BSTDB at 20

Enhancing Support to the Black Sea Region

Annual Report 2019

Contents

2 Introduction
2 Who We Are
3 Corporate Governance
5 Board of Governors
6 Board of Directors & Audit Committee
7 Management

8 To the Board of Governors

9 Statement by the President

11 BSTDB's Key Accomplishments 1999-2019

12 Highlights of 2019

13 Economic Overview of the Black Sea Region in 2019

22 BSTDB in the Black Sea Region:
22 In Focus: BSTDB at 20 – Enhancing Support for the Black Sea Region Economies
25 Portfolio Description
28 Selected BSTDB Financings in 2019
34 Success Stories
42 Technical Assistance Support

43 Sustainability Overview

45 Annual Evaluation Overview

50 Institutional Activities

55 Financial Statements for the Year Ended 31 December 2019
57 Responsibility for External Financial Reporting
58 Independent Reasonable Assurance Report
60 Income Statement
61 Statement of Other Comprehensive Income
62 Statement of Financial Position
63 Statement of Changes in Members' Equity
64 Statement of Cash Flows
65 Notes to the Financial Statements
119 Independent Auditor's Report

Annex A
126 Organizational Chart

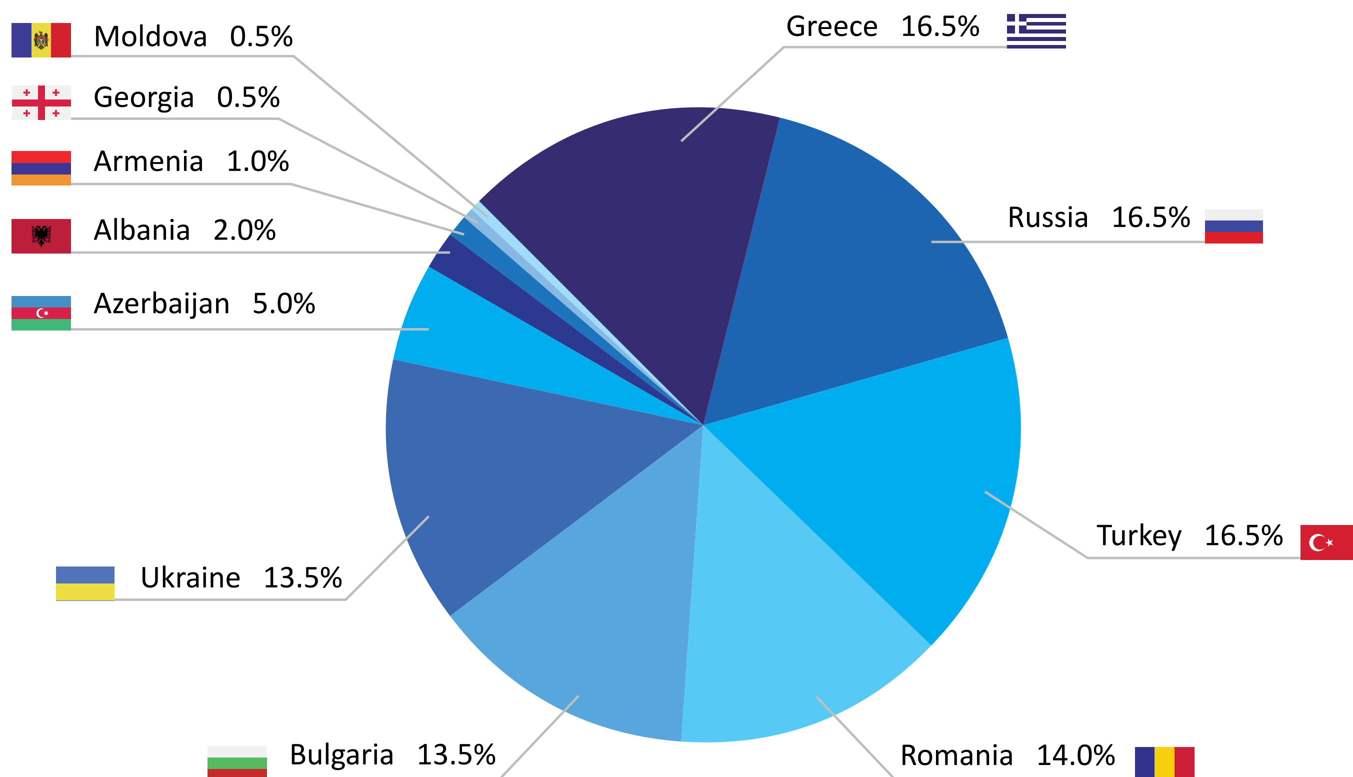
Annex B
127 Contact BSTDB

Introduction

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 and a subscribed capital of EUR 2.3 billion.

Shareholder Structure



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

As an international financial institution, the Bank has preferred creditor status. This means that the Bank will usually (i) not reschedule debt payments with respect to its loans to, or guaranteed by, its member countries and (ii) not reschedule its loans to private sector borrower due to a general foreign exchange unavailability 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 the 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, the DCR monitors, administers and advises on code of conduct-related issues for Bank officials and staff.

With regard to 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 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 to the Board of Directors, and both the interim financial statements and the Annual Report are published on the Bank's website. Pursuant to Article 35 of the Establishing Agreement, published reports are accessible [transmitted to] the Governments of the Member States, 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 evolving disclosure practice both in public financial reports and management information reporting.

Internal Audit

The Internal Audit is an independent, objective, assurance, and consulting activity that examines and evaluates the activities of the Bank as a service to management and the Board of Directors (primarily through its Audit Committee). The Audit Committee has the responsibility, inter alia, of satisfying itself that the internal audit process is adequate and efficient through reviewing the policy, 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 with which to evaluate and improve risk management effectiveness, 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 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 performance and independence of the External Auditors are assessed by the Audit Committee.

In addition, the External Auditors review and offer their opinion on the 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.

Board of Governors

As of 31 December 2019

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, Head, Financial System Stability & Development Department, Central Bank of Armenia
Republic of Azerbaijan	
Governor:	Mr. Samir SHARIFOV, Minister of Finance
Alternate Governor:	Mr. Mikayil JABBAROV, Minister of Economy
Republic of Bulgaria	
Governor:	Ms. Marinela PETROVA, Deputy Minister of Finance
Alternate Governor:	Ms. Gergana BEREMSKA, Director, International Financial Insitutions and Cooperation Directorate, Ministry of Finance
Georgia	
Governor:	Mr. Koba GVENETADZE, Governor, National Bank of Georgia
Alternate Governor:	Mr. Ivane MATCHAVARIANI, Minister of Finance
Hellenic Republic	
Governor:	Mr. Adonis-Spyridon GEORGIADIS, Minister of Development & Investments
Alternate Governor:	position vacant
Republic of Moldova	
Governor:	Mr. Ion CHICU, Minister of Finance
Alternate Governor:	position vacant
Romania	
Governor:	Mr. Eugen Orlando TEODOROVICI, 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:	position vacant
Republic of Turkey	
Governor:	Mr. Bulent AKSU, Deputy Minister of Treasury & Finance
Alternate Governor:	position vacant
Ukraine	
Governor:	Mr. Timofiy MYLOVANOV, Minister of Economic Development, Trade & Agriculture
Alternate Governor:	Mr. Volodymyr KUCHYN, Head of Office for European Integration & International Programs, National Bank of Ukraine

Board of Directors

As of 31 December 2019

Republic of Albania	
Director:	Mr. Arian KRAJA, Secretary General, Ministry of Finance & Economy
Alternate Director:	position vacant
Republic of Armenia	
Director:	Mr. Davit ANANYAN, Chairman of the State Revenue Committee
Alternate Director:	Mr. Argam ARAMYAN, Head, International Cooperation Department, Ministry of Finance
Republic of Azerbaijan	
Director:	Mr. Famil ISMAYILOV, Deputy Head, International Relations Department, Ministry of Finance
Alternate Director:	position vacant
Republic of Bulgaria	
Director:	Ms. Petya KUZEVA, Director, Government Debt Directorate, Ministry of Finance
Alternate Director:	Mr. Nikola SHERLETOV, Parliamentary Secretary, Ministry of Finance
Georgia	
Director:	Mr. Nikoloz GAGUA, Deputy Minister of Finance
Alternate Director:	Mr. Lasha KHUTSISHVILI, Deputy Minister of Finance
Hellenic Republic	
Director:	Mr. Ioannis TSAKIRIS, Deputy Minister of Development & Investments
Alternate Director:	position vacant
Republic of Moldova	
Director:	Ms. Elena MATVEEVA, Head, Public Debt Department, Ministry of Finance
Alternate Director:	position vacant
Romania	
Director:	Ms. Diana BLINDU, Head of Division, General Directorate for International Financial Relations, Ministry of Public Finance
Alternate Director:	Mr. Stefan PETRESCU, Deputy Director General, General Directorate for International Financial Relations, 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. Kemal Cagatay IMIRGI, Acting Director General, Foreign Economic Relations, Ministry of Treasury and Finance
Alternate Director:	position vacant
Ukraine	
Director:	position vacant
Alternate Director:	Mr. Vitaliy LISOVENKO, Governmental Envoy for Public Debt Management, Ministry of Finance

Audit Committee

As of 31 December 2019

Ms. Diana BLINDU, Director for Romania and Chairperson of the Audit Committee
Ms. Elena MATVEEVA, Director for the Republic of Moldova and Audit Committee member
Mr. Arian KRAJA, Director for the Republic of Albania and Audit Committee member
Mr. Nikoloz GAGUA, Director for Georgia and Audit Committee member

Management

Dmitry Pankin
President
Chairman of the Board of Directors

Hasan Demirhan
Vice President Banking

Ivaylo Moskovski
Vice President Operations

Valeriy Piatnytskyi
Vice President Finance

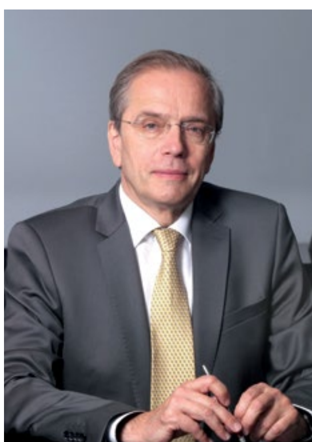
Aristotelis Spiliotis
Secretary General

To the Board of Governors

In accordance with Article 35 of the Agreement Establishing the Black Sea Trade and Development Bank and Section 10 of its By-Laws, I submit to the Board of Governors the Bank's Annual Report for 2019 as endorsed by the Board of Directors. The Twenty First 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.

Dmitry Pankin
President
Chairman of the Board of Directors

Statement by the President



The general slowing of global economic activity that occurred in 2019 impacted the Black Sea Region as well. The Region, after posting real GDP growth of 3.7% in 2017 and 2.8% in 2018, slowed to around 1.7% growth in 2019. Global trade conflicts slowed flows of international commerce, and this was one factor behind the slower growth. In addition, the single largest component of GDP formation, consumption, was weaker, while the disappointing trend in the most important indicator of future growth, investment, also lagged. Lingering uncertainties in emerging markets and growing fears arising from the trade conflicts had a detrimental impact on confidence and pushed economic policies towards minimalization of vulnerability and ensuring that countries have sufficient reserves to handle any crisis without undue difficulty. Many countries, at both sovereign and corporate level, borrowed at historically low levels and margins, but this did not translate into appreciably increased investment activity. Rather, much of it was used either to build buffers or to pay off old debts. Fed by rising geopolitical uncertainties, perceptions of country risk remained high despite the dedicated efforts of countries to achieve and sustain healthy macroeconomic indicators.

For the Black Sea Trade and Development Bank, 2019 was the first year of implementation of its Medium-Term Strategy and Business Plan (MTSBP) for 2019-2022. This new MTSBP, approved by the Board of Governors in February 2019, intends to build upon the excellent financial profile of the Bank to expand operational activity and to achieve higher development and regional cooperation impact in its operations.

In practice, the Bank exceeded its operational targets, as high quality, high volume demand for its products allowed us to achieve record levels of new operational activity in a very competitive market. The Bank's Board of Directors approved 32 new projects for EUR 1.064 billion, an increase of 86.8% over 2018 levels. New commitments rose 36.4% relative to 2018, as 26 operations amounting to EUR 842.8 million were signed during the year. Disbursements for 2019 reached EUR 872.0 million, an increase of 52.0% over the levels attained in 2018. As a consequence, net disbursements amounted to EUR 488.1 million and the portfolio at year end stood at EUR 1.851 billion.

This growth was made possible by the Bank's strong capital position and its ability to leverage prudently and effectively in order to mobilize resources to promote increased trade and investment. With borrowing conditions favorable, the Bank expanded and diversified its presence in financial markets, a process highlighted by the issuance of a benchmark five-year USD 400 million bond in June at record low rates, which in turn allowed it to on-lend to investors and clients in the region on competitive and attractive terms. The Bank's ratio of borrowed funds to total equity rose to 1.8:1, while capitalization remained at a healthy 35.4%, in line with the commitment of the Bank to achieving stable growth that expands its presence and role on the one hand, but maintains its extremely strong financial profile on the other hand. Net income for the year reached EUR 13.7 million, the 15th consecutive year that the Bank has achieved a net profit.

The operational activity was spread out among the Member States and achieved wide coverage in sectoral terms as well. Continuing a trend from previous years the share of operations in the so-called ‘real sectors’ of the economy increased, and in particular the Bank provided assistance to a greater share of infrastructure development projects, which are the types of operations that usually have a higher regional cooperation component. The growth was particularly pronounced in public sector operations, as the Bank increased the share of sovereign operations to nearly 20% of the total portfolio, underscoring the rising value of the Bank to public agencies in addition to the private firms and banks which had formed the Bank’s primary clientele in its early years of operation.

The Bank’s success in attracting new clients and the higher than expected growth in its portfolio led to a decision to revise the MTSBP for 2019-2022, to reflect this situation and to permit BSTDB to meet this demand, which has grown both in volume and in the sophistication of the types of operations undertaken.

In June 2019, BSTDB held its Annual Meeting of the Board of Governors in Istanbul, Turkey, together with a well-attended Business Forum that highlighted the prospects of our host, Turkey, as well as the region more broadly. The proceedings were highlighted by the fact that the Bank celebrated its 20th anniversary since it became operational back in June 1999. This offered a unique opportunity to take a step back and to see how far the Region has come along over these two decades, and to consider how BSTDB has grown and evolved in this context, and as the most newly formed multilateral development bank to initiate operations in the Black Sea Region.

This occasion gave a real perspective and was useful and inspiring. For all the turmoil that the Region has experienced, it has grown in size, sophistication and prosperity during this period. Countries considered among the lowest income economies globally have risen to middle income status, in the process lifting tens of millions out of poverty. They have improved their resilience and standing, demonstrating a willingness to undertake difficult short-term decisions for the sake of longer-term prosperity and stability. While they continue to face many challenges in order to achieve greater convergence towards the living standards of the most developed economies, the change is marked, notable and broad based. Vulnerabilities of the past have been mitigated, and substantial progress achieved in creating open, welcoming business environments.

Throughout this process, BSTDB has grown steadily and surely, seeking to achieve prudently managed growth that safeguards the institution and enhances its profile. While there is still a long way to go for the Bank to achieve its vision of becoming a prominent business partner for banks, clients, and agencies active in the Black Sea Region, it has achieved substantial, steady progress towards this goal, step by step, client by client.

Dmitry Pankin
President
Chairman of the Board of Directors

BSTDB's Key Accomplishments 1999-2019

- In June 2019 the Black Sea Trade and Development Bank (BSTDB) marked the twenty's anniversary of the launch of its operations. During the period, BSTDB has sought to fulfil its dual mandate to support economic development in member countries and to promote regional cooperation among them by providing financing for investment operations and trade transactions. The Bank has developed a broad range of financial products and services to banks, firms, and agencies in the private and public sector in all its eleven member countries. As the sophistication of firms in the region has grown, the Bank has broadened the array of activities, providing longer time horizons and accommodating more complicated structures.

- Since the commencement of operations in 1999, BSTDB has approved 422 operations for a total amount of EUR 6.8 billion. This figure represents only a fraction of the total mobilized resources, since the Bank finances a part of the project cost, requiring the involvement of other sources of financing. The Bank has disbursed EUR 5.9 billion and has supported national economic policy priorities in member countries, focusing on key sectors generating economic growth and employment, such as manufacturing, energy, transport, telecommunications, agribusiness, trade, and the financial sector.

- Support for small and medium-sized business (SME) development has been a significant cross sectoral priority as SMEs account for the vast majority of operational and employment growth across the region. Under its SME Support Program, the Bank has provided over EUR 1.3 billion, mainly channelled through local financial institutions in member countries.

- Good infrastructure is at the core of economic growth and helps bring people and businesses together. The Bank has signed financing for infrastructure, including municipal infrastructure and public utilities, for EUR 700 million. The Bank's investments in the energy sector, including oil and gas, electricity generation and distribution exceeded EUR 800 million. Another EUR 800 million was invested in developing manufacturing facilities in member countries.

- BSTDB was the first IFI to incorporate trade promotion explicitly as part of its development agenda. The BSTDB Trade Finance program has supported regional exports and import transactions among Member States to the cumulative total amount exceeding EUR 1 billion provided mainly through local financial institutions in member countries.

- Maintenance of portfolio quality has remained a key feature of Bank operations. The Bank's conservative risk management and comprehensive due diligence have resulted in limited financial losses and low levels of non-performing loans. Completed operations independently evaluated as positive in terms of efficiency, sustainability and development impact, have grown steadily over the years and exceeded 70%.

- BSTDB has been consistently profitable since 2004, rolling the profits back into its operational activities.

- Since securing its initial investment grade rating from Moody's in 2004, the Bank has been upgraded three times to reach its current "A2" long-term rating. The Bank has also obtained a long-term rating of "A-" by Standard and Poor's. BSTDB's rating is several notches higher than the average rating of its shareholders, and it is the highest rated institution based in the Black Sea Region.

- Over the years, BSTDB has built networks of cooperation and partnerships, the importance of which has grown significantly for purposes of knowledge sharing, procedural harmonization, strategy coordination and co-financing, among other things. The Bank has become a member of multiple working groups with peer IFIs and actively contributes to discussions on issues of common interest. BSTDB has introduced Observer Status aimed at facilitating synergies and greater engagement of IFIs and other development banks in the region. BSTDB's Observers include twelve leading multilateral and national development institutions.

Highlights of 2019

- A special meeting of the BSTDB Board of Governors approved the Bank's Medium-Term Strategy and Business Plan for the period of 2019-2022. The Strategy aims to significantly increase the Bank's portfolio and capacity in the changing economic and business setting through greater involvement in infrastructure development and public sector operations, direct trade financing, and other sectors with high development impact.

- In 2019, the first year of the implementation of the new Medium-Term Strategy, BSTDB's outstanding portfolio reached EUR 1.851 billion, showing a record 36% growth on the previous very good year. In line with the Bank's new business priorities, the share of public sector operations increased from 13.5% of the outstanding portfolio in 2018 to over 27%, most notably in the public utilities sector, which grew from 11% to 20%. Although financial institutions continued to be the Bank's largest single sector exposure, the real sector financing increased to over 67% of the portfolio.

- During the year, the Board of Directors approved new operations to a record total amount exceeding EUR 1 billion, which represents an 86.8% increase over the previous year. In 2019 the Bank signed 26 loan agreements for EUR 842.8 million, a 36.4% growth over 2018. Disbursements to business clients in member countries reached EUR 872 million in 2019, 52% more than the year before. These operational achievements occurred as the Bank's non-performing loans declined to one operation accounting for 0.22% of the portfolio. The Bank registered a positive net income for the fifteenth consecutive year.

- In March 2019, BSTDB's long-term "A-" rating outlook was upgraded from "Stable" to "Positive" by Standard and Poor's. The upgrade was decided on the prospects for BSTDB's expected wider policy role after the adoption of the Medium-Term Strategy for 2019-2022 and the Bank's extremely strong financial profile, healthy capital adequacy and solid liquidity.

- BSTDB has expanded its lending facilities in national currencies of member countries through issuing local currency bonds. In 2019, BSTDB became the first multilateral development bank to issue a local currency bond in Azerbaijan.

- Thanks to the increased financing limits adopted to support the Bank's Business Plan targets, BSTDB signed its largest loan of EUR 160 million for the financing of the capital expenditure plan of the Public Power Corporation S.A. of Greece. The operation is expected to have multiple benefits for the Greek economy by improving the country's energy mix and infrastructure.

- BSTDB has strengthened cooperation with peer IFIs which have Observer Status with the Bank. In 2019 BSTDB and EIB launched their first business partnership by jointly providing a EUR 100 million financing programme for new investment by private small and medium-sized enterprises and medium capitalization companies across Greece, Romania and Bulgaria. The programme, funded 50/50 by the two development banks, is supporting growth in agri-business, manufacturing, transport and renewable energy. BSTDB and KfW Development Bank signed a new USD 100 million facility to fuel BSTDB's financing of micro, small and medium-sized enterprises and support economic and social infrastructure projects in BSTDB member countries (except Bulgaria, Romania and Russia).

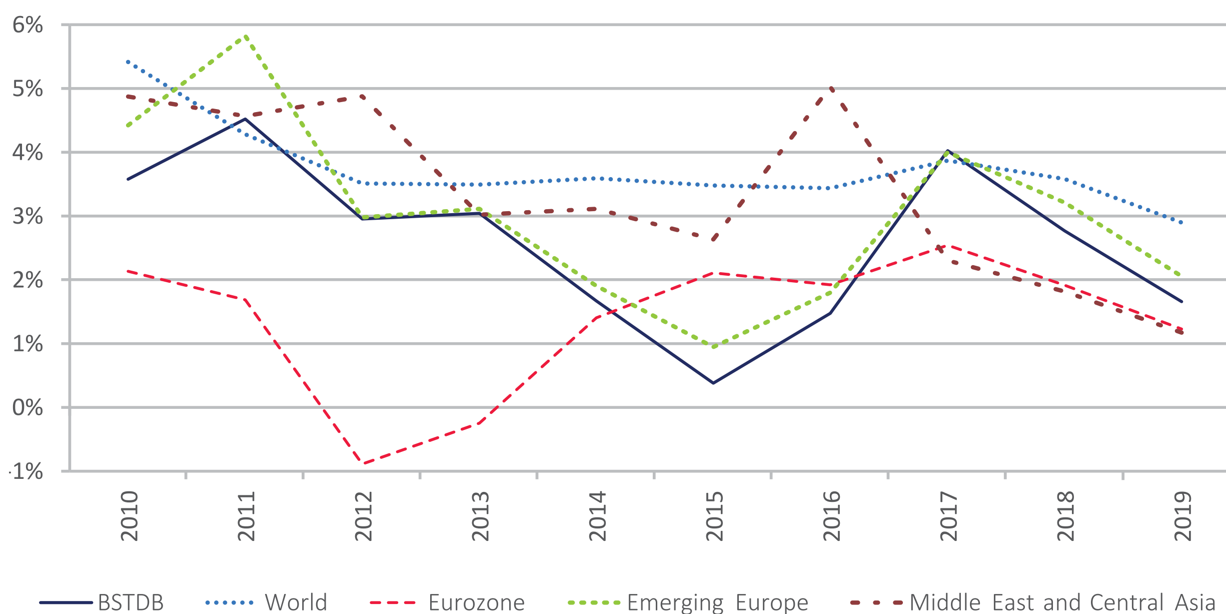
- In March 2019, the BSTDB Board of Directors appointed Mr. Aristotelis Spiliotis as Secretary General for a period of four years, following a proposal of the Government of the Hellenic Republic.

Economic Overview of the Black Sea Region in 2019

Faced with weak external demand, geopolitical uncertainty, and underperforming investments, the growth rate in the Black Sea Region declined from 2.8% in 2018 to approximately 1.7% in 2019. However, due to the conservative policies followed by BSTDB member countries over the last few years, their resilience has greatly improved as reflected by the improvement in credit ratings of several member countries, while there was only one case of rating downgrade.

In general, it should be noted that growth in 2019 was compressed in the wider region and globally. For example, growth in the Eurozone, which is the main economic partner for the BSTDB member countries[1], was down to 1.2%, the lowest level of the last 6 years. Similarly, economic activity in the Middle East and Central Asia was up only 1.2% in 2019, the lowest level since 1993. Weak external demand is likely to continue in 2020 as the virus pandemic takes its toll on the region and the wider global economy.

Global Real GDP Growth, Select Regions



Source: National Statistical Agencies, IMF WEO April 2020.

[1] BSTDB member countries in alphabetical order are: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey, and Ukraine.

Following the global economic crisis of 2008 and the oil price shock of 2014, governments in the wider Black Sea Region started to prioritize improving the resilience of their countries to various external shocks, adopting measures such as keeping fiscal deficits low, containing external debt and current account deficits and in general building buffers. This was achieved at the cost of foregoing economic growth. However, the weaker growth achieved was based on solid fundamentals. This, in turn, is reflected in the sovereign rating map of the region. For example, in 2019 Fitch upgraded five BSTDB members while taking no action on three countries and downgrading only one. Moody's took positive rating action for three countries, keeping ratings of seven stable and downgrading only one. Four upgrades were issued by S&P while the rest were kept stable and there were no downgrades. In general, outlooks for the member countries as of the end of 2019 were either stable or positive with only two negative ones.

Table: BSTDB Sovereign Credit Ratings Comparison end of 2018 vs. 2019

	End of 2018			End of 2019		
	Fitch	Moody's	S&P	Fitch	Moody's	S&P
Albania	-	B1 (stable)	B+ (stable)	-	B1 (stable)	B+ (stable)
Armenia	B+ (positive)	B1 (positive)	-	**BB- (stable)**	**Ba3 (stable)**	-
Azerbaijan	BB+ (stable)	Ba2 (stable)	BB+ (stable)	BB+ (stable)	Ba2 (stable)	BB+ (stable)
Bulgaria	BBB (stable)	Baa2 (stable)	BBB- (positive)	BBB (**positive**)	Baa2 (**positive**)	**BBB** (positive)
Georgia	BB- (positive)	Ba2 (stable)	BB- (stable)	**BB (stable)**	Ba2 (stable)	**BB** (stable)
Greece	BB- (stable)	B3 (positive)	B+ (positive)	**BB (positive)***	**B1 (stable)**	**BB-** (positive)
Moldova	-	B3 (stable)	-	-	B3 (stable)	-
Romania	BBB- (stable)	Baa3 (stable)	BBB- (stable)	BBB- (stable)	Baa3 (stable)	BBB- (**negative**)
Russia	BBB- (positive)	Ba1 (positive)	BBB- (stable)	**BBB (stable)**	**Baa3 (stable)**	BBB- (stable)
Turkey	BB (negative)	Ba3 (negative)	B+ (stable)	**BB- (stable)**	**B1** (negative)	B+ (stable)
Ukraine	B- (stable)	Caa1 (stable)	B- (stable)	**B (positive)**	Caa1 (**positive**)	**B** (stable)

* as of Jan 24, 2020
Changes are in bold format
Source: Respective rating agencies

The emergence and the rapid spread of the coronavirus in early 2020 is creating significant downward pressures on growth prospects for the rest of the year. China is likely to post its weakest growth in decades in 2020, which is negatively impacting global economic projections given the share of China in the global economy. Compared to the beginning of the 2000s, when it accounted for less than 4.0% of global GDP in nominal USD terms and for 7.4% in purchasing power parity, by 2019 China's share in global output reached almost 16% and 19% respectively. Therefore, the current slowdown in China will have far stronger global implications both through the demand channel and through possible shocks in global supply chains. This downward pressure is further fuelled by the fast spread of the virus in other regions of the world.

With external demand already weak, BSTDB member countries relied mainly on domestic demand to drive their economic activity in 2019. Preliminary estimates suggest that household consumption posted positive growth in all BSTDB member countries; it was the main contributor to growth in nine of them, while in two member countries GDP growth was driven by net exports. In eight member economies investment growth was positive albeit weak, while net exports had negative contribution to GDP growth in seven members.

While domestic consumption driven growth can be viable over the short period, in the long term there is also a need for consistent and strong investment growth, which will provide the basis to generate new wealth and meet increasing demand. Otherwise, domestic demand might result in worsening external imbalances, which, in turn, will feed the negative contribution of net exports to overall growth.

