Black Sea Trade & Development Bank

annual report 2020

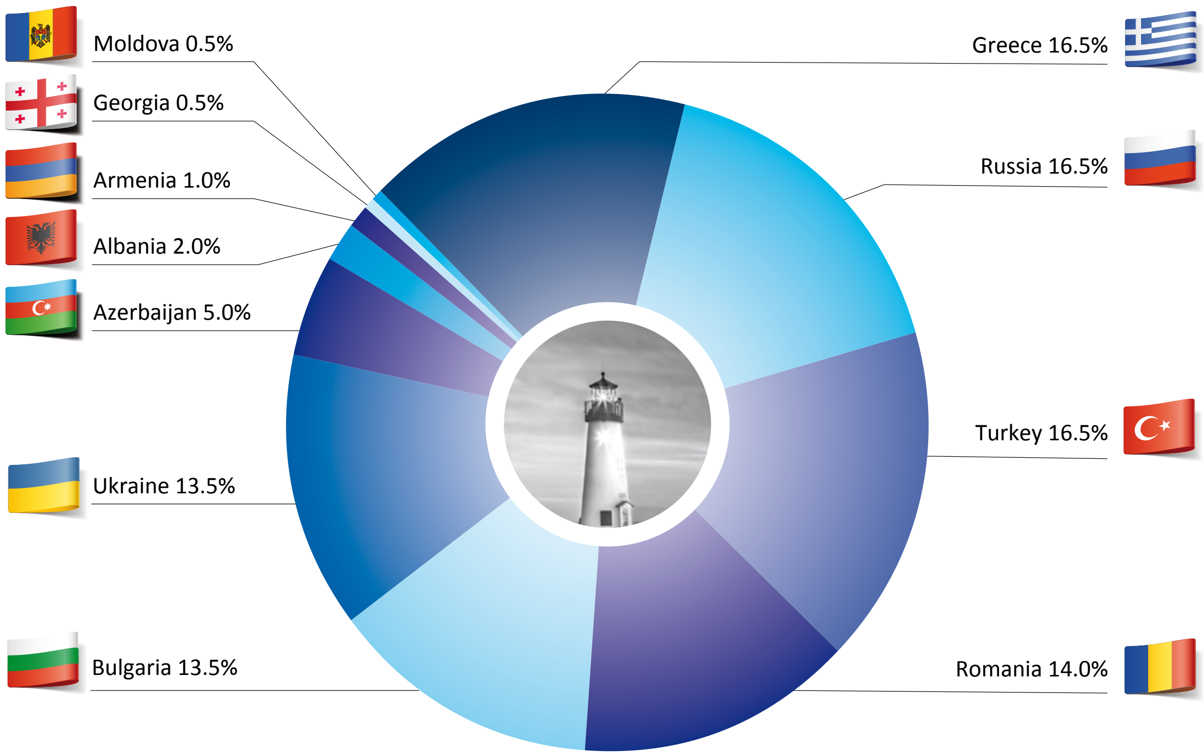
Engaging in Times of Crisis

Contents

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 share capital of EUR 3.45 billion and a subscribed share capital of EUR 2.3 billion.



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

Compliance

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

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

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

Reporting and Disclosure

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

With respect to external financial reporting, the Bank presents financial statements in its quarterly Summary Statements 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 by [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 the 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 to evaluate and improve effectiveness of risk management, control, and governance processes. The Internal Audit's mission is to foster an environment of continuous improvement in controls and risk awareness.

Enterprise Risk Management

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

Upon the overall assessment of the effectiveness of internal controls over financial reporting, coordinated by the Internal Audit Department and a Working Group with representatives of all the Divisions of the Bank, an annual certification statement is issued, signed by the President and the Vice President Finance and subject to review and an attestation of the Bank's external auditors.

The external auditors issue an annual attestation on the effectiveness of the Bank's internal controls over financial reporting as part of the annual audit process.

External Auditors

The External Auditors are appointed by the Board of Governors upon the recommendation of the Board of Directors. They are qualified external 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.

BOARD OF GOVERNORS

As of 31 December 2020

Republic of Albania	
Governor:	Ms. Adela XHEMALI, Deputy Minister of Finance
Alternate Governor:	Ms. Kesjana HALILI, General Director, General Directorate of Public Debt & Foreign Aid Coordination, Ministry of Finance & Economy
Republic of Armenia	
Governor:	Mr. Arthur JAVADYAN, Ambassador-at large-
Alternate Governor:	Mr. Davit NAHAPETYAN, Secretary General, 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. Serghei PUSCUTA, Minister of Finance
Alternate Governor:	Position vacant
Romania	
Governor:	Mr. Sebastian Ioan BURDUJA, Minister of Public Finance
Alternate Governor:	Ms. Boni Florinela CUCU, General Director, General Directorate for International Financial Institutions/ Corporate Governance Relationships, Ministry of Public Finance
Russian Federation	
Governor:	Mr. Timur MAKSIMOV, 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. Ihor PETRASHKO, 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 2020

Republic of Albania	
Director:	Mr. Oltjon MUZAKA, Secretary General, Ministry of Finance & Economy
Alternate Director:	Position vacant
Republic of Armenia	
Director:	Mr. Andranik GRIGORYAN, Director, Financial Stability Directorate, Central Bank of Armenia, Member of Executive 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:	Ms. Yoana ZAHARIEVA-BOIADJIEVA, Head, Regional Financial Institutions Department, 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:	Position vacant
Russian Federation	
Director:	Mr. Evgeny STANISLAVOV, Director, Department of Economic Cooperation, Ministry of Foreign Affairs
Alternate Director:	Position vacant
Republic of Turkey	
Director:	Dr. Serhat KOKSAL, Acting Director General, Foreign Economic Relations, Ministry of Treasury and Finance
Alternate Director:	Position vacant
Ukraine	
Director:	Mr. Taras KACHKA, Deputy Minister for Development of Economy, Trade & Agriculture / Trade Representative of Ukraine
Alternate Director:	Position vacant

AUDIT COMMITTEE

As of 31 December 2020

Ms. Diana BLINDU, Director for ROMANIA and Chairperson of the Audit Committee

Mr. Arian KRAJA, Director for the Republic of ALBANIA and Audit Committee member

Mr. Andranik GRIGORYAN, Director for the Republic of ARMENIA and Audit Committee member

Mr. Famil ISMAYILOV, Director for Republic of AZERBAIJAN 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 2020 as endorsed by the Board of Directors. The Twenty Second 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 global community experienced a year unlike any other in 2020. The Covid-19 pandemic spread to every corner of the planet and left no one unaffected. The most common experience was that as positive cases spread from country to country, governments responded with a mix of public health and economic policy responses. Health-wise, these typically involved the institution of social distancing protocols, investment in contact tracing, protective equipment, research for the development of treatments and vaccines, and societal lockdowns. The economic impact was severe, as pandemic induced supply and demand shocks affected all facets of economic activity; supply chains were disrupted and resources re-channelled towards responding to the pandemic on the one hand, while investment projects were delayed or cancelled and consumption drastically altered on the other hand.

The economic response was unprecedented and impressive, but it also introduced new elements of uncertainty and concern for the future. Governments, very correctly, sought to fill the gaps caused by the demand and supply shocks and oriented monetary and fiscal policies to helping sustain activities and mitigating the worst effects of the crisis. While advanced economies undertook the largest stimulus measures, with the fiscal component alone in excess of 20% of GDP, emerging market economies also found themselves able to stimulate their economies, rather than resorting to the painful combination of fiscal cuts and monetary tightening that had been the classic response to previous crises.

The Member States of the Black Sea Trade and Development Bank represent a case in point, as they were able to take advantage of the high credibility they had built up over the previous decade of sound economic governance. The countries loosened their monetary policies via interest rate cuts and even quantitative easing in order to invigorate lending, and they undertook fiscal measures, which by year end had reached nearly 7% of GDP. While costly, the countries possessed the headroom to implement such policies, and factors such as (i) record low borrowing rates, (ii) the stabilization and revaluation of most local currencies after the initial shock in March 2020, and (iii) the lack of negative action from credit rating agencies testifies to the solid quality of national accounts and the confidence in policy making. All Black Sea economies experienced much worse economic outturns for 2020 relative to 2019, and collectively fell into recession, with GDP contracting by an estimated -2.9%. However, this was better than the initially dire projections, as most Black Sea countries outperformed the global economy, their interventions succeeded in protecting the most vulnerable parts of the population, and they appear poised for a strong bounce-back in 2021-22.

For the Black Sea Trade and Development Bank, 2020 was about adaptation and resilience. The topmost priority was safeguarding the physical health of the Bank's staff and the financial health of the institution. As the pandemic spread through Europe, BSTDB shifted to a remote working arrangement for the majority of staff, with the institution of protocols on limitations to in-office working, dealing with potential infections, and maintaining close and regular contact with our Member States. By any measure, the shift was remarkably successful, and was maintained throughout the course of the year, with fewer restrictions and more in-office work as the pandemic subsided, and the re-introduction of measures as it returned in the latter part of the year. The Bank also held regular meetings of its Board of Directors and the Annual Meeting of its Board of Governors remotely. Regretfully, it was not possible to hold our Annual Business Day event in the lovely city of Odessa, as we had planned and the inability to speak face to face with officials, clients, investors, and other interlocutors was frustrating at times, but we also learned a great deal about the potential to use teleconferencing and teleworking regularly in the course of our daily activities.

Operationally, after a record year of project development and growth, the Bank was poised to continue its expansion of activities with a growing focus on supporting much needed infrastructure investments across the Black Sea Region. The pandemic led to the cancellation or deferment of many such investments, and the Bank adapted accordingly in order to maximize the impact of its support. Project development remained active and robust, as commitments for the year amounted to 20 operations for € 624 million, and overall Board approvals involved 22 operations for € 771.4 million. Significantly, over the course of 2020, total amounts disbursed to finance activities reached € 784.7 million. These numbers underscore the continuing high demand for Bank financing in the Region, but they do not immediately reveal the shift in the type of support demanded. Thus, while the share of infrastructure focused sectors exceeded 40% of commitments in 2019, in 2020 there was a shift to assisting firms to cope with the pandemic, with an emphasis on activities such as bridge financing and working capital support; the share of financial sectors (including SMEs) and key corporate support areas such as industrials and materials rose to 83% for the year.

Notwithstanding the shifts and uncertainties, the Bank's outstanding portfolio of operations grew to € 2,069 million at year end, a healthy increase of 11.8% over end 2019. The portfolio breaking the € 2 billion mark represents a milestone in the development of the Bank, but just as importantly, the Bank continued to diversify its coverage and it maintained its high quality, despite the stresses of the pandemic and the recession.

Moreover, following the initial period of shock caused by the pandemic, the Bank undertook a wide ranging and expansive program of borrowing, taking advantage of favourable market conditions to borrow € 1,009 million of funds from a diverse range of sources, in five different currencies, and for a variety of terms which stretched out to 20 years, thus helping to develop a yield curve, despite the relatively small size of the Bank.

BSTDB was able to translate its own reduced borrowing costs into more attractive lending rates for its clients, thus contributing to the improvement of the access and cost of regional firms to funding. In addition, applying an abundance of prudence, the Bank enhanced its provisioning buffers so as to increase its resilience. Thus, income before provisions reached € 29.4 million, while net income for 2020 was € 14.2 million. This represents the sixteenth consecutive year in which the Bank registered positive net income.

The Bank's achievements in 2020, have laid a firm basis for continued growth in 2021. Even though the pandemic has continued into the new year, there is hope that the situation will improve as vaccination rates rise and new therapies are developed. This, in turn, will permit the economies to re-open and for societies to resume operating, if not as before then at a new functional 'normal'. This applies to the Black Sea Region, of course, and the expected re-opening will likely result in a change to the requirements of the banks, firms and agencies with which BSTDB interacts. This is likely to include a resumption of certain shelved investment plans but also new activity, as the pandemic creates new opportunities and greater recurring needs for certain products and equipment. Then again, it may also open up entirely new markets and areas of activity, which 12 or 24 months ago would not have appeared necessary or attractive. Either way, the Bank possesses the necessary flexibility in order to adapt accordingly, and it intends to continue offering support for recovery, growth, and cooperation across the Black Sea Region.

Dmitry Pankin
President
Chairman of the Board of Directors

Highlights of 2020

- 2020 was the last year of the implementation of the Long-Term Strategic Framework 2010-2020. The independent evaluation of the Strategy's implementation revealed a successful achievement of the Bank's key long-term goals. Among most notable accomplishments are the substantial growth of the outstanding portfolio, reaching 11% per annum on average, against a target of 10%, with 27 signed operations on average against a target of 25 operations. Over the period, the portfolio grew from EUR 574,82 million at the end of 2010 to EUR 2.07 billion at the end of 2020, close to the targeted EUR 2.16 billion. Apart from volumes, the portfolio was improved in structure and diversity by exceeding the target of investing 25% in the public sector, with its actual share reaching 28% of the portfolio. The Bank's long-term credit rating was significantly improved from "Baa1" from Moody's in 2010 to "A2" from Moody's and "A-" from Standard & Poor's, which represents a substantial progress in the aftermath of a global financial turmoil.

- In 2020 the Bank managed to maintain its growth and portfolio quality against the challenging conditions of the pandemic crisis. The BSTDB outstanding portfolio grew 11.8% over 2019 to reach EUR 2.07 billion. During the year, the Board of Directors approved 771.4 million in new operations, while the Bank signed 20 loan agreements for EUR 624 million, with disbursements to business clients reached EUR 784.7 million. The Bank maintained profitability for the sixteenth consecutive year.

- BSTDB responded to the pandemic crisis by refocusing its financing to primarily assist the sectors and industries most affected by the turmoil caused by the COVID-19 infection. In the critical conditions and changes in market perceptions of risk and liquidity, the Bank continued to assist the small and medium-sized enterprises, the most vulnerable corporate sector. Additional technical assistance was offered to affected clients to facilitate project preparation, including feasibility studies, environmental impact assessments, etc. In July, the Bank and the International Centre for Black Sea Studies hosted a webinar on the "Post-Pandemic Recovery of the Black Sea Economies", where a panel of prominent international experts assessed the challenges to re-start economies and re-establish trade, investment and financing links, and ways in which the pandemic may impact long-term economic trends in the Black Sea Region.

- In 2020 BSTDB continued to actively attract funds in the international capital market while consciously moving to a private placement format to achieve higher funding efficiency and lower cost of funds to better respond to the growing financing needs in member countries. In particular, BSTDB placed notes with Romanian investors of a EUR 100 million equivalent size and developed a set of other currencies, such as CZK and HUF, with debut issuances achieving a substantial funding arbitrage.

- In 2020 the Bank completed the setup of its Russian domestic issuance program and obtained a rating from ACRA, the Russian domestic rating agency, at A+ (international scale) / AAA (Russian scale) with stable outlook. The BSTDB's other ratings were maintained at A-/positive outlook from S&P and A/stable outlook from Moody's.

- The Bank sought to proactively support clients address successfully the uncertainties and risks of the pandemic period. In several cases, the Bank led and collaborated with other lenders in providing expertise to re-engineer client business models and allow for a sustainable path to financial recovery.

Economic Overview of the Black Sea Region in 2020[1]

THE PANDEMIC AND THE RESPONSE OF THE BLACK SEA REGION

As in the rest of the world, the Covid-19 pandemic was the dominant event that defined 2020 in the Black Sea Region[2]. The Region entered the year with the expectation of improving performance and reversing the trend of positive but slowing growth during the 2018-2019 period. The outbreak and rapid spread of the pandemic quickly rendered irrelevant all such expectations, and by the end of the first quarter all countries had imposed lockdowns that significantly slowed economic activity, particularly in the period from March to May. Both demand and supply collapsed, and supply chains and international trade were severely disrupted. By late spring, the Member States of the Black Sea Region, alongside other European countries, began a staged process of re-opening societies and economies, attempting to balance the need to restart economic activity with the need to enforce restrictions and social distancing standards in order to contain the further spread of the pandemic. This balancing act became the main theme for the rest of the year. As the spread of the pandemic slowed in the summer months, activity recovered, yet less so for services that require frequent human contact, and moreso for manufacturing, agriculture, and 'socially distanced services'. However, a resurgence of the pandemic in the fall led to a renewed imposition of restrictions in the late third and the fourth quarters of 2020. Economic activity once again was hit, although the extra time to prepare alternatives and/or introduce substitutes, such as distance working, mitigated the impact somewhat.

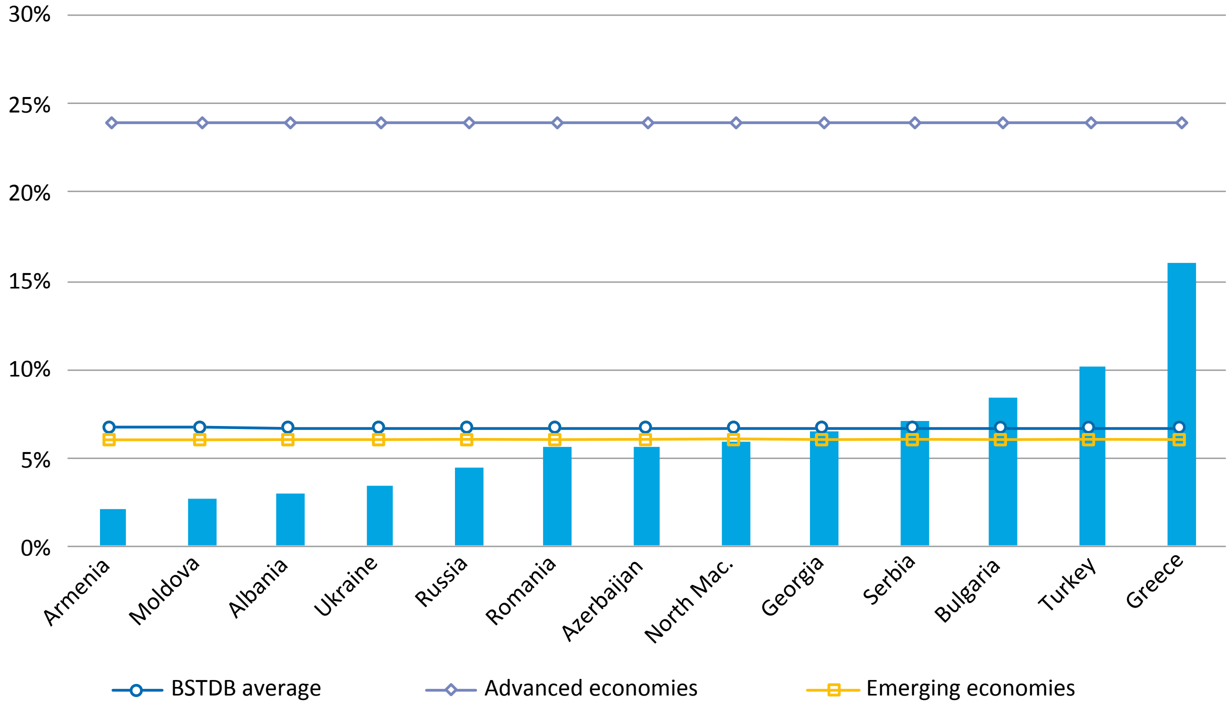
An additional mitigant to the slowdown was the policy response of emerging market economies to the pandemic. In previous crises, the typical response was for a government to cut back spending, and for the central bank to raise interest rates, so as to maintain the value of the currency, reduce possible runs on reserves, and increase confidence. While these policies did eventually restore confidence, they usually did so at great economic cost, in terms of both current activity and future investment foregone.

At the outbreak of the pandemic in 2020, as markets froze up there were fears of a reprise. However, on the back of the unprecedented fiscal expansion of developed economies and the monetary loosening of reserve currency central banks (especially the US Federal Reserve and the European Central Bank), emerging market policymakers found themselves able to undertake similar (albeit to a more moderate degree) actions in order to mitigate the worst effects of the pandemic-induced economic slowdown. As Figure 1 shows, while advanced economies undertook fiscal and liquidity support measures that amounted to 24% of GDP, emerging markets undertook stimulus on the order of 6% of GDP.

[1] Note on Sources: Black Sea Region data are based on BSTDB calculations from national statistical agencies of the countries of the Black Sea Region and the International Monetary Fund IFS Database. Sources for non-regional data include the ***Global Economic Prospects*** reports of the World Bank, the IMF's ***World Economic Outlook*** publications, and the Economist Intelligence Unit. As many figures at the time of writing represent estimates for 2020, actual final figures may differ in detail, but the overall trends discussed in this section will not be altered.

[2] Comprised of the 12 member countries of the Black Sea Economic Cooperation (BSEC): Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Serbia, Turkey, Ukraine.

Figure 1: **BSEC Government Pandemic Support Measures, % of GDP**



Sources: IMF Fiscal Monitor & Database of Fiscal Policy Responses to Covid-19

Figure 1 also shows the level of response of BSEC member countries. Faced with the COVID-19 challenge, all countries of the Black Sea Region took unprecedented measures to minimize the negative impact on their citizens and economies. While there were differences in degree, all countries introduced country wide lockdowns, closed borders, schools and universities and all 'non-essential' businesses. Work-at-home was advised whenever possible. These policies focused on stopping the spread of the virus and had significant negative economic impact. To counter the negative impacts of the policies, governments implemented liquidity and fiscal policies in the range of 2.0-16.0% of GDP. Calculations indicate that total fiscal measures in the Black Sea Region correspond to close to US$ 200 billion or roughly 6.7% of regional GDP. This level of support is slightly higher than the estimate of 6.1% of GDP for the level of anti-pandemic economic support provided by all emerging economies.

While differing in detail, the policies were broadly similar across the countries. These included increase in direct fiscal spending, reallocations from previous spending categories, provision of guarantees, tapping international funds, reaching swap deals, etc. Below is the broad categorization of the policies taken by countries of the region:

- Additional spending on healthcare for hiring of healthcare personnel, acquisition of necessary medical equipment, protective equipment, tests, research on therapies and new vaccines, etc.
- Additional allocations for social assistance and/or wage support for unemployed and/or to affected companies that promise not to fire their staff.
- Tax deferrals.
- Transfers to development/state banks and funds to increase their capital to ease liquidity in the market.
- Loan guarantees to affected companies and subsidies for interest payments.
- Introduction or expansion of facilities providing subsidized loans to SME and other affected businesses.
- Deferral of loan principal payments, extension of loans for affected businesses, and allowance for commercial banks not to categorize them as impaired.
- Temporary easing of banking ratios and/or provisioning requirements to provide liquidity in the market.
- Cuts in monetary policy rates, to ease access to liquidity.

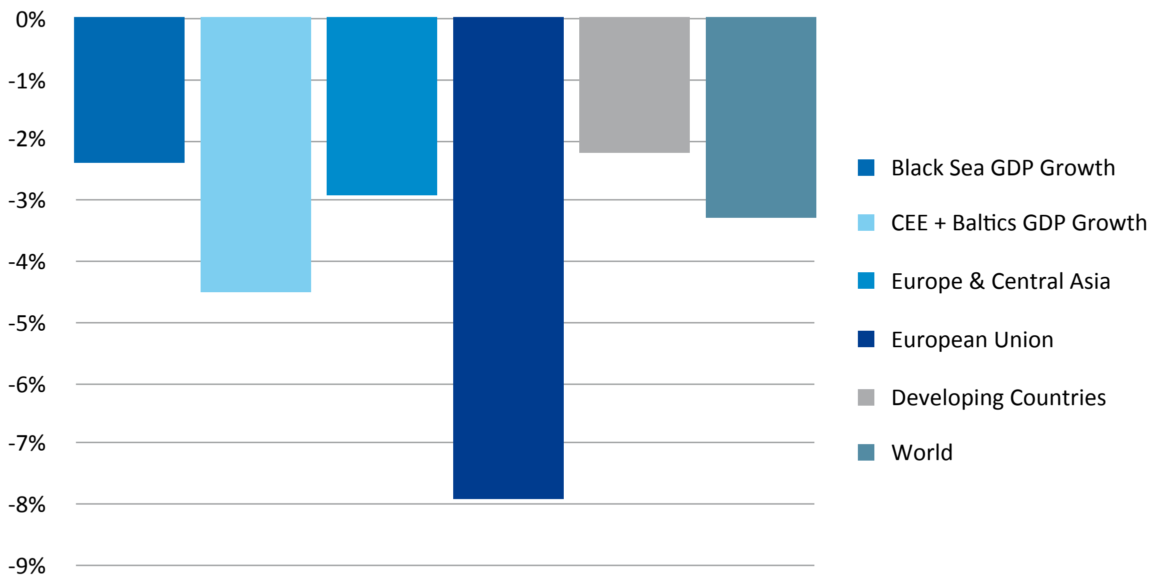
- Intervention in foreign exchange markets to prevent exchange rate volatility.
- Utility bill support (payment postponement, partial coverage by the state or some other) to affected companies and/ or vulnerable social groups.
- Temporary price regulations, and export bans, for essential items were introduced in some countries.
- Swap lines with the ECB were provided for some countries, and in others central banks either introduced or expanded swap lines to domestic banks.
- Some countries reached agreement with the IMF on new programs of support; much use was made of the IMF's new Rapid Credit Facility (RCF) which provides rapid financial assistance to low income countries facing urgent balance of payment needs. The key feature of this RCF is that it provides access to foreign exchange liquidity quickly and flexibly, with limited conditions and none of the traditional requirements for detailed reform programs.
- In some countries, businesses were forbidden to lay off employees, and foreclosures and tax audits/controls were suspended.

The emergency policy support measures were supplemented by the easing of monetary policy. In emerging economies, this easing consisted primarily of interest rate cuts in order to incentivize commercial banks to increase the flow of financing to households and firms- the so-called 'real sectors' of the economy. In some instances, it extended to limited purchase of government issued debt or other assets by central banks, although again this was undertaken far more modestly than in advanced economies. By and large, domestic currencies held their value. Depreciations occurred mainly in the initial stages of the pandemic in February- March. As the situation settled and measures were implemented behind leading global central banks such as the US Federal Reserve and the European Central Bank, exchange rates stabilized and many emerging currencies recovered even as their central banks implemented monetary easing policies.

Economic Performance of the Black Sea Region

The upside to these policies was that the degree of recession was alleviated, financial sectors avoided stress, social protection schemes with their automatic stabilizers buffered the downturn for the most vulnerable segments of society, and health sectors were bolstered. This was true across the global economy, in advanced as well as developing economies, and includes the Black Sea Region, too. Figure 2 shows Global GDP outturns for 2020.

Figure 2: **Real GDP Change in 2020, Globally and by Select Region**



Source: National Statistical Agencies, World Bank & IMF

Nevertheless, recession was not averted, with the global economy experiencing its worst economic contraction in decades, declining by -3.3%. While there was considerable variation from region to region, every single country globally experienced a worse GDP outturn in 2020 than it did in 2019, with the overwhelming majority experiencing contractions. The Black Sea Region was no different than other regions in this respect, suffering a slump of -2.4% in real terms. This was a contraction that was slightly worse than for developing countries in total, but favourable compared to the outturns for Emerging Europe and Central Asia. It was less severe than the impact on the overall global economy, being better than the outturns for the Central and Eastern European and Baltic states ('CEE & Baltics')[3], and it was also much more benign than the downturn experienced by the European Union, the bloc of countries that constitute the greater Black Sea Region's most important trade partner and source of investment and financing.

Although the slowdown was less pronounced, in terms of timing it was similar to the patterns of economic activity in much of the northern hemisphere. The year began with an expectation of moderate growth on the order of 2.5%, a figure slightly higher than the 2.1% posted for 2019. With the onset of the pandemic and the lockdowns imposed in response in later February and March, economic activity nosedived, and as the lockdowns persisted through the spring, the decline was most pronounced in the second quarter of 2020. By contrast, the phased re-opening of economies in the summer was accompanied by a healthy bounceback in the third quarter and hopes that the recovery might persist.

However, the even more virulent return of the second wave of the pandemic across the northern hemisphere in the fall led to renewed society-wide restrictions, including total lockdowns in some countries. As a consequence, a recession returned in the fourth quarter in almost all countries, although it appears to have been less damaging to economic activity than the second quarter slowdown. On the one hand, countries and civil societies had had some experience to build upon, as well as time to adjust to the renewed lockdowns, turning to remote working regimes more smoothly and efficiently. On the other hand, the impact of the massive fiscal and financial stimuli undertaken during the second quarter were still supporting economic activity and staying bankruptcies and other potentially damaging events that could lead to uncontrolled downward spirals and contagion.

In terms of sector of activity, initial outturns suggest that industry (-4.6%) and services (-2.5%) suffered much bigger downturns in BSEC countries than did agriculture, which experienced a marginal decline of -0.9%. This is unsurprising, and corroborates experience elsewhere, where services requiring human interaction in particular suffered most from lockdowns and social distancing protocols. The industrial decline is linked to supply side problems such as the disruption of supply chains and the disruption of labour as workers in many industries were kept away from work sites, but also the collapse in demand as consumers cut back on items considered as non-essential.

Looking at contribution to economic activity on the demand side, initial outturns indicate that investment - public and private - experienced the biggest fall at around -5.4%. Even in previous years of positive growth, investment activity had been anaemic in the Black Sea Region. The onset of the pandemic resulted in further cutbacks as planned investments were delayed, deferred, or cancelled outright. While those investments that were postponed may contribute to a faster recovery once economies re-open, there is also a concern that cancelled investment may result in longer term or even permanent economic damage. For public investment, cancellations may result in poorer infrastructure or inferior delivery and consumption of public goods. Cancelled private investment may similarly reduce wealth generating capacity and new employment creation, as well as productivity growth.

Private consumption also declined, by an estimated -4.9% due to uncertainties faced by consumers and the aforementioned cutting back on purchases. By contrast, public consumption increased, by +3.6%, as automatic fiscal stabilizers kicked in once recession took hold (e.g. increased unemployment benefits) as well as the fiscal stimulus measures that were consciously enacted in order to buttress overall economic activity, and to target spending in specific high priority sectors. External trade - imports as well as exports - declined to an even more pronounced degree although their net impact on GDP largely offset each other[4]. The decline in cross-border activity was underscored by the fall in foreign direct investment which, as Table 1 shows, fell to 1.0% of GDP, the lowest level in the Black Sea Region since the late 1990s.

