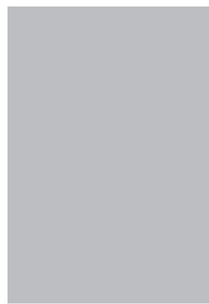
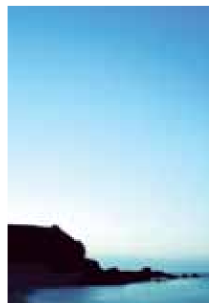
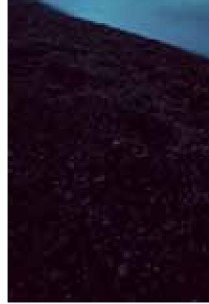
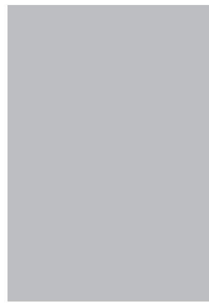




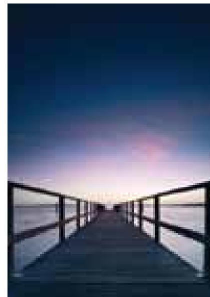
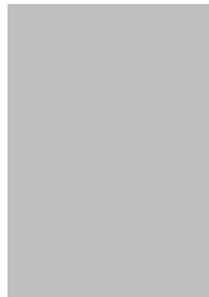
Black Sea Trade & Development Bank



Looking Through the Stormy Skies with Confidence



Annual Report 2009

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Contact BSTDB

Board of Governors

As of 31 December 2009

Republic of Albania
Governor:
Mr. Sherefedin Shehu
Member of Parliament
Alternate Governor:
Mr. Xhentil Demiraj
General Director,
General Debt Management Directorate,
Ministry of Finance

Republic of Armenia
Governor:
Mr. Athrur Javadyan
Chairman, Central Bank of Armenia
Alternate Governor:
Mr. Vahe Vardanyan, Director,
Financial Sector Policy & Analysis
Department, Central Bank of Armenia

Republic of Azerbaijan
Governor:
Mr. Samir Sharifov, Minister,
Ministry of Finance
Alternate Governor:
Mr. Shahin Mustafayev, Minister,
Ministry of Economic Development

Republic of Bulgaria
Governor:
Ms. Silvia Indjova Vassikova
Director, National Fund Directorate,
Ministry of Finance
Alternate Governor:
Mr. Stefan Sotirov
Head, European Financial Institutions
Division, External Finance and
International Cooperation Directorate,
Ministry of Finance

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

Hellenic Republic
Governor:
Mr. Ioannis Sidiropoulos
General Secretary,
Ministry of Economy and Finance
Alternate Governor:
Mr. Konstantinos Kollias, Special
Secretary for Privatization,
Ministry of Economy and Finance

Republic of Moldova
Governor:
Mr. Veaceslav Negruta, Minister,
Ministry of Finance
Alternate Governor:
position vacant

Romania
Governor:
Mr. Gheorghe Pogea, Minister,
Ministry of Public Finance
Alternate Governor:
Mr. Bogdan Alexandru Dragoi
Secretary of State,
Ministry of Public Finance

Russian Federation
Governor:
Mr. Dmitry Pankin, Deputy Minister,
Ministry of Finance
Alternate Governor:
Mr. Dmitri Levchenkov, Director,
Investment Policy Department,
Ministry of Economic Development

Republic of Turkey
Governor:
Mr. Ibrahim Canakci
Undersecretary of Treasury,
Undersecretariat of Treasury
Alternate Governor:
Mr. Cavit Dagdas
Deputy Undersecretary of Treasury,
Undersecretariat of Treasury

Ukraine
Governor:
Mr. Bogdan Danylyshyn, Minister,
Ministry of Economy
Alternate Governor:
Mr. Anatoliy Shapovalov
First Deputy Governor
National Bank of Ukraine

Board of Directors

As of 31 December 2009

Republic of Albania
Director:
Mr. Nezir Haldeda, Deputy Minister,
Ministry of Finance
Alternate Director:
Ms. Anila Cili, Financial Management,
Treasury Department,
Ministry of Finance

Republic of Armenia
Director:
Mr. Vardan Aramyan
Deputy Minister, Ministry of Finance
Alternate Director:
Mr. Nerses Mkrtchian
Director of International Economic
Cooperation Department,
Ministry of Foreign Affairs

Republic of Azerbaijan
Director:
Mr. Mikayil Jabbarov, Director,
Administration of State Historical
Architectural Reserve "Icherisheher",
Cabinet of Ministers of the Republic of
Azerbaijan
Alternate Director:
Mr. Zaur Gasimov, Acting Head,
Department of Foreign Economic
Relations, Ministry of Economic
Development

Republic of Bulgaria
Director:
Ms. Milena Boikova, Director,
Government Debt & Financial Markets
Directorate, Ministry of Finance
Alternate Director:
Mr. Nikola Sherletov, Parliamentary
Secretary, Ministry of Finance

Georgia
Director:
Mr. Dimitri Gvindadze
Deputy Minister,
Ministry of Finance
Alternate Director:
position vacant

Hellenic Republic
Director:
Mr. Dimitrios Giannos
Director General, General Directorate for
International Economic Policy,
Ministry of Economy and Finance
Alternate Director:
Ms. Zoe Driva Evangelopoulou
Director, Administration,
Ministry of Economy and Finance

Republic of Moldova
Director:
Ms. Elena Matveeva
Director of Public Debt Department,
Ministry of Finance
Alternate Director:
Ms. Ina Gorea, Head of External
Cooperation Division,
Ministry of Finance

Romania
Director:
Ms. Diana Peligrad Blindu,
Head Operations I, General Directorate
for Treasury & Public Debt,
Ministry of Economy & Finance
Alternate Director:
Mr. Stefan Petrescu,
Head of Operation Division,
External Public Finance,
Ministry of Economy & Finance

Russian Federation
Director:
Mr. Alexander Gorban, Director of
Economic Cooperation Department,
Ministry of Foreign Affairs
Alternate Director:
position vacant

Republic of Turkey
Director:
Mr. Memduh Akcay
Director General of Foreign
Economic Relations,
Undersecretariat of Treasury
Alternate Director:
Mr. Mustafa Boran,
Deputy General Director of Foreign
Economic Relations,
Undersecretariat of Treasury

Ukraine
Director:
Mr. Valeriy Pyatnytskiy
Deputy Minister,
Ministry of Economy
Alternate Director:
Mr. Volodymyr Lytvyn
Deputy Minister,
Ministry of Finance

Audit Committee

As of 31 December 2009

Ms. Diana Blindu, Director for Romania, **Chairperson**
Mr. Vardan Aramyan, Director for Republic of Armenia, **Acting Chairman**
Mr. Dmitri Gvindadze, Director for Georgia, **Member**
Mr. Stefan Petrescu, Alternate Director for Romania, **Member**
Mr. Mikail Jabbarov, Director for the Republic of Azerbaijan, **Member**

Management

As of 31 December 2009

Vitalii Mygashko
Vice President Operations

Sophia Kassidova
Vice President Finance

Hayrettin Kaplan
President
Chairman of the
Board of Directors

Andrey Kondakov
Vice President Banking

George Kottas
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 2009 as endorsed by the Board of Directors. The Eleventh Annual Report also contains the Bank's financial statements; separate financial statements for the operations of the Bank's Special Funds have also been issued, as prescribed in Section 12 of the Bank's By-Laws.

Hayrettin Kaplan
Chairman of the Board of Directors
President
Black Sea Trade and Development Bank

Statement by the President

Hayrettin Kaplan
President

The Black Sea Region proved to be among the hardest hit from the global financial crisis of 2008 and its subsequent economic recession. Although the financial systems for the most part were saved from the initial freezing up and near collapse of global credit markets, the resulting contagion brought a nasty economic downturn that resulted in a real economic contraction of -6.5% of GDP for 2009. Over the course of the year, countries suffered credit rating downgrades, slowdowns in exports and financial inflows, and increases in government deficit and debt levels. Even more worryingly, unemployment rates and other social indicators such as poverty rates deteriorated after years of steady improvement.

While the impact of the crisis was undoubtedly negative, it also gave the Region an opportunity to demonstrate its resilience and adaptability. In most countries, the lowest point in the downturn came in the second quarter of 2009, and by the end of the year there was cautious optimism about some recovery in 2010 with low but positive rates of growth. Prospects for a return to sustained growth have improved, and while it is unlikely that they would approach the levels observed between 2000-2008 when real GDP on average increased, they should be positive and higher than the rates of growth observed in Western Europe thus returning to the path of convergence in income and living standards observed in previous years.

The Black Sea Trade and Development Bank entered 2009 in this environment of great uncertainty, and responded to the impact of the crisis by seeking to preserve its achievements to date and to safeguard its interests and those of its shareholders, so as to be able to fulfill its mandate on a long term basis. In practice, this meant being cautious with respect to provision of new financing, focusing primarily on maintaining the high quality of the existing portfolio and seeking to consolidate activities and improve effectiveness after several years of rapid operational growth.

This plan of action was applied consistently throughout the year, and particularly in the first half new lending played a secondary role. Instead, supervision of operations intensified, potential problems were identified and a number of operations were proactively restructured in order to support otherwise creditworthy clients who were suffering difficulties due to the nature of the crisis and its negative impact on access to credit. The Bank also undertook strategic reflection of its role and position in the Region, and prepared its Long-Term Strategic Framework 2010-2020 document that was approved by its Board of Governors in June. This document outlines a return to the sustained but managed growth that characterized Bank activity in recent years and envisions scenarios under which the Bank may sustainably and profitably grow at 10-15% on an annual basis, while increasing its involvement in cross-country projects which benefit two or more member countries, and more infrastructure related operations in the public and quasi-public sectors to complement its already robust portfolio in the private sector, with banks, firms and small and medium enterprises active in the Black Sea Region.

The Bank also monitored global and regional developments closely so as to be in position to react promptly to rapidly evolving conditions in global credit markets, and resume its core activity of financing projects which promote economic development and regional cooperation. As markets overcame their high risk aversion and returned to a degree of functionality, BSTDB embarked on its debut bond issue in May for USD 125 million (approx. SDR 80 million) with a three year tenor.

In June, the Bank celebrated its 10th year anniversary in Thessaloniki together with other international financial institutions, observers, and representatives from the Region's business community. Continued improvement in credit markets made it possible for the Bank to gear up lending activities in the second half. Effectively, the Bank began to return to its established strategy of selective and managed expansion. For the full year, new Board approvals reached approximately SDR 146 million and new signings reached approximately SDR 96 million. This brought the overall active portfolio of operations to approximately SDR 582 million at end 2009. While these figures represent decreases relative to 2008, the conservative approach permitted the Bank to maintain healthy profitability and a high quality portfolio of operations in line with the expressed desires of member countries. For the year, income before provisions decreased by 46% relative to 2008 to SDR 9.4 million, while net income was down 26% to SDR 9.7 million.

For the Bank, 2009 represented the close of its first decade of operations, a period during which it has grown in size and stature in the Black Sea marketplace. BSTDB has established a track record of quality and reliability with its clients, and it has generated value added for its shareholders- the member countries in which it operates and to which it belongs. This is underscored by the decision of the shareholders to double the capital of the Bank in 2008, and as those resources begin to arrive in 2010 they will permit the Bank not only to expand its operational activities but also to increase the leveraging of those resources in order to attract additional financing from official, international and private entities wishing to become more active in the Black Sea Region.

This expansion in turn is predicated upon the ability of BSTDB to respond quickly and efficiently to the requests and requirements of clients, thus ensuring its continued relevance and success. To further improve internal procedures, the Bank will continue with efforts to improve the alignment of organization with strategy, and to measure performance against operational targets. This process will be aided by the adoption of the Balanced Scorecard concept, which translates the mission and strategy of business units into tangible objectives and measures, and which should be implemented and adopted by the end of 2010. As a consequence, it will permit the Bank to maintain high standards of quality in its operations, even as it expands, and to prioritize those which best meet its dual mandate of promoting economic development and regional cooperation.

Hayrettin Kaplan
Chairman of the Board of Directors
President
Black Sea Trade and Development Bank

Our Development Highlights 1999-2009

BSTDB was established by the 11 countries of the Black Sea Economic Cooperation (BSEC) as a financial pillar of BSEC with a dual mandate to assist economic development of the member countries and to promote regional cooperation.

BSTDB has developed its strategy, operational policies and product range to meet the needs of its shareholders and clients in the Region. The Bank continues to increase its role and contribution to the regional development and is recognized as a reliable partner by regional investors and co-financiers.

Since 1999, the BSTDB provided financing for 169 operations in all its member countries to the total cumulative amount of USD 2.1 billion. As of end 2009, the Bank's portfolio included 102 operations with the amount of outstanding financing of USD 908 million.

BSTDB received an initial international credit rating of Baa2 from Moody's in 2004. In 2006 the rating was upgraded to Baa1 reflecting the Bank's strong financial fundamentals, shareholders' support and high qualification of the management and staff. Following the decision on the BSTDB capital increase, Moody's upgraded the rating outlook from stable to positive in December 2007.

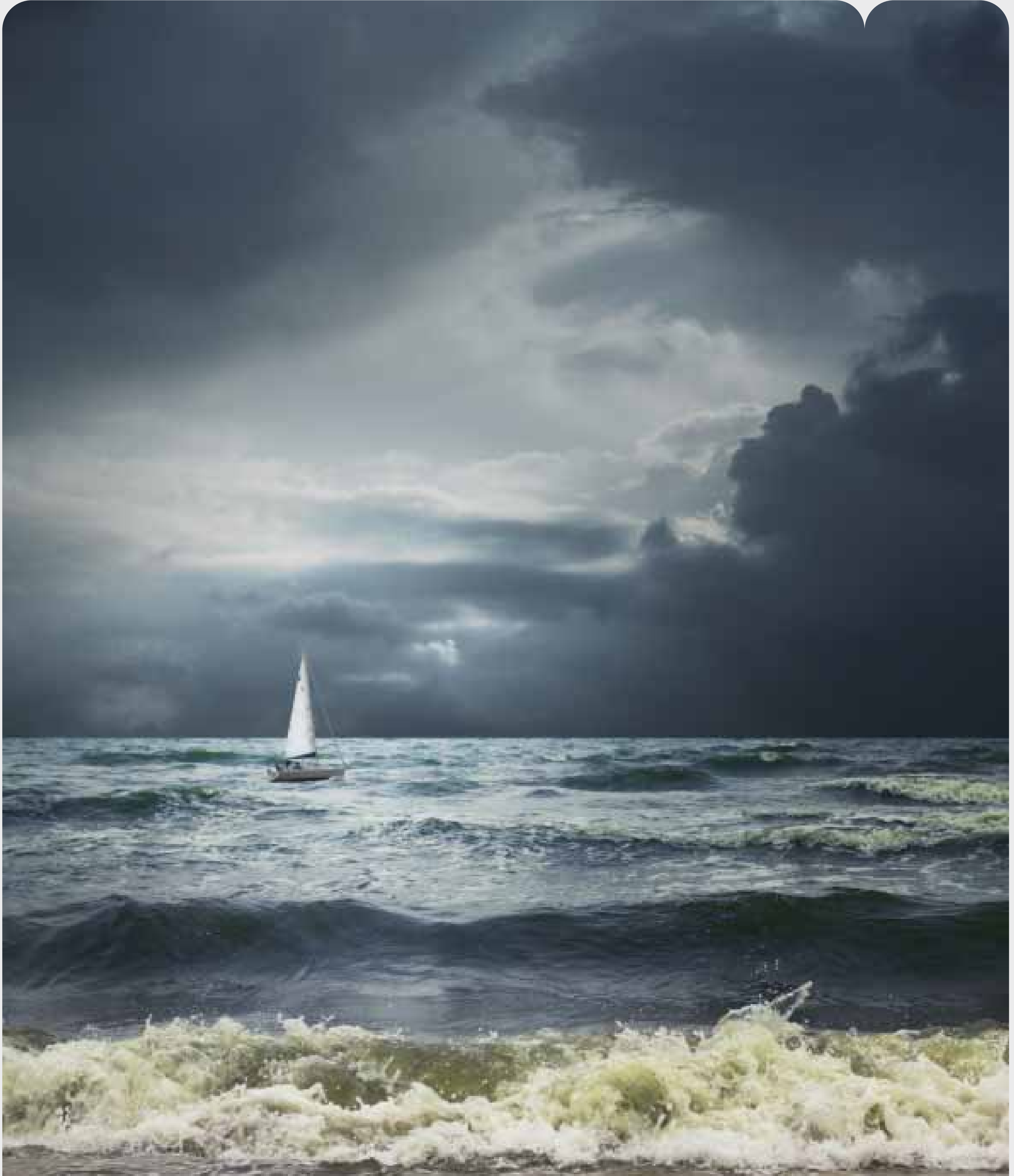
BSTDB has attracted over USD 1 billion in the international capital markets to finance its operations in the Black Sea Region.

Recognising the Bank's growing role in the Black Sea Region, the shareholders increased the BSTDB authorized capital three-fold, from SDR 1 billion to SDR 3 billion. The subscribed capital was increased two-fold to SDR 2 billion in 2008.

As part of its mandate and with the support of the Hellenic Government and the Development Bank of Austria, BSTDB has established two technical assistance special funds to facilitate business with easy transfer of know-how and technical expertise for increased access to financing in the Region.

BSTDB actively cooperates with other international financial institutions, bilateral donors and commercial banks co-financing projects in the Region. BSTDB signed 16 cooperation agreements with international organizations, IFIs and other international and national business entities active in the region and granted its Observer Status to 6 financial institutions - KfW Banking Group (Germany), European Investment Bank, Development Bank of Austria, Nordic Investment Bank, International Investment Bank, and the Association of European Development Finance Institutions.

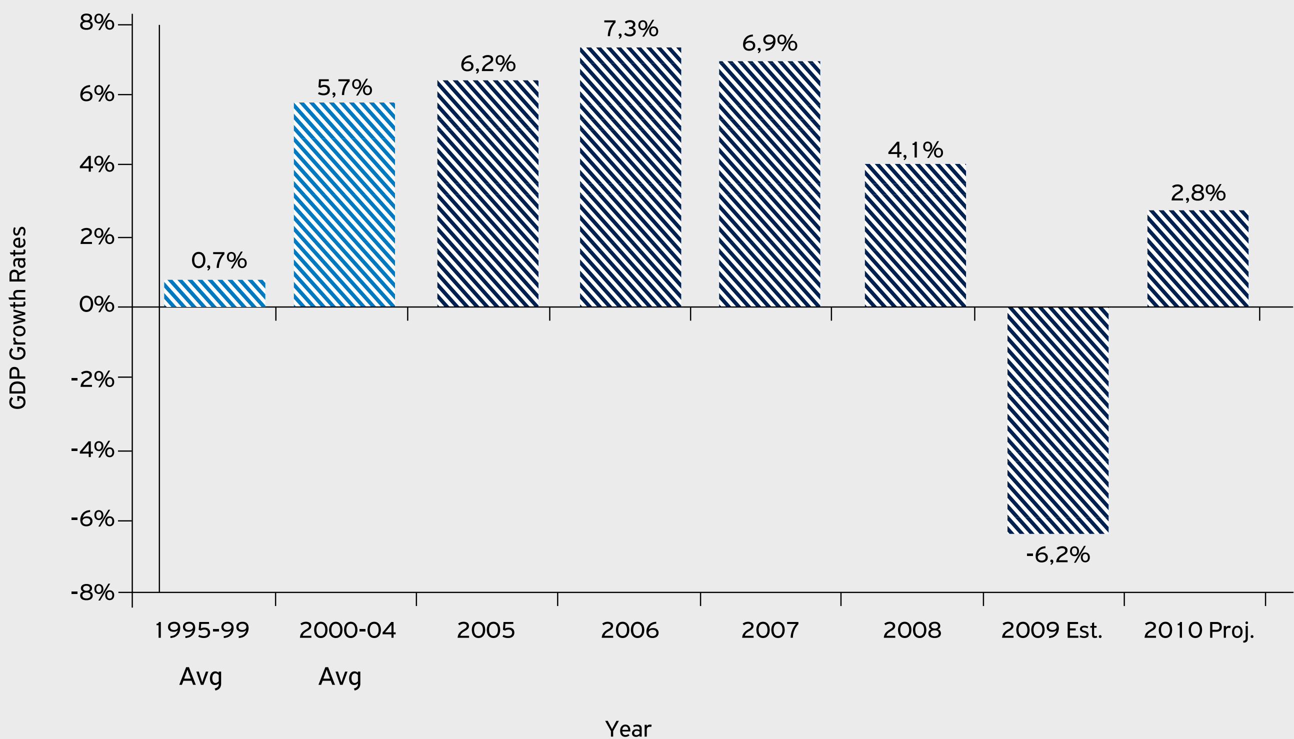
Economic Developments in the Black Sea Region



Economic Overview of 2009[1]

With the outbreak of the global financial crisis in September 2008, financial markets worldwide froze and nearly collapsed. An economic downturn ensued which initially affected the entire global economy, but as it extended into 2009 economic performance became more variegated from region to region. The greater Black Sea Region, like most of the rest of Central and Eastern Europe, was particularly hard hit by the onset of crisis and experienced a painful recession during 2009.

Figure 1: Black Sea Region Average Annual Real GDP Growth 2000-2009



The crisis in the Black Sea Region was imported from abroad, specifically from the most developed economies of the world. As Figure 1 shows, the Region experienced robust growth between 2000-2008, much of which was based on sustainable factors such as increasing rates of investment (internal and from abroad) to take advantage of high skilled, relatively low cost labor and other competitive advantages, as well as rising productivity. However, in the later stages of the boom, a number of regional economies lapsed into pro-cyclical policies and rising wages and asset prices, sharply increased private sector borrowing levels, and growing domestic demand. As a result they began to display elements of 'overheating', accumulating internal and external imbalances such as rising inflation and current account deficits, and a growing dependence on continued inflows of external financing (chiefly from Western Europe) in order to sustain the growth.

