Annual Report **2016**

Mobilizing Resources
To Deliver Greater Development Impact

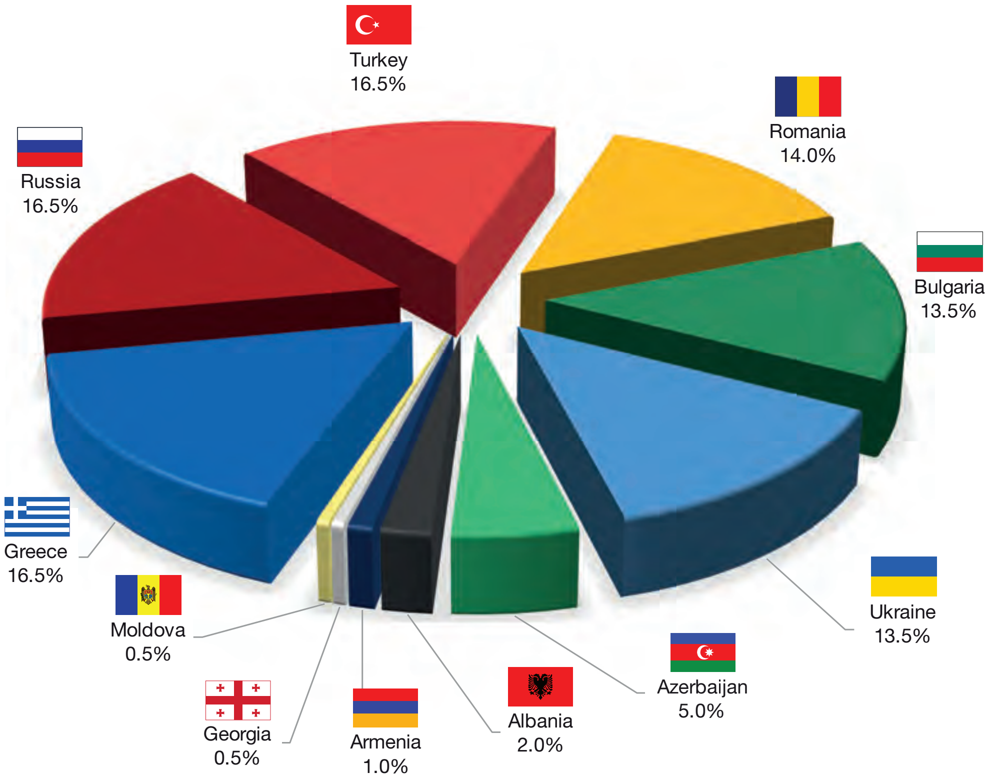
Black Sea Trade & Development Bank

Contents

Who We Are

The Black Sea Trade and Development Bank (BSTDB), an international financial institution with headquarters in Thessaloniki, Greece, was established by Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey, and Ukraine. BSTDB started operations in June 1999 and has an authorized capital of EUR 3.45 billion and a subscribed capital of EUR 2.3 billion.

Shareholder Structure



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

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

Highlights of 2016

In 2016, the second year of the implementation of the BSTDB Medium-Term Strategy and Business Plan for the period 2015–2018, the Board of Directors approved 20 new operations for EUR 433.3 million; the Bank signed 19 loan agreements to the total amount of EUR 373.2 million.

In line with the Strategy, enhanced effort was put to increase the share of the real (i.e. non-financial) sector operations, which reached 65.3% of outstanding portfolio at end 2016 (compared to 46.7% at the beginning of the Strategy period). Two thirds of the new approvals in 2016 went to the real sector. The portfolio in the real sector was significantly diversified. Furthermore, the Bank achieved a much better balanced geographical distribution of the portfolio across member countries, which is one of its key strategic objectives.

Over the year, the loan disbursements to business clients in the member countries surged by nearly 20% to reach EUR 443.7 million.

At the year end, the Bank's outstanding portfolio reached nearly EUR 1.2 billion, up 7% compared to 2015.

The Bank registered a positive net income in 2016 for the 12th consecutive year.

In April 2016, the Bank issued its first benchmark USD 500 million bond with a maturity of 5 years. Enthusiastic investor response worldwide attracted orders totaling approximately USD 1.7 billion, predominantly from institutional and longer-term investors in the US, UK, Switzerland, and Germany, but also from Central and Eastern Europe, Asia, and the Middle East. This successful benchmark issuance provides a reference point for BSTDB in the international capital market and supports the implementation of the Bank's Medium-Term Strategy and Business Plan for 2015–2018 and of the Long-Term Strategy for 2010–2020.

In September 2016, Moody's Investors Service changed the rating outlook for BSTDB to stable from negative and affirmed its long-term and short-term A2/P-1 issuer ratings. At the same time, the Bank's Medium-Term Note Programme has been affirmed at (P) A2 and the senior unsecured debt rating at A2.

The key drivers underlying the decision were the improvement in BSTDB's asset quality with the reduction of non-performing loans and the stabilization of the macroeconomic conditions in Russia and Ukraine.

The Bank's credit ratings of A-/A2 with a stable outlook, from Standard & Poor's, remained unchanged throughout 2016.

The Bank participated for the first time in a privately placed primary bond issue. With a participation of EUR 40 million in the debut issue supporting the investments of a prominent Bulgarian energy company, the Bank acted as an anchor investor providing comfort to commercial banks, pension funds, and corporate treasuries to join the largest private placement on the Bulgarian market.

BSTDB continued developing its lending facilities in the national currencies of Member States through issuing local currency bonds. In 2016, the Bank issued a second GEL 60 million bond in Georgia to support the SME sector development, while reducing foreign exchange risks for the borrowers.

BSTDB accelerated contacts with partners in development seeking new synergies and co-financing opportunities in the Back Sea Region.

The Observer Status at BSTDB was granted to the Islamic Corporation for the Development of the Private Sector (ICD), the private sector arm of the Islamic Development Bank Group, with a view to facilitating collaboration in the common member countries in the Black Sea Region – Albania, Azerbaijan, and Turkey – through co-financing projects and by supporting joint networking opportunities. ICD became the 11th Observer institution at BSTDB.

Four Memoranda of Understanding (MoU) were signed to promote cooperation with institutions already active or willing to develop business in the Black Sea Region – the European Investment Fund, the Bank of China, the Federation of Industries of Northern Greece, and the Dagong Global Credit Rating Company (China).

BSTDB has been named the winner of the "Best Regional Development Bank" Global Award 2016 for the second consecutive year by the Capital Finance International, a reputable British international business publication.

To the Board of Governors

In accordance with Article 35 of the Agreement Establishing the Black Sea Trade and Development Bank and Section 10 of its By-Laws, I submit to the Board of Governors the Bank's Annual Report for 2016 as endorsed by the Board of Directors. The Eighteenth Annual Report contains the Bank's financial statements; separate financial statements for the operations of the Bank's Special Funds have also been issued, as prescribed in Section 12 of the Bank's By-Laws.

Ihsan Ugur Delikanli

President
Chairman of the Board of Directors

Board of Governors

As of 31 December 2016

Republic of Albania	
Governor:	Mr. Erjon LUCI, Deputy Minister of Finance
Alternate Governor:	Ms. Ilda MALILE, General Director, General Directorate of Public Debt, Borrowing Department, Agreement Division, Ministry of Finance
Republic of Armenia	
Governor:	Mr. Arthur JAVADYAN, Chairman, Central Bank of Armenia
Alternate Governor:	Mr. Andranik GRIGORYAN, Deputy Head, Financial System Stability & Development Department, Central Bank of Armenia
Republic of Azerbaijan	
Governor:	Mr. Samir SHARIFOV, Minister of Finance
Alternate Governor:	Mr. Shahin MUSTAFAYEV, Minister of Economy
Republic of Bulgaria	
Governor:	Ms. Marinela PETROVA, Deputy Minister of Finance
Alternate Governor:	Ms. Gergana BEREMSKA, Director, International Financial Insitutions and Cooperation Directorate, Ministry of Finance
Georgia	
Governor:	Mr. Koba GVENETADZE, President, National Bank of Georgia
Alternate Governor:	Mr. Nodar KHADURI, Minister of Finance
Hellenic Republic	
Governor:	Mr. Dimos PAPADIMITRIOU, Minister of Economy and Development
Alternate Governor:	position vacant
Republic of Moldova	
Governor:	Mr. Octavian ARMASU, Minister of Finance
Alternate Governor:	position vacant
Romania	
Governor:	Ms. Anca Dana DRAGU, Minister of Public Finance
Alternate Governor:	Mr. Gyorgy ATTILA, Secretary of State, Ministry of Public Finance
Russian Federation	
Governor:	Mr. Sergey STORCHAK, Deputy Minister of Finance
Alternate Governor:	Mr. Igor KOVAL, Director, Department for Investment Policy and Development of Public–Private Partnership, Ministry of Economic Development
Republic of Turkey	
Governor:	Mr. Osman CELIK, Undersecretary of Treasury, Undersecretariat of Treasury
Alternate Governor:	position vacant
Ukraine	
Governor:	position vacant
Alternate Governor:	Mr. Volodymyr KUCHYN, Head, Office for European Integration & International Programs, National Bank of Ukraine

Board of Directors

As of 31 December 2016

Republic of Albania

Director: Ms. Gelardina PRODANI, General Secretary, Ministry of Finance
Alternate Director: position vacant

Republic of Armenia

Director: Mr. Vardan ARAMYAN, Minister of Finance
Alternate Director: Mr. Nerses MKRTCHIAN, Advisor, Ministry of Foreign Affairs

Republic of Azerbaijan

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

Republic of Bulgaria

Director: Ms. Milena BOIKOVA, Director, Government Debt & Financial Markets Directorate, Ministry of Finance
Alternate Director: Mr. Nikola SHERLETOV, Parliamentary Secretary, Ministry of Finance

Georgia

Director: Mr. David LEZHAVA, Deputy Minister of Finance
Alternate Director: Mr. Giorgi TABUASHVILI, First Deputy Minister of Finance

Hellenic Republic

Director: Mr. Ilias XANTHAKOS, Secretary General, Ministry of Economy and Development
Alternate Director: position vacant

Republic of Moldova

Director: Ms. Elena MATVEEVA, Head, Public Debt Department, Ministry of Finance
Alternate Director: Ms. Ina GOREA, Chief, On-Lending Directorate, Public Debt Department, Ministry of Finance

Romania

Director: Ms. Diana PELIGRAD BLINDU, Senior Advisor, General Directorate for International Financial Relations, Ministry of Public Finance
Alternate Director: Mr. Stefan PETRESCU, Deputy Director General, General Directorate for International Financial Relations, External Public Finance, Ministry of Public Finance

Russian Federation

Director: Mr. Evgeny STANISLAVOV, Director, Department of Economic Cooperation, Ministry of Foreign Affairs
Alternate Director: position vacant

Republic of Turkey

Director: Mr. Raci KAYA, Ph. D, Deputy Undersecretary of Treasury, Undersecretariat of Treasury
Alternate Director: position vacant

Ukraine

Director: Mr. Valeriy PIATNYTSKYI, Advisor to the Prime Minister, Cabinet of Ministers of Ukraine
Alternate Director: Mr. Vitaliy LISOVENKO, Governmental Envoy for Public Debt Management, Ministry of Finance

Audit Committee

As of 31 December 2016

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

Ms. Elena MATVEEVA, Director for the Republic of Moldova and Audit Committee member

Mr. David LEZHAVA, Director for Georgia and Audit Committee member

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

Management

As of 31 December 2016

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

Statement by the President

After several years of steadily declining economic outturns that resulted in recession, 2016 represented a turnaround for the Black Sea Region, with collective growth reaching 1%, and most countries experiencing notable upturns relative to output levels achieved the year before. Given the stable macroeconomic environments achieved by Member States, indications are that moderate, positive growth should prove sustainable, although financial and geopolitical uncertainties from outside the Region will continue to affect levels of activity from year to year.

Through the ups and downs, the Black Sea Trade and Development Bank has sought to play a stabilizing role as a steady presence in the Region, offering financing and valuable risk-mitigation solutions to the clients and sponsors with which it works.

Operational activity in 2016 remained robust, with the Bank's Board of Directors approving 20 new operations for EUR 433.3 million, and the Bank's signings (commitments) at 19 new operations for EUR 373.2 million.

Although these figures were lower than the respective Board approvals and commitments for 2015, the Bank's loan disbursements increased by nearly 20% to EUR 443.7 million, with net disbursements reaching EUR 71.8 million. As a result, the Bank's outstanding portfolio grew to EUR 1.2 billion by 31 December, an increase of 7% compared to end 2015. BSTDB's financial results were also positive. For 2016, operating income amounted to EUR 30.8 million and income before provisions reached EUR 11.7 million. A key role in this development was played by Treasury activities, for which policies were amended in order to improve cost coverage and achieve positive results, while maintaining strong liquidity.

Significantly, BSTDB's operations covered a broad range of sectors and activities, as well as showing strong geographic diversification. The Bank extended financing to help develop key social and economic infrastructure, it assisted a regionally based firm to undertake its debut bond issue by acting as an anchor investor, it continued to assist the small- and medium-sized enterprises that comprise the vast majority of firms in the Black Sea Region, and it maintained the provision of direct support to larger banks and corporates. The Bank also expanded its local currency lending activities further with a pair of local currency bond issues to support SME development and local financial market development.

Finding new ways to mobilize financial resources for the benefit of the agencies, firms, and banks active in the Black Sea Region remains a crucial objective of the Bank, and in addition to the local currency issuances the Bank increased co-financing activities with investors and other financial institutions. In May, BSTDB also issued its first benchmark USD 500 million bond; this five year bond was oversubscribed by more than three and a half times and bolsters the efforts of the Bank to marshal significant levels of external funding at affordable levels for the benefit of the Black Sea Region, in the midst of a prolonged period of weak external financial flows into the Region over the last few years.

BSTDB has also sought to offer steadiness and continuity in the Region amid the turbulence that has become an ever more frequent reality of the global economy. To this end, it places great emphasis on the maintenance of the highest long-term credit ratings of any entity based in the Region – affirmed at A2 by Moody's and A- by Standard & Poor's respectively – which not only allows the Bank to assist regional firms and banks obtain affordable access to much needed financing, but also acts as a pillar of stability helping to reduce risks and improve outlooks of the Region.

To its core activity of providing financing to new investment and trade operational activities, BSTDB also places great importance on promotional, mobilizational, and knowledge-raising activities that improve understanding of the Black Sea Region and its many assets and opportunities. For although the Region lacks an established unifying nomenclature, it represents a centrally located geographic continuum of enormous strategic importance and economic potential, possessing significant resources and high-quality human capital. In order to improve awareness and counter the anachronistic misperceptions and/or biases, it is both necessary and critical to bring people together, to establish networks, and to share information about the Region itself, as well as its progressing trends and ongoing activities.

Above all, the Bank aims to continue to generate value for its shareholders, whose high degree of support has been essential for the institution's successes to date. Flexibility is key to the achievement of these aims, allowing the Bank to adapt in ways that continue to fulfill the institution's dual mandate to promote regional cooperation and economic development. This implies being able to adjust to the often rapid changes in its operating environment and to the evolving nature of the demand for its products, and taking advantage of opportunities to raise further the profile of the Black Sea Region. From top to bottom, the entire staff of the Bank are committed to contributing to the advancement of the image of the institution and to the fulfillment of the dual mandate. Going forward, an excellent example of this is the evolution of the business model to increase focus on trade finance activities, the promotion of which appears in the Bank's very name, so as to support the growth of the current USD 200 billion in intra-Region trade flows, and in the process to help the Bank grow sustainably toward its optimum asset size.