[3] The Group of nine states, most of which joined the European Union in 2004 and, as former 'transition' countries, are often compared to the countries of the greater Black Sea Region: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia; and Croatia, which joined the EU in 2014.

[4] For a detailed analysis, see the special chapter on trade.

Table 1: **Summary of Key Economic Indicators for 2020, by BSEC Member Country**

	Real GDP Growth	Inflation	Cur Acct Bal / GDP	Budget/ GDP	Public Debt/ GDP	FDI/ GDP
Albania	-3.3%	1.6%	-8.9%	-6.9%	82.0%	7.2%
Armenia	-7.6%	1.2%	-3.1%	-5.1%	66.3%	0.9%
Azerbaijan	-4.3%	2.8%	-0.5%	-2.4%	23.4%	1.2%
Bulgaria	-4.2%	1.7%	-0.8%	-3.0%	24.0%	3.6%
Georgia	-6.2%	5.2%	-11.5%	-7.8%	56.3%	6.3%
Greece	-8.2%	-1.2%	-6.7%	-9.2%	208.1%	1.9%
Moldova	-7.0%	3.8%	-6.8%	-5.4%	35.2%	0.5%
Romania	-3.9%	2.6%	-5.3%	-9.7%	39.8%	1.1%
Russia	-3.1%	4.9%	2.3%	-3.8%	17.8%	0.6%
Serbia	-1.0%	1.6%	-4.2%	-8.2%	59.1%	6.5%
Turkey	1.8%	12.3%	-5.2%	-3.4%	39.5%	1.1%
Ukraine	-4.0%	2.7%	4.0%	-5.2%	65.4%	-0.4%
BSEC Region	-2.4%	5.0%	-1.0%	-4.8%	41.7%	1.0%

Table 1 provides a summary of key economic indicators by country, and a weighted average for the BSEC Region as a whole. It shows the contraction in regional GDP, but also the considerable variation from country to country in terms of the outturns posted. Economic structure and the impact of the pandemic on key industries was one important factor determining the degree of contraction experienced, but other factors such as severity of the pandemic, and comprehensiveness and duration of lockdowns imposed also played significant roles. Whereas all BSEC countries experienced positive GDP growth in 2019, all countries experienced much worse outturns in 2020 and all but one experienced negative growth rates.

The collapse in demand outweighed supply shortages and any related price rises. Commodity prices, particularly for oil and gas, fell significantly in the second quarter and recovered only partially in the second half of the year. As a result, inflation rates fell in most BSEC countries, and overall, the average annual rate of inflation fell to under 5% for the first time since BSEC was created in the early 1990s.

The current account balance for the Region fell to -1.0% of regional GDP, a small decline driven mainly by the weaker performance of commodity exporters (especially energy and steel) and countries that have large service sectors in areas such as tourism, shipping, and logistics. By contrast, the change in fiscal balances and the rise in public debt figures were much sharper. Both deteriorated due to the higher spending instituted to combat the pandemic on the one hand, and the decline in revenues caused by reduced economic activity on the other hand. However, in both cases, the levels were manageable, since the dedication to fiscal prudence and solid macroeconomic management of previous years paid dividends, permitting governments with the credibility and 'fiscal space' to borrow and to spend. Buoyed by the ample availability of liquidity, governments were able to issue record amounts of debt at historically low rates. Thus, budget deficits averaged -4.8% of GDP, and public debt levels jumped 7.4% from 34.3% of GDP to 41.7%, while debt servicing costs fell.

Figure 3: **Regional Credit Ratings at end 2020 and Evolution Over Time**

	As at December 2020		
	Moody's	S&P	Fitch
Albania	B1	B+	—
Armenia	Ba3	—	B+
Azerbaijan	Ba2	BB+	BB+
Bulgaria	Baa1	BBB	BBB
Georgia	Ba2	BB	BB
Greece	Ba3	BB-	BB
Moldova	B3	—	—
Romania	Baa3	BBB-	BBB-
Russia	Baa3	BBB-	BBB
Serbia	Ba3	BB+	BB+
Turkey	B2	B+	BB-
Ukraine	B3	B	B

Figure 3 demonstrates the resilience of regional economies despite the stresses and downturns. The left-hand table shows the credit ratings of BSEC countries, as they stood at end December 2020, from the three largest and most influential credit rating agencies. Despite the onset of recession and the loosening of financial and fiscal policies in response, there were more upgrades (four) than downgrades (two). The right-hand chart shows the average weighted credit rating of Black Sea countries and compares it to the evolution of the average credit rating of the Black Sea Trade and Development Bank. The 2008 crisis led to a lengthy period, up to 2015, in which downgrades outnumbered upgrades, and the average rating of Black Sea countries slipped from investment grade (BBB-) to a low that reached almost BB- in 2015-16. Since 2016 upgrades have exceeded downgrades and the average weighted credit rating has risen, gradually but steadily, to BB. This remains low given the quality of country finances and their track record of commitment to prudent macroeconomic management; nevertheless, the maintenance, and even slight increase, of the average over the course of 2020 represents acknowledgement of their strength and durability.

The Decoupling of Finance from the Real Economy

Global fiscal support in response to the pandemic reached an estimated US$ 14 trillion by the end of 2020[5], with major schemes for even further support planned in 2021 (most notably in the United States). These have contributed to saving lives and mitigating the effects of the pandemic on consumption and output. However, they have also raised the level of risk going forward. The downside to these necessary and successful stimulus measures is their impact on deficits and debts, and the 'decoupling' or "de-synchronization" of the financial economy from the 'real' economy where actual activity and output take place.

[5] IMF Fiscal Monitor, January 2021.

Figure 4: **Emerging Market Borrowings**[6]

In combination with the lower revenues caused by the economic recession, the extraordinary support has resulted in a sharp increase in public debt and deficits. According to the IMF, global public debt increased from 84% of GDP in 2019 to an estimated 98% of GDP at the end of 2020. Although the bulk of this debt increase is in developed economies, Figure 4 shows that borrowing in emerging markets reached record levels in 2020, and the ratio of debt to GDP in the 19 largest emerging markets rose by an average 10 percentage points[7].

The aforementioned Table 1 records how public debt in the Black Sea Region grew to 41.7%, up 7.4% from the previous year, a figure which is eminently manageable, particularly in the current situation of ultra-low interest rates. There is considerable variation from country to country, but the higher debt countries enjoy additional safeguards in the form of extraordinary access to special lines of foreign exchange, be it eligibility for bond purchases by the European Central Bank (ECB), ECB swap lines, and/or IMF support. One-off jumps in fiscal deficits are not a cause for great concern either, but the longer the public health crisis and concomitant economic slowdown continue, the greater the stresses that will emerge over time. A prolonged pandemic induced recession may also cause lasting damage to economic activity in a country, thus reducing wealth generating capacity and making recovery of revenues an even bigger challenge. A post pandemic recovery will lead to the cessation of extraordinary outlays, helping to reduce the spending side, but revenue recovery may prove more uneven and lengthy, with risks rising if the pandemic drags out.

The issue of decoupling is trickier to comprehend, as well as to assess its potential impact going forward. This decoupling concerns the perceptions and behaviour of financial markets relative to actual economic realities. Economic activity has suffered, unemployment has risen, and company failures are imminent, which implies that the bad debts of banks are likely to grow. Moreover, the support measures saved firms from default and possible closure in the short term, but as time passes, the forestalling of bankruptcies risks creating an overhang of companies that under normal circumstances would and should have ceased to exist, but with the extraordinary support have managed to survive.

[6] Recopied from emerging markets borrowers sell debt at record rate in January, Financial Times, 28 January 2021

[7] Emerging economies tap debt markets but risks pile up ahead, Financial Times 28 September 2020

At the same time, governments are experiencing widening imbalances in deficits and debts. Yet instead of a downturn in anticipation of these negative events, financial markets have behaved in a manner uncorrelated to actual economic activity. After an initial freeze up and a sharp widening of spreads, lending and the terms for loans have recovered substantially, particularly for sovereigns which are borrowing at record low rates. Even more striking is the behaviour of stock markets, which grew sharply throughout 2020 and continued to do so through the second wave, even though there is no data to support expectations of economic recovery for as long as the pandemic situation persists.

This decoupling lasted through 2020 and into 2021, even as the pandemic situation continues. But what is unclear, and will only become known ex post facto, is whether the buoyant markets (a) correctly forecast an economic recovery which will pick up pace and lead to a recovery in both output and wealth generation, as well as consumption and investment; or (b) succumbed to a liquidity fed euphoria that will eventually dissipate. In the case of the latter, the risk is that markets suddenly realize that their upswing occurred in a void, with the real economy failing to recover sufficiently, and this leads to a renewed loss of confidence and possible recurrences of panic and seizures.

With governments already having expended so many resources to prop up economies, they may not be in position to respond to such a renewed loss of confidence, which may result in unforeseeable consequences, with emerging markets in the first ranks of those likely to bear the brunt of such a downturn.

Nevertheless, at the close of 2020, the Black Sea Region found itself once again having demonstrated resilience in the face of exogenously generated adversity. Moreover, and with the backstopping support of global intergovernmental bodies, the solid macroeconomic situation of most countries provided governments with the fiscal and monetary 'space' to respond aggressively and successfully to avert the worst effects of the pandemic induced economic downturn. Most still have room to undertake additional stimulus measures, if necessary, as well as to protect themselves from economic shocks that may arise (e.g. a new emerging market crisis). Should the coronavirus pandemic be brought under control, as hoped, and become endemic via widespread inoculation and the advent of new therapies, BSEC countries are well positioned to restore macroeconomic balance quickly and to return to a path of growth. In this respect access to Covid-19 vaccines becomes an important consideration, and could have implications for regional and even global economic and financial stability and outlooks.

One other potential 'silver lining' for the Black Sea Region concerns its location on key transport and communication corridors, as well as its proximity to wealthy markets. This locational advantage puts BSEC countries in a strong position to benefit from any restructuring and shortening of global supply chains being contemplated in North America and Western Europe, such as the relocation of production facilities away from more remote locations, as well as the desire to diversify sources of supply and reduce dependence on one large supplier.

TRADE DYNAMICS DURING CRISES: OBSERVATIONS FROM TWO CRISES

Despite occasional setbacks, transborder operations are in general on an increasing trend globally, as countries trade more with each other, with capital flowing easily across borders and leading to an efficient allocation of resources and further integration of countries into global trade networks. Integration processes generally face temporary challenges and reversals during crisis times. Over the last two decades, the world experienced two major crisis moments that had a significant negative impact on global trade flows. The first was in 2008/09 when the global financial crisis spilled over across countries and sectors to hurt most areas of economic activity, including trade flows. The second one started in early 2020, as the spread of Coronavirus forced governments to take drastic lockdown measures. Public health concerns made those policies mandatory, albeit at the cost of a record level of global economic contraction. As a result, trade flows suffered again.

While trade volumes fall during most crises, the trade patterns leading to the crises, the impacted products/sectors, and the eventual recoveries differ. The two crises of the last two decades offer an opportunity to analyze differences and draw conclusions. Unfortunately, the current crisis is still unfolding and most of the detailed data is incomplete. However, even with the current data, there are possibilities to make some conclusions.

Heading towards the crisis in 2008/09, trade volumes of goods and services had increased synchronously in almost all countries, in most cases at double digit rates and nearly doubling every few years. While trade in services was also increasing, its pace lagged that of merchandise trade. Almost all countries experienced peak levels of trade activity in September or October 2008 and there were similarities in the eventual rebound trajectories among countries. Heading towards the 2020 crisis, on the other hand, there was a very mixed trend in trade flows, with some countries already experiencing falls, and others experiencing minor booms, while a drop in commodities prices had started far earlier. Additionally, in contrast to 2008, the share of trade in services was increasing in total trade. Once the shock materialized, all those factors led to differentiated trends. Services were hurt more, and commodity prices fell further, albeit recovering quickly. On the positive side, recovery started earlier, particularly for non-energy exports while the prospects for important services sectors such as transportation and tourism are likely to depend on the pace of vaccinations.

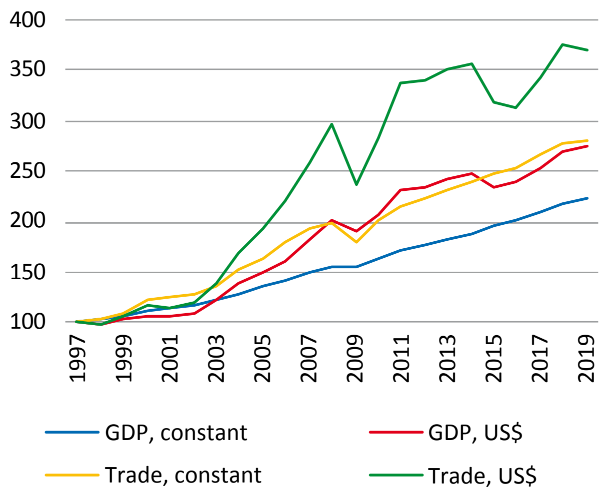
With respect to the Black Sea Region, following a recovery in trade volumes after the 2008/09 crisis, BSTDB members' exports and imports remained broadly flat until late 2014 and started to decline thereafter. Intra-regional trade also followed similar trends, albeit the post-2014 decline was more pronounced, thereby leading to a fall in the share of regional trade as a ratio to total trade. One of the possible explanations is weaker growth in the region's economies since 2009. However, on a positive note, it can be stated that BSTDB members were able to expand trade activities with a wider array of countries beyond the region.

The Global Trend in Trade

Since the 1980s the world has become a far more integrated and interdependent place as globalization has gained pace. In 2019, global GDP in real terms was 3.7 times bigger than in 1982, while in nominal US$ terms it was almost 8 times bigger. Trade volume in goods and services, in particular, was more than 7 times higher in real terms and more than 13 times bigger in nominal US$ terms.

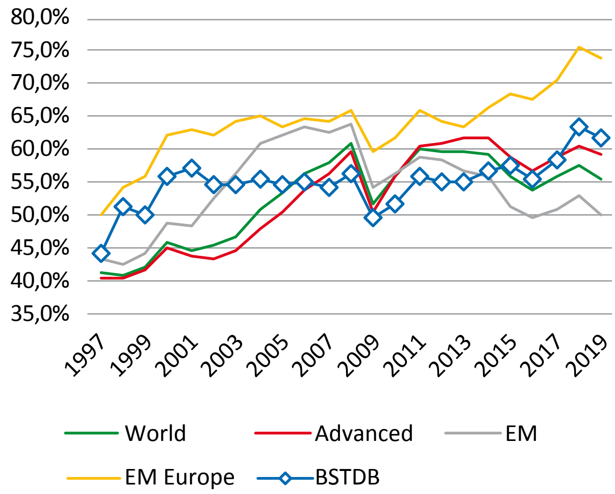
So, the weight of trade in the global economy has increased. In the early 1980s, trade volume, defined as the sum of exports and imports of goods and services, was around 35% of GDP. It remained broadly at that level throughout the decade and started to increase in the early 1990s. This process further gained pace in the 2000s with the weight of trade reaching 60% of GDP by 2008. Following the sharp drop in 2009, when the ratio dropped to 51.7%, the ratio picked up in the following years and stabilized around 57% of GDP.

Figure 1: **World, index 1997=100**



Sources: IMF Balance of Payments, IMF WEO

Figure 2: **Trade in goods and services, % of GDP**



Sources: IMF Balance of Payments, IMF WEO

With its increasing weight in the global economy, understanding trade dynamics gained further importance. As the charts above show, global trade volume increased rapidly from 2002 to 2008, dropped in 2009 (Figure 1), and then remained relatively flat as a ratio to GDP. However, this aggregate figure hides important differences among countries and even regions.

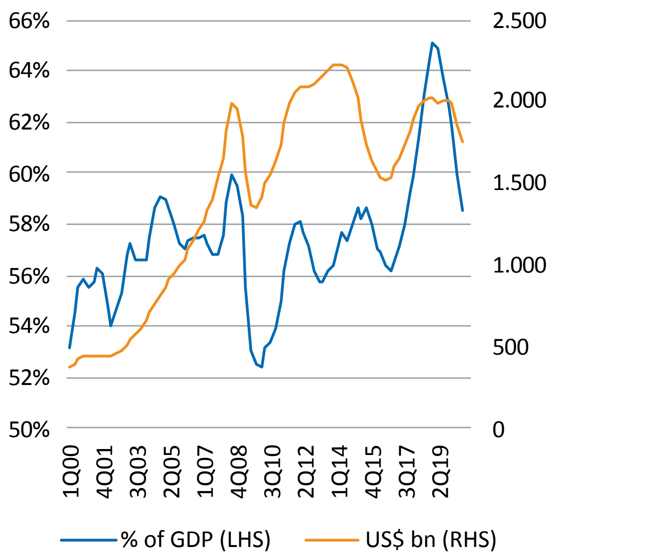
Figure 2, above on the right, shows that in the ten-year period up to 2008, the trade to GDP ratio increased faster in emerging markets as booming global demand and available liquidity incorporated them into global supply chains, along with elevated commodity prices. Since 2008, the ratio in emerging markets has declined, retreating from 64.0% to 50.1% by 2019. In advanced economies, on the other hand, the ratio remained broadly flat. However, emerging and developing economies of Europe, likely benefitting from the continued integration in the EU, diverged from their global counterparts and outperformed advanced economies.

BSTDB Region[8]

The value of trade in goods and services in the BSTDB region went from less than US$ 400.0bn in the late 1990s to almost US$ 2.0tn in 2008, corresponding to a five-time increase in less than a decade (Figure 3). As a result, the trade to GDP ratio increased fast in the first few years of the early 2000s. During the second half of the decade, however, nominal GDP increased proportionately to trade volume, and therefore the ratio remained broadly flat at 55% of GDP. In 2009, trade volume collapsed by more than 30% compared to 2008. However, in 2010-11 trade recovered to its previous level and remained flat thereafter. For example, in nominal US$ terms, total regional trade volume increased from US$ 1.5tn in late 2016 to above US$ 2.0tn in 2018. As nominal GDP in US$ terms lagged behind, the trade to GDP ratio surged to almost 65% by the end of 2018. The trend reversed once again in late 2019, possibly due to a steep fall in commodity prices and, from the second quarter of 2020, due to pandemic-related lockdowns. Eventually, the trade to GDP ratio for the BSTDB countries fell from 65.1% of GDP in 1Q19 to 58.6% of GDP in 3Q20.

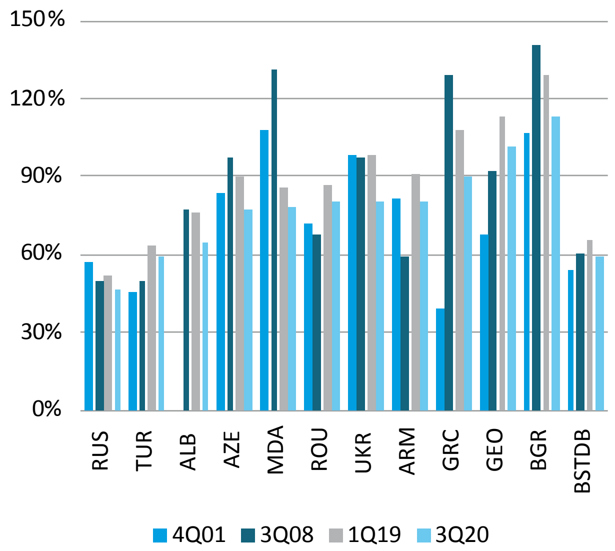
[8] The following short analysis will focus on the BSTDB region and how trade volumes developed headings towards global economic crises, over the last two decades. The analysis will be limited to the BSTDB region and, wherever possible, monthly and quarterly data will be used. By default, the monthly data will be used in a twelve-month moving sum format, while quarterly data will be used in a four-quarter moving sum format.

Figure 3: **BSTDB Region Trade in Goods and Services, % of GDP**



Sources: IMF WEO Oct 2020, IMF Balance of Payments and International Investment Position, IMF IFS, BSTDB calculations

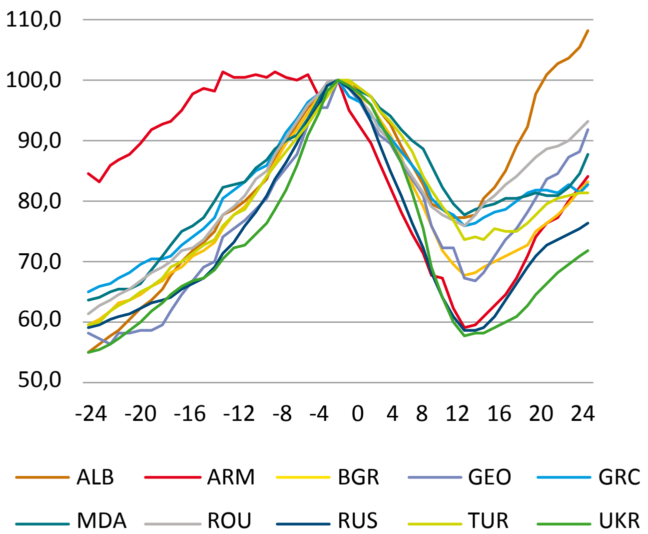
Figure 4: **Trade in Goods and Services, % of GDP**



Sources: IMF Balance of Payments and International Investment Position, IMF IFS, BSTDB calculations

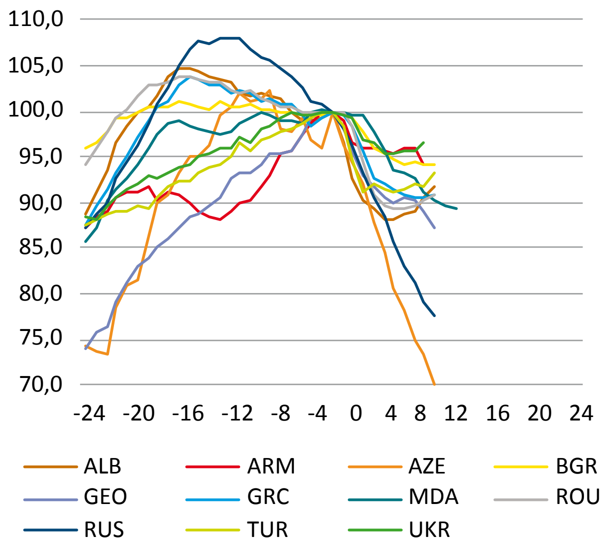
The aggregate figures hide important differences among countries (Figure 4), particularly in the period leading to 2020. One of the important differences between the 2008-09 crisis and the 2020 crisis is that before 2008, all countries experienced a boom in trade (Figure 5), while before 2020 trade dynamics diverged (Figure 6). Trade volume in nominal US$ terms has almost doubled in almost all BSTDB member countries leading to the record high in late 2008. However, in the decade up to 2020, the countries had different experiences with trade flows. While in some countries there was an increase, in others there was decline and in others relative stability in trade volumes, with no obvious trend. For example, in five BSTDB members, the volume of trade in goods in US$ terms was higher 12 months before January/February 2020, after which trade volumes collapsed. Pre-shock divergence in trade paths meant that post-crisis paths would differ significantly, unlike in 2009 when there was a relatively similar rebound.

Figure 5: **Trade Volume in US$, 2008 peak=100 (September or October)**



The horizontal axis: months before and after the peak.
Source: IMF Direction of Trade Statistics, BSTDB calculations

Figure 6: **Trade Volume in US$, 2020 peak=100 (January or February)**



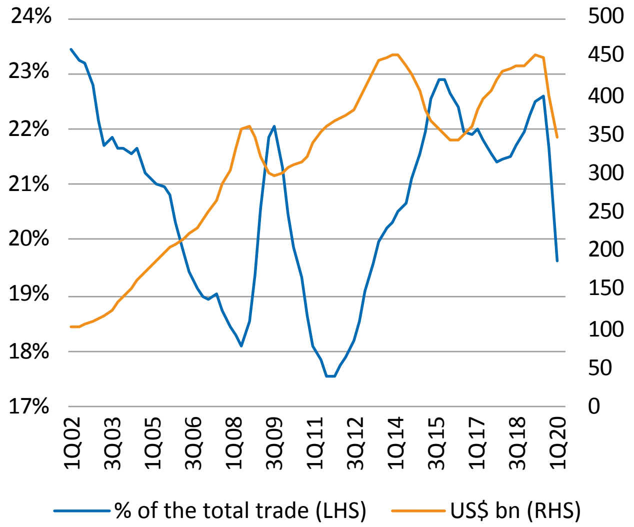
The horizontal axis: months before and after the peak.
Source: IMF Direction of Trade Statistics, BSTDB calculations

The charts above show how the trade activity varied from country to country in the months leading to the shock/peak level before the onset of the recession, rendering the analysis of trade dynamics in an aggregate manner challenging. For example, in some countries, mainly but not limited to energy exporters, trade volumes were already declining even before the worst of pandemic-related crisis hit. Naturally, for those countries the 2020 crisis does not act as a watershed in terms of trade dynamics and, as would have been expected, their trade volumes declined less due to the lower base from which they began. A similar story holds for the countries that had a flat trend just before 2020. With a lower base from which to start, trade volume contraction has been smaller compared to the 2008-09 crisis. Recently released data also show that, except for energy commodities, the bottom has already been passed and recovery started. In the 2008/09 crisis, on the other hand, it took a full year for trade activity to recover.

Hardest Hit Sectors: Tourism and Oil

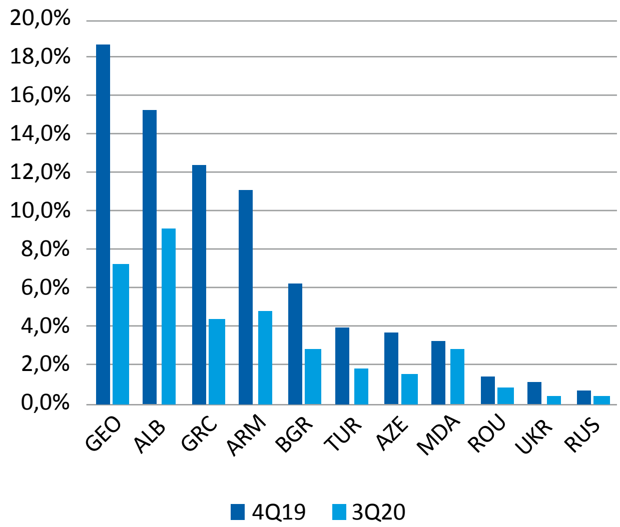
Trade in goods has always dominated transborder operations between countries. In the period leading to 2009, it was mainly merchandise products that shaped the overall trend in trade. Along with trade in goods, the trade in services also boomed in the first decade of the 2000s, albeit at a relatively slower pace. The difference in the pace led to a fall in the share of services from 22.8% of the total trade in 2002 to 18.1% in mid-2008. However, following the 2008-09 crisis and especially after 2011, the service sectors boomed while the trade in goods stagnated. As a result, the share of services reached almost 23% of total trade, before retreating to a still high 22.6% in the first quarter of 2020 (Figure 7).

Figure 7: **Trade in Services, BSTDB countries**



IMF Balance of Payments and International Investment Position, IMF IFS, BSTDB calculations

Figure 8: **Travel Receipts, % of GDP**



IMF Balance of Payments and International Investment Position, MF IFS, BSTDB calculations

As the pandemic spread, authorities started to take drastic measures, including the suspension of international and domestic travel. This led to the evaporation of travel-related receipts for all countries. Particularly hard hit were the ones where tourism is among the major sectors in the economy. As a result, in the BSTDB Region, service-related trans-border operations were down from 22.5% of GDP in 4Q19 to 19.6% of GDP in 3Q20, while for some members losses exceeded 6% of GDP (Figure 8).

In general, transport and travel dominate in total services and accounted for 30.3% and 26.4% of total services transactions for BSTDB member countries in 2019. In the first three quarters of 2020, on nominal US$ terms, the former decreased 35.1% compared to the same period in the previous year while the latter collapsed 69.8%. Given their shares, performance in those sectors shaped overall transborder operations in services. However, unlike transportation and travel operations, there was an increase in "telecommunication, computer, and information services" (+8.0% y/y), construction services (+13.3% y/y), "insurance and pension services" (+15.2% y/y), and financial services (+14.8% y/y).