[1] Note on Sources: Black Sea Region data based on BSTDB calculations from National Statistical Agencies of the countries of the Black Sea Region and the International Monetary Fund IFS Database. Additional sources referred to include Global Economic Prospects 2010 of the World Bank (plus GEPs 2008 & 2009), the IMF's World Economic Outlook publications (and their updates) and the Economist Intelligence Unit. As many figures represent estimates for 2009, actual final figures may differ in detail, but the overall trends discussed in this section will not be altered.

These factors, a cause for concern and remedial policy reform but not a dire threat to continued stability and growth under normal conditions, suddenly became prohibitive failings that brought a cascade of economic crises across the Black Sea Region as a result of the panic-like risk aversion that gripped financial markets in the fall of 2008. In addition, the economic contraction in Western Europe reduced foreign demand for regionally produced goods, while declines in commodity prices negatively affected resource rich countries.

Table 1: Summary of Key Economic Indicators for 2009, by BSEC Member Country

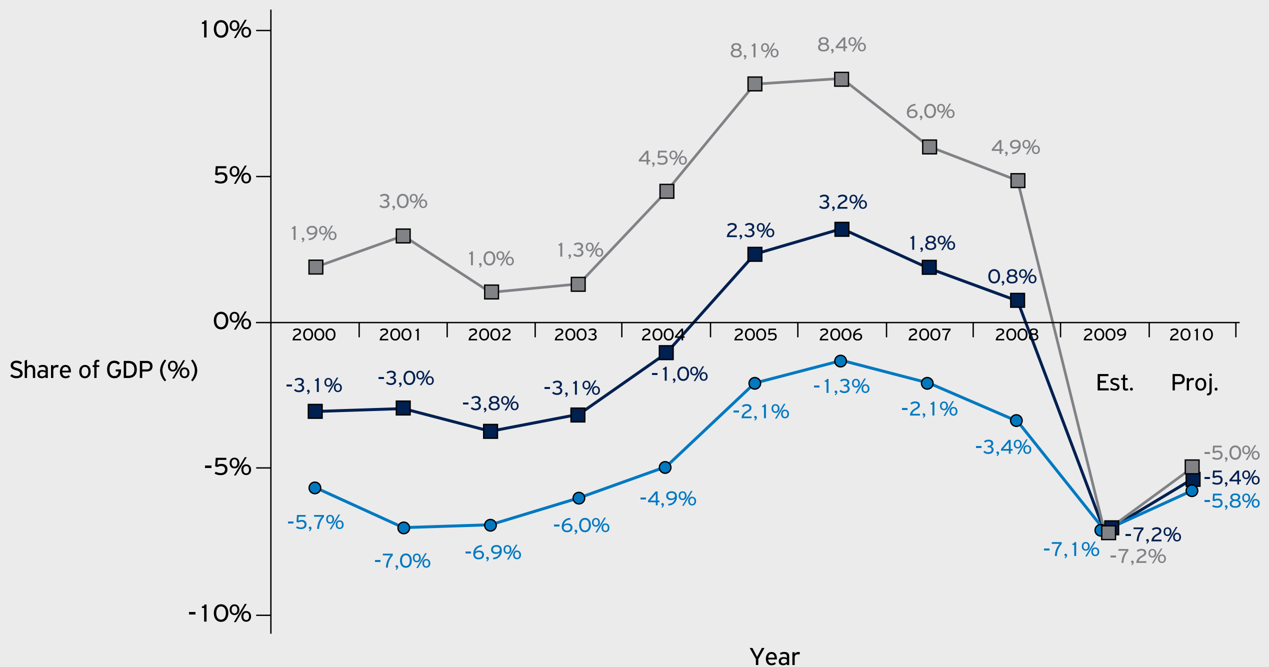
	GDP Growth	Industrial Output Growth	Budget / GDP	Avg. Inflation	Credit Growth	Current Account Bal / GDP	Public Foreign Debt / GDP	FDI / GDP
Albania	2.8%	-4.0%	-7.3%	2.1%	3.3%	-15.4%	17.5%	8.0%
Armenia	-14.4%	-7.8%	-7.6%	3.4%	3.7%	-13.7%	34.0%	4.4%
Azerbaijan	9.3%	8.6%	-10.7%	1.5%	22.8%	16.8%	4.1%	1.2%
Bulgaria	-5.1%	-17.0%	-0.8%	2.8%	7.0%	-8.7%	8.5%	8.2%
Georgia	-3.9%	n/a	-8.4%	1.7%	-4.9%	-14.4%	31.5%	5.4%
Greece	-2.0%	-9.4%	-13.6%	1.2%	0.9%	-11.3%	90.0%*	1.9%
Moldova	-6.5%	-22.2%	-6.8%	0.0%	0.0%	-9.5%	22.8%	5.5%
Romania	-7.1%	-5.5%	-7.4%	5.6%	10.6%	-4.5%	11.6%	3.7%
Russia	-7.9%	-10.8%	-7.2%	11.7%	25.4%	3.9%	2.5%	3.1%
Serbia	-2.9%	-12.1%	-4.0%	9.9%	13.0%	-5.4%	22.8%	4.3%
Turkey	-4.7%	-11.0%	-5.5%	6.3%	14.4%	-2.3%	13.7%	1.2%
Ukraine	-15.1%	-21.9%	-2.0%	15.9%	3.9%	-1.7%	22.6%	4.3%

*) Public debt of Greece (115% of GDP) is entirely in Euro, which normally qualifies as domestic debt, but an estimated 80% is held by foreigners, therefore this part may be qualified as foreign public debt

The impact has been negative across the Black Sea Region, although the extent of damage has varied from country to country (See Table 1). The biggest problem is the economic contraction which has reversed the trend of robust growth in previous years. Many businesses have failed, unemployment has jumped after years of steady decline, and there are fears that poverty rates will rise once again, with isolated areas or 'single company towns' most at risk. It is estimated that for 2009 the Region suffered a contraction in real GDP on the order of -6.2%. This is a sizeable recession, although coming after years of successive growth it is manageable at the macroeconomic level. It has also brought a reduction in inflation levels, a symptom of the overheating; whereas eight countries experienced double digit annual inflation in 2008, in 2009 only two did, and the drop took place in every country.

In addition, there was a correction to current account balances, almost all high deficit countries experienced lower current account deficits in 2009, relative to 2008, whereas the current account surplus countries (the energy exporters) had smaller surpluses. While this represents a step in the right direction since imbalances had grown to worrying levels, it was not the result of a rebalancing of rising trade flows or improved export performance by deficit countries, but rather the unfortunate result of declines in trade brought about by the economic downturn.

Figure 2: Trends in Average Fiscal Deficit of BSEC Region as a Share of GDP



Note: Black Sea Region Average- Dark Blue; Russia Alone- Gray; Black Sea Region Minus Russia- Light Blue

A second problem with potentially serious long term implications is the fiscal deterioration in most countries which risks becoming structural in nature, and thus extremely difficult to ameliorate. As a result of the slowdown in economic activity, tax receipts declined, reducing revenues. At the same time, there was upward pressure on expenditures resulting from the rise in unemployment and the jump in jobless benefits and other social safety net payments that tend to kick in when recessions begin. Figure 2 shows how sharp this deterioration was in 2009, reversing years of declining deficit or otherwise stable performance. Fiscal performance had improved throughout the Region in the early part of the previous decade, peaking in 2006. As economies began to overheat while following pro-cyclical policies, there was some deterioration in fiscal balances in 2007 and early 2008. The financial crisis accelerated the decline in the last quarter of 2008 and into 2009, with projections for 2010 showing only limited improvement.

A further deterioration in government finances was observed in certain countries with high foreign reserve levels or easy access to capital markets which implemented stimulus programs with increased government expenditures, seeking to substitute for the decrease in private consumption and investment. For its part, Russia (and to a much smaller degree Azerbaijan) took advantage of high foreign exchange reserve levels and undertook fiscal stimulus measures to counteract the decline in private sector activity. This successfully mitigated some of the adverse effects of the downturn, but came at the expense of a sharp drop in reserves and also a reversal of the trend of sizeable budget surpluses in previous years. However, most Black Sea economies were too small and open for capital injections to achieve the required degree of stimulus.

The cumulative effect was a rise in fiscal deficits and fears that the deterioration may be permanent (structural), since lost receipts take time to recover, while spending commitments, once made, tend to be more difficult to roll back. Given that fiscal discipline and propriety was a foundation of the macroeconomic improvements which made possible the high growth from 2000-08, the restoration of balance in government finances in due course will be a significant concern and a challenge for countries in coming years. With most countries lacking high foreign reserve levels or easy access to capital markets (see below), the restoration of fiscal balance via austerity, despite its negative contractionary effects, was the only policy route left for countries to follow.

Although they recovered somewhat over the course of the year, moving from absolute risk aversion to high risk aversion, capital markets remained dysfunctional throughout 2009, mispricing financial risks for Eastern Europe. Consequently, official sources of financing were left as the primary option for most Black Sea countries to access external financing. Other than Greece, a member of the Eurozone, most Black Sea countries were unable

to take measures sufficient to re-open lending, nor could they access risk averse international capital markets at reasonable cost. Moreover, their currencies lacked reserve currency status and as such they were unable to inject sufficient liquidity into their financial systems without drawing down reserve levels and risking severe capital flight or even collapse.

The available official sources included international financial institutions (IFIs) and donors, particularly the European Union (EU). IFIs increased significantly their commitments to record levels. The International Monetary Fund (IMF) secured the agreement of its members to quadruple its available resources early in 2009, and it concluded agreements worth tens of billions of dollars with a number of Black Sea countries[2]. The World Bank, the European Investment Bank, and others accelerated their lending as well. Nevertheless, even at this record pace, official flows fell well short of the levels of private financing provided in previous years. It is expected that official flows in 2009 cumulatively reached only 10-15% of the peak levels of private financing provided in 2007[3].

The situation was even more difficult for Black Sea firms, as they were effectively off cover for most international lenders- upon whom many had relied prior to the crisis. For small and medium enterprises (SMEs) the situation was especially dire, and their heavy reliance on SME schemes by donors and development banks for financing closely mirrored that of the early years of the transition process from centrally planned to market oriented economies.

Table 2: Main Financial Indicators BSTDB Member States

	Credit to GDP	Loans to Deposits Ratio	Non-Performing Loans	Solvency Ratio	Investment Rate	Savings Rate
Albania	39.9%	65.8%	5.6%	16.2%	28.9%	13.5%
Armenia	23.2%	89.4%	5.4%	27.5%	37.9%	24.2%
Azerbaijan	24.3%	180.6%	3.6%	Na	23.0%	39.8%
Bulgaria	87.6%	102.7%	4.3%	17.7%	24.8%	16.1%
Georgia	27.1%	120.3%	17.8%	19.1%	22.3%	7.0%
Greece	139.2%	117.7%	6.8%	10.9%	16.8%	5.5%
Moldova	41.6%	94.6%	16.3%	32.3%	22.5%	13.0%
Romania	49.3%	88.9%	11.7%	13.5%	25.6%	21.1%
Russia	39.8%	118.2%	13.5%	16.1%	20.2%	24.1%
Turkey	38.4%	80.8%	3.7%	18.0%	16.4%	14.4%
Ukraine*	83.4%	98.2%	2.3%	15.1%	24.2%	22.5%

*) data for 2008 Sources: Central Banks, IMF, World Bank

[2] During 2009, Albania and Moldova had concessional programs with the IMF under implementation, while Armenia, Georgia, Romania, and Ukraine undertook, or continued the implementation of, non-concessional Stand-By Arrangements (SBAs).

[3] See 'Capital Flows to Emerging Market Economies', Institute of International Finance Report, 26 January, 2010, and World Economic Outlook (WEO), April 2009-Crisis and Recovery.

Financial institutions in the Black Sea Region found themselves similarly cut off for the most part from international capital markets. Furthermore, they faced the risk of a run on their capital due to general uncertainty, thus creating risks for the entire financial system, as well as fears that their capital position might deteriorate further as losses were realized on loans provided to firms that faltered due to the recession. Despite the substantial heterogeneity in terms of size and structure of financial systems across the Black Sea Region, the onset of the crisis created similar effects from country to country. Financial systems came under stress, and lending to private companies initially ceased and throughout 2009 was limited. In many countries, a painful process of deleveraging ensued that in turn exacerbated the downturn in economic activity. However, financial systems did not collapse, and they avoided the bank failures that marred previous crises and in turn fed a feeling of panic. Table 2 shows key financial sector indicators.

A crucial reason for this is the successful backing- explicit or discreet- provided by governments. Despite the constrained economic setting in which they operated, and the constrained political setting caused by the unpopularity of measures viewed as 'bailing out' banks, most Black Sea country governments responded to the financial crisis by quickly establishing and implementing financial system support programs to avert the threat of collapse. Although costly and unpopular, these moves proved necessary and ultimately successful in helping to stabilize the situation. For the most part, banks have remained adequately capitalized, they have successfully avoided the worst effects of the liquidity crisis, and during 2009 they did not suffer dangerous levels of impairment of their loan portfolios. The risk of further deterioration in their capital position due to losses in the real economy- the so-called 'second round' effect- remains an open issue, but unless there is a new shock or the economic downturns result in sharp increases in non-performing loans, most banks in the Black Sea Region seem to be satisfactorily positioned to weather the difficulties.

A key feature of the bank support program involving international cooperation was the 'Vienna Initiative', more formally known as the European Bank Coordination Initiative. As the crisis appeared to be spiraling out of control in early 2009, the EU, the IMF and IFIs, and East European Governments (including from the Black Sea Region) met with representatives from western European banks with large operations in the region. Significantly, in many countries much of the banking system is largely foreign owned (mainly western European) and there were fears that parent banks might withdraw support to their local branches or subsidiaries as a result of stresses they faced. Under the Vienna Initiative parent banks pledged to continue to support their local holdings as needed, and to roll over and renew existing loans to regional firms.

Still ongoing and due for review in 2010, it contributed to the successful stabilization of financial systems in the Black Sea Region (and Eastern Europe more generally), as part of a package deal including government support measures for the financial systems, and IMF and IFI support to governments. Even though it evolved as a voluntary arrangement, the Vienna Initiative represented the height of external institutional assistance to the Black Sea Region during the crisis, buttressed by the record levels of official lending provided by the IMF and IFIs. An additional enabling feature was the series of massive liquidity injections provided by the European Central Bank (ECB), as Eurozone based banks accessed the facilities of the ECB and then used a portion of the proceeds to maintain activities and exposures in the Black Sea Region.

Regional Transformation During the Decade 2000-2009

Despite the onset of economic recession in late 2008 and into 2009, the downturn was notably different in form and mood from that which plagued most Black Sea economies in the 1990s. The recession is painful, and marked by characteristics such as rising unemployment and pressure on government finances which will be difficult to overturn or combat in the near term, and with potentially pernicious long term implications should they prove intractable over the course of time. In contrast to the 1990s, though, there is a greater sense of purpose and understanding that while this slump is unpleasant and with unique challenges, it is not endogenously induced, and it is not permanent.

When financial markets froze and financing suddenly halted, a slump in the domestic economy ensued. At first, there was bewilderment at the vigor with which the crisis struck, and a sense of uncertainty deriving in part from the fact that macroeconomic indicators such as fiscal balance were in reasonably good shape, and in part from the global nature of the crisis and the panic it had suddenly engendered. There was also anger at the fact

that the crisis had originated in the wealthiest markets of the world, and that the vulnerabilities that were creating problems were to no small degree the result of the implementation of 'Washington Consensus' policy advice to promote private sector activity while reducing regulation, to pursue trade and financial liberalization, to limit the size and role of the public sector, and to privatize state assets, among others. As a result, it became easier to access international capital markets to obtain financing for investment as well as for consumption, and with global interest rates low, western banks in search of higher yields were only too happy to extend increasing sums of financing to the rapidly growing economies of the Black Sea Region. This in turn fueled rises in current account deficits and increased dependence on the capital flows. The need for a 'cooling off' and slowdown in unsustainably high growth had entered into the policy dialogue of many countries (albeit with little in the way of actual policy action), but then the crisis broke out and overwhelmed any prospects for moderate adjustment as recession quickly set in.

Beyond the initial bewilderment and anger, there was also relief in the knowledge that the origins of the crisis were elsewhere, and not indigenous, as well as resignation to the need to address the resulting challenges and overcome problems so as to restore conditions for renewed economic growth. Significantly, it did not create the sort of economic and social dislocation that was characteristic of the Region in the downturns of the 1990s. This 'matter of factness' is a sign of the increased maturity of the Black Sea Region, and underscores how the Region today is a very different place than it was in 1999 from an economic perspective.

First, there has been the fundamental change to the economic structures in which people live and operate for most of the Black Sea countries. The transition process from state led to market oriented economic systems has been largely completed. Economic institutions were overhauled, prices and exchange rates were broadly liberalized, and greater freedom of activity resulted. While the extent of state involvement may vary, all Black Sea countries now have market oriented systems and focus to varying degrees on so-called 'second generation' reforms, those which seek to preserve prospects for sustained growth (current crisis notwithstanding) and to strengthen the institutions of the state, the market, and civil society.

A second feature is the greater degree of prosperity across the Region. Between 2002-2008, all countries exhibited positive growth. Some of the smaller states sustained double digit rates over much of the period and also achieved a measure of 'catching up' to the larger, wealthier states. To be sure, the benefits of this economic growth have not been evenly divided, and indeed there is evidence that income distribution is more unequal. In addition, geographical disparities have widened, with capital cities and major economic centers having reaped a greater share of the benefits relative to rural or isolated areas. However, the robust growth in the years up to 2008 resulted in declining poverty rates and rising per capita income levels in all countries. Other key indicators of living standards, such as health and education data, also showed improvement.

A third area in which the Black Sea Region has experienced change is with respect to regional economic configurations. Two important developments stand out. First, there is the degree of political and economic engagement of the European Union in the Black Sea Region. Whereas in 1999 the EU had no contiguous border with the Black Sea Region, and Greece was the sole regional member that was also a member of the EU, in 2009 EU membership has expanded to three as Bulgaria and Romania have also become full members. Turkey has been an accession candidate engaged in negotiations to become a full EU member, and Albania has been recognized as a potential candidate country for membership. Georgia, Moldova and Ukraine desire- but have not yet received- candidacy status, having instead been labeled 'Neighborhood' countries along with Armenia and Azerbaijan, for whom the EU's relations are guided by its European Neighborhood Policy (ENP). Although the lack of acknowledgement of candidacy status is a significant shortcoming, ENP nevertheless represents the most extensive degree of engagement by the EU in the Black Sea Region to date. It has been supplemented by two additional initiatives, the Black Sea Synergy and the Eastern Partnership, which recognize a regional dimension in the Black Sea and seek to promote cooperation. For all Black Sea countries, the economic impact has been significant, as the EU represents the single most important economic partner and there has been robust growth in financial flows, trade and investment.

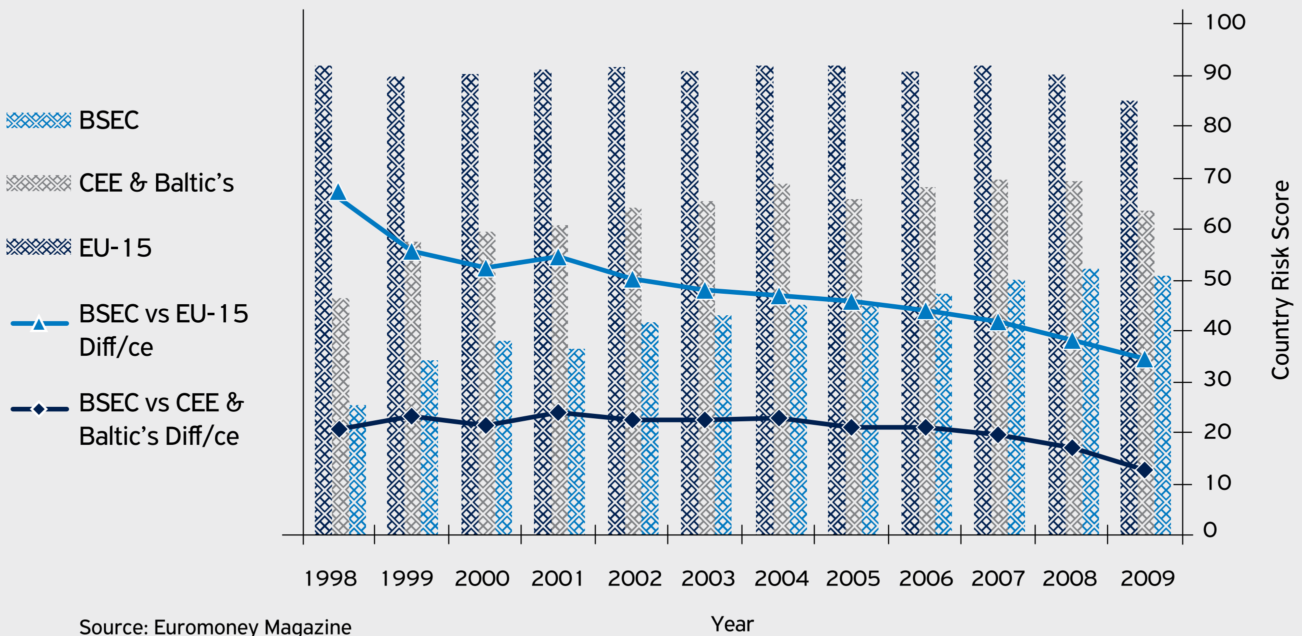
The second development involves the emergence of the Black Sea Economic Cooperation as the most important regional grouping for cooperation. Over the years a number of organizations and initiatives were proposed seeking to promote regional cooperation and economic integration. Some were established, others were not. Many initiatives included non-regional countries and only a subset of Black Sea countries. Most were externally supported, although not necessarily imposed, but their value added and sustainability have proven open to question. While this proliferation of initiatives testified to the widespread acknowledgement of the importance of regional cooperation, it achieved little in terms of substance.