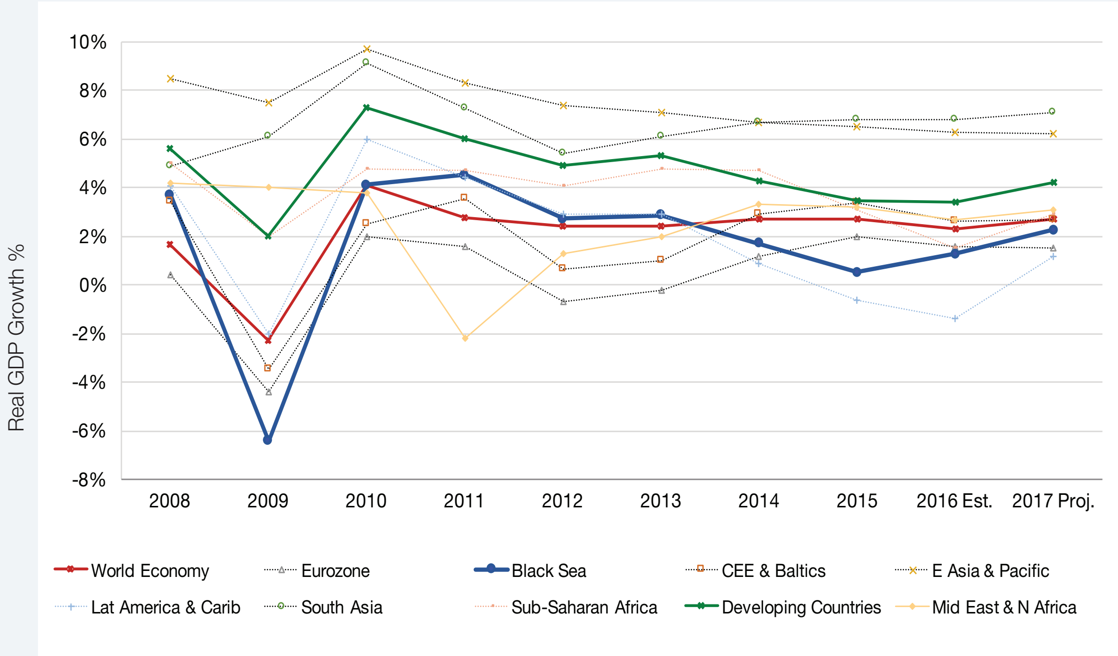
Ihsan Ugur Delikanli

President
Chairman of the Board of Directors

Economic Overview of the Black Sea Region in 2016[1]

2016 was a year of upturn in which the Black Sea Region reversed the declining trend of previous years and posting modest, but positive, real GDP growth, as Figure 1 shows. The years of steadily declining GDP growth outturns date back to 2010 and 2011, as lingering post-global financial crisis events, the protracted Eurozone crisis, weak commodity prices, and high uncertainty and risk aversion towards certain emerging markets, combined to suppress economic growth around the Black Sea, in a deteriorating and uneven manner.

Figure 1: Global GDP Growth since 2008, Broken Down by Region



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

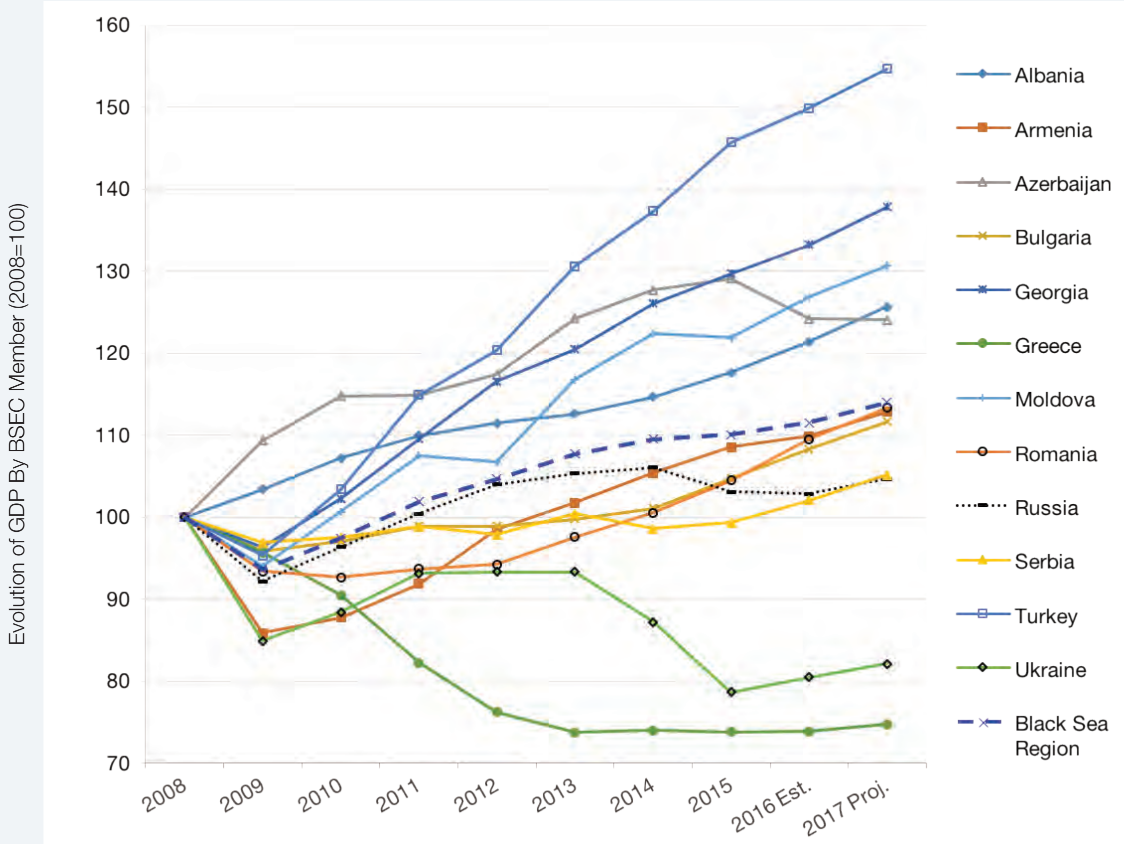
The recovery initially achieved during the 2010–2011 period was not sustained, and since 2012 the Black Sea Region has been among the weakest performing regions globally. In 2015, the Region experienced its weakest year, barely avoiding an outright contraction, with real GDP growth slowing to 0.5%. Nonetheless, it was a disappointing performance and one which left the Region lagging well behind global rates of growth, the cumulative rate of growth for developing countries, and the robust growth achieved by the Central and Eastern European and Baltic states (CEE & Baltics)[2], most of whom joined the European Union in 2004 and, as former "transition" countries, are often compared to the countries of the greater Black Sea Region.

1 Note on Sources: Black Sea Region data based on BSTDB calculations from National Statistical Agencies of the countries of the Black Sea Region and the International Monetary Fund IFS Database. Additional sources referred to include *Global Economic Prospects* reports of the World Bank, the IMF's *World Economic Outlook* publications (and their updates) and the Economist Intelligence Unit. As many figures at the time of writing represent estimates for 2016, actual final figures may differ in detail, but the overall trends discussed in this section will not be altered.

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

GDP in the Black Sea Region grew by 1.3% in real terms in 2016. Growth of the world economy slowed to an estimated 2.3%, and growth in developing countries amounted to 3.4%. Among developing regions, only the Latin America and Caribbean region, which for a second consecutive year posted negative growth, had a weaker outturn. Sub-Saharan Africa also posted weak growth to the order of 1.5% while Asian regions grew robustly at over 6%.

Figure 2: GDP Growth since 2008, by BSEC Member Country



While the Black Sea Region's outturn remains among the weaker rates of growth achieved by a particular geographic region, it comes at a time of softening global growth, and the Region's upturn contrasts with the slowing trend of growth posted by most key regions. Figure 1 shows how the "gap" between Black Sea growth and that of the World Economy, the CEE & Baltics, and the Eurozone – which represents the main trade partner for the Black Sea Region and its principal source of financing and investment – all diminished.

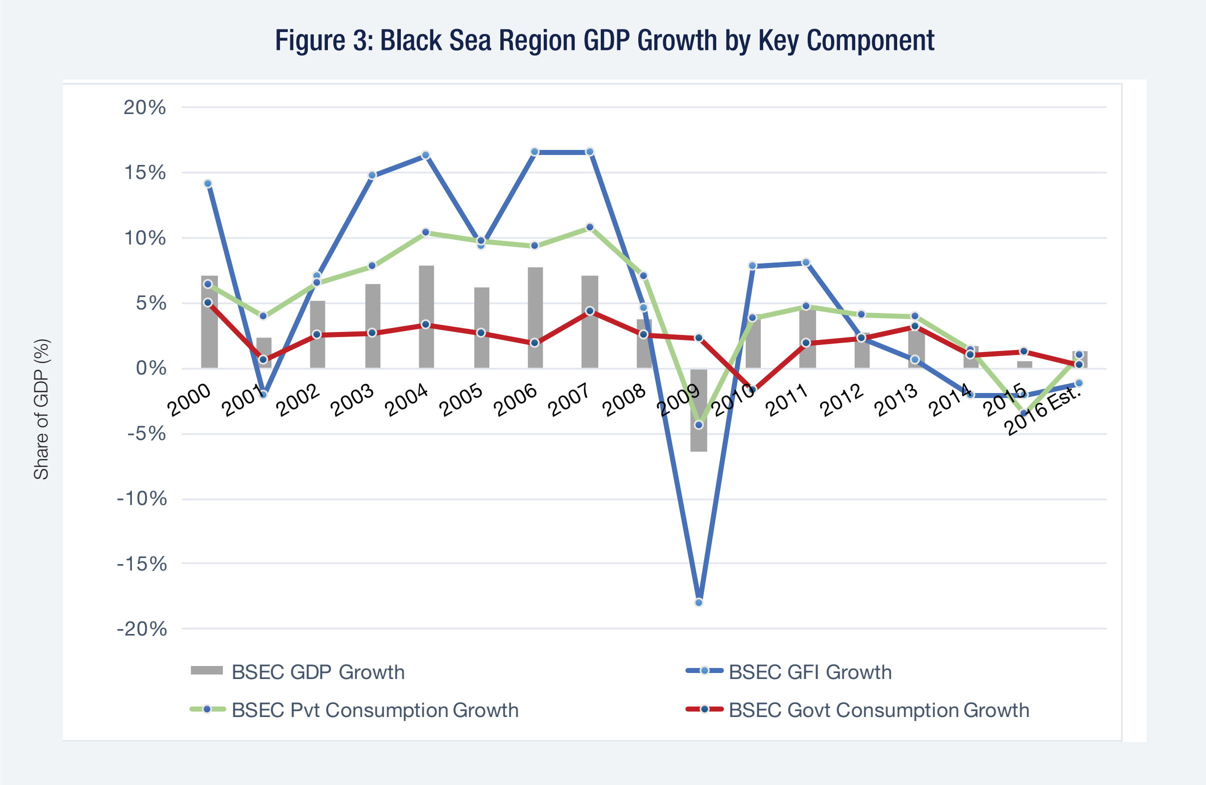
On average, the BSEC Region has grown by 2.5% in the seven year period after 2009, far below the 6.0% average growth figure that the Region enjoyed in the boom period from 2000–2008. Prior to 2009, all BSEC countries largely moved in tandem and between 2002–2008 in particular, all posted positive growth rates every year. In 2009, every country, except Albania and Azerbaijan, experienced a contraction, in some cases a severe one. Since 2010, there have been significant differences in the performance of each country's respective economy. Figure 2 shows the growth trend of each BSEC country in the post-financial crisis era, taking 2008 as the base year.

In the aftermath of the global financial crisis of 2009, recovery from the economic downturn and economic performance in ensuing years have been highly variable, and dependent to a large degree on a country's underlying economic fundamentals – debt levels, fiscal balance, economic growth rates, etc. Perceived vulnerability to adverse events in global financial conditions has been an especially important determinant of performance, in some cases creating a self-fulfilling chain of events with detrimental consequences for economic activity in the affected country.

Beyond the divergence in the performance of individual countries, it has become increasingly difficult to observe universal trends, as regards the countries around the Black Sea. However, one discernible pattern that dates to late 2011 and has persisted through 2016, is the bifurcation of growth cycles between the countries in the western part of the BSEC Region and those in the eastern part. In 2011 and especially 2012, it was the western countries – those that are in the Balkans and that are either European Union (EU) members or else have a membership perspective (either as acknowledged EU candidates or as potential EU candidates) – that fared worse. The primary reason for this was the economic impact of the Eurozone crisis upon these countries.

While the EU is the principal trade and financing partner for BSEC as a whole, this is especially true for the countries that are either in the EU already or have developed close institutional and economic ties as a result of the prospect of potential membership. The Eurozone crisis brought renewed recession to the EU, and in particular into the "core" that comprises the Eurozone, with negative outturns in 2012 and, to a lesser degree, in 2013. Western BSEC members followed suit, with growth falling in 2012 and some countries experiencing recession. Bolstered by positive spillover from the European Central Bank's quantitative easing programs, the budding recovery of key EU markets, and the bearing of benefits from difficult reforms undertaken in previous years, western BSEC members recovered in 2013 and have enjoyed an upswing which has seen them post above average growth each year since 2013. Growth averaged 4.6% between 2013–2015 and remained a relatively healthy 2.7% in 2016, as most western BSEC members outpaced EU growth rates as well.

By way of contrast, the eastern part of the BSEC Region has followed a different pattern of economic performance since 2012, with the Eurozone and other EU influences playing a relatively smaller role. Instead, these countries have been more affected by movements in commodity prices and the externality effects of US monetary policy. The decline in commodity prices, especially those for energy, resulted in diminishing receipts in certain countries, and the consequent economic slowdown in those reduced economic activity in other linked countries with significant trade ties and/or remittance receipts. The rise in the value of the dollar put significant downward pressure on national currency exchange rates, boosted the value of foreign denominated debt (whether publicly or privately held), and the high degree of dollarization of the economies to begin with was exacerbated. What began as a downward trend in 2013 picked up pace in 2014 and 2015, with the eastern part of BSEC experiencing a contraction equal to -3.0% of GDP in real terms. A big part of the improvement in regional performance in 2016 was due to the rebound in economic performance in these countries, particularly in the second half of the year, although for the entire 12-month period the Region posted a small contraction equal to -0.1% of GDP.



Sources: BSEC Statistical Agencies, IMF–IFS, EIU

Figure 3 presents a breakdown of GDP in the Black Sea Region, by key components. It shows that the recovery of private consumption accounts for much of the rebound observed in GDP, relative to 2015. Whereas consumption declined sharply in 2015, by -3.5%, it grew by 1.0% in 2016. As it accounts for around 60% of GDP on the demand side, it weighed most heavily on the observed upswing. Government consumption also rose by 0.2%, although it accounts for less than 20% of GDP.

The trend in gross fixed investment (GFI) remained negative, as it contracted by -1.2% – the third consecutive year of outright contraction and the continuation of a disappointing and worrying trend of low and declining rates of investment. As Figure 3 shows, GFI, which also accounts for close to 15% of GDP, has generally followed the trend in GDP to an exaggerated degree. In the years of high and positive growth prior to 2009, GFI generally exceeded GDP growth rates by a factor of two. In 2009, it contracted by -18%, and in the period since has failed to recover to pre-crisis rates. Instead, after a decent recovery in 2010 (7.8%) and 2011 (8.0%) it has steadily sagged since 2012 and has posted negative outturns in the last three years.

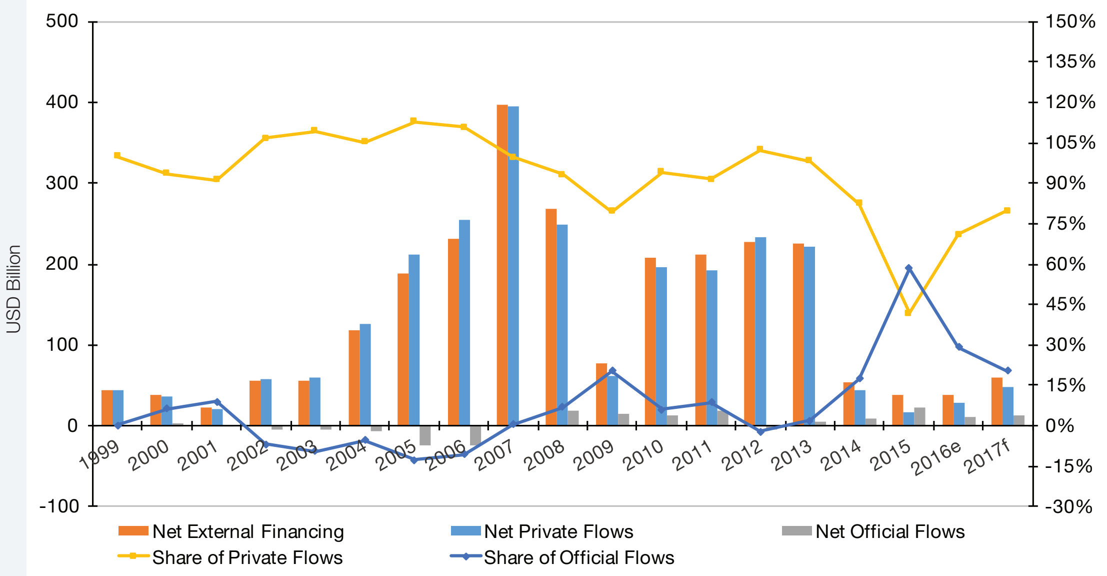
In addition to being a drag on current GDP growth, this weakness in GFI bodes ominously for future growth prospects in the Region, since investment undertaken now normally bears fruit in coming years, and the lack of investment usually results in lower long-term capacity to generate wealth, and therefore foregone economic activity and lower potential GDP growth.