Investments

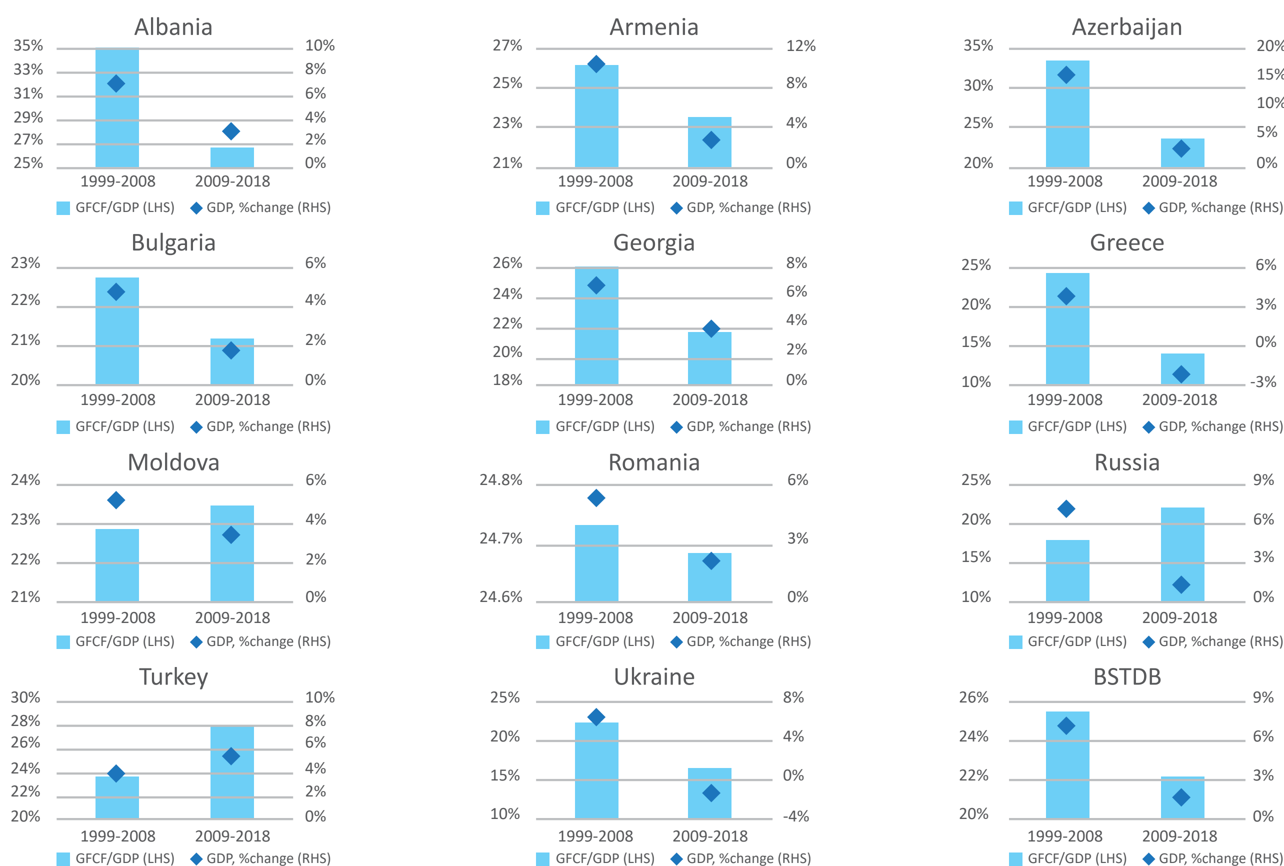
While there is still a debate about the direction of the causality between economic growth prospects and investment, there is general unanimity in the belief that consistent and long-term growth requires investments. Simple analysis of the recent historical developments in the Black Sea Region indicates that the region is not an exception.

According to conventional wisdom, there is a lag between actual investment and its impact on the growth rate. So, it is assumed that this year's investment will influence GDP growth in the next several years with diminishing impact as years pass. This is likely to be relevant mostly for the advanced economies. In emerging and developing economies, which form the bulk of the Black Sea Region, investments can have an immediate impact as well given investment needs in question. To account for these differences, it is better to look at multiple year annual averages rather than a single year. The charts below show ten-year annual averages of the ratio of gross fixed capital formation to gross domestic product (GFCF/GDP) and the ten-year average of GDP growth (GDP % change).

While to differing degrees, the data shows that in general, higher capital formation is associated with higher economic growth rates. However, investment is not the only raw material of growth. There are several other factors also, which probably explain divergence in Moldova and Russia for example. However, even there it is likely that growth rates would have been lower in the respective decades if investments had been lower. A similar association exists between foreign direct investment and growth rate, with minor exceptions that can be explained by other factors.

What these charts say is that to achieve higher growth in the medium to long term there is a strong need for investments. Given that saving rates in the countries differ substantially, some economies are not in a position to generate the necessary resources domestically and will therefore need to attract more FDI to drive their capital formation.

GDP Growth Rate and Gross Fixed Capital Formation, 1999-2018

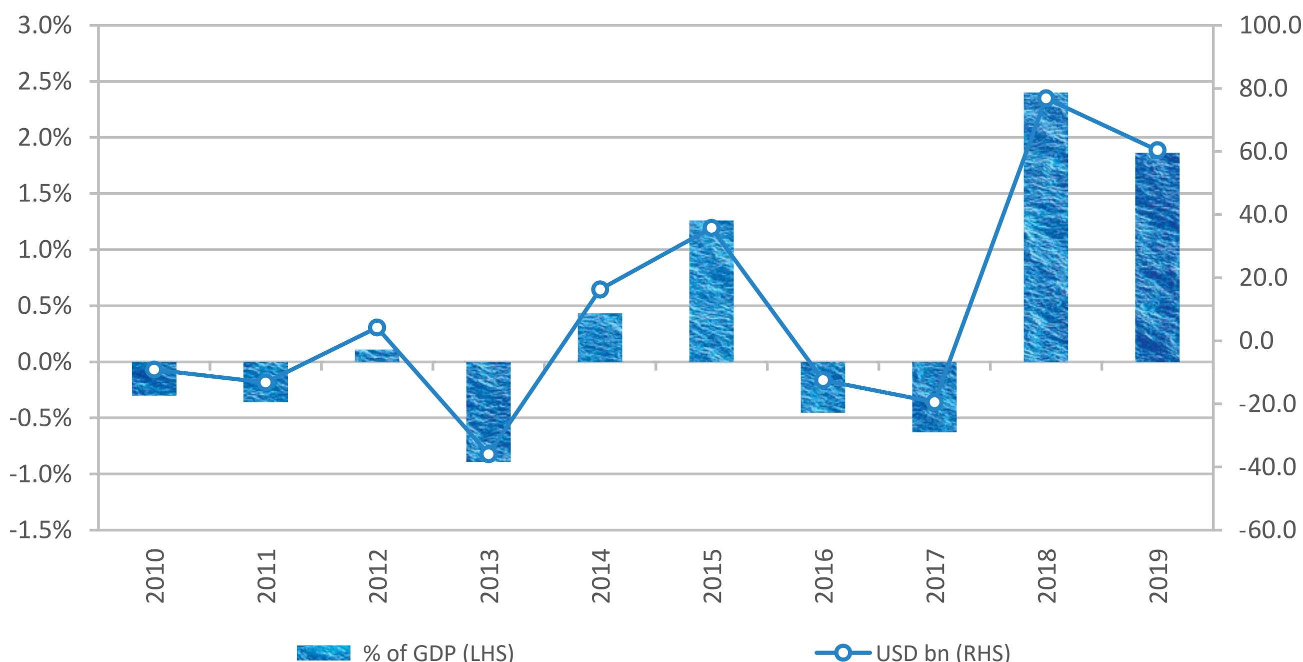


Source: National Statistical Agencies and BSTDB calculations

External Balance

At the aggregate level, the current account surplus of BSTDB countries declined from USD 76.8bn (2.4% of GDP) in 2018 to USD 60.4bn (1.9% of GDP) in 2019. However, this single figure hides substantial differences among countries. At the individual country level, major adjustments in current account balance occurred in Turkey, where a deficit of USD 20.7bn (2.7% of GDP) in 2018 turned into a surplus of USD 8.7bn (1.1% of GDP) in 2019. However, the improvement in the Turkish external balance was more than offset by the retreat in the Russian current account surplus from USD 113.7bn (6.8% of GDP) in 2018 to USD 64.6bn (3.8% of GDP) in 2019. Overall, in terms of ratio to GDP, the biggest improvement in the external balance in 2019 compared to the previous year occurred in Turkey, followed by Ukraine, Georgia, Greece, Armenia, and Moldova. A better trade balance was the main source of the external improvement in Turkey and Georgia, while in Ukraine and Moldova it was mainly due to improvement in secondary income balance and in Greece and Armenia it was relatively spread over the categories. Deterioration was noted in Azerbaijan followed by Russia, Bulgaria, Albania, and Romania. The relative drop in crude oil price and crude oil production explains the fall in external surpluses in the first two countries, the surge in imports of goods was the most important reason for the last two economies, while in Bulgaria it was mainly due to a worsening of the primary balance.

Current Account Balance in BSTDB Region

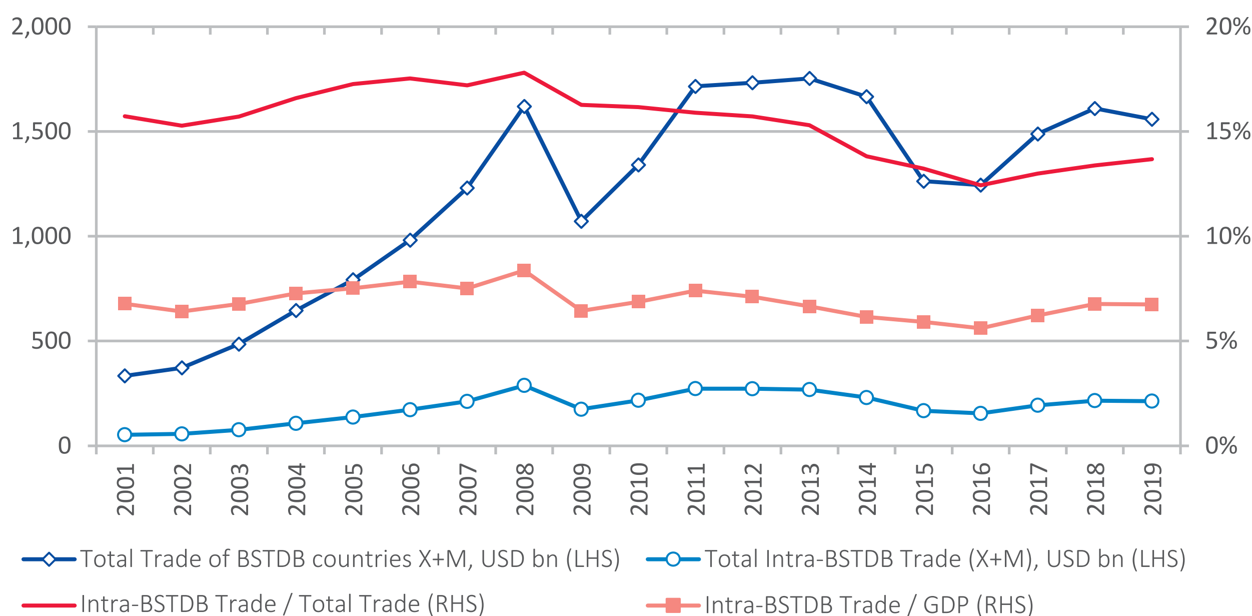


Source: National Statistical Agencies and BSTDB calculations

Merchandise trade volume of BSTDB member countries, which accounts for the major share of the current account balance was down 3.2% y/y in 2019 to USD 1.6tn (48.1% of GDP). Total exports of BSTDB members were down 3.6% y/y as exports of "mineral products" that includes crude oil and natural gas declined 6.4% y/y. Excluding exports of the mineral products, exports were down 1.7% y/y to USD 0.5tn or slightly below the record high of 2018. Total imports, on the other hand, were down 2.7% y/y to USD 0.7tn in 2019 resulting in USD 82.4bn merchandise trade surplus, down from USD 92.4bn in 2019.

Intra-BSTDB trade volume, on the other hand, was down 1.0% in 2019, likely due to the impact of the decline in oil and oil related products. However, the share of intraregional trade volume in total trade volume for BSTDB member countries increased from 13.4% in 2018 to 13.7% in 2019, the highest it has reached in the last five years. In nominal USD terms, intraregional trade volume was USD 213.2bn in 2019, while as a ratio to GDP it was 6.7%, down from 6.8% recorded in 2018.

BSTDB Trade – Overall and Intraregional



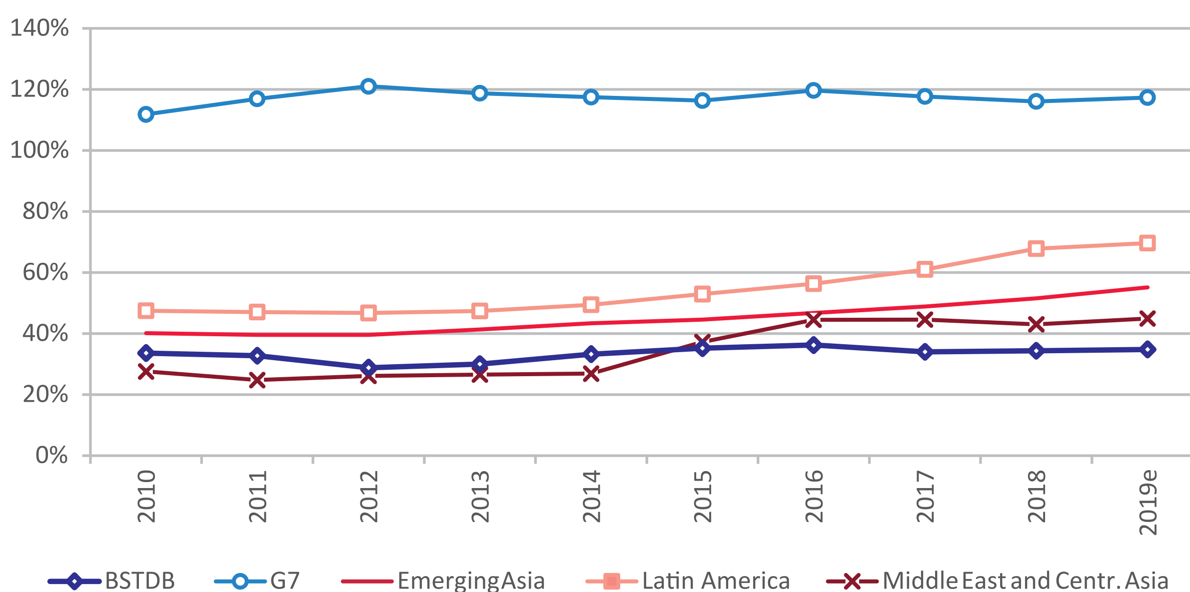
Source: National Statistical Agencies, World Bank and BSTDB calculations

Public Finances

One of the key macroeconomic characteristics of the region in the recent years has been the dedication to fiscal prudence that resulted in improved budget balances, often at the cost of the foregone economic growth. This has helped to build up buffers for fiscal expansion in the future. With this available buffer and the relative slowdown in economic growth, budget balances were eventually relaxed in 2019, in some cases due to a policy stimulus while in others due to automatic stabilization mechanisms. According to available estimates, the overall general government balance in BSTDB member countries went from a surplus of 0.5% of GDP 2018 to a deficit of 0.6% of GDP in 2019. It is expected that expansionary fiscal policies will continue in the region in 2020 due to fiscal stimuluses being implemented to mitigate the economic effects of the pandemic.

As a result, general government gross debt in the region has also increased, albeit marginally from 34.4% of GDP in 2018 to 34.8% of GDP in 2019. While increasing, it compares very favorably to levels observed in other regions. For example, the ratio was 117.3% for G7 countries, 55.1% for emerging and developing Asia, etc. However, it is worth noting that there are substantial intraregional differences with debt ratios ranging from above 175% of GDP in Greece and below 20% in Russia, Azerbaijan and Bulgaria. Going forward, general government gross debt in the region is forecast to increase to 35.4% of GDP in 2020 and to continue to rise afterwards, although it will remain below the levels compared to most other regions.

General Government Gross Debt, % of GDP

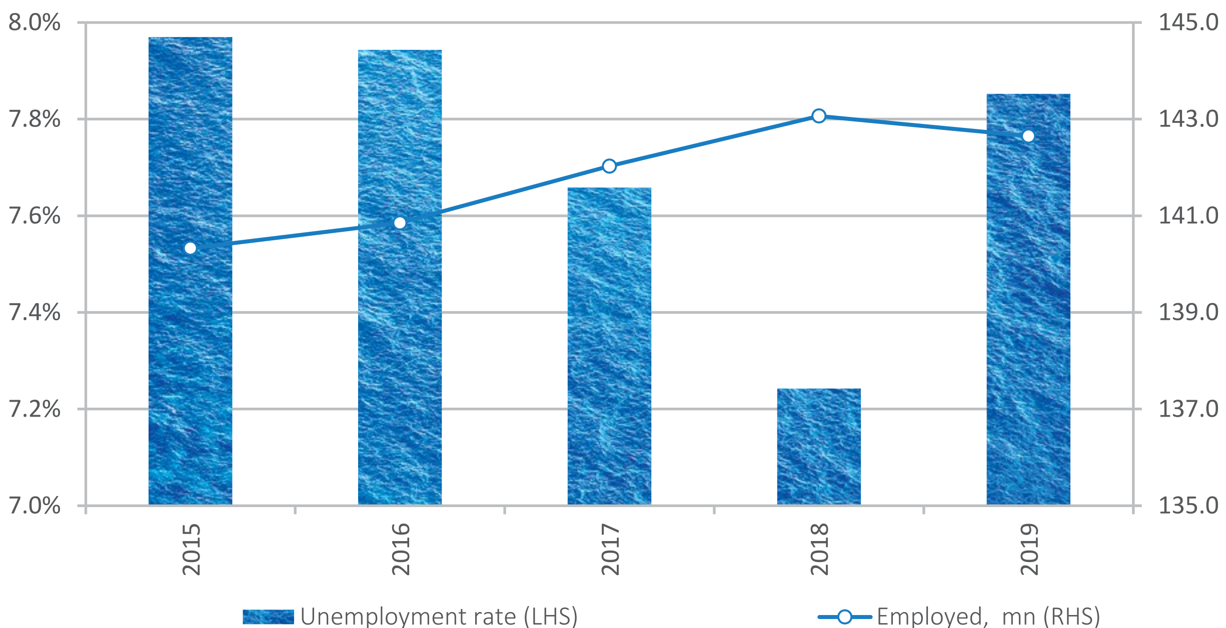


Source: IMF WEO October 2019

Labor Market

The drop in the economic growth rate naturally had an impact on employment in the region. Against a 0.6 million increase in the labor force, employment decreased by 0.4 million. Given that relatively weak growth was recorded in the largest economies of the Black Sea Region, the overall impact was negative and overshadowed the more positive trends in other smaller countries. Together job losses in Russia and Turkey reached 1.2 million, while the unemployment rate in these countries inched up to 5.2% and 13.8% respectively. Excluding these two countries, employment was up by 0.8 million in the rest of the region. Still, given the weight in the region, the negative trends in Russia and Turkey resulted in the unemployment rate in the Black Sea Region to increase from 7.2% in 2018 to 7.9% in 2019. Aside from Russia and Turkey, a decline in employment was recorded in Georgia too. Of the 0.8 million increase in the rest of the countries, the main contributions came from Ukraine (+450K), Bulgaria (+108K), Greece (+77K), and Azerbaijan (+59K).

Employment and Unemployment Rate

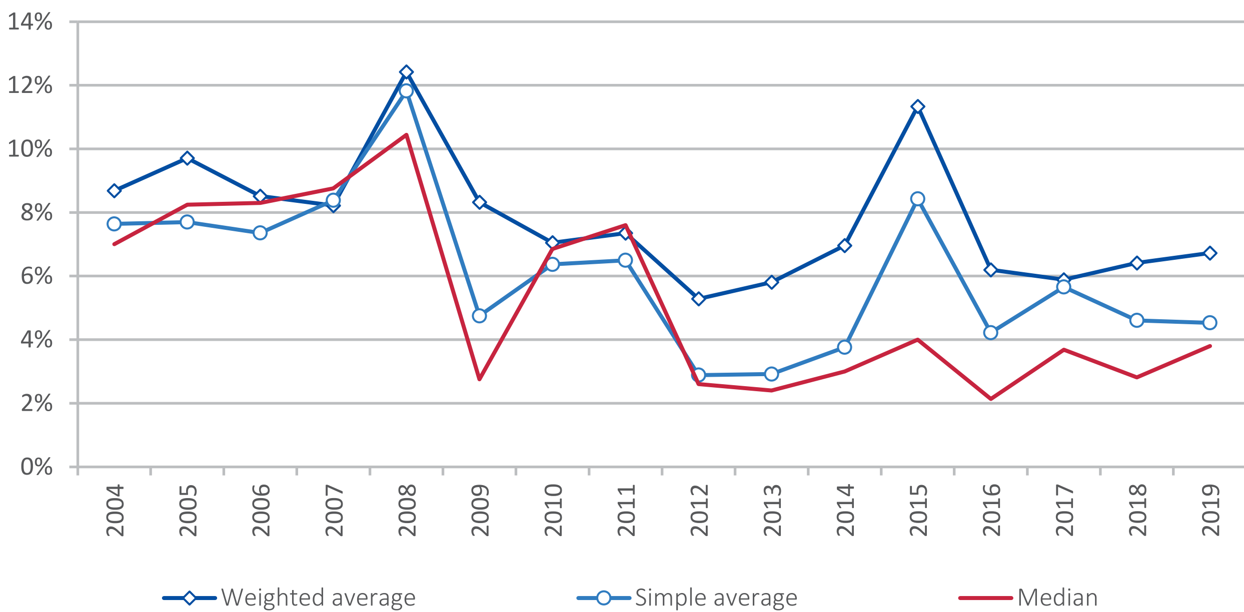


Source: National Statistical Agencies and BSTDB calculations

Consumer Prices

Unlike the labor market, slowing growth had a mild positive impact on consumer prices in the region, with the annual inflation rate dropping in six countries, remaining broadly flat in two countries and marginally increasing in three countries. However, regional inflation, calculated based on GDP weights of the member countries, inched up to 6.7% in 2019 from 6.4% in 2018, the highest level of the last four years.

Inflation Rate in the Black Sea Region



Source: National Statistical Agencies and BSTDB calculations

Conclusion

Overall, faced with the global slowdown in economic activity, regional geopolitical instability and, as of early 2020, the emergence and spread of the coronavirus, BSTDB member countries need to look for new drivers of growth. Domestic demand, both private and public, are reliable drivers of growth in the short term, while compressed external demand undermines reliance on export driven growth. In this constrained environment, BSTDB member countries need to try to increase investment in areas which will expand productive capacity and overall productivity. While investment has increased since the lows of the global financial crisis of 2008-2009, they remain below pre-2008 period, which appears to be a key factor behind the relatively slower growth in the post 2008 period.

This is particularly relevant given that virus related disruptions in the global supply chain may lead to the need for policies for diversification and shifts of focal points in supply chains. While social and health related concerns naturally dominate the topic about the spread of the virus, there are long term implications for supply chains of the globally integrated production networks. Some companies already face problems in procuring goods- intermediate and finished- from countries hard hit by the virus, a situation which leads either to a decline in utilization or temporary closures even in countries not affected by the virus. It is particularly relevant in cases when single item production is concentrated in one country or region. One likely consequence of this is that there will be a growing premium on diversifying sources of supply. In other words, it is highly likely that global companies will try to diversify their supply chains by considering investments in other regions or by establishing new collaborations with companies that have operations in other parts of the world.

Western Europe is one of the most important final markets today and a significant amount of its imports, either final goods or intermediary goods, come from China and other countries in South East Asia. These trade channels were put under strain as the coronavirus spread and has stimulated the search for new sources of supply e.g. diversification. In seeking to diversify supply chains, it is highly likely that global companies will pay attention not only to geographic diversity but also geographic proximity to the final markets, alongside the usual factors of infrastructure availability, labor quality, etc. In this respect, the Black Sea Region is well placed as it meets most of these criteria and, therefore, can be a major beneficiary of supply chain diversification in the future. However, while this exogeneous factor might benefit the region in terms of essential investments, there is also a need for continued improvement in the investment climate in the region. With deliberate consolidation of the fiscal position, improvement of the external balances since the global financial crisis and overall slowdown in global growth, governments in the region stand ready to support the economic development and attract necessary private investments that will help the region to achieve higher growth rates in the future.

BSTDB in the Black Sea Region

In Focus: BSTDB at 20 – Enhancing Support for the Black Sea Region

20th Anniversary of the Bank's Operations

The initiative to establish BSTDB was undertaken in the 1990s, a stressful period of systemic transition, macroeconomic constraints, and occasional political turmoil for many of the Bank's Member States. Despite these difficulties, the Bank's shareholders remained committed to the idea of the creation of a wholly locally owned and focused development Bank. This commitment has been sustained and enhanced over the years, forming the bedrock for all the Bank's achievements.

In 2019 the Bank marked the 20th anniversary of its operations in the Black Sea Region. During the period, BSTDB has sought to fulfil its dual mandate to support economic development in its member countries and to promote regional cooperation among them by providing financing for investment operations and trade transactions. Starting from scratch, the Bank has developed a broad range of financial products and services to banks, firms, and agencies active in all of its member countries.

Over its twenty years, the Bank has operated against a global and regional economic and political setting that has experienced both good and not so good times. Despite the challenges, BSTDB has not experienced significant problems. Our shareholders represented on the Bank's governing bodies always demonstrated commitment to the Bank's development mandate to support growth and economic cooperation in the region.

Key Milestones

In 2007, the BSTDB Board of Governors decided to triple the authorized capital and the subscribed capital was doubled to EUR 2.3 billion. By 2018, all contributions to the capital increase were paid in full by the Bank's founding members.

BSTDB has always been aware of the huge importance of the commitment to financial resources by its Member States for the establishment of a development institution. It has placed a large responsibility upon the Bank to prove its worth to the region by finding new ways to provide value added to the agencies, banks and firms with which it works.

The Bank has recorded positive net income for fifteen years, starting from 2004. Continued improvement in loan portfolio performance and impact - portfolio quality has increased steadily over the years in terms of efficiency, sustainability and development impact - currently over 75% (according to independent evaluation). Having attained long-term credit ratings of A2 from Moody's and A- (Positive Outlook) from Standard & Poor's, BSTDB is the highest rated institution in the Black Sea Region. It has built cooperation networks with leading development partners - twelve multilateral and national development banks and institutions active in the Black Sea Region have requested and obtained Observer Status with the intent of achieving enhanced cooperation with BSTDB.

The Need for Inclusive Growth in the Black Sea Region

Economic growth is an essential requirement for development, and the major contributing factor to poverty reduction. For growth to be rapid and sustained, it should be broad-based across sectors and inclusive of the large part of the work force.

Energy generation and transportation may be among the earliest drivers of greener growth. In agriculture, where there is a huge potential, new technologies may help the region becoming a major food producer and exporter. Manufacturing

remains central to Black Sea Region economies, in terms of productivity and income growth, and for innovation none of this would be possible without knowledge. The knowledge-based industries – IT, biotechnology, renewable energy, technical support services, new organizational structures, marketing and advertising skills – are potential new sources of economic growth.

Investment in Infrastructure – a Growth Enhancing Perspective

For most economies in South Eastern Europe (SEE) the current investment levels are not sufficient to maintain the size of the capital stock relative to GDP under reasonable growth assumptions. According to estimates, the countries in the SEE region should invest in infrastructure some 25% of GDP, with about 7% coming from the public sector and the rest from the private sector. At the same time, they invested more than 25% of GDP in infrastructure only during the pre-crisis boom, and their investment rate deteriorated significantly after 2008.

There is much more to be done for the SEE region to develop the energy and transportation infrastructure, and communication networks. There is also a significant investment need for physical infrastructure which could have a long-lasting multiplier effect.

The Vienna Institute for International Economic Studies (has estimated that the short and medium-term financing needs for new construction of transport infrastructure in the Western Balkans comes to around four billion Euros, on average some 6% of GDP. Such investment could lead to an additional growth of up to one percentage point per year over a period of 15 years and some 200,000 new jobs could be created in the region.

It should therefore be a priority for the countries of the Black Sea Region to speed up investment and build up similar infrastructure, the lack of which hampers sustainable and inclusive growth. They need to increase cross-border cooperation, building on complementarities and creating synergies.

The Role of Private Sector Participation in Financing Infrastructure Projects - a Catalyst for Innovation and Growth in South Eastern Europe and the Black Sea Region

Private sector participation in infrastructure projects is limited and cautious, but it needs to be promoted in cooperation with the public sector – this is a role MDBs may successfully play in bringing together and facilitating the partnership between the public and the private sectors.

Europe and Central Asia experienced a revival in infrastructure projects, led by Turkey and Russia.

The Central and South Eastern European regions have been a fast-growing photovoltaic market, according to industry association Solar Power Europe. This has enabled several countries to already meet their individual 2020 EU targets for the percentage of energy consumption from renewables.

The Role of the Public Sector in Promoting Private Sector Investment

On business environment the government should provide policy stability and predictability in order to promote investment and attract external financing on more favorable terms.

In addition, countries in the region should aim to:

- Harmonize standards (investment promotion, trade facilitation, environmental protection, employment and work safety, and competition policies)
- Provide tax policy stability
- Ensure a level-playing field and equal treatment of domestic and foreign investors
- Where possible coordinate infrastructure development so as to achieve both greater efficiency and scale

BSTDB's Role in Supporting Investment in Infrastructure

The share of Multilateral Development Banks (MDBs) in financing infrastructure projects is modest, providing only 19% of the total investment. The role of MDBs, and development institutions more generally, expanded to include enabling private investment through syndication support and other risk-mitigation facilities.

The new BSTDB Medium-Term Strategy and Business Plan for 2019-2022 provides for a shift in focus towards financing infrastructure projects in both public and private sectors. A priority for BSTDB is financing inter-connectivity and creating points of access for municipalities to transportation and energy networks.

Looking into the future, BSTDB is considering provision of financing facilities with:

- Longer maturities
- Higher values
- New areas of focus, including municipal infrastructure, and facilitation of developing local road, rail, energy transport connectivity
- Provision of new, innovative special products
- Creating synergies, attracting funding from other financiers

In addition to catalyzing private-sector participation through provision of loans, BSTDB may enable private investment by providing a variety of credit enhancement products aimed at mobilizing private capital.