Only one organization covered the entire Black Sea Region and was established and developed indigenously- the Black Sea Economic Cooperation (BSEC). It thus enjoys a greater degree of 'ownership' relative to externally generated schemes, and it has established an extensive institutional structure of related bodies, and it regularly attracts ministers and even heads of state in its forums. While the extent to which BSEC has directly achieved economic impact is a subject of debate, it is widely acknowledged as the most important regional grouping.

Business Environment Developments

An additional transformation, or perhaps consequence of the aforementioned changes, for the economies of the Region is that they are generally more open to each other and enjoy a greater degree of interaction and cooperation with the global economy, particularly with Western Europe. Flows of people, capital, goods and services have all increased and the economic situation has undergone a significant, mostly positive, transformation. This may be best observed through the business environment, which has grown in sophistication and ease of operation.

Figure 3: Trends in Regional Euromoney Country Risk Scores and Relative Differences



Source: Euromoney Magazine

For the countries of the Black Sea Region, individually and collectively, the various measures pertaining to business environment have shown improvement over the last decade. In some cases, the improvements are moderate, and mainly in absolute terms, whereas in other cases the improvements are dramatic, not only in absolute terms but also relative to other countries. Figure 3 shows country risk scores based upon Euromoney Magazine's periodic Country Risk surveys[4]. For purposes here, country risk is defined as the weighted sum of a collection of scorings including (i) macroeconomic performance and stability, (ii) security, political and social stability, (iii) perceptions of public and private governance including implementation capacity, transparency, and corruption, (iv) quality and clarity of a country's legal and tax frameworks and the quality of the implementation thereof, (v) and overall the ability of economic entities to operate smoothly. Country risk is a particularly useful

[4] Euromoney's Country Risk survey is arguably the most comprehensive index in the scope of categories (nine) which it covers. Figure 3 provides simplified regional representations based only on arithmetic averages. They are not weighted to take into account the relative size of the economy or other factors. The figure was prepared solely for illustrative purposes, and shows the evolution of country risk scores over time. For the bars, an increase in score means an improvement (e.g. lowering) of country risk, with 100 representing the maximum (e.g. lowest risk) score. For the lines, a declining trend indicates decreasing differences in country risk scores between the regions being compared (e.g. convergence of scores and country risk levels).

measure for gauging the business environment, since it relates to the likelihood of a non-business event occurring, or a non-business related situation transpiring, which would threaten (i) normal operation of a company (ii) the value of assets, and/or (iii) the profitability of loans and investments. Declining country risk is directly correlated to an improving business environment.

Table 3: BSTDB Sovereign Credit Ratings Comparison 1999 vs. 2009

	December 1999			December 2009		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch
Albania	—	—	—	B1	—	—
Armenia	—	—	—	Ba2	—	BB-
Azerbaijan	—	—	—	Ba1	—	BB+
Bulgaria	B2	B+	B+	Baa3	BBB	BBB-
Georgia	—	—	—	—	B	B+
Greece	A2	A-	BBB+	A2	BBB+	BBB+
Moldova	B2	—	B-	Caa1	—	B-
Romania	B3	B-	B-	Baa3	BB+	BB+
Russia	Ca	SD	CCC	Baa1	BBB	BBB
Turkey	B1	B	B+	Ba3	BB-	BB+
Ukraine	B3	—	—	B2	CCC+	B-

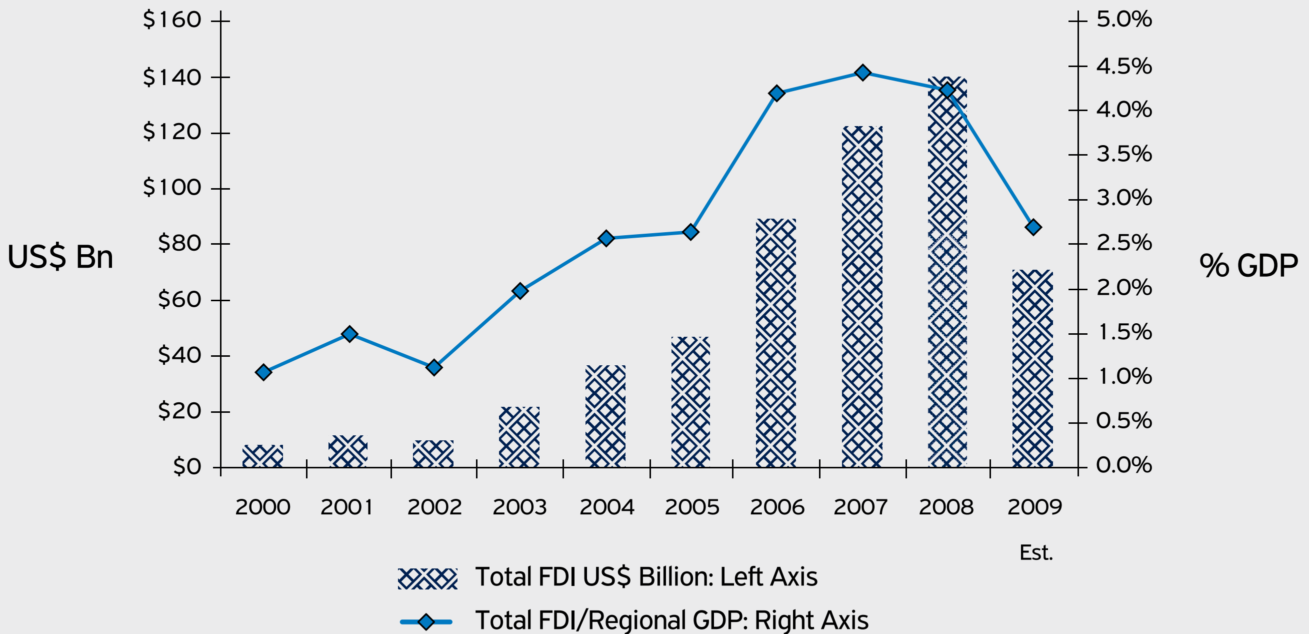
The figure shows an improving trend in the Black Sea Region and convergence during the last decade. In absolute terms, the Region's score improved steadily from 1998-2008, with a setback in 2009 due to the global crisis. In relative terms, the difference between the Black Sea Region and the original EU-15 on the one hand, and the Black Sea Region and the Central European and Baltic countries that joined the EU in 2004 on the other hand, has shrunk consistently. Although the Black Sea Region continues to lag well behind EU-15 levels, the trend is favorable. Similarly, the trend with respect to the CEE & Baltic countries[5] has been one of declining differences, even though Black Sea countries as a whole enjoyed far less scope to reap country risk benefits as a result of the EU accession process. With respect to both the original EU-15 and the CEE & Baltic countries, it is notable that the relative trend of improvement continued even in 2009, despite the recession and the problems encountered by Black Sea countries.

The business environment improvement is partly underscored by sovereign credit ratings (See Table 3)[6]. Whereas in 1999, four Black Sea countries had not even bothered to obtain ratings, every country has now 'entered the market' and received sovereign ratings, an indication of growing maturity and economic progress since such ratings facilitate their ability to raise funds on international capital markets and set benchmarks for the development of domestic financial markets. Moreover, despite a series of downgrades in late 2008 and during 2009 due to the perceived impact of the financial crisis and subsequent economic downturn, the Black Sea Region still has four countries rated investment grade, while at the end of 1999 it only had one.

[5] Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia. Referred to as 'CEE & Baltics' in the chart. These countries are frequently used for comparison to the Black Sea Region since they are also former transition countries, but are more advanced economically and are considered to have 'transitioned' more quickly.

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

Figure 4: Foreign Direct Investment in the Black Sea Region 2000-2009



An even better, and more easily measurable, indicator of attractiveness for business and favorable investment environment is that of foreign direct investment (FDI) (see Figure 4). Throughout the 1990s, the Black Sea Region cumulatively attracted FDI around 1.0% of GDP. From 2000-2008 FDI into the Black Sea Region increased as a share of GDP from 1.1% to 4.2% of GDP, and in dollar terms, from US$8 billion to US$140 billion. In 2009, there was a setback, with FDI dropping nearly 50% in absolute terms, to an estimated US$71 billion, a figure equivalent to 2.7% of GDP. However, in comparison to other forms of external financing flows- e.g. portfolio investment, bank and non-bank private lending- which experienced dramatic declines and in net terms reversed direction (from the Region out, rather than to the Region), FDI held up relatively well and proved much more resilient. This could be due to the 'stickier' nature of FDI, which is considered slower to reverse trend since it tends to be project focused and once a project is initiated in one year it tends to continue, whereas lending and portfolio investment are more liquid and easier to reverse or halt. However, the experience of recent years suggests that sustained investor confidence may be a more important factor and given the solid regional business environment, there are grounds for cautious optimism that it should recover in 2010 and sustain a positive trend in future years.

Returning to Growth

Moreover, there exist reasons for cautious optimism. The worst of the crisis is most likely over in most countries, as the decline appears to have bottomed out in the second quarter of 2009, and by the last quarter of 2009 a number of economic indicators had turned positive. Thus, while there remains much uncertainty as well as the danger that new shocks may set back recovery, growth prospects for 2010 are more favorable, with the expectation that real growth may reach 2.5% of GDP or so. Such growth is modest, and represents only the beginning of a recovery from the contraction brought about by the recession.

One factor it hides is that the response and recovery period have been differentiated. During the boom period, Black Sea countries' economic results converged. In other words, they generally moved in the same direction, even if there was variation in actual rates of growth. Every one had positive outturns between 2002-2008, and in structural terms, most of the incremental growth (on the demand side) was due to private sector activity, while in terms of sectoral distribution, there was strong growth in the construction and services sectors, and a relative decline in agriculture. There was also commonality in the manner in which growth occurred, since

over time all economies came to relay upon increasing levels of foreign financing to fuel incremental growth. As a result they were all vulnerable to sudden reverses in financing flows, and of course, all countries were affected negatively by the onset of the crisis.

Here is where discrepancies begin. A couple of countries experienced slowdowns but sustained positive growth levels. Most experienced contraction, with some countries suffering significantly greater declines than others, while there are also differences in the expected length of duration of the recession in those countries which are negatively affected. On balance, most countries will experience positive growth in 2010, but there will likely be a greater degree of variation in the growth rates; some will recover more robustly, while others only anaemically.

Overall, the expected growth is fairly weak, and suggests that the rise in unemployment observed last year will be tough to overturn, and while rates may not increase further, they may generally not decline much either, thus renewing risks associated with long term unemployment, skills erosion within portions of the population, and difficulties in reducing poverty.

One key to avoiding such a scenario is the restoration of credit flows to positive but sustainable rates of increase. With lending from foreign sources down and unlikely to return to pre-crisis levels, and in any case dangerous because of their propensity to suddenly reverse and leave an economy exposed and vulnerable, the economies of the Black Sea Region will need to tap into their own (domestic) resource bases to a greater degree. Capital flight, a problem which had declined substantially during the boom period but returned perniciously during the financial crisis, is one area to target. The return of capital from abroad and increase in confidence of local financial systems will help mobilize domestic resources. Beyond that, local financial institutions (and bank regulators) will need to ensure that in addition to shoring up their capital base, their lending activity does not deviate in an unviable manner from their deposit base, and that growth results 'organically' with reference to the availability of resources, rather than in speculative form, fuelled by fickle foreign flows that often flame out at the first manifestation of fragility.

More generally, governments will need to take measures to increase productivity and efficiency, as well as policies that may facilitate higher investment, both public and private. This need not involve direct expenditure nor subsidization, which often distorts investment decisions, but should extend to structural reforms and possibly more creative solutions that enable the operating environment for investment to take place.

One risk of the recession is that the immediate needs of the financial crisis and subsequent recession may reschedule activity in other areas which are important for the long term growth of the Region's economies. The need for structural reforms in sectors such as energy and agriculture is common to many countries, yet such reforms are often as difficult as they are necessary. The impact of the crisis on these sectors is uncertain, as it may offer an opportunity for reforms, or it may cause delays, depending on specific circumstances.

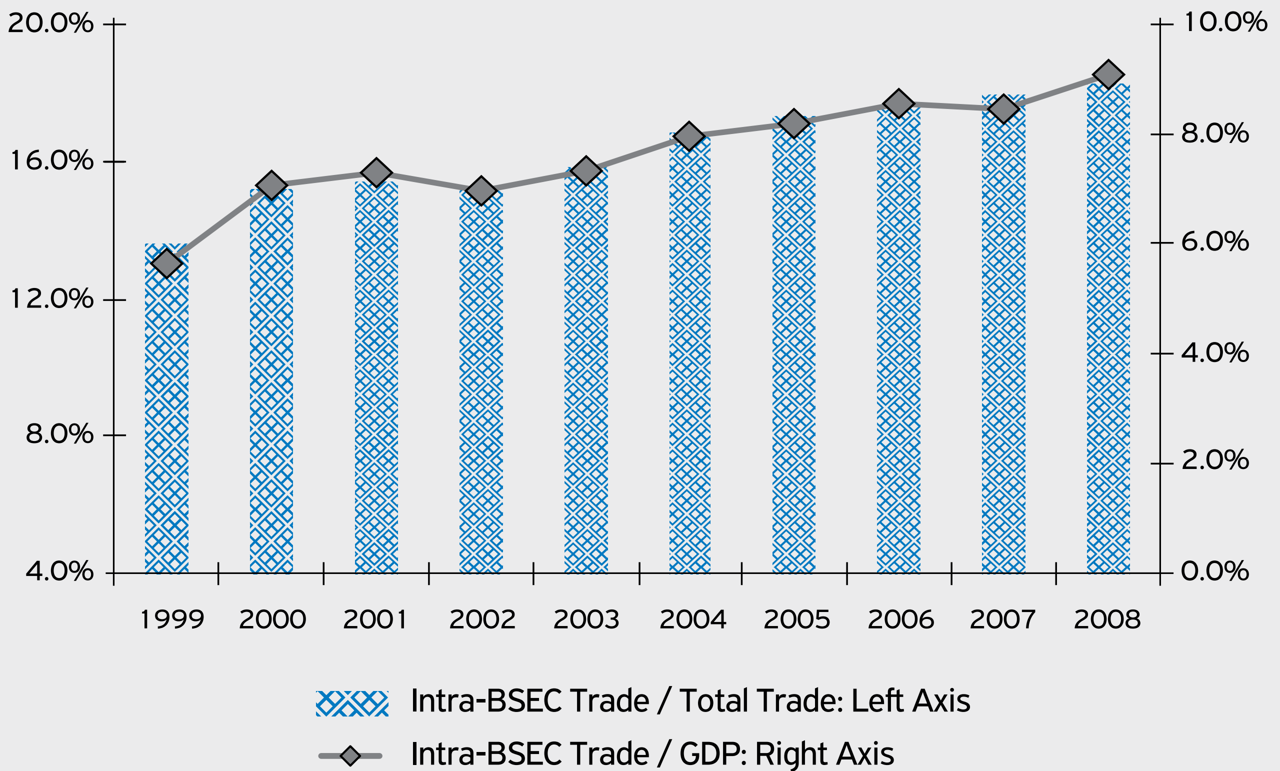
The threat to the existing state of infrastructure is clearer. Improvements in infrastructure quality and capacity lagged behind the private sector led economic boom, and it came under increasing strain as flows of goods, services and people increased rapidly. Infrastructure development is inherently costly and time consuming, requiring lengthy periods for planning and execution. Prior to the crisis, the fiscal situation of the Black Sea countries, although much improved, was still unable to meet the large new infrastructure requirements. In the context of crisis, revenues have decreased and will continue to do so, while spending pressures remain. If history is an accurate guide, where spending cuts occur, infrastructure and other capital expenditures are prime candidates to be postponed or cancelled, as they are easier to reduce than are non-discretionary expenditures. Although the downturn has eased some of the pressures on existing infrastructure, this respite is only temporary and problems concerning age, condition and suitability remain. Furthermore, the cuts to needed capital expenditures risk adversely impacting the long term growth potential of economies.

An additional potential 'motor' for greater growth lies in the economic interaction of neighboring countries; that is, greater emphasis upon the development of regional economic relations. To be sure, intra-regional economic relations within the Black Sea Region have grown over the years, in terms of investment, cross-border financing, and trade. Figure 5, for example, shows the trend in intra-regional trade flows between 1999-2008[7]. Starting from a low base, it shows moderate, if steady increase in the trade flows against a background of high economic growth. For 2009 the absolute trade figures will undoubtedly show a decline in line with that observed for international trade flows globally, but the extent to which the decline would be at the expense of intra-BSEC

[7] Due to measurement lags, full figures for 2009 were not available at the time of publication.

trade, or the extent to which such intra-BSEC trade would prove resilient in the face of declining trade flows, will be interesting to note. In any case, and despite the aforementioned rising trend, the levels of trade could surely be increased further as they are extremely modest in comparison to the levels of intra-regional trade achieved in other similar sub-regions such as the Baltic Sea[8].

Figure 5: Intra-Regional Trade Flows in the Black Sea Region 1999 – 2008

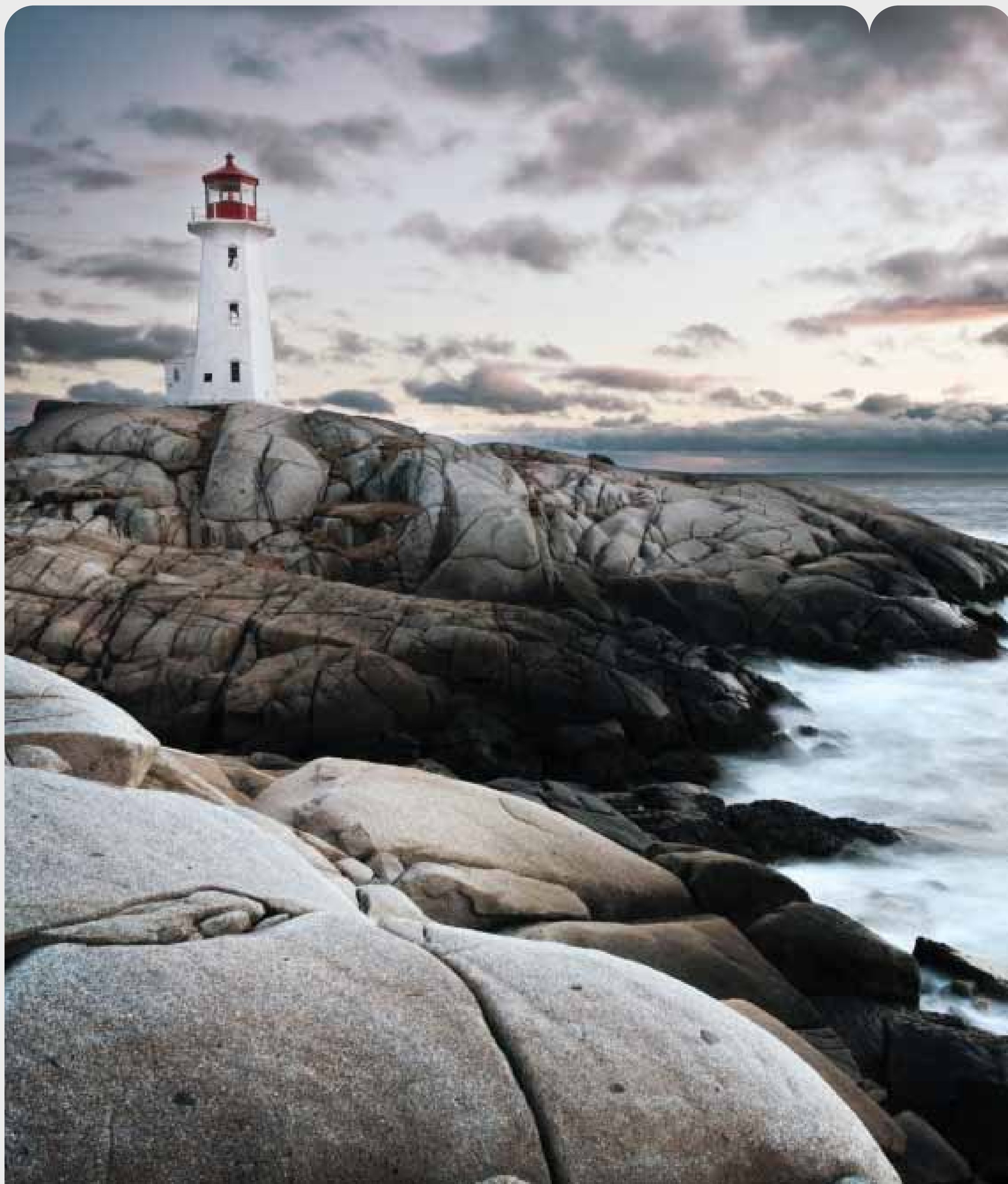


Increasing regional trade and investment represents an area of untapped potential through which countries may achieve sustainable mutual gains, and increase competitiveness, efficiency, as well as prosperity. Even in the current environment of constrained resource availability and low appetite for new initiatives, there is much that countries can do at very low cost (i) to improve the level and quality of policy dialogue, particularly among line ministries in sectors with significant cross-border aspects such as finance, transport, energy, telecommunications and environment, and (ii) to facilitate increased cross-border trade, financing, and investment by removing non-tariff barriers and other institutional obstacles which hinder such activity.

Growth in the Black Sea Region is unlikely any time soon to return to the average annual rates on the order of 6% observed during the boom. However, with the right mix of policy measures, the Region may in the near future return to sustained levels on the order of 3-4% per annum, which would denote recovery of output, declining poverty levels, and convergence over time towards western European income levels.