In terms of sector of origin, agriculture enjoyed a stable, if unspectacular, year achieving growth of 1.9% Region-wide. In doing so, agricultural growth was positive in all but one of the BSEC countries, and continued two interesting trends. The first is that of positive growth over the last four years, which stands in contrast to the high year-on-year volatility observed in previous years on account of fluctuating commodity prices and/or variances in weather patterns; the second is a stabilization of the declining trend of agriculture's contribution to GDP formation – in the two decades up to 2013 agriculture's share of the economy had steadily eroded, reaching a low of 5.5% in 2012 as the services sector in particular grew rapidly and drove much growth. However, agriculture's contribution has risen steadily and in recent years stood at around 6.3% of regional GDP formation, a number which hides considerable variance among individual countries, although the overall trend of declining agriculture and rising services applies to virtually all BSEC economies.

The industrial sector's Region-wide growth also reached 1.9% for 2016, although in this case it represented a sharp reversal from the -0.9% contraction of 2015, and suggests that this change was an important driver of the regional turnaround and moderate overall growth observed. Industry accounts for around 30% of GDP formation in the Black Sea Region, and while it has fluctuated year-on-year around this figure, depending on global economic conditions and factors such as commodity prices, it has remained relatively stable over the last two decades.

Services, an engine of growth during the boom years of 2000–2008 and containing many of the small- and medium-sized enterprises that accounted for the majority of new job creation across the Region, had a subdued performance in 2016. The services sectors grew by an estimated 0.3%, a figure which represents an improvement on the -1.0% figure posted in 2015, but which acted as a drag on GDP growth. Services grew rapidly in the years up to 2009, and reached approximately 64% of GDP formation. Since 2009, this share has remained relatively flat, as services have mirrored the generally anemic economic growth of the Black Sea Region, and helps to explain the persistence of high unemployment in certain countries during this period.

Figure 4: Capital Flows to Emerging Europe (including BSEC Region)



Source: International Institute of Finance

Figure 4 provides context for the economic performance of the Black Sea Region, particularly with regards investment. The fluctuations in net private financing flows to Emerging Europe, which includes the Black Sea Region and CEE & Baltics, correlate considerably to the changes in gross fixed investment observed in Figure 3. It is this slowdown of net capital flows which is a principal, if not the primary, culprit for the Region's low investment.

The financial systems of Black Sea economies have grown substantially over the last two decades in terms of sophistication, depth, and overall size. Nonetheless, they remain relatively small in comparison to the overall size of the economies in which they operate, implying that domestically mobilized financial resources are insufficient to support the levels of investment needed to achieve high and sustained growth.

Consequently, Black Sea Region economies are dependent on external sources of financing, and during the high growth period from 2000–2008, external financing accelerated rapidly from a very low base, peaking in 2007. Most of the financing came from the private sector, and its scale dwarfed the official flows provided by sources such as the International Monetary Fund, development banks, and sovereign lenders.

However, private financing was dependent on benign – if not overly indulgent – financial market conditions, and it subsided rapidly after the onset of the financial crisis and the freezing of financial markets. In the Black Sea Region, governments, as well as private banks and firms which had become increasingly reliant on external borrowing, suddenly found their sources of financing shut off and faced the imminent risk of being unable to roll over their borrowing and thus defaulting. Via a difficult and painful process of deleveraging, banks and firms cut back. Defaults and non-performing loans rose, and capital bases were weakened, yet financial crises were averted in most countries, often with the help of government support programs for banks, which were expensive and immensely unpopular, but ultimately successful in averting collapse.

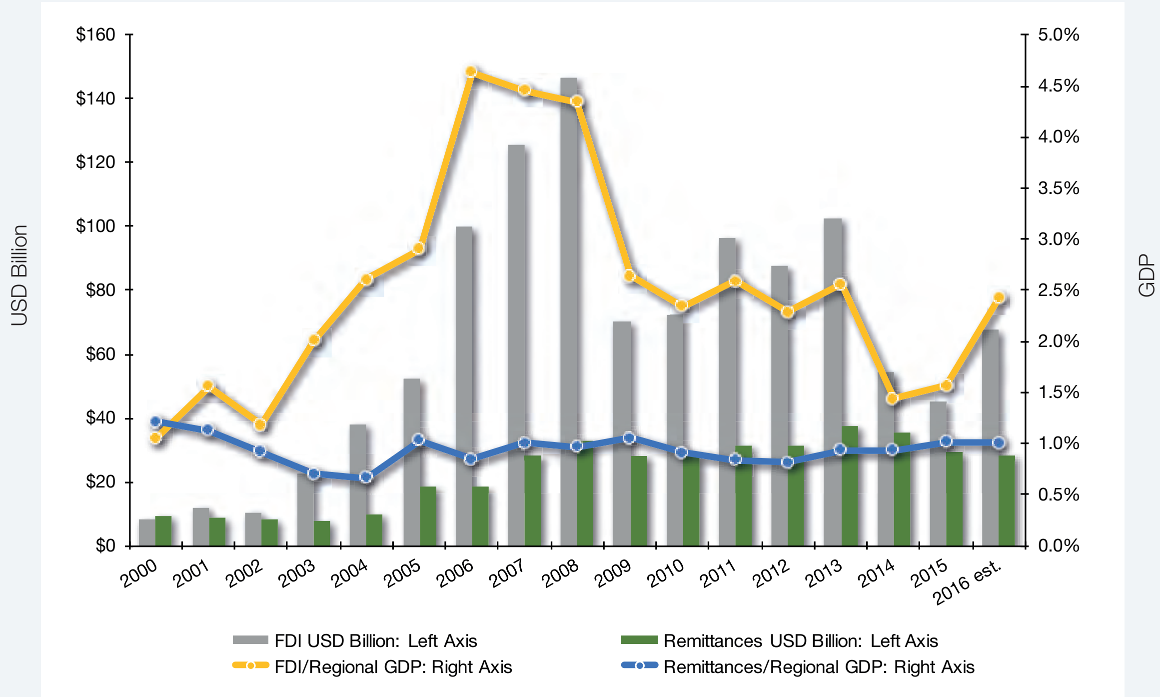
Financial flows recovered and stabilized at a lower level during the period 2010–2013, as most of the Black Sea Region (and Emerging Europe more generally) recovered quickly from the recessions of 2009. A global background of, on the one hand, high commodity prices, upon which many economies depend, and on the other, ultra-low interest rates in developed economies, which led to investors seeking yield to return to emerging economies, combined to support this recovery. This relatively benign equilibrium came under pressure in 2014, though, due to a combination of deteriorating geopolitics, recurring aftershocks of the Eurozone crisis, declines in energy prices, and global financial market concerns about the diverging monetary policies of developed economies. Thus, while the European Central Bank followed a highly expansionary monetary policy, with positive effects for western BSEC economies, which are closely tied to the EU, the Federal Reserve Bank of the United States began to talk about tightening its quantitative easing programs and raising interest rates. This resulted in outflows of dollars from many economies and appreciation of the dollar vis-a-vis local currencies.

Not only did this increase the cost of foreign borrowing in local currency terms, but given the high degree of dollarization of certain economies, this undermined confidence in the domestic economy and further exacerbated downward pressures on local currencies in a vicious cycle. While most economies adjusted and demonstrated a high degree of resilience, the pressure did heighten uncertainty and risk aversion, and this had a detrimental effect on private flows of financing from abroad. As a result, and for the first time since 1992, official net external financing to Emerging Europe in 2015 exceeded private net external financing. Private financing did increase in 2016 relative to 2015, but it remains far off the pace of previous years and on current trend appears unlikely to pick up substantively in 2017.

On the domestic front, governments have undertaken immense and intense efforts to strengthen their financial systems, to make them more resilient to external shocks, and ultimately to enable them to play a greater and more stable role in financing investment. There have been successes, and most financial systems are on more solid ground than they were a decade ago, having achieved consolidation, higher capital requirements for banks, and more rigorous and effective regulation. However, challenges remain, including legacy effects of the crisis such as stubbornly high levels of non-performing loans, and a continued sense of uncertainty that translates into high risk aversion and reduced levels of lending.

Unsurprisingly, levels of foreign direct investment (FDI) into the Black Sea Region have trended downward in recent years, even though 2016 experienced an uptick that went against the broader trend (See Figure 5). Since the uptick in risk aversion of 2014, FDI levels dropped substantially, although the 2016 figure of USD 67.6 billion, amounting to 2.4% of regional GDP, improved upon the disappointing outturns in 2014 and 2015. It remained below the levels achieved during the peak 2006–2008 period, but was in line with the 2.3–2.7% of GDP levels reached during the more moderate 2009–2013 period. What remains to be seen is whether it was a one-off improvement, or whether it will prove durable in coming years.

Figure 5: Foreign Direct Investment & Remittances in the Black Sea Region 2000–2016



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

To an expected degree, the downswing is driven by declining FDI levels in the Region's largest countries. Nevertheless, a number of countries have defied the trend and have systematically posted encouraging FDI figures relative to the size of their respective economies during the otherwise disappointing 2014–2016 period. At the top, these include longtime "headliners" Azerbaijan and Georgia, which attracted impressive levels of FDI equivalent to 11.7% and 11.9% of GDP respectively, and have been among the more successful countries at bringing in foreign investment. In addition, Albania and Serbia continued a recent trend of robust FDI levels at close to 9% and 6% of GDP respectively (See also Table 1).

FDI levels also play an important role as gauges of external views about a country and its economic prospects. In other words, it is a good proxy for perceptions of country risk. Unlike portfolio flows, which can enter or leave rapidly, FDI typically involves the long-term commitment of resources by an external business entity in order to establish (or acquire) a wealth-generating asset in the target country (e.g. a firm manufacturing a good or providing a service). This may involve purchase of fixed assets and/or undertaking of contractual obligations over lengthy time periods. Therefore, the perceptions of a country's risk levels are an important factor for external investors considering the commitment of resources. With improving country risk perceptions, FDI levels usually improve, and conversely, with deteriorating country risk perceptions, FDI levels normally decline. By this standard of measure, risk perceptions of the Black Sea Region on the whole appear to have deteriorated. After reaching a peak in 2007–2008, they have worsened and failed to recover, a trend corroborated by other proxies of country risk such as the sovereign ratings of credit rating agencies, country default swaps, and various commercial country risk indices.

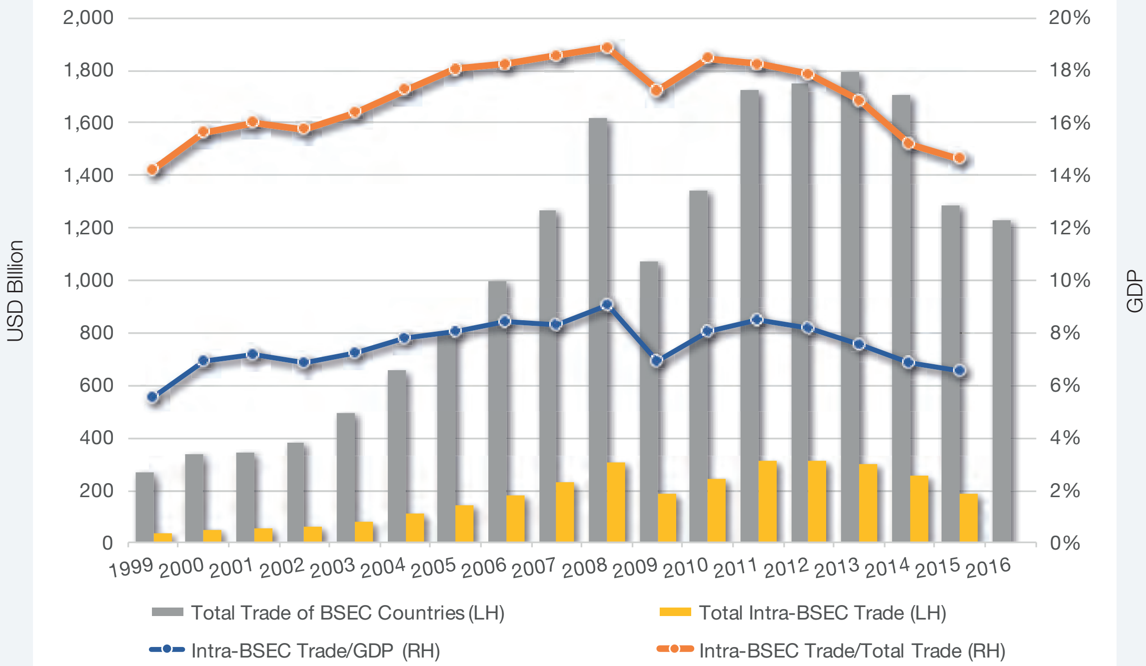
Figure 5 also shows the remarkable consistency of remittances. Black Sea Region countries have long traditions as labor exporters, and in some countries, receipt of remittances from workers abroad represents the most important source of foreign exchange. Remittances appear on the current account rather than the capital account of an economy, therefore they are recorded separately from other capital flows. Furthermore, they often follow informal channels of conveyance, so they are more difficult to measure precisely.

Nevertheless, it is possible to detect trends over time, and the stability and resiliency of remittance flows is evident. Capital flows fluctuate significantly from year to year, with portfolio flows (e.g. investing in local capital markets) especially volatile. Even FDI, which is considered a more "stable" form of financing that is less prone to sudden swings, shows substantially more fluctuation than remittances, which Region-wide consistently amount to around 1.0% of GDP.

While the year-to-year levels are stable, the importance of remittances to an individual economy varies considerably. As a broad rule, larger and more developed countries receive lower levels of remittances. Indeed, in recent decades Greece, Russia, and Turkey have attracted rising numbers of immigrants; as a consequence they have become exporters of remittances to neighboring states, and changes in their economic situation impacts that of countries from which the labor originates. Smaller, lower-income and less open economies tend to export more labor, and as a result to receive higher levels of remittances from emigrants. In the Black Sea Region, the two most characteristic cases are Moldova, where remittances reached an estimated 19.9% of GDP in 2016, Armenia, in which remittances amounted to over 13% of GDP, and Georgia, at around 10% of GDP. Other BSEC countries – excluding the immigrant recipients, received remittances equivalent to an estimated 3–9% of GDP. In view of the sagging FDI levels, this means that remittances challenge, and in some countries have overtaken, FDI as the largest source of external financing.

External trade flows in the Black Sea Region have also broadly followed the familiar trend observed for capital flows and FDI (See Figure 6). External trade rose six-fold between 1999–2008 in US dollar terms, a rate of increase that exceeds overall economic growth substantially even if one corrects for dollar fluctuations. In other words, the importance of external trade grew for Black Sea economies during this period, with the share of both exports and imports rising from less than 20% of GDP by value, to 24% in 2008 and total external trade amounting to 46.5% of regional GDP. The Region's external trade fell sharply in 2009, but recovered quickly in 2010–2011, and reached an all-time high of nearly USD 1.8 trillion in 2013, around 45.7% of regional GDP. Since then trade has dipped in US dollar terms, partly due to the rapid strengthening of the dollar since 2014, but also due to weakening economic growth and a broader global pattern of slowing growth that has been observed during this period as well.

Figure 6: Overview of Black Sea Region Trade Flows – Overall & Intra-Regional[3]



Sources: National Statistical Agencies

In 2016, total regional external trade slipped to around USD 1.2 trillion, equal to 44% of GDP. Regional exports declined by -24.9% in 2015 and a further -8.5% in 2016, while regional imports declined by -24.9% in 2015 and grew by a marginal 0.3% in 2016. Within these figures there is some differentiation among countries. Contrary to the overall trend, Armenia, Bulgaria, Romania, and Serbia experienced increases in exports. Overall however, and for the first time since 2008, the Region cumulatively posted a trade deficit of around USD one billion, equivalent to -0.04% of GDP.

Within the BSEC Region, trade among BSEC Members has also exhibited a declining trend in recent years. Figure 6 shows that the intra-regional trend in external trade up to 2015 is similar to the aggregate trend for the Region's overall external trade. Intra-regional trade among BSEC Members has declined both as a share of GDP and, more worryingly, as a share of the Region's overall external trade. In other words, even as the economies of the Black Sea Region are conducting less external trade, their trade flows with each other are falling even faster and comprising an ever smaller share of their trade. With external trade heavily influenced by exogenous factors such as global commodity prices and economic conditions, increasing the level of local trade among neighboring states offers a significant opportunity to develop closer links, improved competitiveness, and more stable markets that are less vulnerable to shifting global risk appetites and can buffer against sudden shocks that may arise. Failure to do so implies foregone economic growth and higher opportunity costs.