These include:

- Instruments promoting investment and private sector participation, such as A/B loans, syndication support, mezzanine and bridge loans and performance bonds
- Instruments which could prevent a potential default,enhance recovery prospects and reducies loss in the event of a default, such as political-risk and partial guarantees
- An unfunded risk mitigating instrument, such as BSTDB's innovative URP product, to facilitate the mobilization of funds (loans or bonds) at lower costs, by substituting the risk rating of the sovereign government with its own higher risk rating
- Provision of technical assistance, facilitation of project preparation, and support for legal aspects, using special funds, as we used to in the past, such as the Hellenic Fund, Austrian Fund, Russian Fund

Prospects for the Future

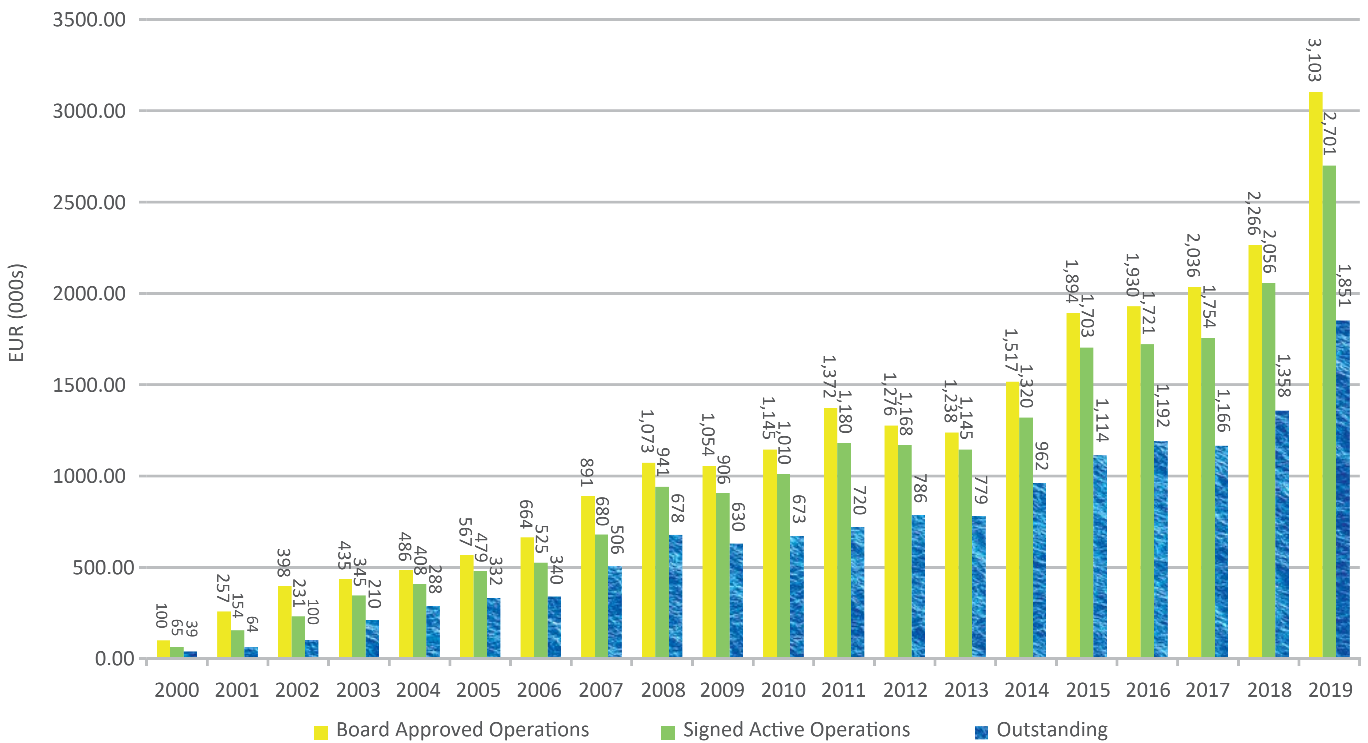
For the future, these achievements provide an incentive to strengthen and expand the Bank's operational activities. As the sophistication of firms in the region has grown, the Bank has broadened the array of activities, providing longer time horizons and accommodating more complicated financial products and loan structures. BSTDB is increasing its activities targeting public sector entities, including municipalities and regional authorities, as well as public-private partnerships and other types of infrastructure investment projects.

The Bank is looking forward to the coming years, a period of many challenges, but during which it expects that continued efforts will help to make necessary progress in the pursuit of achieving the Board of Governors' approved strategic goals. To this end, the Bank stands ready and open to cooperate further with all those who wish to contribute to the economic progress of the Black Sea Region towards economic prosperity and social stability.

Portfolio Description

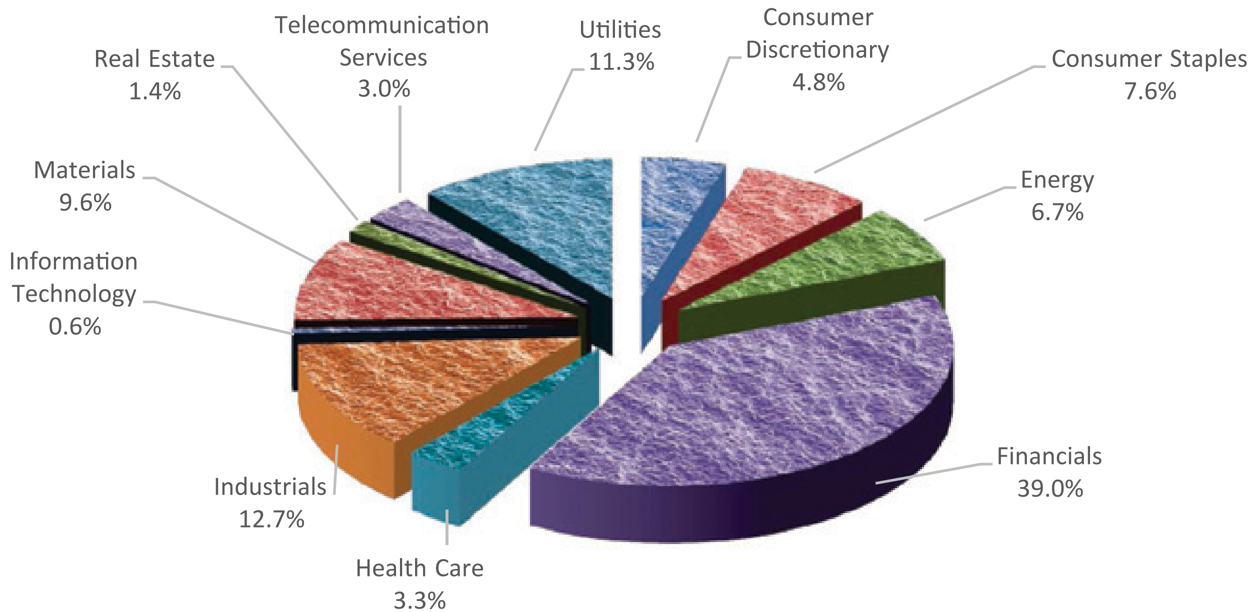
Since the beginning of operations in June 1999, the Bank has approved 422 operations amounting to about EUR 6.8 billion. Throughout this period, there were 367 signed operations for a total signing amount of EUR 5.6 billion. A total of 296 operations for about EUR 4.0 billion were repaid. At the end of 2019, there were 120 operations in the total portfolio with an outstanding balance of EUR 1.851 billion.

BSTDB Portfolio Development 2000-2019



Source: BSTDB

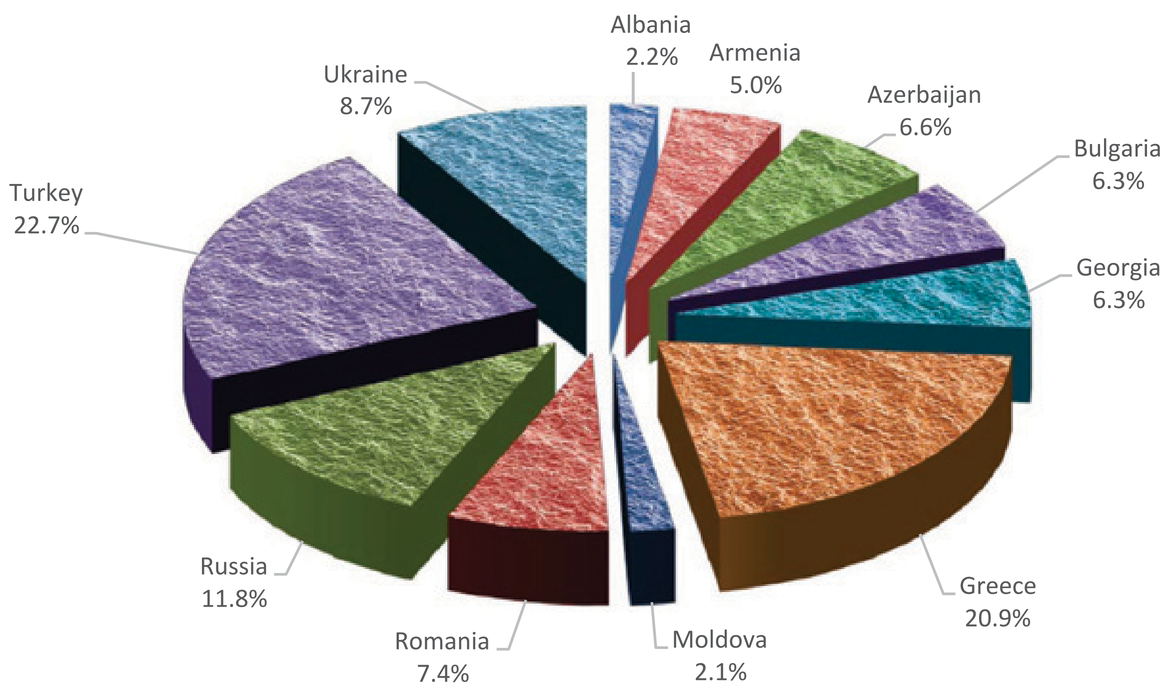
Cumulative Signed Operations by Sector



Source: BSTDB

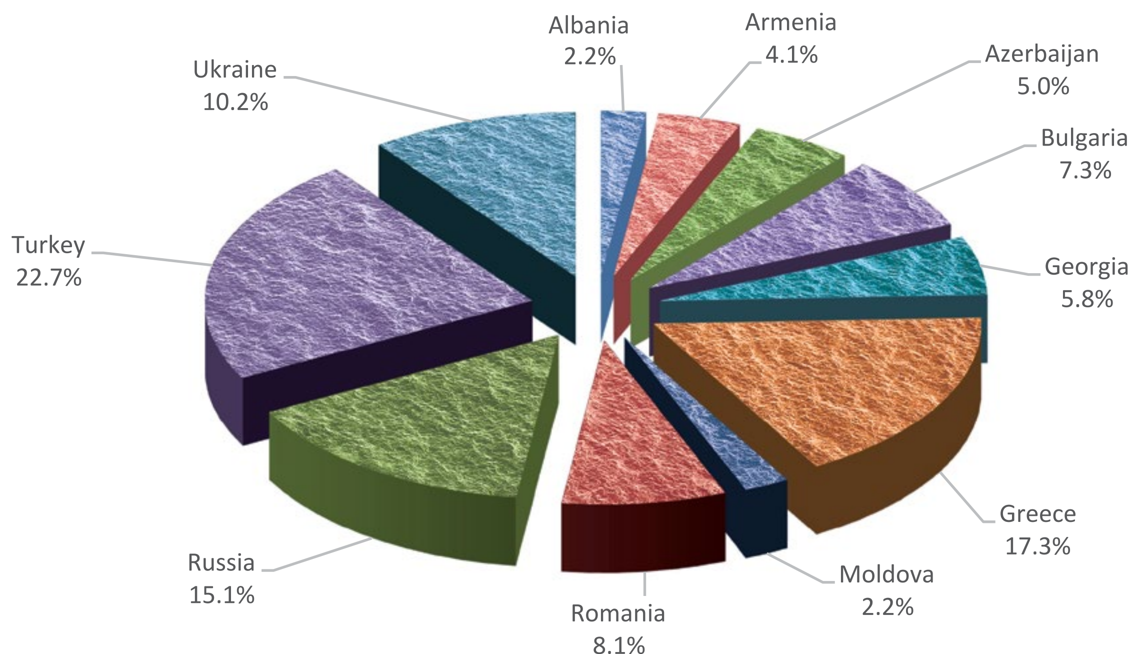
As of end 2019 the outstanding operations of the Bank (cumulative disbursements less repayments for active operations) represented EUR 1.851 billion, distributed by country as per the following graph:

Outstanding Operations by Country



Source: BSTDB

Active Signed Operations by Country



Source: BSTDB

2019 Portfolio Developments

In 2019 the Board of Directors approved 32 new operations for a total of EUR 1.064 billion. Twenty-six new operations were signed for a total of EUR 842.8 million. As a result, the Bank had 120 outstanding operations with 104 clients at the end of 2019.

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, utilities, industrials, energy, materials and health care. Significant exposure to financial institutions reflects BSTDB's strategic focus on 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 1.64% of the outstanding portfolio.

Enhanced effort was put into increasing the share of the real (i.e. non-financial) sector, which reached 66.9% of outstanding portfolio at year-end. Two thirds of the new approvals in 2019 went to the real sector. The sectorial structure was well diversified, with projects originating from various industries and economy sectors: energy, agribusiness, transport & public utilities, financing small and medium enterprises, leasing, trade finance etc.

Co-Financed Operations

The Bank values its cooperation with other IFIs and financiers in mobilizing investment in the Black Sea Region and realizing cross-border operations. Such operations possess high development and shareholder value and are therefore among the Bank's priority activities.

In the course of 2019, 32.3% of signed operations were co-financed by the Bank with partner institutions. Co-financed operations accounted for 45% of the Bank's active portfolio outstanding balance.

Selected BSTDB Financings in 2019

Syvash Wind Power Project

Ukraine

BSTDB provided a long-term loan of EUR 30 million to the special purpose company SyvashEnergoProm LLC for the construction and operation of the 250 MW Syvash wind park in the Kherson region of Southern Ukraine. SyvashEnergoProm LLC is a Ukrainian company established for the construction of the Syvash Wind Park by Total Eren of France, NBT of Norway and Al Gihaz of Saudi Arabia.

The operation is expected to have economic benefits for the Ukrainian economy by creating new jobs and generating tax revenues. The operation will also support the development of renewable energy in Ukraine and the overall de-carbonization of the energy sector.

Financing for the Syvash Wind Park was provided by a group of development financial institutions including BSTDB, EBRD, FMO, Green for Growth Fund, NEFCO, PROPARCO, Finnfund and IFU.

BSTDB amount:	**EUR 30 million**
Total Operation cost:	**EUR 377 million**
Type of financing:	**Project finance**
Maturity:	**10 years**

PPC S.A.

Greece

A EUR 160 million corporate loan was provided by BSTDB to the Greek Public Power Corporation S.A. (PPC) for financing the company's capital expenditure program, comprising a large number of medium and low voltage electricity distribution schemes, including a 7,327 km new medium and low voltage network and automation components for the reinforcement and modernization of the electricity distribution network through peninsular and insular Greece.

BSTDB's financing is expected to have multiple benefits for the Greek economy and the energy sector in particular, by improving the country's energy mix and infrastructure. It will assist in restoring Greece's economic growth by generating tax revenues, creating new jobs and boosting confidence in a vital sector of the economy.

The operation marks the beginning of a valuable cooperation between BSTDB and PPC, the biggest power producer and electricity supply company in Greece with approximately 7 million customers.

BSTDB amount:	**EUR 160 million**
Total Operation cost:	**N.A.**
Type of financing:	**Corporate loan**
Maturity:	**5 years**

Epicentr Group

Ukraine

The private Epicentr Group is the largest do-it-yourself (DIY) retail network in Ukraine in terms of total stores area, number of stores and revenues, being larger than its nearest competitor by over 20 times. Aiming to diversify its activities, the Group started its own agribusiness division with a target to build a solid market position in a sector predominantly generating hard currency revenues.

Agribusiness is one of the sectors in which Ukraine excels, due to its undisputable competitive advantages. Soil and climate, geographic position and potential for productivity growth make Ukraine's agribusiness one of the most compelling sectors for investment. For the last several years Ukraine has gained one of the key positions among the largest exporters of agricultural produce.

The Group approached BSTDB with a request to consider financing part of the corporate development program for its agribusiness segment for the years 2019-2020, estimated at over USD 240 million. BSTDB approved debt financing of USD 70 million to support the construction of three new grain silos, the modernization of four existing ones and the purchase of agricultural machinery.

The Bank's financing is expected to be instrumental for the expansion of the Group in the agribusiness sector in Ukraine and to contribute to the development of the infrastructure of this sector, creation of new jobs and increasing the export revenues, thus strengthening the national currency of the country.

BSTDB amount:	**USD 70 million**
Total Operation cost:	**USD 240 million**
Type of financing:	**Corporate loan**
Maturity:	**7 years**

State Leasing Transport Company – Lavna Port

Russia

The Bank is financing the development of a new port in Lavna, in the Kola Bay of the Barents Sea, opposite the existing port of Murmansk. The project is part of the comprehensive development of the Murmansk Transport Hub (MTH) which is being implemented under the Russian Federal Targeted Program, “Development of Russia’s Transport System”. An ice-free port with coal transshipment facilities at Lavna is among the key facilities of the MTH project.

BSTDB’s long-term loan of USD 69 million to the State Leasing Transport Company supports the acquisition of modern transshipment equipment to be installed at Lavna deep-sea terminal, which upon adhering to the requirements of the Bank has the potential to result in a modern, well-run facility that employs the industry’s best technologies and practices in handling coal, and accounting fully for the E&S issues.

BSTDB amount:	**USD 69 million**
Type of financing:	**Corporate loan**
Maturity:	**9 years**

Istanbul Municipality Waste to Energy Plant

Turkey

BSTDB provided a long-term debt of EUR 40 million to the Istanbul Metropolitan Municipality for the construction and operation of a greenfield municipal solid waste incineration plant with energy recovery of up to 90MWe. The plant's 3 incineration lines will have a total processing capacity of 1,000,000 t/year of municipal solid waste.

The operation will have important benefits for the Turkish economy. Aside from the environmental benefits related to improving the municipal solid waste management, the plant will also contribute to the electricity generation capacity of Istanbul, as it will produce electricity from readily available domestic resources. Additionally, once operational, the plant is expected to generate profits and create employment, hence having positive multiplier effects.

The Waste Incineration and Energy Generation project is co-financed by BSTDB alongside BNP Paribas, Société Générale and SERV, the Swiss Export Risk Insurance Agency. The Bank has led the environmental and social due diligence on behalf of the Lenders and SERV.

BSTDB amount:	**EUR 40 million**
Total Operation cost:	**EUR 318 million**
Type of financing:	**Loan**
Maturity:	**7 years**

SOCAR Trading

Azerbaijan

Source: STAR Refinery in Aliağa, western İzmir province, Turkey, Nov. 8, 2017. (AA Photo)

BSTDB provided a USD 50 million revolving trade finance facility to SOCAR Trading S.A., to be used mainly for the purchase of Russian Ural oil for delivery to SOCAR's new STAR Refinery in Turkey. SOCAR Trading is the international marketing and developing arm of SOCAR, the State Oil Company of Azerbaijan.

The operation has a strong regional cooperation and development impact, as it involves private and state-owned exporting entities from three BSTDB member countries (Azerbaijan, Russia and Turkey). It will contribute to increasing the trade turnover between Russia and Turkey, will support the state-owned oil company of Azerbaijan, the recipient of the BSTDB loan, and is due to contribute to the energy security of Turkey.

Fast-growing Turkey has been dependent on imported energy resources, leading to increased external deficit. Addressing this deficit has been an important challenge for Turkey. Besides creating new jobs, STAR refinery, the recipient of the Russian Ural oil financed with the BSTDB funding, is an important energy security cooperation project for Turkey, being expected to meet over 25% of the country's demand for refined oil products.

BSTDB amount:	**USD 50 million**
Type of financing:	**Trade finance**
Maturity:	**1 year, revolving**

Success Stories – Selected Operations with High Development Impact During 1999-2019

Over 15-years Cooperation by Boosting the Development of Ukrainian Gas-filling Stations Operator, Galnaftogaz

An illustration of the long-term fruitful cooperation between BSTDB and its business partners is the relationship with Galnaftogaz, a private company having as its primary activity the construction and operation of gas filling stations in Ukraine.

Since the first loan extended by BSTDB back in 2004, the Bank and Galnaftogaz have entered into several loan agreements in an aggregate amount exceeding USD 100 million, mainly supporting the network expansion by building new gas filling stations, modernizing existing ones, diversifying supply sources and financing the associated increased working capital needs.

During the over 15 years of cooperation between BSTDB and Galnaftogaz, the relationship has been very fruitful, supporting the notable growth of the company's business. Galnaftogaz succeeded to substantially increase its market share from 5% in 2004 to over 18% in 2019 and became the leader in the Ukrainian petroleum retail market. The company invested extensively in its retail network which expanded from 161 gas filling stations in 2004 to almost 400 in 2019, while over the same period company revenues increased 6.6 times exceeding USD 1.5 billion in 2019, EBITDA grew almost 19 times and the net profit increased 25 times. While the key assets are primarily located in Western and Central Ukraine, the company also operates across other regions of the country and is a large employer, currently employing more than 8,500 people (from 5,000 in 2004).

The significant growth of the company has added value to the Ukrainian economy, the most relevant being the substantial tax revenue contributed by Galnaftogaz to the Ukrainian budget, new jobs creation and downstream linkages with suppliers from other countries in the Black Sea Region.

Supporting the Moldovan Agribusiness and Exports: Trans-Oil Group

BSTDB is a long-standing financing partner of Trans-Oil Group, the largest Moldovan producer of vegetable oil and refined bottled vegetable oil, a leading producer of flour and one of the most important exporters in the country.

The agriculture sector accounts for around 15% of gross value added in Moldova and employs about one third of the working-age population of the country. Trans-Oil Group works with over 400 farms located throughout the country, which makes the performance of the company very important not only for the livelihood of its more than 1,700 employees, but indirectly to over 6,000 people.

The cooperation between BSTDB and Trans-Oil Group started in 2017 when the Bank participated in the Group's syndicated Pre-Export Finance Facility (PXF). The most recent iteration of the PXF is a USD 150 million facility in which the Bank participated with USD 20 million in the tranche with the longest maturity. The pre-export facility is used to finance the seasonal working capital needs associated with the origination, primary processing, storage and transportation of agricultural commodities, refined sunflower oil and their subsequent sale for export.

Furthermore, in 2019 BSTDB became an anchor investor in the bond issued by Trans-Oil Group, the first corporate bond ever issued in Moldova. The Bank provided an amount of USD 22.25 million out of the total USD 300 million offering. The BSTDB participation will help in diversifying the funding sources of Trans-Oil and promoting it within the international investor community.

Supporting the Development of Airports in BSTDB Member Countries

Airports play an important role in the economic development of a country by fostering trade, supporting new jobs creation and promoting tourism development. By facilitating tourism and trade, airports and air travel generate economic growth and increase revenues from taxes.

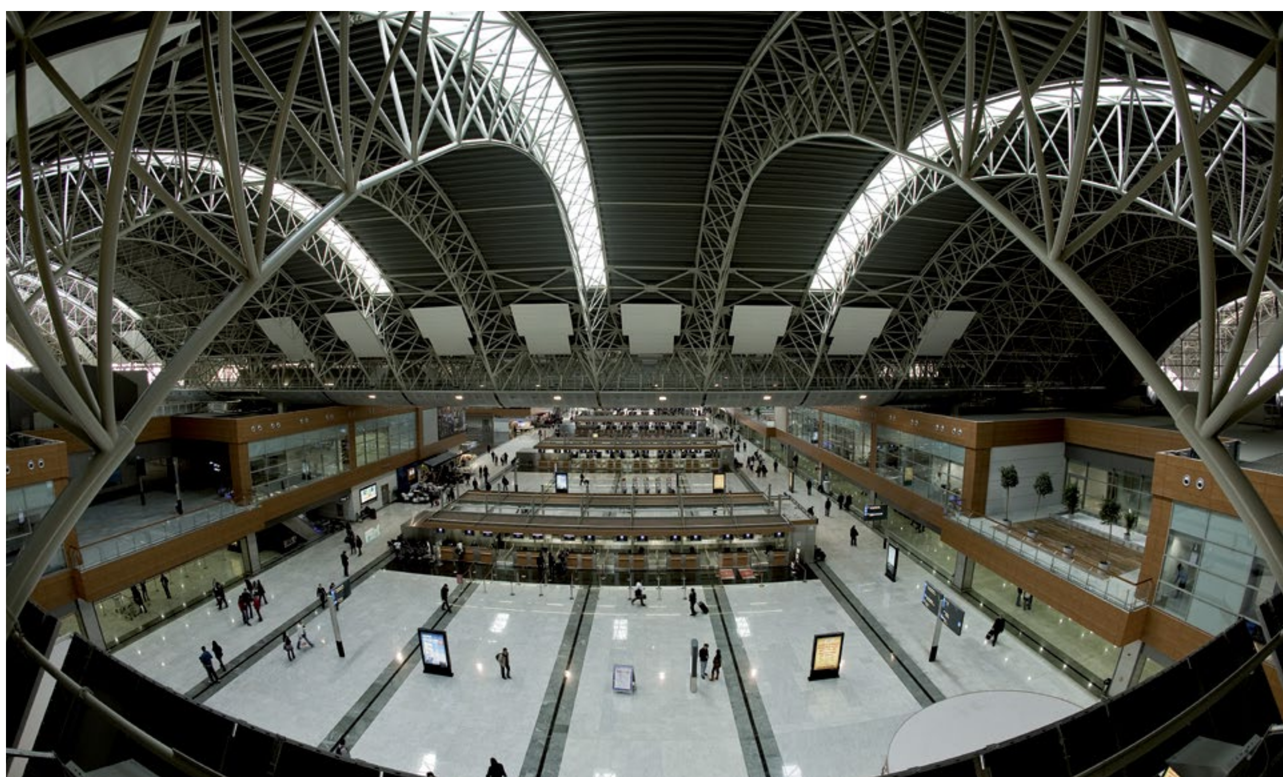
Also, by easing the connection between cities and markets, airports are a key infrastructure vasset with positive spill-over effects on an economy's productive capacity: it enables foreign direct investment, facilitates the establishment of business clusters and specialization. Hence, airports have a substantial positive economic impact, both directly and as an enabler of other industries.

In pursuing its development mandate, BSTDB has financed with over EUR 160 million the construction and modernization of airports, notably in Greece, Turkey and Russia. Most funding has been provided through the PPP mechanism in close partnership with industry leaders and alongside other international financial institutions such as the EBRD, EIB, IFC and other development banks.

For instance, in ***Greece*** BSTDB participated with a 17-year loan amounting to EUR 62.5 million in the financing package for the modernization of 14 regional airports including Aktion, Chania (Crete), Kavala, Kefalonia, Kerkyra (Corfu), Kos, Mitilini, Mykonos, Rhodes, Samos, Santorini, Skiathos, Thessaloniki and Zakynthos. Combined, these airports serve over 25 million passengers. The PPP project is implemented by Fraport Greece, a consortium of Fraport AG Frankfurt Airport Services Worldwide and a leading Greek industrial conglomerate Copelouzos Group. The project is currently being implemented and, upon completion, is expected to contribute to tourism development and job creation in the islands and mainland Greece.

In ***Turkey***, BSTDB provided long term loans for the construction and modernization of several airports.

In 2012 the Bank provided a EUR 40 million to a project company established by TAV Airports Holding for the modernization of Izmir airport. The project entails, among others: demolishing the existing domestic terminal, designing, engineering and building a new domestic terminal and its related access road and car park, renovating the international terminal of the airport, as well as operating and maintaining the Adnan Menderes Airport domestic and international terminals in accordance with the international norms and standards under a lease agreement valid until 2032. The BSTDB loan has a maturity of 16 years and is part of a EUR 250 million financial package co-financed alongside the EBRD and several international commercial banks (as EBRD B-lenders) and a Turkish commercial bank.



Also, back in 2010 BSTDB had financed with EUR 29 million the modernization, operation and maintenance of Istanbul Sabiha Gokcen airport under a Build-Operate-Transfer (BOT) contract. The project had a total cost of about EUR 340 million and was co-financed by a Turkish and an international commercial bank. Earlier, in 2005 a loan of EUR 18 million was approved by BSTDB for the development, construction, operation and maintenance of a new domestic and international terminal at Ankara Esenboga airport, aiming to triple the overall capacity of the airport to 10 million passengers per year. The project was implemented by a project company established by Tepe and Akfen Groups, reputable Turkish construction companies, experienced in other airport modernization and operation projects in Turkey and abroad.

In ***Russia***, BSTDB co-financed with a group of development and commercial banks the expansion, operation and maintenance of Pulkovo Airport in St.Petersburg at the amount of EUR 15 million in 2010. The Operation was the first international public-private partnership project in Russia and had a strong development impact improving the reliability of air traffic and facilitating technology transfer and job creation. The project was awarded the International PPP Deal of the Year.

Such large infrastructure projects have substantial development impact for the country and catalyze solid mobilization of capital from outside the Black Sea Region, exploiting co-financing opportunities with international commercial and development institutions.