[8] See for example, Paas, Tiiu 'Gravity Approach for Exploring Baltic Sea Regional Integration in the Field of International Trade', Hamburg Institute of International Economics Discussion Paper Series, 2002. Although dated, it shows significantly higher regional integration as measured by trade figures.

BSTDB in the Black Sea Region



BSTDB activities and achievements

The Bank has established over the first ten years of operation its niche in areas where it can promote development more directly or be additional to efforts of other donors or local institutions. It has selected as its main target market medium sized locally incorporated companies that are dynamic, rapidly expanding operations, export oriented, transfer technology and know-how, use environmentally friendly processes, generate high levels of value added and create employment. The Bank concentrated its attention, region wide, on a few sectors that are the driving force of economic growth in member countries at this time: energy, gas and oil; transportation; manufacturing; financial sector; telecommunications.

Products

The Bank has two main lines of business: Project/Corporate Finance and Trade Finance. In consistency with the Bank documents and with a view to achieve its objectives the Bank makes two types of operations: direct and through financial intermediaries.

The Bank offers its clients a wide range of financial products, including: loans, equity investments, guarantees and other special products. The choice of instruments is determined primarily by the requirements of the Bank's clients and their operations in consistency with the Bank's policy. Bank operations reflect the objectives of the Bank, government priorities and the needs of the private sector, as reflected in country strategies.

Terms and Conditions

The terms of the Bank's products are tailored to meet the specific requirements of each client and operation and may be adjusted throughout the term of the operation. Such adjustment may, if so provided in the original documentation, extend to the conversion of one product type to another during the life of an operation.

Like other IFI s, the Bank is not profit-oriented, but performance targets are set in order to maximize solvency and to secure organic growth of its activity. The Bank generally provides loans in hard currencies and interest rates are usually on a variable basis (linked to Libor and Euribor) with the possibility available to opt for fixed rates if required. Margins are set with the aim of covering provisioning, administrative and funding costs.

For project / corporate finance, maturities usually range between three and seven years for manufacturing projects while infrastructure projects may be granted longer maturities of up to 10 years and more, in special circumstances.

Average tenor of Trade Finance transactions is under 1 year. Pre-Export Finance and Multiple Buyer Credit facilities do not usually exceed 180 days and medium-term trade finance products have a maximum maturity of 3 years, with an average maturity of 1.5 year.

SME facilities have maximum maturity of 3-4 years with an average maturity of around 1.75 year.

Security

Operations normally include various forms of security, depending on each operation's specific credit risk characteristics. Considering the specific features of the operating environment in the Bank's member countries, the security structure of each operation tends to be highly customized.

Exceptionally, an operation may be approved on an unsecured basis. However, the requirements for such operations are high, and the potential client must clearly demonstrate a long track record of successful unsecured borrowing, as well as the unqualified ability under any reasonable circumstances to meet debt-service expectations over the lifetime of the operation.

Portfolio Quality

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

The Bank maintains a strong asset quality following a careful due diligence process and strict monitoring procedures. As of December 31, 2009, the Bank had one fully provisioned loan classified as non-performing.

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

Selected BSTDB Financings in 2009

Istanbul Airport, Sabiha - Gokcen

BSTDB extended a project finance facility to a special purpose vehicle, Istanbul Sabiha Gokcen Uluslararasi Havalimanlari Yatirim Yapim ve Isletme A.S. to:

- operate and maintain the existing domestic and international terminal in accordance with the international norms and standards;
- construct a new international terminal building and its complementaries (i.e. hotel, additional apron and car parking) via BOT model;
- establish the new electrical, mechanical installations of the new international terminal;
- re-construct the current fuel hydrant system;
- construct the new security entrance area within 4 months after the delivery of the site;
- perform the maintenance and repair of the apron, runway and taxiway;
- convert the previous international terminal to a domestic terminal;
- arrange the previous domestic terminal as an independent general aviation terminal.

Overall project cost: EUR 451 million
BSTDB Amount: EUR 29 million
Type of financing: Project Finance
Maturity: 12 years

Co-Financing

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

In 2009 the Bank co-financed Kulon Yugros in Russia with USD 14,1 million for a total amount of USD 30 million with IFC and equity holders. Since 1999, co-financiers with whom BSTDB has cooperated have included international financial institutions - EBRD, IFC and MIGA, official development institutions of developed countries - JBIC (Japan), KfW Banking Group (Germany), SECO (Switzerland), Netherlands Development Finance Company (FMO), Norfund and Finnfund in Scandinavia, commercial banks – Calyon Bank, BNP Paribas S.A., ING Bank N.V., Cyprus Popular Bank, Citibank, US Ex-Im Bank, HVB Bank Romania SA, Bank Austria Creditanstalt AG, Bayerische Hypo-Und Vereinsbank AG, WestLB AG London, Turkiye Vakiflar Bankasi, Banca OPI S.p.a., Standard Bank, Fortis Bank SA/NV, Landesbank Hessen-Thuringen Girozentrale, Societe Generale S.A., Bayerische Landesbank, Raiffeisen Zentralbank Osterreich Aktiengesellschaft, Turkiye Is Bankasi A.S. - Bahrain Branch, Turkiye Garanti Bankasi A.S., -Luxemburg Branch, Commertzbank AG, Kommunalkredi Austria AG, AKA Ausfuhkredit - Gesellschaft mbH, ABN-AMRO Bank N.V. - London, ABN-AMRO Bank N.V. – Stockholm, SACE SPA - SERVICI ASSICURATIVI DEL COMMERCIO ESTERO, VTB BANK EUROPE PLC, BAYERISCHE LANDESBANK, VTB BANK (FRANCE) SA, VTB BANK (AUSTRIA) AG, Alpha Bank, Pireaus Bank, Eurobank, Commercial Bank of Greece, BANCA INFRASTRUTTURE INNOVAZIONE E SVILUPPO S.p.A, DEPFA BANK plc, DENIZBANK A.S., Succursale in Italia and MCC – Mediocredito Centrale S.p.A. (UNICREDIT GROUP), and corporations – Ericsson Credit AB, Nokia Corporation.

Selected BSTDB Financings in 2009

Kulon Yugros, Russia

On 12 October 2009 BSTDB provided ZAO Kulon-Yugros with EUR 9.8 million in debt financing to build and operate the first international-quality logistics warehouse and office facility in Russia’s Stavropol region.

The project addresses the undersupply of quality logistics warehousing facilities in Mineralniye Vody in the Stavropol region of Russia. Operating at high environmental and social standards, the new logistics center will improve competitiveness and efficiency of the manufacturers and distributors using the facility and generate new employment opportunities. The project is being managed by the Espro Group.

Espro Group has been operating in the real estate market since 1996 focusing on the development, management and maintenance of class “A” office and warehouse complexes. The most well-known customer of Espro Group is Kulon Company. Espro Group clients in management and technical maintenance of the objects are such significant investors as Raven Russia, Aton, the biggest Russian bank Sberbank and others.

The project is co-financed by the IFC.

BSTDB Amount: EUR 9, 800,000
Type of Financing: Project Finance - Senior Loan and Mezzanine Loan
Maturity: 8 years

Special Funds

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

The Bank also administers a Technical Cooperation Special Fund (the Fund) newly established with the Development Bank of Austria (OeEB) in October 2008, which became operational in 2009. The OeEB contributed to the Fund an initial amount of EUR 500,000 provided by the Government of Austria as Official Development Assistance (ODA). The Fund is an untied facility offering financing for a wide range of technical assistance services related to project preparation and training needs of BSTDB clients in the countries of the Black Sea region. The Fund represents the first financial facility of this kind provided to BSTDB by a non-regional institution. All BSTDB member countries are eligible, except for Bulgaria, Greece, Romania and Russia.

Selected BSTDB Financings in 2009

Turceni Environmental Loan, Romania

BSTDB provided a loan of EUR 20 million to Turceni, the largest lignite-fired power plant and the third largest energy player in Romania, to support its movement towards greater energy efficiency and competitiveness. This loan was provided in parallel to a financing package arranged and syndicated by EBRD.

The project, estimated at a total cost of EUR 224 million, aims to fund the environmental rehabilitation and modernization of electricity generation Unit 6 of Turceni. The project will allow Turceni to reduce its CO2 emissions by approximately 300,000 tones per year and will result in significantly reduced emissions of sulphur dioxide (SO2). Once completed, the modernised unit will be ranked among the least carbon intensive plants in Europe.

As a result this operation will help Romania meet EU Large Combustion Plant standards and the requirements of the EU Accession Treaty (Priority Axis 3 Environment) and is expected to have significant environmental benefits for Romania and motivate other players to replicate the investments.

Amount: EUR 20,000,000
Type of Financing: Term Loan
Maturity: 13 years

Environment Protection

BSTDB is committed to promoting environmentally sound and sustainable development in all its financing activities, therefore all its operations are required to be at a minimum environmentally neutral, that is they do not add to the existing pollution. The Bank favors operations with strong environmental impact, which apply cleaner technologies and energy efficiency, the use of renewable sources, waste reduction and resource recovery and recycling.

In 2009 among other operations financed, BSTDB extended loans for purely environmental purposes and financed operations of high environmental importance. Thus, the Bank participates in the development of a 60 MW Wind Farm in Suvorovo in Bulgaria. The investment is expected to have a long-term positive environmental impact, as it will reduce the GHG emissions and will contribute to the expansion of green energy markets in Bulgaria and assist the country in achieving its target of generating 16% of its electricity consumed from renewable sources by 2020.

BSTDB participation in financing Petrom Environmental Investment Program is just another such operation. Petrom S.A. is the leading Romanian oil and gas company, which intended to increase its overall environmental, health and safety performance at the corporate level including its exploration, production and refining divisions. The specific environmental investments will target the past pollution clean-up, pipeline replacement, health and safety measures, energy efficiency and other environmental remediation investments.

The Bank also extended an environmental loan to Complexul Energetic Turceni S.A. which is the third largest energy player in Romania and the owner of the largest lignite-fired power plant, with a total installed power of 2,310 MW. The purpose of the transaction was the design, procurement, commissioning and installation of equipment for environmental modernization of its Unit 6 and will allow Turceni to reduce its carbon dioxide emissions by approximately 300,000 tones per year, as well as significantly reduce its sulfur dioxide emissions. This highly developmental and environmental transaction will allow Romania to meet standards of the EU Large Combustion Plant Directive.

Selected BSTDB Financings in 2009

Petrom Environmental Loan, Romania

BSTDB provided a corporate loan to Petrom S.A, the largest Romanian company, aiming at financing its environmental investment program, that includes several projects for pollution clean-up, pipeline replacement, health and safety measures aimed to increase energy efficiency. This loan is a parallel loan to EBRD financing which took form of a syndicated loan and together made a financing package of EUR 300 million. The relationship between the BSTDB and Petrom started in 2002 when the first loan has been provided to the state owned company Petrom and helped achieve privatisation to Austrian OMV at the end of 2004.

Today Petrom is the largest Romanian company, part of OMV group, one of the biggest listed industrial companies in Austria and one of Central Europe’s leading oil and gas corporations.

The operation will play an important role in the improvement of the efficiency of the Romanian oil and gas sector as it will help setting new environmental and health and safety standards for the industry. It will contribute to restoring foreign investors’ confidence in Petrom in this complicated global macroeconomic environment.

Amount: EUR 25,000,000
Type of Financing: Term Loan
Maturity: 7 years

PORTFOLIO DESCRIPTION - 10 years of success

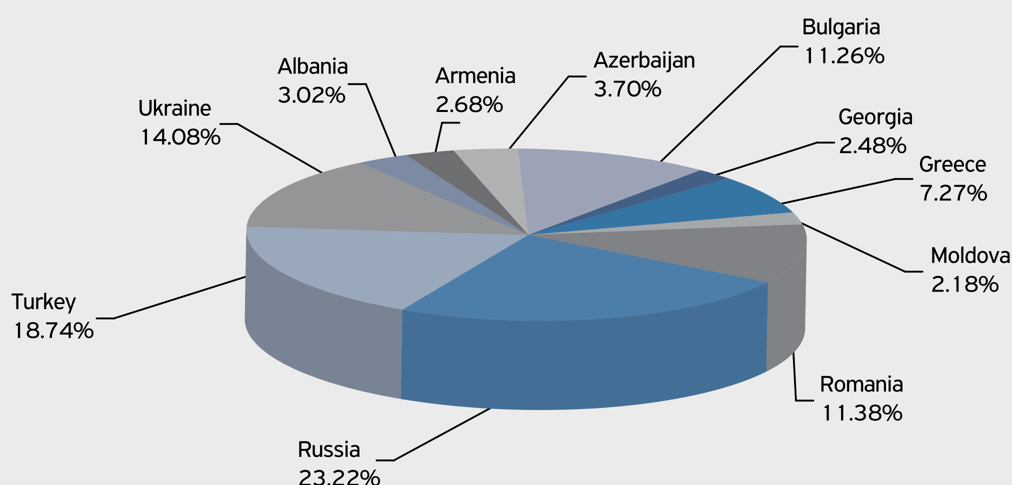
Since the beginning of operations in June 1999, the Bank has approved a number of 203 operations amounting to USD 2.661 million, distributed as follows: 7 in Albania, 10 in Armenia, 18 in Azerbaijan, 23 in Bulgaria, 14 in Georgia, 9 in Greece, 12 in Moldova, 22 in Romania, 42 in Russia, 21 in Turkey, and 25 in Ukraine.

During the same period of time out of the USD 2,661 million approved, 169 operations amounting to USD 2,122 million were signed.

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

Board Approved Operations 1999-2009

Operations Approved by Country (percentage of amount in USD)



Selected BSTDB Financings in 2009

BSTDB Subordinated Loan to Bank Zenit, Russia

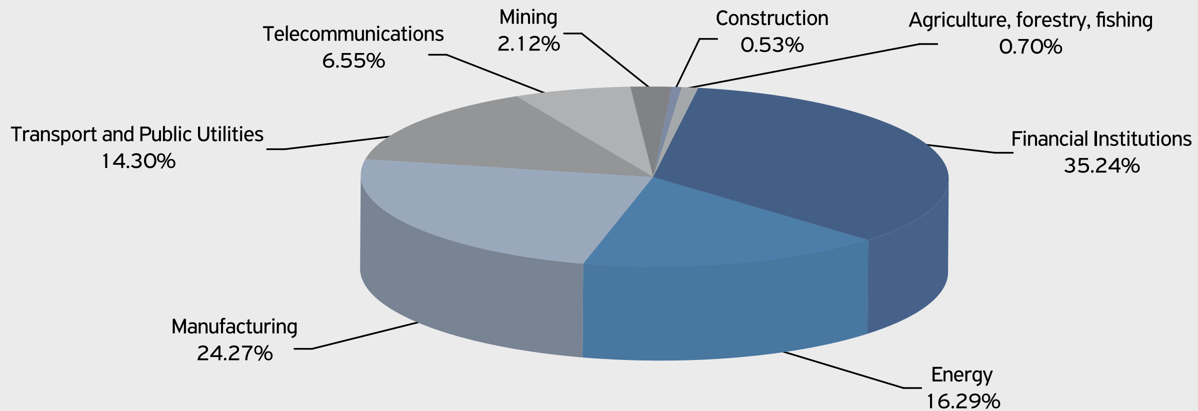
BSTDB provided to Bank Zenit a USD 20 million Subordinated Loan with a tenor of 7 years to strengthen the bank's capital base and support its long-term liquidity.

Bank Zenit ranks among the top 25 Russian Banks in terms of assets. The bank is a visible player in both the Moscow region and the Republic of Tatarstan and offers services to clients operating in various sectors. Bank Zenit's core business is corporate and investment banking, but is also developing retail franchise.

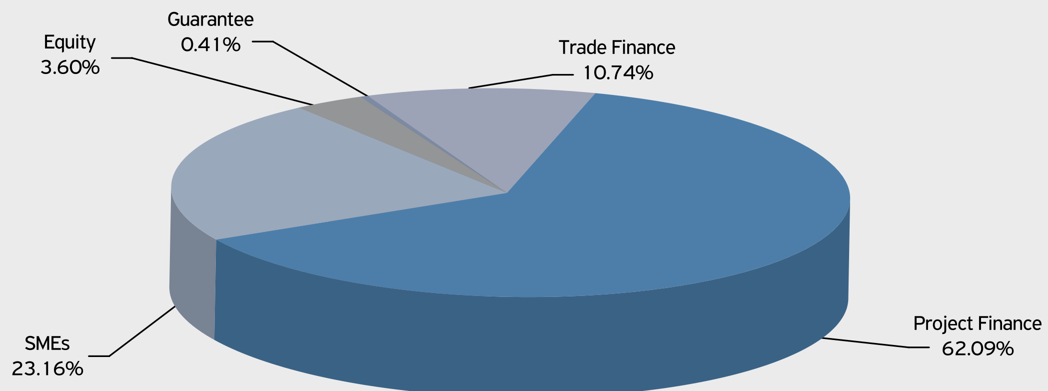
Through this operation BSTDB demonstrates its commitment to the strategic priorities of the government of Russian Federation to support the banking system by strengthening the capital base of the financial institutions. BSTDB is in line with other IFIs supporting banks in the countries where they are present in the challenging times of global economic crisis.

Amount: USD 20,000,000
Type of Financing: Subordinated Loan
Maturity: 7 years

Operations Approved by Sector (percentage of amount in USD)



Operations Approved by Product (percentage of amount in USD)



Selected BSTDB Financings in 2009

Bulgarian Development Bank

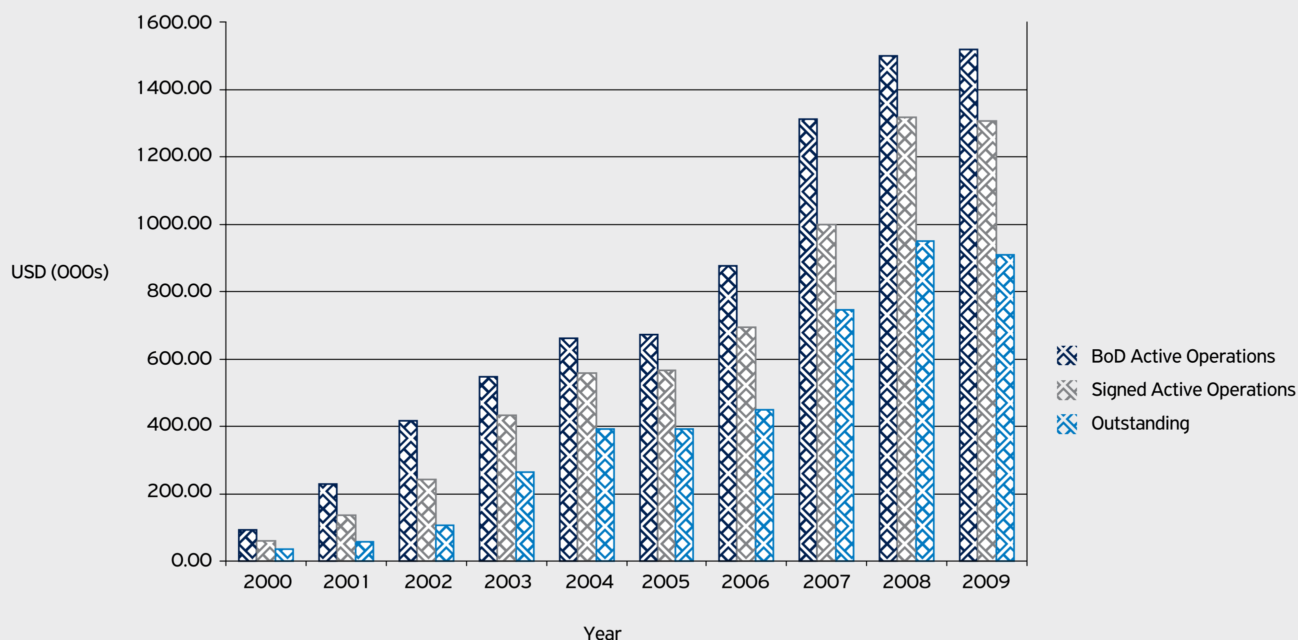
On 9 October 2009 BSTDB signed a loan agreement with Bulgarian Development Bank, providing a EUR 8 million SME Loan Facility with a maturity period of 5 years, including 18 months grace period.

Being solely owned by the Ministry of Finance, Bulgarian Development Bank AD, formerly known as Encouragement Bank AD, was established in March 1999. BSTDB has worked in the past with BDB under a pre-export finance facility.

The medium term finance promotes modernization of equipment and diversification of products and services, as well as contributes to reduction of unemployment through creation of new jobs and income generation for SMEs, therefore creates a positive social and financial impact in the Bulgarian economy.

Amount: EUR 8,000,000
Type of Facility: SME Finance
Maturity: 5 years

The Outstanding Portfolio in Dynamic 1999-2009



Still outstanding and monitored in the active[9] portfolio of the Bank are 90 operations for a total amount of USD 908 million.

Selected BSTDB Financings in 2009

Azer Turk Bank, Azerbaijan

On 21 October 2009 BSTDB signed a loan agreement with a new financial intermediary in Azerbaijan. The Bank provided a US$ 4 million SME Loan Facility to Azer Turk Bank, with a maturity period of 5 years. On April 2005, Azer Turk was registered as Open Joint Stock Company and since 2007 it has established 2 branches.
Its principal business activity is mainly commercial banking operations.

The proceeds of the facility are used by Azer Turk Bank exclusively for the purpose of financing sub-loans to eligible micro, small and medium sized companies in Azerbaijan. The medium term financing of specific projects will help the creation, modernization, expansion and diversification of industrial production, agricultural or service related facilities, while it will strengthen the export and pre-export financing of industrial or agricultural enterprises.