3 At the time of publication, breakdown of trade figures by individual country in 2016 were not available for many countries, therefore aggregate BSEC trade data was not available.

Table 1: Summary of Key Economic Indicators for 2016, by BSEC Member Country

	GDP Growth	Inflation	Cur Acct Bal/ GDP	Budget/GDP	Public Debt/ GDP	FDI/GDP
Albania	3.2%	1.3%	-9.3%	-1.7%	71.9%	8.9%
Armenia	1.2%	-1.4%	-2.7%	-5.4%	52.4%	3.2%
Azerbaijan	-3.8%	12.4%	-4.3%	-1.4%	22.5%	11.7%
Bulgaria	3.4%	-0.8%	4.3%	2.5%	29.7%	2.4%
Georgia	2.7%	2.1%	-11.3%	1.6%	40.5%	11.9%
Greece	0.0%	-0.8%	-0.6%	-5.1%	183.9%	1.2%
Moldova	4.1%	6.4%	-4.1%	-1.9%	44.1%	1.8%
Romania	4.8%	-1.6%	-2.3%	-2.4%	37.6%	2.9%
Russia	-0.2%	7.1%	1.9%	-3.7%	17.1%	2.6%
Serbia	2.8%	1.2%	-4.0%	-1.4%	73.7%	6.2%
Turkey	2.9%	7.8%	-3.8%	-1.1%	31.6%	1.4%
Ukraine	2.3%	13.9%	-4.1%	-2.2%	90.3%	3.7%
BSEC Region	1.3%	6.2%	-0.8%	-2.6%	39.9%	2.4%

Sources: National Statistical Agencies

Table 1 summarizes certain core macroeconomic indicators by BSEC Member Country. As in previous years, they are for the most part stable and testimony to the fiscal and monetary prudence to which the countries have shown ongoing commitment over many years. For example, inflation rates declined for the most part, and stabilized rapidly in countries which had experienced turmoil in 2014 and 2015. Budget balances across the Region remained below -3.0% of GDP and in most countries showed improvement. The current account balance for the Region overall deteriorated slightly but was stable and in line with expectations. It turned negative and came to -0.8% of GDP, mainly due to reduced surpluses from energy exporters. By contrast, in energy-importing countries it generally improved. Public debt dynamics also remained steady at under 40% of GDP as a Region-wide average, although there continued to exist substantial variation from country to country.

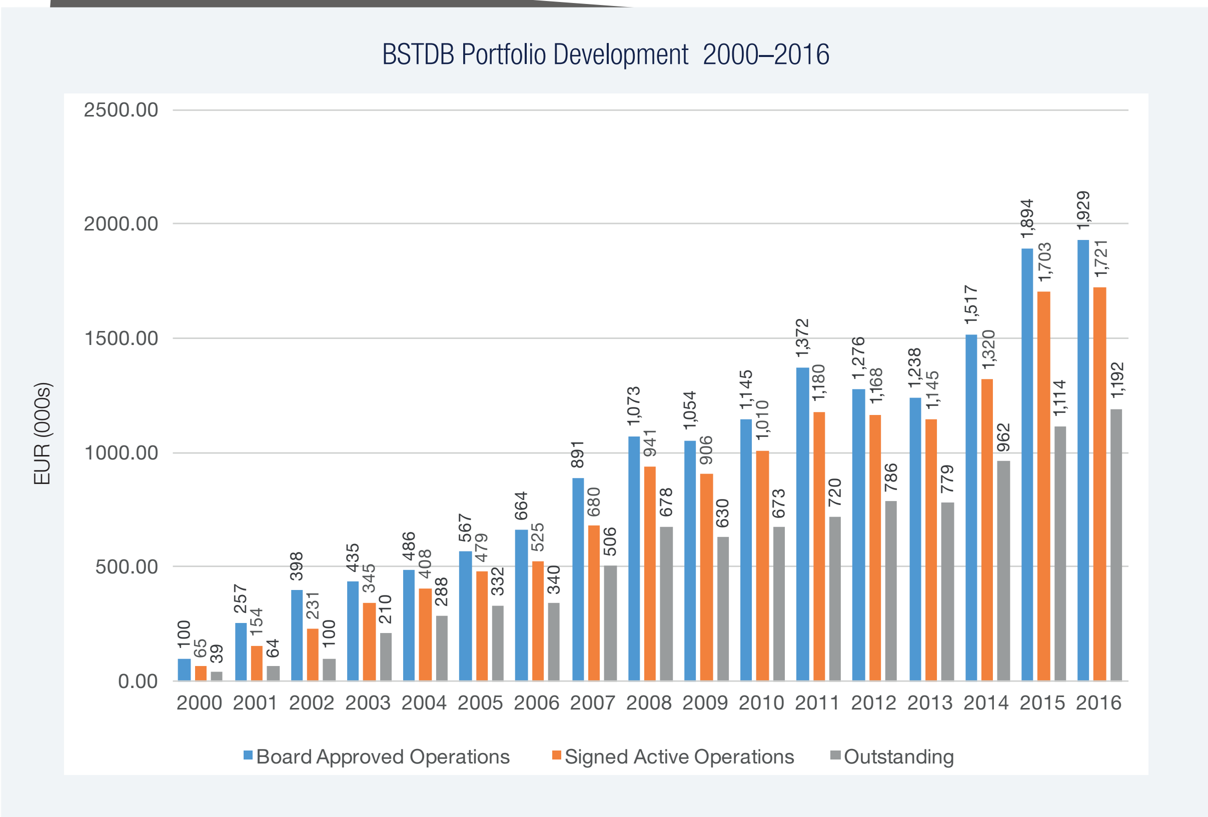
The long-term adherence to prudent, stable policies in combination with business friendly reforms throughout the Region – as acknowledged in the World Bank's *Doing Business* annual publications in which BSEC countries have ranked among the top performers over the years – emphasize the efforts that BSEC countries have taken to improve the operating environment for business and to attract investment.

The lack of responsiveness is a function of ongoing perception issues that, unfortunately, are largely beyond the control of BSEC countries. Images of geopolitical turmoil, armed conflicts, the Mideast refugee crisis, and the legacy effects of the 2008 global financial crisis, have proven difficult to overcome, despite the solid underlying macroeconomic and institutional fundamentals. Overcoming this risk aversion to the Black Sea Region is challenging and difficult; but it is also essential, via continued commitment to maintaining economic stability and improving business and entrepreneurship prospects, as well as increased extroversion to educate potential investors, financiers, and trade partners about the genuine opportunities and win-win possibilities available in a Region of growing sophistication with strategic geography, significant resources, and diverse, educated, and highly skilled populations.

BSTDB in the Black Sea Region

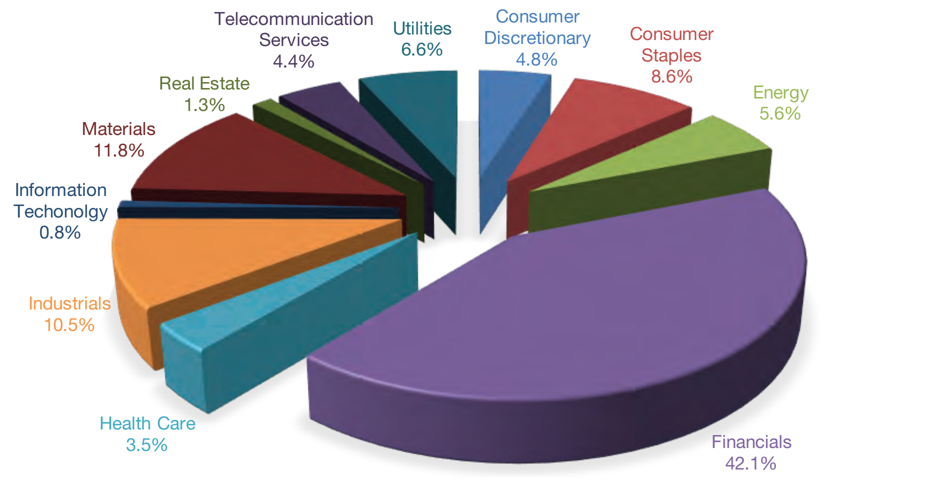
Portfolio Description

Since the beginning of operations in June 1999, the Bank has approved 340 operations amounting to about EUR 4.8 billion. Throughout this period, there were 295 signed operations for a total signing amount of EUR 3.9 billion. A total of 252 operations for about EUR 3 billion were repaid. At end 2016, there were 109 operations in the outstanding portfolio for EUR 1.2 billion. At end 2016, the Bank had only two non-performing loans, representing 3.4% of the value of the total outstanding loan portfolio.



Source: BSTDB

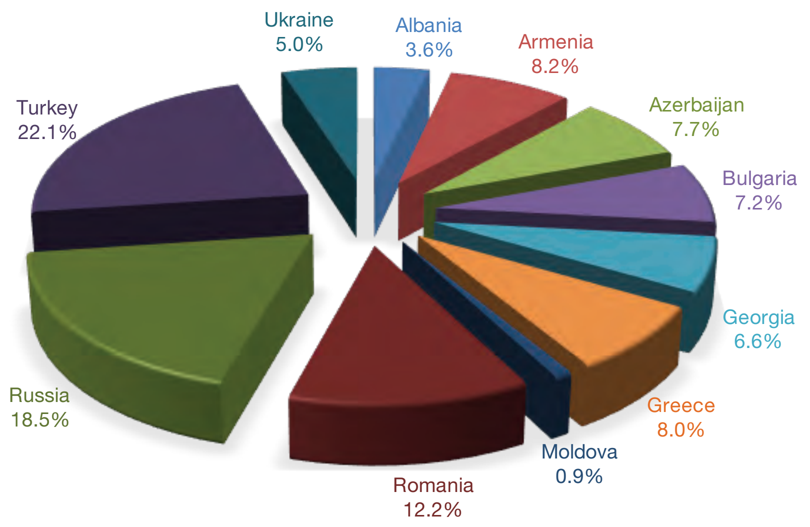
Cumulative Signed Operations by Sector



Sources: BSTDB

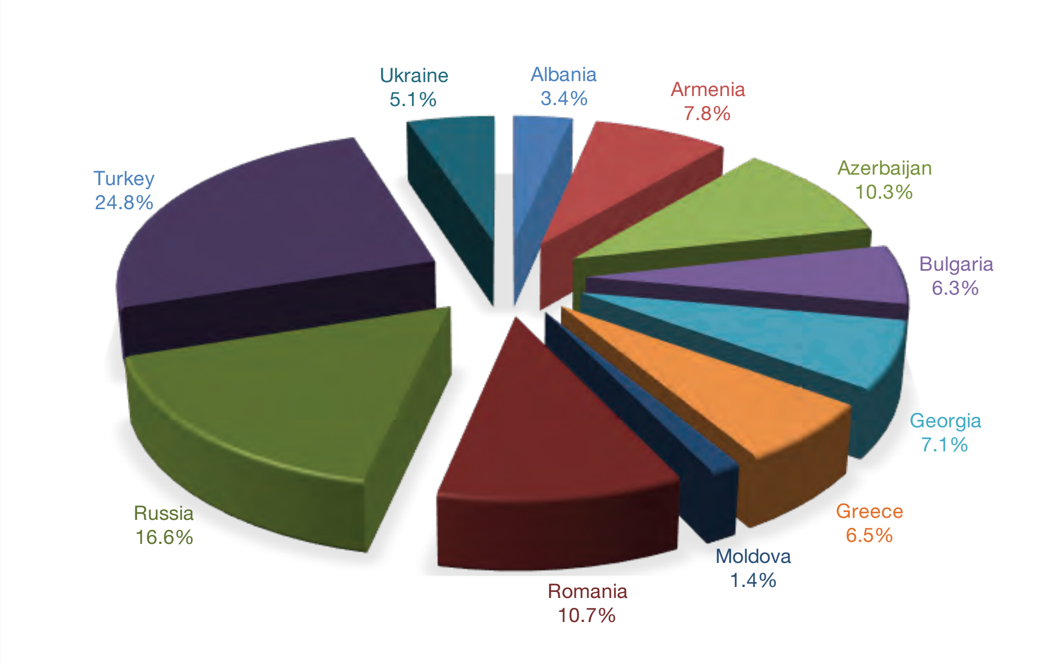
As of end 2016 the outstanding operations of the Bank (cumulative disbursements less repayments for active operations) represented EUR 1.2 billion, distributed by country as per the following graph:

Outstanding Operations by Country



Sources: BSTDB

Active Signed Operations by Country



Sources: BSTDB

2016 Portfolio Developments

In 2016, the Board of Directors approved 20 new operations for a total of EUR 433.3 million. Nineteen new operations were signed for a total of EUR 373.2 million. As a result, the Bank had 109 outstanding operations to 77 clients at the end of 2016.

Portfolio structure by sector remained broadly in line with the Bank's historical trends. As in previous years, the most significant exposures were in financial institutions, materials, utilities, consumer staples, and industrials. Significant exposure to financial institutions reflects BSTDB's strategic focus on the SME sector development, trade finance, leasing, and mortgage lines of credit extended through financial intermediaries in member countries. The Bank's participation in regional SME equity funds represented a further 3.4% of the outstanding portfolio.

Enhanced effort was put into increasing the share of the real (i.e. non-financial) sector, which reached 65.3% of outstanding portfolio at year-end. Two thirds of the new approvals in 2016 went to the real sector. The sectorial structure was well diversified, with projects originating from various industries and economy sectors: manufacturing, agribusiness, healthcare, energy, IT, financing small- and medium-sized enterprises, leasing, trade finance, etc.

Co-Financing

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

In the course of 2016, 68.9% of signed portfolio was co-financing. In terms of total signed active portfolio in the amount of EUR 1.7 billion, 48.9% of operations are co-financing. The share of co-financed active operations to total outstanding portfolio is 53.6%.

In 2016, the Bank co-financed the following operations:

1. Konya Karatay Integrated Health Campus Turkey with EUR 50.0 million for a total amount of EUR 265.0 million with EBRD & IsDB.
2. Tyras Group Bulgaria and Romania with EUR 28.0 million for a total amount of EUR 50.0 million with International Investment Bank.
3. SOCAR Turkey with USD 30.0 million for a total amount of USD 1.3 billion with Akbank T.A.S. Malta Branch, Bank of China (Luxembourg) S.A., Goldman Sachs Lending Partners LLC, J.P. Morgan Securities plc.
4. SUEK Russia with USD 30.0 million for a total amount of USD 1.0 billion with ING Bank & JSC UniCredit Russia.
5. Kernel Capex Facility Ukraine with USD 25.0 million for a total amount of USD 54.3 million with BNP Paribas (Suisse) SA, UniCredit Bank Austria AG, Banque Cantonale de Geneve, Federated Project and Trade Finance Core Fund.
6. Hellenic Telecommunications Organization S.A. (OTE) with EUR 50.0 million for a total amount of EUR 400.0 million with EBRD and Other Financing Sources.
7. Energo Pro Varna Bulgaria with EUR 40.0 million for a total amount of EUR 207.0 million with Commercial Banks, Pension Funds, Asset Managers, Corporate Treasuries.

Technical Assistance Funds

The Bank administers a special fund (the “Hellenic Fund”), established in July 2001 by a Contribution Agreement between the Government of the Hellenic Republic and BSTDB. The fund was set up with an initial amount of EUR 800,000 and was replenished in 2003 with the amount of EUR 500,000. This was the Bank’s first special fund and it responds to a need for higher quality information provided by the Bank’s prospective clients.

The Hellenic Fund is tied to consulting companies based in Greece. However, up to 25% of an assignment cost may be allocated to consultants who are nationals of the other Member Countries of the Bank.

Since its inception, the Hellenic Fund has disbursed around EUR 1.3 million for 40 consulting assignments. The companies benefitting from these funds operate in manufacturing, telecommunications, oil and gas, transportation, agribusiness, renewable energy, tourism, real estate, retail, and banking. The Hellenic Fund has been used for consultancy services in nine BSTDB Member Countries: Albania, Armenia, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, and Ukraine.

In 2016, the Hellenic Fund financed three new assignments related to the commercial and financial due diligence of potential projects for the Bank in Greece. The total amount of the Hellenic Fund used in 2016 was EUR 21,730.