Fostering Corporate Business Expansion Across the Region: Hellenic Dairies (Fabrica de Lapte – Tyrbul)

BSTDB and Hellenic Dairies Group (Greece) have a long track record of fruitful cooperation. In 2012, BSTDB extended a first long-term loan to Fabrica de Lapte Brasov (the Group's subsidiary in Romania) for a total amount of EUR 30 million, followed by a second long-term loan of EUR 10 million in 2014. In 2016, BSTDB extended a third long-term corporate loan to finance the capital expenditures and associated working capital needs of Hellenic Dairies' subsidiaries in Romania and Bulgaria. The aggregate amount of BSTDB financing to the Group has reached EUR 68 million.

Hellenic Dairies S.A. was set up in 1965 and holds a leading position in the field of production of dairy products in Greece with its three production facilities in the country. Over the last 15 years, the Group has also set up operations in Romania and Bulgaria and developed business relations with partners in 47 countries, mainly within Europe.

The Group's cooperation with BSTDB has supported the achievement of its business development strategy. BSTDB funding has been used to finance the construction of new production lines and storage facilities, as well as the procurement of machinery and equipment in the Group's production plants in Romania and Bulgaria.

The successful partnership is illustrated in numbers as well: only in Romania, since the introduction of BSTDB's first loan, did the revenues of Fabrica de Lapte increase almost 12 times, currently exceeding EUR 100 million and the net profit grew by over 9 times. The Group is currently employing over 1400 people.

The notable growth of the Group's business has added value to the Bulgarian and Romanian economies by generating additional export and tax revenues and supporting the activities of a successful private company active in Romania, Bulgaria and Greece and hence promoting the cooperation among BSTDB Member States via investments and exports.

Promoting Romanian Farmers' Access to Finance: Agricover Group (Romania)

The successful relationship between BSTDB and Agricover Group dates back to 2013 when BSTDB extended its first long-term loan to the Agricover Group of Companies: Agricover SA (agribusiness) and Agricover IFN (agrifinance), for a total amount of EUR 15 million.

In 2017 BSTDB extended a second long-term loan to Agricover Credit IFN for an amount of RON 69.5 million (about EUR 15 million), used to finance the Romanian grain farmers which are suppliers of Agricover Group's processing and trading companies.

Agricover Group is the pioneer of agriculture business in Romania. It has been active in the Romanian agriculture market since 2000, with its agribusiness and agrifinance business units, both of which are continuously growing. The successful long-term cooperation of BSTDB with Agricover Group resulted in a notable growth of the Group's business in Romania.

Such growth has also added value to the Romanian economy, the most relevant being generating additional export and tax revenues.

Supporting the Development of Environment-friendly Urban Transportation: Istanbul Metro (Turkey)

Istanbul has been experiencing a fast population growth: from 9 million inhabitants in 2001 to over 15 million currently and the growth trend is expected to continue. The Istanbul Metropolitan Municipality has set among its main priorities addressing the traffic congestion problems in the city.

Significant investments in municipal infrastructure are underway with a considerable investment budget. BSTDB has been a reliable financier of several of these projects:

Otogar-Bağcılar and Kirazlı-Ikitelli-Basak Houses/Olympic Village Metro Line

In 2007 BSTDB financed alongside commercial banks from Turkey and abroad and another development financial institution the expansion of the metro and light rail transport system in Istanbul. The project entailed both the extension of the light rail from Otogar station (serving the major intercity bus terminal on the European side of Istanbul) to the densely developed residential areas of Bağcılar and Kirazlı and the expansion of the metro line along Kirazlı-Ikitelli-Basak Houses/Olympic Village in the European side of Istanbul with a double-track system of 16.5 km and 13 stations. The BSTDB participation in the financing package was USD 21 million for a total project cost exceeding USD 530 million.

Kadikoy-Kartal Metro Line

Furthermore, in 2008 the Bank jointly financed alongside other club banks the metro project for the construction of a double track system metro line of 21 km serving 17 stations along the D-100 highway between Kadikoy and Kartal. The metro line services passengers crossing the Bosphorus via the Ibrahimaga Station with direct access to the Bosphorus Tube Tunnel Crossing, hence providing a convenient and fast access to the European side and the metro system of Istanbul. The BSTDB participation was EUR 50 million and the total project cost amounted to about EUR 750 million.

Umraniye-Atasehir-Goztepe Line

Lately, in 2019 the Bank jointly financed with EBRD and Société Générale (as EBRD B Lender) the Ümraniye-Atasehir-Goztepe metro line consisting of 13 kilometres with 11 stations. The line will connect Ümraniye, Atasehir and Kadikoy districts of Istanbul and will interlink three rail system lines in a North-South orientation, while also providing interfaces to lines in an East-West direction. The line will be an Automated Metro Subway System (driverless). BSTDB's participation is EUR 77.5 million and the total project cost is estimated at EUR 175 million.

Fostering the Development of Micro, Small and Medium-sized Enterprises: FONDI BESA (Albania)

FONDI BESA is the largest non-Banking financial institution in Albania, operating in the micro/SME segment through a network of 80 offices all over Albania. The company has more than 33,000 active clients and a loan portfolio of over EUR 95 million. Its mission is to help the economic growth and poverty reduction in urban and semi-urban areas of Albania by promoting micro, small and medium enterprises through the creation of a private micro-finance Albanian fund which is self-sustainable. Clients of FONDI BESA include people from all socio-economic layers, including unemployed and start-up businesses. FONDI BESA provides all kinds of lending, including consumer and mortgage loans.

The BSTDB cooperation with FONDI BESA started in 2014 with a credit line of EUR 6 million, supplemented in 2016 by a new credit line of EUR 5 million for micro, small and medium-sized enterprises (MSME). In 2019 the long term BSTDB partnership with FONDI BESA was further enhanced with an additional MSME credit line of EUR 10 million. Through this financing BSTDB was able to reach a larger number of micro, small and medium-sized enterprises in Albania and contribute to improving their access to finance, hence fostering job creation, income generation and poverty alleviation.

Technical Assistance Support

Black Sea Project Promotion Facility

Aiming to support the investment initiatives in the Black Sea Region, the Russian Federation initiated in 2017 the establishment of the Black Sea Project Promotion Facility (the BSPPF), funding it by an initial contribution of USD 1 million. BSPPF finances technical assistance services for the preparation of feasibility studies, Business Plans, due diligence analyses, creation of networks or partnerships for activities mostly related to energy efficiency and renewable energy sources, environmentally friendly technologies, infrastructure, trade exchanges, and knowledge-sharing. Financing requests may be brought by BSTDB and the Permanent International Secretariat of the Organization of the Black Sea Economic Cooperation (BSEC PERMIS). BSPPF focuses on pilot medium-sized projects meeting the established criteria and requirements of BSEC PERMIS and BSTDB. In 2019, the BSPPF funded a third assignment submitted by BSTDB for legal advisory services on issues of Bulgarian law related to municipal financing. The BSPPF then initiated a fourth assignment related to the creation of a PPP-BSTDB Center to promote public-private partnership (PPP) investment in the Black Sea region.

Sustainability Overview

Addressing Sustainability

The Principles

BSTDB has committed to address environmental and social sustainability by applying the core principles in its operating model and financing decision-making. Thus, pollution prevention and mitigation; respect for fundamental human rights in the working environment; addressing climate change; promoting efficient use of natural resources, protection and conservation of biodiversity; and disclosure of information on environmental and social performance of its operations, and engagement in open dialogue with stakeholders, are all part of the general sustainability approach of the Bank.

Environmental and Social Due Diligence

All operations considered by the Bank for financing undergo mandatory environmental and social due diligence. Depending on the associated potential environmental and social risks and impacts, and the scope of the environmental and social due diligence that is necessary to identify, assess and mitigate these risks and impacts all operations are screened into A, B+, B, C and FI categories.

The due diligence of operations financed directly by BSTDB, depending on relevance in each specific case, focuses on such issues as the environmental and social management applied by the borrowers; labor and working conditions and how people are treated in the working environment; the applied pollution prevention and abatement measures and how efficient 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 due diligence of operations financed by BSTDB through Financial Intermediaries (FIs) normally focuses on the capability of such FIs to manage the environmental and social risks and impacts associated with their business activity in a manner that is compliant with the requirements of the Bank’s Environmental and Social Policy and the national legislation in effect, including the country’s commitments under international law. If these are found to be satisfactory the Bank normally delegates the function and responsibility for environmental and social 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. Category A operations are also publicly disclosed on a 30/60 calendar day scheme before these may be submitted to the Board of Directors for consideration.

Compliance requirements and standards followed

All operations considered by BSTDB need to comply with the following minimal environmental and social requirements: 1) compliance with national public information laws and regulations, including national commitments under international law or, where applicable, the relevant EU environmental, labor, health and safety regulations; 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 World Bank/IFC or, where applicable, EU regulations, namely the Environmental Impact Assessment (EIA) Directive and relevant sector-specific and cross-cutting directives. Category A operations that are likely to generate trans-boundary impacts need to meet the requirements stipulated under the Espoo and Aarhus Conventions irrespective 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 makes its best efforts to apply good international environmental and social 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 ILO CLS, the World

Health Organization (WHO) standards, relevant 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 Trans-boundary Context (Espoo Convention).

Public Disclosure of Environmental and Social Information

The Bank as part of its sustainability approach committed to inform the public in a transparent and timely manner about the environmental and social 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 BSTDB's 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 environmental and social information of its Category A operations, that are operations associated with potentially significant risks and impacts. For private sector operations this information is disclosed no later than 30 calendar days before the Board of Directors meeting, and 60 calendar days for public sector operations. Thus, any stakeholders directly or indirectly affected by the Bank's Category A operations, or have an interest in such operations, can review the relevant information, make enquiries, and provide comments.

Monitoring and Institutional Aspects

All the operations financed by the Bank are monitored against the agreed environmental and social compliance requirements in order to ensure that relevant 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 environmental and social risks and impacts are effective or need adjustments.

All aspects of environmental and social sustainability of the Bank are led by the Environmental and Social Sustainability Office, which is in charge of developing and implementing relevant strategic objectives, policy statements, and internal procedures; it leads the independent environmental and social due diligence process of operations; and advises senior management on the relevant risks and impacts of the financing decision-making, and the general E&S performance of the Bank; thus, ensuring the Bank's activities do not affect the state of the environment and human well-being, and contributing to a more efficient fulfillment of the Bank's development mandate.

BSTDB has committed itself to allocate the necessary resources in order to ensure that its sustainability approach is effectively followed and implemented, is fully integrated into its operation cycle, and is applied in a systematic manner to all the operations financed by the Bank.

International Cooperation

BSTDB is actively cooperating with governmental bodies from its Member States, partner multilateral and bilateral financial institutions, businesses, civil society, and general public, in ensuring that its sustainable development objectives are met effectively and in a transparent manner.

Since its establishment the Bank has established closed ties with its partner Multilateral Financial Institutions (MFI) within the Working Group on Environmental and Social Standards (WGESS). WGESS is a high-level forum represented by the key environmental and social representatives of MFIs and development agencies around the world, which aims at harmonizing the environmental and social assessment practices by sharing experiences, discussing issues of concern, developing common approaches, and working in partnership.

BSTDB is also actively involved at the European level in the European Development Finance Institutions (EDFIs) Working Group on Environmental and Social Issues, which is another high-level forum where the European Bilateral Financial Institutions join efforts to harmonize their environmental and social practices and achieve higher development effectiveness of their financing.

Annual Evaluation Overview

INDEPENDENT EX-POST EVALUATIONS

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 the commencement of the Bank's operations in 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 in operational and institutional performance.

The evaluation overviews aggregate and compares the findings of the conducted post-evaluations on an annual cumulative basis. They reveal the degree of mandate fulfilment as well as 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 performance.

The annual evaluation overview presents a synthesis of the findings of the Bank's evaluated operations over the past 20 years, focusing on BSTDB's mandate fulfillment. 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 Multilateral Development Banks (MDBs). 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 MDB-specific standards in independent evaluation. In 2012 and 2013, the ECG performed a comprehensive peer review of BSTDB's Evaluation Office, assessing its methodology, rigor and overall practice against the respective MDB 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 the ECG, acknowledging its commitment to highest MDB standards in evaluation.

The current evaluation overview provides an overall picture of BSTDB's performance over the period of 2000-2019, with a highlight of the latest trends and developments (2015-2019), based on the analysis of 131 evaluations of completed operations and a dozen related evaluation studies.

The analysis covers 20 years of BSTDB operations grouped into four five-year periods, to smooth-out annual fluctuations, as required by the applicable evaluation methodology. The 2015-2019 data is compared with the target of reaching 70% positively performing sample of evaluated operations set in the Bank's previous and current Medium-Term Business Plans.

The MDB-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 operational 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 mandate-centered operation's performance.

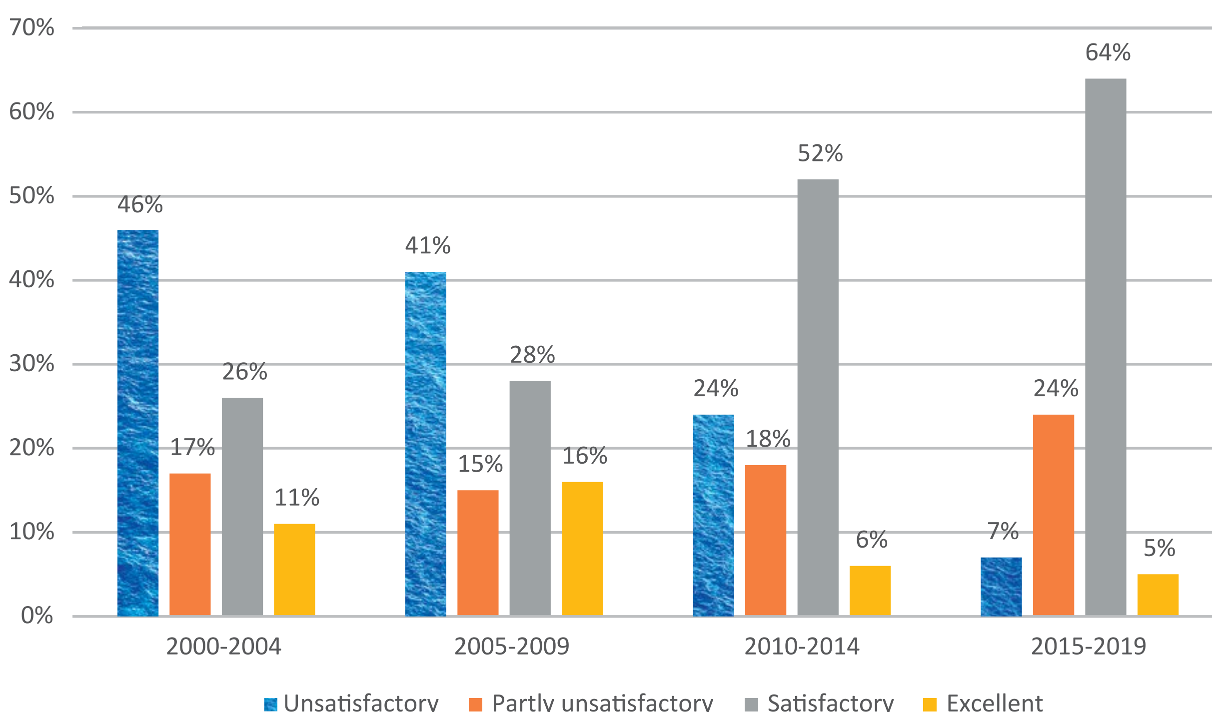
Performance of Evaluated Operations

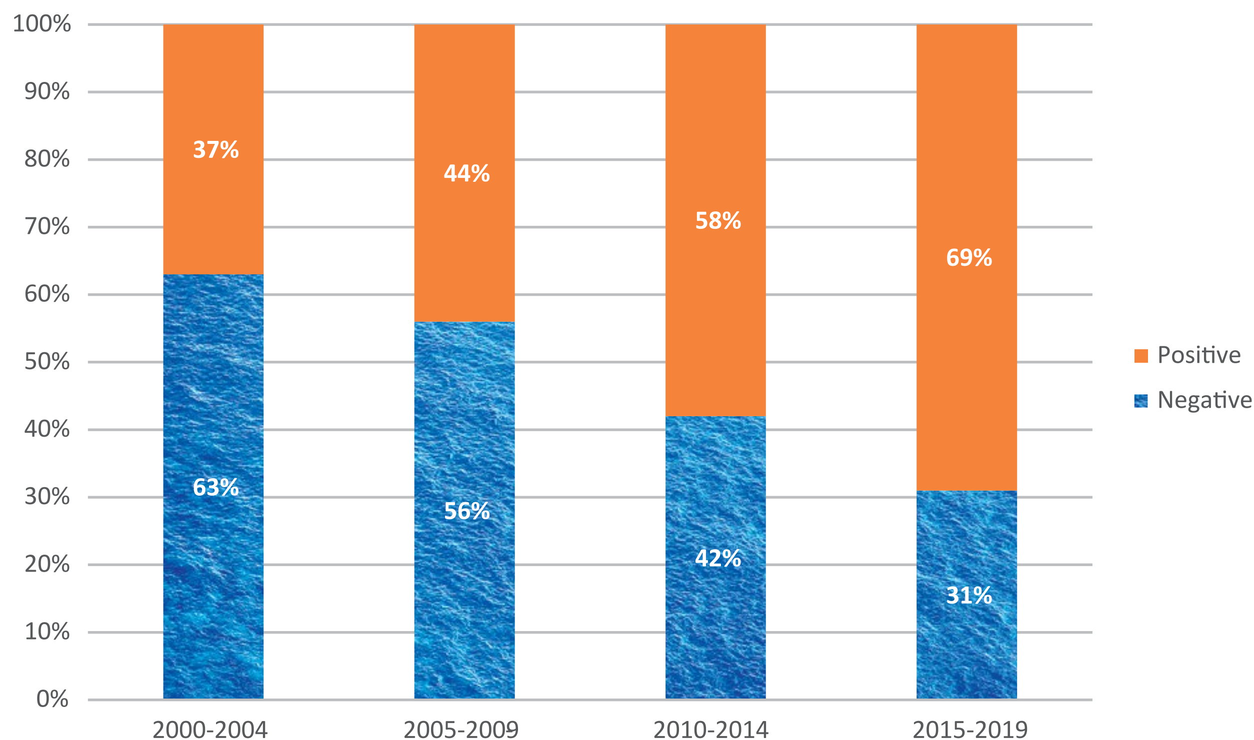
Overall Performance

In the latest aggregate period (2015-2019) BSTDB's positively rated operations represent 69%. This denotes a slight decline from earlier periods (71% in 2018, 70% in 2019) and stands at 1 percentage point below the target of 70%, set by the Bank's Medium-Term Strategy. In broader terms, the latest 5-year period reveals a positive trend compared to previous 5-year periods (upwards from 37% in 2000-2004, 44% in 2005-2009, and 58% in 2010-2014).

On the upper end of the ratings, the share of "Excellent" declined from 16% in 2005-2009, to 5% in 2015-2019.

The share of BSTDB operations rated negatively (Partly Unsatisfactory or Unsatisfactory), indicates structural improvement, as the lowest-rated share (Unsatisfactory) decreased from 24% in 2010-2014 to 7% in 2015-2019.

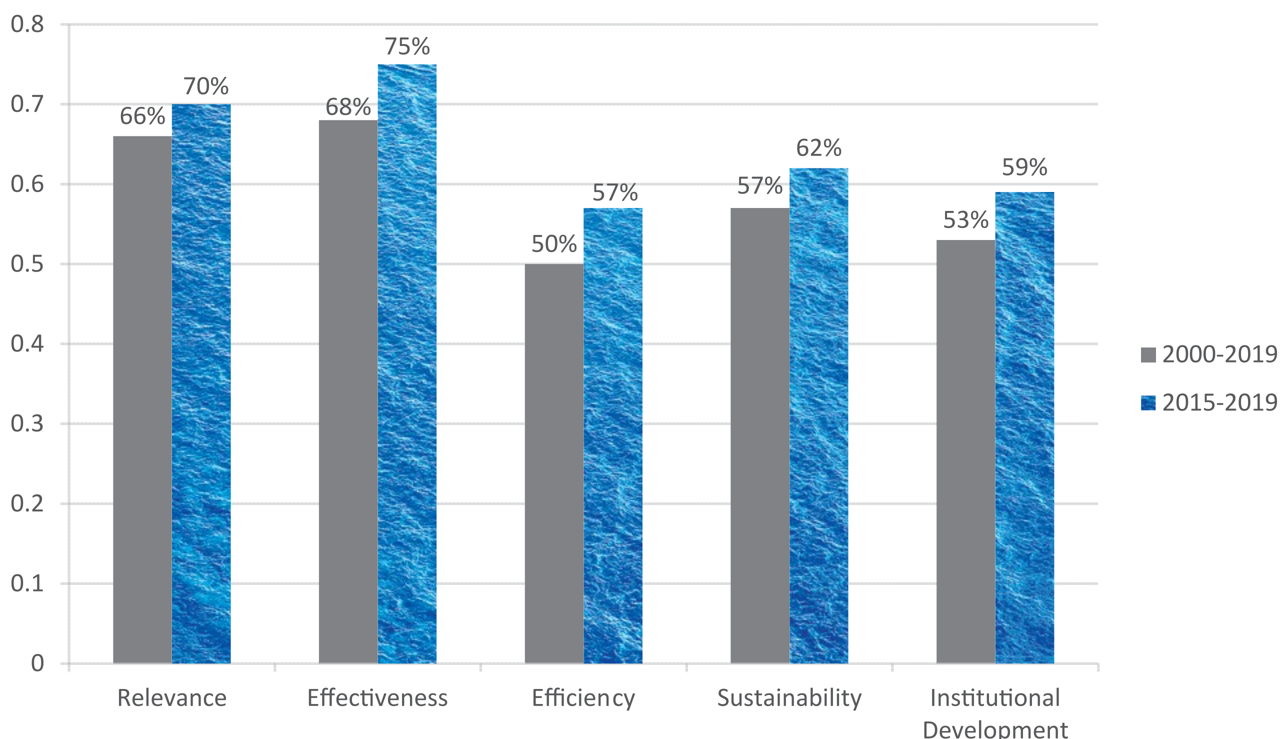




Relevance, Effectiveness, Efficiency, Sustainability and Institutional Development

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 effort, to enhance overall performance. An outline of the share of positively rated operations, out of all 131 evaluated operations since 2000, is presented below:

- Relevance of operations – 66% (2000-2019) and 70% (2015-2019) positively rated
- Effectiveness – 68% (2000-2019) and 75% (2015-2019) positively rated
- Efficiency – 50% (2000-2019) and 57% (2015-2019) positively rated
- Sustainability – 57% (2000-2019) and 62% (2015-2019) positively rated
- Institutional Development – 53% (2000-2019) and 59% (2015-2019) positively rated



Key Performance Indicators

Since 2016, the Independent Evaluation Office overviews the key Performance Indicators (KPIs), approved by the Board of Governors as part of the Bank's Medium-Term Strategy and Business Plan. While there are various indicators, the overview has a focus on the composite indicator of Mandate Fulfilment as it is fundamental for the Bank's role and mission. The target for this indicator is to maintain a share of 70% or higher of ex-post evaluated operations to rate positive on overall performance (combined ***Relevance; Effectiveness; Efficiency; Sustainability and; Institutional Development***). As already noted, this share for the last 5-year period stands at 69% - very close but just below the target.

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 normally issues performance ratings that differ 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[2], or vice-versa) is as follows:

- The overall OCR performance ratings issued during 2015-2019 were validated by the Evaluation Office without change in 69% of the cases.
- For the same period, the OCR ratings that were upgraded and downgraded by the independent evaluation were 0% and 31% of the total, respectively.

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

Benchmarking with Peer IFIs

All aspects of evaluated performance have been subject to rigorous peer MDB 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 has maintained its performance generally in line with comparable MDBs. The comparative evaluation reveals 20 years of growth and improvement, within set targets, with some deviations. A typical recurring challenge is the side effect of volume-dominated incentives. Here a reference is made to the phenomenon known as "approval culture"- focusing on volumes of new operations with less effort on the quality and sustainability, hence eroding the development dimension), as well as related waves of premature cancellations.

The last 5-years of data places the Bank within the average performance range among MDBs.

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.

Conclusion

There is a consistent upward trend, with latest results (69%) being just below the target of 70% positively rated operations set in the Bank's Medium-Term Business Plan. Since 2008 BSTDB maintains its performance generally in line with the comparable MDBs, indicating certain advantages and lags such as waves of operation cancellations in certain periods, affecting the evaluation ratings downwards. 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.

Institutional Activities

Human Resources

Human capital and staff resources are a key factor in the success of the 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 2019 was marked by the implementation and improvement of certain important HR policies. Important modifications were made to the Bank's benefits and allowance policy, and staff pension plan rules; important new benefits were introduced under the Bank's rules for work and leave; and a new transitional system for the calculation and payment of monetary rewards was implemented.

The following is a more detailed description of each of these achievements:

The revision of the benefits and allowance policy in conjunction with the staff pension plan rules was aimed at facilitating staff access to ad-hoc funding, which was previously available in the form of general-purpose loans, while reducing the relevant administrative burden for the Bank.

The new benefits introduced within the framework of the rules for work and leave were intended to provide more flexibility for staff under the set of maternity leave benefits, and to expand the set of benefits available under adoption leave.

A new Bank performance management system was implemented several years ago. This system was intended to offer increased objectivity by linking individual performance to the performance of the institution through a process of cascading objectives at different organizational levels. It also introduced monetary rewards directly linked to performance. The experience accumulated with the system's implementation, however, necessitated a revision of the system in view of ensuring the comprehensiveness and accuracy of the appraisal process. While such revision continues, the Bank developed and implemented a transitional system for the calculation and payment of monetary rewards, which encouraged managerial judgement within set financial limits.

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. As of the end of 2019, the Bank's total headcount was 113 full-time employees.

Staff Development

The 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. In 2019, the share of the learning and development needs of the staff addressed through in-house group training activities continued to increase.

Staff Benefit System

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

The BSTDB medical, life and temporary incapacity/long-term disability insurance plan provides adequate coverage emphasizing preventive medical care. BSTDB also offers 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 flexibility required for best meeting the needs of a multi-national work force.

Information Technologies

The IT Department is aligned with the Bank's strategic goals and objectives in order to deliver services to help the business to reach their objectives and to meet customer needs and the Bank's mission.

IT has implemented a new user interface in using the Opentext, Extend ECM for SAP (xECM for SAP), latest software version, where a user interface for each division is created and operations workspaces are created for each operation, with an information structure to store official operations information. The above software is integrated with SAP so when an operation is registered in SAP, automatically, it creates the workspace for the operation in xECM for SAP. The operation workspace is connected to a financial database, which allows it to display financial information in the operation's workspace. This way, staff working on an operation can have all information required in a single space. The solution created is also accessible from mobile devices.

Also, the IT Department has capitalized on its investment in the Target Business Intelligence software to produce dashboards of information regarding the Bank's operations allowing different views of operations data which lead to better decision making.

To better present the Bank to the public, its customers, and stakeholders the Bank has created a new website which launched in May 2019. The new website allows the Bank to communicate its mission but also its actions more efficiently to the public, clients, investors, and stakeholders. The new website is easier to navigate, locate information, and communicate with the Bank.

The Bank has also upgraded its IT infrastructure including its physical desktops and laptops to Windows 10. Also, it has upgraded its virtual servers to the latest software version and a new Virtual Desktop Infrastructure (VDI) based on Windows 10 and Office 2016 has been created and made available to all users. The Bank has upgraded its video conference capabilities by acquiring two Cisco video conference units and WebEx services, allowing it to remotely and quickly reach out to clients, vendors and other IFIs for increasing collaboration and reaching its business objectives.

A training program including one-to-one training, but also online training courses has been made available to all staff on Microsoft Office 2016 and the Bank's EIM on operations workspace.

External Relations

During 2019, the External Relations and Communications Department focused on promoting the corporate image and awareness of the Bank under a special Action Plan devised to mark the 20th anniversary of BSTDB operations. The Department supported the Bank's strategic and business objectives by facilitating cooperation with Member States' governments, development community, and business circles.

Close Interaction with the Development Community

BSTDB maintained active participation in multilateral consultation mechanisms with peer IFIs and international development institutions to facilitate knowledge sharing and promote developmental effectiveness.

In June 2019, BSTDB hosted the Spring Meeting of the Evaluation Cooperation Group (ECG) on IFIs, the authority on independent evaluation and related best practice standards. After becoming an official member of the ECG in 2014, the Bank's Evaluation Office enjoyed for the first time the privilege of chairing a regular ECG meeting addressing a demanding professional agenda, such as international evaluation standards, methods, peer reviews, and thematic studies of common interest. The ECG also contributed to a seminar on Public Private Partnerships and the Mobilization of Private Sector Finance in the Development Context.

As in previous years, BSTDB has contributed to discussions in the framework of IFIs joint working groups on other matters, including corporate governance, procurement, stakeholder engagement and information disclosure, etc.

In September BSTDB hosted a Sherpa Meeting of the International Development Finance Club (IDFC) attended by 16 national and international development institutions from across the globe to discuss issues of common concern, including the alignment of development financing with the Sustainable Development Goals and climate finance.

BSTDB welcomed Sir Suma Chakrabarti, President of the European Bank for Reconstruction and Development (EBRD) and his team in September to discuss current joint activities in eleven common member countries and future business and institutional cooperation, including staff exchange and professional training. EBRD is a key BSTDB partner in dozens of co-financed operations in Greece, Turkey, Ukraine, Bulgaria and Azerbaijan. The two banks are contributing to several SME equity funds operating in the Balkans and Caucasus.