Amount: USD 4,000,000
Type of Facility: SME Finance
Maturity: 5 years

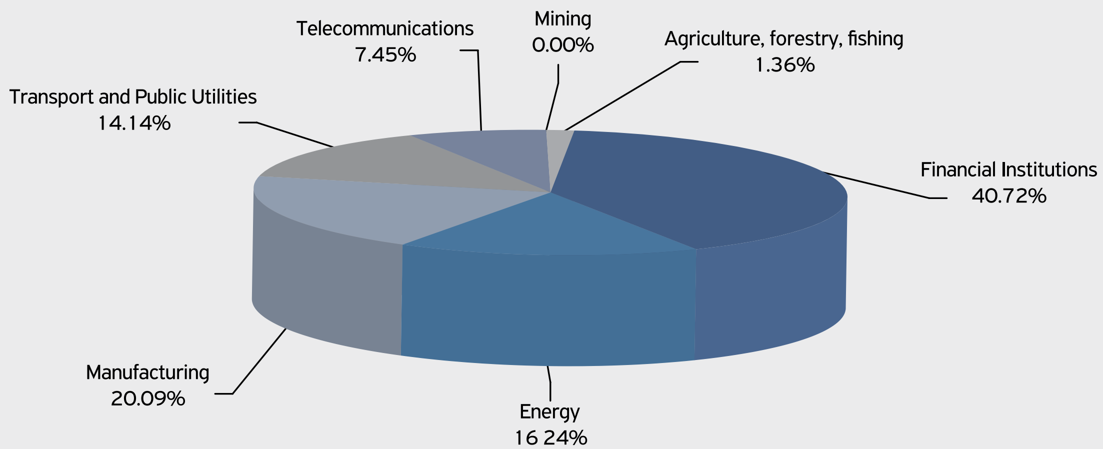
[9] The active operations in the Bank's portfolio are those currently in any of the phases from BoD approval to full repayment (approved, signed, disbursed and in repayment).

At the end of 2009, the Bank's active portfolio had the following structure:

Signed and Outstanding Operations at end 2009

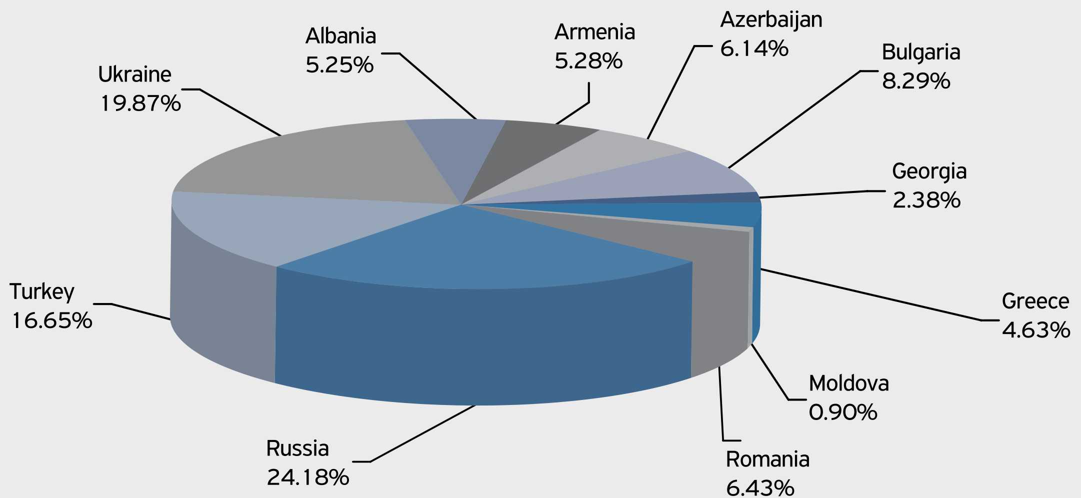
By Sector

The breakdown of the signed operations in the Bank's portfolio of active operations by sector of economic activity is depicted in the following graph:



By Country

The breakdown of the signed operations by country is depicted in the following graph:



Developments During 2009

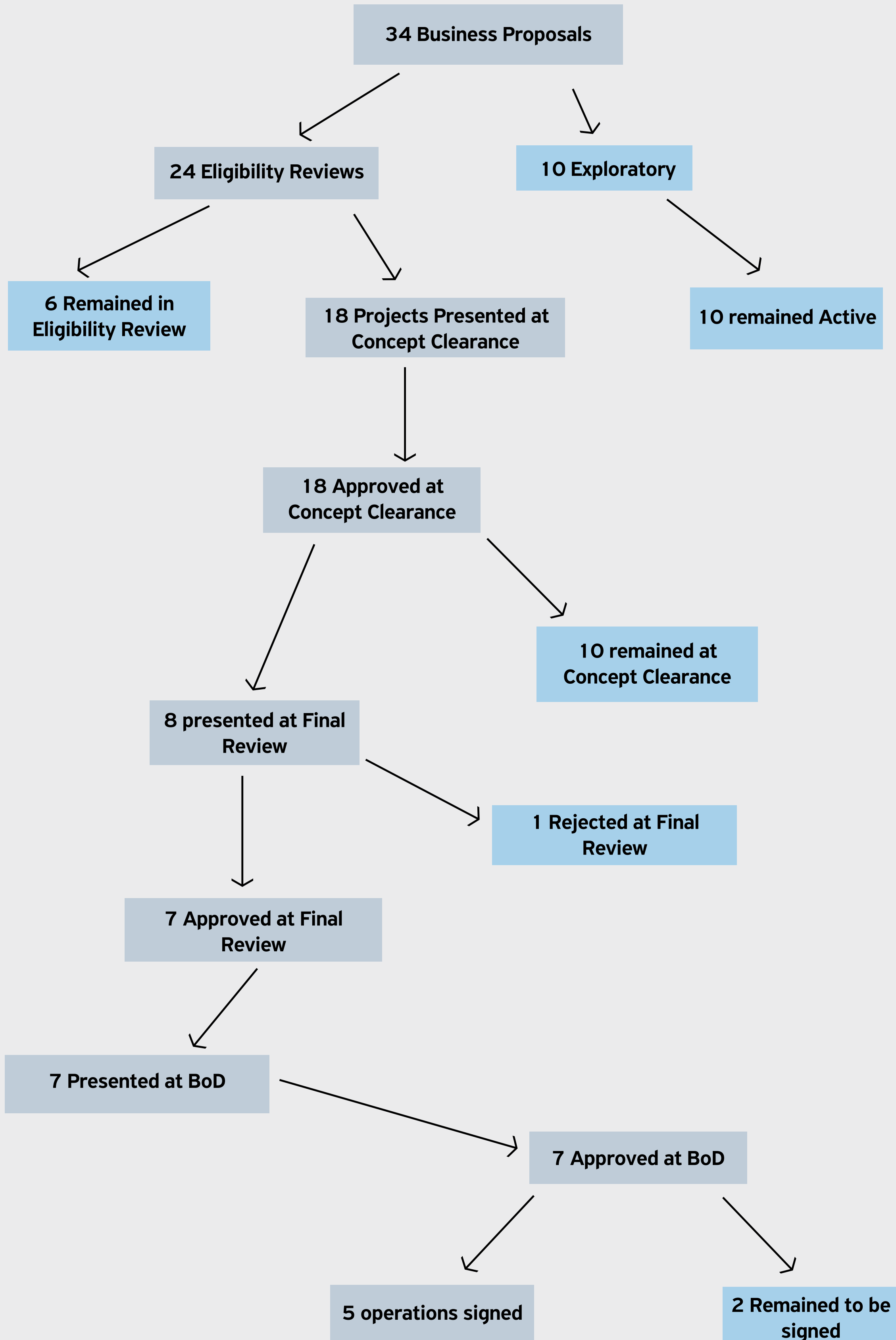
The performance of the Bank in 2009 was in line with expectations. Income reached SDR 9.7 million, which translates into a return on equity of more than 2.5%. Cost/income ratio before provisioning increased to 55%, due to the negative effect of increase in the cost of borrowed funds, while income on equity capital contracted due to the collapse in the base rate to historical low levels. However, the Bank remained profitable due to tight control of expenses, and a postponement of recruitment decisions, and as a result per operational staff was generated operating income of SDR 661,000.

Resources were allocated to maintaining the portfolio quality rather to the expansion of activity. More efforts were devoted to monitoring activities than under normal circumstances, and the Bank acted proactively and restructured a number of operations before they could turn problematic. During the year the portfolio of operations maintained its high quality with no new operation deteriorating to non-performing status.

In 2009 the outstanding portfolio of the Bank remained relatively flat, in line with the approach approved by the annual budget. A highly intensive and selective business development effort resulted in the identification of a number of 34 operations of which 18 passed the Concept Clearance stage to become potential operations. These efforts resulted in a number of 7 operations reaching Board approval stage.

In 2009 the Board of Directors approved 17 operations (10 of which generated in 2008), and 8 operations were signed (3 of which generated in 2008 and approved by the BoD either in 2008 or in 2009) for a total amount of SDR 96 million. The breakdown of the signed operations by country is the following: 3 operations in Russia, 2 in Romania, and 1 each in Azerbaijan, Bulgaria and Turkey. By sector, 5 operations were signed with financial institutions, 2 in energy, and 1 in construction. By product, 3 were project and corporate finance operations, 4 were for SMEs, and 1 was a trade finance operation.

The business generation activity of the Bank in 2009 is described in the following diagram:



Use of Resources

Resources Management

Human Resources

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

HR development

In 2009 the BSTDB continued implementing the HR-Reform. Critical elements of the HR-Reform were and are the HR strategy and the revision of key human resources policies and systems. The HR-Reform's objectives are to obtain a better understanding of Human Resources Management and Development, to increase the clarity, fairness and transparency of HR systems and to bring the policies and processes in line with modern, efficient and international HR practices and standards, accentuating the investment in and development of Human Capital.

Staffing and recruitment

The BSTDB conducts recruitment on a wide geographical basis, with preference being given to the citizens of Member States. At the end of 2009, the BSTDB had a total of 98 employees, from 14 member and non-member countries.

Staff Development

The BSTDB offers learning opportunities addressing the development needs of its staff and the organization's business requirements. In 2009, the majority of these opportunities focused on technical/professional skills development. Emphasis was placed on further development of the professional and technical skills of the staff. Emphasis was given to reflect the business needs in the staff development. Efforts and resources were especially concentrated on the development of new processes and the streamlining of existing ones.

Staff Benefit System

The BSTDB operates a market-oriented staff compensation and benefits policy designed to match the employment standards of other International Financial Institutions. The BSTDB's health and life insurance plan provides medical coverage emphasizing preventive health care.

The BSTDB Pension Plan, implemented in January 2003, is comprised of a fully funded defined benefit scheme and a matched contribution plan. This combination offers the flexibility crucial to best meet the needs of a multinational work force.

Information Technologies

Aligned with the institution's strategic plan, the vision of the IT department is to provide efficiency by managing IT cost and ensure budgeting discipline and increase staff productivity by introducing innovating IT solutions. Based on the above said, the IT Department has carried out the following initiatives:

- It has upgraded its Storage Area Network (SAN) with a new one and has implemented a blade server farm solution eliminating many of its traditional servers.

- It has implemented a server and application virtualization environment using the VMware software, in order to better manage IT cost and IT resources in the area of servers and application requirements, leading toward a greener IT environment, while a desktop virtualization implementation using VMware software is under way.

- It has successfully upgraded its SAP ERP software to the version ECC 6.0 to better capitalize on the SAP functionality and it is carrying out a number of SAP projects in automating the institutions businesses. The SAP infrastructure environment runs exclusively on the VMware software providing the institution with the best usage of the IT resources and budget.

- It has been designing a new website to better reflect the institutions mission, market its products and services, and promote the region. The new web site will be functional in early 2010.

External Relations

In 2009 the Bank further developed its institutional relations with BSEC and other international organizations, while focusing on supporting joint action to analyze the current global economic crisis and its impact on the Black Sea Region and to formulate recommendations on policy and operational responses. On the occasion of its Annual Meeting in Thessaloniki in June 2009, the Bank organized a high profile Regional Economic Forum to review the national policies and international response to the crisis challenges with financial and economic policy-makers from the countries of the Region and leading international financial institutions. BSTDB has actively contributed and sponsored a joint workshop on the impact of the global economic crisis organized by BSEC and World Bank in Istanbul in October 2009 on the occasion of the World Bank and IMF Annual Meetings. In December 2009, the Bank hosted a workshop for national bankers and academics, as well as international experts to exchange views on the impact of the global economic crisis on the regional economies, co-organized with UNDP, ICBSS, and BSEC Business Council with participation of EIB and OECD. In November 2009, the Bank supported a regional forum in Thessaloniki discussing investment opportunities in the Black Sea and Caspian Sea region in the post crisis era, organized by the Union of Greek Industrialists and the Union of Black Sea and Caspian Confederation of Enterprises (UBCCE).

Enhanced cooperation with the Organization of the Black Sea Economic Cooperation (BSEC) and its family institutions remained an important priority. The Bank intensified its collaboration with relevant BSEC bodies dealing with the preparation of the Black Sea Ring Highway and Motorways of the Sea projects initiated by BSEC, as well as with the BSEC Working Group on Banking and Finance and Working Group on Energy.

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

While maintaining the established institutional relations with Observer institutions, the Bank continued to attract other IFIs to coordinate and develop joint business activities in the Black Sea Region. In June 2009 BSTDB granted the Observer Status to the International Investment Bank (IIB) headquartered in Moscow, which became the 6th Observer institution at BSTDB. Negotiations on closer cooperation opportunities and the BSTDB Observer Status started with IFC and PROPARCO, the French development assistance agency.

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

In 2009 BSTDB renewed its membership in the Institute of International Finance (Washington).

In 2009 the Bank also hosted the meeting of the Heads of Procurement (HOP) of the Multilateral Development Banks with representatives of the African Development Bank, the Asian Development Bank, the Caribbean Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Inter-American Development Bank, and the World Bank. The meeting was highly productive as a number of issues were discussed and some critical decisions were reached. Among many others, the HOPs endorsed the draft harmonized Request for Proposals document for Consultant Selection, adopted the final version of the harmonized Master Procurement Document for civil works, agreed to take common action on the use of new forms of contract, such as framework agreements, and to issue a harmonized guidance note on public-private partnerships. Prior to their meeting, the HOP held consultations with the representatives of the Confederation of International Contractors' Association (CICA) and the International Federation of Consulting Engineers (FIDIC) on issues related to integrity and transparency, selection criteria for consultants and contractors as well as on the future use of country systems in procurement.

BSTDB continued taking active part in relevant international business events, delegating 23 speakers to conferences and events to promote its activities in the Region.

On the occasion of the 10th anniversary of its operational activities in the Black Sea Region, the Bank published a corporate book "10 years of BSTDB: Challenges, Achievements and Prospects" highlighting the Bank's milestones and presenting views of international experts on the economic development of the Region.

Planning and Budgeting

The Bank's planning and budgeting process is centred on the Bank's four year Medium-term Strategy and Business Plan. The Medium-term Strategy and Business Plan

focuses on each major operational and financial activity in the Bank, is further detailed at country level in the respective country reports, and is implemented through annual budgets. The budget documentation includes short-term strategies, operational targets, work programs and related financial reports.

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

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

The Bank has also established Management Information Systems to support its internal structure by providing detailed financial and management information. This data is utilised for decision-making, performance reporting, monitoring and internal control purposes.

Financial Management

Business Volume

In this year of operation, the Bank's total assets reached SDR 733 million at the end of the year against SDR 815 million at end 2008. The size of the Bank's outstanding loan and equity portfolios were SDR 582 million compared to SDR 617 million in the previous year. Funds committed but not yet disbursed stood at SDR 88 million.

Revenues

Total income from lending activities was SDR 31,742 thousand during the year from SDR 38,555 thousand in 2008. This decrease was due to the lower average level of market interest rates across the SDR basket currencies.

Treasury activities in 2009 generated total interest income of SDR 3,106 thousand from its available for sale and held to maturity portfolios. Operating income for the year was SDR 20,990 thousand compared to SDR 28,985 thousand in 2008.

Expenses

Interest expense for the year was SDR 13,671 thousand compared to SDR 16,362 thousand in 2008. This reduction was due principally to the lower prevailing USD market interest rates.

Administrative expenses, including depreciation, in 2009 were SDR 11,636 thousand, a marginal increase of SDR 79 thousand over the previous year. Administrative expenses include salaries, benefits and other administrative costs.

Salaries and benefits, in the amount of SDR 8,963 thousand showed an increase of SDR 300 thousand from the previous year. This included a supplementary amount of SDR 38 thousand recognised in the actuarial valuation of the Bank's staff retirement plan. Other administrative costs had a decrease from the previous year in an amount of SDR 194 thousand.

Overall, administrative expenses were well within the 2009 Budget, reflecting the Bank's focus on budgetary discipline and effective cost controls.

Net Income

Income before impairment during the year was SDR 9,354 thousand compared to SDR 17,428 in 2008. Impairment gains in an amount of SDR 353 thousand were due to the decrease in general provisions consistent with a smaller loan portfolio.

The Bank posted net income for the year of SDR 9,707 thousand. The quality of the lending portfolio remained sound, experiencing no additional impaired operations.

Capital Base

Existing Share Capital

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

Azerbaijan would take up this 3 percent of unsubscribed shares. The additional subscription amount was fully paid in 2009.

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

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

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

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

New subscribed share capital

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

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

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

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

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

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

- To satisfy demand for shares expressed by Member States;

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

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

Gearing Ratio

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

The Bank's institutional gearing ratio, the statutory limit on the total amount of ordinary operations (outstanding loans, equity investments and guarantees) is 150% of the Bank's unimpaired subscribed capital, reserves and surpluses, which at the end of 2009 stood at about SDR 1.6 billion.

The operational gearing ratio was set at 100% of the Bank's unimpaired paid-up capital, reserves and surpluses and the usable portion of callable capital, that limit the total amount of operations at approximately SDR 1.1 billion.

Provisioning

The IFRS – compliant provisioning policy is designed to ensure that the level of general provisions is commensurate with overall portfolio risk levels. While each operation contributes to the general provisions, specific provisions are only allocated if and when a specific operation encounters difficulties. Total provisions at end of 2009 stood at SDR 30,108 thousand, equivalent to 5.3% of the outstanding loan portfolio.

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

Reserves and Surplus

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

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

Market Risks

Market risk management is conducted within a framework of conservative risk limits and policy documents approved by the Board of Directors. More specific subsidiary documents detailing credit risk parameters, liquidity restrictions, interest rate and foreign exchange risk are approved on an ongoing basis by the appropriate executive committees.

It is the policy of the Bank to take no significant interest rate or foreign exchange exposure. Asset and liability maturities and interest rate tenors are matched wherever possible and the SDR denominated capital, reserves and surpluses are invested in the SDR constituent currencies at weightings intended to keep foreign exchange exposure to a minimum.

Operational Risks

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

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

The Bank utilized in the past the Basic Indicator Approach (BIA) as issued by the Basel Committee to quantify operational risk incurred[10]. Following the global trends and the Board of Directors guidance for tighter risk management measures and in order to protect its best interest, the Bank decided to apply a more conservative approach and to utilize the Standardized Approach (SA).

Should the Bank quantify the operational risk embedded in its operations, it would, with the use of SA amount to SDR 6.4 million for 2009 (SDR 5.7 million with the use of BIA) and SDR 6.0 million for 2008 (SDR 5.3 million with the use of BIA), constituting a fraction of the Bank's total reserves amount, which represents the ultimate protection of the Bank's capital against impairment resulting from credit losses in excess of provisions, or

[10] Banks using the BIA must hold capital for operational risk equal to the average over the previous three years of a fixed percentage of positive annual gross income. Figures for any year in which annual gross income is negative or zero, should be excluded from both the numerator and denominator when calculating the average. In the Standardized Approach, banks' activities are divided into eight business lines: corporate finance, trading & sales, retail banking, commercial banking, payment & settlement, agency services, asset management, and retail brokerage. Within each business line, gross income is a broad indicator that serves as a proxy for the scale of business operations and thus the likely scale of operational risk exposure within each of these business lines. The capital charge for each business line is calculated by multiplying gross income by a factor (denoted beta) assigned to that business line.

losses due to market, operational and compliance risks. There is no general accepted methodology for calculating risks associated with compliance and other "black swan" type of events. Therefore, the Establishing Agreement requires the Bank to maintain a relatively high percentage of its portfolio and reserves[11].

Short Term Liquidity

The Bank's short term liquidity totalling SDR 112,015 thousand as at 31 December 2009 was invested in two types of money market instruments:

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

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

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

The Banks liquidity ratio calculated as liquid assets over 12 months net cash requirements including signed undisbursed commitments, stood at 69% on 31 December 2009.

Borrowing

At end of 2009, the Bank had issued a bond for USD 125 million and had signed loan agreements equivalent to EUR 65 million and USD 410 million. As the size of the Bank's operation portfolios continue to increase, and taking into consideration its minimum liquidity requirements, the Bank will access sources of long term funds in 2010.

The Bank has a long term investment grade credit rating from Moody's Investor Service of Baa1 (with a positive outlook) and a short term rating P2.

Risk Analysis

An independent financial analysis is performed for each of the Bank's operations. Corporate entities are initially subject to an assessment of creditworthiness based on historical financial statements.

This is followed by cash flow modelling for the life of the proposed operation and stress testing of key assumptions. For financial institutions risk analysis is based on quantitative methodology (i.e. capitalisation, asset quality, liquidity and foreign exchange risk) supported by comparisons of key ratios to industry standards.

Risk Mitigation

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

Evaluation

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

Preferred Creditor Status

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

- Not reschedule debt payments or participate in debt rescheduling agreements with respect to its loans to, or guaranteed by, its member countries of operations.

- Not reschedule its loans to private sector borrower where the borrower's inability or anticipated inability to service its debt is due to a general foreign exchange shortage in the borrower's country.