Also, the Bank administers a Technical Cooperation Special Fund (the Fund), established in October 2008 with the Development Bank of Austria (OeEB). OeEB contributed to the Fund an initial amount of EUR 500,000 provided by the Government of Austria as Official Development Assistance (ODA). The Fund is an untied facility offering financing for a wide range of technical assistance services related to project preparation and training needs of BSTDB clients in the eligible countries of the Black Sea Region. The Fund represents the first financial facility of this kind, provided to the BSTDB by an institution not based in the BSTDB countries of operation. It can be used for assignments in the BSTDB Member Countries that are eligible to receive ODA.

In 2016, the Fund financed two due diligence assignments for the appraisal of a project in Albania.

Since its establishment, the Fund has disbursed about EUR 408,000, mainly for project preparation assignments.

Selected BSTDB Financings in 2016

Hellenic Telecommunications Organization S.A. (OTE S.A.) (Greece)

The Bank extended a EUR 50 million loan to the Hellenic Telecommunications Organization S.A. (OTE), the leading provider of telecommunication services in Greece and one of the largest in the South-Eastern Europe. The BSTDB financing is a parallel loan to a EUR 339 million syndicated loan provided by the European Bank for Reconstruction and Development (EBRD).

The funding will help finance OTE Group's strategic initiatives in Greece, including the development of Next Generation Networks (NGN), fiber-optic and Internet Protocol (IP) networks, as well as innovative products and services. This will benefit the Greek economy, financial markets, and customers.

OTE Group operates in three Member Countries of BSTDB: Greece, Albania, and Romania, thus having strong regional cooperation impact.

OTE Group, the largest investor in NGNs in Greece, brings to its customers today the technologies and networks of the future. Despite the economic crisis, OTE has maintained intact its ability to invest the substantial amounts required for the new fiber-optic networks. Greece needs networks and telecommunications of high standards to sustain its return to a strong growth track.

Supporting the economic recovery and growth in Greece in the current challenging economic environment is a top priority for BSTDB as a regional development bank. To this end, BSTDB is strengthening synergies with other development institutions, such as the EBRD, as well as with private investors. By financing OTE, one of the largest innovative companies and employers in Greece, BSTDB has casted a vote of confidence in the Bank's host country's economy and in the investments in its future.

The cooperation between BSTDB and EBRD underlines the developmental aspect of the OTE's investment plan, while the presence of International Financial Institutions in Greece is expected to further ignite the development potential in other sectors of the economy.

Total Project Cost	EUR 400 million
BSTDB financing	EUR 50 million
Maturity	3 years
Type of financing	Corporate loan

Selected BSTDB Financings in 2016

Supporting the energy sector in Bulgaria: Energo-Pro

The Bank supported Bulgaria's energy sector through an investment of EUR 40 million in the debut, seven-year, EUR 130 million privately placed bond issued by Energo-Pro Varna EAD (Energo-Pro). The company is the sole license holder for distribution and end-supply (regulated) in North-East Bulgaria and one of the three energy distribution companies in Bulgaria. Energo-Pro is also a leading free-market supplier (non-regulated) for the whole territory of Bulgaria. It is a subsidiary of Energo-Pro A.S., Czech Republic, a highly reputable integrated energy company with a long history in private electricity distribution, power supply, and generation of electricity from renewable energy sources. The Group has 18 years of experience in the energy sector and develops its business in four countries: the Czech Republic, Bulgaria, Turkey, and Georgia. The net proceeds of the bond will be used by the company to finance its capital investment programme in the electricity distribution network in Bulgaria over the period of 2016–2023, as well as for repayment of its outstanding debt. The investment programme of the company includes the acquisition of existing energy infrastructure and equipment, reconstruction, and new investments in development.

In addition to contributing to improved energy efficiency in the country, this operation facilitates the development and liquidity of the Bulgarian Stock Exchange – Sofia, once the bonds are listed. Acting as an anchor investor on a primary bond issue, BSTDB provided comfort to commercial banks, pension funds, asset managers, and corporate treasuries to join the subscription. The bond was placed in Central Europe, Austria, and predominantly South-Eastern Europe. The bond issue is the largest private one on the Bulgarian market.

Total Project Cost	EUR 207 million
BSTDB financing	EUR 40 million
Maturity	7 years
Type of financing	Bond

Selected BSTDB Financings in 2016

Financing the expansion of TYRAS Group in the Black Sea Region (Romania and Bulgaria)

BSTDB has arranged a long-term corporate loan of EUR 50 million to finance the investments and associated working capital needs of the dairy production plants of Fabrica de Lapte Brasov, Romania (FLB) and TYRBUL S.A., Bulgaria, both controlled by TYRAS Group, Greece.

The capital investments to be made will meet FLB's and TYRBUL's immediate investment needs for new production lines, installations, machinery, and equipment, in keeping with the growing demand for TYRAS Group's products in Romania, Bulgaria, and its export markets, mainly in Western Europe.

BSTDB led the arranging of the financing package for the project, inviting the International Investment Bank (IIB) to co-finance with a EUR 22 million loan, whilst BSTDB provided EUR 28 million from its own funds. This is the first project jointly financed by BSTDB with the IIB.

The funding is expected to have a positive impact by generating additional export revenues, supporting the activities of a successful private group of companies active in Romania, Bulgaria, and Greece, and promoting cooperation among BSTDB Member States through investments and exports.

This is the third loan provided by the Bank to TYRAS Group to develop its operations in the Black Sea Region. The cooperation started in 2012 with an initial loan of EUR 30 million for the operations in Romania. A second loan amounting to EUR 10 million was extended in 2014 to finance capital investments at Fabrica de Lapte Brasov in Romania: installation of a milk receiving and pasteurization line, construction of a storage area for packaging materials, purchase of equipment for cooling milk and cleaning production lines, and improvements in the waste-treatment facility.

Total Project Cost	EUR 50 million
BSTDB financing	EUR 28 million
Maturity	7 years
Type of financing	Corporate loan

Selected BSTDB Financings in 2016

Supporting the development of a strong healthcare infrastructure in Turkey: Konya Integrated Healthcare Campus

In 2016, the Bank continued to support the EUR 12 billion programme of the Turkish Government, aimed at developing about 60 hospitals across the country in collaboration with private partners. By tapping the private sector resources and know-how via public-private partnerships (PPP), the Government aims to address the need for substantial investments to develop the country's healthcare infrastructure and to achieve higher efficiency in managing this infrastructure.

A EUR 50 million project finance loan was provided by BSTDB to ATM Saglik Konya Yatirim ve Işletme A.S. (ATM Health Konya Investments and Management), a private company established to design, construct, equip, supply, and maintain an integrated health campus in Konya, the seventh largest city in Turkey. The project is implemented through a public-private partnership (PPP) involving a 28-year concession awarded by Turkey's Ministry of Health. The private developer shall act as facilities manager providing buildings maintenance and non-clinical services, whilst the Ministry of Health will remain responsible for providing healthcare services to the public. Konya Healthcare Campus is due to become operational in 2019, when it will have a total capacity of 838 beds. Total project cost is estimated at about EUR 374 million.

The project is expected to have economic benefits for Konya and the surrounding region, as well as for the Turkish economy overall, during both the construction and the operational phases. Such benefits include: new employment creation, upstream linkages with suppliers, favorable multiplier effects in the region, and, most importantly, improved and expanded capacity to provide healthcare services to the public.

Konya Healthcare Campus project will increase the capacity to provide healthcare services in Konya and lead to better quality services, as it will be a modern, state-of-the-art facility. The healthcare sector in Turkey is rapidly developing due to the growing population. Konya Healthcare Campus is expected to relieve the bottlenecks and overburdening of the current healthcare infrastructure.

The operation has a significant potential to provide positive demonstration effects. First, the project involves the construction and operation of a modern integrated healthcare campus, a model which is fairly new for Turkey and the Black Sea Region. Second, it involves a public–private partnership and therefore it is an interesting "case study" that could serve as a model for other PPP initiatives in the healthcare sector in Turkey, as well as other countries.

Another positive element is that the large size of the project required a high degree of external resources mobilization: several International Financial Institutions (IFIs) (BSTDB, EBRD and the Islamic Development Bank) and commercial banks (UniCredit and Siemens Bank) cooperated to complete the financial package for the project.

Konya Healthcare Campus is the second PPP project financed by the Bank in the rapidly developing healthcare sector in Turkey, the first such project being Ankara Etlik Integrated Heath Campus co-financed by BSTDB with EUR 60 million in 2015. The participation of IFIs in the Turkish Government's programme for developing the country's healthcare system is expected to ease the risk perception of commercial lenders, and hence assist in attracting the substantial funding required for this pioneering programme of the Turkish authorities.

Total Project Cost	About EUR 265 million
BSTDB financing	EUR 50 million
Maturity	18 years
Type of financing	Project finance loan

Selected BSTDB Financings in 2016

Fondi Besa (Albania)

Back in 2014, BSTDB provided a first loan to Fondi Besa Sh. A. (Fondi Besa), a leading Albanian non-bank financial institution, to finance micro, small-, and medium-sized enterprises (MSME). The loan amounted to EUR 6 million and was successfully implemented. Clients of Fondi Besa include people from all socio-economic areas, including the unemployed and start-up businesses. Following the fruitful cooperation between BSTDB and Fondi Besa, a second MSME loan was extended by the Bank in November 2016, for an amount of EUR 5 million.

By facilitating the access to finance for MSME, BSTDB financing to Fondi Besa is expected to have economic benefits for the Albanian economy: promoting economic growth and poverty reduction in urban and semi-urban areas, generating additional tax revenues from increased economic activity as a result of the financing provided, creating new jobs, as well as positive multiplier effects in other sectors of the economy. Strengthening the non-bank financial sector is also beneficial for the Albanian economy.

"We are honored and pleased to be part of this cooperation and would like to express our conviction that, as with the previous agreement, this cooperation will be successful and will have a great impact on the financial support to micro and small businesses and agricultural activities in Albania, resulting in an economic and social development."

Bajram Muçaj, CEO of Fondi Besa

BSTDB financing	EUR 5 million
Maturity	3 years
Type of financing	Loan for micro, small-, and medium-sized enterprises

Selected BSTDB Financings in 2016

İş Leasing (Turkey)

İş Finansal Kiralama A.Ş. (İş Leasing) from Turkey has been a financial intermediary of BSTDB since 2013, when a first SME leasing facility was provided for an amount of EUR 30 million. İş Leasing is among the leading Turkish leasing companies, an affiliate of İşbank, the largest private bank in the country. Nearly 180 Turkish beneficiaries received leasing finance out of the proceeds of this first BSTDB loan.

The successful implementation of the first SME leasing facility prompted BSTDB and İş Leasing to expand their cooperation in 2016, when BSTDB extended a second leasing facility to İş Leasing for an amount of USD 30 million. The loan has been fully disbursed for on-lending to Turkish companies. About 150 beneficiaries are due to receive leasing financing out of this second facility provided by the Bank.

A key priority for BSTDB remains the provision of financial support to small- and medium-sized enterprises (SMEs) that invest in modernizing their production facilities and in overall corporate development. Also, BSTDB intends to use the leasing product not only for financing the capital expenditures of SMEs, but also for larger companies, as an effective financing tool to promote economic growth and regional trade.

The loan provided by the Bank is expected to bring economic benefits for the country: employment creation, increased export capacity and competitiveness, higher tax revenues driven by increased economic activity, and positive multiplier effects in other sectors of the economy.

BSTDB financing	USD 30 million
Maturity	5 years
Type of financing	Loan for leasing finance to small- and medium-sized enterprises

Success Stories:
sustained development impact over the years

Kernel capital expenditures loan (Ukraine)

Ukraine is of one of the world's major exporters of grains and oilseeds, supplying more than 100 countries with these commodities.

Kernel Group (Kernel) of Ukraine is the largest exporter of sunflower seed oil globally and a leading grain supply chain manager, linking Ukrainian farmers to international markets. In addition to the natural competitive advantage that the region provides, unique added value comes from Kernel's logistical assets, as well as from its international marketing and distribution capabilities. For its exports, Kernel uses one of the top 5 grain export terminals in Ukraine, Transbulkterminal, owned and operated by Kernel since June 2008.

Recognizing the major importance of grain exports for the economy of Ukraine and the place of Kernel Group in this sector, BSTDB extended a loan of USD 25 million to the Group as part of a larger syndicated facility (together with BNP Paribas and UniCredit Bank). The proceeds of the loan were used to finance port-related capital expenditures and the purchase of farming machinery. Following the investments, the operations of Transbulkterminal were streamlined and the efficiency of Kernel's agricultural operations was enhanced.

The capital expenditures loan provided to Kernel builds upon the relationship developed with the Group since 2015, when the Bank participated with USD 20 million in a pre-export finance facility, fully disbursed, and since repaid. The pre-export finance loan supported Kernel's sunflower oil export: it funded sunflower seeds purchases from farmers and seeds storage and processing into commodities for export.

Total Project Cost	USD 54.3 million
BSTDB financing	USD 25 million
Maturity	20 months
Type of financing	Syndicated loan

Success Stories:
sustained development impact over the years

Georgian Lari (GEL)-denominated SME loans backed by GEL bond issue (Georgia)

- **2015: TBC Bank: GEL 48 million loan backed by a BSTDB bond, 3 years maturity**
- **2016: Bank of Georgia: GEL 60 million loan backed by a BSTDB bond, 5 years maturity**

In recent years, the Bank has been successful in providing funding to banks in Georgia for on-lending in local currency, by issuing BSTDB bonds denominated in local currency. The total amount of such financing provided reached about USD 45 million.

In 2015, BSTDB extended its first-time financial product denominated in a Member State local currency: a loan of Georgian Lari (GEL) 48 million (about USD 20 million) was provided to TBC Bank, sourced by BSTDB by issuing GEL-denominated bonds. TBC Bank fully utilized the loan for on-lending to Georgian small- and medium-sized enterprises (SMEs). In addition to facilitating SMEs access to finance, another important development impact of the extension of this BSTDB loan was the minimization of the foreign currency risk for the Georgian sub-borrowers, as they are funded in local currency.

Along with providing funding to local SMEs, the related GEL bond issue for funding the loan supported the development of the Georgian capital market.

In 2016, following the success of the first GEL-denominated SME loan sourced by issuing a GEL bond, BSTDB increased its support to private businesses in Georgia by extending a local currency SME loan, to the Bank of Georgia, for the amount of GEL 60 million (approximately USD 25 million). In line with its objective to develop the local capital market and support the country's economy, BSTDB funded the loan by issuing a Georgian Lari (GEL) bond. The issue carries BSTDB's A-/A2 credit ratings and meets the National Bank of Georgia's quality requirements as a liquid asset for Georgian banks.

The proceeds of the GEL 60 million bond issue, fully utilized for on-lending during 2016, have been used to finance investments and the working capital needs of local businesses in rural and urban areas of the country. The maturity period of the loan is five years.

Based on the success in Georgia, the Bank plans to offer similar local currency products to other countries in the Black Sea Region, aiming to contribute to making their economies and markets stronger and more stable.

**Murtaz Kikoria,
CEO of Bank of Georgia**

"I am pleased with the opportunity to join forces with the BSTDB in our efforts to enhance access to local currency funding for our SME clients. This local currency loan facility will enable us to enhance the access to longer term local currency financing for our SME customers."

5 Aug 2016

Vakhtang Butskhrikidze, CEO of TBC Bank

"We are delighted to continue our partnership with BSTDB. The transaction is of great importance not only for TBC Bank but for the entire financial sector, as it enables us to provide loans in local currency that are increasingly in demand from our customers, and will enable TBC Bank to further strengthen its position in the SME segment. In addition, the issuance of the bonds will support local capital market development."

5 Nov 2015

Success Stories:
sustained development impact over the years

Ardshinbank (Armenia) – deepening the cooperation with BSTDB through the years

The successful cooperation between BSTDB and Ardshinbank, the largest bank in Armenia by equity, started in 2012 with a housing loan facility of USD 8 million, aimed at contributing to the revival of the mortgage-lending market in Armenia. With a tenor of seven years, the BSTDB loan enabled Ardshinbank to extend affordable long-term residential mortgage loans to private individuals in Armenia. More than 480 end-borrowers have benefited so far from the BSTDB funding.

The successful implementation of the housing project laid the ground for deepening the cooperation between the two institutions. Since 2014, BSTDB has been instrumental in providing funding to Ardshinbank for on-lending to small- and medium-sized enterprises (SMEs), which continue to be one of the main targets of Ardshinbank's strategic development program. A USD 10 million loan was extended by BSTDB to Ardshinbank in November 2014, followed by an additional USD 10 million in July 2016.

Ardshinbank strives to ensure long-term competitive funding for local SMEs, which play a key role in driving economic growth, job creation, and export development. The funding sourced from BSTDB has been used by the end-beneficiaries for their capital expenditures and working capital needs. Ardshinbank extended loans to its SME customers at attractive interest rates for the Armenian market.