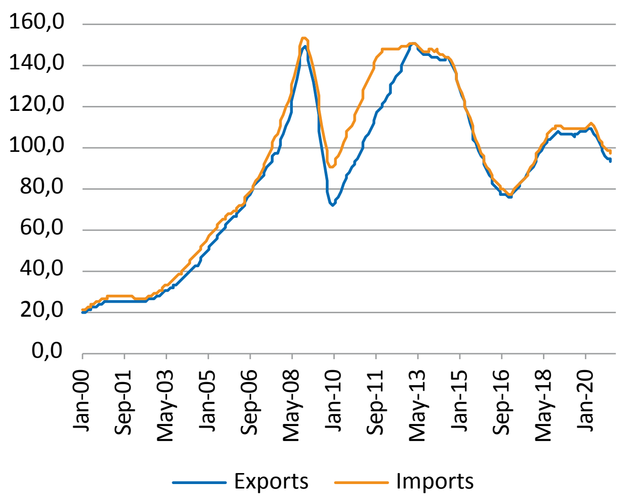
Along with transportation and tourism, a fall in oil prices was another casualty of the crisis which had a significant negative impact on energy-exporting member countries. In the first three quarters of 2020, total exports of goods from BSTDB countries declined 17.6% y/y, drop in oil and gas exports reached 27.8% y/y while non-oil exports retreated 13.0% y/y.[9]

Approximate calculations indicate that, excluding the volume of travel services and oil and gas-related exports from Azerbaijan and Russia, annualized total trade volume declined 7.9% from 4Q19 to 3Q20, against a 12.4% decline in aggregate. As of December 2020, compared to December 2019 and excluding oil and gas, exports of goods increased from all BSTDB member countries except for Georgia. In fact, compared to the same month of the previous year and excluding oil and gas, exports from the BSTDB Region have been increasing since September (+8.3% y/y). While the pace of increase slowed a little bit in October and November, it surged to +13.9% y/y in December 2020.[10]

Intraregional Trade

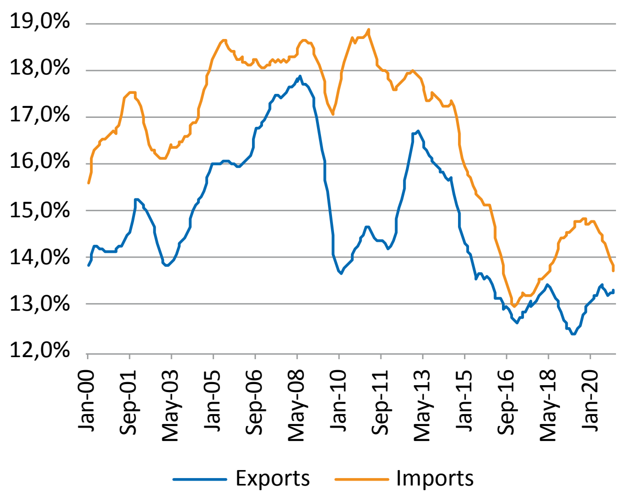
Intraregional merchandise exports in the wider Black Sea Region peaked at US$ 150.0bn in the 12 months to February 2013, just 0.7% higher compared to the previous record posted in October 2008. Since then the exports have declined and as of November 2020, they were down to US$ 93.3bn. The pattern was similar with imports, which were down from the record of US$ 152.9bn to US$ 96.7bn in November 2020 (Figure 9). Unlike trade within the region, the trade with the rest of the world declined less since late 2014. As a result, the weight of intraregional trade in the total trade of BSTDB countries declined and hovered at close to record lows of 13-14% (Figure 10). The trend is similar even if resource rich countries (Azerbaijan and Russia) are excluded, implying that the fall in the share of the region in total trade was broad-based and not related only to the fall in oil prices.

Figure 9: **BSTDB Intraregional Trade, US$ bn**



Source: IMF Direction of Trade Statistics, BSTDB calculations

Figure 10: **Intraregional Trade in Total Trade, %**



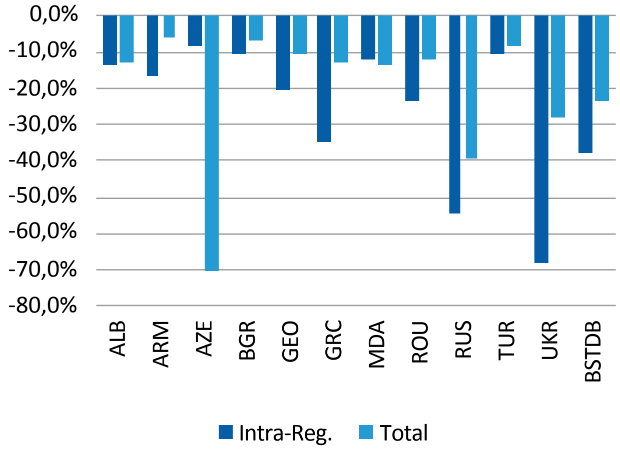
Source: IMF Direction of Trade Statistics, BSTDB calculations

[9] Comprehensive detailed merchandise trade data is not available yet.

[10] Tourism data is published within Balance of Payments statistics by the respective central banks and on a quarterly basis. Data for the 4th quarter has not been published yet. Similarly, detailed trade data is not yet available for some member countries, therefore it is not possible to make full analysis of the sectoral distribution.

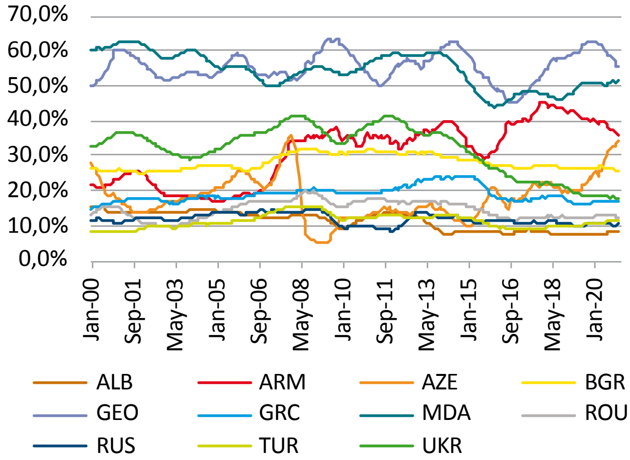
Nonetheless, there are wide variations among the member countries. For example, compared to its peak, the total exports from Ukraine were 27.9% lower in November 2020, while intraregional exports were down 67.8%. In Azerbaijan, on the other hand, intraregional exports were 8.2% less than the past peak, while total exports were 70.2% less than the total record high (Figure 11).

Figure 11: **% Difference in Exports Between Nov 2020 and Past Record High**



Source: IMF Direction of Trade Statistics, BSTDB calculations

Figure 12: **% Share of BSTDB Members in Total Exports by Countries**



Source: IMF Direction of Trade Statistics, BSTDB calculations

While the share of other BSTDB members in total exports declined for all member countries, the biggest decline occurred for Ukraine, Moldova, and Armenia. Over the past two decades, at different times, other BSTDB member countries accounted for more than 20% of the total exports for 7 members (Figure 12). This number fell to 3 by November 2020 as members diversified their export destination along with an inability to recover previous levels of exports to those markets.

Conclusions

Crises appear to have a disproportionately negative impact on trans-border operations. Trade volumes decline and some countries are hit harder than others. However, unlike in the pre-2008 period, global trade has been in a “consolidation” phase since 2008: following recovery from the lows in 2009, trade volumes remained broadly flat. Additionally, conservative government policies helped to contain potential bubbles before the 2020 crisis, and this was particularly obvious in the BSTDB region. Still, some sectors, like tourism, transportation, or energy trade, experienced bigger contractions than others and their prospect to rebound will depend on the speed and success of the vaccination process. Once the pandemic-related lockdowns are over, tourism should rebound. As for the fall in trade in energy, it was driven by falling oil prices which preceded the current crisis and had its own dynamic. Aside from those, trade flows in other sectors seem to be recovering. Excluding oil and gas, exports from all BSTDB member countries, but one, were already higher in December 2020 compared to December 2019. Moreover, total exports from the BSTDB region are growing again since October 2020 compared to the corresponding month of the previous year.

Following the 2008/09 crisis, trade volumes among BSTDB members failed to match global trends, resulting in a lower share of intra-regional trade as a share of the total trade of the members. Trade volumes declined further during the current crisis, with intra-regional exports retreating 15.5% y/y in the January-November period, slightly less sharply than the 17.0% y/y decline in the total exports of members. Over the same 9 months, intra-regional imports (-14.0% y/y) declined faster than the total imports of members (-6.5% y/y).

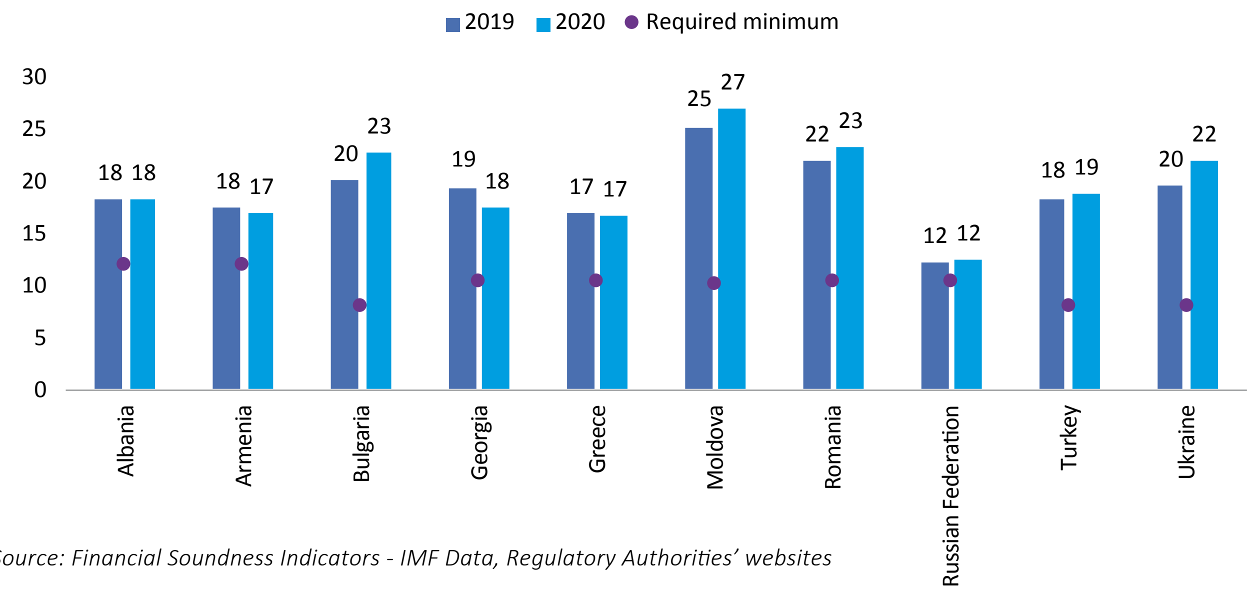
Overall, the synchronized trade dynamics of the pre-2008 period gave way to the anarchic trends in the pre-2020 period. This difference is already leading to varying trends in different countries. The BSTDB region is not an exception, with the trade performance of its members diverging significantly compared to the performance leading to the 2008/09 crisis. Another important aspect of the current crisis is its impact on the service trade, particularly on tourism and transportation. However, these sectors should recover quickly once pandemic restrictions are over, given the deferred and increasing demand. For merchandise goods trade, on the other hand, a rebound is already happening with the trade volumes increasing in the last quarter of 2020 compared to 2019.

To sum up, the current crisis has led to less contraction in global trade volumes, and a faster rebound, compared to the one in 2008/09 period. The share of the services sectors was higher compared to pre-2008 period, and, therefore, it had played a relatively important role. Intra-regional trade was stagnating even before the pandemic related restrictions were introduced, which led to an even more challenging environment for trade, particularly in services. However, once restrictions are over, trade in services, particularly in tourism, will likely rebound strongly given the build-up of demand, the proximity of the BSTDB region to the major tourist sending countries, and their familiarity with touristic destinations in the region.

FINANCIAL SECTOR - RECENT TRENDS, RISKS AND OPPORTUNITIES IN THE BLACK SEA REGION

Financial sectors in BSTDB member countries came under stress in 2020, as the global economy shrank due to the COVID 19 outbreak and countries have seen significant reductions in economic activities. The way the current shock affects the financial sector is different from the previous global shock of 2008-2009 where the financial sector was a source of shock itself. This time, financial sectors faced the global pandemic and its economic consequences in relatively healthy conditions. After one year of crisis, the financial soundness indicators of BSTDB member countries do not show any significant deterioration and financial health in most countries still looks positive. Despite the demonstrated resilience in 2020, there remain risks since the impact of the economic slowdown is usually reflected on banks' balance sheets with some delay until the full impact of the pandemic crisis on banks' balance sheets is seen, and in addition some countries introduced moratoria on servicing bank loans.

Figure 13: **Regulatory Capital to Risk-Weighted Assets (%)**

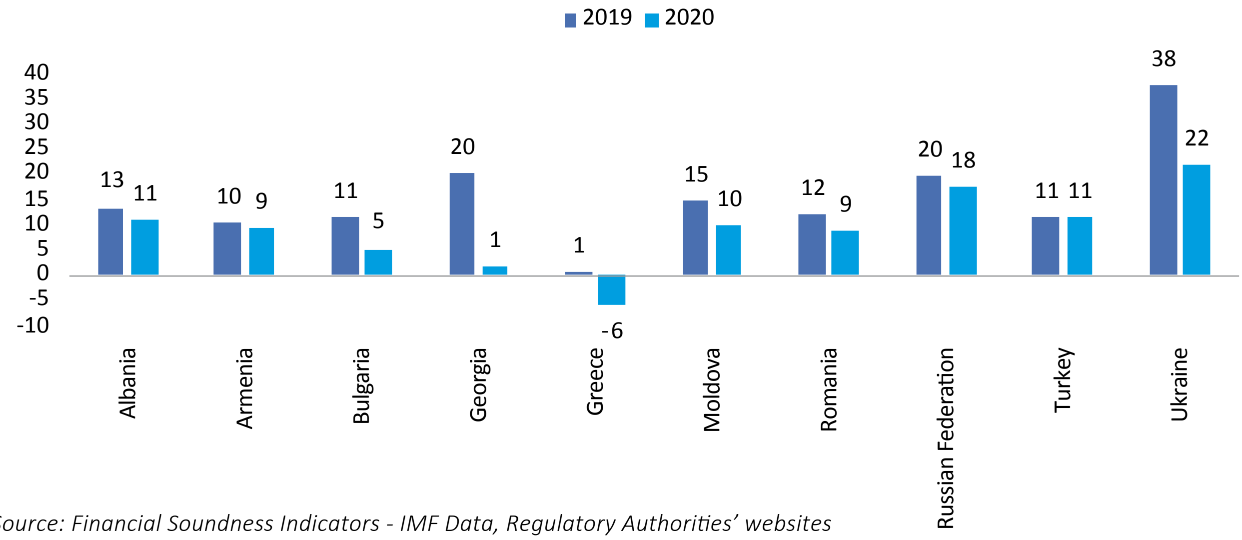


Source: Financial Soundness Indicators - IMF Data, Regulatory Authorities' websites

By the end of 2020, banks maintained significant capital buffers above the required minimum in almost all member countries, pointing to the strong position that the financial sector has even if negative risk scenarios materialize. In most countries capital adequacy ratios have increased throughout 2020, partly reflecting the fact that potential deterioration of asset quality is not yet fully reflected in the balance sheet of banks. Even in countries where capital adequacy declined, the change is not dramatic and the level stays confidently above minimum requirements.

Banking sector profitability in 2020 declined in most member countries. The largest drop in profitability was recorded in Georgia where Return on Equity (ROE) dropped from 20% in 2019 down to 1% in 2020. Such a dramatic decline in profits was a result of newly generated loan loss provisions, which were made in response to the negative expectations associated with COVID-19. After the pandemic, it is expected that banks will be able to recover their profitability thanks to high operating income. Although the decline in profitability was sizable in Ukraine as well, it still stayed at a relatively high level of 22%. Despite reductions, RoE indicators in other countries remain at reasonably sound levels expect for Greece, where banks' profitability has been depressed in recent years and it went into negative territory in 2020. With the termination of loan moratoria in most of the member countries the quality of the loan portfolio is expected to further deteriorate, something which will put additional downward pressure on banks' profitability in coming years.

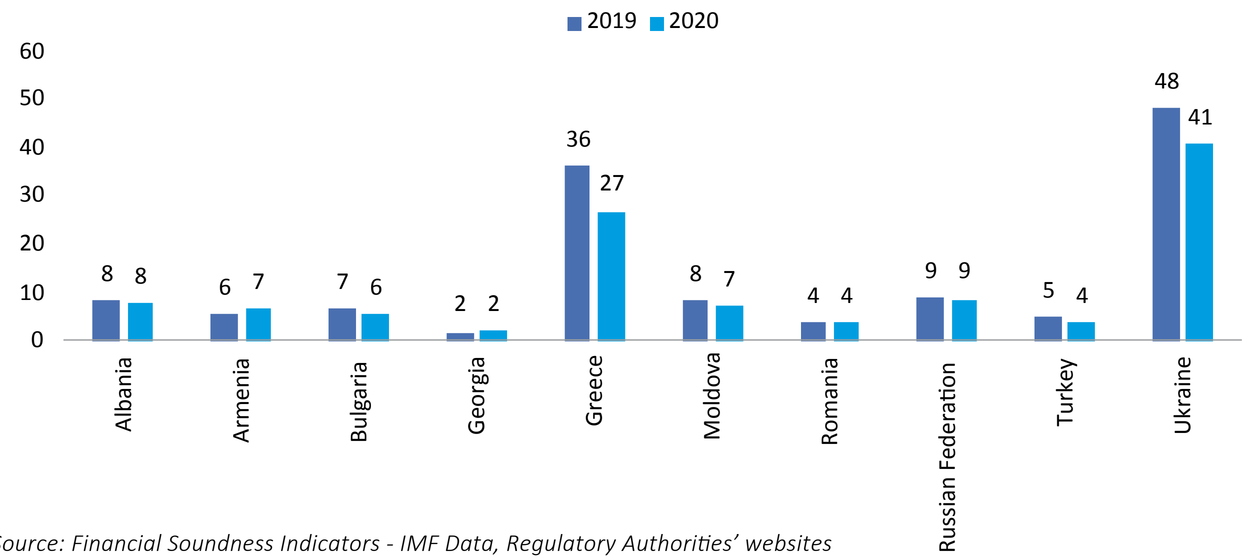
Figure 14: **Banking Sector ROE (%)**



Source: Financial Soundness Indicators - IMF Data, Regulatory Authorities' websites

Despite significant contraction in economic activities in BSTDB member countries, there was no major worsening in the quality of credit portfolios. On the contrary, in most of the countries non-performing loans (NPL) declined relative to the total credit portfolio. One reason behind this reduction is strong credit growth observed in many countries that inflates the denominator of the indicator. In addition, the negative consequences of economic crises have not yet fully transmitted to the asset quality. The moratorium on debt service that was introduced by many countries in 2020 also contributed to the delay in increase in NPLs as under the debt service moratorium it is impossible to identify which borrowers do not service their debt due to the financial difficulties. In Ukraine, NPLs declined significantly last year but still stood at the high level of 41% at year-end 2020. On the positive side it should be noted that most of the NPLs in Ukraine are provisioned as the NPL provisions ratio stands at 90%. The reduction in NPL ratio resulted mainly from write-offs of legacy NPLs, those that had not been serviced for a long time and those that were fully provisioned.

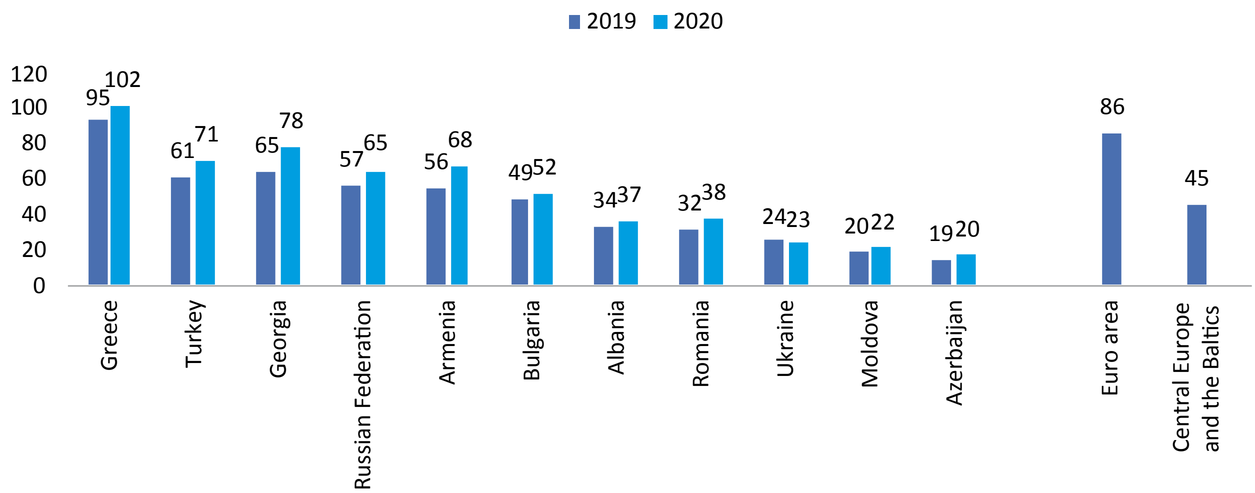
Figure 15: **Non-performing Loans to Total Gross Loans (%)**



Source: Financial Soundness Indicators - IMF Data, Regulatory Authorities' websites

BSTDB member countries exhibit significant differences in terms of depth of financial sectors. Banks' loan to GDP ratio ranges from close to 100% in Greece to around 20% in Azerbaijan. Overall financial depth in BSTDB member countries as measured by loan to GDP ratio compares well to its regional peers such as the Euro area or countries in Central Europe and the Baltics.

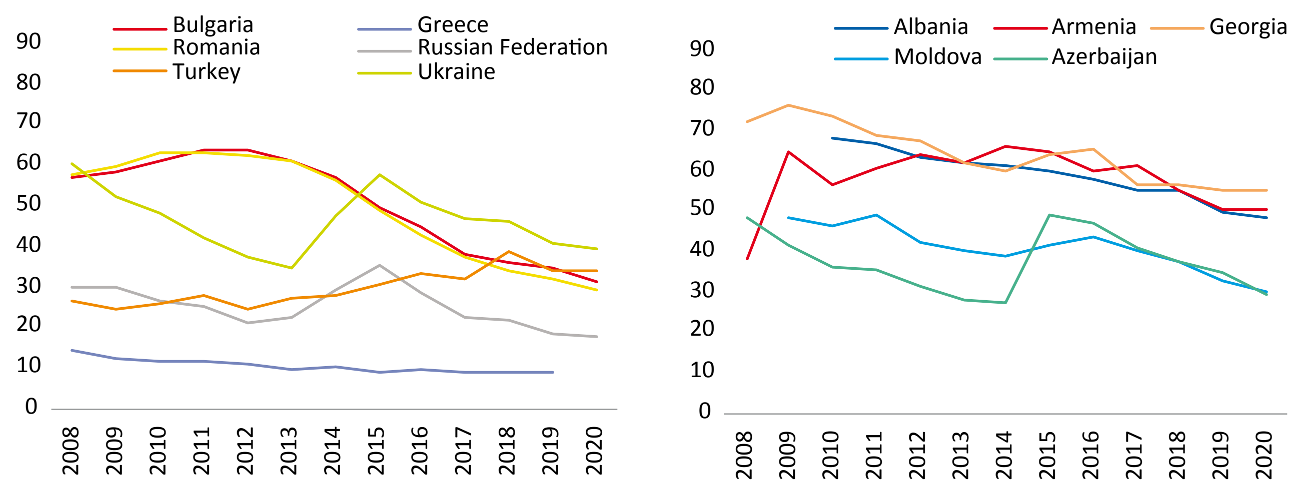
Figure 16: **Loan to GDP Ratio (%)**



Source: Central Banks' websites, World Bank database.

One of the main challenges that financial sectors in member countries have is high levels of dollarization. Financial institutions have their FX position closed since for every FX liability banks keep assets in the respective currency and eliminate direct risk stemming from exchange rate volatility, but at the same time borrowers who have borrowed in FX have their income mostly in domestic currency, thus exposing them to exchange rate risk that is translated indirectly into credit risk for financial institutions. So even though banks' FX positions are closed they are still exposed to exchange rate volatility indirectly due to high dollarization. Dollarization has been an issue for many years already but the trend in recent years has been promising. The percentage decline in the share of FX loans in the total loan portfolio for the last 5 years has reached double digit levels in most member countries and this declining trend continued in 2020. Nevertheless, the level of dollarization remains elevated.

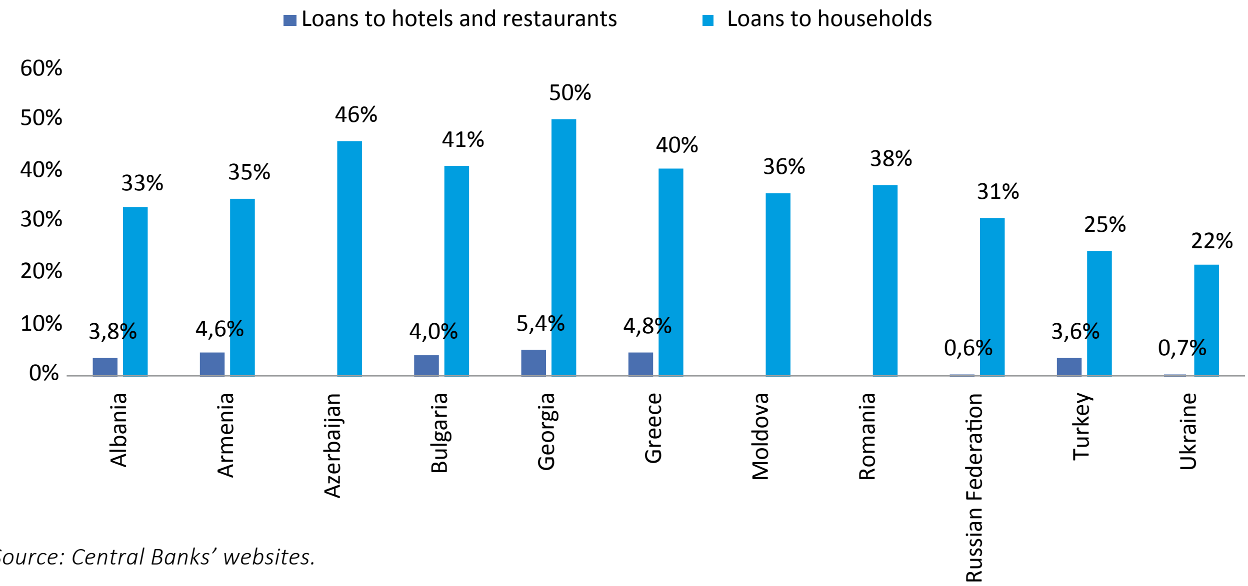
Figure 17: **Share of FX Loans in Total Loan Portfolio (%)**



Source: Financial Soundness Indicators – IMF Data, Regulatory Authorities' websites.

Tourism is one of the industries that was hit dramatically by the COVID-19 pandemic. As travel flows almost disappeared in the region and lockdown restrictions were introduced, revenues in the accommodation and food service sector came under stress. Therefore, one major source of risk for the banking sector in member countries is its exposure to sectors related to the tourism industry. Looking at the structure of the credit portfolio in member countries, banks do not have large direct exposure to hotels and restaurants as the share of loans granted to companies operating in these sectors ranges between 3 to 5% of total credit portfolio. On the other hand, the tourism industry generates income for a large part of the population in many countries, so loans granted to individuals may also come under stress due to reduced tourism. Banks tend to have quite large exposure to households especially in countries where other industries are not well developed. In more advanced/sophisticated economies, the share of loans granted to households is relatively low.

Figure 18: **Share of Loans to Hotels and Restaurants and to Households in Total Credit Portfolio**



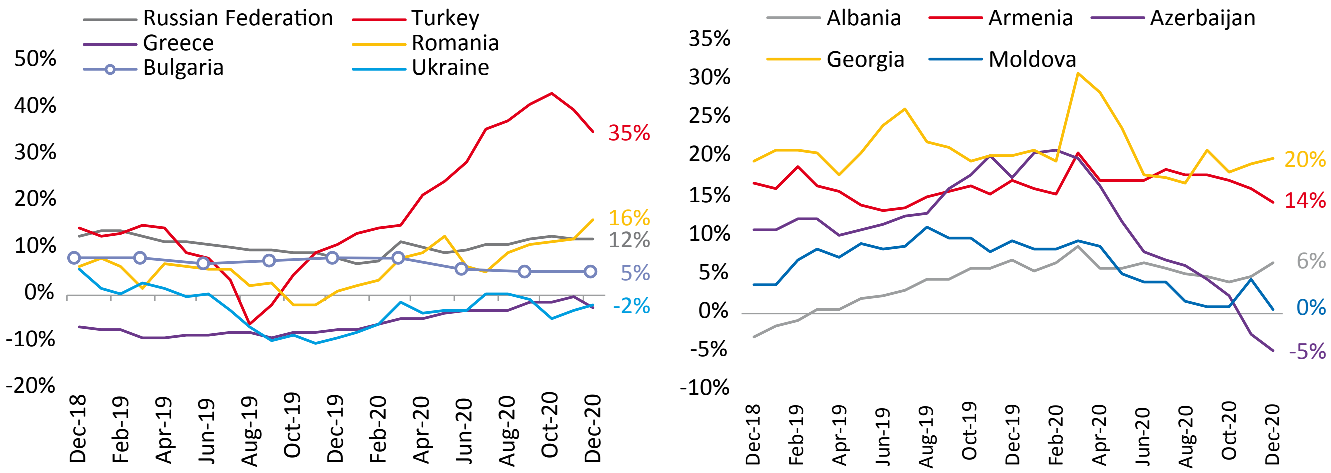
Source: Central Banks' websites.

Lending to the economy is an important indicator of the health of the financial system. On one hand if the credit growth is too rapid this can lead to excessive risk accumulation in the financial system that may be followed by the deterioration of asset quality and possible materialization of adverse scenario. On the other hand, if credit growth is too slow this may point to inability of financial system to allocate resources efficiently that may harm long term growth potential of the economy. Looking at credit growth in BSTDB member countries for the last 5 years, the evidence is mixed. In some countries there has been strong growth in credit of around 20% per year on average for the last 5 years and for these countries some slowdown in lending may be necessary to avoid overheating. Others have experienced contraction in lending to the economy. Negative growth of credits may be a result of, on one hand, weaknesses in the real side of economy, where banks are unable to find enough profitable projects to finance, and, on the other hand, fragility in the financial sector itself. During the pandemic crisis and especially the aftermath of the crisis when economies are expected to start recovering, the supply of credit to support economic activity is essential to overcome the crises with the fewest costs.

For 2020 credit growth figures in BSTDB member countries were driven by a number of factors such as monetary policy easing, exchange rate depreciation and the resulting re-evaluation of existing credit stock, announced moratoria on servicing and repayment of loans. The macroeconomic response to the pandemic crisis was significant easing of both monetary and fiscal policies all over the world. BSTDB countries were no exception to that as authorities employed cuts in monetary policy rates and large liquidity injections in order to support lending that is necessary to soften the impact of global economic contraction.