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

Corporate Governance

Management Structure

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

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

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

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

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

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

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

Compliance

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

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

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

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

Reporting and Disclosure

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

With respect to external financial reporting, the Bank presents financial statements in its quarterly Summary Statements and in the Annual Report. Pursuant to Article 35 of the Establishing Agreement, these reports are transmitted to the Governments of the Member States (Annual Report only), members of the Board of Governors and Directors and the BSEC Permanent International Secretary.

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

Internal Audit

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

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

External Auditors

The External Auditors are appointed by the Board of Governors upon the recommendation of the Board of Directors. They are qualified outside auditors of international reputation and appointed for a term of one year, renewable further on such terms and conditions as approved by the Board of Directors.
The External Auditors' services are limited only to audit related services, but may be subject to certain exceptions that are in the interest of the Bank. The performances and independence of the External Auditors are assessed by the Audit Committee.

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

Internal Controls Over Financial Reporting

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

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

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

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

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

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

Based on the successful first implementation of Internal Controls over Financial Reporting in 2008, the Bank proceeded with a further improvement of its existing mechanism to the establishment of an Enterprise Risk Management system. The implementation of Enterprise Risk Management exercise for the year 2009 involved the identification and inclusion in scope of additional processes to facilitate a Bank-wide system of controls, including automated information controls.
The Enterprise Risk Management exercise (ERM) was implemented following COSO Internal Control Framework and Enterprise Risk Management methodology, as a basis. The exercise was broken down and executed in 5 phases, as indicated in figure 1.

Figure 1 - Internal Controls over Financial Reporting - Phases

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

A Working Group was established with representatives from all the Bank's Divisions (phase 2), to assist in the documentation of internal processes and the evaluation of the internal controls mechanism.

Each process was documented in 3 ways: in a Narrative, a Flowchart and a Risk Assessment Matrix.

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

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

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

Factors that were considered during the overall risk assessment were the following:

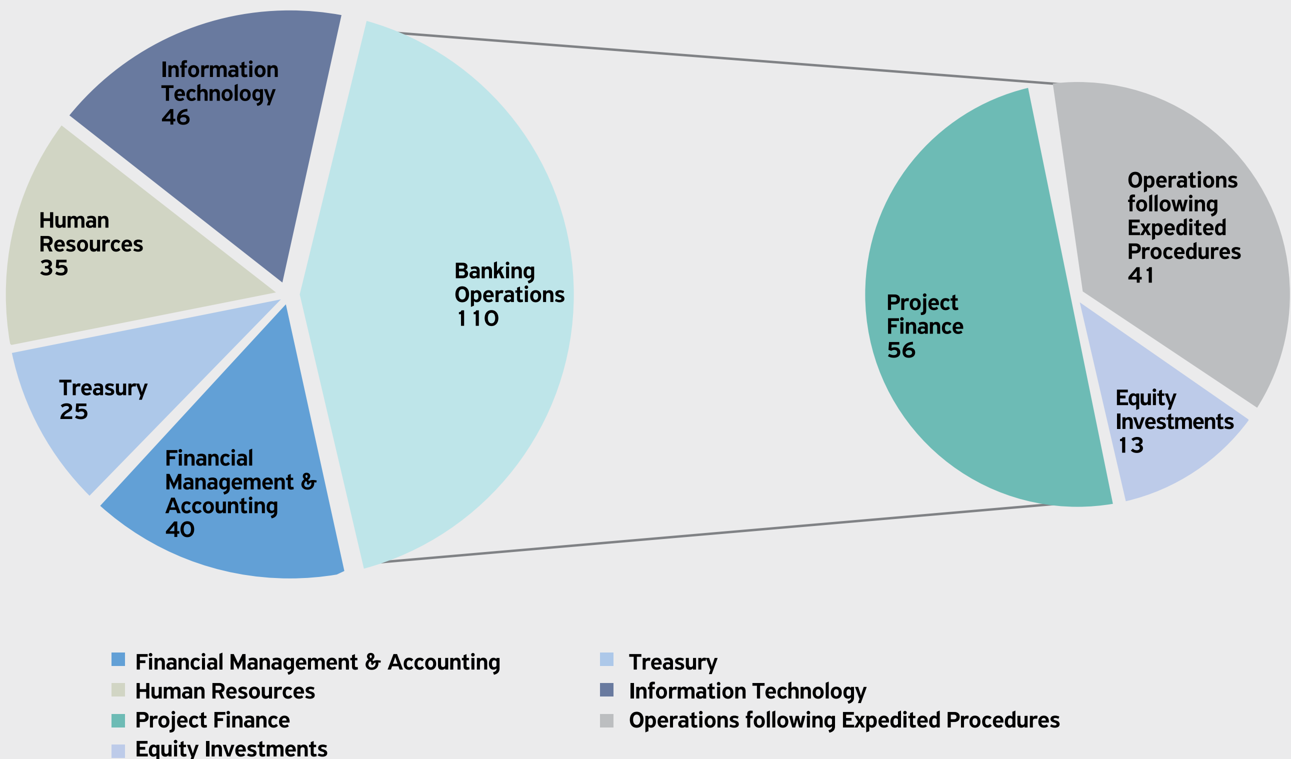
- The size and complexity of the organization
- The nature of the organization's operations
- The purpose for which monitoring is being conducted, and
- The relative importance of the underlying controls in meeting the organization's objectives

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

The major processes that were in scope of the Internal Controls over Financial Reporting exercise for 2009 were the following:

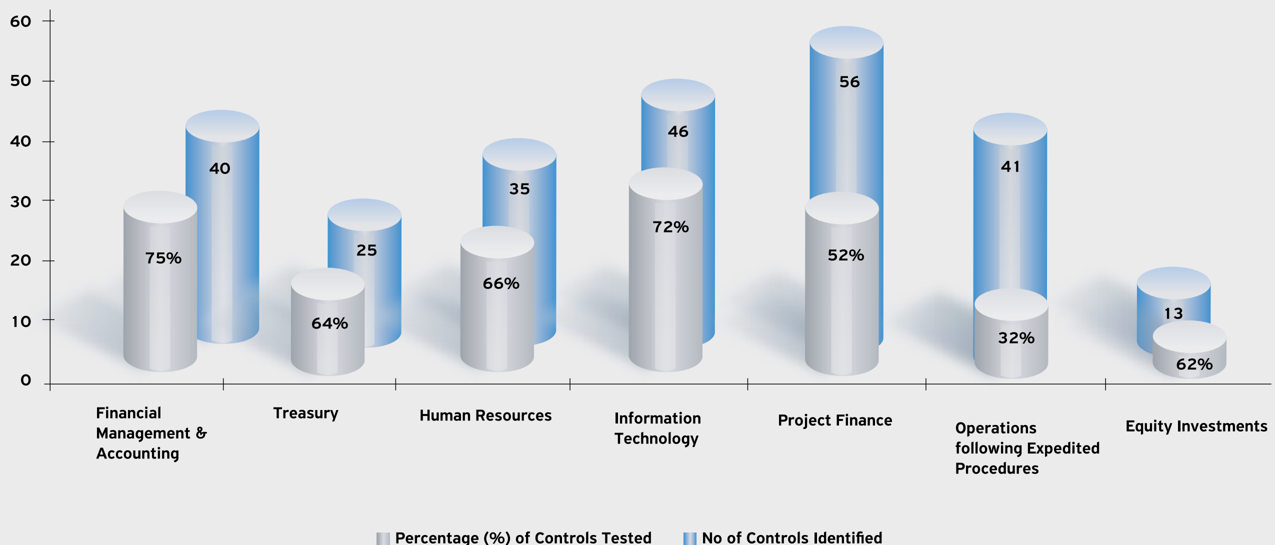
- Banking Operations
- Project Finance
- Operations Following Expedited Procedures
- Equity Investments
- Financial Management & Accounting
- Treasury Operations
- Information Technology
- Human Resources

Figure 2 - Processes and number of controls per process



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

Figure 3 - Controls Coverage per Process



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

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

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

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

Financial Statements and Notes

Financial Statements for the Year Ended
31 December 2009

Statement of comprehensive income

For the year ended 31 December 2009

Presented in thousands of SDR	Note	2009	2008
Interest and similar income	2	32,023	42,377
Interest and similar expense	3	(13,671)	(16,362)
Net interest income		**18,352**	**26,015**
Fees and commission income	4	2,825	3,138
Fees and commission expense	5	(340)	(492)
Dividend income		40	46
Net gains from available-for-sale equity investments		0	475
Net gains from available-for-sale treasury assets		95	24
Net income (loss) on foreign exchange		26	(268)
Other income (expense)		(8)	47
Operating income		**20,990**	**28,985**
Administrative expenses	6,20	11,345	11,249
Depreciation and amortisation	13,14	291	308
Income before impairment		**9,354**	**17,428**
Impairment losses (gains) on loans	7	(353)	4,388
Net income for the year		**9,707**	**13,040**
Earnings per share	17	0.032	0.044

Comprehensive income for the year			
Net income for the year		9,707	13,040
Net gains (losses) from available-for-sale financial assets	18	6,568	(4,043)
Total comprehensive income for the year		**16,275**	**8,997**

The accompanying notes are an integral part of this statement.

Statement of financial position

At 31 December 2009

Presented in thousands of SDR	Note	2009	2008
Assets			
Cash and bank balances	19	11,203	5,223
Placements with financial institutions	19	0	454
Debt investment securities:			
Available-for-sale		58,058	34,837
Held-to-maturity	19	100,812	165,857
Total deposits and securities		170,073	206,371
Derivative financial instruments	8	0	961
Loans	9,11	568,587	606,746
Less: impairment losses on loans	7	(30,108)	(30,838)
Loans net of impairment		538,479	575,908
Equity investments:			
Available-for-sale	10,11	13,284	9,765
Other assets	12	9,917	21,340
Property and equipment	13	280	297
Intangible assets	14	572	402
Total Assets		**732,605**	**815,044**
Liabilities			
Borrowings	15	360,351	459,295
Derivatives financial instruments	8	1,129	0
Payables and accrued interest	16	2,824	5,348
Deferred income	4	4,867	4,741
Total liabilities		369,171	469,384
Members' Equity			
Authorised share capital	17	3,000,000	3,000,000
Less: unallocated share capital	17	(1,000,000)	(1,000,000)
Subscribed share capital	17	2,000,000	2,000,000
Less: callable share capital	17	(1,400,000)	(1,400,000)
Less: payable share capital	17	(298,501)	(300,000)
Advance against future call	17	32	32
Paid-in share capital		301,531	300,032
Reserves	18	27,685	18,309
Retained earnings		34,218	27,319
Total members' equity		363,434	345,660
Total Liabilities and Members' Equity		**732,605**	**815,044**
Off-balance-sheet items			
Commitments	11	88,459	122,432

The accompanying notes are an integral part of this statement.

Statement of changes in members' equity

For the year ended 31 December 2009

Presented in thousands SDR	Share capital					
	Subscribed	Callable	Payable	Reserves	Retained earnings	Total
At 31 December 2007	**970,000**	**(679,000)**	**35**	**18,544**	**18,087**	**327,666**
Reallocated share capital	30,000	(21,000)	0			9,000
Increase in share capital	1,000,000	(700,000)	(300,000)			0
Net (loss) of available-for-sale				(4,043)		(4,043)
Income recognised directly in equity				(4,043)		(4,043)
Net income for the year					13,040	13,040
Total comprehensive income for the year				(4,043)	13,040	8,997
Advance against future call			(3)			(3)
General reserve				3,808	(3,808)	0
At 31 December 2008	**2,000,000**	**(1,400,000)**	**(299,968)**	**18,309**	**27,319**	**345,660**
Paid-in share capital			1,499			1,499
Net gain of available-for-sale				6,568		6,568
Income recognised directly in equity				6,568		6,568
Net income for the year					9,707	9,707
Total comprehensive income for the year				6,568	9,707	16,275
General reserve				2,808	(2,808)	0
At 31 December 2009	**2,000,000**	**(1,400,000)**	**(298,469)**	**27,685**	**34,218**	**363,434**

The accompanying notes are an integral part of this statement.

Statement of Cash Flows

For the year ended 31 December 2009

Presented in thousands of SDR	Note	2009	2008
Cash flows from operating activities			
Net income for the year		9,707	13,040
Adjustment for:			
Impairment losses on loans		(353)	4,388
Depreciation and amortisation		291	308
Interest and similar income		(32,023)	(42,377)
Interest and similar expense		13,671	16,362
Foreign exchange adjustments on provisions		(377)	604
Operating income before changes in operating assets		(9,084)	(7,675)
Derivative movements		2,090	(723)
Increase in other assets		1,506	(2,595)
Decrease in accounts payable		199	269
Increase in deferred income		126	1,541
Interest and similar income received		34,627	40,872
Interest and similar expense paid		(16,394)	(13,442)
Fair value movements		6,568	(4,043)
Cash generated from operations		19,638	14,204
Proceeds from repayment of loans		243,421	245,149
Proceeds from repayment of equity investments		1,799	7,180
Funds advanced for loans		(205,262)	(386,264)
Funds advanced for equity investments		(5,318)	(9,054)
Net cash used in operating activities		54,278	(128,785)
Cash flows from investing activities			
Proceeds from available-for-sale investment securities		9,332	15,743
Purchase of available-for-sale investment securities		(32,553)	(6,018)
Purchase of property, technology and equipment		(444)	(250)
Net cash used in investing activities		(23,665)	9,475
Cash flows from financing activities			
Increase in paid-in share capital		1,499	9,000
Decrease (increase) in share capital receivable		7,313	(6,859)
Decrease in advance against future call		0	(3)
Paid-in share capital received		8,812	2,138
Proceeds from borrowings		221,128	454,531
Repayments of borrowings		(320,072)	(227,031)
Net cash provided by financing activities		(90,132)	229,638
Net increase (decrease) in cash and cash equivalents		**(59,519)**	**110,328**
Cash and cash equivalents at beginning of year		171,534	61,206
Cash and cash equivalents at end of year	19	**112,015**	**171,534**

The accompanying notes are an integral part of this statement.

Accounting Policies

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

Establishment of the bank

Agreement Establishing the Bank

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

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

As at 31 December 2009 the Bank's shareholders comprised 11 countries: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russian Federation, Turkey and Ukraine.

Headquarters Agreement

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

Approval of Financial Statements

The financial statements for 2009 were submitted by the Management Committee to the Board of Directors for approval on 16 April 2010, and were approved on that date. Pursuant to Article 23 of the Establishing Agreement, these financial statements shall be subject to approval by the Board of Governors in their Annual Meeting to be held on 13 June 2010.

Basis of financial statements

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

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

Foreign currencies

Foreign currency transactions are initially recorded in SDR by applying to the foreign currency amount the exchange rate between the SDR and the foreign currency at the rate prevailing on the date of transaction. Exchange gains and losses arising from the translation of monetary assets and liabilities at the end of year exchange rates are taken to income. Exchange rates used by the Bank at the financial position date were as follows:

		31 December 2009	31 December 2008
1 SDR	= United States dollar	1.56769	1.54027
	= Euro	1.08875	1.10177
	= Japanese yen	144.88600	139.30194
	= Pound sterling	0.96801	1.05657
	= Azerbaijan manta	1.25964	1.23761
	= Romanian lei	4.63308	4.44861

Recognition and derecognition

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

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

Cash and cash equivalents

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

Financial instruments

Financial instruments are composed into financial assets, financial liabilities and derivatives.

Financial assets

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

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

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

Loans and Receivables

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

Held-to-Maturity

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

Available-for-Sale

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

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

Financial liabilities

Financial liabilities include borrowings and other liabilities.

Borrowings

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

Other Liabilities

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

Derivatives

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

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

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

Impairment

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

Financial Assets Carried at Amortised Cost

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

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

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

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

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

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

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

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

Available-for-Sale Financial Assets

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

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

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

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

Non Financial Assets

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

Renegotiated Loans

When necessary, the Bank seeks to restructure loans that may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due.

Risk Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. These loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Financial guarantees

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

Property and equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is provided so as to write off the cost of each asset to their residual values on a straight-line basis over their estimated useful lives. The annual depreciation rates applied were as follows:

- Expenditure on leasehold buildings and improvements are depreciated over the remaining term of the lease	-
- Transportation vehicles	20.0%
- Furniture and office accessories	20.0%
- Personal computers	33.3%
- Office and telecommunication equipment	20.0%

Intangible assets

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

Taxation

In accordance with Article 52 of the Establishing Agreement, the Bank, its assets, property, income and its operations and transactions are exempt from all taxation and all customs duties in Greece. The Bank is also exempt from any obligation for payment, withholding or collection of any tax or duty. Also no tax shall be levied on salaries or emoluments paid by the Bank to employees. These tax exemptions are enforced by the Headquarters Agreement of Article 12, and have been implemented by the Greek Government by virtue of the ratification of Law 2380/No.38/7.3.1996.

Other provisions

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

Share capital and dividends

In accordance with Article 36 of the Establishing Agreement, the Board of Governors shall determine annually what part of net income or surplus of the Bank from operations shall be allocated to reserves, provided that no part of the net income or surplus of the Bank shall be distributed to members by way of profit until the general reserves of the Bank shall have attained the level of ten (10%) per cent of the subscribed capital including all paid, unpaid but payable, and unpaid but callable share capital.

Reserves

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

The revaluation reserve is created by the unrealised profit or loss from the available-for-sale investments of the Bank.

Retained earnings

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

Netting of assets and liabilities

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

Revenues and expenses

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

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

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

Staff retirement and termination benefits

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

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

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

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

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

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

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

Government grants

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

Operating leases – the bank as a lessee

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

Use of judgement and estimates

The preparation of financial statements involves management estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Actual results could differ from those estimates. Differences in judgement may affect impairment losses on loans and the staff retirement plan as referred in these notes. Such differences are believed not material and do not affect these financial statements.

New accounting standards and interpretations of iasb

A) Changes in accounting policies and disclosures. The accounting policies adopted are consistent with those of the previous financial year except as follows. The Bank has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2009:

- IFRS 1 First-time Adoption of International Financial Reporting Standards (Amended) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 January 2009.
- IFRS 2 Share-based Payment: Vesting Conditions and Cancellations (Amended) effective 1 January 2009.
- IFRS 7 Financial Instruments: Disclosures (Amended) effective 1 January 2009.
- IFRS 8 Operating Segments effective 1 January 2009.
- IAS 1 Presentation of Financial Statements (Revised) effective 1 January 2009.
- IAS 23 Borrowing Costs (Revised) effective 1 January 2009.
- IAS 32 Financial Instruments: Presentation (Amended) and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation (Amended) effective 1 January 2009.
- IFRIC 9 Remeasurement of Embedded Derivatives (Amended) and IAS 39 Financial Instruments: Recognition and Measurement (Amended) effective for periods ending on or after 30 June 2009.
- IFRIC 13 Customer Loyalty Programmes effective 1 July 2008.
- IFRIC 15 Agreements for the Construction of Real Estate effective 1 January 2009.
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation effective 1 October 2008.
- IFRIC 18 Transfers of Assets from Customers effective 1 July 2009.
- Improvements to IFRSs (May 2008).

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

IFRS 1: First-time Adoption of International Financial Reporting Standards and IAS 27, Consolidated and Separate Financial Statements as amended (effective for annual periods beginning on or after 1 January 2009).

The amendments to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in income in the separate financial statement. The amendment to IAS 27 will have to be applied prospectively. The new requirements affect only the parent's separate financial statement and do not have an impact on the consolidated financial statements. The Bank concluded that this amendment has no impact on its financial statements.

IFRS 2: Amendments to IFRS 2 Share Based Payment – Vesting Conditions and Cancellations (effective for financial years beginning on or after 1 January 2009).

The amendment clarifies two issues: the definition of "vesting condition", introducing the term "non-vesting condition" for conditions other than service conditions and performance conditions. It also clarifies that the same accounting treatment applies to awards that are effectively cancelled by either the entity or the counterparty. The amendment has not yet been endorsed by the EU. The Bank concluded that this amendment did not impact on the financial position or performance, as the Bank has not entered into any such arrangements.

IFRS 7: Financial Instruments: Disclosures as amended (effective for annual periods beginning on or after 1 January 2009).

The amendment requires fair value measurements to be disclosed by the source of inputs, using the following three-level hierarchy: (a) Quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1). (b) Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2). (c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3). This information must be given by class of financial instrument. The amendment also revises specified minimum liquidity risk disclosures. This amendment has resulted in additional disclosures in the Bank's financial statements.

IFRS 8: Operating Segments (effective for financial years beginning on or after 1 January 2009).

The Standard replaces IAS 14 Segment Reporting and adopts a management approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the balance sheet and income statement and entities will need to provide explanations and reconciliations of the differences. This change did not have any significant impact on the Bank's segment disclosures.

IAS 1: Amendments to IAS 1 Presentation of Financial Statements (effective for financial years beginning on or after 1 January 2009).

The Standard has been revised to enhance the usefulness of information presented in the financial statements. Of the main revisions are the requirement that the statement of changes in equity includes only transactions with shareholders; the introduction of a new statement of comprehensive income that combines all items of income and expense recognised in profit or loss together with "other comprehensive income"; and the requirement to present restatements of financial statements or retrospective application of a new accounting policy as at the beginning of the earliest comparative period, i.e. a third column on the balance sheet. The Bank made the necessary changes to the presentation of its financial statements.

IAS 23: Amendment to IAS 23 Borrowing Costs (effective for financial years beginning on or after 1 January 2009).

The benchmark treatment in the existing standard of expensing all borrowing costs to the income statement is eliminated in the case of qualifying assets. All borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset must be capitalised. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements of the Standard, the Bank will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes were made for borrowing costs incurred to this date that have been expensed.

IAS 32: Amendments to IAS 32 and IAS 1 Puttable Financial Instruments (effective for financial years beginning on or after 1 January 2009).

The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. This amendment did not have any impact on the Bank.

IAS 39: Financial Instruments: Recognition and Measurement and IFRIC 9, Reassessment of Embedded Derivatives as amended (effective for annual periods ending on or after 30 June 2009).