The Bank launched a joint EUR 100 million financing program with the European Investment Bank (EIB) in September for new investment by small and medium-sized companies and medium capitalization companies across Greece, Romania and Bulgaria. Funded 50/50 by EIB and BSTDB, the Program focuses on supporting growth by agri-business, manufacturing, transport and renewable energy companies and marks the first business partnership between the two development banks.

In December, BSTDB hosted a signing ceremony for a new USD 100 million credit line from KfW Development Bank (Germany). The 8-year facility fuels BSTDB's financing of micro, small and medium-sized enterprises and supports economic and social infrastructure projects in the Bank's member countries (excluding Bulgaria, Romania and Russia).

The Bank maintained information exchange and knowledge sharing as an active member of the Interact Group of the Association of the European Development Finance Institutions (EDFI).

Support for Regional Cooperation

BSTDB contributed to the efforts of the Organization of the Black Sea Economic Cooperation (BSEC), the Parliamentary Assembly of BSEC, the Business Council of BSEC, and the International Centre of Black Sea Studies aimed at enhancing regional cooperation across sectors and development agenda.

On the occasion of the 2019 Annual Meeting in Istanbul in June, BSTDB held a Regional Business Forum under the auspices of the Government of the Republic of Turkey. The Forum discussions focused on the economic policy priorities of member countries reflected in the Bank's strategy for 2019-2022. The objective was to define international best practices in bringing investments to regional infrastructure development and in using national currencies in development financing. The Bank's partnership with leading Turkish business associations including the Turkish Banks Association, DEIK, TUSIAD, and the Istanbul Chamber of Commerce assured a high attendance at the Forum by Turkish and international businessmen and investors who also had productive B2B meetings with BSTDB bankers to discuss specific investment proposals.

In December, the Bank hosted a regional workshop to encourage women from the countries of the Black Sea Economic Cooperation (BSEC) to thrive in the world of business and entrepreneurship. Co-organized with the Greek Chairmanship of the BSEC Business Council, the Thessaloniki Chamber of Commerce and Industry, the event featured a broad variety

of speakers including presidents of female business associations, women CEOs of commercial enterprises and Banking professionals. The participants discussed the challenges that are faced by businesswomen, professional education, networking and the long-standing dilemma of balancing work and family life.

During the year, BSTDB contributed speakers to many regional events hosted by international institutions and business entities.

Operational Developments

In the fourth quarter of 2019, the Bank finalized a non-performing loan sale to an asset management company concluding a borrower's long-standing Bankruptcy process. The sale of the loan contract facilitated the return of the company´s idle assets back to the local economy, thereby having a positive impact in an underdeveloped region of a Member Country.

In 2019, the Bank implemented a new supervision and monitoring process, which further improved the monitoring of existing operations. It also finalized the recruitment process for the hiring of two financial analysts in order to enhance and speed up the processing of new operations.

Administrative Services

During 2019, the Administrative Services Department continued efforts to spearhead the process for the acquisition of new premises, improve the overall efficiency of the department, and provide higher quality of service to the staff of the Bank.

- New premises: The hiring of the necessary consultants (project manager and independent engineer) was completed. Additional market research was conducted (requests for expression of interest) to best map the opportunities for appropriate new premises, at various stages of development, in Thessaloniki. The drafting of the terms for a call for tenders that will be issued within 2020 began in earnest.

- Reorganization of logistical support: Additional support for the department's desks/units that were overwhelmed by a recent increase in handled cases (travel desk, expatriates' desk) was provided through the reorganization of the security position's tasks and the proper use of internships.

Financial Statements for the Year Ended 31 December 2019

Together with Auditor's Report

Internal Controls over External Financial Reporting

Responsibility for External Financial Reporting

Management's Responsibility

Manavgement'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 auditing 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 control system can change with circumstances.

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

The Bank has assessed its internal controls over external financial reporting for 2019. The Bank's assessment was based on the criteria for effective internal controls over financial reporting described in the "Internal Control – Integrated Framework" (2013) issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). Based upon this assessment, management asserts that, at 31 December 2019, the Bank maintained effective internal controls over its financial reporting as reflected in the Financial Statements for 2019.

The Bank's external auditors have issued an audit report on the fairness of the financial statements presented within this report. In addition, they have issued a reasonable assurance report on the effectiveness of the Bank's internal controls over financial reporting.

Dmitry Pankin
President

Valeriy Piatnytskyi
Vice President, Finance

Black Sea Trade and Development Bank
Thessaloniki
7 May 2020

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INDEPENDENT REASONABLE ASSURANCE REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors and Governors of 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 (the Bank) to report on the effectiveness of internal control over financial reporting of the Bank as of 31 December 2019, 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 (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Bank's Responsibilities

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

Our Responsibility

Our responsibility is to express a reasonable assurance conclusion on the Bank's internal control over financial reporting based on the evidence obtained.

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies International Standards on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We conducted our engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised). This standard requires that we plan and perform our procedures to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. The procedures selected depend on our judgement and included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our procedures provide a reasonable basis for our conclusion.

We communicated any findings important enough to merit attention by those responsible for oversight of the company's financial reporting, to those charged with governance.

Definition and Limitations of Internal Control over Financial Reporting

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 assets of the Bank; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the bank; 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 because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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 2019, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

Athens, 7 May 2020

The Certified Public Accountant

Despina Xenaki
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INCOME STATEMENT

For the year ended 31 December 2019

Presented in thousands of EUR	Note	2019	2018
Interest and similar income	7	93,969	78,717
Interest and similar expense	8	(53,274)	(37,974)
Net interest (expense) on derivatives		(4,113)	(7,599)
Net interest income		**36,582**	**33,144**
Net fees and commissions	9	967	1,652
Net gains from equity investments through profit or loss	15	268	572
Net gains from debt investment securities through OCI		119	29
Foreign exchange income (losses)		(1,067)	(1,352)
Other income (loss)		4	(3)
Operating income		**36,873**	**34,042**
Personnel expenses	10,25	(15,758)	(15,952)
Administrative expenses	10	(5,187)	(4,770)
Depreciation and amortization	17,18	(572)	(453)
Income before impairment		**15,356**	**12,867**
Impairment (losses) on loans at amortized cost	11	(1,841)	(6,292)
Impairment (losses) on debt investment securities through OCI	12	(111)	(368)
Fair value (losses) on loans through profit or loss	14	477	(446)
Fair value gains (losses) on equity investments through profit or loss	15	(217)	(585)
Net income for the year		**13,664**	**5,176**

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

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

Presented in thousands of EUR	Note	2019	2018
Net income for the year		13,664	5,176
Other comprehensive income (expense):			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (losses) gains on defined benefit scheme	23	(3,020)	2,414
Gains on equity investments financial assets	23	4,219	713
Items that are or may be reclassified subsequently to profit or loss:			
Gains (losses) on investment securities financial assets	23	12,518	(8,929)
Other comprehensive income (expense)		13,717	(5,802)
Total comprehensive income (loss)		**27,381**	**(626)**

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

STATEMENT OF FINANCIAL POSITION

At 31 December 2019

Presented in thousands of EUR	Note	2019	2018
Assets			
Cash and due from banks	24	82,621	48,598
Debt investment securities at amortized cost	12,24	-	49,339
Debt investment securities at fair value through other comprehensive income	12,24	420,591	346,640
Less: impairment losses	12	(765)	(644)
Debt investment securities net		419,826	395,335
Derivative financial instruments – assets	13	3,128	662
Loans at amortized cost	14,5	1,808,187	1,318,418
Less: deferred income	14	(8,170)	(3,052)
Less: impairment losses	11,5	(43,314)	(34,775)
Loans at fair value through profit or loss	14	12,754	12,277
Loans net of impairment		1,769,457	1,292,868
Equity investments at fair value through profit or loss	15,5	798	1,015
Equity investments at fair value through other comprehensive income	15,5	29,588	26,640
Equity investments at fair value		30,386	27,655
Other assets	16	35,853	29,541
Property and equipment	17	489	455
Intangible assets	18	422	653
Right of use assets	21	1,255	-
Total Assets		**2,343,437**	**1,795,767**
Liabilities			
Borrowings			
Amounts due to banks	19	246,437	227,109
Debts evidenced by certificates	19	1,238,718	726,921
Derivative financial instruments – liabilities	13	6,552	24,164
Payables and accrued interest	20	20,262	15,973
Lease liability	21	1,059	-
Total liabilities		**1,513,028**	**994,167**
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 past due	22	-	(1,428)
Paid-in share capital		686,550	685,122
Reserves	23	54,009	32,957
Retained earnings		89,850	83,521
Total members' equity		830,409	801,600
Total Liabilities and Members' Equity		**2,343,437**	**1,795,767**
Off-balance-sheet items			
Commitments	5	353,496	252,801

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

STATEMENT OF CHANGES IN MEMBERS' EQUITY

For the year ended 31 December 2019

Presented in thousands EUR	Share capital					
	Subscribed	Callable	Payable	Reserves	Retained Earnings	Total
At 31 December 2017	**2,288,500**	**(1,601,950)**	**(44,984)**	**33,583**	**83,521**	**758,670**
Total comprehensive income	-	-	-	(5,802)	5,176	(626)
Members' contributions	-	-	43,556	-	-	43,556
Transfer to general reserve	-	-	-	5,176	(5,176)	-
At 31 December 2018	**2,288,500**	**(1,601,950)**	**(1,428)**	**32,957**	**83,521**	**801,600**
Total comprehensive income	-	-	-	13,717	13,664	27,381
Members' contributions	-	-	1,428	-	-	1,428
Transfer to general reserve	-	-	-	7,335	(7,335)	-
At 31 December 2019	**2,288,500**	**(1,601,950)**	**-**	**54,009**	**89,850**	**830,409**

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

Presented in thousands of EUR	Note	2019	2018
Cash flows from operating activities			
Net income for the year		13,664	5,176
Adjustment for:			
Depreciation and amortization	17,18	572	453
Impairment losses	11,12	1,952	6,660
Fair value (gains) losses on loans at FVTPL	14	(477)	446
Fair value (gains) losses on equity investments at FVTPL	15	217	585
Net interest income		(36,582)	(33,144)
Foreign exchange adjustment on provisions	11	198	1,073
Operating (loss) before changes in operating assets		(20,456)	(18,751)
Changes in:			
Derivative financial instruments	13	(20,078)	6,919
Other assets	16	(2,147)	(189)
Accounts payable	20,21	4,191	(808)
Deferred income	14	5,118	(3,167)
Fair value movements	23	16,737	(8,216)
Cash generated from operations		(16,635)	(24,212)
Proceeds from repayment of loans	14	381,756	377,988
Proceeds from repayment of equity investments		2,096	4,756
Funds advanced for loans	14	(871,130)	(572,966)
Funds advanced for equity investments		(825)	(859)
Foreign exchange and other adjustments		(4,874)	(827)
Interest income received		89,804	75,522
Interest expense paid		(52,117)	(44,214)
Net cash from / (used in) operating activities		(471,925)	(184,812)
Cash flows from investing activities			
Proceeds from investment securities at FVTOCI		812,753	409,139
Purchase of investment securities at FVTOCI		(759,717)	(523,141)
Purchase of property, software and equipment	17,18	(379)	(408)
Net cash from / (used in) investing activities		52,657	(114,410)
Cash flows from financing activities			
Proceeds received from share capital	22	1,428	43,556
Proceeds from borrowings	20	1,267,253	433,639
Repayments of borrowings	20	(736,128)	(202,201)
Net cash from / (used in) financing activities		532,553	274,994
Net increase in cash and cash equivalents		**113,285**	**(24,228)**
Cash and cash equivalents at beginning of year	24	172,253	196,481
Cash and cash equivalents at end of year	24	**285,538**	**172,253**

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 (the '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 the establishment of the Bank the Establishing Agreement came 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, the Bank 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 customers.

As at financial position date the Bank's shareholders are comprised of the following 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.

Board of Governors and Board of Directors

Each of the Member States of the Bank is represented on the Board of Governors (BoG), with all powers of the Bank vested in the BoG. With the exception of certain reserved powers, the BoG has delegated the exercise of its powers to the Board of Directors (BoD), while retaining overall authority. At financial position date the members are: Republic of Albania, Erjon Luci, Deputy Minister of Finance; Republic of Armenia, Arthur Javadyan, Chairman, Central Bank of Armenia; Republic of Azerbaijan, Samir Sharifov, Minister of Finance; Republic of Bulgaria, Marinela Petrova, Deputy Minister of Finance; Georgia, Koba Gvenetadze, Governor National Bank of Georgia; Hellenic Republic, Adonis-Spyridon Georgiadis, Minister of Development & Investments; Republic of Moldova, Ion Chicu, Minister of Finance; Romania, Eugen Orlando Teodorovici, Minister of Public Finance; Russian Federation, Sergey Storchak, Deputy Minister of Finance; Republic of Turkey, Bulent Aksu, Deputy Minister of Treasury & Finance; Ukraine, Timofiy Mylovanov, Minister of Economic Development, Trade & Agriculture.

The BoD, 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, who has full powers to act for the Director when the Director is not present. At financial position date the members are: Republic of Albania, Arian Kraja, Secretary General, Ministry of Finance & Economy; Republic of Armenia, Davit Ananyan, Chairman of the State Revenue Committee; Republic of Azerbaijan, Famil Ismayilov, Deputy Head, International Relations Department, Ministry of Finance; Republic of Bulgaria, Petya Kuzeva, Director, Government Debt Directorate, Ministry of Finance; Georgia, Nikoloz Gagua, Deputy Minister of Finance; Hellenic Republic, Ioannis Tsakiris, Deputy Minister of Development & Investments; Republic of Moldova, Elena Matveeva, Head, Public Debt Department, Ministry of Finance; Romania, Diana Blindu, Head of Division, General Directorate for International Financial Relations, Ministry of Public Finance; Russian Federation, Evgeny Stanislavov, Director, Department of Economic Cooperation, Ministry of Foreign Affairs; Republic of Turkey, Kemal Cagatay Imirgi, Acting Director General, Foreign Economic Relations, Ministry of Treasury and Finance; Ukraine, Vitaliy Lisovenko, Governmental Envoy for Public Debt Management, Ministry of Finance.

BoG and BoD members can be changed at any time upon the discretion of the respective Member State.

Notes to the Financial Statements

The financial statements for the year ended 2019 were submitted by the Management to the Board of Directors (BoD) for approval on 7 May 2020, 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) in their Annual Meeting to be held on 18 June 2020.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1 Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as published by the International Accounting Standards Board (IASB).

Basis of Measurement

The financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts, which have been measured at fair value in accordance with IFRS 9.

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

IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the 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. Use of available information and application of judgment are inherent in the formation of estimates in the following areas: impairment of loans-and-receivables, valuation of financial instruments not quoted in active markets, including OTC derivatives and certain debt securities, impairment of investment securities, estimation of retirement benefits obligation, and contingencies from litigation. Actual results in the future may differ from those reported.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the Note 'Use of estimates'.

2.2 Going Concern

The financial statements have been prepared on a going concern basis. As disclosed in Note 27, 2020 began with the outbreak of a new strain of Coronavirus (COVID-19) pandemic, subsequent to the year-end, Management have performed procedures to assess and monitor the financial and operational impacts of COVID-19 as detailed in Note 27. Management have not identified the need for asset impairments and are of the view that the Bank will continue to operate through this pandemic as a going concern.

2.3 Adoption of New and Amended Standards (IFRS) EU

New standards and amendments to standards as well as IFRIC 23 which were issued by the International Accounting Standards Board (IASB), applied on 1 January 2019:

Notes to the Financial Statements

- **Amendment to International Financial Reporting Standard 9** 'Financial Instruments': Prepayment Features with Negative Compensation.

  On 12.10.2017 the International Accounting Standards Board issued an amendment to IFRS 9 that permits some pre-payable financial assets with negative compensation features, that would otherwise been measured at fair value through profit or loss, to be measured at amortized cost or at fair value through other comprehensive income. The amendment to IFRS 9 clarifies that a financial asset passes the SPPI criterion regardless of the event or circumstance that cause the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The adoption did not have any material impact on the Bank's financial statements.

- **International Financial Reporting Standard 16** 'Leases'
  On 13.1.2016 the International Accounting Standards Board issued IFRS 16 'Leases' which supersedes:

  - IAS 17 'Leases'
  - IFRIC 4 'Determining whether an arrangement contains a lease'
  - SIC 15 'Operating Leases – Incentives' and
  - SIC 27 'Evaluating the substance of transactions involving the legal form of a lease'.

  The new standard significantly differentiates the accounting of leases for lessees while essentially maintaining the existing requirements of IAS 17 for the lessors. In particular, under the new requirements, the classification of leases as either operating or finance is eliminated. A lessee is required to recognize, for all leases with term of more than 12 months, the right-of-use asset as well as the corresponding obligation to pay the lease payments. The above treatment is not required when the asset is of low value.

  At initial recognition, the right-of-use asset comprises the amount of the initial measurement of the lease liability, any initial direct costs, any lease payments made before the commencement date as well as an estimate of dismantling costs.

  At initial recognition, the lease liability is equal to the present value of the lease payments that are not paid at that date. This has been adopted by the Bank with no significant impact on its financial position.

- **Amendments to International Accounting Standard 19 '**Employee Benefits':
  Plan Amendment, Curtailment or Settlement

  On 7.2.2018 the International Accounting Standards Board issued an amendment to IAS 19 with which it specified how companies determine pension expenses when changes to a defined benefit pension plan occur. In case that an amendment, curtailment or settlement takes place IAS 19 requires a company to remeasure its net defined benefit liability or asset. The amendments to IAS 19 require specifically a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In addition, the amendment to IAS 19 clarifies the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The adoption did not have material impact on the Bank's financial statements.

- **Amendment to International Accounting Standard 28** 'Investments in Associates':
  Long-term Interests in Associates and Joint Ventures.

On 12.10.2017 the International Accounting Standards Board issued an amendment to IAS 28 to clarify that long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture —to which the equity method is not applied—should be accounted for using IFRS 9, including its impairment requirements. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The adoption did not have material impact on the Bank's financial statements.

Notes to the Financial Statements

- **Improvements to International Accounting Standards** – cycle 2015-2017.

  As part of the annual improvements project, the International Accounting Standards Board issued, on 12.12.2017, non-urgent but necessary amendments to various standards.

- **IFRIC Interpretation 23 '**Uncertainty over Income Tax Treatments'.

  On 7.6.2017 the International Accounting Standards Board issued IFRIC 23. The Interpretation clarifies application of recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The Interpretation specifically clarifies the following:

  - An entity shall determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty.
  - The estimations for the examination by taxation authorities shall be based on the fact that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations.
  - For the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment.
  - An entity shall reassess an estimate if the facts and circumstances change or as a result of new information.

  The adoption did not have material impact on the Bank's financial statements.

Except for the standards mentioned above, the following amendments to standards which are effective for annual periods beginning after 1 January 2019.

- **Amendment to International Financial Reporting Standard 9** "Financial Instruments',
  to **International Accounting Standard 39** 'Financial Instruments' and
  to **International Financial Reporting Standard 7** 'Financial instruments: Disclosures': Interest rate benchmark reform.

Effective for annual periods beginning on or after 1.1.2020:

On 26.9.2019 the International Accounting Standards Board issued amendments to IFRS 9, IAS 39 and IFRS 7, according to which temporary exceptions from the application of specific hedge accounting requirements are provided in the context of interest rate benchmark reform.

In accordance with the exceptions, entities applying those hedge accounting requirements may assume that the interest rate benchmark is not altered as a result of the interest rate benchmark reform. Relief is provided regarding the following requirements:

- The highly probable requirement in cash flow hedge,
- Prospective assessments,
- Separately identifiable risk components.

The adoption is not expected to have any material impact on the Bank's financial statements.

- **Amendments to International Accounting Standard 1** 'Presentation of Financial Statements' and
  to International Accounting Standard 8 'Accounting Policies, Changes in Accounting Estimates and Errors: 'Definition of material'.

Effective for annual periods beginning on or after 1.1.2020:

On 31.10.2018 the International Accounting Standards Board, as part of the Disclosure Initiative, issued amendments to IAS 1 and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition.

Notes to the Financial Statements

The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments include examples of circumstances that may result in material information being obscured. The IASB has also amended the definition of material in the Conceptual Framework to align it with the revised definition of material in IAS 1 and IAS 8.

The adoption is not expected to have any material impact on the Bank's financial statements.

- **Amendment to International Financial Reporting Standard 3** "Business Combinations":
  Definition of a Business.

Effective for annual periods beginning on or after 1.1.2020:

On 22.10.2018 the International Accounting Standards Board issued an amendment to IFRS 3 aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments:

- Clarify the minimum requirements in order for a business to have been acquired,
- The assessment for the acquisition of either a business or a group of assets is simplified and it is based on the current condition of acquired elements rather than on the market participant's ability to integrate them into his own processes,
- The definition of outputs is amended so that apart from the revenue arising from ordinary activities falling within the scope of IFRS 15, it also includes other income from main activities such as income from investment services,
- Guidance is added to assess whether a production process is substantive both in cases where a product is produced at the date of acquisition and in cases where there is no product produced,
- An optional exercise is introduced based on the fair value of the assets acquired to assess whether a business or group of assets has been acquired.

The adoption is not expected to have any impact on the Bank's financial statements.

- **Amendment to International Financial Reporting Standard 10** 'Consolidated Financial Statements' and
  to **International Accounting Standard 28** 'Investments in Associates and Joint Ventures':
  Sale or contribution of assets between an investor and its associate or joint venture. Effective date: To be determined.

  On 11.9.2014 the International Accounting Standards Board issued an amendment to IFRS 10 and IAS 28 in order to clarify the accounting treatment of a transaction of sale or contribution of assets between an investor and its associate or joint venture. In particular, IFRS 10 was amended in order to be clarified that in case that as a result of a transaction with an associate or joint venture, a parent loses control of a subsidiary, which does not contain a business, as defined in IFRS 3, it shall recognize to profit or loss only the part of the gain or loss which is related to the unrelated investor's interests in that associate or joint venture. The remaining part of the gain from the transaction shall be eliminated against the carrying amount of the investment in that associate or joint venture. In addition, in case the investor retains an investment in the former subsidiary and the former subsidiary is now an associate or joint venture, it recognizes the part of the gain or loss resulting from the remeasurement at fair value of the investment retained in that former subsidiary in its profit or loss only to the extent of the unrelated investor's interests in the new associate or joint venture. The remaining part of the gain is eliminated against the carrying amount of the investment retained in the former subsidiary.

  In IAS 28, respectively, it was clarified that the partial recognition of the gains or losses shall be applied only when the involved assets do not constitute a business. Otherwise, the total of the gain or loss shall be recognized.

Notes to the Financial Statements

On 17.12.2015, the International Accounting Standards Board deferred the effective date for the application of the amendment that had been initially determined. The new effective date will be determined by the International Accounting Standards Board at a future date after taking into account the results of its project relating to the equity method.

The adoption is not expected to have any impact on the Bank's financial statements.

- **International Financial Reporting Standard 14** 'Regulatory deferral accounts'.

Effective for annual periods beginning on or after 1.1.2016:

On 30.1.2014 the International Accounting Standards Board issued IFRS 14. The new standard, which is limited-scope, addresses the accounting treatment and the disclosures required for regulatory deferral accounts that are maintained in accordance with local legislation when an entity provides rate-regulated goods or services. The scope of this standard is limited to first-time adopters that recognized regulatory deferral accounts in their financial statements in accordance with their previous GAAP. IFRS 14 permits these entities to capitalize expenditure that non-rate-regulated entities would recognize as expense.

The adoption is not expected to have any material impact on the Bank's financial statements.

- **International Financial Reporting Standard 17** "Insurance Contracts"

Effective for annual periods beginning on or after 1.1.2021:

On 18.5.2017 the International Accounting Standards Board issued IFRS 17 which replaces IFRS 4 'Insurance Contracts'. In contrast to IFRS 4, the new standard introduces a consistent methodology for the measurement of insurance contracts. The key principles in IFRS 17 are the following:

An entity:

- Identifies as insurance contracts those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder,
- Separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts,
- Divides the contracts into groups that it will recognize and measure,
- Recognizes and measures groups of insurance contracts at:
    - i) A risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset),
    - ii) An amount representing the unearned profit in the group of contracts (the contractual service margin),
- Recognizes the profit from a group of insurance contracts over the period the entity provides insurance cover, and as the entity is released from risk. If a group of contracts is or becomes loss-making, an entity recognizes the loss immediately,
- Presents separately insurance revenue, insurance service expenses and insurance finance income or expenses, and,
- Discloses information to enable users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity.

It is also noted that in November 2018 the International Accounting Standards Board proposed to defer the IFRS 17 effective date to 1.1.2022.

The adoption is not expected to have any impact on the Bank's financial statements.

Notes to the Financial Statements

- **Amendment to the International Accounting Standard 1** 'Presentation of Financial Statements': Classification of liabilities as current or non-current.

Effective for annual periods beginning on or after 1.1.2022:

On 23.1.2020, the International Accounting Standards Board issued amendments to IAS 1 relating to the classification of liabilities as current or non-current.

More specifically:

- The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if the liability must be classified as current or non-current.
- Management expectations about events after the balance sheet date must not be taken into account.
- The amendments clarify the situations that are considered settlement of a liability.

The adoption is not expected to have any material impact on the Bank's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Foreign Currencies Translation

Foreign currency transactions being revenues, expenses, gains and losses 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 at the date of transaction.

When preparing the financial statements exchange gains and losses arising from the translation of monetary assets and liabilities denominated in foreign currencies at the end of year are recognized in the income statement.

Non-monetary items that are measured at historical cost are translated using the historical exchange rate at the date of the transaction. Translation differences on non-monetary items which are held at FVTPL as prepayments are recognized in the income statement. Translation differences on non-monetary items which are at FVTOCI as equity investments are included in other comprehensive income.

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

			31 December 2019	31 December 2018
1 EUR	=	United States dollar	1.12340	1.14500
	=	Pound sterling	0.85080	0.89453
	=	Russian ruble	69.95630	79.71530
	=	Azerbaijan manat	1.90350	1.94680
	=	Georgian lari	3.20950	3.07010
	=	Armenian dram	537.26000	553.65000
	=	Romanian leu	4.78300	4.66350

3.2 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 a financial asset when (i) loses control of the contractual rights that comprise the financial asset or a portion of the financial asset or (i) the Bank retains the right to receive cash flows from the asset, but has assumed the obligation to pay it in full without material delay to a third party under a 'pass through' arrangement. 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.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in net income or loss.

3.3 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.

Notes to the Financial Statements

3.4 Financial Assets

The classification of financial assets defines how existing information is reflected in the financial statements. In particular, the valuation method and the impairment calculation are defined by this classification, which are based on criteria established by the Bank.

3.4.1 Classification

The Bank recognizes a financial asset in its financial statements at the time of the creation of the contractual claim (that is, the day the transaction took place). In recognition, the Bank determines the business model to which it belongs. Financial assets are classified in three categories:

1. ***Financial assets measured at amortized cost (AC)***: this category classifies each asset or group of assets for which the Bank's business model constitutes its holding for the purpose of collecting contractual cash flows. The possible sale of financial assets should not be the result of Business Planning for their management. Financial assets are classified at AC only if both of the following criteria are met:
    - The objective of the Bank's business model is to hold the asset in order to collect the contractual cash flows, and,
    - The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding:
        (i) Principal is the fair value of the financial asset at initial recognition,
        (ii) Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

    The Bank's operations, which are non-derivative with fixed or determinable payments and with fixed maturities, meeting the above criteria are measured initially at fair value plus transaction costs and including any premium or discount that may arise on the date of acquisition. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. These financial assets are subsequently measured at AC using the effective interest method, less any provision for impairment or uncollectability. All other fees and relating income generated are reported in the income statement (see note 'Net fees and commissions'). All such financial assets are recognized on settlement date.

    These financial assets include cash and cash equivalents, loans and advances on amounts disbursed to operations, receivables accrued, and certain debt investments that meet the above criteria.

2. ***Financial assets measured at fair value through other comprehensive income (FVTOCI)***, and are after reclassified at fair value through profit or loss (FVTPL) on derecognition: gains or losses arising from the measurement are recorded in a separate members' equity account. This category classifies each asset or group of assets for which the Bank's business model recommends that it be held for the purpose of collecting contractual cash flows and selling them when the Business Planning of their acquisition has been achieved. Debt instruments are classified and subsequently measured at FVTOCI only if both of the following criteria are met:
    - The objective of the Bank's business model is achieved by both collecting the contractual cash flows and selling the financial asset; and
    - The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding:
        (i) Principal is the fair value of the financial asset at initial recognition.
        (ii) Interest consist of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

Notes to the Financial Statements

This category includes Treasury financial assets such as euro commercial paper (ECP) or bonds that are intended to be held to maturity, which may or may not be sold in the future. Their fair value is determined by reference to quoted market bid prices. The unrealized gains and losses that arise from fluctuations in fair value are recognized as a separate component of member's 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 member's equity is included in income. Foreign exchange gains or losses and any income accrued, by using the effective interest rate method are recognized directly in income. All such financial assets are recognized on trade date.

Financial assets not meeting the above criteria, as well as those financial assets designated are to be measured at FVTPL.

In order to classify assets in the above two categories, contractual cash flows should consist solely of payments of principal and interest (SPPIs).