As of end 2016, the Ardshinbank portfolio funded by the BSTDB loan comprised 42 sub-borrowers and 53 loans. The BSTDB funds have been distributed across various sectors, with trade, transportation, manufacturing, and construction sectors being dominant. The BSTDB's SME facility contributed to profit generation and job creation by the Armenian SME beneficiaries.

The value created through the Ardshinbank–BSTDB cooperation can be illustrated by the following examples.

Printarm Danvest LLC

...is an Armenian printing and publishing house involved in offset printing and the printing of stickers for wine and cognac bottles. Ardshinbank financed the investment project of Printarm Danvest with funds sourced from the BSTDB loan. The company will use the financing to buy new printing equipment, which will enable them to increase the quality and quantity of their printing. Following this investment, Printarm Danvest will be able to expand its production capacity while also increasing the number of employees and the income generated.

MEGAFLEX LLC

...is an example of a successful start-up project brought to life by a young Armenian entrepreneur, using the BSTDB funding. The company is the official distributor of the Sketchers brand in Armenia, and was established in 2013. MEGAFLEX LLC received funding from Ardshinbank in 2013–2014, sourced from the BSTDB loan. With its establishment in the Armenian market, the company created new jobs and generated income. The company is planning to open a second store in one of the shopping malls in Yerevan, thus contributing to further employment and revenue creation in the country.

The increasingly strong relationship developed through the years between Ardshinbank and BSTDB lay the ground for further enhancing their cooperation in the future.

The long-term funding provided by BSTDB to the financial intermediaries enhances their ability to provide attractive financing to the local SMEs. Ultimately, the BSTDB funding supports the end-beneficiaries' growth from small- to medium- and large-sized enterprises, and promotes job creation and private sector development in the country.

Success Stories:
sustained development impact over the years

The BSTDB trade finance and trade facilitation program

The BSTDB trade finance and trade facilitation program uses a number of instruments designed to address the funding needs of suppliers and exporters, or of buyers and importers, from BSTDB Member Countries.

The trade finance and trade facilitation business of the Bank is conducted either directly via bilateral agreements with the beneficiaries, or through selected financial intermediaries (such as commercial banks, leasing companies, Export Credit Agencies, and development banks), within the framework of a credit facility agreement signed between BSTDB and selected financial intermediaries.

The trade finance and trade facilitation program includes export finance facilities (such as pre-export finance, single- or multiple-supplier refinancing loans, and export finance guarantees), import financing (through multiple buyer credit facilities, single buyer credit facilities, and import finance guarantees), as well as financial instruments dedicated to specialized financial institutions (factoring, leasing) active in the Region. The Bank also offers combined trade finance facilities, which enable the selected financial intermediaries to provide loans to both suppliers/exporters and buyers/importers, under a single loan agreement.

The USD 20 million pre-export finance facility provided by the Bank to Kernel Group in Ukraine in 2015 is one example of direct trade finance granted by the Bank. The loan was instrumental in supporting Kernel Group's exports of sunflower seeds and sunflower oil. It was used to finance Kernel Group's purchases of sunflower seeds from Ukrainian farmers and for seeds storage and processing into commodities for export. The direct relationship developed with Kernel Group was further developed in 2016, when the Bank provided a capital expenditures facility to the Group, thus further supporting the development of Kernel's operations and exports.

In addition to providing direct trade finance, BSTDB gives high importance to developing a solid network of financial intermediaries in its Member Countries, as the Bank has limited resources to reach beneficiaries locally, perform due diligence on each of them, and assume the related risks. Through the cooperation with local financial institutions, BSTDB supports their development and contributes to enhancing their capabilities to provide better service and a broader range of financial products.

The BSTDB trade finance program via financial intermediaries is well diversified by countries. Several success stories are provided below.

BSTDB has had an excellent cooperation with Basisbank (Georgia) since 2012, when a trade finance facility was initially provided. The total facility amounts to USD 15 million and is revolving, with a 360-day term. The renewed facility in 2016 has been fully utilized for on-lending. The aggregate amount disbursed since 2012 is USD 44 million, providing funding to 78 beneficiaries.

Equally successful has been the cooperation started in 2013 between BSTDB and Ekspo Factoring in Turkey. The total facility amount is USD 10 million and was utilized in full during 2016 for on-lending to Turkish companies. The facility is revolving, with a 370-day term, and the aggregate amount disbursed since 2013 exceeds USD 30 million, used for funding 26 beneficiaries.

Since 2015, BSTDB resources totalling USD 60 million have been extended for financing trade activities in Russia. In 2016, the Bank disbursed USD 30 million under the revolving trade finance facility to Absolut Bank (Russia).

BSTDB has been extending short-term funding to importers and exporters in Ukraine since 2013. A total of USD 20 million have been channelled through local intermediaries to trade companies in the country. In 2016, BSTDB disbursed USD 5 million to CreditWest Bank (Ukraine) for trade finance operations.

Addressing Sustainability

General Approach

BSTDB is strongly committed to addressing sustainability through the operations it finances. Thus, the environmental and social sustainability principles are duly integrated in the operation and activity of the Bank. Pollution prevention and mitigation; respect for fundamental human rights in the working environment; addressing climate change; promoting efficient use of natural resources; protection and conservation of biodiversity; and the disclosure of information regarding the environmental and social performance of its operations, as well as engagement in open dialogue with stakeholders, together form the core of the due diligence practice of BSTDB.

Categorization and Due Diligence

The Bank categorizes its operations into A, B+, B, C, and FI categories, depending on 1) the associated potential E&S risks and impacts, and 2) the scope of E&S assessment necessary to identify, assess, and mitigate these risks and impacts.

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

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

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

Applied Standards and Requirements

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

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

Public Information and Consultation

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

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

Monitoring and Institutional Aspects

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

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

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

Portfolio Overview

In 2016, BSTDB signed 19 operations, which in terms of the associated E&S risks and impacts were categorized into: Category A – 1 operation, Category B+ – 5 operations, Category B – 4 operations, Category C – 1 operation, and Category FI – 8 operations. The Category A operation was subject to ESIA and meaningful consultation and engagement with stakeholder, as well as public disclosure of a minimum 30 calendar days before the Bank's Board of Directors approval. Many of these operations have a strong developmental impact, create job opportunities, apply cleaner technologies and energy efficiency, and promote use of renewable energy. Likewise, the Bank favored dealing with Clients which employ transparent, responsible, and accountable business models, paying due regard and constantly improving their E&S performance.

International Cooperation

BSTDB has established long-lasting, fruitful cooperations with governmental bodies from its Member States, partner multilateral and bilateral financial institutions, businesses, civil society, and the general public, to ensure that its sustainable development objectives are met effectively and in a transparent manner.

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

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

Annual Evaluation Overview

INDEPENDENT EX-POST EVALUATIONS

Introduction

In accordance with BSTDB's Evaluation Policy, the Independent Evaluation Office of the Bank presents this annual evaluation overview to highlight key findings and trends from the conducted post-evaluations since 2001.

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

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

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

Independent Evaluation: Methodology and Adherence to Highest IFI Standards

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

The current evaluation overview provides an overall picture of BSTDB performance over the period of 2001–2016, with a highlight of the latest trends and developments (2012–2016), based on the analysis of 112 evaluations of completed operations and a dozen related evaluation studies.

The analysis covers three 5-year periods, to smooth out annual fluctuations, as required by the applicable evaluation methodology. The 2012–2016 data is compared with the target of reaching 70% positively performing evaluated operations, as set out in the Bank's previous and current Medium-Term Business Plans.

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

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

The ratings for these 5 criteria form the overall rating, a single measure of overall operational performance.

Performance of Evaluated Operations

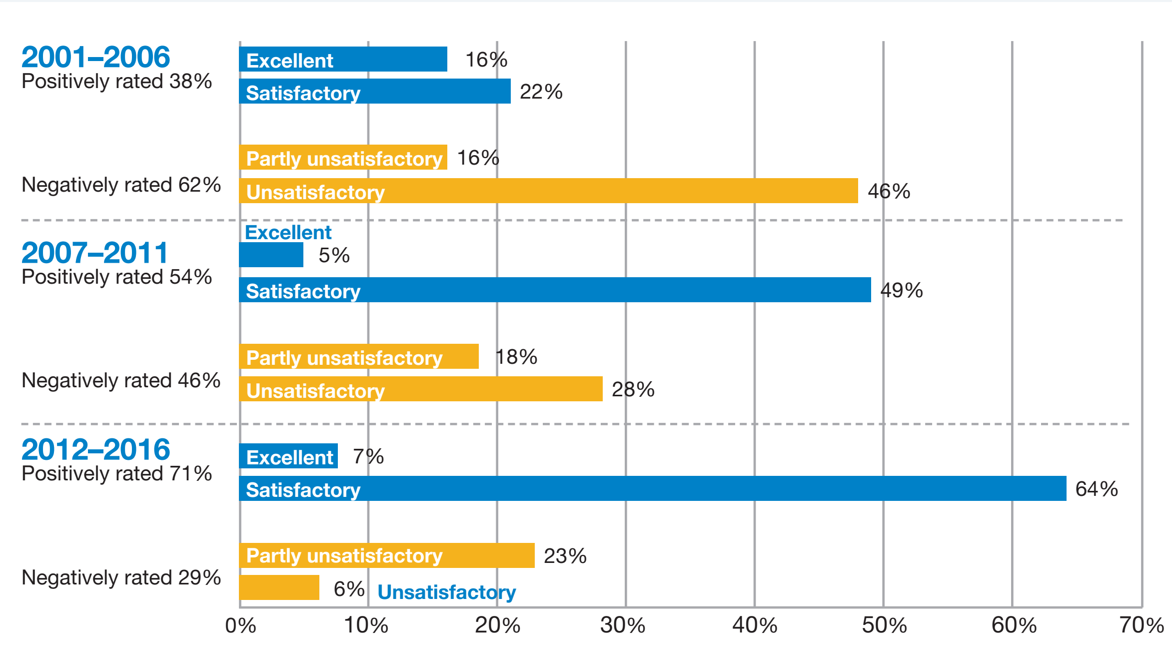
1. Overall Performance

In the latest aggregate period (2012–2016), BSTDB's positively rated operations represent 71% – above the target of 70% set by the Bank's Medium-Term Strategy 2015–2018. This denotes a positive trend compared to previous 5-year periods (upwards from 38% in 2001–2006 and 54% in 2007–2011).

On the upper end of the ratings, the share of "Excellent" ratings moved from 16% in 2001–2006 to 7% in 2012–2016.

The share of BSTDB operations rated negatively (Partly Unsatisfactory or Unsatisfactory), indicates improvement, as the lowest-rated share (Unsatisfactory) decreased from 46% in 2001–2006 to 6% in 2012–2016.

Performance of Bank's Operations for 2001–2006, 2007–2011, 2012–2016

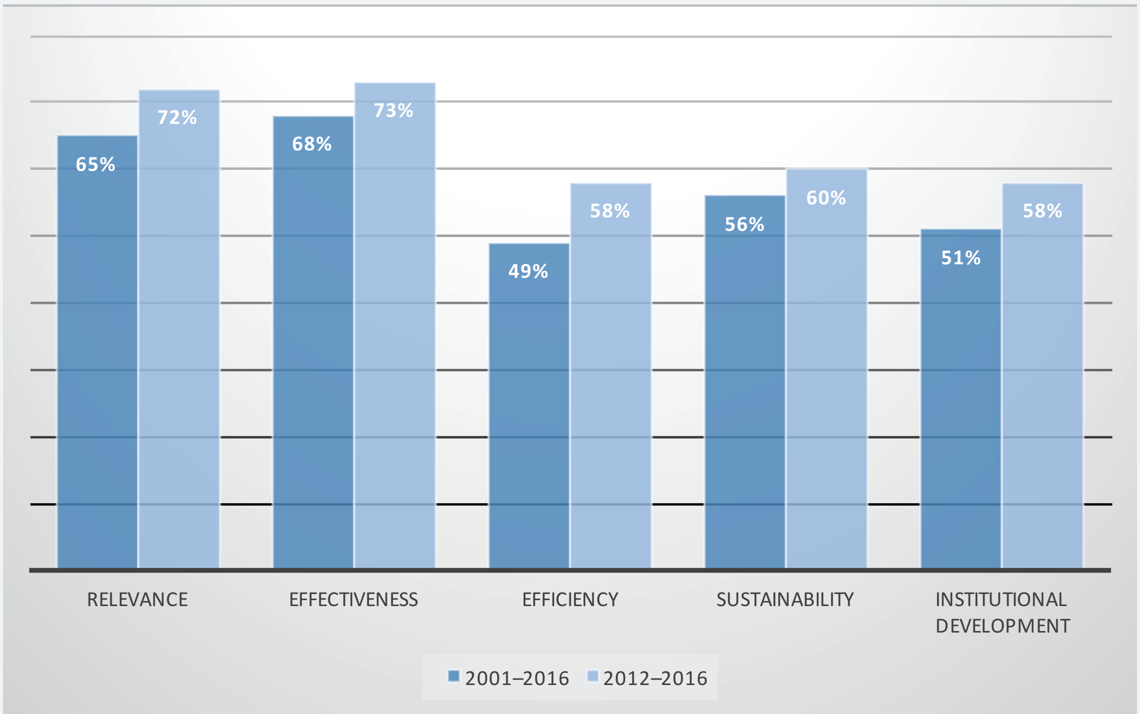


2. Relevance, Effectiveness, Efficiency, Sustainability, and Institutional Development

A more analytical review of the evaluation ratings under each of the five criteria (Relevance, Effectiveness, Efficiency, Sustainability, and Institutional Development) is helpful to understand the broader picture, as well as where the Bank needs more effort, to enhance overall performance. An outline of the share of positively rated operations, out of all 112 evaluated operations since 2001, is presented below:

- Relevance of operations – 65% (2001–2016) and 72% (2012–2016) positively rated
- Effectiveness – 68% (2001–2016) and 73% (2012–2016) positively rated
- Efficiency – 49% (2001–2016) and 58% (2012–2016) positively rated
- Sustainability – 56% (2001–2016) and 60% (2012–2016) positively rated
- Institutional Development – 51% (2001–2016) and 58% (2012–2016) positively rated

PERFORMANCE DETAILS: 2001–2016



Key Performance Indicators

Since 2016, the Independent Evaluation Office overviews the Key Performance Indicators (KPIs), approved by the Board of Governors as part of the Bank's Medium-Term Strategy and Business Plan 2015–2018. While there are eight KPIs, the overview has a focus on the following two as they are directly related to the evaluation of the Bank's mandate implementation:

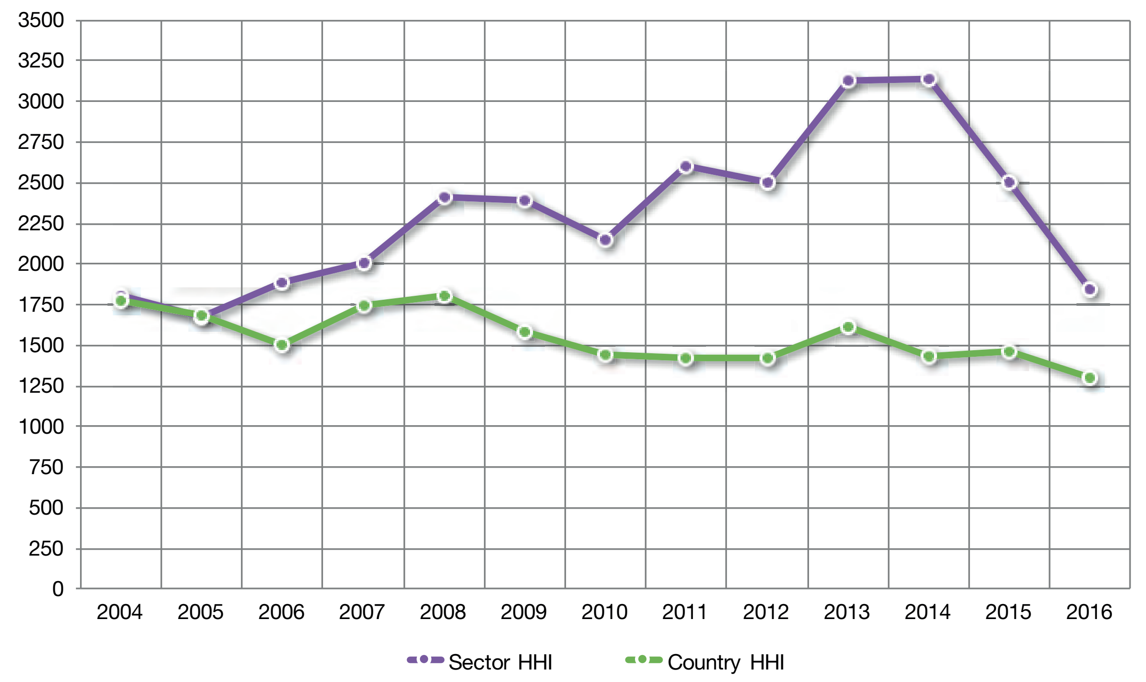
- **Mandate fulfillment** – 70% or higher share of ex-post evaluated operations to rate positive on overall performance (combined Relevance, Effectiveness, Efficiency, Sustainability, and Institutional Development).