This amendment clarifies the accounting treatment of embedded derivatives for entities that make use of the Reclassification Amendment issued by the IASB in October 2008. The reclassification amendment allows entities to reclassify particular financial instruments out of the 'fair value through profit or loss' category in specific circumstances. These amendments to IFRIC 9 and IAS 39 clarify that on reclassification of a financial asset out of the 'fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for in financial statements. The amendments apply retrospectively and are required to be applied. This amendment is not relevant to the Bank.

IFRIC 13: Customer Loyalty Programmes (effective for financial years beginning on or after 1 July 2008).

This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Bank did not have any customer loyalty programmes, where credits are awarded to customers, nor does it envision of any such schemes in the near future. Therefore, it is not applicable to the Bank's operations.

IFRIC 15: Agreements for the Construction of Real Estate (was issued on 3 July 2008 and is effective for annual periods beginning on or after 1 January 2009 and must be applied retrospectively).

This provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 'Construction Contracts' or IAS 18 'Revenue' and, accordingly, when revenue from such construction should be recognised. This interpretation is not relevant to the Bank's operations as all revenue transactions are accounted for under IAS 18 and not IAS 11.

IFRIC 16: Hedges of a Net Investment in a foreign operation (effective for financial years beginning on or after 1 October 2008 and is to be applied prospectively).

This interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risk that qualifies for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how the entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. This interpretation has no impact on the financial statements because the Bank has no investments in foreign operations.

IFRIC 18: Transfers from Customers (effective for financial years beginning on or after 1 July 2009 and is to be applied prospectively. However, limited retrospective application is permitted).

This Interpretation is of particular relevance for the utility sector as it clarifies the accounting for agreements where an entity receives an item of PP&E (or cash to construct such an item) from a customer and this equipment in turn is used to connect a customer to the network or to provide ongoing access to supply of goods/services. The Bank is in the process of assessing the impact of this interpretation on its financial statements.

In May 2008 the IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The effective dates of the improvements are various and the earliest is for the financial year beginning 1 January 2009.

• **IFRS 5:** Non-current Assets Held for Sale and Discounted Operations
The amendment clarifies that all of a Non-current Assets Held for Sale and Discontinued Operations subsidiary's assets and liabilities are classified as held for sale, under IFRS 5, even when the entity will retain a non-controlling interest in the subsidiary after the sale.

• **IFRS 7:** Financial Instruments: Disclosures
This amendment removes the reference to 'total interest income' as a component of finance costs.

• **IAS 1:** Presentation of Financial Statements
This amendment clarifies that assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the balance sheet.

• **IAS 8:** Accounting Policies, Changes in Accounting Estimates and Errors
This amendment clarifies that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.

• **IAS 10:** Events after the Reporting Period
This amendment clarifies that dividends declared after the end of the reporting period are not obligations.

• **IAS 16:** Property, Plant and Equipment
This amendment clarifies that items of property, plant & equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds on sale are subsequently shown as revenue. IAS 7 Statement of cash flows is also revised, to require cash payments to manufacture or acquire such items to be classified as cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also shown as cash flows from operating activities.

• **IAS 18:** Revenue
This amendment replaces the term 'direct costs' with 'transaction costs' as defined in IAS 39.

• **IAS 19:** Employee Benefits
This amendment revises the definitions of 'past service costs', 'return on plan assets' and 'short-term' and 'other long term' employee benefits to focus on the point in time at which the liability is due to be settled.

• **IAS 20:** Accounting for Government Grants and Disclosure of Government Assistance
Loans granted with no or low interest rates are not exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates, thereby being consistent with IAS 39. The difference between the amount received and the discounted amount is accounted for as a government grant. To be applied prospectively – to government loans received on or after 1 January 2009.

• **IAS 23:** Borrowing Costs
The amendment revises the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method as described in IAS 39.

• **IAS 27:** Consolidated and Separate Financial Statements
When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

• **IAS 28:** Investment in Associates
This interpretation clarifies that (i) if an associate is accounted for at fair value in accordance with IAS 39 only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies and (ii) an investment in an associate is a single asset for the purpose of conducting the impairment test – including any reversal of impairment. Therefore, any impairment is not separately allocated to the goodwill included in the investment balance and any impairment is reversed if the recoverable amount of the associate increases.

- **IAS 29:** Financial Reporting in Hyperinflationary Economies

This amendment revises the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.

- **IAS 31:** Interest in Joint ventures

This amendment clarifies that if a joint venture is accounted for at fair value, in accordance with IAS 39 only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expenses will apply.

- **IAS 34:** Interim Financial Reporting

This amendment clarifies that earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.

- **IAS 36:** Impairment of assets

This amendment clarifies that when discounted cash flows are used to estimate 'fair value less costs to sell', the same disclosure is required as when discounted cash flows are used to estimate 'value in use'.

- **IAS 38:** Intangible Assets

- Expenditure on advertising and promotional activities is recognised as an expense when the entity either has the right to access the goods or has received the services.
- Deletes references to there being rarely, if ever, persuasive evidence to support an amortisation method for finite life intangible assets that results in a lower amount of accumulated amortisation than under the straight-line method, thereby effectively allowing the use of the unit of production method.
- A prepayment may only be recognised in the event that payment has been made in advance to obtaining right of access to goods or receipt of services.

- **IAS 39:** Financial instruments recognition and measurement

- Clarifies that changes in circumstances relating to derivatives – specifically derivatives designated or de-designated as hedging instruments after initial recognition – are not reclassifications. Thus, a derivative may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Similarly, when financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of IFRS 4 Insurance Contracts, this is a change in circumstance, not a reclassification.
- Requires use of the revised effective interest rate (rather than the original effective interest rate) when remeasuring a debt instrument on the cessation of fair value hedge accounting.

- **IAS 40:** Investment property

- Revises the scope (and the scope of IAS 16) such that property that is being constructed or developed for future use as an investment property is classified as investment property. If an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Clarifies that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.

- **IAS 41:** Agriculture

- Replaces the term 'point-of-sale costs' with 'costs to sell'.
- Removes the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or post-tax discount rate depending on the valuation methodology used.
- Removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Rather, cash flows that are expected to be generated in the 'most relevant market' are taken into account.

Improvements to International Financial Reporting Standards “IFRSs” 2008

In May 2008 the IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The effective dates of the improvements are various and the earliest is for the financial year beginning 1 January 2009. The impacts of the first-time application of these amendments on the Bank’s financial statements were not significant.

B) Standards issued but not yet effective (included in this category are new standards, amendments to standards and interpretations that are not yet effective for annual periods beginning on or after 1 January 2009).

IFRS 1: Additional Exemptions for First-time Adopters (Amended).

The amendment is effective for annual periods beginning on or after 1 January 2010. This interpretation has not yet been endorsed by the EU. The Bank does not expect that this amendment will have an impact on the financial position or performance of the Bank.

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

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

IFRS 3: Revisions to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements (effective for financial years beginning on or after 1 July 2009).

A revised version of IFRS 3 Business Combinations and an amended version of IAS 27 Consolidated and Separate Financial Statements will be issued by IASB on 10 January 2008. IFRS 3R introduces a number of changes in the accounting for business combinations which will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Such changes include the expensing of acquisition-related costs and recognizing subsequent changes in fair value of contingent consideration in the profit or loss (rather than by adjusting goodwill). IAS 27R requires that a change in ownership interest of a subsidiary is accounted for as an equity transaction. Therefore such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests. The Bank shall apply IFRS 3 where relevant.

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

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

IAS 24: Related Party Disclosures (Revised).

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

IAS 32: Classification on Rights Issues (Amended).

The amendment is effective for annual periods beginning on or after 1 February 2010. This amendment relates to the rights issues offered for a fixed amount of foreign currency which were treated as derivative liabilities by the existing standard.
The amendment states that if certain criteria are met, these should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment is to be applied retrospectively.

The Bank does not expect that this amendment will have an impact on the financial position or performance of the Bank.

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

The amendment is effective for annual periods beginning on or after 1 July 2009.The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Bank does not expect that this amendment will have an impact on the financial position or performance of the Bank, as the Bank has not entered into any such hedges.

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

The amendment is effective for annual periods beginning on or after 1 January 2011. The purpose of this amendment was to permit entities to recognise as an asset some voluntary prepayments for minimum funding contributions. This Earlier application permitted and must be applied retrospectively. This interpretation has not yet been endorsed by the EU. The Bank does not expect that this amendment will have an impact on the financial position or performance of the Bank.

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

This interpretation is effective for annual periods beginning on or after 1 July 2009 with early application permitted. The interpretation provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Bank does not expect that this amendment will have an impact on the financial statements as the Bank has not made any non-cash distributions to shareholders in the past.

IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments.

The interpretation is effective for annual periods beginning on or after 1 July 2010. This interpretation addresses the accounting treatment when there is a renegotiation between the entity and the creditor regarding the terms of a financial liability and the creditor agrees to accept the entity's equity instruments to settle the financial liability fully or partially. IFRIC 19 clarifies such equity instruments are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability.
This interpretation has not yet been endorsed by the EU. The Bank does not expect that this amendment will have an impact on the financial position or performance of the Bank.

In April 2009 the IASB issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The effective dates of the improvements are various and the earliest is for the financial year beginning 1 July 2009. This annual improvements project has not yet been endorsed by the EU.

• **IFRS 2:** Share-based Payment, effective for annual periods beginning on or after 1 July 2009. Clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of IFRS 2 even though they are out of scope of IFRS 3 (revised). If an entity applies IFRS 3 (revised) for an earlier period, the amendment shall also be applied for that earlier period.

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

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

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

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

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

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

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

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

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

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

- A prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.
- The scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date, applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken (Applicable to all unexpired contracts for annual periods beginning on or after 1 January 2010).
- Gains and losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognised financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss (Applicable to all unexpired contracts for annual periods beginning on or after 1 January 2010).

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

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

Risk Management

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

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

Financial risk

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

Credit Risk

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

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

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

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

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

Presented in SDR (000)	At 31 December 2009	At 31 December 2008
Cash and bank balances	11,203	5,223
Placements with financial institutions	-	454
Investment securities	158,870	200,694
Derivative financial instruments	-	961
Loans	568,587	606,746
Equity investments	13,284	9,765
Other assets	9,917	21,340
On-balance-sheet	**761,861**	**845,183**
Undrawn commitments	88,459	122,432
Total	**850,320**	**967,615**

Analysis by Rating Agency

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

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

	2008				
Presented in SDR (000)	Aaa – Aa3	A1 – A3	Baa1 – Baa3	Unrated	Total
Analysis by Moody's rating					
Cash and bank balances	5,223	-	-	-	5,223
Placements with financial institutions	454	-	-	-	454
Investment securities	20,541	175,816	4,337	-	200,694
Equity investments	-	-	-	9,765	9,765
At 31 December	**26,218**	**175,816**	**4,337**	**9,765**	**216,136**
Of which issued by					
Governments	-	9,959	4,337	-	14,296
Corporates	20,541	165,857	-	9,765	196,163
Deposits at banks	5,677	-	-	-	5,677
At 31 December	**26,218**	**175,816**	**4,337**	**9,765**	**216,136**
Of which classified as					
Available-for-sale	20,541	9,959	4,337	9,765	44,602
Held-to-maturity	-	165,857	-	-	165,857
Amortised cost	5,677	-	-	-	5,677
At 31 December	**26,218**	**175,816**	**4,337**	**9,765**	**216,136**

Collateral and Credit Enhancements

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

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

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

Liquidity Risk

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

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

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

Presented in SDR (000)	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	**Total**
Borrowings		131	229,935	146,322	5,480	**381,868**
Derivative financial instruments		1,129				**1,129**
Payables and accrued interest		2,025	799			**2,824**
Deferred income	4,867					**4,867**
Financial Liabilities at 31 December 2009	**4,867**	**3,285**	**230,734**	**146,322**	**5,480**	**390,688**
Borrowings	125,470	4,582	61,755	285,779	3,716	**481,302**
Payables and accrued interest		4,596	752			**5,348**
Deferred income	4,741					**4,741**
Financial liabilities at 31 December 2008	**130,211**	**9,178**	**62,507**	**285,779**	**3,716**	**491,391**

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

Market risk

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

Foreign Exchange Risk

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

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

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

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

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

The table below provides a currency breakdown of the Bank's assets and liabilities as at 31 December 2008.

Presented in SDR (000)	United States dollar	Euro	Japanese yen	Pound sterling	Other	Special drawing right	**Total**
Assets							
Cash and bank balances	4,585	312	43	222	61		**5,223**
Placements with financial institutions		454					**454**
Investment securities	49,938	102,967	21,536	26,253			**200,694**
Derivative financial instruments						961	**961**
Loans	468,086	138,660					**606,746**
Impairment losses on loans	(26,850)	(3,988)					**(30,838)**
Equity investments	2,842	1,984		751	4,188		**9,765**
Other assets	7,533	2,939		102		10,766	**21,340**
Property and equipment						297	**297**
Intangible assets						402	**402**
Total assets	506,134	243,328	21,579	27,328	4,249	12,426	**815,044**
Liabilities and Equity							
Borrowings	340,849	118,446					**459,295**
Payables and accrued interest	3,336	1,915	97				**5,348**
Deferred income						4,741	**4,741**
Members' equity						345,660	**345,660**
Total liabilities and equity	344,185	120,361	97	0	0	350,401	**815,044**
Net assets (liabilities)	161,949	122,967	21,482	27,328	4,249	(337,975)	**0**
Derivative financial instruments	(23,459)	908	22,972	1,420	(880)	(961)	**0**
Net currency balance at 31 December 2008	**138,490**	**123,875**	**44,454**	**28,748**	**3,369**	**(338,936)**	**0**
Correct SDR weights *	139,072	126,128	44,769	28,967	0	338,936	
Currency position at 31 December 2008	(582)	(2,253)	(315)	(219)	3,369	0	
Net currency balance at 31 December 2007	**132,426**	**125,128**	**33,712**	**37,721**	**666**	**(329,653)**	**0**

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

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is determined on a financial instrument indicates to what extent it is exposed to interest rate risk. The Asset and Liability Management Unit monitors the interest rate exposure of the Bank.

The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of the financial instruments or, in the case of instruments that re-price to a market rate of interest before maturity, the next re-pricing date as at 31 December 2009.

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

The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of the financial instruments or, in the case of instruments that re-price to a market rate of interest before maturity, the next re-pricing date as at 31 December 2008.

	Interest bearing						
Presented in SDR (000)	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Non-interest bearing	**Total**
Assets							
Cash and bank balances	5,222					1	**5,223**
Placements with financial institutions	454						**454**
Investment securities	165,857			34,837			**200,694**
Derivative financial instruments						961	**961**
Loans	117,386	279,403	204,601	5,356			**606,746**
Impairment losses on loans						(30,838)	**(30,838)**
Equity investments						9,765	**9,765**
Other assets						21,340	**21,340**
Property and equipment						297	**297**
Intangible assets						402	**402**
Total assets	288,919	279,403	204,601	40,193	0	1,928	**815,044**
Liabilities and Equity							
Borrowings	178,410	253,202	27,683				**459,295**
Payables and accrued interest						5,348	**5,348**
Deferred income						4,741	**4,741**
Members' equity						345,660	**345,660**
Total liabilities and equity	178,410	253,202	27,683	0	0	355,749	**815,044**
Interest rate risk at 31 December 2008	**110,509**	**26,201**	**176,918**	**40,193**	**0**	**(353,821)**	**0**
Interest rate risk at 31 December 2007	**155,345**	**4,278**	**131,636**	**48,345**	**0**	**(339,604)**	**0**

Sensitivity Analysis

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

The table below details the re-pricing gap by currency as end of 2009 and as end of 2008. A parallel upward or downward shift in the SDR curve of 50 basis points would have generated the maximum loss or gain of SDR 185 thousand and SDR 661 thousand, respectively.

Presented in SDR (000)	At 31 December 2009	At 31 December 2008
United states dollar	(52,600)	69,800
Euro	83,900	51,700
Japanese yen	-	1,000
Pound sterling	5,800	7,800
Total re-pricing gap	37,100	130,300
Shift of 50 basis points in the SDR curve	**185**	**661**

Operational risk

The Bank defines operational risk as all aspects of risk related exposure other than those falling within the scope of financial and market risk. This includes the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and reputational risk. The Bank has a low tolerance for material losses arising from the operational risks it is exposed to. Where any such risks are identified, appropriate mitigation and control measures are put in place.

The Bank's operational risk management focuses on proactive measures to ensure business continuity, the accuracy of information used internally and reported externally, and the expertise of the Bank's personnel and their adherence to policies and procedures covering all significant aspects of operational risks. Furthermore, insurance and security arrangements are in place to protect the physical and information infrastructures of the Bank, which are an integral part of its operational risk management.

Classification and fair value

The table below identifies the Bank's financial assets and liabilities in accordance with IAS 39 categories.

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

Fair Value Hierarchy

As at 31 December 2009 the Bank held the below financial instruments measured at fair value, and uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: Other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

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

	At 31 December 2008					
Presented in SDR (000)	Held-to-maturity	Derivatives held for hedging	Loans and receivables	Available-for-sale	At amortised cost	**Carrying amount**
Assets						
Cash and bank balances					5,223	**5,223**
Placements with financial institutions					454	**454**
Investment securities	165,857			34,837		**200,694**
Derivative financial instruments		961				**961**
Loans			606,746			**606,746**
Impairment losses on loans			(30,838)			**(30,838)**
Equity investments				9,765		**9,765**
Other assets			21,340			**21,340**
Total financial assets	**165,857**	**961**	**597,248**	**44,602**	**5,677**	**814,345**
Liabilities						
Borrowings					459,295	**459,295**
Payables and accrued interest					5,348	**5,348**
Deferred income					4,741	**4,741**
Total financial liabilities	**0**	**0**	**0**	**0**	**469,384**	**469,384**

Classification

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

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

Capital management

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

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

The capital usage of the Bank is guided by statutory and financial policy parameters. Article 15 of the Establishing Agreement limits the total amount of outstanding loans, equity investments and guarantees made for ordinary operations to 150% of the Bank's unimpaired subscribed capital, reserves and surpluses, establishing a 1.5:1 institutional gearing ratio. Additionally, disbursed equity investments shall not at any time exceed an amount corresponding to the Bank's total unimpaired paid-in capital, surpluses and general reserve. At the 36th meeting of the Board of Directors, the operational gearing ratio was set at 100% of the Bank's unimpaired paid-up capital, reserves and surpluses, and the usable portion of the callable capital. This limit on the total amount of operations is approximately SDR 1.1 billion.

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

Notes to the Financial Statements

For the year ended 31 December 2009

1. Segment reporting

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

	2009			2008		
Presented in SDR (000)	Lending	Treasury	Total	Lending	Treasury	Total
Income						
Interest income	28,917	3,106	32,023	35,417	6,960	42,377
Fees and commission income	2,825	-	2,825	3,138	-	3,138
Total segment revenues	31,742	3,106	34,848	38,555	6,960	45,515
Less: interest expense	(13,465)	(206)	(13,671)	(15,542)	(820)	(16,362)
Less: fees and commission expense	(340)	-	(340)	(492)	-	(492)
Net fair value, foreign exchange and other	32	121	153	494	(170)	324
Less: administrative expenses	(10,789)	(556)	(11,345)	(10,598)	(651)	(11,249)
Less: depreciation and amortisation	(222)	(69)	(291)	(238)	(70)	(308)
Segment income before impairment	6,958	2,396	9,354	12,179	5,249	17,428
Impairment losses on loans	(353)	-	(353)	(4,388)	-	(4,388)
Net income for the year	**7,311**	**2,396**	**9,707**	**7,791**	**5,249**	**13,040**
Financial Position						
Segment assets	562,532	170,073	732,605	607,712	207,332	815,044
Segment liabilities	368,042	1,129	369,171	468,930	454	469,384
Members' equity	-	-	363,434	-	-	345,660
At end of year			**732,605**			**815,044**

2. Interest and similar income

Interest and similar income is analysed as follows:

Presented in SDR (000)	Year to 31 December 2009	Year to 31 December 2008
From loans	28,917	35,417
From placements with financial institutions	53	982
From investment securities available-for-sale	2,090	1,955
From investment securities held-to-maturity	963	3,278
From derivative financial assets at fair value	-	745
Interest and similar income	**32,023**	**42,377**

3. Interest and similar expense

Interest and similar expense is analysed as follows:

Presented in SDR (000)	Year to 31 December 2009	Year to 31 December 2008
From borrowed funds	8,330	14,676
From issued debt	3,228	-
From derivative financial liabilities at fair value	168	685
Amortised issuance and arrangement costs	1,896	951
Other charges	49	50
Interest and similar expense	**13,671**	**16,362**

4. Fees and commission income

Fees and commission income is analysed as follows:

Presented in SDR (000)	Year to 31 December 2009	Year to 31 December 2008
Front-end fees	1,559	1,598
Commitment fees	689	503
Management fees	223	148
Appraisal fees	-	9
Prepayment/cancellation fees	14	404
Other	340	476
Fees and commission income	**2,825**	**3,138**

The deferred income balance as of 31 December 2009 was SDR 4,867 thousand and as of 31 December 2008 was SDR 4,741 thousand. Such amounts are recognised in income over the period from disbursement to repayment of the related loan in accordance with IAS 18.