Another common characteristic of many countries in the region was exchange rate depreciations throughout 2020. As revenues from tourism almost disappeared, oil prices dropped, and merchandised exports contracted significantly, domestic currencies came under pressure. Exchange rate depreciation is a natural response to deterioration in an external position that absorbs part of the external shock. As it was mentioned above, member countries have a high level of dollarization of loans in these countries. So, exchange rate depreciations in these countries have increased the outstanding volume of loans and contributed positively to total credit growth figures in 2020. Besides that, moratoria on debt service that has been announced in many countries also contributed to total credit growth numbers as this has caused delay in the repayment of existing debt stock. As a result of eased monetary policies and liquidity injections by respective central banks, credit growth aggregates increased in 2020 in most countries. Even in countries where lending growth has been negative in recent years, there was some positive development in 2020 with the rate of decline slowing.

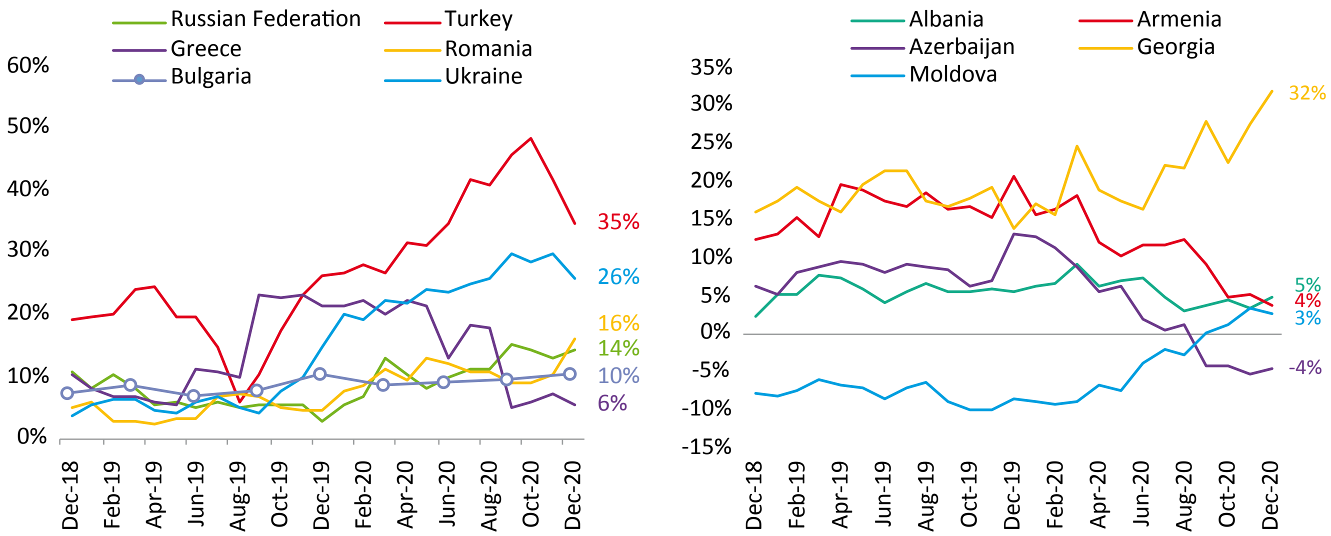
Figure 19: **Annual Growth of Outstanding Credit in BSTDB Member Countries (%)**



Source: Central Banks' websites.

Deposits growth was solid in almost all member countries, a pattern that is common for BSTDB member countries over the past 5 years. Strong deposit growth is important as it is a more stable source of funding for banks compared to other alternatives. Deposit growth in BSTDB member countries is mainly driven by either bank lending or fiscal spending. As mentioned above, credit growth has been strong during the last 5 years and has contributed to an increase in deposit base. At the same time budget deficit in many countries in the region has been sizable for many years, which was an additional factor behind strong deposit growth. Growing trend continued in 2020 as well, when most countries reported positive growth. The increase in savings in 2020 is a global phenomenon as governments all over the world introduced various fiscal measures to fight the consequences of the pandemic, such as increased spending to most vulnerable, subsidies, tax waivers etc. At the same time the consumer's propensity to consume declined as there were limited options for spending by people.

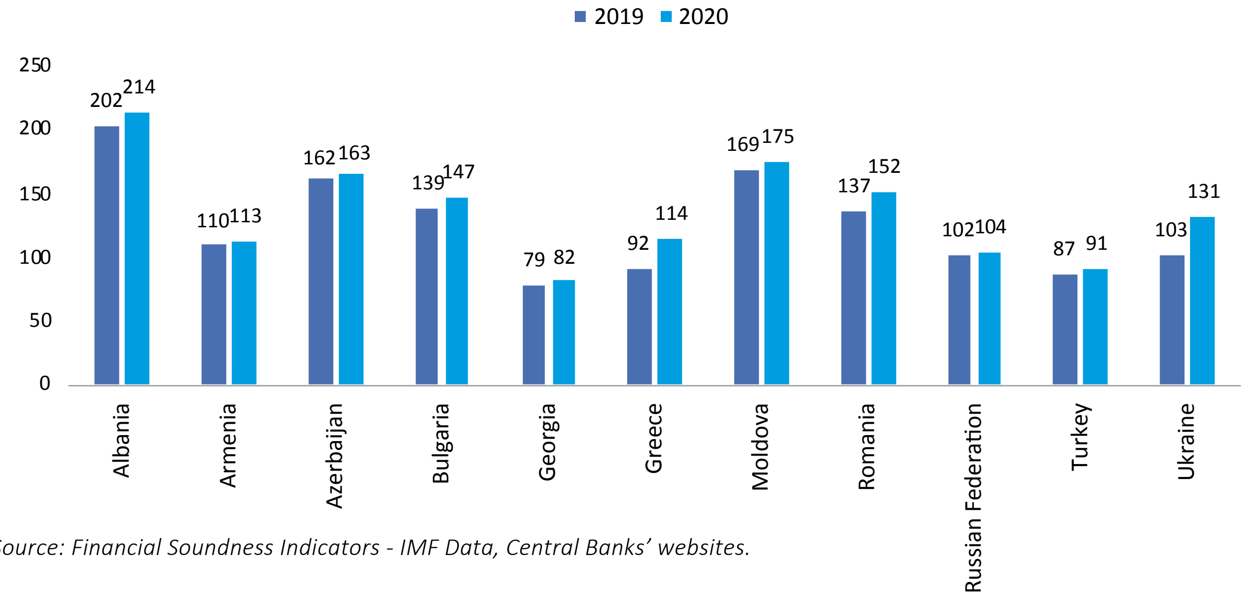
Figure 20: **Annual Growth of Deposits in BSTDB Member Countries (%)**



Source: Central Banks' websites.

Stronger growth in deposits relative to credits in 2020 pushed up the deposit to loan ratio in most countries. The volume of outstanding deposits relative to loans points to the strong liquidity position in all the member countries. In almost all countries the credit portfolio is completely funded by the deposit base, which represents a stable funding source, having a lower refinancing risk. In 2020, the deposit to loan ratio increased in all member countries, contributing to the building of even more solid liquidity buffers.

Figure 21: **Customer Deposits to Total Loans (%)**

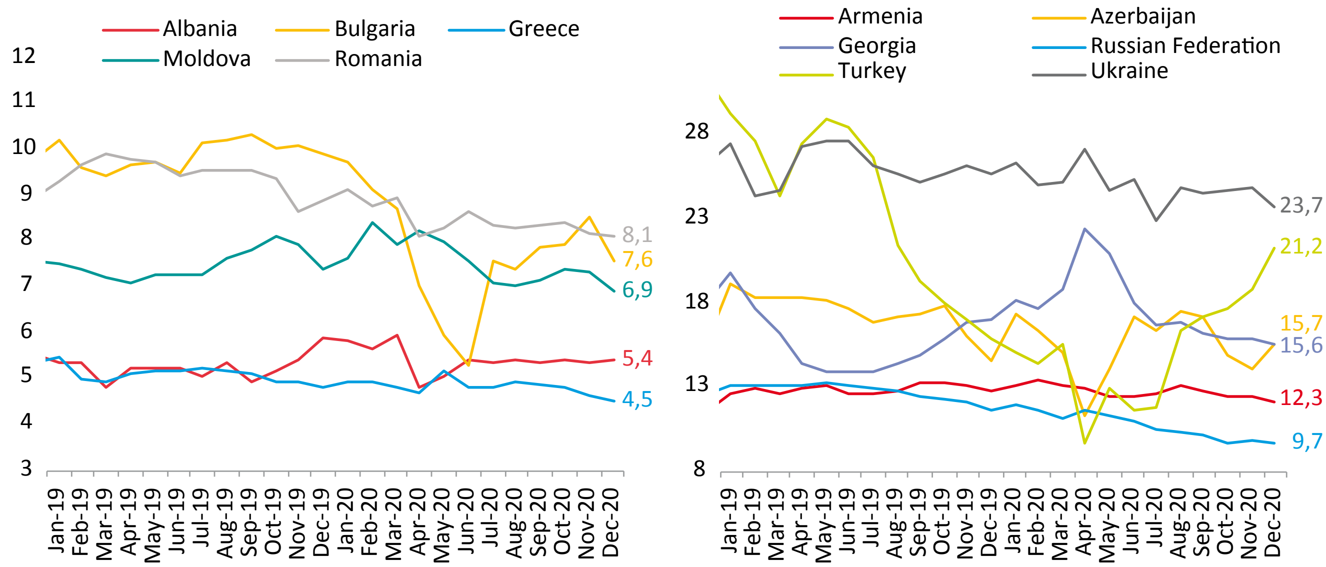


Source: Financial Soundness Indicators - IMF Data, Central Banks' websites.

Interest rates on loans in domestic currency have been on a declining trend for the last 5 years in the Black Sea Region countries. This trend is in line with the one in advanced economies, where after years of eased monetary policies and massive QE policies interest rates dropped to historically low levels and in some cases turned negative. Low interest rates in hard currencies creates different challenges for emerging economies and for countries in the Black Sea Region. Under these circumstances domestic financial institutions have access to cheap funding in hard currencies that they on-lend to domestic borrowers that increases vulnerabilities in the financial system as it elevates dollarization in countries and exposes domestic borrowers to exchange rate risk. Therefore, maintaining the declining trend in interest rates for domestic currency loans is very important since the larger is the spread domestic versus foreign interest rates the more difficult it is for local currency loans to compete with foreign currency loans. Besides that, continued decline in interest rates is a reflection of reduction in risks as sovereign credit rating has been improving for most of the countries in the region. In addition, as a result of prudent monetary policies inflation rates moderated, thus permitting the safe reduction of interest rates. One exception to this general trend is Turkey where inflation was above the target for the most of last decade and it has been on a rise during last 4 years, which has resulted in increasing interest rates.

In 2020 the general declining trend in interest rates continued and, in some cases, accelerated. Although risks have increased due to high uncertainty related to COVID 19 pandemic, countries responded with aggressive easing of monetary policies that pushed interest rates downward. Despite the declining trend, interest rates in some countries stay elevated on a double-digit level.

Figure 22: **Interest Rates on Loans to Households with Maturity of More Than 1 Year (%)**[11]



Source: Central Banks' websites.

Needless to say, such a global and profound crisis as the COVID 19 pandemic will eventually have a strong negative impact on financial sector performance in many countries, including the Black Sea Region. This is particularly true if the crisis lasts well into 2021 and beyond. But in 2020, financial sectors in most member countries faced the crises in healthy conditions with very strong capital and liquidity buffers. If the economic recovery is slow or delayed, additional deterioration of asset quality in the balance sheet of banks is expected. However, banks are adequately capitalized to manage a possible increase in NPLs. Strong growth performance of the financial sector in most countries of the region also gives positive signals. Maintaining financial sector health and keeping balance sheets clean will be very important contributing factors in the post COVID recovery. After the pandemic fades and economies start to recover, the financial sector should play a key role in boosting the recovery process. Therefore, maintaining the sector's health is of vital importance.

[11] For Armenia and Azerbaijan interest rates on all types of loans are depicted on the figure 22, for Albania- interest rates on loans to households for consumer durables and housing.

BSTDB
in the Black Sea Region

IN FOCUS:
A VISION IN HINDSIGHT – EVALUATION OF STRATEGY 2010-2020

At the end of 2020 the Bank completed the implementation of its Long-Term Strategy 2010-2020. Subsequently, the Bank's Evaluation Department conducted a comprehensive independent evaluation of the Strategy implementation. An overview of the main goals of the Strategy, along with the respective evaluation of the degree of achievement, are presented in the following two tables.

Evaluation of External Strategic Goals 2010-2020

External Goals of Strategy 2010-2020	Rationale	Metrics	Evaluation of Achievement
1. Obtain a better risk rating of Aa3 (2020) from Baa1 (2010). This represents high quality and very low credit risk, just 3 notches below the highest AAA rating.	Substantially reduce the cost of borrowed funds, relatively to borrowing costs of any of the Bank's Member States	Credit Ratings assigned by Moody`s and S&P	BSTDB obtained long term credit ratings of "A2" from Moody's and "A-" from Standard & Poor's. The goal is partly (50%) achieved as A2 stable represents the mid-point. The Bank made various efforts to reach the goal, e.g. by sacrificing its own target of equity investments share, as well as overshadowing some development / mandate objectives. While the result is below the target, the achievement is a substantial improvement, despite credit rating downgrades of some of the Bank's shareholders. BSTDB also realized that the financing cost of the recent benchmark bond issue did not fully meet the cost-reduction expectations associated with the current credit rating as some member countries with lower credit ratings, actually borrowed at better terms. The evaluation acknowledged a notable achievement of this ambitious goal.
2. Attract an AAA rated Member (International Financial Institution- IFI)	Accelerate activity and portfolio	AAA rated new shareholder	The Bank interacted with various partnering IFIs and deepened respective co-operation, but this did not result in an extended membership. The evaluation acknowledges the effort towards this goal which clearly remained beyond the Bank's outreach.
3. Outstanding amount of portfolio to reach around SDR 1.8 bn (EUR 2.16 bn).	Maintain a balanced growth despite funding constraints	Portfolio amount at end of 2020	Total Outstanding Amount at the end of 2020: EUR 2.07 bn (estimated and unaudited at the time of writing) or SDR 1.7 bn. The volumetric target was almost reached, particularly by the rapid portfolio growth in last 2 years.
4. Increase the share of public and quasi-public operations from 11% to 25%.	To support a lower risk profile and a better credit rating	25% by 2020	In 2020 public non-sovereign operations reached 10.07%, public sovereign operations- 18.32%, resulting in total public sector share of 28.39%. While the 25% target was achieved, the evaluation revealed that the substantial increase in public and quasi-public exposures had a limited positive impact on the perceived risk profile and the credit rating, *ceteris paribus*.

5. Increase the share of equity in the outstanding portfolio from 1.5% to 10%.	Diversify the product mix in reference to mandate goals	Reach 10% in 2020	The share of equity operations remained unchanged (1.41% at the last quarter of 2020. The Bank intentionally revised and abandoned the goal, to offset underperformance regarding the first two external strategic goals. While the target was set in good faith, the Bank realized it implies severe negative consequences for the risk weighting of the portfolio. The evaluation is therefore conducted in view of this consideration and the revised goal of not increasing the share of equity. It therefore concluded that the Bank maintained a prudently low equity share, in line with overarching strategic goals.
6. Expand the use of Technical Assistance.	Enhance the development impact of operations	Amount	At the end of 2020 the Bank maintained 2 TA Funds of EUR 0.5M each (contributed by Austria and Russia respectively). While these partly substitute the previously available fund contributed by Greece, there is no actual expansion of TA, hence the evaluation concluded that the goal was underachieved, due to limited provision of respective funding by shareholders and partner institutions.
7. Design and implement a long-term borrowing program	To increase approximately four-fold the value of the Bank's outstanding portfolio between 2010 and 2020	Long term borrowing program and instruments in place	The Bank has implemented a Medium-Term Note Program – allowing it to swiftly issue a wide range of bonds in response to investor demand. To encourage investor interest the Bank complemented the credit ratings of the two largest rating agencies with additional two - one European and one Russian rating were also added. It proactively approached a range of investors through roadshows, conferences and the Investor Relations section of its website. It has also negotiated and signed funding agreements with major MDBs and National Development Banks. The evaluation considers this to constitute an equivalent of a long-term funding program – as a work in progress, fulfilling the respective strategy goal adequately.
8. The borrowing program to cover portfolio growth, while maintaining a comfortable ratio of borrowed funds to own funds.	Necessary as the Bank's cost of borrowed funds is higher relative to other IFIs. Finance long term high value projects with strong development impact.	Gearing Ratio (borrowed/ own funds) 2:1	With an equity of around EUR 843 million, the 2:1 target allows the Bank to have total assets of EUR 2.8 billion and a loan and equity portfolio of around EUR 2 billion. The strategic objectives for the Bank are currently a little higher at total assets of close to EUR 3 billion and a loan and equity portfolio of around EUR 2.5 billion. The binding constraints on growth are (i) the loan and equity portfolio size through the operational gearing ratio (100% of subscribed capital reserves and surpluses – EUR 2.45 billion) and (ii) the objective of keeping paid in capital (EUR 687 million) at 30% of total assets. The Bank's gearing ratios increased consistently and remain within the target, as follows: 2010: 28%; 2011: 30%; 2012: 32%; 2013: 32%; 2014: 39%; 2015: 46%; 2016: 49%; 2017: 48%' 2018: 56%; 2019: 76%; 2020: 81% (average of 3 quarters) Reflecting these considerations the evaluation acknowledges the goal as achieved.
9. Average annual growth of outstanding portfolio – 10%.	Economy of scale	10% average p.a.	The annual growth rates of the Bank's portfolio vary across the 10 year period, as follows: 2010:-1%; 2011: 7%; 2012: 9%; 2013:-1%; 2014: 23%; 2015: 16%; 2016: 7%; 2017:-2%' 2018: 16%; 2019: 36%; 2020: 11.8% As the annual average growth is over 11%, the evaluation concludes that the strategic goal was fully achieved.
10. The Bank should finance about 25 operations p.a. at an average size of SDR 10.5 million (disbursements of about SDR 300 million p.a.).	As above	Number of operations and committed amounts	The Bank registered the following number of signed operations: 2010: 25; 2011: 36; 2012: 17; 2013: 22; 2014: 24; 2015: 25; 2016: 20; 2017: 20; 2018: 31; 2019: 27; 2020: 20. The committed amounts, in million EUR, were as follows: 2010: 197mln; 2011: 298mln; 2012: 168mln; 2013: 225mln; 2014: 213mln; 2015: 480mln; 2016: 373mln; 2017: 401mln; 2018: 618mln; 2019: 843mln; 2020: 624mln. The results are in line with the strategy projections and therefore the evaluation considers the goal achieved.

Evaluation of Internal Strategic Goals 2010-2020

External Goals of Strategy 2010-2020	Rationale	Metrics	Evaluation of Achievement
1. Key Performance Indicators (KPI) to be used in quarterly and annual reports.	Reinforce portfolio management and accountability	KPI	KPI design and implementation turned more challenging than expected but was generally accomplished, at least at corporate level. A simplification at departmental level was adopted recently. The evaluation renders the goal as generally achieved.
2. Consider setting up a team of professionals in equity investments	Increasing the share of equity operations in the portfolio of outstanding operations (as per External Goal nr. 5)	Equity team	The goal was abandoned mid-way, as the Bank took course toward reducing the portfolio risk levels in aspiration of a better credit rating. The evaluation acknowledges the rationale of the change course as prudent (preserving a safe risk rating profile).
3. Corporate Balance Scorecards (CBS) to be used for implementation of the Medium Term Strategy.	Allocation of tasks in work programs. Translate mission and strategy into tangible objectives.	CBS	As with KPIs, CBS turned very hard to effectively implement and cascade to departmental levels. Consequently, the Bank returned to a more lenient assessment process, similar to its approach prevailing at 2010, when the Long-Term Strategy was approved. The evaluation acknowledges the challenging task and concluded that the Bank implemented the goal to the extent possible.
4. The total number of staff would not exceed 120	Matching available skills with needs while limiting cost increase.	Number of staff below 120 at end of 2020	Total number of staff at end of 2020 stands at 117. This is within the goal framework.
5. Enhance monitoring and evaluation systems, to attain higher impact while controlling the risk-return profile.	Elevate accountability to highest international standards, to improve mandate fulfilment	IFI standards	The monitoring process and outcomes were streamlined with certain progress in completion reporting (self-evaluation). The independent evaluation system was peer reviewed and substantially enhanced in 2012, followed by a full recognition and membership at the Evaluation Cooperation Group of the Multilateral Development Banks in 2014. The strategic goal was fully achieved.

Conclusions

The evaluation concluded that the Bank successfully implemented the main goals of its 2010-2020 Strategy. Among the key achievements are the mutually reinforcing substantial growth and diversification of the financing portfolio, the elevation of the Bank's credit rating, and the comprehensive borrowing program.

While most strategic goals were accomplished, some were attained only partially. The main reason for the observed constraints is associated with the external character of the respective goals, over which the Bank had a limited control or influence, i.e. the extent of credit rating improvement, as well as the related aspiration of attracting an AAA-rated shareholder.

Despite the noted limitations, over the 10-year period, the Bank demonstrated agility and resilience to the challenges of the external environment. In this context it regularly revisited its strategic goals and adequately prioritized those of higher importance, e.g. the credit rating and the related refinancing strength over the less important and therefore overshadowed expansion in risky equity investments.

The evaluation revealed that the internal goals were adequately subordinated to the higher plane external aspirations and were implemented without major deviations, with a few exceptions, i.e., cancelling the intention to create an equity investment team, given the overriding consideration to higher strategic priorities, as already noted.

Over the last decade the Bank has advanced in several domains and compares adequately with its peers in many respects. It maintained a sound operating and portfolio structure and demonstrated a capacity to grow and fulfill its specific mandate. The achievements so far represent a ground for further development but should not be a source of complacency. To drive further success, BSTDB will continuously and candidly review its key strengths and weaknesses, to enhance the former and mitigate the latter, for the ultimate purpose of streamlining its goals towards the Bank's mandate.

Portfolio Description

Operational Priorities

The Bank employs its capital structure, relations with member countries' governments and knowledge of the region of operation to foster development by focusing on:

(i) financing projects, programs and commercial activities;
(ii) information sharing, promotion of the region, development of networks, and other knowledge dissemination activities; and
(iii) promoting institutional development and capacity building.

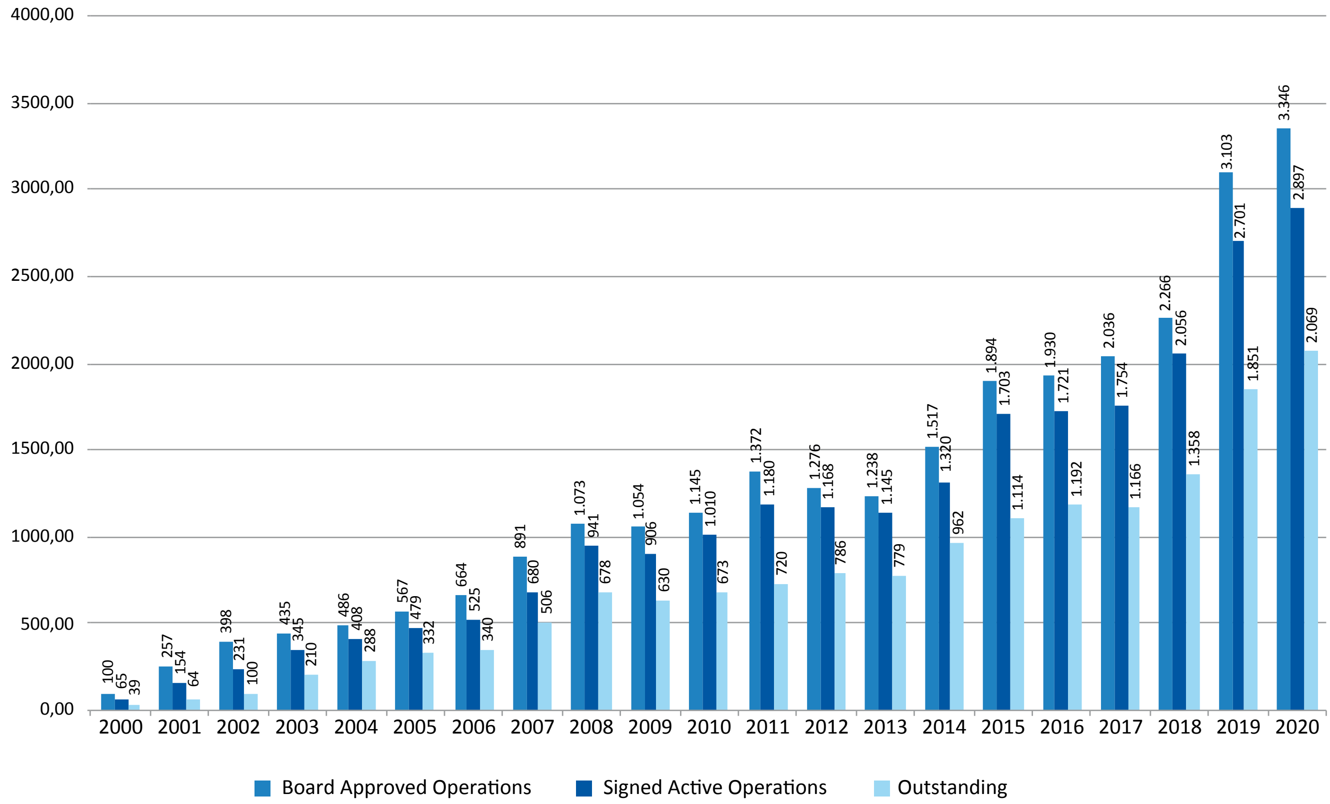
The Bank targets a portfolio composition well balanced between large corporations, banks, sovereign and sub-sovereign clients, and medium-sized companies, with whom the Bank may establish direct working relationships. In addition to large, relatively good credit risk companies, the Bank extends assistance, gradually and cautiously, to firms which are less well established, less well known, and with a smaller track record, in order to achieve higher development impact. The Bank also targets clients in the public sector, including municipalities, public utilities and public agencies.

The Bank's capacity to invest in operations with high development impact has been continuously enhanced, in particular with reference to operations aimed at promoting the SME sector, certain private sector operations in small shareholding countries, and public or publicly guaranteed operations (e.g. municipal infrastructure).

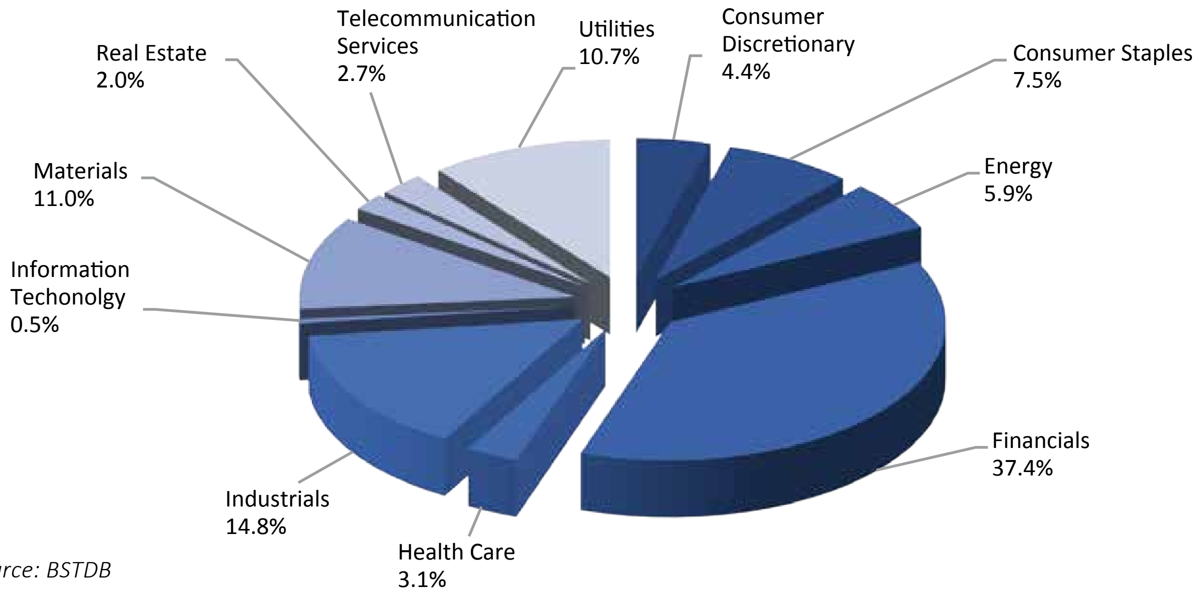
Furthermore, the Bank increasingly focuses its business development and marketing efforts on identifying cross-country operations, particularly in infrastructure related sectors. Such operations possess high shareholder value for the Bank and are therefore priority activities.

Since the beginning of operations in June 1999, the Bank has approved 444 operations amounting to about EUR 7.2 billion. Throughout this period, there were 387 signed operations for a total signing amount of EUR 5.9 billion. A total of 320 operations for about EUR 4.2 billion were repaid. At end-2020, there were 123 operations in the total portfolio outstanding balance for EUR 2.069 billion.