3. *Financial assets (equity instruments) measured at FVTOCI*. On initial recognition the Bank can make an irrevocable election, on an instrument-by-instrument basis, to designate investments in an equity instrument not held for trading nor contingent consideration, as a financial asset measured at FVTOCI. Those not elected are measured at FVTPL. Dividends received are recorded in the income statement.

   After initial recognition at cost, plus transaction costs, these financial assets are subsequently measured at fair value with all gains and losses arising from changes in fair value (realized and unrealized), including foreign exchange gains and losses, recognized in other comprehensive income as a separate component of members' equity. For those not purchased from an 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. All such financial assets are recognized on settlement date.

   The cumulative gains or losses are not reclassified, e.g. not recycled, to income on disposal of the investments and no provisions for impairments are recognized in the income statement. However, the cumulative gain or loss after the investment is subsequently derecognized can be transferred within members' equity.

4. *Financial assets measured at FVTPL*: this category classifies items that do not meet the SPPI criterion as well as the items that the Bank holds for trading. Their classification depends primarily on the following two important factors (i) the Bank's business model for these assets and (ii) the characteristics of the contractual cash flows of the asset.

   These financial assets are initially measured at their fair value and subsequently carried at fair value on the statement of financial position with all changes in fair value gains and losses and foreign exchange gains and losses, recognized in the income statement in the period in which they occur. Transaction costs on these financial assets are expensed in the income statement. This category includes any treasury assets held for trading or resale to realize short-term fair value changes as well as any loans for which either of the criteria for recognition at AC is not met. It can also include a debt instrument or an equity instrument that is not within the category nor measured at FVTOCI. Derivative instruments are also categorized as financial assets at FVTPL. All such financial assets are recognized on trade date.

   In addition, a debt instrument that could meet AC criteria can be designated and measured at FVTPL. Upon initial recognition, if such designation significantly reduces or eliminates a measurement or recognition inconsistency, referred to as an 'accounting mismatch', which would arise from measuring assets or recognizing the gains and losses on them on different bases.

Notes to the Financial Statements

3.4.2 Measurement

The Bank measures financial assets at fair value on initial recognition, as detailed above. In the event the Bank considers that the fair value on initial recognition differs from the transaction price, that difference is recognized as a gain or loss on initial recognition but only if the fair value is based on a requested active market price for identical assets or is based on a valuation technique using data solely from identified markets. In all other cases the fair value is adjusted to the amount of the transaction price.

Financial assets that are subsequently measured at either AC or debt instruments at FVTOCI, are subject to provisions for impairment.

Based on the Bank's credit policy, the Bank does not originate credit-impaired financial assets, nor does the Bank purchase credit-impaired assets, exception being those loans would be acquired at a deep discount.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

3.4.3 Business Model Assessment

The factor of the business model refers, amongst others, to the manner in which the Bank manages its financial assets by classifying them in portfolios that are part of its business model. The assessment process applied by the Bank through its business model, based on strategic objectives, classifies its assets in the following three categories in accordance with IFRS 9:

i) Hold to Collect

Each asset or group of assets for which the Bank's business model recommends that it be held for the purpose of collecting contractual cash flows is classified as 'Hold to collect'.

ii) Hold to Collect and Sell

Each asset or group of assets for which the Bank's business model recommends that it be held for the purpose of collecting contractual cash flows and selling them when the strategic planning of their acquisition has been achieved is classified as 'Hold to collect and sell'.

iii) Trading Portfolio

The financial assets held for trading are classified as 'Trading portfolio'.

The adopted business model determines the source of revenue, as it arises from individual portfolios either through the collection of contractual cash flows or from the sale of financial assets or the combination of the above.

The assessment of the business model reflects the Bank's strategy under normal business conditions. The assessment is not affected by actions required in 'emergency situations' (e.g. liquidity needs, non-inherent capital requirements for credit risk, etc.). Also, Management decisions taken to comply with new regulatory guidelines are not included in the assessment.

In general, the Bank has included the majority of its loan portfolios in the hold-to-collect business model. The assessment of a business model is made within the definition of operational objectives as defined by the Bank's Management, as well as in the operational management of its assets. The assessment is effected at portfolio level rather than at individual asset levels.

The business model applied to loan portfolio, treasury portfolio and equity investment portfolio is reassessed at each reporting period. The reassessment of the business model has been established in order to determine if evidence initially used has changed.

3.4.4 Loans

Loans originated by the Bank, is where money is provided directly to the borrower. Loans are initially recorded at fair value, which is usually the net amount disbursed at inception including directly attributable origination costs and certain types of fees or commission (e.g. syndication commission, front-end, commitment fees and handling charges) that are regarded as an adjustment to the effective interest rate of the loan, and are subsequently measured at amortized cost using the effective interest rate method.

Loans that are designated as at FVTPL are recognized at a value arrived at by using a combination of discounted cash flow models. These models incorporate market data pertaining to interest rates, a borrower's credit rating, and underlying assets. Where unobservable inputs have been used, a sensitivity analysis has been included under 'fair value hierarchy' described within the 'Risk Management' section of this report.

3.5 Impairment

3.5.1 Financial Assets

The impairment requirements of IFRS 9 apply to financial instruments that are measured at AC or FVTOCI, and off-balance-sheet lending commitments such as loan commitments and financial guarantees. These financial assets will be tested to determine whether their credit quality has changed significantly since the date of their creation. This resulted in the classification of the data in 3 stages, which in ascending order indicates the credit risk and corresponding provisioning charge of each item. As such, stage 1 includes assets whose credit quality is not significantly degraded and the impairment that they will incur will be equal to a 12-month Expected Credit Loss (ECL). Stage 2 includes assets whose credit quality has been substantially downgraded and are subject to lifetime ECL. The same applies to the items classified in stage 3, where all the impaired items, including non-performing loans (NPLs), fall.

Financial instruments, including equity instruments, carried at FVTPL are not subject to impairment requirements as their fair value reflects the credit of these exposures. Additionally, equity investments measured at FVTOCI are also not subject to impairment requirements, but a negative reserve balance in relation to the carrying amount of that equity investment, e.g. representing an impairment loss, is to be recognized as other comprehensive income and shall not be recycled (reclassified and transferred) to net income or loss.

The Bank measures impairment losses on an individual basis. Similarly, the assessment for transferring financial assets between stages 1, 2 and 3, are also made on an individual basis. The Bank applies three main components to measure expected credit losses which are a LGD, PD and EAD. In order to perform the ECL calculation, the Bank uses Moody's Analytics IFRS ImpairmentCalc tool. With the tool, the Bank provides probabilities of default and loss given defaults and assigns scenarios for potential credit risk deterioration. There can be transfers of exposure from one stage to another, depending on whether there is a change in the credit risk of that exposure. The probability of default is an estimate of the likelihood of default over a given time horizon.

The Bank uses information obtained from the Global Emerging Markets (GEMs) database in order to assign PDs to its lending asset classes. GEMs is an IFI-wide initiative designed to pool default and recovery rates experienced by IFIs in emerging markets. Treasury asset classes derive their PDs from the assigning rating agency. LGD is an estimate of the loss arising on default. The Bank uses information obtained from the GEMs database to assign LGDs to its lending asset classes, and treasury asset classes derive their LGDs from the assigning rating agency.

Calculation of Expected Credit Loss

The Bank recognizes allowance for ECLs that reflect changes in credit quality since initial recognition to financial assets that are measured at AC and FVOCI, including loans, debt securities, and loan commitments. No ECLs are recognized on equity investments. ECLs are a probability-weighted average estimate of credit losses that reflects the time value of money. Upon initial recognition of the financial instruments in scope of the impairment policy, the Bank records a loss allowance equal to 12-month ECL, being the ECL that results from default events that are possible within the next twelve months.

Notes to the Financial Statements

Subsequently, for those financial instruments that have experienced a significant increase in credit risk (SICR) since initial recognition, a loss allowance equal to lifetime ECL is recognized, arising from default events that are possible over the expected life of the instrument. The expected credit losses are weighted on the basis of three macroeconomic scenarios (adverse, basic and favorable).

Classification of Loans into Stages Based on Credit Risk (Staging)

The Bank has introduced a number of criteria for the classification of financial assets in stages. These criteria are intended to check whether there has been a significant deterioration in the credit quality of financial assets since inception. Essentially, the Bank examines:

- Days past due,
- If there has been a significant downgrade of the credit rating of the assets,
- Qualitative parameters indicating a change in credit quality (e.g. dealing with financial difficulties), and
- Whether a financial asset characterized as credit-impaired.

Basic Parameters Used for the Calculation of Expected Credit Loss

The calculation of expected credit losses is based on the probability of default (PD), loss given default (LGD), exposure at default (EAD) and other parameters such as the credit conversion factor (CCF) and the prepayment rate. The Bank has obtained from an external provider a system of calculating expected credit losses. The basic parameters have been drawn from statistical models developed in cooperation with the external provider, utilizing the existing risk management infrastructure and practices of the Bank and the know-how and experience of the provider.

PD represents the probability that a debtor will default on his debt obligations either over the next 12 months or over the remaining maturity of his debt. In accordance with IFRS 9, the Bank uses non-discriminatory point-in-time PDs that adjust to macroeconomic assumptions using the ECL.

EAD is defined as the estimate of the exposure in the event of a default of the debtor. The EAD of a financial asset represents its gross carrying amount in the event of a default.

LGD represents the extent of the loss that the Bank expects for exposures that are in default and is defined as the difference between the contractual cash flows and those that the Bank expects to collect, including collateral amounts. LGD, which is usually expressed as a percentage of the EAD, varies according to the category of the counterparty, the category and priority of the claim, the existence of collateral and other credit enhancements.

CCF is used to convert credit lines and other off-balance sheet exposures into EAD amounts. It is considered as an assumption representing the percentage of undrawn exposures expected to be disbursed prior to the occurrence of the default event. The prepayment rate is an estimate of premature repayments of a financial exposure that exceeds contractual repayments on the basis of the repayment schedule and is expressed as a percentage of the EAD in each reporting period, resulting in a reduction in the EAD.

The Bank has made use of three macroeconomic scenarios (adverse, basic and favorable) taking into account the relative chances of each of the scenarios. The baseline scenario is the most likely scenario and is in line with the Bank’s information for strategic planning and budgeting purposes.

Significant Increase in Credit Risk

At each reporting date, the Bank assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Bank compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

Generally, there will be a significant increase in credit risk before a financial asset becomes credit-impaired or an actual default occurs. The assessment of significant increase in credit risk is key in transferring an exposure from stage 1 to stage 2 or to stage 3 and the respective change in the ECL measurement from 12-month to lifetime ECL. A combination of quantitative and qualitative factors structured as primary and secondary drivers will be considered and are also supplemented with backstop options. The backstop triggers automatic stage transfers even though the primary and secondary indicators may not trigger such a transfer, unless this result is due to a data error, operational issues, or timing difference in applying cash received up to 30 days to the customer account.

Credit-impaired

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit- impaired includes observable data about the following events:

- Significant financial difficulty of the issuer or the borrower,
- A breach of contract, such as a default or past due event,
- The lender(s) of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider,
- It is becoming probable that the borrower will enter Bankruptcy or other financial reorganization,
- The disappearance of an active market for that financial asset because of financial difficulties, or,
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event – instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Definition of Default

The definition of default used for determining the risk of a default occurring shall be applied consistently to all financial instruments unless information becomes available that demonstrates that another default definition is more appropriate for a particular financial instrument. The Bank’s definition of default is based on the regulatory definition under Article 178 of the ‘Regulation (EU) No 575/2013 of the European Parliament and of the Council of the European Union of 26 June 2013 on prudential requirements for credit banks and investment firms and amending Regulation (EU) 648/2012’ (CRR). A default is considered to have occurred when either of the following conditions had taken place.

i) Qualitative

Unlikeliness to Pay (UTP) criterion: the Bank considers that the obligor is unlikely to pay its credit obligations to the Bank without recourse by the Bank to actions such as realizing security. Below there are some elements that are taken as indications of unlikeliness to pay (in line with CRR (Article 178)).

- The Bank puts the credit obligation on non-accrued status,
- The Bank recognizes a specific credit adjustment resulting from a significant perceived decline in credit quality subsequent to the institution taking on the exposure.
- The Bank has filed for the obligor’s Bankruptcy or a similar order in respect of an obligor’s credit obligation to the Bank, the parent undertaking or any of its subsidiaries.
- The obligor has sought or has been placed in Bankruptcy or similar protection where this would avoid or delay repayment of a credit obligation to the Bank, the parent undertaking or any of its subsidiaries.

ii) Quantitative

Past due criterion: the exposure is past due more than 90 days on any credit obligation to the Bank.

Notes to the Financial Statements

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 loan commitments, and such losses are included in 'Other liabilities'.

Interest income is calculated on the gross carrying amount for financial assets in stage 1 and 2. As the primary definition for credit-impaired financial assets moving to stage 3, the Bank applies the definition of default, and interest income is calculated on the net carrying amount for these financial assets only.

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

3.5.2 Non-financial Assets

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

3.5.3 Renegotiated Financial Assets

When necessary, the Bank seeks to restructure a financial asset that may involve extending the payment arrangements and the agreement of new loan terms and conditions. These are generally renegotiated in response to an adverse change in the financial condition of the borrower.

Modifications occur when the contractual cash flows of a financial asset are renegotiated or otherwise modified. Some modifications result in derecognition of the existing asset and recognition of a new asset, while other modifications do not result in derecognition. Modifications that result in derecognition are considered to be substantial modifications. A significant or substantial change is defined when the customer enters into a new loan contract (i.e. completely new product and new pricing) that has a different interest rate type, loan amount, term period (temporary term extension is excluded), and/or customer (e.g. from single customer to joint or change in one of the joint customer names).

A distressed restructuring is an indication of unlikeliness to pay where this is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement of either principal, interest or, where relevant fees. Distressed restructuring occurs when forbearance measures have been extended towards a debtor. Therefore, those forborne exposures where the forbearance measures are likely to result in a diminished financial obligation are classified as defaulted.

Restructured operations will be considered cured and normalized after two successful repayments and could therefore be subject to a stage movement.

3.5.4 Write-offs

According to the IFRS 9 (B5.4.9), the gross carrying amount of a financial asset may be directly reduced when there is no reasonable expectation of recovering the financial asset in its entirety or a portion of it. As such, the Bank may record a write-off of stage 3 loans. The Bank may also, on an ad-hoc basis, examine the need for any further write-offs of stage 2 loans if there is relevant evidence.

3.5.5 Write-backs

Recoveries (write-backs) of an asset, or part thereof, are credited to the income statement if previously written off.

Notes to the Financial Statements

3.6 Financial Liabilities

The Bank recognizes a financial liability in its financial statements at the time of the arising from the item (that is, the day the transaction took place). Financial liabilities primarily include (a) borrowings and (b) other liabilities.

3.6.1 Borrowings

Borrowing transactions which are amounts due to financial institutions and debts evidence by certificates, 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 AC 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.

3.6.2 Other Liabilities

Other liabilities that are not derivatives or designated at FVTPL, are recorded at AC. The amounts include accrued finance charges on borrowings and other accounts payable.

3.7 Offsetting of Financial Assets and Liabilities

Offsetting of financial 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 there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.8 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.

The Bank primarily makes use of derivatives for the below strategic purposes:

- Many of the Bank's issued securities, excluding commercial paper, are individually paired with a swap to convert the issuance proceeds into the currency and interest rate structure sought by the Bank.
- To manage the net interest rate risks and foreign exchange risks arising from all financial assets and liabilities.
- Through currency swaps, to manage funding requirements for the Bank's loan portfolio.

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.

IFRS 9 introduces a new general hedge accounting model, which links hedge accounting to risk management activities by the bank's management. According to the new model, additional hedging strategies may meet the hedge accounting criteria, new requirements apply to the effectiveness of hedging, while terminating hedge accounting will be permissible only under certain conditions. The International Accounting Standards Board with regard to the macro-hedging accounting is carrying out a separate work that is in progress. Until such work is completed as an accounting policy, the Bank will continue to apply the requirements of IAS 39 for hedge accounting.

Notes to the Financial Statements

3.8.1 Hedge accounting

The Bank has chosen to continue to apply the hedge accounting requirements of IAS 39, instead of the requirements of IFRS 9, and has applied this accounting policy to all its hedging relationships.

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's policies on risk management are not to take significant interest rate or foreign exchange risks, and aims where possible to match assets and liabilities and derivatives that can only be used for hedging. The majority of the Bank's lending activities are at floating rates linked to USD LIBOR or EURIBOR. When lending at a fixed rate the Bank will often use interest rate swaps to produce floating rate interest payments. The Bank's borrowings, particularly by bond issuance, tend to be fixed rate and sometimes not in EUR or USD and the Bank will use either interest rate swaps or cross currency interest rate swaps to produce floating rate liabilities in USD or EUR. All the Bank's interest rate or cross currency swaps are explicitly tied to a balance sheet asset or liability. Typically, the fixed rate on the swap and the matching asset or liability have the same characteristics (term, payment dates etc.). Foreign exchange forwards (paired purchases and sales of currencies on different dates) of maturities typically less than three months are not tied to specific assets or liabilities. These are undertaken to manage surpluses and shortfalls in EUR and USD and are not undertaken for speculative purposes. All derivatives are documented under an ISDA agreement with a CSA and marked to market and collateralized daily.

When hedge accounting is applied, the Bank designates and documents the relationship between the hedging instrument and the hedged item as well as its risk management objective and strategy for undertaking the hedging transactions and the nature of the risk being hedged. This documentation includes a description of how the Bank will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Hedge effectiveness is assessed at inception, even when the terms of the derivative and hedged item are matched.

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.

3.8.2 Financial Impact

Before the impact of derivatives and hedge accounting adjustments the Bank returned a net income of EUR 17,777 thousand in 2019 compared with EUR 12,775 thousand in 2018. After allowing for derivative and hedge accounting adjustments the Bank's net income for 2019 was EUR 13,664 thousand (2018: EUR 5,176 thousand). All contracts that are considered derivatives for accounting purposes are carried at fair value in the statement of financial position.

The Treasury Department, under the guidance of ALCO, is responsible for the primary usage and managing interest rate and currency risks in the Bank's statement of financial position.

Notes to the Financial Statements

3.9 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.

3.10 Property and Equipment

Property and equipment include leasehold improvements and transportation and other equipment. Property and equipment are initially recorded at cost, which includes all costs that are required to bring an asset into operating condition. Subsequently to initial recognition, property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Costs incurred subsequently to the acquisition of an asset, which is classified as property and equipment are capitalized, only when it is probable that they will result in future economic benefits to the Bank beyond those originally anticipated for the asset, otherwise they are regarded as expenses incurred.

At each reporting date the Bank assesses whether there is any indication that an item of property and equipment may be impaired. If any such indication exists, the Bank estimates the recoverable amount of the asset. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining net income or loss.

Depreciation is provided 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%

3.11 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 software for desktops of three years and software for servers of five years. At each reporting date, management reviews intangible assets and assesses whether there is any indication of impairment. If such indications exist an analysis is performed to assess whether the carrying amount of intangible assets is fully recoverable. A write-down is made if the carrying amount exceeds the recoverable amount.

3.12 Right of Use Assets

Right-of-use assets comprise those assets that the Bank, as the lessee, has control of the underlying assets during the term of the lease. Control is considered to exist if the Bank has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset, and,
- The right to direct the use of that asset.

The Bank provides for the recognition of a right-of-use asset and a lease liability upon lease commencement in case that there is a contract, or part of a contract, that conveys to the Bank the right to use an asset for a period of time in exchange for a consideration. More details are provided within the lease accounting policy Note 3.20.

Notes to the Financial Statements

3.13 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 is to 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.

3.14 Provisions

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

3.15 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 10% of the subscribed capital including all paid, unpaid but payable, and unpaid but callable share capital.

3.16 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 those financial assets that are measured at fair value through other comprehensive income of the Bank.

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

3.17 Income and Expense

Interest income and expense are recognized in the income statement using the effective interest method. The effective interest rate (EIR) is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, where appropriate, a shorter period) to:

- The gross carrying amount of the financial asset; or
- The amortized cost of the financial liability.

When calculating the EIR for financial instruments other than purchased or originated credit-impaired assets the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not the ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted EIR is calculated using estimated future cash flows including the ECL.

The calculation of the EIR includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

i) Amortized Cost and Goss Carrying Amount

The AC of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any ECL allowance.

Notes to the Financial Statements

The gross carrying amount of a financial asset' is the AC of a financial asset before adjusting for any ECL allowance.

ii) Calculation of Interest Income and Expense

Interest income and expense are recognized in the income statement for all interest-bearing instruments using the effective interest rate method. Interest income includes interest on loans and advances to customers, coupons earned on fixed income investment securities and accrued discount and premium on treasury bills and other instruments.

Fees and direct costs relating to a loan origination or acquiring an investment security, financing or restructuring and to loan commitments are deferred and amortized to interest income over the life of the instrument using the effective interest rate method.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The EIR of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the EIR is applied to the gross carrying amount of the asset (when the asset is not credit- impaired) or to the AC of the liability. The EIR is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The EIR is also revised for fair value hedge adjustments at the date amortization of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted EIR to the AC of the financial asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the financial asset improves.

iii) Fees and Commissions

Fee and commission income and expense that are integral to the EIR on a financial asset or financial liability are included in the EIR. Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognized as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognized on a straight-line basis over the commitment period.

A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Fee and commission income from contracts with customers under the scope of IFRS 15 is measured based on the consideration specified in a contract with a customer. The Bank recognizes revenue when it transfers control over a service to a customer. The adoption of IFRS 15 had no impact on the Bank's financial statements as the execution and completion of the transaction requested by a customer is done at point in time, and this is consistent with the Bank's existing accounting policy.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Notes to the Financial Statements

3.18 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:

a. The first pillar is a defined post-employment 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 by qualified, independent actuaries on an annual basis at the end of each Annual Reporting period. The actuarial valuation uses the projected unit credit method and a number of financial and demographic assumptions. The most significant assumptions include age, years of service or compensation, life expectancy, the discount rate, expected salary increases and pension rates. The actuarial liability is the present value of the defined benefit obligation as at the reporting date minus the fair value of the plan assets. The Bank is under the obligation to maintain the scheme fully funded, and to this effect, has always liquidated any past service deficit over 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.

b. The second pillar is a defined post-employment contribution scheme to which both the employee and the Bank contribute equally at a rate of 0-12% of basic salary. The Bank has no obligation to pay further contribution if the employee discontinues their contribution. Each employee determines his/her contribution rate and the mode of investment of the contributions.

c. The third pillar is a defined contribution scheme funded entirely by each employee, up to 40% of basic salary and is recorded in the Bank's financial statements.

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

Current service costs in respect of both the pension plan (a) and (b) and EFKA are recognized as an expense in the period which they relate and are 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 they are incurred.

3.19 Related Parties

Related parties include entities, which the Bank has the ability to exercise significant influence in making financial and operational decisions. Related parities include key management personnel, and close family members of key management personnel.

3.20 Leases – the Bank as a Lessee

On 1 January 2019 the Bank adopted IFRS 16, 'Leases'. This standard has established the principles for the recognition, measurement and presentation of leases, and provides a single lessee accounting model that is required at the commencement date of the lease. The objective is to report information that (a) faithfully represents lease transactions and (b) provides a basis for the amount, timing and uncertainty of cash flows arising from leases. The Bank as a lessee is required to recognize right-of-use assets (representing the Bank's right to use the underlying leased assets) and a lease liability (representing the Bank's obligation to make lease payments), in the statement of financial position.

The Bank applied the practical expedient in IFRS 16 to contracts that were identified as leases in order to determine whether an arrangement contains a lease, on transition to contracts that were previously identified as leases under IAS 17 and IFRIC 4. Consequently, the Bank's leases are only for office space; it does not lease land, corporate vehicles, or technical or IT equipment, nor does it have any sale-and-leaseback transactions.

The Bank elected to apply the modified retrospective transition approach, without restatement of comparative figures. Under this approach, the Bank was able to choose on a lease by lease basis to measure the right-of-use asset at the same amount as the lease liability.

The Bank's leases for right-of-use assets are initially recognized and measured at a cost similar to other non-financial assets, and the lease liability is initially recognized and measured at the present value of future lease payments that are not paid at that date similarly to other financial liabilities. The lease payments can be discounted using the interest rate implicit in the lease, if such is available, or alternatively the Bank's incremental borrowing rate. The Bank will apply this measurement – except for those with lease term of 12 months or less, making use of the shot-term leases and leases of low value, exemptions under this standard.

Regarding subsequent measurement, the Bank acting as a lessee, has applied the cost model for the measurement of the right-of-use asset; where this asset is measured at cost, less any accumulated depreciation and any accumulated impairment losses, and adjusted for the remeasurement of the lease liability. The lease liability is measured by increasing the carrying amount to reflect any interest on it and that is separately recognized as an expense; the lease liability's carrying amount is reduced to reflect the lease payments made. In case of any reassessments (e.g. a change in future lease payments resulting from a change in an index or rate used to determine those payments) or lease modifications (e.g. a change in the lease term, lease conditions or any penalty) specified, the carrying amount of the lease liability will be remeasured to reflect revised lease payments.

4. USE OF ESTIMATES

The preparation of financial statements involves Management in critical judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, income and expense in the Bank's financial statements and accompanying notes. The Bank believes that the critical judgments, estimates and assumptions used in the preparation of the its financial statements are appropriate given the factual circumstances as of the date of preparation. The most significant areas, for which critical judgments, estimates and assumptions are required in applying the Bank's accounting policies, are the following:

a. Provisions for the impairment of loan operations. Management is required to exercise judgment in making assumptions and estimates when calculating loan impairment provisions on both individually and collectively assessed loans. The methodology and assumptions used are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience. The estimation methods used by the Bank's Management for collective impairment allowances, include the use of statistical analyses of historical information, supplemented with significant judgment, to assess whether current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than historical experience. In determining the provision amounts the Bank takes into consideration PD and LGD factors extracted from the GEMs database.

   For loans that are individually assessed which have a lifetime ECL and that are credit-impaired, the impairment allowance results 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 EIR to reach a net present value for a particular operation, less any collateral that can be realized.

   Provisions for impairment of investment securities is assessed collectively, using the same methodology as loans.

b. In reaching estimates of fair value instruments the judgment of Management needs to be exercised. The judgment of Management is required in determining the category to which certain instruments should be allocated. This specifically arises when the valuation is determined by a number of parameters some of which are observable while others are not. The Bank provides a sensitivity analysis of the impact upon the level 3 financial instruments of using a reasonably possible alternative for the unobservable parameter.

c. 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 'Employee benefits'. 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 the EUR currency.

5. RISK MANAGEMENT

The Bank's activities are subject to a variety of risks, some of which are not within the Bank's control: including risks relating to changes in interest rates, foreign exchange rates, declines in liquidity and deterioration in the credit quality of its loan portfolio. The Bank monitors and manages the maturities of its loans, its interest rate and exchange rate exposure, its liquidity position and the credit quality of each individual loan and equity investment in order to minimize the effects of changes in them relative to the Bank's profitability and liquidity position. The BoD has approved risk management policies and guidelines that are delegated to the Management of the Bank for the identification and measurement of risk, as well as being subject to risk limits and controls.

To manage risks the Bank has established an Asset and Liability Committee (ALCO), a Credit Committee that implements the Bank's credit and lending policies, the Office of the General Counsel, the Department of Risk Management and the Department of Financial Analysis, which together are responsible for devising, implementing and monitoring the Bank's risk management policies, including financial, credit and market risks.

The ALCO is responsible for monitoring and managing the Bank's overall asset and liability position in accordance with the Bank's treasury policies. It monitors and manages the Bank's liquidity position, maturity gaps, interest income and expense and the condition of the international financial markets and is responsible for assigning market risk limits. The ALCO consists of members of the Bank's Management and a member of the Department of Treasury that has regular monthly meetings.

The Credit Committee is responsible with respect to credit matters. Its key responsibilities include: approval of lending operations for submission to the BoD for final approval, establishing specific parameters (e.g. policies, limits, targets, guidelines) for operational decisionmaking, approval of changes to the manuals that prescribe how operations are to be analyzed, approved, administered and monitored and approval of any amendments, restructuring and other operationrelated matters. The Credit Committee consists of members of the Bank's Management, and has regular meetings as required to monitor and manage overall risk concentration by reference to borrower and industry exposure and critically reviews each individual loan and equity investment proposals made by the lending business areas. A major function of the Credit Committee is to minimize the credit risk presented by each individual loan and equity investment proposal, and the overall portfolio risk of the Bank.

Once an operation is approved and disbursed, it is then monitored to ensure thorough and regular evaluations of its credit quality. Operations are monitored according to a schedule coordinated by the Department of Project Implementation and Monitoring, with inputs from the originating operation 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 previously 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.

Should an operation display signs of weakness during the regular monitoring and/or through risk asset reviews, an impairment test is immediately carried out by the Department of Risk Management and appropriate remedial actions are taken, as required. These measures include, but are not limited to, a detailed assessment of the financial and operational performance of the operation, additional due diligence, stopping disbursement of any undisbursed amounts, preparation of remedial strategies and carrying out further impairment tests. Besides, in addition to regular site visits carried out by the operations teams, such a visit can be conducted by the Department of Project Implementation and Monitoring and, when appropriate, accompanied by the Department of Financial Analysis.

Notes to the Financial Statements

For the Bank a conservative approach to risk taking together with effective risk management, are critical to the Bank's continuing operations. The application of sound Banking principles in the Bank's credit process seeks to ensure that the significant credit risks are properly identified and managed while other risks resulting from its activities are mitigated to the extent possible.

