership and the amount of such losses exceeds the amount of the reserves provided against losses on the date, the member concerned shall repay, upon demand, the amount by which the repurchase price of its shares would have been reduced, if the losses had been taken into account when the repurchase price was determined.

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 authorized 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 authorized capital the Board of Governors approved their request. On 5 October 2008 the new shares pursuant to the capital increase of the Bank were offered in the same structure as the initial authorized share capital, in the amount of EUR 1.150 billion, and were fully subscribed by the Member States. Furthermore, Azerbaijan also subscribed to the 3% of the initial authorized share capital that remained unallocated, after the above mentioned participation reduction, while Romania subscribed both to their allocation of new shares and to those that would have been allocated to Georgia, had it chosen to participate in the capital increase. This subscription process followed a decision taken by the Board of Governors in December 2007 to triple the Bank's authorized capital to EUR 3.450 billion and to double the subscribed capital to EUR 2.3 billion, while leaving authorized capital of EUR 1.150 billion unallocated. On October 2011 the Board of Governors approved the request from Moldova for a fifty per cent reduction of its portion of subscribed capital, from 1% to 0.5%, and those shares were released to unallocated share capital.

The above share capital is analyzed as follows:

Presented in EUR (000)	At 31 December 2015	At 31 December 2014
Authorized share capital	3,450,000	3,450,000
Less: unallocated share capital*	(1,161,500)	(1,161,500)
Subscribed share capital	2,288,500	2,288,500
Less: shares not yet called	(1,601,950)	(1,601,950)
Less: shares payable but not yet due	(107,669)	(131,675)
Less: shares payments past due	(2,468)	(12,027)
Paid-up share capital	576,413	542,848
Advance against future call	-	-
Paid-in share capital	**576,413**	**542,848**

* Shares available to new or existing Member States.

Initial Capital

In accordance with paragraph 2 under Article 5 of the Establishing Agreement, the initially authorized capital stock was subscribed by and issued to each Member as follows: 10% (EUR 115 million) fully paid and 20% (EUR 230 million) payable by promissory notes or other obligations, which were not negotiable and non interest bearing in eight equal successive annual installments in the years 1998 to 2005.

Capital Increase

The capital increase of EUR 1.150 billion is divided into EUR 345 million paid in capital and EUR 805 million callable capital. Pursuant to the Board of Governors decision in October 2008, the EUR 345 million paid in portion is divided into 10% (EUR 115 million) fully paid shares in 2010 and 20% (EUR 230 million) payable shares by promissory notes or other obligation issued by members in eight equal successive annual installments in the years 2011 to 2018. As of October 2011, the capital increase was reduced by EUR 11.5 million of the subscribed share capital, due to an approved reduction by the Board of Governors in participation by Moldova.

The initial and capital increase that was issued is analyzed as follows:

	At 31 December 2015		
Presented in EUR (000)	Initial capital	Capital increase	**Total**
Authorized share capital	1,150,000	2,300,000	**3,450,000**
Less: unallocated share capital	(34,500)	(1,127,000)	**(1,161,500)**
Subscribed share capital	1,115,500	1,173,000	**2,288,500**
Less: shares not yet called	(780,850)	(821,100)	**(1,601,950)**
Less: shares payable but not yet due	-	(107,669)	**(107,669)**
Less: shares payments past due	-	(2,468)	**(2,468)**
Paid-up share capital	334,650	241,763	**576,413**
Advance against future call	40	(40)	**-**
Paid-in share capital	**334,690**	**241,723**	**576,413**

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 the current financial position date is analyzed as follows:

		Subscribed	Callable	Payable	Paid
Member	Shares	Presented in EUR (000)			
Albania	40,000	46,000	32,200	5,170	8,630
Armenia	20,000	23,000	16,100	863	6,037
Azerbaijan	100,000	115,000	80,500	4,312	30,188
Bulgaria	270,000	310,500	217,350	11,644	81,506
Georgia	10,000	11,500	8,050	-	3,450
Greece	330,000	379,500	265,650	14,231	99,619
Moldova	10,000	11,500	8,050	-	3,450
Romania	280,000	322,000	225,400	12,506	84,094
Russian Fed.	330,000	379,500	265,650	14,231	99,619
Turkey	330,000	379,500	265,650	14,231	99,619
Ukraine	270,000	310,500	217,350	32,949	60,201
Total	**1,990,000**	**2,288,500**	**1,601,950**	**110,137**	**576,413**

23. RESERVES

Reserves are analyzed as follows:

Presented in EUR (000)	General	Available-for-sale	Other	Total
At 31 December 2013	43,563	5,342	1,614	50,519
Gains on revaluation of available-for-sale	-	19,500	-	19,500
Remeasurements of defined benefit scheme	-	-	(4,318)	(4,318)
Transferred from retained earnings	5,688	-	-	5,688
At 31 December 2014	49,251	24,842	(2,704)	71,389
Gains on revaluation of available-for-sale	-	(24,703)	-	(24,703)
Remeasurements of defined benefit scheme	-	-	2,360	2,360
Transferred from retained earnings	4,404	-	-	4,404
At 31 December 2015	**53,655**	**139**	**(344)**	**53,450**

The Bank's general reserve is maintained for meeting any unforeseeable risks or contingencies that do not qualify as provisions for impairment and is normally built-up from those released impairment charges during the year.

24. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are analyzed as follows:

Presented in EUR (000)	At 31 December 2015	At 31 December 2014
Cash on hand	1	2
Investments maturing up to 1 month:		
Bank balances	49,744	63,953
Available-for-sale portfolio	124,299	20,000
Investment maturing from 1 month to 3 months:		
Available-for-sale portfolio	15,000	45,000
Cash and cash equivalents	**189,044**	**128,955**

The commercial papers held in the Bank's portfolio and issued by other financial institutions were short term rated at a minimum of A2 by Standard and Poor's or P2 by Moody's, in accordance with internal financial policies.

25. EMPLOYEE BENEFITS

Under the Defined Benefit Scheme

If separated at or after the normal retirement age (60 years old), a staff member will be entitled to a full immediate pension equal to 1% of his annual 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. If separated at or after the early retirement age (55 years old), as staff member will be entitled to a reduced immediate pension, or deferred pension payable from any month until the staff member's normal retirement age. If separated before the early retirement age, a staff member will be entitled to a deferred pension payable from any month between the staff member's early and normal retirement age. Upon separation at any age, a staff member will have a choice between the appropriate type of pension and a lump sum termination benefit.

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 2015. The present value of the defined benefit obligation and current service cost was calculated using the projected unit credit method.

Presented in EUR (000)	At 31 December 2015	At 31 December 2014
Amounts recognized in the statement of financial position		
Present value of the defined benefit obligations	19,879	20,321
Fair value of plan assets	(18,696)	(15,657)
Net liability at end of the year	**1,183**	**4,664**
Amounts recognized in the income statement		
Service cost	1,843	1,323
Net interest on the net defined benefit liability/(asset)	96	(75)
Administration expense	54	54
Total included in personnel expenses	**1,993**	**1,302**
Remeasurements recognized in other comprehensive income		
At 31 December	(6,291)	(1,973)
Liability gain (loss) due to changes in assumptions	1,822	(5,624)
Liability experiences gain (loss) arising during the year	127	294
Return on plan assets excluding income statement amounts	411	1,012
Total amount recognized during the year	2,360	(4,318)
Cumulative in other comprehensive income (expense)	**(3,931)**	**(6,291)**
Principal actuarial assumptions used		
Discount rate	2.71%	2.30%
Expected return on plan assets	2.71%	2.30%
Future salary increase	2.00%	2.00%
Future pension increase	2.00%	2.00%
Average remaining working life of employees	13 years	13 years

The discount rate arises from the yield curves that use data from double A-rated iBoxx bond indices, produced by the International Index Company.

The expected return on assets as per provision of the revised IAS 19, has been set equal to the discount rate assumption, i.e. at 2.71% pa.

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

Presented in EUR (000)	At 31 December 2015	At 31 December 2014
Major categories of plan assets		
Cash instruments	7%	5%
Fixed interest	50%	52%
Equities	33%	38%
Other	10%	5%
Reconciliation of plan assets		
Market value at 1 January	15,657	13,758
Expected return	371	629
Contributions paid	3,114	1,077
Benefit pensions and lump sum paid to pensioners	(803)	(765)
Expenses	(54)	(54)
Asset gain (loss)	411	1,012
Fair value of plan assets	**18,696**	**15,657**

The actual investment return on assets of the Fund was 12.5%. 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 2016 will not materially differ from those paid in the current year.

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

Presented in EUR (000)	2015	2014	2013	2012	2011
Defined benefit obligations	19,879	20,321	13,879	12,381	7,935
Plan assets	(18,696)	(15,657)	(13,758)	(9,382)	(7,788)
Plan deficit (surplus)	1,183	4,664	121	2,999	147
Net experience adjustments on plan liabilities (assets)	**(1,822)**	**5,624**	**(443)**	**2,706**	**(809)**

Under the Defined Contribution Scheme

Upon separation, 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. The pension expense under this scheme was EUR 909 thousand (2014: EUR 895 thousand) and is included in “Personnel expenses”.

Under the Greek State Social Insurance Fund

The pension expense of staff that is alternatively entitled to retirement benefits from this fund was EUR 36 thousand (2014: EUR 49 thousand) and is included in “Personnel expense”.

26. 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 year for non-cancellable lease contracts. Rental expenses for the period included in “Other administrative expenses” totaled EUR 701 thousand (2014: EUR 699 thousand).

27. 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. The amounts paid to key management personnel during the year were EUR 1,327 thousand (2014: EUR 1,480 thousand). Key management personnel may receive post-employment benefits, other long-term benefits and termination benefits, but do not receive 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. The governments of the Member States are not related parties.

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 on an annual basis and their assets and fund balances are not included in the Bank’s statement of financial position. During 2015, the Bank administered two special funds. Extracts from the audited financial statements are included under the “Summary of special funds”.

28. 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 is shown below.