BSTDB Portfolio Development 2000-2020



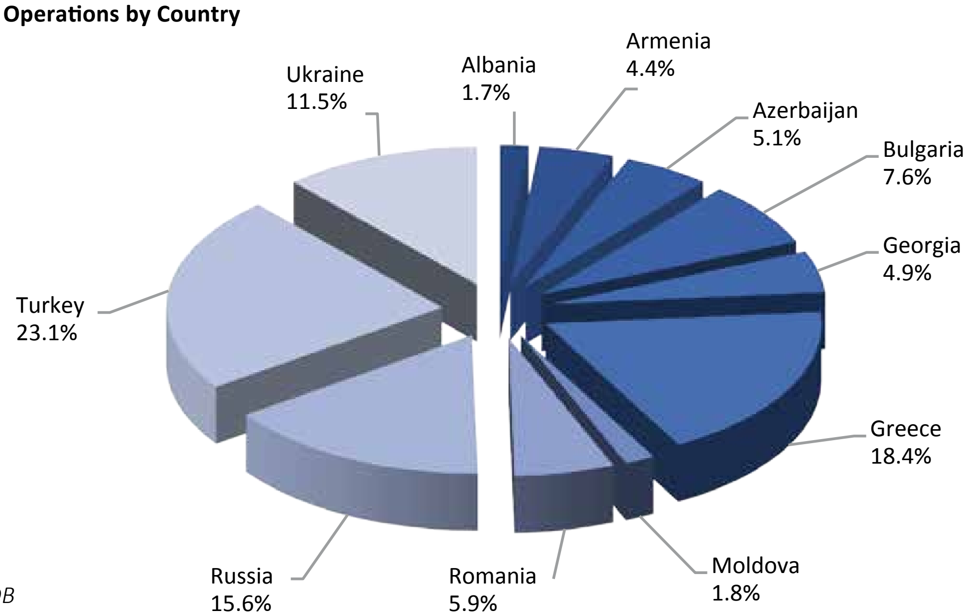
Cumulative Signed Operations by Sector



Source: BSTDB

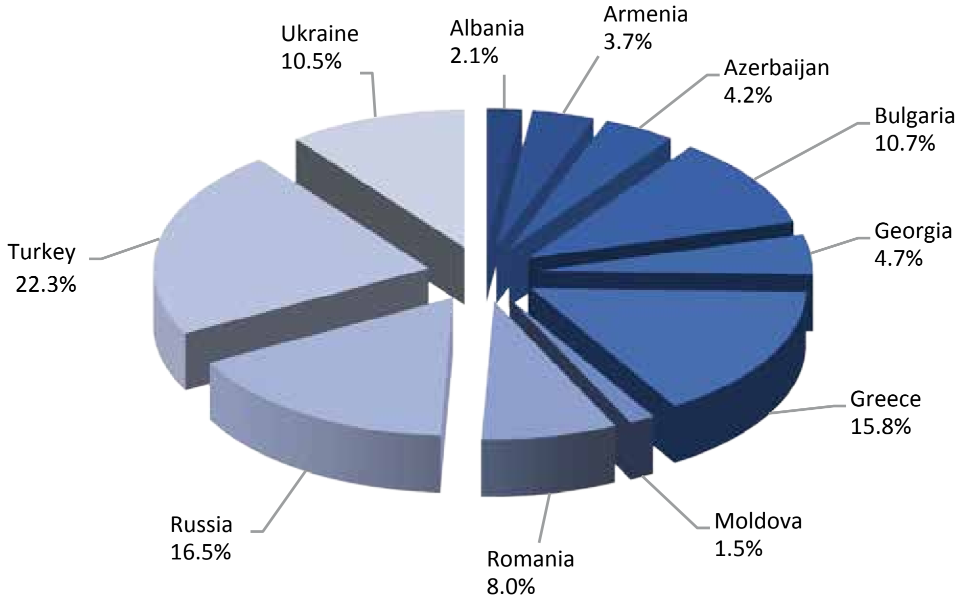
As of end-2020 the outstanding operations of the Bank (cumulative disbursements less repayments for active operations) represented EUR 2.069 billion, distributed by country as per the following graph:

Outstanding Operations by Country



Source: BSTDB

Active Signed Operations by Country



Source: BSTDB

Co-Financing

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

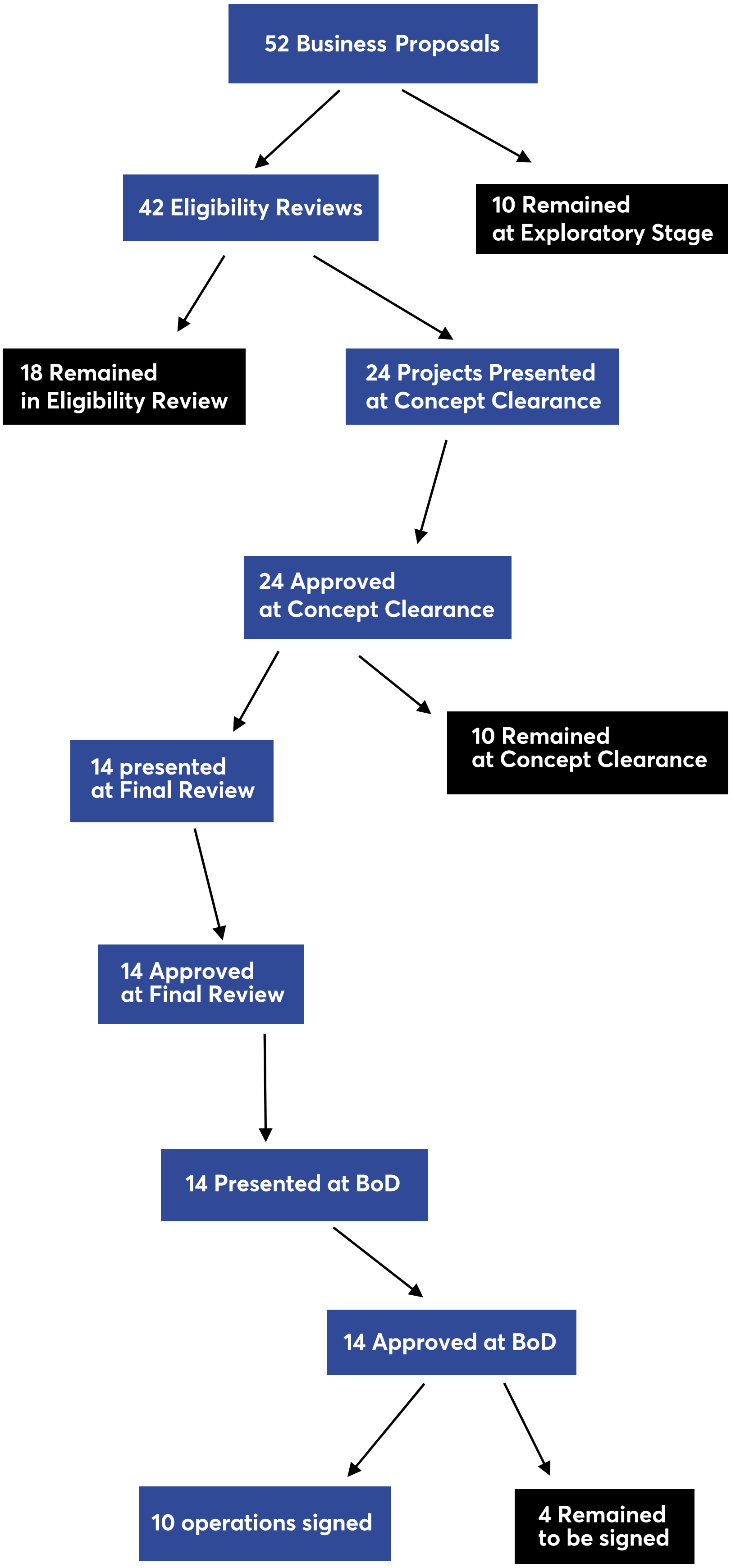
In the course of 2020, 48% of signed portfolio was co-financing. In terms of total signed active portfolio in the amount of EUR 2.9 billion, 50.5% of operations are co-financing. The share of co-financed active operations to total portfolio outstanding balance is 51.0%.

Portfolio Developments During 2020

Following a highly intensive business development effort, in 2020 the outstanding portfolio of the Bank increased by 11.8%. The Bank has signed 20 new operations for a total amount of EUR 624 million, while the BoD has approved 22 operations with a total value of EUR 771.4 million. During 2020 the Bank disbursed EUR 784.7 million ending the year with an outstanding amount of EUR 2,069 million.

Independent and distinct from the above numbers, referring only to developments during 2020, the Bank evaluated 52 business proposals, which went through different phases of the operations' cycle. Of these, 14 were going through the entire operations cycle and got BoD approval. Of the operations identified in 2020, 10 operations are expected to be submitted for approval, while 4 already approved operations are expecting to be signed in 2021.

These developments are graphically exemplified by the following structure:



Selected BSTDB Financings in 2020

Prometheus Gas II - Supporting Russian Exports to Greece

Prometheus Gas II is a continuation of the collaboration between the Bank and Prometheus Gas S.A. and pertains to the renewal of the existing Letter of Guarantee for an amount of up to EUR 30 million as a means of payment security for the benefit of its gas supplier, Gazprom Export LLC, for the supply of natural gas from Russia to Greece via pipeline.

Prometheus Gas S.A. is a joint venture owned by the Russian company Gazprom Export LLC (50%) and the Greek corporate group Copelouzos Group.

The Operation has significant elements of regional cooperation impact, enabling the supply of natural gas from Russia to Greece via pipeline, thus assisting the Hellenic Republic in increasing its energy security by diversifying its energy mix and assisting the Russian Federation in increasing its export activity.

BSTDB approved amount:	**Up to EUR 30 million**
Total Operation cost:	**N/A**
Type of financing:	**guarantee**
Maturity:	**14 months**

State Leasing Transport Company (STLC) – Further Support to the Russian Maritime Sector

The Bank has been promoting the development of the Russian maritime sector by participating in the project for the construction of a new port Lavna in the Kola Bay in the Barents Sea and for building new ice-class passenger vessels for subsequent lease to Russian operators.

Back in 2019, BSTDB provided a first loan of USD 69 million to the State Transport Leasing Company (STLC) for the purchase of equipment for Lavna. Two further loans of combined USD 63 million to STLC were signed during 2020. The new round of financing is earmarked for the construction of two modern ice-class vessels and acquisition of transshipment machinery for Lavna deep-sea terminal.

Projects in this sector have a substantial development effect for the transportation infrastructure that supports the connection of Russian businesses with global markets. The involvement of the Bank in vessels financing will boost the development and modernization of promising economic sectors such as passengers transportation and tourism and will also reduce the environmental impact of trading in designated emission-control areas, as these vessels will use fuel with a sulphur content below 0.1%.

BSTDB approved amount:	**USD 63 million**
Total Operation cost:	**N/A**
Type of financing:	**loan**
Maturity:	**8 years**

Locko Bank (Russia)

The Bank provided a RUB 2 billion loan to Locko Bank for on-lending to small and medium-sized enterprises (SMEs) in Russia. The facility supports Russian SMEs which were mostly impacted by the COVID-19 crisis and helps maintain jobs and income generation, thus sustaining the resilience of the SME sector. The Ruble-denominated facility responds to the increasing market demand for local currency financing, free from exchange rate fluctuations.

With the loan to Locko Bank BSTDB further expands its local currency funding to partner financial institutions. In the past four years BSTDB provided Ruble-denominated loans to the Russian financial sector, for a total amount of about RUB 15 billion, thus supporting the economic activity in the country.

BSTDB amount:	**RUB 2 billion**
Type of financing:	**loan for SME financing**
Maturity:	**5 months, revolving**

Promoting Improved, Environmental-Friendly Public Transportation in Izmir (Turkey)

BSTDB provided a long-term loan of EUR 50 million to Izmir Metropolitan Municipality for financing the construction of a 7.2 km metro line with seven underground metro stations, the Fahrettin Altay-Narlidere-Kaymakamlik metro line.

With a growing population of over four million people and a booming tourism industry, Izmir, located on Turkey's Aegean coast, is in ever-growing need of better public transport to provide a viable alternative to polluting car travel on the city's congested roads.

The Fahrettin Altay-Narlidere-Kaymakamlik metro line will improve the connection between a university campus, a hospital and retail areas. The project will extend the existing 19 km Evka 3-Fahrettin Altay line and will link up with bus, suburban rail and tram networks. The metro project is an important part of Izmir's 250 km rail system and will expand city's transport network and hence improve the quality of urban travel for the local residents and tourists.

The Izmir Municipality will implement and finance the project, which has a total cost of EUR 168 million and the Izmir Metro Company, fully owned by the municipality, will operate the metro line. The project is co-financed with the EBRD.

BSTDB approved amount:	**EUR 50 million**
Total Operation cost:	**EUR 168 million**
Type of financing:	**loan**
Maturity:	**10 years**

Financing Sofia Airport Concession to Boost the Development of a Strategic Bulgarian Airport

BSTDB committed EUR 83 million long-term financing to support the largest concession in Bulgaria's transport sector and the first major PPP project in the country in the last decade: the concession of Sofia International Airport. BSTDB participates in this landmark transaction alongside EBRD, IFC and commercial banks.

The borrower is SOF Connect AD, a Special Purpose Vehicle majority owned by Meridiam Group, France, a well-established infrastructure investment firm.

The BSTDB financing will support the private sector involvement in the infrastructure sector in Bulgaria. In addition to the operation and maintenance of the airport for a period of 35 years, the project encompasses the modernisation and upgrading of this strategic airport for the country.

In the current COVID-19 pandemic critical circumstances for the aeronautic sector, the Bank's loan is instrumental to ensure the payment of the upfront concession fee to the Government of Bulgaria and for the initial capital expenditure aimed to modernize and upgrade the airport. Sofia Airport is the largest airport of Bulgaria and the main international airport of the country, handling 7.1 million passengers in 2019.

BSTDB approved amount:	**EUR 83 million**
Total Operation cost:	**EUR 480 million**
Type of financing:	**loan**
Maturity:	**7 years**

Metinvest Investment Loan (Ukraine)

BSTDB has extended a EUR 62 million loan to Metinvest Group (Ukraine), active in the mining and steel production industry, with the aim to finance purchases of specialised equipment and machinery.

The Bank is glad to assist Metinvest, a leading Ukrainian manufacturer and employer, in implementing its development and capital expenditure program focused on improved production technology, efficiency and environmental impact. Given the vital role of this sector in Ukraine's economy and its exports, this operation will have an important developmental impact. The Group plans to purchase new equipment from, and export its products to other BSTDB member countries, thus strengthening the regional cooperation.

BSTDB approved amount:	**EUR 62 million**
Total Operation cost:	**N/A**
Type of financing:	**loan**
Maturity:	**7 years**

Liquidity Support to a Leading Bulgarian Vegetable Oil Producer and Exporter Oliva

BSTDB provided EUR 35 million to support the operations of Bulgaria's leading producer of vegetable oil Oliva and its parent company, Buildcom. The short-term trade finance facility is part of a debut group secured syndicated facility contributed by BSTDB and international commercial banks. The additional liquidity funding source, complementary to the lines of credit from local banks, was needed due to expanded production activity of Oliva: in October 2019 the company started to operate its third new crushing plant next to Varna port on the Black Sea shore, thus doubling the crushing capacity of the company.

BSTDB funding was provided amid the challenging environment of ongoing COVID-19 pandemic. It finances the group's purchases of sunflower and rapeseed for the crushing business cycle at three factories, including the prepayments to farmers before and during harvesting the crops, thus enabling Oliva to secure its supply contracts and future deliveries.

The loan follows the whole production logistics, from financing purchases and storage of feedstocks, funding the industrial crushing cycle, the storage of the vegetable oils and by-products, until transit and export take place and sales collection is achieved. In addition, the financing strengthens another business line of the group, the grain trade: the procurement, transportation, storage of grains and seeds and their export to the international markets. This activity is performed by the group in parallel to the crushing business, as farmers usually produce both oil seeds and grains.

BSTDB approved amount:	**EUR 35 million**
Total Operation cost:	**EUR 90 million**
Type of financing:	**loan**
Maturity:	**12 months**

NBG Factors (Greece)

Owned by the National Bank of Greece, one of the largest systemic Greek banks, NBG Factors will use a EUR 40 million trade finance facility from BSTDB to support its factoring activity and promote trade finance transactions in BSTDB member countries. Through this operation the Bank signals its confidence in the financial services sector of Greece, which has been strongly recovering from the economic crisis and in the institutional development of NBG actors specifically. Extended in the times of the pandemic crisis, this loan, through NBG Factors as intermediary, will help Greek small and medium-sized enterprises and entrepreneurs to address the pandemic crisis challenges and achieve recovery.

BSTDB amount:	**EUR 40 million**
Type of financing:	**short term trade finance facility**
Maturity:	**12 months, revolving**

Ukrgasbank (Ukraine)

The Bank provided a EUR 30 million loan to Ukrgasbank, a leading Ukrainian financial institution, to promote financing for green energy, including energy efficiency, renewable energy and other “green” projects, thus reducing the carbon footprint in the Ukrainian industry. The BSTDB loan will also be used to help Ukrainian small and medium-sized enterprises (SMEs) to weather and recover after the pandemic crisis.

Ukrgasbank is a well-positioned “green” bank which promotes sustainable and “green” solutions in Ukraine. Given the challenging business conditions in 2020 amid the COVID-19 crisis, BSTDB financing aims to contribute to a better resilience of the SME sector, saving jobs and helping maintain income generation in the country.

BSTDB amount:	**EUR 30 million**
Type of financing:	**loan for “green” energy and SME financing**
Maturity:	**5 years**

Ardshinbank SME Financing (Armenia)

BSTDB extended a USD 20 million facility to its partner Ardshinbank to enhance the support for small and medium-sized enterprises (SMEs) in Armenia. This BSTDB's fourth SME facility demonstrates the strengthened cooperation between the two institutions to jointly assist SMEs, the most vulnerable business segment amid the turmoil caused by the outbreak of the COVID-19 pandemic.

The five-year loan will enable Ardshinbank to offer the much-needed medium-term financing for SMEs' investments and working capital needs. In the difficult times BSTDB supports the efforts of its Member States to reduce the negative impact the COVID-19 pandemic has on human lives, societies and economic activity. Despite the changes in market perceptions of risk and liquidity caused by the pandemic, the Bank continues to support the most vulnerable segment of companies, the SMEs.

BSTDB is actively supporting the development in Armenia of the SME sector, which is the backbone of country's economy. BSTDB has allocated over EUR 130 million for SME financing through local financial institutions in Armenia, including USD 35 million through Ardshinbank.

BSTDB amount:	**USD 20 million**
Type of financing:	**loan for SME financing**
Maturity:	**5 years**

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 2020, BSPPF concluded a fourth assignment related to the creation of an online center for the promotion of public-private partnership (PPP) investments in the Black Sea Region and a fifth assignment for provision of legal advice for implementing an unfunded risk insurance instrument covering a BSTDB lending operation.

Addressing Sustainability

The Approach

Sustainability is addressed by BSTDB through the operations it finances, and the principles it follows in this respect are at heart of the Bank's operation cycle. Pollution prevention and mitigation, respect for fundamental human rights in the working environment; tackling climate change; protection of the Black Sea against pollution; efficient use of natural resources, protection and conservation of biodiversity; disclosure of information on environmental and social performance of its operations; and engagement in open dialogue with stakeholders, are all key sustainability principles that form the due diligence practice of BSTDB.

The Due Diligence

As a first step BSTDB screens its prospective operations into A, B+, B, C and FI categories, depending on the associated potential environmental and social risks and impacts, and the scope of the environmental and social due diligence necessary to identify, assess and mitigate these risks and impacts. 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; labour 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 before it may be considered by the BSTDB's Board of Directors, its potential environmental and social risks and impacts, public review and comment.

The Standards and Compliance Requirements

The Bank applies 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) environmental and social 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).

The operations considered by BSTDB need to comply with the following minimal environmental and social requirements: 1) National and applicable EU environmental, labour, health and safety, and public information laws and regulations, including national commitments under international law; 2) Availability of permits, approvals, licenses and certificates required under relevant laws and regulations; 3) Category A operations need to meet the requirements applied by EU, namely the Environmental Impact Assessment (EIA) Directive and relevant sector-specific and cross-cutting Directives, or the requirements applied by the World Bank Group. 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.

Public Disclosure

As an integral part of BSTDB's sustainability approach the Bank informs the public in a transparent and timely manner about the environmental and social aspects of 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 environmental and social screening, the potential risks and impacts, and how these will be addressed. OSDs are disclosed to the public after such operations are approved by the Bank's Board of Directors.

Category A operations are disclosed to the general and/or interested public before these are presented to BSTDB's Board of Directors for consideration. The operations in the private sector are disclosed not later than 30 calendar days before the Board of Directors meeting, and the operations in the public sector at minimum 60 calendar days before considered for approval. The environmental and social information related to Category A operations is disclosed on the Bank's website and is open for public 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 charge for 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 the 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 environment and human well-being, and contributing to a more efficient fulfillment of the Bank's development mandate.

International Cooperation

BSTDB cooperates closely with partner multilateral and bilateral financial institutions, businesses, civil society, and general public. At the European level BSTDB is actively involved in the European Development Finance Institutions (EDFIs) Working Group on Environmental and Social Issues. This is a high-level forum that brings together all the European Bilateral Financial Institutions in joining efforts to harmonize their environmental and social practices and achieve higher development effectiveness of their financing.

At the global level the Bank partners with its peers as part of the Multilateral Financial Institutions (MFI) Working Group on Environmental and Social Standards (WGESS). The Group is another high-level forum represented by the key environmental and social representatives of MFIs and development agencies around the world, which aims to deeper harmonize the environmental and social sustainability practices by sharing experiences and developing common approaches and partnerships.

Institutional Activities

HUMAN RESOURCES

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

HR Development

In spite of the objective difficulties posed by the COVID-19 realities, the year 2020 was marked by the improvement of certain important HR policies. More specifically, important modifications were made to the Bank's Benefits and Allowance Policy, the Bank's Remuneration Policy, and the Bank's Rules for Work and Leave.

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

The modifications to the Benefits and Allowance Policy concentrated on streamlining the administration of certain important allowances, and on the addition of certain benefits intended to facilitate the adaptation to new COVID-19 realities for the staff's families.

The modification of the Remuneration Policy brought about the introduction of a complex composition for staff's basic salaries intended to regularize the implementation of certain salary-related Bank actions.

The new benefits introduced within the framework of the Rules for Work and Leave aim at providing more flexibility to the staff within the framework of maternity leave benefits, and at expanding 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 so as to improve the accuracy of the staff performance appraisal process. The Bank is in the final stage of this revision and the implementation of the new Performance Management System is planned to take place within 2021. The new System will provide meaningful and precise tools for the evaluation of the Institutional and Departmental performance, and will place an emphasis on managerial discretion for the distribution of individual bonuses within the departmental bonus pool calculated on the basis of departmental performance.

Staffing and Recruitment

BSTDB conducts recruitment on a wide geographical basis. While preference is given to citizens of the member countries, recruitment is competitive and is based on the professional qualifications of the candidates. In the course of 2020, in spite of the COVID-19 limitations, the Bank managed to recruit 7 new employees, which brought the Bank's total headcount to 115 full-time employees as at 31 December 2020.

Staff Development

BSTDB offers learning opportunities, addressing the development needs of its staff within the context of organizational business requirements. The policy on training, learning and development establishes a clear link between the institution's business needs and the development of professional and technical skills of the staff. In 2020, the emphasis was placed on in-house group training, which specifically covered the subjects of cyber security skills, AFMLTF training, market abuse prevention, BSTDB procedures requirements, Teams and One Drive, online seminars on PPP's and personal data protection.

Staff Benefit System

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

The BSTDB medical, life and temporary incapacity/long-term disability insurance plan provides adequate coverage emphasizing preventive medical care. 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 defined contribution component, funded through voluntary employees' and the Bank's equal contributions. This combination offers the flexibility required for best meeting the needs of a multi national work force.

Contributing to the Implementation of the BSTDB Long-Term Strategy 2010-2020

The BSTDB's Long-Term Strategic Framework for 2010-2020 identified the improvement of the use of human resources by better matching available skills with needs among its key strategic goals for the decade. The Strategy indicated that, in any event, the total number of staff at the end of the planning period should not exceed 120.

The number of staff at the end of 2020 was 115 – within the indicative limit mentioned by the Strategy. The increase in the number of staff over the decade covered by the Strategy constituted 17%.

Over the period, the Bank worked continuously to maintain its status as a competitive employer following international standards and best practices. It has developed and improved its policies covering all the major HR aspects of Bank's activities: recruitment, compensation and benefits, pension, insurance, performance management, learning and development, succession planning etc.

The Bank continuously monitors the developments and challenges in the area of health insurance so as to ensure the proper level of service and risk coverage for its employees. It is also committed to making its private pension plan a meaningful source of income upon retirement, to which effect it is keeping the pension plan's defined-benefit component 100%-funded based on the results of the annual actuarial valuations and, over the decade, has increased the level of contributions to the pension plan's defined contributions component in order to maintain the initially intended one-to-one defined benefit/defined contribution distribution of pension plan benefits.

The Bank has started to transfer its HR activities to the SAP platform – the work that is currently in progress with the transfer of the core personnel management and leave administration modules having been implemented and the payroll and recruitment modules being next in the pipeline.

During the subject decade, the Bank became an active participant in the experience exchange groups bringing together HR specialists in various areas from almost all the IFIs. The relevant information exchange and storage web-based platform was created under the coordination of the International Service for Remunerations and Pensions.

INFORMATION TECHNOLOGIES

Ten Years of IT Contribution to the Bank

The IT strategy is aligned with the organization strategic goals and objectives and it provides the tools needed for the business to delivery their objectives. In the long-term strategy of the organization, IT has played an important role in supporting the business but also in providing innovative tools to assist the organization in reaching its long-term strategy, taking in consideration, efficiency, productivity and security.

During the last 10 years as part of the long-term strategy, IT has delivered the following:

- Built an agile operating environment based fully on virtual technologies at both the server and end points, using virtual desktops, allowing the Bank to easily provision services and users' access to resources.
- BSTDB was among the first Banks in Greece, to deploy a two-factor authentication to its users and Board of Directors by deploying the VASCO token technology, to provide secure remote access.
- Implemented, a digital-signature system, that allowed the Bank to digitally sign electronic documents.
- In 2017, won the Enterprise Information Management (EIM) Innovation Award, in the Enterprise World of OpenText's annual event, on the solution that developed in integrating OpenText's Extended ECM for SAP software with SAP ERP, in creating workspaces for its operations.
- Implemented the SAP Human Capital Management module, which is integrated with the rest of the SAP ERP modules allowing it to better manage staff time allocation and staff development.
- Created and updated its website several times to better communicate its mission and vision and reaching out to clients, by allowing potential clients to submit online business inquires, which could be financed by the Bank.
- Deployed smart disaster recovery software to replicate its mission-critical systems and data to a Business Continuity Office/Data center, to provide the Bank with business continuity capabilities.
- Deployed a number of videoconference capabilities to reach out to its clients and stakeholder to increase collaboration.

IT Contribution in 2020

Year 2020 has been a challenging one for everyone due to COVID-19 pandemic that has affected how business operates, creating a new operating model based mostly on teleworking. Since staff health was the highest priority in the Bank, COVID-19 has put pressure on the IT to react quickly, to provide staff with the needed tools to carry out their work functions while working remotely.

Since BSTDB was operating using Virtual Desktops (VDI) for its premise and its disaster recovery environment, working remotely in a secure way, capitalizing on this technological investment, and expanding this service to all staff to work remotely when the pandemic started. All staff use a two-factor authentication to remotely access their VDIs, allowing them to carry out their business task as usual.

Also the Bank had in place a number of conference devices and accounts (WebEx) which it allowed the Management of the Bank to communicate with and hold online meeting with staff, clients, and its shareholders (Boards meetings) for keeping the organization running during the pandemic.

In its Medium-Term Strategy for 2019-2022, IT had provisioned to deploy cloud-based applications, such as Microsoft Office 365 (O365), and due to the pandemic, this project was accelerated. So the Bank before the end of 2020 had already implemented O365 across the organization and a number of business services are operated via O365. Moving to O365, increased the collaboration among staff, using a number of the O365 tools (OneDrive, Teams, SharePoint) to carry out the Bank's business.

To provide flexibility to staff in teleworking, the Bank provided each staff with a Bank owned laptop, deploying on them the appropriate security software and controls, to extend the Bank's security perimeter, providing a better user experience working remotely.

At the same time, the Bank implemented a Security Information and Event Management (SIEM) solution, managed by a Security Operations Center (SOC), to manage its internal risks and its security posture.

Work was also undertaken to safeguard the SWIFT payment system according to SWIFT Cybersecurity Framework by isolating the SWIFT network from the Bank's business one by deploying the appropriate infrastructure and a number of security controls and monitoring tools.

A number of security actions have been taken in order to harden the security profile of the Bank by implementing different security solutions but also automating centrally the deployment of software, software updates, and patched to all systems and devices, and mitigating vulnerabilities.

EXTERNAL RELATIONS

In 2020, the External Relations and Communications Department (DER) supported the implementation of the Bank's Medium-Term Strategy and Business Plan adopted for the period of 2019-2022 and worked to improve the Bank's image, public visibility and business promotion in the region and beyond. The Covid-19 pandemic required a swift adjustment of the Bank's activities, and DER has actively contributed to the institution's response to the crisis.

Supporting the Bank's Response to the Pandemic Crisis

A special promotional plan has been developed to support the Bank's activities in the context of the international pandemic response. A press release on the BSTDB's position and response to the pandemic (March 24) was widely distributed and generated multiple independent publications in member countries.

In May, BSTDB signed a EUR 30 million facility with the Development Bank of Austria aimed to finance private sector projects and investment programs in the industry, agriculture and service sectors, as well as to provide working capital and export financing in Albania, Armenia, Azerbaijan, Georgia, Moldova and Ukraine. The main beneficiaries of the facility are small and medium-sized enterprises (SMEs), which is the category most affected by the impact of the Covid-19 pandemic and as such prioritized by BSTDB.

In June, BSTDB signed a Memorandum of Cooperation with the Hellenic Development Bank (HDB) initiating a financing program aimed to support the post-pandemic recovery of Greek SMEs.

In July, BSTDB hosted a high-level webinar co-organized with the International Centre for Black Sea Studies on the post-pandemic recovery of the Black Sea economies based on an analytical paper prepared by the Bank. A panel of prominent international experts discussed the recent developments and challenges to re-start economies and re-establish trade, investment and financing links, as well as the expected impact of the pandemic on the long-term economic trends in the Black Sea Region. The webinar attracted a 150-strong business audience from 26 countries across the globe.