Importantly, the Bank is recognized as an international financial institution, and as such can expect to benefit from the preferred creditor status customarily and historically afforded to such institutions. This preferred creditor status serves to provide an additional layer of comfort against the risks of nonpayment on sovereign debt or by private sector borrowers as a result of local laws creating a delay or freeze on foreigncurrency exchanges. The Bank is exposed to the following risks discussed below.

Financial Risk

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

a) Credit Risk

The Bank is subject to credit risk, which is the risk that customers or counterparties will be unable to meet their obligations as they fall due. Credit risk arises principally from the Bank's lending activities as well as other activities where the Bank is exposed to counterparty default risk. Regular reviews by the departments of Risk Management, Financial Analysis and Project Implementation and Monitoring are conducted of all exposures within the lending portfolios, typically on a semi-annual basis, though exposures that are perceived to be more vulnerable to possible default are reviewed more frequently.

At each review there is/are (i) an assessment of whether there has been any change in the risk profile of the exposure (ii) recommendations of actions to mitigate risk and (iii) reconfirming or adjusting the risk ratings, and for equity investments, reviewing of fair value. Where relevant, the level of the expected credit loss 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.

For credit risks incurred by the Bank's Treasury in its investment and hedging activities, the BoD has approved policies and guidelines for the determination of counterparty and investment exposure limits in bonds, that includes Member State bonds, and euro commercial paper. The Bank's Risk Management Department assigns and monitors these counterparty and issuer credit risk limits. Treasury credit risks are also reviewed on a regular 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 2019	At 31 December 2018
Cash and due from financial institutions	82,621	48,598
Debt investment securities	420,591	395,979
Derivative financial instruments	3,128	662
Loans	1,820,941	1,330,695
Other assets	35,853	29,541
On-balance-sheet	**2,363,134**	**1,805,475**
Undrawn commitments	353,496	252,801
Total	**2,716,630**	**2,058,276**

Notes to the Financial Statements

a1. Analysis by Rating Agency

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

	2019				
Presented in EUR (000)	Aaa – Aa3	A1 – A3	Baa1 – Ba3	Unrated	**Total**
Analysis by Moody's rating					
Cash and bank balances	82,621	-	-	-	**82,621**
Debt investment securities	177,917	50,213	192,461	-	**420,591**
Equity investments	-	-	-	30,386	**30,386**
At 31 December	**260,538**	**50,213**	**192,461**	**30,386**	**533,598**
Of which issued by					
Corporates/Governments	177,917	50,213	192,461	30,386	**450,977**
Cash deposits at banks	82,621	-	-	-	**82,621**
At 31 December	**260,538**	**50,213**	**192,461**	**30,386**	**533,598**
Of which classified as					
Fair value through profit or loss	-	-	-	798	**798**
Fair value through other comprehensive income	177,917	50,213	192,461-	29,588	**450,179**
Amortized cost	82,621	-		-	**82,621**
At 31 December	**260,538**	**50,213**	**192,461**	**30,386**	**533,598**

	2018				
Presented in EUR (000)	Aaa – Aa3	A1 – A3	Baa1 – Ba3	Unrated	**Total**
Analysis by Moody's rating					
Cash and bank balances	48,598	-	-	-	**48,598**
Debt investment securities	21,813	105,979	268,187	-	**395,979**
Equity investments	-	-	-	27,655	**27,655**
At 31 December	**70,411**	**105,979**	**268,187**	**27,655**	**472,232**
Of which issued by					
Corporates/Governments	21,813	105,979	268,187	27,655	**423,634**
Cash deposits at banks	48,598	-	-	-	**48,598**
At 31 December	**70,411**	**105,979**	**268,187**	**27,655**	**472,232**
Of which classified as					
Fair value through profit or loss	-	-	-	1,015	**1,015**
Fair value through other comprehensive income	21,813	105,979	218,848	26,640	**373,280**
Amortized cost	48,598	-	49,339	-	**97,937**
At 31 December	**70,411**	**105,979**	**268,187**	**27,655**	**472,232**

Notes to the Financial Statements

a2. Credit Risk Analysis

The tables below provide an analysis of the Bank's internal expected credit loss rating scale from 1 (lowest risk) to 15 (highest risk) and how it corresponds to the external ratings of Moody's credit rating service.

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

a3. Credit Risk in Loans Portfolio

The table provides an overview of the exposure amount and allowance for credit losses by financial asset class broken down into stages as per IFRS 9 requirements, including movements of non-performing. Internally, loans that are within the 12-month ECL are categorized as standard.

	Presented in EUR (000)							
					Provisions for impairment			
Internal risk rating category	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	**Total**	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	**Total**
Excellent	-	-	-	**-**	-	-	-	**-**
Very strong	-	-	-	**-**	-	-	-	**-**
Strong	-	-	-	**-**	-	-	-	**-**
Good	6,751	-	-	**6,751**	1	-	-	**1**
Fair	645,612	-	-	**645,612**	680	-	-	**680**
Weak	807,563	214,986	-	**1,022,549**	2,118	4,618	-	**6,736**
Special attention	25,073	57,304	50,898	**133,275**	92	1,368	34,437	**35,897**
Expected loss	-	-	-	**-**	-	-	-	-
At 31 December 2019	**1,484,999**	**272,290**	**50,898**	**1,808,187**	**2,891**	**5,986**	**34,437**	**43,314**

	Presented in EUR (000)							
					Provisions for impairment			
Internal risk rating category	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	**Total**	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	**Total**
Excellent	-	-	-	**-**	-	-	-	**-**
Very strong	-	-	-	**-**	-	-	-	**-**
Strong	-	-	-	**-**	-	-	-	**-**
Good	8,442	-	-	**8,442**	1	-	-	**1**
Fair	669,613	44,020	-	**713,633**	1,461	891	-	**2,352**
Weak	372,775	139,822	-	**512,597**	2,058	1,985	-	**4,043**
Special attention	-	42,009	41,737	**83,746**	-	1,398	26,981	**28,379**
Expected loss	-	-	-	**-**	-	-	-	**-**
At 31 December 2018	**1,050,830**	**225,851**	**41,737**	**1,318,418**	**3,520**	**4,274**	**26,981**	**34,775**

Notes to the Financial Statements

Presented in EUR (000)	At 31 December 2019	At 31 December 2018
At 1 January	-	9,164
Classified as non-performing	-	-
Write-off	-	(9,164)
At end of year	-	-

a4. Credit Risk by Country and Sector

The Bank uses international best practices for lending activities in order to diversify risk by country and by sector, while also preserving the needs of the Bank's Member States in accordance with the Bank's mandate to promote economic development in the Black Sea Region.

The concentration of credit risk in lending portfolios is presented below, also including the undrawn amounts. The Bank is generally well diversified by country and by sector.

	At 31 December 2019		At 31 December 2018	
Presented in EUR (000)	Outstanding balance	Undrawn commitments	Outstanding balance	Undrawn commitments
Concentration by instrument				
Loans	1,820,941	335,959	1,330,695	233,099
Equity investments	30,386	7,905	27,655	8,680
Guarantees	-	9,632	-	11,022
At end of year	**1,851,327**	**353,496**	**1,358,350**	**252,801**
Concentration by country				
Albania	40,136	67	37,629	87
Armenia	92,731	387	91,730	431
Azerbaijan	121,519	387	53,867	6,544
Bulgaria	116,447	32,386	153,265	32,418
Georgia	116,119	28,712	113,856	20,802
Greece	386,898	12,503	202,146	2,953
Moldova	38,022	18,555	38,909	2,181
Romania	136,841	684	172,322	7,707
Russia	217,662	56,367	128,113	59,940
Turkey	420,399	134,229	306,218	70,322
Ukraine	164,553	69,219	60,295	49,416
At end of year	**1,851,327**	**353,496**	**1,358,350**	**252,801**
Concentration by sector				
Consumer discretionary	59,671	41,214	13,634	30,247
Consumer staples	89,200	28,856	103,029	118
Energy	228,050	-	155,586	-
Financial institutions	612,049	38,743	537,037	85,109
Health care	91,060	26,138	75,021	42,177
Industrials	269,758	102,000	182,167	-
Information technology	4,129	-	5,734	-
Materials	123,231	55,919	110,200	33,987
Real estate	3,480	32,000	2,617	32,000
Telecom services	-	-	16,665	-
Utilities	370,699	28,626	156,660	29,163
At end of year	**1,851,327**	**353,496**	**1,358,350**	**252,801**

Notes to the Financial Statements

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 BoD approved operations, minus repayments and cancellations. Individual operations are further constrained by the Single Obligor Limit and by monitoring of Sectoral Exposure.

a5. 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 BoD 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. If necessary, the Bank reassesses the value of collateral in order to determine if additional collateral is needed to be provided by the borrower. On 31 December 2019 the secured portfolio was 57.2% (2018: 52.4%) of the outstanding loans balance.

- 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. On 31 December 2019 the Bank had pledged cash collateral in an amount of EUR 1,350 thousand (2018: EUR 22,810 thousand).

- For loans that are credit-impaired at the reporting date the Bank has collateral held as security an amount of EUR 38,864 thousand to mitigate credit risk. The types of collateral with approximate values are real estate EUR 21,782 thousand, machinery and equipment EUR 6,175 thousand, and pledged shares EUR 10,907 thousand.

b) Liquidity Risk

Liquidity risk arises in the general funding of the Bank's financing and investment activities and in the management of positions. It 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. It involves both the risk of unexpected increases in the cost of funding the portfolio of assets at appropriate maturities and rates and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

The Bank's liquidity policy aims to balance the term and currency structure of the Bank's assets and liabilities. 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. The Bank maintains liquid assets at prudential levels to ensure that cash can quickly be made available to honor all its obligations, even under adverse conditions, the Bank has access to the funds necessary to satisfy customer needs, maturing liabilities and its own working capital requirements. For this, the Bank estimates and relates all expected cash flows from assets and liabilities.

The Bank takes into consideration, to the extent feasible, the guidance documents issued by the Basel Committee on Banking Supervision. The Bank sets limits to control its liquidity risk exposure and vulnerabilities and regularly reviews such limits. The limit framework includes also measures ensuring that in a period of market stress, available liquidity exceeds liquidity needs and that the Bank can continue to operate.

The Bank's commitment to maintaining a strong liquidity position is established in policies approved by the BoD. The liquidity policy requires that the Bank maintain its liquidity position at a minimum of 50% of the following 12 months' net cash requirement, including committed, undisbursed project and trade finance loans.

Notes to the Financial Statements

The Bank's liquidity position is monitored regularly, and the ALCO is primarily responsible for the management of liquidity risk and the liquidity profile of the Bank. The Bank's liquid assets are maintained in short-term and negotiable securities that primarily are: (i) cash and bank balances (ii) short term deposits with investment grade rated counterparties (iii) Euro-denominated commercial paper issued by investment grade parties and (iv) investment grade bonds.

The table below presents the cash flows payable on financial liabilities placed into relevant maturity groups, based on the remaining period from the financial position date to the contractual maturity date. It indicates the earliest maturity dates that the Bank's counterparties have the ability to demand repayment.

The figures represent undiscounted cash flows, and include estimated interest amounts, and therefore do not match to 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	6,603	39,443	136,427	1,421,627	19,769	**1,623,869**
Derivative financial instruments	-	6,552	-	-	-	**6,552**
Payables and accrued interest	-	13,785	7,536	-	-	**21,321**
Financial Liabilities at 31 December 2019	**6,603**	**59,780**	**143,963**	**1,421,627**	**19,769**	**1,651,742**
Borrowings	18,240	24,107	232,861	754,250	27,958	**1,057,416**
Derivative financial instruments	-	24,164	-	-	-	**24,164**
Payables and accrued interest	-	12,002	3,971	-	-	**15,973**
Financial Liabilities at 31 December 2018	**18,240**	**60,273**	**236,832**	**754,250**	**27,958**	**1,097,553**

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

c) Market Risk

Market risk is the risk that changes in foreign exchange rates, interest rates or market prices of financial instruments may result in losses to the Bank. Market risk arises on such instruments that are valued at current market prices (mark to market basis) or those valued at cost plus any accrued interest (accruals basis).

The Bank funds its operations by using the Bank's own share 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 risks.

The Board has approved risk management policies and limits within which exposure to market risk is monitored, measured and controlled. The ALCO monitors and manages these risks while the asset and liability function within the Department of Treasury has primary responsibility for ensuring compliance with these policies and limits.

Notes to the Financial Statements

c1. Foreign Exchange Risk

The Bank's risk management policies seek to minimize currency exposures or any unanticipated changes, favorable or unfavorable, in foreign exchange rates that could affect the income statement, by requiring net liabilities in any one currency to be matched closely with net assets in the same currency. The Bank will not take discretionary currency positions. This is achieved primarily by holding or lending the proceeds of the Bank's borrowings in the currencies in which they were borrowed.

The Bank regularly monitors its assets and liabilities in order to ensure the Bank takes no significant foreign exchange risks and, after swap activities, adjusts the net asset currency composition to the Bank's functional currency to maintain a matched foreign exchange position. As a matter of policy, the Bank aims to keep foreign exchange exposure as close to zero as possible, with exceptions to this practice requiring approval from the ALCO. For local currency transactions the Bank matches the operation's currency with borrowings in the same currency, as such there is no material exposure. The tables below provide a currency breakdown of the Bank's assets and liabilities, showing that the effect of any currency fluctuations on the net exposure is minimal.

Presented in EUR (000)	Euro	USD	Swiss franc	Other	**Total**
Assets					
Cash and bank balances	73,948	7,776	-	897	**82,621**
Debt investment securities	149,277	271,314	-	-	**420,591**
Impairment losses on debt investment securities	(765)	-	-	-	**(765)**
Derivatives financial instruments	3,128	-	-	-	**3,128**
Loans	1,069,985	590,485	-	160,471	**1,820,941**
Deferred income	(2,541)	(4,854)	-	(775)	**(8,170)**
Impairment losses on loans	(36,476)	(2,417)	-	(4,421)	**(43,314)**
Equity investments	12,463	17,691	-	232	**30,386**
Other assets	19,509	12,965	156	3,223	**35,853**
Total	1,288,528	892,960	156	159,627	**2,341,271**
Liabilities					
Borrowings	96,477	1,029,024	184,366	175,288	**1,485,155**
Derivative financial instruments	6,552	-	-	-	**6,552**
Payables and accrued interest	10,612	7,911	44	2,754	**21,321**
Total	113,641	1,036,935	184,410	178,042	**1,513,028**
Net financial instruments	1,174,887	(143,975)	(184,254)	(18,415)	**828,243**
Derivative financial instruments	(351,342)	152,023	184,264	18,820	**3,765**
Currency balance at 31 December 2019	**823,545**	**8,048**	**10**	**405**	**832,008**

Presented in EUR (000)	Euro	USD	Swiss franc	Other	**Total**
Assets					
Cash and bank balances	46,266	1,691	-	641	**48,598**
Debt investment securities	165,120	230,859	-	-	**395,979**
Impairment losses on debt investment securities	(103)	(541)	-	-	**(644)**
Derivatives financial instruments	662	-	-	-	**662**
Loans	744,365	466,721	-	119,609	**1,330,695**
Deferred income	1,454	(3,483)	-	(1,023)	**(3,052)**
Impairment losses on loans	(13,342)	(17,263)	-	(4,170)	**(34,775)**
Equity investments	12,988	14,667	-	-	**27,655**
Other assets	15,095	12,732	141	1,573	**29,541**
Total	972,505	705,383	141	116,630	**1,794,659**
Liabilities					
Borrowings	126,794	595,473	88,860	142,903	**954,030**
Derivative financial instruments	24,164	-	-	-	**24,164**
Payables and accrued interest	6,134	8,595	51	1,193	**15,973**
Total	157,092	604,068	88,911	144,096	**994,167**
Net financial instruments	815,413	101,315	(88,770)	(27,466)	**800,492**
Derivative financial instruments	11,376	(103,351)	88,739	22,568	**19,332**
Currency balance at 31 December 2018	**826,789**	**(2,036)**	**(31)**	**(4,898)**	**819,824**

Notes to the Financial Statements

c2. Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate, favorably or unfavorably, 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 that interest rate risk.

The Bank's interest rate risk management activities aim to enhance profitability, by limiting the effect on asset values of adverse interest rate movements in order to increase net interest income by managing interest rate exposure. The majority of the Bank's loan portfolio is variable interest rate and the Bank has a policy aimed at minimizing interest rate mismatches between its assets and liabilities that seeks to ensure that the interest rate payment periods for its liabilities are matched as closely as possible to interest rate payment periods for the Bank's assets. As a matter of policy, the Bank does not take discretionary interest rate positions.

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	82,617	-	-	-	4	**82,621**
Debt investment securities	153,278	55,000	29,085	183,228	-	**420,591**
Derivative financial instruments	-	-	-	-	3,128	**3,128**
Loans	274,438	412,265	648,712	485,526	-	**1,820,941**
Equity investments	-	-	-	-	30,386	**30,386**
Other assets	-	-	-	-	35,853	**35,853**
Total	510,333	467,265	677,797	668,754	69,371	**2,393,520**
Liabilities						
Borrowings	189,828	294,970	153,646	846,711	-	**1,485,155**
Derivative financial instruments	-	-	-	-	6,552	**6,552**
Payables and accrued interest	-	-	-	-	21,321	**21,321**
Total	189,828	294,970	153,646	846,711	27,873	**1,513,028**
Derivative financial instruments	(3,854)	(129,074)	(652,087)	785,015	-	**-**
Interest rate risk at 31 December 2019	**316,651**	**43,221**	**(127,936)**	**607,058**	**41,498**	**880,492**

	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	48,581	-	-	-	17	**48,598**
Debt investment securities	72,407	45,000	76,451	202,121	-	**395,979**
Derivative financial instruments	-	-	-	-	662	**662**
Loans	200,385	273,619	617,183	239,508	-	**1,330,695**
Equity investments	-	-	-	-	27,655	**27,655**
Other assets	-	-	-	-	29,541	**29,541**
Total	321,373	318,619	693,634	441,629	57,875	**1,833,130**
Liabilities						
Borrowings	36,698	185,835	207,952	523,545	-	**954,030**
Derivative financial instruments	-	-	-	-	24,164	**24,164**
Payables and accrued interest	-	-	-	-	15,973	**15,973**
Total	36,698	185,835	207,952	523,545	40,137	**994,167**
Derivative financial instruments	1,250	(109,698)	(310,072)	418,520	-	**-**
Interest rate risk at 31 December 2018	**285,925**	**23,086**	**175,610**	**336,604**	**17,738**	**838,963**

Notes to the Financial Statements

c3. Sensitivity Analysis

Currency Risk Sensitivity

The Bank is marginally sensitive to exchange rate fluctuations of the US dollar and the Euro. The Bank's paid-in capital is held in Euro and the Bank's loan portfolio is typically denominated between 50% US dollar and 50% Euro. In addition, the Bank's administrative expenses are denominated in Euro, and its income is typically denominated between 50% US dollar and 50% Euro. The Bank has addressed this sensitivity to currency risk by increasing its percentage of loans denominated in Euro, and therefore increasing its Euro denominated income.

Interest Rate Sensitivity

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 or even eliminating sensitivity. Secondly, there is the absolute rate earned on assets that are funded by the Bank's member's equity resources. The majority of the Bank's member's equity resources are currently invested in the Bank's loan portfolio at floating rates; therefore, subjecting earnings on member's equity resources to minor degree of fluctuation.

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

Presented in EUR (000)	At 31 December 2019	At 31 December 2018
Euro	1,124,000	936,000
United states dollar	128,000	191,000
Total re-pricing gap	1,25 , b/n 00	1,127,000
Shift of 50 basis points in the EUR curve	**6,259**	**5,637**

c4. Equity Price Risk

The Bank has a small equity investments portfolio and as such does not have significant market risk exposure concerning foreign exchange or equity price risk on this portfolio. At 31 December 2019 the Bank's equity investments are classified at FVTOCI, except for one, which are primarily unlisted.

The Bank takes a long-term approach of its equity investments and has no intention of exiting to any, therefore accepts the short-term volatilities in value from exchange rate and price risk. The Bank expects the effect on net income to be of little to no impact.

Additional sensitivity information for the Bank's equity investments has been included under 'fair value hierarchy' later in this section and in Note 'Equity investments'.

Notes to the Financial Statements

Operational Risk

Like all financial institutions, the Bank is exposed to operational risks arising from its systems and processes. Operational risks include the risks of losses resulting from inadequate or failed internal processes, people, systems, legal, and from external events which could have a negative financial or adverse reputational impact. The Bank has a low tolerance for losses arising from the operational risks the Bank is exposed to.

The Office of Compliance and Operational Risk Management (CORMO) has oversight on operational risk activities across the Bank. The Bank's operational risk framework is a network of processes, procedures, reports and responsibilities that are used to identify, manage and monitor the operational risks of the Bank. These include committees, working groups, day-to-day practices such as the collection and analysis of key risks, risk of loss incidents and both strategic and work cultural practices. This provides a structured approach to managing operational risk and seeks to apply consistent standards and techniques for evaluating risks across the Bank. The Bank has a comprehensive set of policies and procedures that indicate how operational risks should be managed throughout the Bank.

The sources of operational risk emerge in various ways, including business interruptions, inappropriate behavior of employees (including fraud), failure to comply with applicable laws and regulations or failure of vendors to perform in accordance with their contractual arrangements. These events could result in financial losses, as well as reputational damages to the Bank. The Bank's operational risk management focuses on proactive measures to mitigate the operational risk.

Where any incident may occur the Bank systematically collects, analyses and reports data on that incident to ensure the Bank understands the reasons it occurred and how controls can be improved to reduce or better avoid the risk of any future incident.

The Bank's risk and control assessments are comprehensive, primarily bottom-up, of the key operational risks in each business area. They are based on Bank-wide operational risk definitions, that classify risks under a standardized approach, cover the inherent risks of each business area and control function, provide an evaluation of the effectiveness of the controls in place to mitigate these risks, determine the residual risk ratings and require a decision to either accept or remediate any remaining risk.

Concerning cyber crime, which is a risk of loss or damage to the Bank's business areas and customers as a result of actions committed or facilitated through the use of networked information systems, the Bank's Department of Information Technologies (IT) and information security policies and procedures ensure that all servers and computers have up to date antivirus software. Backups are made regularly and regular access control checks, system penetration and vulnerability tests along with disaster recovery tests are performed. The Bank's anti-cyber attack controls are checked and aligned with industry best practice by the IT Department.

The Bank produces regularly management information reports covering the key inputs and outputs of operational risk. These reports are used to monitor outcomes against agreed targets and tolerance levels. The Bank utilizes the Bank's IT systems and other information tools to ensure operational risks are identified and managed properly.

Overall, the Bank is committed to follow the best practices and market standards in the area of accountability, transparency and business ethics. Due diligence on customers and counterparties take into consideration the Anti-Fraud Corruption and Monetary Laundering Policy and Know-Your Customer Procedures. The Bank also has a contingency and business continuity plans, and a disaster recovery off-site which aims to ensure the continuity of its operations and protect the interests of all the key stakeholders of the Bank, namely, the member countries, bondholders and other creditors as well as employees and their families, in the event of any disturbance in office locations.

Notes to the Financial Statements

Financial Assets and Liabilities

The tables below identify the Bank's financial assets and financial liabilities in accordance with their 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 2019			
Presented in EUR (000)	Fair value through profit or loss	Fair value through OCI	Amortized cost	**Carrying amount**
Assets				
Cash and bank balances	-	-	82,621	**82,621**
Debt investment securities	-	420,591	-	**420,591**
Loans	12,754	-	1,808,187	**1,820,941**
Deferred income	-	-	(8,170)	**(8,170)**
Impairment losses on loans	-	-	(43,314)	**(43,314)**
Equity investments	798	29,588	-	**30,386**
Other assets	-	-	35,853	**35,853**
Total financial assets	**13,552**	**450,179**	**1,875,177**	**2,338,908**
Liabilities				
Borrowings	-	-	1,485,155	**1,485,155**
Payables and accrued interest	-	-	21,321	**21,321**
Total financial liabilities	**-**	**-**	**1,506,476**	**1,506,476**

	At 31 December 2018			
Presented in EUR (000)	Fair value through profit or loss	Fair value Through OCI	Amortized cost	**Carrying amount**
Assets				
Cash and bank balances	-	-	48,598	**48,598**
Debt investment securities	-	346,640	49,339	**395,979**
Loans	12,277	-	1,318,418	**1,330,695**
Deferred income	-	-	(3,052)	**(3,052)**
Impairment losses on loans	-	-	(34,775)	**(34,775)**
Equity investments	1,015	26,640	-	**27,655**
Other assets	-	-	29,541	**29,541**
Total financial assets	**13,292**	**373,280**	**1,408,069**	**1,794,641**
Liabilities				
Borrowings	-	-	954,030	**954,030**
Payables and accrued interest	-	-	15,973	**15,973**
Total financial liabilities	**-**	**-**	**970,003**	**970,003**

Notes to the Financial Statements

Fair Value Hierarchy

For those above financial instruments measured at fair value, the Bank 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	-	3,128	-	**3,128**
Fair value through profit or loss:				
Loans	-	12,754	-	**12,754**
Equity investments	-	-	798	**798**
Fair value through other comprehensive income:				
Debt investment securities	420,591			**420,591**
Equity investments	-		29,588	**29,588**
Derivative financial instruments – liabilities	-	(6,552)	-	**(6,552)**
At 31 December 2019	**420,591**	**9,330**	**30,386**	**460,307**

There have been no transfers between level 1 and level 2 during the year. For level 1 market prices are used whereas for level 2 the valuation techniques used are broker quotes and observable market data. For level 3 the valuation technique used is the net asset value ('NAV'), and equity calculations based on EBITDA and market data.

Presented in EUR (000)	Level 1	Level 2	Level 3	**Carrying amount**
Derivative financial instruments – assets	-	662	-	**662**
Fair value through profit or loss:				
Loans	-	12,277	-	**12,277**
Equity investments	-	-	1,015	**1,015**
Fair value through other comprehensive income:				
Debt investment securities	346,640			**346,640**
Equity investments	-		26,640	**26,640**
Derivative financial instruments – liabilities	-	(24,164)	-	**(24,164)**
At 31 December 2018	**346,640**	**(11,225)**	**27,655**	**363,070**

Notes to the Financial Statements

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 2019	At 31 December 2018
At 1 January	27,656	31,361
Total gains or (losses) recognized in the income statement	(217)	(585)
Total gains or (losses) recognized in other comprehensive income	4,219	713
Purchases, sales, issues and settlements	(1,272)	(3,834)
At end of year	**30,386**	**27,655**

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	30,386	1,519	(1,519)

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 BoG 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 BoG unanimously adopted the first amendment to the Establishing Agreement, which became effective on 21 June 2013. As of this effective date, and as per Resolution 131 of the BoG, the unit of account of the Bank 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 share 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 BoD 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 2.45 billion.

Notes to the Financial Statements

The Bank preserves an actively managed capital stock 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 BoG 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 share capital is available to support the Bank's operations.

6. OPERATING SEGMENTS

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

	2019			2018		
Presented in EUR (000)	Lending	Treasury	Total	Lending	Treasury	Total
Income statement						
Interest income	82,707	11,262	93,969	70,129	8,588	78,717
Net fees and commissions	947	20	967	1,652	-	1,652
Other income (expense)	272	119	391	569	29	598
Total segment revenues	83,926	11,401	95,327	72,350	8,617	80,967
Less: interest expense	(52,762)	(512)	(53,274)	(37,513)	(461)	(37,974)
Less: net interest expense on derivatives	-	(4,113)	(4,113)	-	(7,599)	(7,599)
Foreign exchange	-	(1,067)	(1,067)	-	(1,352)	(1,352)
Less: personnel and other admin. expenses	(19,474)	(1,471)	(20,945)	(19,283)	(1,439)	(20,722)
Less: depreciation and amortization	(563)	(9)	(572)	(442)	(11)	(453)
Segment income before impairment	11,127	4,229	15,356	15,112	(2,245)	12,867
Less: impairment / fair value (losses)	(1,581)	(111)	(1,692)	(7,323)	(368)	(7,691)
Net income for the year	**9,546**	**4,118**	**13,664**	**7,789**	**(2,613)**	**5,176**

	31 December 2019			31 December 2018		
Presented in EUR (000)	Lending	Treasury	Total	Lending	Treasury	Total
Financial position						
Segment assets	1,837,862	505,575	2,343,437	1,351,172	444,595	1,795,767
At end of year			**2,343,437**			**1,795,767**
Segment liabilities	1,506,476	6,552	1,513,028	970,003	24,164	994,167
Members' equity	-	-	830,409	-	-	801,600
At end of year			**2,343,437**			**1,795,767**

7. INTEREST AND SIMILAR INCOME

Interest and similar income are analyzed as follows:

Presented in EUR (000)	Year to 31 December 2019	Year to 31 December 2018
From loans and advances	82,707	70,129
From placements with financial institutions	41	126
From investment securities at amortized cost	-	51
From investment securities at fair value through OCI	11,221	8,411
Interest and similar income	**93,969**	**78,717**

8. INTEREST AND SIMILAR EXPENSE

Interest and similar expense are analyzed as follows:

Presented in EUR (000)	Year to 31 December 2019	Year to 31 December 2018
From borrowed funds	7,770	6,435
From issued debt	43,691	29,619
From amortized issuance and arrangement costs	1,301	1,459
From other charges	512	461
Interest and similar expense	**53,274**	**37,974**

9. NET FEES AND COMMISSIONS

Net fees and commissions are analyzed as follows:

Presented in EUR (000)	Year to 31 December 2019	Year to 31 December 2018
Guarantee fees	356	276
Management fees	408	371
Appraisal fees	30	195
Administration fees	26	36
Arrangement fees	-	132
Surveillance fees	57	54
Prepayment / cancellation fees	20	489
Other fees	70	99
Net Fees and commissions	**967**	**1,652**

10. PERSONNEL AND ADMINISTRATIVE EXPENSES

Administrative expenses are analyzed as follows:

Presented in EUR (000)	Year to 31 December 2019	Year to 31 December 2018
Salaries and benefits	12,819	12,672
Staff retirement plans	2,939	3,280
Personnel expenses	**15,758**	**15,952**
Professional fees and related expenses	1,328	1,094
Utilities and maintenance	1,606	1,474
Other administrative	2,253	2,202
Administrative expenses	**5,187**	**4,770**

The average number of staff employed during the year was 112 (2018: 111). The number of staff as of 31 December 2019 was 113 (2018: 110). Further analysis of the staff retirement plan is presented in the Note 'Employee benefits'.