Result: achieved (71%)

• **Portfolio Concentration** – Geographic (Country) Herfindahl–Hirschman Index should be 1400 or lower (HHI, a commonly accepted measure of market concentration, calculated by squaring the portfolio share in each country and then summing the resulting numbers: BSTDB uses sector HHI and Country HHI to measure sector and geographical concentration respectively), as well as a share of financial sector operations below 45%.

Result: achieved – Country HHI 1300; financial sector share of below 35%; while there is no specific target on sector HHI, the graph below demonstrates a substantial diversification, representing the lowest concentration level ever attained by the Bank, regarding both sector and geographic HHI.

DYNAMICS OF PORTFOLIO CONCENTRATION: 2004–2016



Independent Validation of Self-evaluation Reports

The Bank's Operation Teams prepare self-evaluation reports on each operation (Operation Completion Reports – OCRs). The Independent Evaluation Office's evaluation normally differs in performance ratings relative to the ratings assigned by the operation teams in the respective OCRs. The divergence between the OCRs and the independent evaluations, expressed in binary terms (i.e. reflecting only the cases where the independent evaluation resulted in a change from positively rated self-evaluation to negatively rated[4], or vice-versa) is as follows:

• The overall OCR performance ratings issued during 2012–2016 were validated by the Evaluation Office without change in 66% of the cases.

• For the same period, the OCR ratings that were upgraded and downgraded by the independent evaluation were 1% and 33% of the total, respectively.

4 Positive: Excellent or satisfactory; Negative: Partly Unsatisfactory or Unsatisfactory

Benchmarking with Peer IFIs

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

Since 2008, BSTDB maintains its performance generally in line with the comparable IFIs. The dramatic increase in the share of well-performing operations from 38% in 2006 to 71% in 2016 came as a result of proactive measures to analyze and mitigate shortfalls, such as volume-dominated incentives ("approval culture" – focusing on volumes of new operations with less effort on the quality and sustainability), as well as related waves of premature cancellations.

The last 5-year data place the Bank within the average portfolio growth/performance range among IFIs.

During recent years, the portfolio structure of the Bank with reference to other IFIs and the Bank's own targets revealed a relatively high share of financial sector operations. However, in 2015 and 2016, the Bank was able to reduce this share to less than 35% (34.7%), well below the threshold level of 45%, set by the Bank's Medium-Term Strategy 2015–2018.

Follow-up of Evaluation Recommendations

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

Conclusion

There is a consistent upward trend, with latest results (71%) being in line with the target of 70% positively rated operations set in the Bank's Medium-Term Business Plan. Since 2008, BSTDB maintains its performance generally in line with the comparable IFIs, indicating certain advantages and lags. The Bank will continue to perform peer benchmarking, both generally and with a particular focus, in order to stay abreast of good practice and the latest developments in development finance.

Use of Resources

Human Resources

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

HR Development

The year 2016 was marked by the implementation and improvement of certain important HR policies. Important modifications to the recruitment and appointment policy were identified; a new performance management system was implemented; a comprehensive review, update, and evaluation of the Bank's job descriptions was performed; a transitional incentives system was introduced; and significant progress was made towards the transfer of most of the HR processes to the SAP platform.

Following is a more detailed description of each of these achievements:

The revision of the recruitment and appointment policy, initiated in 2016, was aimed at standardizing and regularizing the various personnel engagement practices currently existing at the Bank, while maintaining the degree of flexibility required to address unforeseen temporary personnel needs. In addition, the lessons learned from a number of important recruitments realized in 2016, including through the services of an executive search company, prompted the introduction of a set of important modifications to the selection process, due for final approval in early 2017.

A new performance management system was implemented as of 1 January 2016. This system features increased objectivity, introduces performance-related rewards, and links individual performance to the performance of the institution through a process of cascading objectives at different organizational levels: institutional objectives are cascaded down from the institutional to the departmental level and thus are included in the calculation of individual performance scores.

The remuneration policy envisages a series of comprehensive reviews aimed at maintaining the equitability of the Bank's internal and external relativities. Within this framework, in 2016, the Bank conducted a complete overhaul and update of its job descriptions, and engaged a consultant to conduct an evaluation of the updated job descriptions based on the Hay methodology.

The transitional incentives system, approved for the evaluation of staff performance in 2015, was implemented in the first half of 2016. It featured the use of different sets of key performance indicators for the evaluation of departmental performance and calculation of departmental bonus pools, to be further distributed based on individual contributions.

In 2016, the Bank made significant progress towards the ultimate goal of transferring most of its HR processes to the SAP platform. More specifically, the preparatory work for the implementation of the personnel, organization, and time management modules was finalized.

Staffing and Recruitment

BSTDB conducts recruitment on a wide geographical basis. While preference is given to citizens of the member countries, recruitment is competitive and is based on the professional qualifications of the candidates. As of the end of 2016, the Bank's total headcount was 110 employees. Three new positions were added to the Bank's position count bringing it to 119. The Bank is planning to fill most of its vacant positions in 2017.

Staff Development

BSTDB offers learning opportunities, addressing the development needs of its staff within the context of organizational business requirements. The policy on training, learning, and development establishes a clear link between the institution's business needs and the development of professional and technical skills of the staff. In 2016, the share of the learning and development needs of the staff addressed through in-house group training activities continued to increase.

Staff Benefit System

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

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

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

Information Technologies

Information management is the fuel of today's business. To better manage information within the Bank, an Enterprise Information Management (EIM) system was introduced a few years ago. To facilitate the use of the EIM, the Bank has upgraded its Enterprise Information Management (EIM) system (Extended ECM for SAP), based on the OpenText software, to the newest version of OpenText, Content Server, Release 16. On top of that, a number of business applications are being developed using the new software and the Smart view interface, which allow users to manage and access information in an easy way, including access to SAP data. To help increase the adoption rate of the new software, the Bank is developing eLearning material using the OpenText Personalized Help/uPerform software.

To better manage its workforce, the Bank has deployed the SAP, Human Capital Management (HCM) software and has implemented a number of HCM modules to manage its staff, its organizational structure, and staff leave management processes. Also, the first stage of the SAP Budget Planning and Consolidation (BPC) module has been implemented to allow the Bank to better manage its budget across all business units.

A new virtual desktop was provisioned for all users, which allows staff to work remotely in a secure mode. Also, BSTDB has upgraded its telephony infrastructure, using a new VoIP telephone system to better manage its communication and control its expenses, allowing staff to use the softphone client on their smart devices.

External Relations and Communications

The external relations and communications activities aim to support BSTDB's strategy and the achievement of corporate objectives by promoting institutional cooperation and increased awareness of the Bank in the Black Sea Region with governments, the international development community, and other stakeholders. In 2016, the Bank's external relations activities focused on strengthening cooperation with partners in development and business communities in the Region, while enhancing corporate transparency in line with international best practices.

Generating Synergies with the Development Community to Benefit the Region

During 2016, the Bank actively promoted business collaboration with partners in development in support for its activities in the Black Sea Region. BSTDB came into new cooperation agreements with several partner institutions and business associations aimed at facilitating co-financing of operations and the exchange of information and good practices.

In June, the BSTDB Board of Governors granted Observer Status to the Islamic Corporation for the Development of the Private Sector (ICD), a private sector arm of the Islamic Development Bank, to facilitate cooperation in the common member countries of Albania, Azerbaijan, and Turkey. ICD became BSTDB's eleventh Observer institution.

BSTDB's active institutional contacts to explore cooperation opportunities with the Asian Development Bank (ADB) culminated in December, when ADB officially applied for Observer Status at BSTDB, which is expected to boost cooperation between the two development banks in the common countries of operation – Armenia, Azerbaijan, and Georgia.

During the period of May–July, BSTDB signed four Memoranda of Understanding (MoU) with institutions already active or willing to develop business in the Black Sea Region.

A MoU with the Bank of China aims at exploring co-financing opportunities in the Region, in particular in the infrastructure, transportation, energy, and communications sectors.

A MoU with the Federation of Industries of Northern Greece instigated a cooperation improving the investment environment in Greece and in other countries of the Black Sea Region.

A MoU with the European Investment Fund (EIF) is expected to increase collaboration with BSTDB in the Region, particularly in Greece. This partnership will allow the institutions to work together with financial instruments, such as equity investment platforms, portfolio guarantees operations, and SME loan securitization operations.

A MoU with the Dagong Global Credit Rating Company (China) sets a broad framework for partnership and synergies between the two institutions in China and in the Black Sea Region, while opening up mutually beneficial opportunities in promoting business activities.

Support for Business Generation

During the year, the Bank organized several business and press conferences, presentations, B2B meetings, and other promotional events to support new business generation.

In May 2016, BSTDB hosted a regional Business Forum in Athens under the auspices of the Ministry of Economy, Development and Tourism and in cooperation with Enterprise Greece and the Athens Chamber of Commerce and Industry. The Forum gathered about 300 policy makers from the Black Sea Region, representatives of development financial institutions, and Greek business leaders to analyze regional success stories and share their experience on economic strategies and measures aimed at fostering growth. The BSTDB banking teams had B2B meetings with participating companies to discuss investment proposals and cooperation opportunities.

On 10 June, BSTDB invited Cretan businesses to a presentation of its products and services on the occasion of the Bank's Annual Meeting in Chania, Crete. Georgios Stathakis, Minister of Economy, Development and Tourism opened the presentation, stressing the close collaboration between the Government and the Bank in promoting growth. BSTDB introduced its financial products and explained the loan application and project preparation process to about 70 business participants. Interested Cretan banks and companies discussed specific investment proposals after the presentation.

BSTDB continued a series of business presentations in member countries started in 2015. In February 2016, the Bank presented its strategy and products to the business communities in Romania and Bulgaria where it strives to achieve an accelerated portfolio growth.

In November, BSTDB, the Secretariat of the Organization of the Black Sea Economic Cooperation (BSEC), and the Government of the Russian Federation signed a Donor Agreement providing USD 1 million for the preparation of projects in the Black Sea Region. The facility, initially funded by the Russian Government, will be jointly used by BSEC and BSTDB to offer technical assistance in project preparation.

In 2016, the BSTDB President, senior management, and staff shared the Bank's expertise on development agenda within the framework of twelve major international events, including the World Credit Rating Forum (Beijing, July 2016), Istanbul Finance Summit (September 2016), Thessaloniki Summit (October 2016), Eurasian Economic Integration Forum (November 2016), and other conferences.

Multilateral Consultations with the Development Community

BSTDB continued to actively contribute to multilateral consultation mechanisms aimed at facilitating knowledge sharing and promoting developmental effectiveness.

In September 2016, the Bank hosted the 5th MDB Treasury Operations Forum and Special Operations Support meeting, convening leading IFIs and development banks.

As a founding member of the International Development Finance Club (IDFC), a group of national and sub-regional development banks from around the globe, BSTDB devised a concept and action plan for establishing IDFC's presence on social media, which was approved at the IDFC CEOs meeting in Washington in October 2016.

As in previous years, BSTDB continued to contribute to the established regular IFIs consultation mechanisms on Corporate Governance, Procurement, and Information Disclosure.

In April 2016, the Bank chaired the 10th Annual Meeting of Development Finance Institutions on Corporate Governance in Paris, bringing together over 110 participants, representing 21 countries and 11 multilateral development institutions.

In September 2016, the Bank hosted the SOS – Special Operations Support meeting – bringing together the directors of corporate recovery functions of all major IFIs. The discussions focused on active portfolio management approaches, transfer criteria for corporate recovery, and the sharing of experience with regards to sale/transfer of projects to third parties.

In October 2016, the Bank participated in the Portfolio Management Forum, the regular annual meeting of portfolio management/monitoring functions of all major IFIs.

Support for Regional Cooperation

BSTDB maintained its strategic support for regional cooperation, contributing to the joint efforts of the Organization of the Black Sea Economic Cooperation (BSEC), Parliamentary Assembly of BSEC (PABSEC), and other BSEC family institutions. Close interaction with the Governments, Parliaments, business communities and academia of the countries of the Black Sea Region, represented by the BSEC family institutions, remained an important priority for the Bank.

Administrative Services

During 2016, the Bank continued efforts to improve the overall efficiency of its administrative services and provide higher quality of service to Bank staff.

- The meeting areas were increased by 30%, to accommodate more meetings of the Bank's personnel, either internal or with external collaborators and customers, while the infrastructure was enhanced by the purchase of multi-purpose furniture, permitting more efficient organization of conferences.

- A new telecommunications infrastructure was implemented, in combination with the extension of corporate mobile phones to all professional staff, and the adoption of the new mobile packages available in the EU. The mobile telephony bills were reduced by 32%, at the same time as data roaming schemes were first implemented for personnel traveling abroad.

- The cost of heating fuel dropped by a further 20% over last year's drop of 25%, reducing accordingly the carbon footprint of the organization's premises. The latter effect was further strengthened by the reduction of electricity consumption by 15%.

New Policies

In 2016, the Bank adopted the "Nominee Director Appointment Guidelines", based on best practices by development financial institutions, to streamline its nominee director appointment and evaluation process. Most of the existing BSTDB nominations to investee funds and companies have been reviewed and formalized.

Business Volume

In 2016, the Bank's total assets were EUR 1,665,871 thousand at the end of the year against EUR 1,289,311 thousand at end 2015, representing a 29% expansion. The Bank increased the size of the outstanding loan and equity portfolios to EUR 1,191,838 thousand compared to EUR 1,113,532 thousand in the previous year, an increase of 7%. Funds committed but not yet disbursed stood at EUR 160,191 thousand at the end of the year.

Revenues

Interest income from lending activities was EUR 61,806 thousand for the year, from EUR 52,193 thousand in 2015. Treasury activities in 2016 generated interest income of EUR 6,170 thousand from its investment portfolios. Operating income for the year was EUR 30,816 thousand.

Expenses

Interest and similar expense for the year was EUR 38,171 thousand compared to EUR 15,956 thousand in 2015. This increase was due principally to the higher borrowing amounts required to fund the increased lending activities, and to the overlap between new borrowings and the repayment of the CHF 200 million bond that had matured in October.

Administrative expenses in 2016, including depreciation, were EUR 19,089 thousand, an increase of EUR 642 thousand over the previous year. Administrative expenses include salaries, benefits, and other administrative costs.

Personnel expenses, to the amount of EUR 14,317 thousand, showed an increase of EUR 421 thousand from the previous year due to the increase in the average number of staff. Other administrative costs also had an increase from the previous year to an amount of EUR 296 thousand.

Overall, administrative expenses were well within the 2016 Budget, reflecting the Bank's focus on budgetary discipline and effective cost controls.

Net Income

Income before impairment during the year was EUR 11,727 thousand compared to EUR 22,953 thousand in 2015. Net impairment losses to an amount of EUR 5,880 thousand were primarily due to an increase of specific provisions in a few of the Bank's operations. In addition, a fair value loss of EUR 4,096 thousand was recorded due to an unrealized fair value reduction against the cost of one of the Bank's equity investments.

The Bank posted net income of EUR 1,751 thousand for the year. Under the challenging economic conditions, the Bank continues to pay attention to the quality of its lending portfolio by enhancing monitoring and taking proactive measures to deal with potentially problematic operations at early stage.

Capital Base

Initial Share Capital

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

New Share Capital

The Board of Governors decided in December 2007 to approve an increase to the Bank's authorized capital from EUR 1.15 billion to EUR 3.45 billion. They further approved a EUR 1.15 billion increase in the subscribed capital to be subscribed by the existing Member States, thereby increasing subscribed capital to EUR 2.3 billion. An announcement that this additional

EUR 1.15 billion was fully subscribed was made after the Board of Governors meeting in October 2008. Georgia declined to take up its allocation and this was taken up by Romania. Upon completion of the subscription, Greece, Russia, and Turkey remained the largest shareholders of the Bank with 16.5% stake each, followed by Romania with 14%, Bulgaria and Ukraine with 13.5% each, Azerbaijan with 5%, Albania with 2%, Armenia and Moldova with 1% each, and Georgia with 0.5% stake. In October 2011, the Board of Governors accepted Moldova's request and reduced its portion of the subscribed capital, from 1% to 0.5%, and, therefore, those shares were released to unallocated.