Over the period of September-December, BSTDB hosted three webinars for the business communities of Bulgaria, Romania and Ukraine presenting the Bank's products and services aimed at assisting local businesses in post-pandemic recovery in close collaboration with the national business associations and media.

During the year, the Bank issued special branded PPE, including face masks, sanitizers, etc., that were offered to state authorities, partners and participants in the Bank's business meetings promotional events, as well as to Bank's Management and staff.

Strengthening Cooperation with Partners in Development
Contributing to the Implementation of the BSTDB Long-Term Strategy 2010-2020

The BSTDB's Long-Term Strategic Framework for 2010-2020 identified the strengthening networks of cooperation and partnership with peer IFIs, bilateral assistance institutions and other stakeholders operating in the region among its key strategic goals for the decade.

Enhanced cooperation with IFIs, donors and other external actors became an increasingly important mode of operation for BSTDB, as it sought to develop partnerships. Partnerships helped achieve greater access to extra-regional funding, leveraged the Bank's resources, improved risk sharing and established new networks of financing. They contributed to the Bank's greater visibility and transparency of operations, and improved information sharing and policy coherence.

Over the period, four leading development banks – the European Bank for Reconstruction and Development, Asian Development Bank, Islamic Corporation for the Development of the Private Sector, and Vnesheconombank of Russia - applied and received Observer Status at BSTDB, enabling them to establish close and regular business and institutional interaction. The total number of BSTDB Observer institutions increased to twelve, including all major IFIs.

During the decade, the Bank's established cooperation with Observer institutions helped attract over EUR 500 million from outside the region through credit lines from the European Investment Bank, Nordic Investment Bank, KfW of Germany, Austrian Development Bank and Proparco of France to support regional SMEs, renewable energy, agriculture, and other sectors in the BSTDB member countries.

BSTDB has also intensified its cooperation with the global development community through signing Memoranda of Understanding (MoUs) with international development institutions worldwide, including European Investment Fund, the Global Infrastructure Hub, the Bank of China, the Eurasian Development Bank, the OPEC Fund for International Development, Import-Export Bank of China, etc.

The Bank's outreach efforts in the Black Sea Region led to concluding MoUs with national development institutions and business associations, including the Bulgarian Development Bank, the Union of Chambers and Commodity Exchanges of Turkey, the Foreign Investors Association of Albania, the Federation of Industries of Northern Greece, the Chambers of Commerce and Industry of Ukraine and Moldova, the Russian Public Organization "Business Russia" and others.

Apart from implementing its business development mandate, BSTDB contributed to the regional cooperation through supporting cultural and social links among member countries. The Bank has initiated and hosted at its premises art exhibitions of artists from Bulgaria, Turkey and Greece. In 2020, the Bank signed a Framework Cooperation Agreement with the Thessaloniki-based International Hellenic University to jointly support and improve graduate studies and professional development of young people in the countries of the Black Sea Region and beyond.

OPERATIONAL DEVELOPMENTS

Through the approval of a new "Procedure on the Use of Funds", a solid procedure was put in place to ensure the effective utilization of funds disbursed by the Bank, seeking to enhance the development impact of its operations, in line with its mandate.

ADMINISTRATIVE SERVICES

Contribution to the 10-Year Strategy Implementation

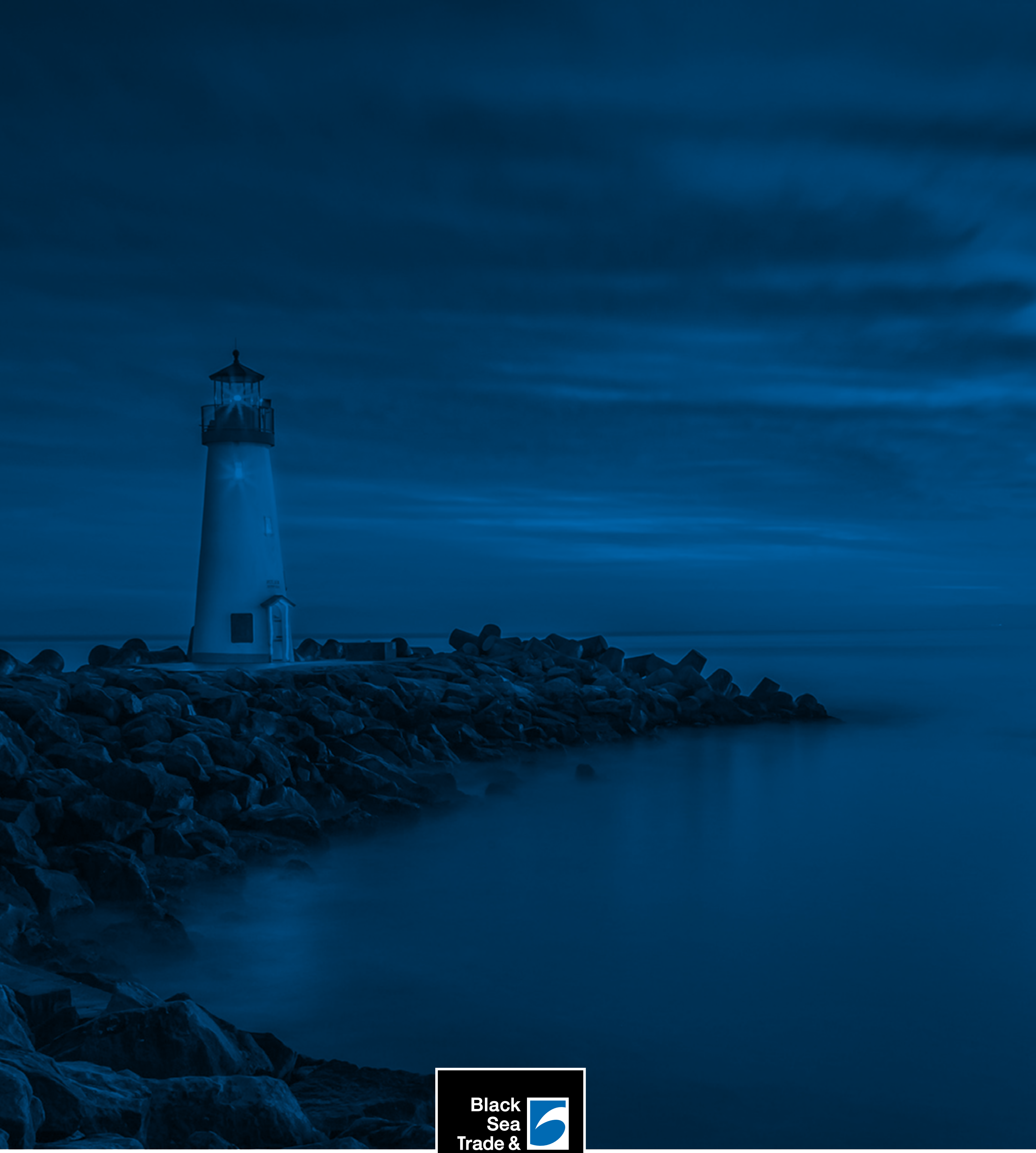
During the decade to 2020, the Administrative Services Department continued efforts to improve the overall efficiency of the department and provide higher quality of service to the Bank staff. Outsourcing of non-essential services, staff redeployments, and enhanced team behaviour allowed for greater flexibility in work programs and increased productivity at the staff and unit level by 28%. Furthermore, the department:

- Introduced a proactive drive for the reduction of the use of paper in its work, eventually eliminating completely paper archives and facilitating the transition to working remotely mandated at the end of the decade by the pandemic.
- Introduced substantial enhancements to the telecommunications capabilities of the Bank's personnel, through the introduction of extended data and call roaming facilities, which effected increased productivity of business travellers and optimal use of the Bank's resources.
- Implemented significant improvements in the management of facilities, including enhanced security, the creation of specialized areas (for archives, meetings, catering, gym, cultural events, etc.), and space rationalization. This improved vastly the infrastructure for staff and visitors and permitted the accommodation of additional personnel and functions. Building maintenance activities were centralized to induce accountability and swift response time, while the cost of heating fuel dropped by 45% and that of other utilities by 15%, reducing accordingly its participation in the carbon footprint of the organization's activities in its premises.
- Spearheaded the resolution of many pending issues with the privileges and immunities of the expatriate personnel, such as residency rights, duty-free purchases, etc.

Contribution to the Bank's Activities in 2020

During 2020, the Administrative Services Department concentrated its efforts on the seamless performance of purchasing processes during pandemic-induced lockdowns and teleworking, on promoting efforts for the acquisition of new premises, on resolving long-standing issues related to the expatriate staff's privileges and immunities, on adapting all regulations to GDPR requirements and on incorporating a restructuring of activities made necessary by changes in its human resources. It's most substantial achievements were as follows:

- <u>Teleworking</u>: The department introduced a remote approval system for purchases and related payment, while it developed a system of exchange of electronic documentation for payments with no additional IT infrastructure or investment.
- <u>New premises</u>: The department proceeded with due diligence of promising properties, while completing the terms of the future call for tenders for a finished building to house the Bank's permanent premises.



Black Sea Trade & Development Bank

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Together with Auditor's Report

Internal Controls over External Financial Reporting

RESPONSIBILITY FOR EXTERNAL FINANCIAL REPORTING

Management's responsibility

Management's report regarding the effectiveness of internal controls over external financial reporting

The management of the Black Sea Trade and Development Bank ("the Bank") is responsible for the preparation, integrity, and fair presentation of its published financial statements. 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, who were 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 independent auditors' report accompanies the audited financial statements.

Management is responsible for establishing and maintaining effective internal controls over external financial reporting for financial statement presentations in conformity with IFRS. Management maintains a comprehensive system of controls intended to ensure that transactions are executed in accordance with management's authorisation, assets are safeguarded and financial records are reliable. The system of internal controls contains monitoring mechanisms, and actions are taken to correct deficiencies identified. Management believes that internal control over 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, an effective internal controls system can provide only reasonable, as opposed to absolute, assurance with respect to the financial statements presentation and preparation. Furthermore, the effectiveness of an internal controls system can change over time.

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 internal auditors regularly meet with the Audit Committee, 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's assessment of the effectiveness of its internal controls over external financial reporting was based on the criteria set forth in the "Internal Control – Integrated Framework" (2013) issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). Based upon this assessment, management concluded that as of 31 December 2020, its internal control over financial reporting was effective.

In addition to providing an audit opinion on the fairness of the financial statements for the year ended 31 December 2020, the external auditors of the Bank conducted an independent assessment of the Bank's internal control over financial reporting as of 31 December 2020 and their assurance report is presented separately in this financial report.

Dmitry Pankin
President

Valeriy Piatnytskyi
Vice President, Finance

Black Sea Trade and Development Bank
Thessaloniki
20 May 2021

Deloitte Certified Public
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INDEPENDENT REASONABLE ASSURANCE REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Governors and the Board of Directors 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 December 31, 2020, 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 Standard 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 Bank's financial reporting, to those charged with governance.

Deloitte.

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 Bank 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 2020, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

Athens, 20 May 2021

The Certified Public Accountant

Alexandra Kostara
Reg. No SOEL:19981
Deloitte Certified Public Accountants S.A.
3a Fragkokklisias & Granikou str., GR 151-25 Marousi, Athens, Greece
Reg. No SOEL: E 120

MAKING AN IMPACT THAT MATTERS since 1845

INCOME STATEMENT

For the year ended 31 December 2020

Presented in thousands of EUR	Note	2020	2019
Interest and similar income	7	97,856	93,969
Interest and similar expense	8	(61,048)	(53,274)
Net interest income (expense) on derivatives	9	7,427	(4,113)
Net interest income		**44,235**	**36,582**
Net fees and commissions	10	2,040	967
Dividend income	16	164	-
Net gains from equity investments through profit or loss	16	284	268
Net (losses) gains on derecognition of debt investment securities at fair value through other comprehensive income		(1,752)	119
Net (losses) on derecognition of financial liabilities at amortized cost	20	(2,049)	-
Unrealized net fair value gains on derivative instruments	14	7,410	-
Fair value (losses) gains on loans measured at fair value through profit or loss	15	(229)	477
Fair value (losses) on equity investments measured at fair value through profit or loss	16	(7)	(217)
Foreign exchange income (losses)		78	(1,067)
Other (losses) income		(4)	4
Operating income		**50,170**	**37,133**
Personnel expenses	11,26	(16,097)	(15,758)
Administrative expenses	11	(4,161)	(5,187)
Depreciation and amortization	18,19	(525)	(572)
Income before impairment		**29,387**	**15,616**
Impairment (losses) on loans	12	(12,894)	(1,841)
Impairment (losses) on debt investment securities measured at fair value through other comprehensive income		(2,278)	(111)
Income for the year		**14,215**	**13,664**

The accompanying notes, on pages 67 to 127 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

Presented in thousands of EUR	Note	2020	2019
Income for the year		14,215	13,664
Other comprehensive income (expense):			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (losses) gains on defined benefit scheme	24	(2,036)	(3,020)
Gains (losses) on equity investments financial assets	24	(3,577)	4,219
Items that are or may be reclassified subsequently to profit or loss:			
Gains (losses) on investment securities financial assets	24	4,697	12,518
Other comprehensive (expense) income		(916)	13,717
Total comprehensive income		**13,299**	**27,381**

The accompanying notes, on pages 67 to 127 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2020

Presented in thousands of EUR	Note	2020	2019 (as Restated)
Assets			
Cash and due from banks	25	34,328	81,271
Deposits in margin accounts		26,240	5,900
Debt investment securities at fair value through other comprehensive income	13	687,961	419,826
Derivative financial instruments – assets	14	26,701	3,128
Loans at amortized cost	5,15	2,030,396	1,808,187
Less: deferred income	15	(13,813)	(8,170)
Less: impairment losses	5,12	(55,937)	(43,314)
Loans at fair value through profit or loss	15	12,525	12,754
Loans		1,973,171	1,769,457
Equity investments at fair value through profit or loss	5,16	791	798
Equity investments at fair value through other comprehensive income	5,16	25,519	29,588
Equity investments at fair value		26,310	30,386
Accrued interest receivable		23,512	24,334
Other assets	17	9,490	11,519
Property and equipment	18	429	489
Intangible assets	19	298	422
Right of use assets	22	579	1,255
Total Assets		**2,809,019**	**2,347,987**
Liabilities			
Short-term	20	111,120	83,675
Amounts due to financial institutions	20	315,992	240,206
Debt evidenced by certificates	20	1,465,218	1,161,274
Accrued interest payable		9,384	11,652
Borrowings		1,901,714	1,496,807
Margin accounts		22,920	4,550
Derivative financial instruments – liabilities		28,935	6,552
Other liabilities		11,359	8,610
Lease liability		383	1,059
Total liabilities		1,965,311	1,517,578
Members' Equity			
Authorized share capital	23	3,450,000	3,450,000
Less: unallocated share capital	23	(1,161,500)	(1,161,500)
Subscribed share capital	23	2,288,500	2,288,500
Less: callable share capital	23	(1,601,950)	(1,601,950)
Paid-in share capital		686,550	686,550
Reserves	24	58,298	54,009
Retained earnings		98,860	89,850
Total members' equity		843,708	830,409
Total Liabilities and Members' Equity		**2,809,019**	**2,347,987**
Off-balance-sheet items			
Commitments	5	274,031	353,496

The accompanying notes, on pages 67 to 127 are an integral part of these financial statements.

STATEMENT OF CHANGES IN MEMBERS' EQUITY

For the year ended 31 December 2020

Presented in thousands EUR	Share capital					
	Subscribed	Callable	Payable	Reserves	Retained Earnings	Total
At 31 December 2018	**2,288,500**	**(1,601,950)**	**(1,428)**	**32,957**	**83,521**	**801,600**
Income for the year	-	-	-	-	13,664	13,664
Other comprehensive income:						
Net gains (losses) on financial assets at fair value reserve through OCI	-	-	-	16,737	-	16,737
Actuarial (losses) gains on defined benefit scheme	-	-	-	(3,020)	-	(3,020)
Total comprehensive income for the year	-	-	-	13,717	13,664	27,381
Members' contributions	-	-	1,428	-	-	1,428
Transfer to general reserve	-	-	-	7,335	(7,335)	-
Total contributions	-	-	1,428	7,335	(7,335)	1,428
At 31 December 2019	**2,288,500**	**(1,601,950)**	**-**	**54,009**	**89,850**	**830,409**
Income for the year	-	-	-	-	14,215	14,215
Other comprehensive income:						
Net gains (losses) on financial assets at fair value reserve through OCI	-	-	-	1,120	-	1,120
Actuarial (losses) gains on defined benefit scheme	-	-	-	(2,036)	-	(2,036)
Total comprehensive income for the year	-	-	-	(916)	14,215	13,299
Members' contributions	-	-	-	-	-	-
Transfer to general reserve	-	-	-	5,205	(5,205)	-
Total contributions	-	-	-	5,205	(5,205)	-
At 31 December 2020	**2,288,500**	**(1,601,950)**	**-**	**58,298**	**98,860**	**843,708**

The accompanying notes, on pages 67 to 127 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2020

Presented in thousands of EUR	Note	2020	2019
Cash flows from operating activities			
Income for the year		14,215	13,664
Adjustment for items in income statement:			
Depreciation and amortization		525	572
Impairment losses on loans		12,623	1,841
Impairment losses on investment securities		2,278	111
Fair value losses on loans at FVTPL		229	(477)
Fair value (gains) losses on equity investments at FVTPL		7	217
Net interest income		(36,808)	(40,695)
Realized losses from debt issued		2,049	-
Realized gains on disposal investment securities at FVTOCI		1,752	(119)
Cash generated from (used for) operations:			
Proceeds from repayment of loans		561,715	372,476
Proceeds from repayment of equity investments		1,231	2,096
Funds advanced for loans		(783,932)	(871,130)
Funds advanced for equity investments		(732)	(825)
Net movement in derivative financial instruments		(1,190)	(15,965)
Working capital adjustments:			
Interest income received		98,678	89,804
Interest income paid		(63,316)	(52,117)
Decrease (increase) in deposit margin accounts		(20,340)	16,910
Decrease (increase) in other assets		2,029	(2,147)
Increase (decrease) in margin accounts		18,370	4,550
Increase (decrease) in other liabilities		713	4,191
Increase (decrease) in deferred income		5,643	5,118
Net cash from / (used in) operating activities		(184,261)	(471,925)
Cash flows from investing activities			
Proceeds investment securities at FVTOCI		1,227,280	812,753
Purchase of investment securities at FVTOCI		(1,459,327)	(761,067)
Purchase of property, software and equipment		(341)	(379)
Net cash from / (used in) investing activities		(232,388)	51,307
Cash flows from financing activities			
Proceeds received from share capital		-	1,428
Proceeds from borrowings		944,201	1,267,253
Repayment of borrowings		(539,074)	(736,128)
Net cash from financing activities		405,127	532,553
Net increase (decrease) in cash and cash equivalents		**(11,522)**	**111,935**
Cash and cash equivalents at beginning of year		284,188	172,253
Cash and cash equivalents at end of year	25	**272,666**	**284,188**

The accompanying notes, on pages 67 to 127 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ESTABLISHMENT OF THE BANK

1.1 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 comprised of the following 11 countries: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, the Russian Federation, Turkey and Ukraine.

1.2 Headquarters Agreement

The status, privileges and immunities of the Bank and persons connected therewith in the Hellenic Republic are defined in the Headquarters Agreement between the Government of the Hellenic Republic and the Bank ('Headquarters Agreement') signed on 22 October 1998.

1.3 Governing Bodies

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.

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

1.3.1 Board of Governors

Country	Governor
Albania	Ms. Adela Xhemali
Armenia	Mr. Arthur Javadyan
Azerbaijan	Mr. Samir Sharifov
Bulgaria	Ms. Marinela Petrova
Georgia	Mr. Koba Gvenetadze
Greece	Mr. Adonis-Spyridon Georgiadis
Moldova	Mr. Serghei Puscuta
Romania	Mr. Sebastian Ioan Burduja
Russia	Mr. Timur Maksimov
Turkey	Mr. Bulent Aksu
Ukraine	Mr. Ihor Petrashko

Notes to the Financial Statements

1.3.2 Board of Directors

Country	Director
Albania	Mr. Oltjon Muzaka
Armenia	Mr. Andranik Grigoryan
Azerbaijan	Mr. Famil Ismayilov
Bulgaria	Ms. Petya Kuzeva
Georgia	Mr. Nikoloz Gagua
Greece	Mr. Ioannis Tsakiris
Moldova	Ms. Elena Matveeva
Romania	Ms. Diana Blindu
Russia	Mr. Evgeny Stanislavov
Turkey	Dr. Serhat Koksal
Ukraine	Mr. Taras Kachka

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 issued by the International Accounting Standards Board (IASB).

These financial statements for the year ended 2020 were submitted by the Management Committee to the Board of Directors (BoD) for approval on 20 May 2021 and were approved for issuance 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 25 June 2021.

Basis of measurement

The financial statements have been prepared on a historical cost basis except for the below assets and liabilities which have been measured at fair value:

- Debt investment securities at fair value through other comprehensive income;
- Loans at fair value through profit or loss;
- Equity investments at fair value through profit or loss;
- Equity investments at fair value through other comprehensive income;
- Derivative financial instruments; and
- Plan assets.

The carrying values of recognized assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

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 and values are rounded to the nearest thousand unless otherwise stated.

Use of Estimates and Judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments and use of estimates and assumptions that affect the application of the accounting policies and 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

Notes to the Financial Statements

expenses during the reporting period. Actual results may differ from those reported. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

The areas where the Bank has applied judgement and used estimates and assumptions are: estimation of expected credit losses 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.

The areas involving a higher degree of judgment 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. This year began with the outbreak of a new strain of Coronavirus (Covid-19) pandemic that was announced by the World Health Organization (WHO) in March 2020 and has already negatively impacted the economies of the countries that the Bank works with. Following the WHO announcements 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 staff can move to ‘remote working’, which may be extended 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 maintains contacts with clients and we will continue with the preparation of projects, but the main focus is the outstanding loan portfolio which is carefully analyzed and regularly reviewed in light of the very rapid developments.

- The Bank closely monitors its liquidity position and is prepared to take short term measures as and if required in order to safeguard its interests and maintain key ratios at comfortable levels. Such measures can include access to short-term borrowings at higher costs than normally accepted, delaying draw-downs to operations with customer consent and curtailing administrative expenses as necessary. Additionally, the Bank has reduced undertaking new commitments temporarily, thus commitment levels are expected to remain steady, or even temporarily decline as a result.

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

Overall, the Bank is assessing the virus pandemic in the region the Bank operates in and 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. As the Bank maintains its operational capacity and retains its strong capital and liquidity positions, the Board of Directors is of the view that the Bank will continue to operate as a going concern for the next 12 months from the date of approval of the financial statements.

Notes to the 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 are the same as those applied for the comparative period presented taking into account the amendments to standards which were issued by the International Accounting Standards Board (IASB), which are further analyzed below:

3.1 Adoption of New and Amended Standards (IFRS)

New standards and amendments to standards which were issued by the International Accounting Standards Board (IASB), applied on 1 January 2020:

- **IFRS 17: Insurance Contracts**

  IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2023. The adoption is not expected to have any material impact on the Bank's financial statements.

- **Amendments to References to the Conceptual Framework in IFRS Standards**

  Together with the revised Conceptual Framework published in March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those ronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework. Annual reporting periods beginning on or after 1 January 2020. The adoption did not have any material impact on the Bank's financial statements.

- **Definition of a Business (Amendments to IFRS 3)**

  The amendments in Definition of a Business (Amendments to IFRS 3) are changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only. They: clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; add guidance and illustrative examples to help entities assess whether a substantive process has been acquired; remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Annual reporting periods beginning on or after 1 January 2020. The adoption did not have any material impact on the Bank's financial statements.

- **Definition of Material (Amendments to IAS 1 and IAS 8)**

  The amendments in Definition of Material (Amendments to IAS 1 and IAS 8) clarify the definition of material' and align the definition used in the Conceptual Framework and the standards. Annual reporting periods beginning on or after 1 January 2020. The adoption did not have any material impact on the Bank's financial statements.

Notes to the Financial Statements

- **Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)**

  The amendments in Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) clarify that entities would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. Annual reporting periods beginning on or after 1 January 2020. The adoption did not have any material impact on the Bank's financial statements.

- **Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)**

  The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. Annual reporting periods beginning on or after 1 January 2023. The adoption is not expected to have any material impact on the Bank's financial statements.

- **Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)**

  The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. Annual reporting periods beginning on or after 1 January 2022. The adoption is not expected to have any material impact on the Bank's financial statements.

- **Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)**

  The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an al location of other costs that relate directly to fulfilling contracts (an example would be the al location of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). Annual reporting periods beginning on or after 1 January 2022. The adoption is not expected to have any material impact on the Bank's financial statements.

- **Annual Improvements to IFRS Standards 2018–2020**

  Makes amendments to the following standards:
  IFRS 1 – The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.
  IFRS 9 – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.
  IFRS 16 – The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.
  IAS 41 – The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

  Annual reporting periods beginning on or after 1 January 2022. The adoption is not expected to have any material impact on the Bank's financial statements.

Notes to the Financial Statements

- **Covid-19-Related Rent Concessions (Amendment to IFRS 16)**

  The amendment provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. Annual reporting periods beginning on or after 1 June 2020. The adoption did not have any material impact on the Bank's financial statements.

- **Amendments to IFRS 17**

  Amends IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 Insurance Contracts was published in 2017. The main changes are:

  - Deferral of the date of initial application of IFRS 17 by two years to annual periods beginning on or after 1 January 2023.
  - Additional scope exclusion for credit card contracts and similar contracts that provide insurance coverage as well as optional scope exclusion for loan contracts that transfer significant insurance risk.
  - Recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognized in a business acquired in a business combination.
  - Clarification of the application of IFRS 17 in interim financial statements allowing an accounting policy choice at a reporting entity level.
  - Clarification of the application of contractual service margin (CSM) attributable to investment return service and investment related service and changes to the corresponding disclosure requirements.
  - Extension of the risk mitigation option to include reinsurance contracts held and non-financial derivatives.
  - Amendments to require an entity that at initial recognition recognizes losses on onerous insurance contracts issued to also recognize a gain on reinsurance contracts held.
  - Simplified presentation of insurance contracts in the statement of financial position so that entities would present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts.
  - Additional transition relief for business combinations and additional transition relief for the date of application of the risk mitigation option and the use of the fair value transition approach.

  Annual reporting periods beginning on or after 1 January 2023. The adoption is not expected to have any material impact on the Bank's financial statements.

- **Classification of Liabilities as Current or Non-current — Deferral of Effective Date (Amendment to IAS 1)**

  The amendment defers the effective date of the January 2020 amendments by one year, so that entities would be required to apply the amendment for annual periods beginning on or after 1 January 2023. The adoption is not expected to have any material impact on the Bank's financial statements.

- **Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)**

  The amendments in Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) introduce a practical expedient for modifications required by the reform, clarify that hedge accounting is not discontinued solely because of the IBOR reform, and introduce disclosures that allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition. Annual reporting periods beginning on or after 1 January 2021. The Bank is currently reviewing the impact of this standard.

Notes to the Financial Statements

- **Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)**

  The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. To support the amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2. Annual reporting periods beginning on or after 1 January 2023. The adoption is not expected to have any material impact on the Bank's financial statements.

- **Definition of Accounting Estimates (Amendments to IAS 8)**

  The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error. Annual periods beginning on or after 1 January 2023. The adoption is not expected to have any material impact on the Bank's financial statements.

- **Editorial Corrections (various)**

  The IASB periodically issues Editorial Corrections and changes to IFRSs and other pronouncements. Since the beginning of calendar 2018, such corrections have been made in December 2018, February 2019, May 2019, December 2019, July 2020, September 2020, October 2020, and November 2020. As minor editorial corrections, these changes are effectively immediately applicable under IFRS. The adoption did not have any material impact on the Bank's financial statements.

Notes to the Financial Statements

3.2 Foreign Currencies Translation

Foreign currency transactions are initially recorded in EUR by applying to the foreign currency amount the exchange rate between the EUR and the foreign currency at the rate prevailing 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 year end are recognized in the income statement.

Monetary assets and liabilities denominated in foreign currencies are translated into Euro at the exchange rate at the reporting date. The foreign exchange gain or loss on monetary items is the difference between the amortized cost in Euro at the beginning of the year, adjusted for the effective interest, impairment and prepayments during the year, and the amortized cost in the foreign currency translated at the exchange rate at the end of the year.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in income statement except for foreign exchange differences on non-monetary items which are at FVTOCI as equity investments which are recognized 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 2020	31 December 2019
	=	United States dollar	1.22710	1.12340
	=	Pound sterling	0.89903	0.85080
	=	Russian ruble	91.46710	69.95630
1 EUR	=	Azerbaijan manat	2.08900	1.90350
	=	Georgian lari	4.02330	3.20950
	=	Armenian dram	641.11000	537.26000
	=	Romanian leu	4.86830	4.78300

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 maturities of three months or less from the financial position date. 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.

3.4 Recognition and Initial Measurement, 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.

3.4.1 Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognized on the trade date, i.e., the date on which the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., purchase or sale of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognized when funds are transferred to the customer's account.

Financial assets and financial liabilities are measured initially at fair value plus, for an item not at Fair Value Through Profit and Loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

Notes to the Financial Statements

3.4.2 Date of derecognition

The Bank derecognizes a financial asset or a portion of a financial asset when (i) the contractual rights to the cash flow from the financial asset expire, (ii) 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 income statement.

Any cumulative gain or loss recognized in OCI in respect of equity investment securities designated as at Fair Value through Other Comprehensive Income ("FVTOCI") is not recognized in income statement on derecognition of such securities.

3.5 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.