11. IMPAIRMENT LOSSES ON LOANS

Loans that are measured at amortized cost are stated net of provisions for impairment, which includes also their related provisions for impairment on undrawn commitments. A summary of the movements in provisions for impairment is as follows:

Presented in EUR (000)	Stage 1	Stage 2	Stage 3	Total
At 31 December 2017	1,453	1,088	45,455	47,996
Charge	3,284	3,239	7,221	13,744
Release	(1,656)	(2,608)	(3,188)	(7,452)
Against write-offs	-	-	(20,586)	(20,586)
Foreign exchange adjustments	439	2,555	(1,921)	1,073
At 31 December 2018	3,520	4,274	26,981	34,775
Charge	-	1,423	1,573	2,996
Release	(4)	(691)	(460)	(1,155)
Upon initial recognition	-	-	6,181	6,181
Foreign exchange adjustments	(625)	980	162	517
At 31 December 2019	**2,891**	**5,986**	**34,437**	**43,314**

At each reporting date, the Bank recognizes loss allowances based on either 12-month ECL or lifetime ECL, depending on whether there has been a significant movement in credit risk of the financial instrument since its initial recognition.

Total impairment losses on loans have increased by an amount of EUR 8,539 thousand compared to the previous year. An amount of EUR 1,083 thousand has increased for stages 1 and 2, primarily due to the increase in the Bank's loan portfolio. The remaining amount of EUR 7,456 thousand was due to the deterioration of a few loans in stage 3 to reducing their carrying amount and the purchase of a loan at deep discount.

Staging Criteria 12-month ECL (Stage 1)

As IFRS 9 does not distinguish between individually significant or not individually significant financial instruments, the Bank measures potential credit losses for all non-impaired operations (Stage 1 and Stage 2) on an individual operation basis based on the asset class. Their PD and LGD are multiplied by general market scenarios assigned within the Moody's Analytics IFRS ImpairmentCalc tool. Provisions for impairment in Stage 1 are therefore affected by the specifics of any particular operation together with general market scenarios. They are meant to protect against potential risks that are considered present, or within a 12-month horizon, and derived from potentially adverse developments in operating conditions beyond the control of individual borrowers.

Notes to the Financial Statements

Staging Criteria Lifetime ECL (Stages 2 and 3)

When an operation deteriorates substantially in credit quality, it enters stage 2 and an expected credit loss calculation is performed on a Lifetime Expected Credit Loss (LECL) basis. stage 2 operations are those that have experienced an overall credit quality downgrade but are still performing. They are not considered credit-impaired.

Stage 3 operations have objective evidence of impairment that immediately impacts the ECL.

Revolving Facilities and Undrawn Commitments

Revolving credit facilities have no fixed term and they can be cancelled at the discretion of the Bank at any point in time. These facilities are subject to, at a minimum, an annual credit review. In this regard, the date of the latest credit review provides the relevant date to assess if there is any increase in credit risk, as at that point in time. The Bank may amend the terms and conditions of the exposure.

The estimate of the ECLs on irrevocable loan commitments is consistent with its expectations of drawdowns on that loan commitment. Therefore, the Bank considered (i) the expected portion of the loan commitment that will be drawn down within 12 months of the reporting date when estimating 12-month expected credit losses and (ii) the expected portion of the loan commitment that will be drawn down over the expected life of the reporting date when estimating lifetime expected credit losses. At 31 December 2019 the amount of expected credit losses was EUR 311 thousand (2018: EUR 376 thousand).

12. DEBT INVESTMENT SECURITIES

Debt investment securities are analyzed as follows:

Presented in EUR (000)	At 31 December 2019	At 31 December 2018
Bonds	217,674	282,311
Commercial papers	202,917	113,668
Debt investment securities	420,591	395,979
Less: impairment losses	(765)	(644)
Debt investment securities net of impairment	**419,826**	**395,335**

At each reporting date, the Bank recognizes loss allowances based on either 12-month ECL or LECL. All debt investment securities are recognized only on a 12-month ECL as there has been no significant movement in their credit risk since their initial recognition.

13. DERIVATIVE FINANCIAL INSTRUMENTS

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.

	At 31 December 2019			At 31 December 2018		
Presented in EUR (000)	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Currency swap purchases	57,000	57,000	-	33,012	-	33,019
Currency swap sales	(56,840)	(56,525)	-	(33,569)	-	(33,569)
Designated fair value hedges	-	2,653	(6,552)	-	662	(23,614)
Derivative financial instruments	**160**	**3,128**	**(6,552)**	**(557)**	**662**	**(24,164)**

Notes to the Financial Statements

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 (CSAs). 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 2019	At 31 December 2018
Loans at amortized cost:		
At 1 January	1,318,418	1,132,359
Disbursements	871,130	572,966
Less: repayments	(381,756)	(377,988)
Write-offs	-	(20,586)
Foreign exchange movements	395	11,667
Outstanding disbursements	1,808,187	1,318,418
Less: deferred income	(8,170)	(3,052)
Less: impairment losses	(43,314)	(34,775)
Loans at fair value:		
Outstanding disbursements	14,939	14,939
Fair value adjustment	(2,185)	(2,662)
Loans net of impairment	**1,769,457**	**1,292,868**

As of 31 December 2019 the principal amount of outstanding disbursements was EUR 1,823,126 thousand (2018: EUR 1,333,357 thousand).

The carrying amount of loans with respect to their related stages and allowance for impairment is analyzed as follows:

Presented in EUR (000)	At 31 December 2019	At 31 December 2018
Stage 1	1,484,999	1,050,830
Less: deferred income	(8,170)	(3,052)
Less: allowance for impairment	(2,891)	(3,520)
Carrying amount	1,473,938	1,044,258
Stage 2	272,290	225,851
Less: allowance for impairment	(5,986)	(4,274)
Carrying amount	266,304	221,577
Stage 3	50,898	41,737
Less: allowance for impairment	(34,437)	(26,981)
Carrying amount	16,461	14,756
Fair value through profit or loss	12,754	12,277
Carrying amount	**1,769,457**	**1,292,868**

Notes to the Financial Statements

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 'Risk management'.

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 has invested in the entities as detailed below.

		At 31 December 2019		At 31 December 2018	
Presented in EUR (000)	% of Investment	Cost	Fair Value	Cost	Fair value
Balkan Accession Fund	9.09	-	798	-	1,015
At fair value through profit or loss		-	798	-	1,015
SEAF Caucasus Growth Fund	21.39	5,423	4,270	5,488	4,289
Access Bank, Azerbaijan	0.06	792	232	14,759	-
A-Park Kaluga, Russia	19.99	1,714	785	1,714	340
Emerging Europe Accession Fund	10.14	2,204	5,524	2,303	5,981
Rusal	0.01	4	185	4	123
ADM Ceecat Recovery Fund	5.37	4,285	4,966	4,988	5,652
European Virgin Fund	21.05	7,673	13,236	8,264	10,255
Teamnet International	8.33	5,599	-	5,599	-
Natfood	37.98	-	-	-	-
EOS Hellenic Renaissance Fund	2.53	498	390	47	-
At fair value through other comprehensive income		28,192	29,588	43,166	26,640
Equity investments at fair value		**28,192**	**30,386**	**43,166**	**27,655**

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 2019, as Management considers that these provide 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.

During the year the Bank had realized a net income of EUR 237 thousand from its investment in the Balkan Accession Fund.

On disposal or exit of an equity investment for those at fair value through other comprehensive income, the cumulative gain or loss is realized with a corresponding reversal of the unrealized gain or loss that was recorded prior to the exit from that investment, and is not recycled to the income statement.

As of 31 December 2019 the Bank has a committed amount of EUR 7,905 thousand towards further participation in the above entities. Further analysis of the equity investment portfolio is presented in the Note 'Risk management'.

As of 31 December 2019 the Bank has few 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.

Notes to the Financial Statements

16. OTHER ASSETS

Other assets are analyzed as follows:

Presented in EUR (000)	At 31 December 2019	At 31 December 2018
Accrued interest	24,334	20,169
Advances and prepaid expenses	6,165	5,690
Other prepayments	187	187
Guarantee deposits	5,167	3,495
Other assets	**35,853**	**29,541**

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 2017	850	106	550	1,722	3,228
Additions	26	-	54	111	191
Disposals	-	-	(11)	(28)	(39)
At 31 December 2018	876	106	593	1,805	3,380
Additions	6	44	33	213	296
Disposals	-	-	(23)	(243)	(266)
At 31 December 2019	**882**	**150**	**603**	**1,775**	**3,410**
Accumulated depreciation					
At 31 December 2017	797	34	491	1,405	2,727
Charges	39	21	31	146	237
Disposals	-	-	(11)	(28)	(39)
At 31 December 2018	836	55	511	1,523	2,925
Charges	23	23	33	183	262
Disposals	-	-	(23)	(243)	(266)
At 31 December 2019	**859**	**78**	**521**	**1,463**	**2,921**
Net book value					
At 31 December 2019	**23**	**72**	**82**	**312**	**489**
At 31 December 2018	40	51	82	282	455
At 31 December 2017	53	72	59	317	501

18. INTANGIBLE ASSETS

Intangible assets comprising computer software is analyzed as follows:

Presented in EUR (000)	Total
Cost	
At 31 December 2017	4,342
Additions	217
At 31 December 2018	4,559
Additions	83
At 31 December 2019	**4,642**
Accumulated amortization	
At 31 December 2017	3,689
Charges	217
At 31 December 2018	3,906
Additions	314
At 31 December 2019	**4,220**
Net book value	
At 31 December 2019	**422**
At 31 December 2018	653
At 31 December 2017	653

Notes to the Financial Statements

19. BORROWINGS

Borrowing facilities and bond issues, arranged as at the financial position date, are analyzed below. In addition to medium or long-term borrowings and bond issuance, the Bank utilizes short-term financing in the form of ECP issuance or borrowings from commercial banks for cash management purposes. At 31 December 2019 the Bank had issued debt securities in the amount of EUR 1,238,718 thousand.

	At 31 December 2019		At 31 December 2018	
Presented in EUR (000)	Amount used	Amount arranged	Amount used	Amount arranged
Euro	96,477	146,477	126,794	146,794
United States dollar	1,029,024	1,118,039	595,473	595,473
Swiss franc	184,366	184,366	88,860	88,860
Romanian lei	82,023	82,023	56,227	56,227
Azerbaijan manat	5,415	5,415	-	-
Georgian lari	84,125	84,125	83,059	83,059
Armenian dram	3,725	3,725	3,617	3,617
Total	**1,485,155**	**1,624,170**	**954,030**	**974,030**

The interest rate on borrowings falls within an approximate range of Euribor or USD Libor of plus 0 to 375 basis points. There is no collateral against the above borrowed funds. The fair value of the borrowings is approximately equal to their carrying value.

20. PAYABLES AND ACCRUED INTEREST

Payables and accrued interest are analyzed as follows:

Presented in EUR (000)	At 31 December 2019	At 31 December 2018
Accrued interest	11,652	10,495
Social insurance fund (EFKA) contributions	3	4
Pension plan obligation	7,536	3,971
Suppliers and other accrued expenses	1,012	1,444
Other	59	59
Payables and accrued interest	**20,262**	**15,973**

21. LEASE LIABILITY

The Bank has entered into a lease contract only for its Headquarters premises, which includes renewal options and periodic escalation clauses. There are no other commitments at end of year arising from non-cancellable lease contract. On adoption of IFRS 16 the impact in the statement of financial position of the recognition of right-of-use asset and corresponding lease liability, together with the movement for 2019, is analyzed as follows:

Presented in EUR (000)	Total
Operating lease commitment at 31 December 2018	1,931
Discounting (weighted average incremental borrowing rate)	-
Lease liability due to initial application of IFRS 16 at 1 January 2019	1,931
Prepayment of rental	(196)
Interest expense on the lease liability	-
Lease payments recognized in other administrative expenses	(676)
Lease liability 31 December 2019	**1,059**

Notes to the Financial Statements

IFRS 16 indicates that at the commencement date, the lessee (the Bank) will discount the lease payment using (a) the interest rate implicit in the lease or (b) the lessee's incremental borrowing rate if the interest rate implicit in the lease cannot be determined. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow the funds to obtain (i) an asset of a similar value to the underlying asset (ii) over a similar term (iii) with similar security (iv) in a similar economic environment. As the Bank has only one lease arrangement that is nearing maturity, Management concluded that any adjustment or any subsequent interest does not have a material impact on the financial statements.

The Bank presents right-of-use assets separately as property and equipment, and the lease liability separately within payables and accrued interest, in the statement of financial position. Consequently, the Bank recognizes lease payments and interest, if any on the lease liability on a straight-line basis over the period of the lease term, similarly to any benefits received or that are receivable, in the income statement. When a lease is terminated before the lease period has expired, any payments required to be made to the lessor, by way of penalty, are recognized as an expense in the period the termination takes place.

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 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 unit of account of the Bank, 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 BoG as of the effective date the unit of account of the Bank 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, at any time before the withdrawal becomes finally effective, the member may notify the Bank in writing of the cancellation of its notice of intention to withdraw. Under Article 39 of the Establishing Agreement after the date on which a member ceases membership, it is to 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 option of the Bank, be applied to any such liability as it matures.

Notes to the Financial Statements

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 50% reduction of their portion of subscribed capital, from 2% to 1% of the initial authorized capital and the BoG 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 1.15 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 BoG in December 2007 to triple the Bank's authorized capital to EUR 3.45 billion and to double the subscribed capital to EUR 2.3 billion, while leaving authorized capital of EUR 1.15 billion unallocated. On October 2011 the BoG approved the request from Moldova for a 50% 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 2019	At 31 December 2018
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 that are past due	-	(1,428)
Paid-up share capital	686,550	685,122
Advance against future call	-	-
Paid-in share capital	**686,550**	**685,122**

* 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 1.15 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 BoG in participation by Moldova.

Notes to the Financial Statements

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

	At 31 December 2019		
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)**
Paid-up share capital	334,650	351,900	**686,550**
Advance against future call	40	(40)	**-**
Paid-in share capital	**334,690**	**351,860**	**686,550**

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	-	13,800
Armenia	20,000	23,000	16,100	-	6,900
Azerbaijan	100,000	115,000	80,500	-	34,500
Bulgaria	270,000	310,500	217,350	-	93,150
Georgia	10,000	11,500	8,050	-	3,450
Greece	330,000	379,500	265,650	-	113,850
Moldova	10,000	11,500	8,050	-	3,450
Romania	280,000	322,000	225,400	-	96,600
Russian Fed.	330,000	379,500	265,650	-	113,850
Turkey	330,000	379,500	265,650	-	113,850
Ukraine	270,000	310,500	217,350	-	93,150
Total	**1,990,000**	**2,288,500**	**1,601,950**	**-**	**686,550**

23. RESERVES

Reserves are analyzed as follows:

Presented in EUR (000)	General	Other comprehensive income	Other	Total
At 31 December 2017	60,875	(24,158)	(3,134)	33,583
Gains (losses) on revaluation of investments	-	(8,216)	-	(8,216)
Remeasurements of defined benefit scheme	-	-	2,414	2,414
Transferred from retained earnings	5,176	-	-	5,176
At 31 December 2018	66,051	(32,374)	(720)	32,957
Gains (losses) on revaluation of investments	-	16,737	-	16,737
Remeasurements of defined benefit scheme	-	-	(3,020)	(3,020)
Transferred from retained earnings	7,335	-	-	7,335
At 31 December 2019	**73,386**	**(15,637)**	**(3,740)**	**54,009**

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 2019	At 31 December 2018
Cash on hand	4	17
Investments maturing up to 1 month:		
Cash deposits at banks	82,617	48,581
At fair value through other comprehensive income portfolio	147,917	78,655
Investment maturing from 1 month to 3 months:		
At fair value through other comprehensive income portfolio	55,000	45,000
Cash and cash equivalents	**285,538**	**172,253**

The commercial papers held in the Bank's portfolio were short term rated at a minimum of A2 by Standard and Poor's or P2 by Moody's rating agencies, in accordance with the Bank's 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 2019. 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 2019	At 31 December 2018
Amounts recognized in the statement of financial position		
Present value of the defined benefit obligations	30,736	24,445
Fair value of plan assets	(23,200)	(20,474)
Net liability at end of the year	**7,536**	**3,971**
Amounts recognized in the income statement		
Service cost	1,752	2,095
Net interest on the net defined benefit liability/(asset)	70	81
Administration expense	49	48
Total included in personnel expenses	**1,871**	**2,224**
Remeasurements recognized in other comprehensive income		
At 31 December	(4,307)	(6,721)
Liability gain (loss) due to changes in assumptions	(4,745)	4,167
Liability experiences gain (loss) arising during the year	(296)	(359)
Return on plan assets excluding income statement amounts	2,021	(1,394)
Total amount recognized in OCI during the year	(3,020)	2,414
Cumulative in other comprehensive income (expense)	**(7,327)**	**(4,307)**
Principal actuarial assumptions used		
Discount rate	1.22%	2.04%
Expected return on plan assets	1.22%	2.04%
Future salary increase	1.50%	1.50%
Future pension increase	1.50%	1.50%
Average remaining working life of employees	11 years	11 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 1.22% pa.

Notes to the Financial Statements

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

Presented in EUR (000)	At 31 December 2019	At 31 December 2018
Major categories of plan assets		
Cash instruments	17%	16%
Fixed interest	43%	47%
Equities	36%	33%
Other	4%	4%
Reconciliation of plan assets		
Market value at 1 January	20,474	21,879
Expected return	426	401
Contributions paid	1,326	1,070
Benefit pensions and lump sum paid to pensioners	(999)	(1,434)
Expenses	(48)	(48)
Asset gain (loss)	2,021	(1,394)
Fair value of plan assets	**23,200**	**20,474**

The actual investment return on assets of the fund for the year was 12.4%. 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 2020 will not materially differ from those paid in the current year.

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

Presented in EUR (000)	2019	2018	2017	2016	2015
Defined benefit obligations	30,736	24,445	27,111	25,021	19,879
Plan assets	(23,200)	(20,474)	(21,879)	(20,373)	(18,696)
Plan deficit (surplus)	7,536	3,971	5,232	4,648	1,183
Net experience adjustments on plan liabilities (assets)	**296**	**359**	**(419)**	**4,032**	**(1,822)**

Sensitivity analysis

Reasonable possible changes at the financial position date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	At 31 December 2019		At 31 December 2018	
Presented in EUR (000)	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	(3,573)	3,573	(3,041)	3,041
Future salary growth (1% movement)	1,872	(1,872)	1,843	(1,843)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown under the Defined Benefit Scheme.

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 1,050 thousand (2018: EUR 1,027 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 18 thousand (2018: EUR 29 thousand) and is included in 'Personnel expense'.

26. RELATED PARTIES

The Bank has the following 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, medical insurance cover, participation 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 1,783 thousand (2018: EUR 1,600 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 BoD 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 2019 the Bank administered one special fund. Extracts from the audited financial statements are included under the 'Summary of special funds'.

27. EVENTS AFTER THE REPORTING PERIOD

Covid-19 pandemic was announced by the World Health Organization (WHO) in March 2020 and is expected to negatively impact the economies of the countries that the Bank works with. Following WHO announcement as well as the measures taken by the respective governments as a response, the Bank has proceeded with the following:

- The Bank has activated the internal Pandemic Response Plan, and most staff have moved to 'remote working', which will be extended further, according to how the situation unfolds in the host country. In terms of its everyday operations, the Bank has taken all requisite steps to ensure business continuity, the safety of its staff, and to comply with the emergency measures imposed by the host country.

- The Bank monitors country by country measures taken by each government and their impact on its loan portfolio. It will maintain contacts with clients and we will continue with preparation of projects, but main focus will be the outstanding loan portfolio which is carefully analyzed and regularly reviewed in light of the very rapid developments. It is not expected to have a significant impact on the operations' credit standing although monitoring may be temporarily hampered by travel restrictions, if these would remain in place for an extended period of time.

Notes to the Financial Statements

- The Bank closely monitors its liquidity position and is prepared to extend short term measures as required in order to safeguard its interests and maintain key ratios at comfortable levels. By extending the slowdown in project development, the Bank will not undertake new commitments temporarily and their levels should remain steady, or even temporarily decline as a result.

- Moreover, the Bank will monitor developments in the financial markets for assessing impact on its investment portfolio as well as for suitable funding opportunities.

Overall, it is too early to assess how the virus pandemic will affect the region the Bank operates in, and for how long, however, the Bank has a robust mechanism and process in place to follow up developments and adjust its operations accordingly in order to ensure effective and efficient management of this difficult situation. Nonetheless, the effect on the Bank's financial position and results cannot currently be estimated.

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 2019	At 31 December 2018
Statement of movements		
Balance brought forward	8	8
Net income (loss) for the year	-	-
Less: disbursements	-	-
Balance of available funds	**8**	**8**
Financial position		
Placements with other financial institutions	8	8
Total Assets	**8**	**8**
Unallocated fund balance	8	8
Total Liabilities and Contributor Resources	**8**	**8**

Independent Auditor’s Report

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Black Sea Trade and Development Bank, which comprises the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Greece, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matter	How the matter was addressed in our audit
Expected Credit Loss on Loans at amortized cost	
Loans at amortized cost amounted to € 1,808 million as at 31 December 2019 (€ 1,318 million as at 31 December 2018) and loss impairment to € 43 million (€ 35 million as at 31 December 2018) as presented on the Statement of Financial Position. The charge for the period for impairment losses on loans amounted to € 1.8 million for the year ended 31 December 2019 (€ 6.3 million for the year ended 31 December 2018). The Bank establishes allowances for impairment on loans at amortized cost, for expected credit losses (ECL) on both an individual and collective basis. The estimation of ECL on loans at amortized cost is considered a key audit matter as it involves critical Management judgement and accounting estimates with high level of subjectivity and complexity. The most significant Management judgements and accounting estimates relate to: • The criteria used for the staging assessment of loans at amortized cost. • The determination of credit risk parameters, such as Loss Given Default (LGD), Probability of Default (PD) and the Exposure at Default (EAD) and the data used to build and run the credit risk models to calculate ECL. • The use of a model for ECL calculation. Management provided further information about principles and accounting policies for determining the allowance for impairment on loans at amortized cost, the management of credit risk and the review of impairment in notes 4, 11 and 14 to the financial statements.	Based on our risk assessment and following a risk-based approach, we have evaluated the impairment methodologies applied and assumptions made by Management in relation to this key audit matter, which included, inter alia, the following audit procedures: • We assessed the design and implementation of internal controls relevant to the ECL, including controls relevant to the determination of significant credit risk parameters, inputs applied into the impairment calculation engine, ECL results and relevant disclosures. • With the support of our credit and modelling specialists, we tested the appropriateness of the criteria (significant increase in credit risk, days past due) used for staging assessment of loans at amortized cost. We further performed substantive procedures and on a sample basis we tested the timely identification of exposures with significant increase in credit risk and timely identification of credit impaired exposures. • With the support of our credit and modelling specialists, we assessed the appropriateness of the credit risk models used by performing recalculations on a sample basis and by challenging relevant Management significant assumptions. As part of our substantive procedures, we tested accuracy and completeness of critical data used in ECL calculation. • We assessed the completeness and accuracy of disclosures in accordance with the provisions of the relevant accounting standards.

Key audit matter	How the matter was addressed in our audit
Information Technology General Controls and controls over financial reporting	
The Bank's financial reporting processes is highly dependent on Information Technology (IT) systems supporting automated accounting reconciliation procedures and calculations, thus leading to a complex IT environment pervasive in nature and in which a significant number of transactions are processed daily. This is a key audit matter since it is important that controls over access security, cyber risks, system change, data-center and network operations are designed and operate effectively to ensure complete and accurate financial records/information. Management has developed a system efficiency plan including aspects such as access, change management, data-center and network controls in applications, databases and operating systems in response to these risks, as described in detail in note 'Operational Risks'.	Based on our risk assessment, we have tested the design and operating effectiveness of Information Technology General Computer Controls (ITGCs) relevant for financial reporting. Our assessment included the evaluation of user access over applications, operating systems and databases, IT operations as well as the process followed over changes made to application systems/programs at all layers. Our IT audit procedures were performed with the support of IT specialists and included, among others, testing of: • User access provisioning and de-provisioning process. • Privileged access to applications, operating systems and databases. • Periodic review of user access rights. • Change management process. • Data-center and network operations.

Other Matters

For the opinion on the prior year's financial statements, whose data are presented for comparative purposes, reference should be made to the auditors' report issued by other auditors on 19 April 2019.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Despina Xenaki.

Athens, 7 May 2020

The Certified Public Accountant

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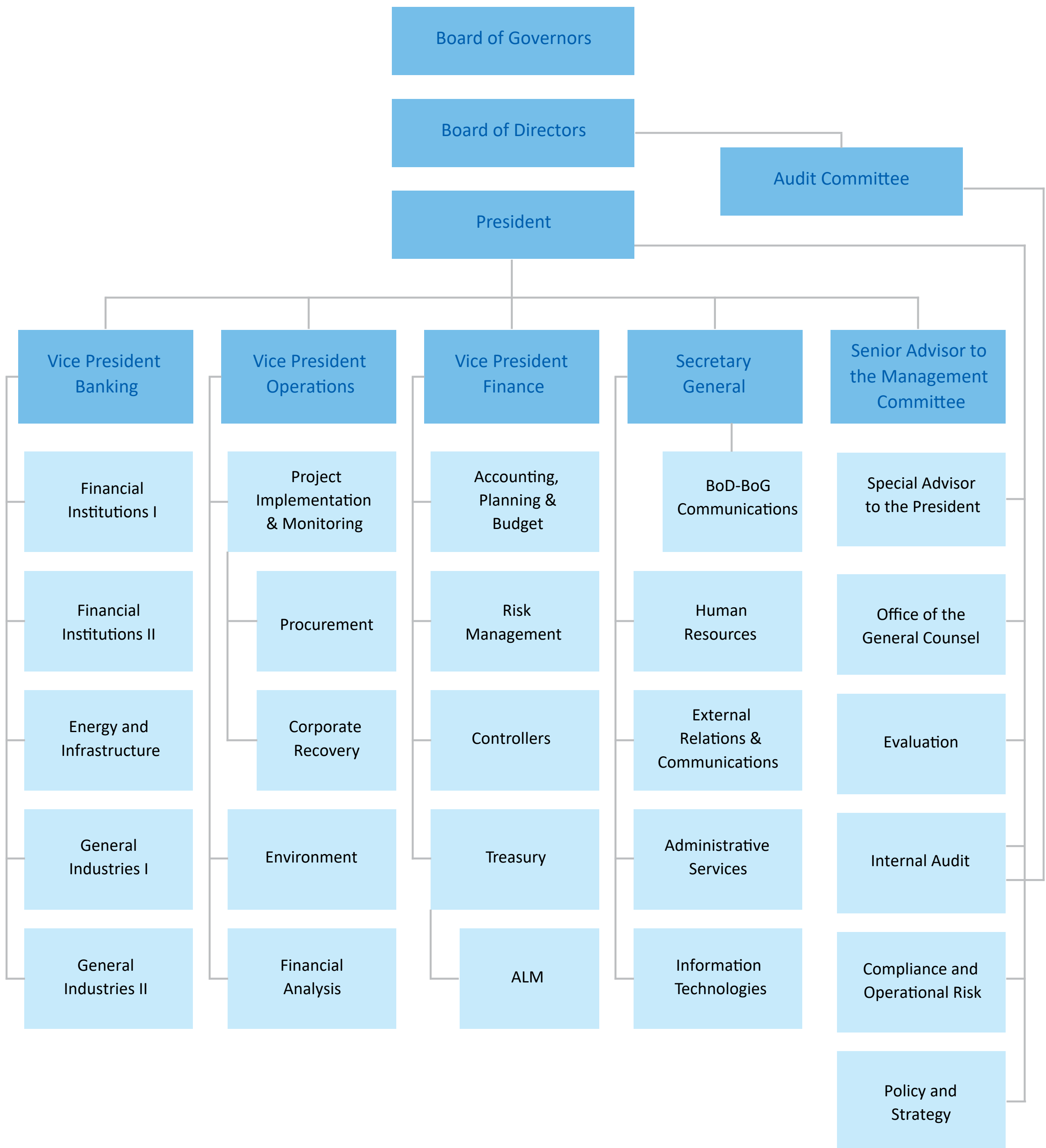
Annex A
Organizational Chart



As of 31 December 2019

Annex B
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