Presented in EUR (000)	At 31 December 2015	At 31 December 2014
Statement of movements		
Balance brought forward	82	223
Net income for the year	-	-
Less: disbursements	(53)	(141)
Balance of available funds	**29**	**82**
Financial position		
Placements with other financial institutions	29	82
Total Assets	**29**	**82**
Unallocated fund balance	29	82
Total Liabilities and Contributor Resources	**29**	**82**

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 is shown below.

Presented in EUR (000)	At 31 December 2015	At 31 December 2014
Statement of movements		
Balance brought forward	247	318
Net income (loss) for the year	(1)	(1)
Less: disbursements	(60)	(70)
Balance of available funds	**186**	**247**
Financial position		
Placements with other financial institutions	186	247
Total Assets	**186**	**247**
Unallocated fund balance	186	247
Total Liabilities and Contributor Resources	**186**	**247**

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS AND GOVERNORS 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 of 31 December 2015, the statements of income and comprehensive income, changes in equity and 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, and for such internal control 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.

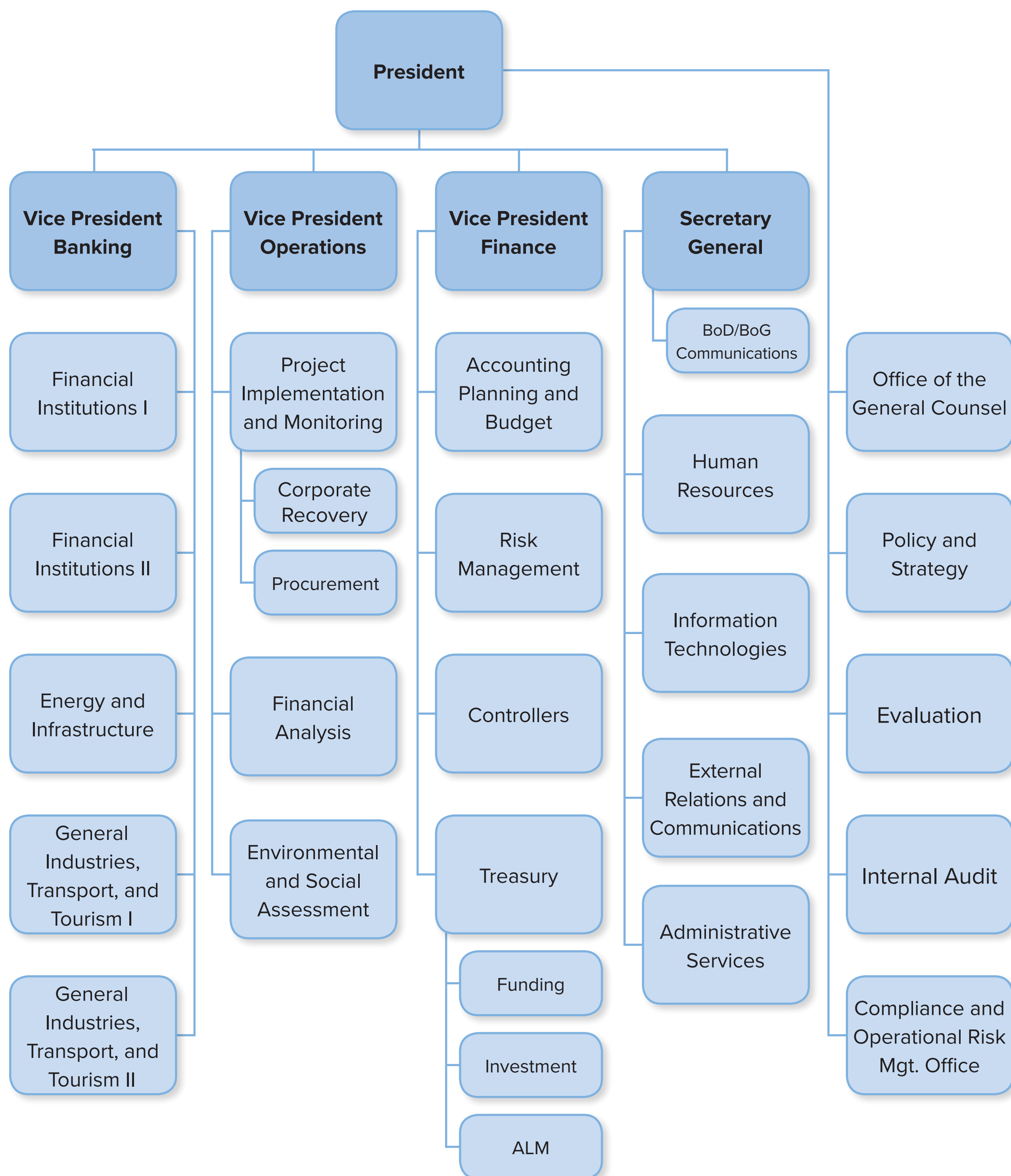
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Black Sea Trade and Development Bank as of 31 December 2015 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

KPMG Certified Auditors AE
Athens, Greece
13 April 2016

Organizational Chart



As of 31 December 2015

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