3.5.1 Classification and subsequent measurement

The Bank classifies a financial asset in its financial statements in one of the below three measurement categories:

1. ***Financial assets measured at amortized cost (AC)***: this category includes each asset or group of assets for which the Bank's business model constitutes its holding for the purpose of collecting contractual cash flows. 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 financial assets in order to collect the contractual cash flows; and
   - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding:

   The Bank includes in this category financial assets which are non-derivative with fixed or determinable payments and with fixed maturities meeting the above criteria. They are initially recognized at fair value plus any 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. They are subsequently measured at AC using the effective interest method, less any allowance for expected credit losses. All such financial assets are recognized on settlement date.

   These financial assets include cash and due from banks, loans and receivables accrued that meet the above criteria.

2. ***Financial assets measured at fair value through other comprehensive income (FVTOCI)***, with gains or losses reclassified on profit or loss on derecognition. The Bank classifies debt instruments (including euro commercial paper (ECP)) at FVTOCI when both of the following conditions are met:
   - The instrument is held within a business model, the objective of which is achieved by both collecting the contractual cash flows and selling financial assets; and
   - The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Notes to the Financial Statements

FVTOCI debt instruments are subsequently measured at fair value with gains and losses that arise from fluctuations in fair value recognized in OCI. Their fair value is determined by reference to quoted market bid prices. On derecognition cumulative gain or loss previously recognized in OCI are reclassified from OCI to income statement. Foreign exchange gains or losses and interest income calculated using the effective interest rate method are recognized in income statement.

All such financial assets are recognized on trade date.

The Expected Credit Losses (“ECL”) for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to the profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon derecognition of the assets.

3. ***Financial assets (equity instruments) measured at FVTOCI, with no reclassification of gains or losses to profit or loss on derecognition***. On initial recognition the Bank can make the irrevocable election, on an instrument-by-instrument basis, to designate investments in an equity instrument which are not held for trading nor contingent consideration recognized by an acquirer in a business combination, as a financial asset measured at FVTOCI. Those not elected, which are primarily listed, are measured at Fair Value Through Profit or Loss (“FVTPL”). Dividends received are recorded in the income statement.

   After initial recognition at cost, 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, and are not reclassified to income statement. For those financial instruments there is no impairment assessment. The fair value for those not purchased from an active market is determined using accepted valuation techniques which use unobservable inputs. These valuation techniques used are net asset value, when this is deemed to approximate fair value, and earnings-based valuations using comparable information and discounting cash flows. The Bank’s equity investments are included in this category. All such financial assets are recognized on settlement date.

4. ***Financial assets measured at FVTPL***: this category includes financial assets that do not meet the criteria to be classified in any of the above categories as well as financial assets 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 derivative financial instruments, equity securities 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. All such financial assets are recognized on trade date.

   In addition, a debt instrument that could meet AC criteria can be designated at initial recognition as at FVTPL. This classification option, which is irrevocable, is used when the designation eliminates a measurement or recognition inconsistency, referred to as an ‘accounting mismatch’, which would arise from measuring financial assets and liabilities on a different basis in relation to another financial asset or liability.

   As at the reporting date the Bank has not designated, at initial recognition, any financial asset as at FVTPL.

Notes to the Financial Statements

3.5.2 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 difference between the transaction price and the fair value is deferred and is only recognized in the income statement when the inputs become observable, or when the instrument is derecognized.

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.

3.5.3 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.

Notes to the Financial Statements

3.5.4 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.

The Bank classifies in loan category bonds which are purchased with a view of a development impact and such purchases are performed based on the Bank's loan financing criteria and follow the thorough appraisal and approval process of the Bank. Such bonds at 31 December 2020 were a gross amount of EUR 277,588 thousand (2019: EUR 175,367 thousand). Management has concluded that presentation within loans present fairly the Bank's financial position.

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.

3.6 Impairment

3.6.1 Financial assets

The Bank records an allowance for expected credit loss for all loans and loans receivables, and other debt instruments held at amortized cost, together with off balance sheet items (loan commitments and financial guarantee contracts). In this section, all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

i) Calculation of expected credit loss

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 result from default events that are possible within the next twelve months. 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).

For the purposes of calculating expected credit losses, the financial instruments are classified in three stages as follows:

- Stage 1: Stage 1 includes performing exposures that do not have significant increase in credit risk since initial recognition. Stage 1 also includes exposures for which credit risk has been improved and the exposure has been reclassified from Stages 2 or 3. In this stage expected credit losses are recognized based on the probability of default within the next 12 months.

- Stage 2: Stage 2 includes performing exposures for which there has been a significant increase in credit risk since initial recognition. Stage 2 also includes exposures for which the credit risk has improved, and the exposure has been reclassified from stage 3. In this stage, lifetime expected credit losses are recognized.

- Stage 3: Stage 3 includes non-performing/credit-impaired exposures. In this stage lifetime expected credit losses are recognized.

Notes to the Financial Statements

The Bank calculates impairment losses on a portfolio basis, except for financial assets that are credit-impaired in which case they are calculated on an individual basis. The Bank applies three main components to measure expected credit losses which are a LGD, PD and EAD, and assigns general market scenarios for potential credit risk deterioration. There can be transfers of exposures from one stage to another, depending on whether there is a change in the credit risk of that exposure. 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 LGD to its loan asset classes. GEMs is an International Financial Institution (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.

ii) Basic parameters used for the calculation of expected credit loss

The calculation of expected credit losses is based on the following parameters:

- Probability of Default (PD) represents the probability that a debtor will default on his debt obligations either over the next twelve 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 Expected Credit Loss.

- Exposure at Default (EAD) is defined as the estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and undrawn commitments based on the Bank's own experience.

- Loss Given 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.

The Bank assigns credit rating to each loan at inception based on the internal scorecard methodologies for Financial Institutions, Corporates or Project Finance and all loans are subject to annual credit review if rated to a category up to BB+, while all loans below that rating are subject to semi-annual credit review. The credit rating is primary input to the PD which is calculated based on statistical model and incorporates macroeconomic projections.

The LGD estimates are according to values and determined estimates mainly by geography and by type of counterparty, with three main exposure classes: sovereign, public and private sectors. In case of sovereign default of member countries, the Bank believes that its payment would remain uninterrupted, benefitting from its preferred creditor status resulting in no credit risk of impairment loss from sovereign exposures or loans guaranteed by sovereign.

The Bank calculates expected credit losses based on the weighted probability of three scenarios. More specifically the Bank uses a statistical model to produce forecasts of the possible evolution of macroeconomic variables (GDP and unemployment rate) that affect the level of expected credit losses of loans under a baselines and under alternative macroeconomic scenarios (adverse and favorable) and also assigns the cumulative probabilities associated with these scenarios. The baseline scenario is the most likely scenario and is in line with the Bank's information for strategic planning and budgeting purposes.

Notes to the Financial Statements

iii) 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.

In order to determine whether there has been a significant increase in the credit risk since origination, and hence transition to Stage 2, a combination of quantitative and qualitative risk metrics are used. All loans with at least a 3-notch downgrade in PD on the Bank's internal ratings scale since origination, all loans for which the contractual payments are overdue by between 31 and 90 days inclusive, as well as all loans placed on the 'watch list' are transitioned to Stage 2.

For financial guarantee contracts, the date the Bank becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purpose of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in credit risk since initial recognition of a financial guarantee contract, the Bank considers the risk that the specified debtor will default on the contract in line with the above determination for loans.

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 and the respective change in the ECL measurement from 12-month to lifetime ECL.

iv) 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.

v) 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.

Notes to the Financial Statements

a. 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.

b. Quantitative

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

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.

3.6.2 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 fair value less costs of disposal 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.

3.6.3 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 with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded, 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).

Notes to the Financial Statements

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 (change in the net present value of the asset by more than 10%) 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 (average of 6 months per repayment) and could therefore be subject to a Stage movement.

For loans that are modified the Bank recalculates the gross book value based on the revised cash flows on the financial asset and recognizes the profit or loss from the modification in income statement. The new gross book value is recalculated by discounting the modified cash flows at the original effective interest rate.

3.6.4 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.

3.6.5 Write-backs

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

3.7 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.

3.7.1 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 the fair value of the funds transferred, less any transaction costs. They are subsequently measured at amortized cost unless they qualify for hedge accounting in which case the amortized cost is adjusted for the fair value movements attributable to the to the risks being hedged. Interest expense is accrued in the income statement within “Interest expense” using the effective interest rate method.

3.7.2 Other liabilities

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

3.8 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.

Notes to the Financial Statements

3.9 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.

3.9.1 Economic Hedge

Included in this classification are any derivatives entered into by the Bank in order to economically hedge its exposures for risk management purposes that are not designated in hedge relationships as they do not meet the IAS 39 hedge accounting criteria.

The Bank enters into such derivatives, to protect the Bank from financial risks such as currency risk, market price risk and interest rate risk. Such hedges are entered into to lessen or eliminate economic exposure.

The Bank's policies on risk management are to not take significant interest rate or foreign exchange risks, and to aim where possible to match assets and liabilities and derivatives that can only be used for economic hedge. The majority of the Bank's lending activities is 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 International Swaps and Derivatives Association (ISDA) master netting agreement with Credit Swap Annexes (CSAs) and marked to market and collateralized daily.

The Department of Treasury, 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.

3.10 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.

Notes to the Financial Statements

3.11 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 expensed as 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%

3.12 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.

3.13 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 3.21.

3.14 Taxation

In accordance with Article 52 of the Establishing Agreement, the Bank, its assets, property, income and its operations and transactions are exempt from all taxation and all customs duties in all member countries.

The Bank is also exempt from any obligation for payment, withholding or collection of any tax or duty. Also, no tax shall be levied on salaries or emoluments paid by the Bank to employees. These tax exemptions are also included and elaborated upon in Article 12 of the Headquarters Agreement with the Hellenic Government, ratified by Greek Law 2380/ No.38/7.3.1996.

Notes to the Financial Statements

3.15 Provisions

The Bank records provisions for present 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 present and (c) a reliable estimate of the amount of the obligation can be made.

3.16 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.

3.17 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.

3.18 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 (AC) and gross 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.

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

Notes to the Financial Statements

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.

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 net balance 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.

Other interest income/expense includes interest on derivatives in economic hedge using the contractual interest rate.

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

iv) **Interest rate benchmark reform**

At present the Bank is continuing the usage of Libor as the interest rate benchmark of which the Bank is exposed to, as there is uncertainty to the timing and precise form of the new benchmark that has yet to be finalized. The adoption will not have any material impact on the Bank's financial statements.

3.19 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.

3.20 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.

Notes to the Financial Statements

3.21 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; and does not lease land, corporate vehicles, or technical or IT equipment, nor does the Bank 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 cost similarly 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.

Notes to the Financial Statements

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Bank's financial statements requires Management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, income and expense and accompanying notes. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets and liabilities affected in future periods. The Bank believes that the significant judgments, estimates and assumptions used in the preparation of 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. Fair value estimates for financials instruments carried at fair value

b. The Bank's method for determining the level of impairment of loan operations is described within the Accounting and further explained in Note 5 Risk Management – credit risk section. In accordance with IFRS 9, ECL represents the average credit losses weighted by the probabilities of default (PD), whereby credit losses are defined as the present value of all cash shortfalls. The ECL is calculated for both Stage 1 and Stage 2 loans by applying the provision rate to the projected exposure at default (EAD), and discounting the resulting provision using the loan's effective interest rate (EIR). The provision rate is generated by multiplying the PD rate and the loss given default (LGD) rate applicable to the loan.

   A number of critical accounting estimates are therefore made in the calculation of impairment of loan operations as follows:

   - Criteria used for staging assessment of loans and advances to customers.
   - Bank's internal credit loss rating scale, which assigns PDs to individual grades.
   - Assumptions for future cashflows of individually assessed credit-impaired exposures.
   - The input and assumptions used to estimate the impact of multiple economic scenarios.

   For loans that are individually assessed which have a lifetime ECL and that are credit-impaired in Stage 3, 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 original effective interest rate (EIR) to reach a net present value for a particular operation, less any collateral that can be realized.

Notes to the Financial Statements

4.1 Covid-19

The continuation of the Covid-19 pandemic means that the Bank could face additional credit, market and operational risks. The duration of the pandemic is difficult to predict at this time, as are the extent and effectiveness of economic interventions by the governments and central banks in the region of the Bank's operations. The Bank continues to monitor the developments and to manage the risks associated with the Bank's various portfolios within existing financial policies and constraints. The two main areas that affect the Bank's judgement and estimates are:

1. The Bank's equity investments which will likely see a reduced fair value due to the downward pressure, although the Bank has a small portfolio of this and therefore its profitability will not be materially impacted from these investments.

2. The Bank's loan portfolio due to business disruption in economic activity in the region will put pressure for borrowers, affecting those operating primarily in the service and consumer goods industries. This could likely force debt restructuring and an increase in defaults among less robust operations. The Bank's profitability has been impacted by a severe increase in ECL on performing loans, driven by worsening of the macro-economic outlook scenarios.

With regard of the Bank's operational risk the information technology (IT) systems have proven they are stable, powerful and flexible, as the majority of the Bank's staff were working successfully remotely. The Bank is also investing in new IT infrastructure to expand digital and cloud transformation, as well as strengthening the Bank's cybersecurity and internal control systems.

Notes to the Financial Statements

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 implement 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 and 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 proposal 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 (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 ALCO.

The table below summarizes the maximum exposure to credit risk without taking into consideration collateral, other credit enhancements or provisions of impairment.

Presented in EUR (000)	At 31 December 2020	At 31 December 2019
Cash and due from banks	34,328	81,271
Deposits in margin accounts	26,240	5,900
Debt investment securities	687,961	419,826
Derivative financial instruments	26,701	3,128
Loans	2,042,921	1,820,941
Equity investments	26,310	30,386
Accrued interest receivable	23,512	24,334
Other assets	9,490	11,519
On-balance-sheet	**2,877,463**	**2,397,305**
Undrawn commitments	274,031	353,496
Total	**3,151,494**	**2,750,801**

Notes to the Financial Statements

a1. Analysis by rating agency

The tables below provide an analysis of financial assets, excluding loans which are separately provided below in credit risk analysis, in accordance with their Moody's (or if not by Moody's than the equivalent of Standard and Poor's or Fitch) rating, as follows.

	2020				
Presented in EUR (000)	Aaa – Aa3	A1 – A3	Baa1 – Ba3	Unrated	**Total**
Analysis by Moody's rating					
Cash and bank balances	34,328	-	-	-	**34,328**
Deposits in margin accounts	26,240	-	-	-	**26,240**
Debt investment securities	93,950	353,346	240,665	-	**687,961**
Derivatives financial instruments		-	-	26,701	**26,701**
Equity investments	-	-	-	26,310	**26,310**
Accrued interest receivable	-	-	-	23,512	**23,512**
Other assets	-	-	-	9,490	**9,490**
At 31 December	**154,518**	**353,346**	**240,665**	**86,013**	**834,542**
Of which issued by					
Corporates/Governments	93,950	353,346	240,665	26,310	**714,271**
Cash deposits at banks	60,568	-	-	-	**60,568**
Other	-	-	-	59,703	**59,703**
At 31 December	**154,518**	**353,346**	**240,665**	**86,013**	**834,542**
Of which classified as					
Fair value through profit or loss	-	-	-	27,492	**27,492**
Fair value through other comprehensive income	93,950	353,346	240,665	25,519	**713,480**
Amortized cost	60,568	-	-	33,002	**93,570**
At 31 December	**154,518**	**353,346**	**240,665**	**86,013**	**834,542**

Notes to the Financial Statements

Presented in EUR (000)	2019 Aaa – Aa3	A1 – A3	Baa1 – Ba3	Unrated	**Total**
Analysis by Moody's rating					
Cash and bank balances	81,271	-	-	-	**81,271**
Deposits in margin accounts	5,900	-	-	-	**5,900**
Debt investment securities	177,917	50,213	191,696	-	**419,826**
Derivatives financial instruments	-	-	-	3,128	**3,128**
Equity investments	-	-	-	30,386	**30,386**
Accrued interest receivable	-	-	-	24,334	**24,334**
Other assets	-	-	-	11,519	**11,519**
At 31 December	**265,088**	**50,213**	**191,696**	**69,367**	**576,364**
Of which issued by					
Corporates/Governments	177,917	50,213	191,696	30,386	**450,212**
Cash deposits at banks	87,171	-	-	-	**87,171**
Other	-	-	-	38,981	**38,981**
At 31 December	**265,088**	**50,213**	**191,696**	**69,367**	**576,364**
Of which classified as					
Fair value through profit or loss	-	-	-	3,926	**3,926**
Fair value through other comprehensive income	177,917	50,213	191,696	29,588	**449,414**
Amortized cost	87,171	-	-	35,853	**123,024**
At 31 December	**265,088**	**50,213**	**191,696**	**69,367**	**576,364**

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 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 credit-impaired. Internally, loans that are within the 12-month ECL are categorized as standard.

Credit risk for 2020 is analyzed as follows:

	Presented in EUR (000)							
					ECL allowance			
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**
At 1 January 2020	1,484,999	272,290	50,898	**1,808,187**	2,891	5,986	34,437	**43,314**
Excellent	-	-	-	**-**	-	-	-	**-**
Very strong	-	-	-	**-**	-	-	-	**-**
Strong	-	-	-	**-**	-	-	-	**-**
Good	4,906	-	-	**4,906**	1	-	-	**1**
Fair	608,957	-	-	**608,957**	1,251	-	-	**1,251**
Weak	1,106,609	140,832	-	**1,247,441**	14,247	1,215	-	**15,462**
Special attention	-	90,700	50,726	**141,426**	-	1,840	14,585	**16,425**
Expected loss	-	-	27,666	**27,666**	-	-	22,798	**22,798**
At 31 December 2020	**1,720,472**	**231,532**	**78,392**	**2,030,396**	**15,499**	**3,055**	**37,383**	**55,937**

Credit risk for 2019 is analyzed as follows:

	Presented in EUR (000)							
					ECL allowance			
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**
At 1 January 2019	1,050,830	225,851	41,737	**1,318,418**	3,520	4,274	26,981	**34,775**
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**
At 31 December 2019	**1,484,999**	**272,290**	**50,898**	**1,808,187**	**2,891**	**5,986**	**34,437**	**43,314**

Notes to the Financial Statements

a4. Non-performing loans (NPL)

For the Bank an asset is classified as non-performing/impaired when the borrower is past due on payment for more than 90 days, or when Risk Management Department considers that the counterparty is unlikely to pay its credit obligations in full to the Bank. Normally, an NPL has uncertain indication of a recovery or a restructuring plan and is fully provided with an impairment charge less any realizable collateral, which is in the final stage to enforcing legal action. There were no write-offs during the year (2019: nil).

Notes to the Financial Statements

a5. 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 2020		At 31 December 2019	
Presented in EUR (000)	Outstanding balance	Undrawn commitments	Outstanding balance	Undrawn commitments
Concentration by instrument				
Loans	2,042,921	245,143	1,820,941	335,959
Equity investments	26,310	6,962	30,386	7,905
Guarantees	-	21,926	-	9,632
At end of year	**2,069,231**	**274,031**	**1,851,327**	**353,496**
Concentration by country				
Albania	34,624	27	40,136	67
Armenia	91,269	98	92,731	387
Azerbaijan	105,366	12	121,519	387
Bulgaria	156,921	124,254	116,447	32,386
Georgia	100,979	11,803	116,119	28,712
Greece	380,255	8,788	386,898	12,503
Moldova	36,662	4,464	38,022	18,555
Romania	121,246	729	136,841	684
Russia	322,708	52,107	217,662	56,367
Turkey	478,820	49,748	420,399	134,229
Ukraine	240,381	22,001	164,553	69,219
At end of year	**2,069,231**	**274,031**	**1,851,327**	**353,496**
Concentration by sector				
Consumer discretionary	77,272	10,000	59,671	41,214
Consumer staples	115,264	28,039	89,200	28,856
Energy	194,763	-	228,050	-
Financial institutions	566,994	9,678	612,049	38,743
Health care	97,734	19,014	91,060	26,138
Industrials	363,011	144,397	269,758	102,000
Information technology	4,056	-	4,129	-
Materials	240,177	12,224	123,231	55,919
Real estate	44,670	25,954	3,480	32,000
Telecom services	-	-	-	-
Utilities	365,290	24,725	370,699	28,626
At end of year	**2,069,231**	**274,031**	**1,851,327**	**353,496**
Incurred by				
Sovereign	354,973	20,464	354,242	26,688
Non-sovereign	1,714,258	253,567	1,497,085	326,808
At end of year	**2,069,231**	**274,031**	**1,851,327**	**353,496**

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.

a6. 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. At 31 December 2020 the secured portfolio was 53.9% (2019: 57.2%) 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. At 31 December 2020 the Bank had pledged as collateral for derivative transactions a net amount of EUR 3,320 thousand (2019: EUR 1,350 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 and that 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 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 so that the Bank can continue to operate.

Notes to the Financial Statements

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.

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 maturity profile of the undiscounted cash flows for financial liabilities placed 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.

Contractual maturities for financial liabilities at 31 December 2020 and 31 December 2019 were:

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	18,223	60,944	555,212	1,167,718	229,256	**2,031,353**
Other and lease liabilities	-	1,513	10,229	-	-	**11,742**
Financial Liabilities at 31 December 2020	**18,223**	**62,457**	**565,441**	**1,167,718**	**229,256**	**2,043,095**
Borrowings	6,603	51,095	136,427	1,421,627	19,769	**1,635,521**
Other and lease liabilities	-	2,133	7,536	-	-	**9,669**
Financial Liabilities at 31 December 2019	**6,603**	**53,228**	**143,963**	**1,421,627**	**19,769**	**1,645,190**

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 on 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.

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.

Notes to the Financial Statements

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.

At 31 December 2020 Presented in EUR (000)	Euro	United States dollar	Swiss franc	Other	**Total**
Assets					
Cash and due from banks	6,507	26,785	-	1,036	**34,328**
Deposits in margin accounts	26,240	-	-	-	**26,240**
Debt investment securities	485,640	202,321	-	-	**687,961**
Derivatives financial instruments	26,701	-	-	-	**26,701**
Loans	1,275,916	562,747	-	204,258	**2,042,921**
Deferred income	(9,336)	(3,988)	-	(489)	**(13,813)**
Impairment losses on loans	(48,495)	(3,083)	-	(4,359)	**(55,937)**
Equity investments	10,851	15,374	-	85	**26,310**
Accrued interest receivable	7,596	9,580	16	6,320	**23,512**
Other assets	6,372	2,308	535	275	**9,490**
Total	1,787,992	812,044	551	207,126	**2,807,713**
Liabilities					
Borrowings	342,087	1,042,201	185,697	331,729	**1,901,714**
Margin accounts	22,920	-	-	-	**22,920**
Derivative financial instruments	28,935	-	-	-	**28,935**
Other and lease liabilities	11,742	-	-	-	**11,742**
Total	405,684	1,042,201	185,697	331,729	**1,965,311**
Currency balance at 31 December 2020	**1,382,308**	**(230,157)**	**(185,146)**	**(124,603)**	**842,402**

At 31 December 2019 Presented in EUR (000)	Euro	United States dollar	Swiss franc	Other	**Total**
Assets					
Cash and due from banks	72,598	7,776	-	897	**81,271**
Deposits in margin accounts	5,900	-	-	-	**5,900**
Debt investment securities	148,512	271,314	-	-	**419,826**
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**
Accrued interest receivable	11,994	10,008	-	2,332	**24,334**
Other assets	7,515	2,957	156	891	**11,519**
Total	1,293,078	892,960	156	159,627	**2,345,821**
Liabilities					
Borrowings	97,420	1,036,935	184,410	178,042	**1,496,807**
Margin accounts	4,550	-	-	-	**4,550**
Derivative financial instruments	6,552	-	-	-	**6,552**
Other and lease liabilities	9,669	-	-	-	**9,669**
Total	118,191	1,036,935	184,410	178,042	**1,517,578**
Currency balance at 31 December 2019	**1,174,887**	**(143,975)**	**(184,254)**	**(18,415)**	**828,243**

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 of the Bank's interest rate risk exposure on non-trading financial assets and liabilities. The Bank's assets and liabilities are included at carrying amount and categorized 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.

At 31 December 2020 Presented in EUR (000)	Interest bearing 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 due from banks	34,326	-	-	-	2	**34,328**
Deposits in margin accounts	-	-	-	-	26,240	**26,240**
Debt investment securities	98,267	151,519	220,532	217,643	-	**687,961**
Loans	421,284	338,931	675,357	607,349	-	**2,042,921**
Equity investments	-	-	-	-	26,310	**26,310**
Accrued interest receivable	-	-	-	-	23,512	**23,512**
Other assets	-	-	-	-	9,490	**9,490**
Total	553,877	490,450	895,889	824,992	85,554	**2,850,762**
Liabilities						
Borrowings	32,842	126,128	641,012	1,092,348	9,384	**1,901,714**
Margin accounts	-	-	-	-	22,920	**22,920**
Other and lease liabilities	-	-	-	-	11,742	**11,742**
Total	32,842	126,128	641,012	1,092,348	44,046	**1,936,376**
Net financial assets (liabilities)	521,035	364,322	254,877	(267,356)	41,508	**914,386**
Derivative financial instruments	60,176	(163,956)	(455,558)	559,338	(2,234)	**(2,234)**
Interest rate risk at 31 December 2020	**581,211**	**200,366**	**(200,681)**	**291,982**	**39,274**	912,152

Notes to the Financial Statements

At 31 December 2019 Presented in EUR (000)	Interest bearing 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 due from banks	81,267	-	-	-	4	**81,271**
Deposits in margin accounts	-	-	-	-	5,900	**5,900**
Debt investment securities	153,278	55,000	29,085	182,463	-	**419,826**
Loans	274,438	412,265	648,712	485,526	-	**1,820,941**
Equity investments	-	-	-	-	30,386	**30,386**
Accrued interest receivable	-	-	-	-	24,334	**24,334**
Other assets	-	-	-	-	11,519	**11,519**
Total	508,983	467,265	677,797	667,989	72,143	**2,394,177**
Liabilities						
Borrowings	189,828	294,970	153,646	846,711	11,652	**1,496,807**
Margin accounts	-	-	-	-	4,550	**4,550**
Other and lease liabilities	-	-	-	-	9,669	**9,669**
Total	189,828	294,970	153,646	846,711	25,871	**1,511,026**
Net financial assets (liabilities)	319,155	172,295	524,151	(178,722)	46,272	**883,151**
Derivatives financial instruments	(3,854)	(129,074)	(652,087)	785,015	(3,424)	**(3,424)**
Interest rate risk at 31 December 2019	**315,301**	**43,221**	**(127,936)**	**606,293**	**42,848**	**879,727**

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 as 60% Euro, 30% US dollar and 10% other local currencies. In addition, the Bank's administrative expenses are denominated in Euro, and the Bank's income is typically denominated as 60% Euro, 30% US dollar and 10% other local currency. 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 a 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 2020	At 31 December 2019
Euro	1,386,000	1,124,000
United States dollar	(43,000)	128,000
Total re-pricing gap	1,343,000	1,252,000
Shift of 50 basis points in the EUR curve	**6,716**	**6,259**

Notes to the Financial Statements

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 2020 the Bank's equity investments are classified at FVTOCI, except for one, and are primarily unlisted.

The Bank takes a long-term approach of its equity investments and has no intention of exiting from 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 the Note "Equity investments".

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 of the key operational risks in each business area are comprehensive and primarily bottom-up. They are based on Bank-wide operational risk definitions, that classify risks under a standardize 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 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 (DIT) 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 DIT.

The Bank regularly produces 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.

Notes to the Financial Statements

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.

Fair Value Hierarchy

For the 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	-	26,701	-	**26,701**
Fair value through profit or loss:				
Loans	-	-	12,525	**12,525**
Equity investments	-	-	791	**791**
Fair value through other comprehensive income:				
Debt investment securities	687,961	-	-	**687,961**
Equity investments	-		25,519	**25,519**
Derivative financial instruments – liabilities	-	(28,935)	-	**(28,935)**
At 31 December 2020	**687,961**	**(2,234)**	**38,835**	**724,562**

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 techniques used are 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	-	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	419,826	-	-	**419,826**
Equity investments	-	-	29,588	**29,588**
Derivative financial instruments – liabilities	-	(6,552)	-	**(6,552)**
At 31 December 2019	**419,826**	**(3,424)**	**43,140**	**459,542**

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Fair Value Measurement in Level 3

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

Presented in EUR (000)	At 31 December 2020	At 31 December 2019
At 1 January	12,754	12,277
Total gains/(losses) recognized in the income statement	(229)	477
At end of year	**12,525**	**12,754**

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

Presented in EUR (000)	At 31 December 2020	At 31 December 2019
At 1 January	30,386	27,655
Total gains/(losses) recognized in the income statement	(7)	(217)
Total gains/(losses) recognized in other comprehensive income	(3,577)	4,219
Disbursements	732	825
Repayments	(1,231)	(2,096)
Foreign exchange adjustments	7	-
At end of year	**26,310**	**30,386**

Sensitivity Analysis for Level 3

The table below illustrates the valuation techniques used in the determination of fair values for financial instruments within Level 3 of the measurement hierarchy, and on an estimated 5% increase or decrease in net asset value. The Bank considers that market participants would use the same inputs in pricing the financial assets. Management considers that changing the unobservable inputs described below to reflect other reasonably possible alternative assumptions would not result in a significant change in the estimated fair value.

Presented in EUR (000)	Valuation techniques	Carrying amount	Favorable change	Unfavorable change
Loans	Discounted cash flows models	12,525	626	(626)
Equity investments	Net asset value and EBITDA multiplies	26,310	1,316	(1,316)
At 31 December 2020		**38,835**	**1,942**	**(1,942)**

Presented in EUR (000)	Valuation techniques	Carrying amount	Favorable change	Unfavorable change
Loans	Discounted cash flows models	12,754	638	(638)
Equity investments	Net asset value and EBITDA multiplies	30,386	1,519	(1,519)
At 31 December 2019		**43,140**	**2,157**	**(2,157)**

Loans at fair value through profit or loss mainly comprise convertible loans or loans with an element of performance-based return. The inputs into the models could include comparable pricing, interest rates, discounts rates, average cost of capital, probability of default and loss given default.