5. Fees and commission expense

Fees and commission expense is analysed as follows:

Presented in SDR (000)	Year to 31 December 2009	Year to 31 December 2008
Appraisal fees	-	16
Other expenses	340	476
Fees and commission expense	**340**	**492**

6. Administrative expenses

Administrative expenses is analysed as follows:

Presented in SDR (000)	Year to 31 December 2009	Year to 31 December 2008
Salaries and benefits	7,785	7,475
Staff retirement plan	1,178	1,188
Other administrative expenses	3,167	3,361
Total	12,130	12,024
Host country reimbursement	(785)	(775)
Administrative expenses	**11,345**	**11,249**

7. Impairment losses on loans

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

Presented in SDR (000)	Collective	Specific	Total
At 1 January 2008	18,884	6,962	25,846
Charge for the year	4,388	-	4,388
Foreign exchange adjustments	431	173	604
At 1 January 2009	23,703	7,135	30,838
Release for the year	(353)	-	(353)
Foreign exchange adjustments	(252)	(125)	(377)
At 31 December 2009	**23,098**	**7,010**	**30,108**

At 31 December 2009 the Bank categorised one loan as impaired. The total exposure amounts to SDR 7,010 thousand and the provision on this asset amounted to SDR 7,010 thousand, as collateral held is estimated not to have significant value.

8. Derivative financial instruments

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

	At 31 December 2009		At 31 December 2008	
Presented in SDR (000)	Notional amount	Fair value	Notional amount	Fair value
Currency swap purchases	42,080	41,579	25,236	25,299
Currency swap sales	42,600	42,708	24,290	24,338
Derivative financial instruments	**(520)**	**(1,129)**	**946**	**961**

9. Loans

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

Presented in SDR (000)	At 31 December 2009	At 31 December 2008
At 1 January	606,746	465,632
Disbursements	169,598	317,133
Less: repayments	(202,452)	(184,279)
Foreign exchange movements	(5,305)	8,260
At end of year	568,587	606,746
Less: impairment losses on loans	(30,108)	(30,838)
Loans net of impairment	**538,479**	**575,908**

The Bank classifies loan facilities as either standard, overdue, doubtful or non-performing. Non-performing are those that are primarily impaired and which associated interest is not being accrued. As of 31 December 2009 all loan facilities are classified as standard and there was one that was impaired.

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 5.0%. The fair value of the loan portfolio is approximately equal to carrying value plus accrued interest as all loans bear a variable interest rate and are given at market terms and conditions. Further analysis of the loan portfolio is presented in the following note "Operational analysis".

10. Equity investments

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

Presented in SDR (000)	% of investment	At 31 December 2009 Cost	At 31 December 2009 Fair Value	At 31 December 2008 Cost	At 31 December 2008 Fair Value
SEAF Trans-Balkan Fund LLC	18.33	-	556	-	894
Micro Finance Bank of Azerbaijan	19.99	3,176	5,288	3,232	3,691
Transgaz Romania	0.72	793	625	801	497
Balkan Accession Fund	9.09	4,093	4,307	2,894	3,106
Teleset Networks	6.1	2,734	2,508	2,699	1,577
Available-for-sale		**10,796**	**13,284**	**9,626**	**9,765**

The valuation of such investments, which are unlisted, has been based on their latest audited accounts as of the 31 December 2008.

An increase of SDR 2,488 thousand since the acquisition of the investments was due to an unrealized gain in fair value, attributable to the Bank's participation. At 31 December 2009 the Bank has no engagement in any equity investments that are held for trading.

The Bank has a committed amount of SDR 3,788 thousand towards the above entities share capital, which as of 31 December 2009 has not been called-up. Further analysis of the equity investment portfolio is presented in the following note "Operational analysis".

The difference in cost for Transgaz was due to translation from the original currency to the SDR at the reporting date.

11. Operational analysis

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

	At 31 December 2009		At 31 December 2008	
Presented in SDR (000)	Outstanding disbursements	Undrawn commitments	Outstanding disbursements	Undrawn commitments
Analysis by instrument				
Loans	568,587	84,671	606,746	117,537
Equity investments	13,284	3,788	9,765	4,895
At end of year	**581,871**	**88,459**	**616,511**	**122,432**
Analysis by country				
Albania	35,362	2,296	38,574	2,269
Armenia	34,618	5,741	36,836	6,902
Azerbaijan	34,193	8,199	33,308	18,019
Bulgaria	52,343	419	37,860	8,277
Georgia	16,133	-	17,573	3,246
Greece	23,823	-	27,513	-
Moldova	2,481	-	9,414	2,723
Romania	11,286	33,295	5,683	-
Russia	139,143	12,206	184,232	-
Turkey	103,865	22,515	73,498	62,273
Ukraine	123,761	-	148,021	13,829
Regional	4,863	3,788	3,999	4,894
At end of year	**581,871**	**88,459**	**616,511**	**122,432**
Analysis by sector				
Financial institutions	230,384	20,918	250,127	54,363
General industries*	227,743	31,531	233,624	62,968
Energy and infrastructure	123,744	36,010	132,760	5,101
At end of year	**581,871**	**88,459**	**616,511**	**122,432**

* Also includes transport and tourism.

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

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

12. Other assets

Other assets is analysed as follows:

Presented in SDR (000)	At 31 December 2009	At 31 December 2008
Accrued interest	7,526	10,130
Paid-in share capital not received	2	7,315
Advances and prepaid expenses	1,721	3,247
Other prepayments	209	206
Rental reimbursement receivable*	395	379
Guarantee deposits	64	63
Other assets	**9,917**	**21,340**

* The Hellenic Republic will grant the rental already being reimbursed.

13. Property and equipment

Property and equipment is analysed as follows:

Presented in SDR (000)	Buildings (leasehold)	Vehicle	Furniture and office accessories	Computers and office equipment	Total
Cost					
At 31 December 2007	162	58	382	1,273	1,875
Additions	1	-	21	109	131
At 31 December 2008	163	58	403	1,382	2,006
Additions	2	-	19	109	130
Disposals	-	-	(3)	(320)	(323)
At 31 December 2009	**165**	**58**	**419**	**1,171**	**1,813**
Accumulated depreciation					
At 31 December 2007	146	7	349	1,065	1,567
Charges	8	12	19	103	142
At 31 December 2008	154	19	368	1,168	1,709
Charges	6	11	20	110	147
Disposals	-	-	(3)	(320)	(323)
At 31 December 2009	**160**	**30**	**385**	**958**	**1,533**
Net book value					
At 31 December 2009	**5**	**28**	**34**	**213**	**280**
At 31 December 2008	9	39	35	214	297
At 31 December 2007	16	51	33	208	308

14. Intangible assets

Intangible assets* is analysed as follows:

Presented in SDR (000)	Total
Cost	
At 31 December 2007	1,564
Additions	119
At 31 December 2008	1,683
Additions	314
At 31 December 2009	**1,997**
Accumulated amortisation	
At 31 December 2007	1,115
Charges	166
At 31 December 2008	1,281
Charges	144
At 31 December 2009	**1,425**
Net book value	
At 31 December 2009	572
At 31 December 2008	402
At 31 December 2007	**449**

* Intangible assets comprises of computer software.

15. Borrowings

Borrowing facilities arranged at end of the year are analysed below. In addition to medium or long-term borrowings, the Bank utilises short-term financing in the form of borrowings from commercial banks for cash management purposes. At 31 December 2009 the Bank has one issued debt security in the amount of SDR 79,430 thousand.

	At 31 December 2009		At 31 December 2008	
Presented in SDR (000)	Amount used	Borrowings arranged	Amount used	Borrowings arranged
Euro	32,147	59,701	118,446	122,984
United States dollar	328,204	340,962	340,849	340,849
Total	**360,351**	**400,663**	**459,295**	**463,833**

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

16. Payables and accrued interest

Payables and accrued interest is analysed as follows:

Presented in SDR (000)	At 31 December 2009	At 31 December 2008
Interest	1,411	4,134
Social insurance fund (IKA) contributions	13	25
Pension plan obligation (see note 20)	799	752
Suppliers and other accrued expenses	601	437
Payables and accrued interest	**2,824**	**5,348**

17. Share capital

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

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

Under Article 37 of the Establishing Agreement any member may withdraw from the Bank, in which case the Bank is required to repurchase the former member's shares. 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, the Bank would be able to impose conditions and set dates in respect of payments for shares repurchased in accordance with Article 39 of the Establishing Agreement. Under Article 42 of the Establishing Agreement in the event of termination of the operations of the Bank, the liability of members for the unpaid portion of the subscribed capital of the Bank shall continue until all claims of creditors, including all contingent claims, have been discharged.

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

The issued share capital is analysed as follows:

Presented in SDR (000)	At 31 December 2009	At 31 December 2008
Authorised share capital	3,000,000	3,000,000
Less: unallocated share capital*	(1,000,000)	(1,000,000)
Subscribed share capital	2,000,000	2,000,000
Less: shares not yet called	(1,400,000)	(1,400,000)
Less: shares called but not yet due	(298,501)	(300,000)
Called-up share capital	301,499	300,000
Advance against future call	32	32
Paid-in share capital	**301,531**	**300,032**

* Shares available to new or existing Member States.

In accordance with paragraph 2 under Article 6 of the Establishing Agreement, all Member States were required to pay their share of the first issue of shares of SDR 100 million within 60 days of the date on which they became members of the Bank. In accordance with paragraph 3 under the same Article, a second issue of shares of SDR 200 million was made in 1998 and payment for these shares was made by each Member State by promissory notes or other obligation issued by such member in eight equal successive annual instalments in the years 1998 to 2005.

At end of the year all Member States had fully settled the called up and due portion of their capital obligations.

The capital subscription status and voting power based on the paid amount, of each member at 31 December 2009 is analysed as follows:

		Subscribed	Callable	Payable	Paid	
Member	Shares	Presented in SDR (000)				Voting Power
Albania	40,000	40,000	28,000	6,000	6,000	2.0%
Armenia	20,000	20,000	14,000	3,000	3,000	1.0%
Azerbaijan	100,000	100,000	70,000	13,501	16,499	5.6%
Bulgaria	270,000	270,000	189,000	40,500	40,500	13.4%
Georgia	10,000	10,000	7,000	0	3,000	1.0%
Greece	330,000	330,000	231,000	49,500	49,500	16.4%
Moldova	20,000	20,000	14,000	3,000	3,000	1.0%
Romania	280,000	280,000	196,000	43,500	40,500	13.4%
Russian Fed.	330,000	330,000	231,000	49,500	49,500	16.4%
Turkey	330,000	330,000	231,000	49,500	49,500	16.4%
Ukraine	270,000	270,000	189,000	40,500	40,500	13.4%
Total	**2,000,000**	**2,000,000**	**1,400,000**	**298,501**	**301,499**	**100.0%**

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

Presented in SDR (000)	At 31 December 2009	At 31 December 2008
Net income attributable to ordinary share holders of the Bank	9,707	13,040
Weighted average number of ordinary shares for basic earnings per share	300,750	293,350
Basic earnings per share in SDR	**0.032**	**0.044**

18. Reserves

Reserves is analysed as follows:

Presented in SDR (000)	At 31 December 2009	At 31 December 2008
General	23,302	20,494
Available-for-sale revaluation	4,383	(2,185)
Reserves	**27,685**	**18,309**

An amount of SDR 2,808 thousand has been appropriated to the general reserve from retained earnings. The revaluation reserve has been adjusted relating to changes in fair value for an unrealized loss of SDR 6,568 thousand.

19. Cash and cash equivalents

Cash and cash equivalents are analysed as follows:

Presented in SDR (000)	At 31 December 2009	At 31 December 2008
Cash	1	1
Bank balances/placements and/or investments:		
Up to 1 month	112,014	171,533
Cash and cash equivalents	**112,015**	**171,534**

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

20. Staff retirement plan

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

Defined Benefit Scheme

The defined benefit scheme covers all eligible employees of the Bank. A qualified actuary performs an actuarial valuation of this scheme at each end of year using the projected unit method, which is rolled forward to the following year accounts. The most recent valuation date was 31 December 2009. The present value of the defined benefit obligation and current service cost was calculated using the projected unit credit method.

Presented in SDR (000)	At 31 December 2009	At 31 December 2008
Amounts recognised in the statement of financial position		
Present value of the defined benefit obligations	5,481	4,021
Fair value of plan assets	(5,374)	(4,388)
	107	(367)
Unrecognised actuarial gains (losses)	692	1,119
Net liability	799	752
Expenses for the year	679	701
Past service obligation	(38)	(77)
Contributions paid	(641)	(624)
At end of year	**799**	**752**
Amounts recognised in the statement of comprehensive income		
Current service cost	690	677
Interest cost	234	192
Expected return on plan assets	(237)	(185)
Amortisation of unrecognised (gain) loss	(46)	(55)
Past service obligation	38	72
Total included in administrative expenses	**679**	**701**
Principal actuarial assumptions used		
Discount rate	5.25%	5.75%
Expected return on plan assets	4.76%	5.00%
Future salary increases	3.50%	3.50%
Average remaining working life of employees	14 years	15 years

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

Presented in SDR (000)	At 31 December 2009	At 31 December 2008
Major categories of plan assets		
Cash instruments	38.50%	57.10%
Fixed interest	33.91%	26.70%
Equities	20.92%	12.95%
Other	6.67%	3.25%
Reconciliation of plan assets		
Market value at 1 January	4,338	4,268
Expected return	237	185
Contributions paid	641	624
Fund benefits	(113)	(106)
Expenses	(69)	(69)
Asset gain (loss)	340	(514)
Fair value of plan assets	**5,374**	**4,388**

The actual investment return on assets of the Fund was 9.94% (2008: -4.76%). 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 2010 will not materially differ from those paid in the current year.

Defined Contribution Scheme

The pension expense under this scheme was SDR 387 thousand (2008: SDR 380 thousand) and is included in “Administrative expenses”.

Greek State Social Insurance Fund

The pension expense of staff that is alternatively entitled to retirement benefits from this fund was SDR 112 thousand (2008: SDR 107 thousand) and is included in “Administrative expenses”.

21. Operating leases

The Bank has entered into lease contracts for its Headquarters and other premises. These are operating leases and include renewal options and periodic escalation clauses. There is no commitment at end of period for non-cancellable lease contracts. Rental expenses for the year included in “Administrative expenses” totalled SDR 804 thousand (2008: SDR 794 thousand). The Hellenic Republic will grant the rental already being reimbursed amounting to SDR 785 thousand.

22. Related parties

The Bank has the below related parties.

Key Management Personnel

Key management personnel comprise: the President, Vice Presidents and Secretary General. They are entitled to a staff compensation package that includes a salary, covered by medical insurance, participate in the Bank’s retirement schemes and are eligible to receive other short term benefits. All amounts are paid in Euro which is the currency of the Host Country. The amounts paid to key management personnel in 2009 were SDR 961 thousand and in 2008 were SDR 875 thousand. Key management personnel do not receive post employment benefits, other long term benefits, termination benefits nor any share based payments.

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

Special Funds

Special funds are established in accordance with Article 16 of the Establishing Agreement and are administered under the terms of rules and regulations adopted by the Bank. Special Funds are audited and their assets and fund balances are not included in the Bank’s statement of financial position. During 2009 the Bank administered two special funds. Extracts from the audited financial statements are included under the “Summary of special funds”.

23. Events after the reporting period

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

24. Summary of special funds

With the Hellenic Government

The Technical Cooperation Special Fund's objective is to contribute to the economic development of the Black Sea Region's member countries. The Fund extends technical assistance grants for preparation of high quality project documentation including business plans, feasibility studies and financial reporting methods and standards. The movement in the Fund for the years 2009 and 2008 is shown below.

Presented in SDR (000)	At 31 December 2009	At 31 December 2008
Statement of movements		
Balance brought forward	365	361
Interest and other income	3	15
Less: disbursements	-	(1)
Foreign exchange movements	4	(10)
Balance of available funds	**372**	**365**
Financial position		
Placements with other financial institutions	372	365
Total Assets	**372**	**365**
Unallocated fund balance	372	365
Total Liabilities and Contributor Resources	**372**	**365**

With the Development Bank of Austria

The Technical Cooperation Special Fund's objective is to cover reasonable technical cooperation activities in the Bank's member countries, with a strong potential to generate an opportunity for the Development Bank of Austria to co-finance a project in the private sector in connection with a technical cooperation activity. The movement in the Fund for the years 2009 and 2008 is shown below.

Presented in SDR (000)	At 31 December 2009	At 31 December 2008
Statement of movements		
Balance brought forward	454	-
Contribution received	-	454
Interest and other income	4	-
Less: disbursements	(23)	-
Foreign exchange movements	5	-
Balance of available funds	**440**	**454**
Financial position		
Placements with other financial institutions	440	454
Total Assets	**440**	**454**
Unallocated fund balance	440	454
Total Liabilities and Contributor Resources	**440**	**454**

Independent Auditor's Reports

Internal Control over External Financial Reporting

Responsibility for external financial reporting
Management's responsibility

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

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

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

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

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

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

The Bank has assessed its internal controls over external financial reporting for 2009. The Bank's assessment was based on the criteria for effective internal control over financial reporting described in the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). Based upon this assessment, management asserts that, as of 31 December 2009, the Bank maintained effective internal controls over its financial reporting as contained in the Financial Statements for 2009.

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

Hayrettin Kaplan
President

Sophia Kassidova
Vice President Finance

Thessaloniki, Greece
16 April 2010

Internal Control over External Financial Reporting

Report of Independent Auditors

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

We have audited Black Sea Trade and Development Bank ("the Bank") internal control over financial reporting as of 31 December 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). 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 Management's Report Regarding the Effectiveness of Internal Controls over External Financial Reporting. Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the International Standard on Assurance Engagements (ISAE) 3000. Based on this standard, we planned and performed the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit 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 audit provides a reasonable basis for our opinion.

A company'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 International Financial Reporting Standards. A company'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 company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company'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.

In our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of 31 December 2009, based on the COSO criteria.

We also have audited, in accordance with the International Standards on Auditing, the 2009 financial statements of the Bank and our report dated 16 April 2010 expressed an unqualified opinion thereon.

Athens, 16 April 2010

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

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Black Sea Trade and Development Bank (the "Bank"), which comprise the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as published by the International Accounting Standards Board. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Black Sea Trade and Development Bank as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

16 April 2010

ERNST & YOUNG (HELLAS) CERTIFIED AUDITORS ACCOUNTANTS SA
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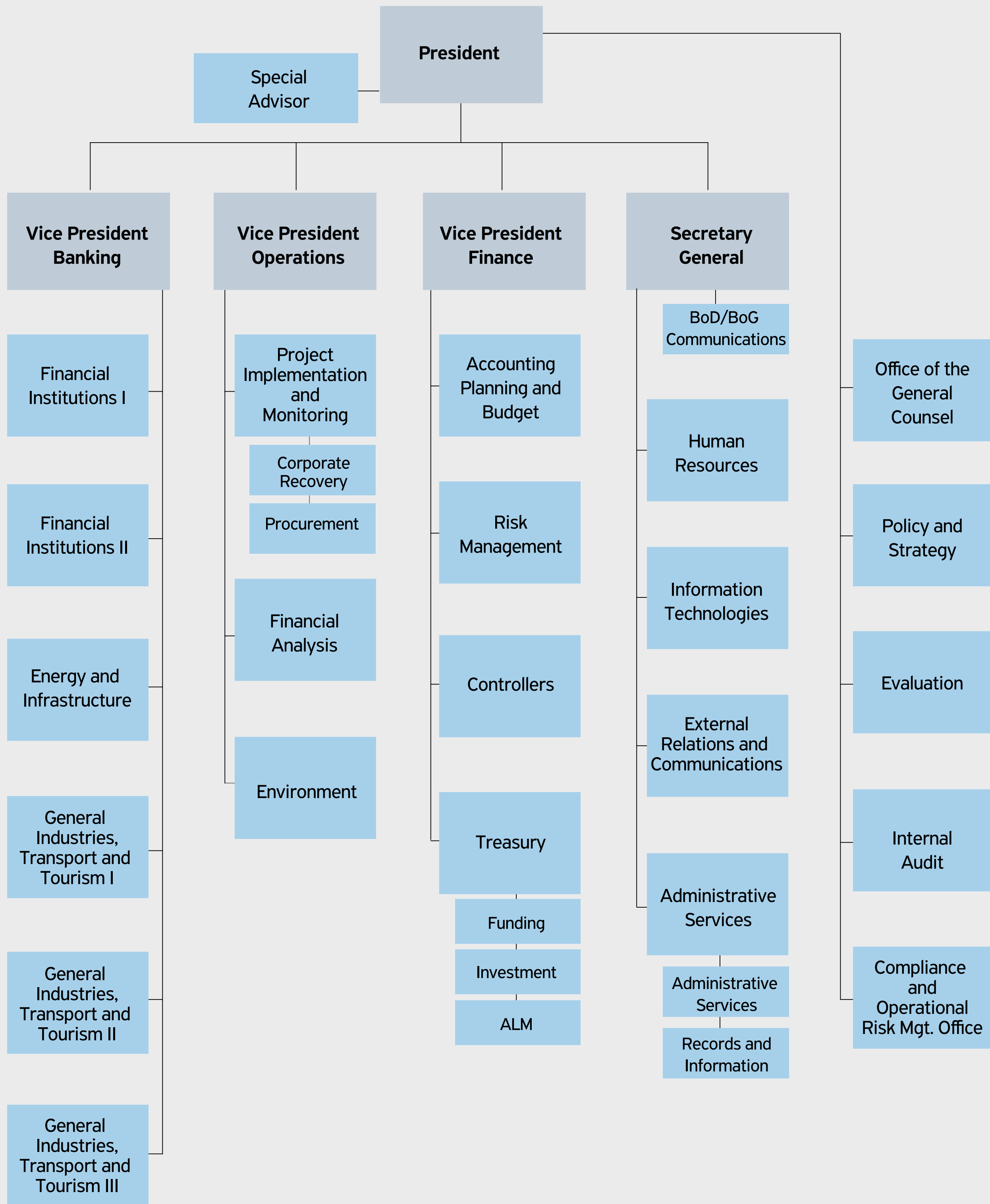
Annex A

Organizational Chart



* As of 31 December 2008

Annex B

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Annual Report
Black Sea Trade
And Development
Bank