Equity investments comprises the Bank's equity funds and equity participations. The main valuation models used to determine the fair value of these financial assets are NAV and EBITDA models.

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different fair value results.

Notes to the Financial Statements

Financial Instruments not Measured at Fair Value

The table below classifies the Bank's financial instruments that were not carried at fair value into three levels reflecting the relative reliability of the measurement bases, with level 1 as the most reliable.

	At 31 December 2020				
Presented in EUR (000)	Level 1	Level 2	Level 3	**Carrying Amount**	Fair value
Assets					
Cash and due from banks	34,328	-	-	**34,328**	34,328
Deposits in margin accounts	26,240	-	-	**26,240**	26,240
Loans at amortized cost	267,588	-	1,762,808	**2,030,396**	2,040,565
Accrued interest receivable	-	-	23,512	**23,512**	23,512
Other assets	-	-	9,490	**9,490**	9,490
Total financial assets	**328,156**	**-**	**1,795,810**	**2,123,966**	**2,134,135**
Liabilities					
Borrowings	315,992	1,585,722	-	**1,901,714**	1,925,648
Margin accounts	22,920	-	-	**22,920**	22,920
Other and lease liabilities	-	11,742	-	**11,742**	11,742
Total financial liabilities	**338,912**	**1,597,464**	**-**	**1,936,376**	**1,960,310**

	At 31 December 2019				
Presented in EUR (000)	Level 1	Level 2	Level 3	**Carrying amount**	Fair Value
Assets					
Cash and due from banks	81,271	-	-	**81,271**	81,271
Deposits in margin accounts	5,900		-	**5,900**	5,900
Loans at amortized cost	175,367	-	1,632,820	**1,808,187**	1,821,760
Accrued interest receivable	-	-	24,334	**24,334**	24,334
Other assets	-	-	11,519	**11,519**	11,519
Total financial assets	**262,538**	**-**	**1,668,673**	**1,931,211**	**1,944,784**
Liabilities					
Borrowings	246,437	1,250,370	-	**1,496,807**	1,518,814
Margin accounts	4,550	-	-	**4,550**	4,550
Other and lease liabilities	-	9,669	-	**9,669**	9,669
Total financial liabilities	**250,987**	**1,260,039**	**-**	**1,511,026**	**1,533,033**

Level 1 classifies financial instruments whose values are based on quoted prices for the same instrument in active markets. Level 2 classifies financial instruments that can trade in markets, which are not considered to be active, but are valued based or alternatively supported by observable inputs. Level 3 classifies financial instruments that have significant unobservable inputs, and as observable prices are not available the Bank will use valuation techniques to derive the fair value.

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.

Notes to the Financial Statements

Pursuant to Resolution 131 of the BoG, that 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.

The Bank determines required share capital as the potential losses the Bank may incur based on probabilities consistent with the Bank's credit rating. The main risk categories assessed under the share capital adequacy framework are credit risk, market risk and operational risk, and such total risks are managed within the available share capital base that excludes callable share capital, while maintaining a prudent cushion. A main objective of this framework is to manage the Bank's share capital by providing a consistent measurement of capital headroom over time. The Bank has no expectation for callable share capital to be called, and will prevent this need and use only available risk share capital as reserves, surplus and paid-in.

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 2.5 billion.

Overall, 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.

Notes to the Financial Statements

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. Information on the financial performance of lending and treasury activities is prepared regularly and provided to the President, the Bank's chief operating decision-maker.

	2020			2019		
Presented in EUR (000)	Lending	Treasury	Total	Lending	Treasury	Total
Income statement						
Interest income	88,338	9,518	97,856	82,707	11,262	93,969
Net fees and commissions	2,040	-	2,040	947	20	967
Other income (expense)	444	(1,752)	(1,308)	272	119	391
Total segment revenues	90,822	7,766	98,588	83,926	11,401	95,327
Interest expense	(60,442)	(606)	(61,048)	(52,762)	(512)	(53,274)
Net interest income (expense) on derivatives	-	7,427	7,427	-	(4,113)	(4,113)
Gains (losses) on other financial instruments	7,174	(2,049)	5,125	260	-	260
Foreign exchange	-	78	78	-	(1,067)	(1,067)
Personnel and administrative expenses	(18,697)	(1,561)	(20,258)	(19,474)	(1,471)	(20,945)
Depreciation and amortization	(515)	(10)	(525)	(563)	(9)	(572)
Segment income before impairment	18,342	11,045	29,387	11,387	4,229	15,616
Less: impairment / fair value (losses)	(12,894)	(2,278)	(15,172)	(1,841)	(111)	(1,952)
Net income for the year	**5,448**	**8,767**	**14,215**	**9,546**	**4,118**	**13,664**

	31 December 2020			31 December 2019		
Presented in EUR (000)	Lending	Treasury	Total	Lending	Treasury	Total
Financial position						
Segment assets	2,033,789	775,230	2,809,019	1,837,862	510,125	2,347,987
At end of year			**2,809,019**			**2,347,987**
Segment liabilities	1,913,456	51,855	1,965,311	1,506,476	11,102	1,517,578
Members' equity	-	-	843,708	-	-	830,409
At end of year			**2,809,019**			**2,347,987**

Notes to the Financial Statements

Segment Revenues – Geographic

The Bank's revenues arise from the following areas:

Presented in EUR (000)	Year to 31 December 2020	Year to 31 December 2019
Albania, Bulgaria and Greece	17,522	17,348
Armenia, Azerbaijan, Georgia and Turkey	41,696	37,058
Moldova, Romania, Russian Federation and Ukraine	31,604	29,520
Treasury	7,766	11,401
Total segment revenues	**98,588**	**95,327**

7. INTEREST AND SIMILAR INCOME

Interest and similar income is analyzed as follows:

Presented in EUR (000)	Year to 31 December 2020	Year to 31 December 2019
From loans at amortized cost	87,826	82,195
From due from banks	95	41
From debt securities at FVTOCI	9,423	11,221
Total interest income for financial instruments not measured at FVTPL	97,344	93,457
From loans at FVTPL	512	512
Interest and similar income	**97,856**	**93,969**

8. INTEREST AND SIMILAR EXPENSE

Interest and similar expense is analyzed as follows:

Presented in EUR (000)	Year to 31 December 2020	Year to 31 December 2019
From borrowed funds	7,191	7,770
From issued debt	53,251	44,992
From other charges	606	512
Interest and similar expense	**61,048**	**53,274**

9. NET INTEREST ON DERIVATIVES

Net interest on derivatives is analyzed as follows:

Presented in EUR (000)	Year to 31 December 2020	Year to 31 December 2019
Interest on derivatives receivable	51,223	35,900
Interest on derivatives payable	(43,796)	(40,013)
Net interest on derivatives	**7,427**	**(4,113)**

Notes to the Financial Statements

10. NET FEES AND COMMISSIONS

Net fees and commissions is analyzed as follows:

Presented in EUR (000)	Year to 31 December 2020	Year to 31 December 2019
Guarantee fees	579	356
Management fees	448	408
Appraisal fees	8	30
Administration fees	54	26
Participation fees	123	-
Surveillance fees	51	57
Prepayment / cancellation fees	718	20
Other fees	59	70
Net Fees and commissions	**2,040**	**967**

11. PERSONNEL AND ADMINISTRATIVE EXPENSES

Administrative expenses is analyzed as follows:

Presented in EUR (000)	Year to 31 December 2020	Year to 31 December 2019
Salaries and benefits	12,761	12,819
Staff retirement plans	3,336	2,939
Personnel expenses	**16,097**	**15,758**
Professional fees and related expenses	1,355	1,328
Utilities and maintenance	1,557	1,606
Other administrative	1,249	2,253
Administrative expenses	**4,161**	**5,187**

The average number of staff employed during the year was 114 (2019: 112). The number of staff at 31 December 2020 was 115 (2019: 113). Further analysis of the staff retirement plan is presented in the Note “Employee benefits”.

12. 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 2018	3,520	4,274	26,981	34,775
Charge/release for the year	(629)	1,712	7,456	8,539
At 31 December 2019	2,891	5,986	34,437	43,314
Charge/release for the year	12,608	(2,931)	2,946	12,623
At 31 December 2020	**15,499**	**3,055**	**37,383**	**55,937**

Notes to the Financial Statements

At each reporting date, the Bank recognizes loss allowances based on either 12-month ECL or lifetime ECL, depending on the state of the loan.

Total impairment losses on loans was EUR 55,937 thousand in 2020, an increase of EUR 12,623 thousand compared to 2019. The increase was primarily driven by negative impacts from the Covid-19 pandemic. Included in this amount is a post model adjustment of EUR 7,538 thousand which the Bank considered necessary due to the Covid-19 pandemic affecting the region of the Bank's operations. The increase in Expected Credit Loss (ECL) for Stage 1 is mainly attributed to the impact of the Covid-19 pandemic, driven by the deteriorating macroeconomic scenarios used for some member countries. The increase amount in Stage 3 is due to the deterioration of a few loans reducing their carrying amount.

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. 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.

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 is considered the relevant date to assess if there is any increase in credit risk, as at that point in time. Following this, 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 2020 the amount of expected credit losses was EUR 983 thousand for loan commitments of EUR 245,143 thousand (2019: EUR 311 thousand for loan commitments of EUR 335,959 thousand).

Notes to the Financial Statements

13. DEBT INVESTMENT SECURITIES

Debt investment securities are analyzed as follows:

Presented in EUR (000)	At 31 December 2020	At 31 December 2019
Bonds	291,179	216,909
Commercial papers	396,782	202,917
Debt investment securities	**687,961**	**419,826**

14. DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the Bank's outstanding derivative financial instruments. 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.

	At 31 December 2020		
Presented in EUR (000)	Notional amount of derivative contracts	Fair value	
		Assets	Liabilities
Interest rate swaps	801,225	1,625	(11,548)
Cross currency swaps	902,619	23,499	(16,397)
Forwards	83,433	1,577	(990)
Cap floors	160,000	-	-
Derivative financial instruments	**1,947,277**	**26,701**	**(28,935)**

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.

Notes to the Financial Statements

15. 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 2020	At 31 December 2019
Loans at amortized cost:		
At 1 January	1,808,187	1,318,418
Disbursements	783,932	871,130
Less: repayments	(482,661)	(381,756)
Write-offs	-	-
Foreign exchange movements	(79,062)	395
Outstanding disbursements	2,030,396	1,808,187
Less: deferred income	(13,813)	(8,170)
Less: impairment losses	(55,937)	(43,314)
Loans at fair value:		
Outstanding disbursements	14,939	14,939
Fair value adjustment	(2,414)	(2,185)
Loans net of impairment	**1,973,171**	**1,769,457**

At 31 December 2020 the principal amount of outstanding disbursements was EUR 2,045,335 thousand (2019: EUR 1,823,126 thousand).

For the year ended the amount of accrued interest receivable pertaining to loans was EUR 19,671 thousand (2019: 17,006 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 2020	At 31 December 2019
Stage 1	1,720,472	1,484,999
Less: deferred income	(13,813)	(8,170)
Less: allowance for impairment	(15,499)	(2,891)
Carrying amount	1,691,160	1,473,938
Stage 2	231,532	272,290
Less: allowance for impairment	(3,055)	(5,986)
Carrying amount	228,477	266,304
Stage 3	78,392	50,898
Less: allowance for impairment	(37,383)	(34,437)
Carrying amount	41,009	16,461
Fair value through profit or loss	12,525	12,754
Carrying amount	**1,973,171**	**1,769,457**

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%. Further analysis of the loan portfolio is presented in Note "Risk management".

Notes to the Financial Statements

16. 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 2020		At 31 December 2019	
Presented in EUR (000)	% of Investment	Cost	Fair Value	Cost	Fair value
Balkan Accession Fund	9.09	-	791	-	798
At fair value through profit or loss		-	791	-	798
SEAF Caucasus Growth Fund	21.39	5,074	4,954	5,423	4,270
Access Bank, Azerbaijan	0.06	722	85	792	232
A-Park Kaluga, Russia	19.99	1,714	940	1,714	785
Emerging Europe Accession Fund	10.14	2,194	5,685	2,204	5,524
Rusal	0.01	4	161	4	185
ADM Ceecat Recovery Fund	5.37	3,901	3,059	4,285	4,966
European Virgin Fund	21.05	6,253	10,258	7,673	13,236
Teamnet International	8.33	5,599	-	5,599	-
Natfood	37.98	-	-	-	-
EOS Hellenic Renaissance Fund	2.53	1,055	377	498	390
At fair value through other comprehensive income		26,516	25,519	28,192	29,588
Equity investments at fair value		**26,516**	**26,310**	**28,192**	**30,386**

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 2020, 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 received dividend income of EUR 164 thousand from its investment in the A-Park Kaluga Fund, and realized a net income of EUR 284 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 2020 the Bank has a committed amount of EUR 6,962 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 2020 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 investments are not accounted for as an investment in an associate under IAS 28.

Notes to the Financial Statements

17. OTHER ASSETS

Other assets is analyzed as follows:

Presented in EUR (000)	At 31 December 2020	At 31 December 2019
Advances and prepaid expenses	4,068	6,165
Other prepayments	187	187
Other financial assets	5,160	5,097
Guarantee deposits	75	70
Other assets	**9,490**	**11,519**

18. PROPERTY AND EQUIPMENT

Property and equipment is analyzed as follows:

Presented in EUR (000)	Buildings (leasehold)	Vehicle	Furniture and office accessories	Computers and office equipment	Total
Cost					
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
Additions	3	-	40	168	211
Disposals	-	-	-	-	-
At 31 December 2020	**885**	**150**	**643**	**1,943**	**3,621**
Accumulated depreciation					
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
Charges	15	30	40	186	271
Disposals	-	-	-	-	-
At 31 December 2020	**874**	**108**	**561**	**1,649**	**3,192**
Net book value					
At 31 December 2020	**11**	**42**	**82**	**294**	**429**
At 31 December 2019	23	72	82	312	489
At 31 December 2018	40	51	82	282	455

Notes to the Financial Statements

19. INTANGIBLE ASSETS

Intangible assets comprising computer software is analyzed as follows:

Presented in EUR (000)	Total
Cost	
At 31 December 2018	4,559
Additions	83
At 31 December 2019	4,642
Additions	130
At 31 December 2020	**4,772**
Accumulated amortization	
At 31 December 2018	3,906
Charges	314
At 31 December 2019	4,220
Additions	254
At 31 December 2020	**4,474**
Net book value	
At 31 December 2020	**298**
At 31 December 2019	422
At 31 December 2018	653

Notes to the Financial Statements

20. BORROWINGS

Borrowing facilities and bond issues debt evidenced by certificates, 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 2020		At 31 December 2019	
Presented in EUR (000)	Amount used	Amount arranged	Amount Used	Amount arranged
Borrowed by				
Short-term	111,120	111,120	83,675	83,675
Financial institutions	315,992	406,738	240,206	379,221
Evidenced by certificates	1,465,218	1,465,218	1,161,274	1,161,274
Accrued interest payable	9,384	-	11,652	-
Total	**1,901,714**	**1,983,076**	**1,496,807**	**1,624,170**
Denomination by				
Euro	339,581	389,581	96,477	146,477
United States dollar	1,038,768	1,079,514	1,029,024	1,118,039
Swiss franc	185,223	185,223	184,366	184,366
Romanian lei	173,046	173,046	82,023	82,023
Azerbaijan manat	4,841	4,841	5,415	5,415
Georgian lari	67,109	67,109	84,125	84,125
Armenian dram	-	-	3,725	3,725
Czech koruna	34,296	34,296	-	-
Hungarian forint	49,466	49,466	-	-
Accrued interest payable	9,384	-	11,652	-
Total	**1,901,714**	**1,983,076**	**1,496,807**	**1,624,170**
Maturity by				
Short-term, within one year	579,700	579,700	124,727	124,737
Long-term, over one year	1,312,630	1,403,376	1,360,418	1,499,433
Accrued interest payable	9,384	-	11,652	-
Total	**1,901,714**	**1,983,076**	**1,496,807**	**1,624,170**

The interest rate on borrowings falls within a range of Euribor or USD Libor of plus 0 to 485 basis points. There is no collateral against the above borrowed funds.

During the year the Bank redeemed a part of an issued bond prior to maturity of approximately USD 92,353 thousand generating a net loss of EUR 2,049 thousand (2019: nil) that was recognized in the income statement.

Notes to the Financial Statements

21. OTHER LIABILITIES

Other liabilities is analyzed as follows:

Presented in EUR (000)	At 31 December 2020	At 31 December 2019
Social insurance fund (EFKA) contributions	3	3
Pension plan obligation	10,229	7,536
Suppliers and other accrued expenses	1,068	1,012
Other	59	59
Other liabilities	**11,359**	**8,610**

22. 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 2020, is analyzed as follows:

Presented in EUR (000)	Total
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 administrative expenses	(676)
Lease liability at 31 December 2019	1,059
Lease payments recognized in administrative expenses	(676)
Lease liability at 31 December 2020	**383**

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.

Notes to the Financial Statements

23. 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 shall remain liable for its direct obligations to the Bank, and also remain responsible for its contingent liabilities to the Bank, incurred as of that date. No member has ever withdrawn its membership, nor has any ever indicated to the Bank it might do so. Were a member to withdraw from the Bank, at the time a member ceases membership, the Bank shall arrange for the repurchase of such a member's shares by the Bank as part of the settlement of accounts with such a member, and be able to impose conditions and set dates pursuant to the same Article 39 of the Establishing Agreement. Any amount due to the member for its shares shall be withheld so long as the member, including its central bank or any of its agencies, has outstanding obligations to the Bank, which may, at the option of the Bank, be applied to any such liability as it matures.

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

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

All participating members had fully subscribed to the initial authorized share capital in accordance with Article 5 of the Establishing Agreement. Subsequently, at the Sixth Annual Meeting of the Board of Governors held on 6 June 2004 three Member States, Armenia, Georgia and Moldova requested a 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.

Notes to the Financial Statements

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 2020	At 31 December 2019
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)
Paid-up share capital	686,550	686,550
Advance against future call	-	-
Paid-in share capital	**686,550**	**686,550**

*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.

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

	At 31 December 2020		
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**

Notes to the Financial Statements

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**

24. RESERVES

Reserves are analyzed as follows:

Presented in EUR (000)	General	Revaluation reserve	Other	Total
At 31 December 2018	66,051	(32,374)	(720)	32,957
Gains (losses) on revaluation of investments	-	16,737	-	16,737
Actuarial (losses) gains on 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
Gains (losses) on revaluation of investments	-	1,120	-	1,120
Actuarial (losses) gains on defined benefit scheme	-	-	(2,036)	(2,036)
Transferred from retained earnings	5,205	-	-	5,205
At 31 December 2020	**78,591**	**(14,517)**	**(5,776)**	**58,298**

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. The other reserve primarily contains the remeasurements of the Bank's defined benefit pension scheme.

Notes to the Financial Statements

25. CASH AND CASH EQUIVALENTS

Cash and cash equivalents is analyzed as follows:

Presented in EUR (000)	At 31 December 2020	At 31 December 2019
Cash on hand	2	4
Due from banks	34,326	81,267
Investments maturing up to 1 month:		
At fair value through other comprehensive income portfolio	86,782	147,917
Investment maturing from 1 month to 3 months:		
At fair value through other comprehensive income portfolio	151,556	55,000
Cash and cash equivalents	**272,666**	**284,188**

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.

Notes to the Financial Statements

26. EMPLOYEE BENEFITS

Under the Defined Benefit Scheme

If separated 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), a 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 2020. 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 2020	At 31 December 2019
Amounts recognized in the statement of financial position		
Present value of the defined benefit obligations	34,427	30,736
Fair value of plan assets	(24,198)	(23,200)
Net liability at end of the year	**10,229**	**7,536**
Amounts recognized in the income statement		
Service cost	2,115	1,752
Net interest on the net defined benefit liability/(asset)	84	70
Administration expense	49	49
Total included in personnel expenses	**2,248**	**1,871**
Remeasurements recognized in other comprehensive income		
At 31 December	(7,327)	(4,307)
Liability gain (loss) due to changes in assumptions	(2,819)	(4,745)
Liability experiences gain (loss) arising during the year	319	(296)
Return on plan assets excluding income statement amounts	464	2,021
Total amount recognized in OCI during the year	(2,036)	(3,020)
Cumulative in other comprehensive income (expense)	**(9,363)**	**(7,327)**
Principal actuarial assumptions used		
Discount rate	0.80%	1.22%
Expected return on plan assets	0.80%	1.22%
Future salary increase	1.00%	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 0.80% 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 2020	At 31 December 2019
Major categories of plan assets		
Cash instruments	12%	17%
Fixed interest	47%	43%
Equities	37%	36%
Other	4%	4%
Reconciliation of plan assets		
Market value at 1 January	23,200	20,474
Expected return	290	427
Contributions paid	1,591	1,326
Benefit pensions and lump sum paid to pensioners	(1,298)	(999)
Expenses	(49)	(49)
Asset gain (loss)	464	2,021
Fair value of plan assets	**24,198**	**23,200**

The actual investment return on assets of the Fund for the year was 3.7%. 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 2021 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)	2020	2019	2018	2017	2016
Defined benefit obligations	34,427	30,736	24,445	27,111	25,021
Plan assets	(24,198)	(23,200)	(20,474)	(21,879)	(20,373)
Plan deficit (surplus)	10,229	7,536	3,971	5,232	4,648
Net experience adjustments on plan liabilities (assets)	**(319)**	**296**	**359**	**(419)**	**4,032**

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 2020		At 31 December 2019	
Presented in EUR (000)	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	(3,303)	3,303	(3,573)	3,573
Future salary growth (1% movement)	2,381	(2,381)	1,872	(1,872)

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.

Notes to the Financial Statements

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 1,073 thousand (2019: EUR 1,050 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 15 thousand (2019: EUR 18 thousand) and is included in 'Personnel expense'.

27. 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 1,257 thousand (2019: EUR 1,783 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 the year the Bank administered one special fund. Extracts from the audited financial statements are included under the Note 'Summary of special funds'.

Notes to the Financial Statements

28. RESTATEMENT OF PRIOR YEAR ACCOUNTS

The Bank has restated the prior year accounts for presentation purposes under IAS 1 and IFRS 7.

STATEMENT OF FINANCIAL POSITION

Presented in thousands of EUR	Published	Restatement	Restated
Assets			
Cash and due from banks	82,621	(1,350)	81,271
Deposits in margin accounts	-	5,900	5,900
All other assets	2,260,816	-	2,260,816
Total Assets	**2,343,437**	**4,550**	**2,347,987**
Liabilities			
Margin accounts	-	4,550	4,550
All other liabilities	1,513,028	-	1,513,028
Total liabilities	1,513,028	4,550	1,517,578
Total members' equity	830,409	-	830,409
Total Liabilities and Members' Equity	**2,343,437**	**4,550**	**2,347,987**

29. EVENTS AFTER THE REPORTING PERIOD

There have been no material events since the reporting period that would require adjustment to these financial statements.

Notes to the Financial Statements

30. 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 2020	At 31 December 2019
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**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and the Board of 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 (the Bank), which comprise the statement of financial position as at 31 December 2020 and the statements of income and comprehensive income, changes in equity and 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 Black Sea Trade and Development Bank as at 31 December 2020, 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) as these have been incorporated into Greek legislation. 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 have been independent of the Bank during the whole period of our appointment in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as incorporated into Greek legislation and the ethical requirements in Greece relevant to the audit of the financial statements and we have fulfilled our ethical requirements in accordance with the applicable legislation and the above mentioned Code of Ethics. 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 year. These matters and the assessed risks of material misstatements 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.

Deloitte.

Key audit matter	How the matter was addressed in our audit
Expected Credit Loss on Loans at amortized cost	
Loans at amortized cost of the Bank amounted to EUR 2,030 million as at 31 December 2020 (EUR 1,808 million as at 31 December 2019) and loss impairment to EUR 56 million (EUR 43 million as at 31 December 2019) as presented on the Statement of Financial Position. The Bank measures Expected Credit Losses (ECL) for loans at amortized cost both on an individual and a collective basis. The estimation of ECL on loans at amortized cost is considered a key audit matter as it is a complex calculation that involves the use of a number of assumptions and parameters such as probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) as well as assumptions around the inputs used and probability weight of the multiple economic scenarios. Significant Management judgements also relates to the criteria used for the staging assessment of loans at amortized cost. Management provided further information about principles and accounting policies for determining the allowance for impairment on loans at amortized cost and the management of credit risk in notes 3.6, 5, 12 and 15 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 obtained an understanding of the procedures and evaluated the design and implementation of relevant internal controls within the business process. - we assessed the appropriateness of the Bank's IFRS 9 impairment methodologies. - with the support of our internal financial risk modeling specialists we assessed the reasonableness of Management's assumptions and input data used in the model, including the analysis of the forecasted macroeconomic variables. We tested the mechanical elements of the calculations such as the EAD, the PD and stage allocation and reperformed the calculation of the ECL on a sample basis. - we tested the accuracy and completeness of critical data used in the ECL calculation by agreeing a sample of ECL calculation data points to source systems or documentation. - on a sample basis we assessed the reasonableness of the estimated expected credit loss for the individually assessed credit impaired exposures. - we assessed the appropriateness of any post model adjustment. We assessed the adequacy and completeness of the Bank's disclosures in respect of credit risk, structure and quality of loan portfolio and impairment allowance in accordance with IFRS 9.

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.

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 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. If, based on the work we have performed, we conclude that there is a material misstatement in this other information, we are required to report that fact. We have nothing to report in this regard.

Deloitte.

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.

The Audit Committee of the Bank is 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, as these have been incorporated into Greek legislation, 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, as these have been incorporated into Greek legislation, 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.

Athens, 20 May 2021

The Certified Public Accountant

Alexandra Kostara
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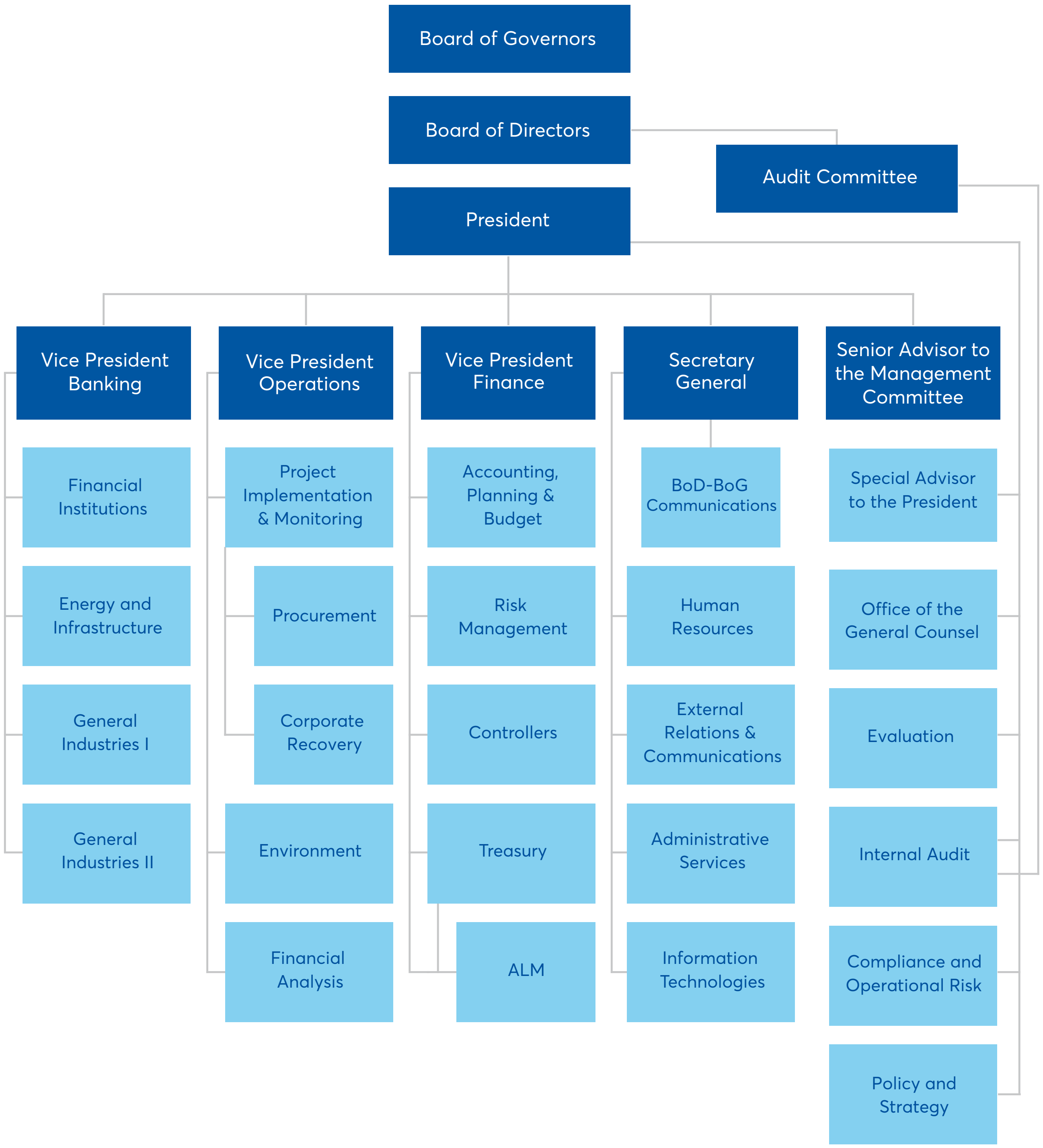
ANNEX A
ORGANIZATIONAL CHART



As of 31 December 2020

ANNEX B
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