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

- Payment of the paid-in portion of the new subscribed capital, equivalent to 10% of the subscribed number of shares (totaling EUR 115 million), was to be paid in cash by the Member States in 2010.

- Payment of the paid-in portion of the new subscribed capital, equivalent to 20% of the subscribed number of shares (totaling EUR 230 million), was to be made by each Member State in eight equal successive annual installments between 2011 and 2018.

- Payment for the remaining callable portion of the new subscribed capital, equivalent to 70% of the shares (totaling EUR 797 million), represents a firm commitment on the part of the Member States to pay such amount when due in conformity with the relevant provisions of the Establishing Agreement.

As of 31 December 2016, the paid-in share capital was EUR 613,809 thousand.

The Board of Governors may also authorize additional subscriptions from the remaining EUR 1.15 billion of authorized capital in three instances:

- To satisfy demand for shares expressed by Member States.

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

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

Gearing Ratio

The Bank's institutional gearing ratio, the statutory limit on the total amount of ordinary operations (outstanding loans, equity investments, and guarantees) is 150% of the Bank's unimpaired subscribed capital, reserves, and surplus, which at the end of 2016 stood at about EUR 3.7 billion.

The operational gearing ratio was set at 100% of the Bank's unimpaired paid-up capital, reserves, and surplus and the usable portion of callable capital, which limits the total amount of operations to approximately EUR 2.4 billion.

Provisioning

Provisions are recorded in two ways:

- Collective provisioning rate applied to the entire portfolio.

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

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

At the end of 2016, total provisions for loans stood at EUR 30 million, equivalent to 2.6% of the outstanding loan portfolio. The institutional target to be achieved for collective 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 share capital against impairment resulting from credit losses, in excess of provisions, or losses due to market, operational, and compliance risks. The Bank targets a level of profitability guided by the desire to build an appropriate cushion of reserves against the risks inherent to its normal operations, and subsequently growth of its capital base consistent with its financial and overall growth objectives.

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

Market Risks

Market risk management is conducted within a framework of conservative risk limits and policy documents approved by the Board of Directors.

It is the policy of the Bank to take no significant interest rate or foreign exchange exposure. Asset and liability maturities and interest rate tenors are matched wherever possible.

Operational Risks

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

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

The Bank utilizes the Standardized Approach (SA) as issued by the Basel Committee to monitor operational risk incurred[5] and the adequacy of its operational risk-related capital charges (Reserves).

Should the Bank quantify the operational risk embedded in its operations, it would, with the use of SA, amount to EUR 9.6 million for 2016 and EUR 7.9 million for 2015, constituting a fraction of the Bank's total reserves amount, which represents the ultimate protection of the Bank's capital against impairment resulting from credit losses in excess of provisions, or losses due to market, operational, and compliance risks. There is no general accepted methodology for calculating risks associated with compliance and other "black swan" type of events.

Based on the above quantified operational risk, it is deemed that the Reserves of the Bank are adequate to cover, at least, all potential losses arising from events of an operational risk nature. Consequently, there is no need, for operational risk purposes, to make supplementary allocations. It is noted that the Establishing Agreement requires the Bank to maintain reserves at a relatively high percentage of its portfolio[6].

Short-term Liquidity

As indicated in the statement of cash flows, the Bank's short-term liquidity totaling EUR 308 million as of 31 December 2016 was invested in two types of money market instruments:

- Short-term deposits with institutions long-term rated primarily at A2/A by either Moody's or Standard & Poor's credit rating agencies.

- Euro commercial paper short-term rated at a minimum of P2 by Moody's or A2 by Standard & Poor's credit rating agencies.

Investments are primarily denominated in EUR or USD currencies, and performance is monitored monthly against the Merrill Lynch 3 month Libid index.

5 International Convergence of Capital Measurement and Capital Standards, a Revised Framework, June 2004.
6 No part of the net income or surplus of the Bank shall be distributed to Members by way of profit until the general reserves of the Bank shall have attained the level of ten (10%) percent of the subscribed capital including all paid, unpaid but payable, unpaid but callable capital (Article 36 - Allocation of Net Income).

Borrowings Utilized

As of end 2016, the Bank had issued several fixed rate bonds: for USD 500 million, for CHF 100 million, for RON 102 million, and for JPY 1.5 billion, the proceeds of which were swapped to meet the Bank's currency funding requirements through the use of derivative instruments. The Bank issued a total of EUR 12 million Schuldschein. The Bank had also issued two Georgian domestic fixed rate bonds, totaling GEL 108 million, to fund loans in local currency. In addition, the Bank had outstanding borrowings totaling EUR 226 million, primarily from other IFIs and National Development Banks.

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

Risk Analysis

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

Risk Mitigation

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

Independent Evaluation

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

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

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

Preferred Creditor Status

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

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

Management Structure

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

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

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

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

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

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

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

Compliance

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

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

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

Reporting and Disclosure

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

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

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

Internal Audit

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

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

Enterprise Risk Management

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

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

The external auditors review and offer their opinion on Management's assertion as to the effectiveness of internal controls over financial reporting.

External Auditors

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

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

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

Financial Statements for the Year Ended 31 December 2016

Together with Auditor's Reports

INTERNAL CONTROLS OVER EXTERNAL FINANCIAL REPORTING

Responsibility for external financial reporting

Management's responsibility

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

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

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

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

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

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

The Bank has assessed its internal controls over external financial reporting for 2016. The Bank's assessment was based on the criteria for effective internal controls over financial reporting described in the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). Based upon this assessment, management asserts that, at 31 December 2016, the Bank maintained effective internal controls over its financial reporting as contained in the Financial Statements for 2016.

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

Ihsan Ugur Delikanli
President

Valentina Siclovan
Vice President Finance

Black Sea Trade and Development Bank
Thessaloniki
26 May 2017

Independent Reasonable Assurance

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

Report on the effectiveness of internal control over financial reporting

We were engaged by the Board of Directors of the Black Sea Trade and Development Bank to report on the effectiveness of the Black Sea Trade and Development Bank ("the Bank") internal control over financial reporting as of 31 December 2016 in the form of an independent reasonable assurance conclusion about whether the internal control over financial reporting is effective based on criteria established in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organisations of the Treadway Commission (the COSO criteria).

Bank's responsibilities

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

Our responsibilities

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

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

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

A bank's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

A bank's internal control over financial reporting include those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the bank; (2) provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards, and that receipts and expenditures of the bank are being made only in accordance with authorisations of management and directors of the bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the bank's assets that could have a material effect on the financial statements.

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

Conclusion

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

In our opinion, Black Sea Trade and Development Bank maintained, in all material respects, effective internal control over financial reporting, as of 31 December 2016, based on the COSO criteria.

KPMG Certified Auditors AE
Athens, Greece
26 May 2017

INCOME STATEMENT

For the year ended 31 December 2016

Presented in thousands of EUR	Note	2016	2015
Interest income	7	67,976	53,083
Interest expense	8	(38,171)	(15,956)
Net interest income		**29,805**	**37,127**
Net fees and commissions	9	1,748	1,075
Dividend income	15	6	2,589
Net gains from debt investment securities		718	-
Foreign exchange (losses) income		(1,488)	601
Other income		27	8
Operating income		**30,816**	**41,400**
Personnel expenses	10,25	(14,317)	(13,896)
Other administrative expenses	10	(4,182)	(3,886)
Depreciation and amortization	17,18	(590)	(665)
Income before impairment		**11,727**	**22,953**
Impairment (losses) on loans	11	(5,862)	(7,717)
Impairment (losses) gains on guarantees		(18)	(22)
Fair value (losses) on equity investments	15	(4,096)	-
Net income for the year		**1,751**	**15,214**

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

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

Presented in thousands of EUR	Note	2016	2015
Net income for the year		1,751	15,214
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit liability (asset)	23	(3,021)	2,360
Items that are or may be reclassified to profit or loss:			
Net change in available-for-sale financial assets	23	(5,003)	(24,703)
Total comprehensive (loss) for the year		**(6,273)**	**(7,129)**

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

STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2016

Presented in thousands of EUR	Note	2016	2015
Assets			
Cash and cash equivalents	24	70,034	49,745
Debt investment securities:			
Available-for-sale	12,24	414,539	139,299
Derivative financial instruments – assets	13	576	3,485
Loans	14,16	1,139,072	1,049,732
Less: deferred income	14	(7,626)	(7,664)
Less: impairment losses	11,14	(30,131)	(26,556)
Loans net of impairment		1,101,315	1,015,512
Equity investments available-for-sale	15,16	52,766	63,800
Property and equipment	17	510	621
Intangible assets	18	479	483
Other assets	19	25,652	16,366
Total Assets		**1,665,871**	**1,289,311**
Liabilities			
Borrowings	20	862,533	540,948
Derivative financial instruments – liabilities	13	35,100	20,427
Payables and accrued interest	21	15,568	6,389
Total liabilities		913,201	567,764
Members' Equity			
Authorized share capital	22	3,450,000	3,450,000
Less: unallocated share capital	22	(1,161,500)	(1,161,500)
Subscribed share capital	22	2,288,500	2,288,500
Less: callable share capital	22	(1,601,950)	(1,601,950)
Less: payable share capital	22	(72,741)	(110,137)
Paid-in share capital		613,809	576,413
Reserves	23	47,177	53,450
Retained earnings		91,684	91,684
Total members' equity		752,670	721,547
Total Liabilities and Members' Equity		**1,665,871**	**1,289,311**
Off-balance-sheet items			
Commitments	16	160,191	205,466

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

STATEMENT OF CHANGES IN MEMBERS' EQUITY

For the year ended 31 December 2016

Presented in thousands of EUR	Share capital					
	Sub-scribed	Callable	Payable	Reserves	Retained earnings	Total
At 31 December 2014	**2,288,500**	**(1,601,950)**	**(143,702)**	**71,389**	**80,874**	**695,111**
Total comprehensive income						
Net income for the year	-	-	-	-	15,214	15,214
Other comprehensive income:						
Fair value reserve (available-for-sale financial assets)	-	-	-	(24,703)	-	(24,703)
Remeasurement of defined benefit liability (asset)	-	-	-	2,360	-	2,360
Total comprehensive income	-	-	-	(22,343)	15,214	(7,129)
Transactions with owners of the Bank						
Members' contributions:						
Paid-in share capital	-	-	33,565	-	-	33,565
Transfer to general reserve	-	-	-	4,404	(4,404)	-
Total contributions and distributions	-	-	33,565	4,404	(4,404)	33,565
At 31 December 2015	**2,288,500**	**(1,601,950)**	**(110,137)**	**53,450**	**91,684**	**721,547**
Total comprehensive income						
Net income for the year	-	-	-	-	1,751	1,751
Other comprehensive income:						
Fair value reserve (available-for-sale financial assets)	-	-	-	(5,003)	-	(5,003)
Remeasurement of defined benefit liability (asset)	-	-	-	(3,021)	-	(3,021)
Total comprehensive income	-	-	-	(8,024)	1,751	(6,273)
Transactions with owners of the Bank						
Members' contributions:						
Paid-in share capital	-	-	37,396	-	-	37,396
Transfer to general reserve	-	-	-	1,751	(1,751)	-
Total contributions and distributions	-	-	37,396	1,751	(1,751)	37,396
At 31 December 2016	**2,288,500**	**(1,601,950)**	**(72,741)**	**47,177**	**91,684**	**752,670**

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

Presented in thousands of EUR	Note	2016	2015
Cash flows from operating activities			
Net income for the year		1,751	15,214
Adjustment for:			
Impairment losses (gains)		5,880	7,739
Depreciation and amortization		590	665
Net interest income		(29,805)	(37,127)
Dividends on available-for-sale securities		(6)	(2,589)
Foreign exchange adjustment on provisions		525	3,894
Fair value losses through profit or loss		4,096	-
Operating income before changes in operating assets		(16,969)	(12,204)
Changes in:			
Derivative financial instruments		17,582	5,173
Other assets		(2,904)	(2,387)
Accounts payable		3,360	(3,140)
Deferred income		(38)	(461)
Fair value movements		(5,003)	(24,703)
Cash generated from operations		3,972	(37,722)
Proceeds from repayment of loans		366,957	210,183
Proceeds from repayment of equity investments		4,926	2,579
Funds advanced for loans		(443,738)	(371,958)
Funds advanced for equity investments		(2,393)	(2,562)
Foreign exchange and other adjustments		(4,058)	10,208
Interest income received		61,594	49,903
Dividends received		6	2,589
Interest expense paid		(32,370)	(15,416)
Net cash from / (used in) operating activities		(53,048)	(152,196)
Cash flows from investing activities			
Proceeds from available-for-sale investment securities		717,977	64,283
Purchase of available-for-sale investment securities		(904,403)	(84,695)
Purchase of property, software, and equipment		(474)	(601)
Net cash from / (used in) investing activities		(186,900)	(21,013)
Cash flows from financing activities			
Proceeds received from share capital		37,396	33,565
Paid-in share capital received		37,396	33,565
Proceeds from borrowings		618,977	275,690
Repayments of borrowings		(297,392)	(75,957)
Net cash from / (used in) financing activities		358,981	233,298
Net increase in cash and cash equivalents		**119,033**	**60,089**
Cash and cash equivalents at beginning of year		189,044	128,955
Cash and cash equivalents at end of year	24	**308,077**	**189,044**

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

NOTES TO THE FINANCIAL STATEMENTS

1. ESTABLISHMENT OF THE BANK

Agreement Establishing the Bank

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

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

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

Headquarters Agreement

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

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB"). The financial statements for the year ended 2016 were submitted by the Management Committee to the Board of Directors ("BoD") for approval on 26 May 2017, and were approved on that date.

Pursuant to Article 23 of the Establishing Agreement, these financial statements shall be subject to approval by the Board of Governors ("BoG") in their Annual Meeting to be held on 2 July 2017.

Basis of Measurement

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

Functional and Presentation Currency

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

Judgments and Assumptions

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Foreign Currencies

Foreign currency transactions are initially recorded in EUR by applying to the foreign currency amount the exchange rate between the EUR and the foreign currency at the rate prevailing on the date of transaction. Exchange gains and losses arising from the translation of monetary assets and liabilities denominated in foreign currencies at the end of year are recorded in the income statement.

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

			31 December 2016	31 December 2015
1 EUR	=	United States dollar	1.05410	1.08870
	=	Pound sterling	0.85618	0.73395
	=	Azerbaijan manat	1.86440	1.70066
	=	Georgian lari	2.78210	2.60650

Recognition and Derecognition of Financial Instruments

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

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

Cash and Cash Equivalents

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

Financial Assets

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

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

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

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. Subsequently, loans are measured at amortized cost using the effective interest rate method less any provision for impairment or uncollectability. All other fees and relating income generated are reported in the income statement (see note 9).

b) Held-to-maturity

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

c) Available-for-sale

Financial assets such as equity investments, Euro Commercial Paper (“ECP”), or bonds are classified as available-for-sale and are intended to be held for an indefinite period of time, and may or may not be sold in the future. After initial recognition at cost, these financial assets are measured at fair value. The fair value of the available-for-sale securities that are traded in organized financial markets is determined by reference to quoted market bid prices. For those assets where there is no active market, the fair value is determined using accepted valuation techniques. These valuation techniques used are net asset value and earnings-based valuations using comparable information and discounting cash flows.

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

Financial Liabilities

Financial liabilities include borrowings and other liabilities.

a) Borrowings

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

b) Other liabilities

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

Offsetting of Financial Assets and Liabilities

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

Derivatives

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

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

a) Hedge accounting

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

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

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

i) Fair value hedge

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

Impairment

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

a) Financial assets carried at amortized cost

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

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

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

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

An asset together with the associated allowance is written off when all or part of it is deemed uncollectible by liquidation, or all legal and other avenues for 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 recognized, the previously recognized impairment loss is increased by adjusting the allowance account. Recoveries of such assets written off in earlier periods are included in the income statement.

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

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

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

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

b) Available-for-sale financial assets

At each financial position date the Bank assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired.

b1) Equity investments

For equity investments carried at fair value, a significant or prolonged decline in the fair value below its cost is considered in determining whether the assets are impaired. If any such evidence exists, the cumulative impairment loss, which is measured as the difference between the acquisition cost and the current fair value, net of any impairment loss previously recognized in net income, is removed from reserves and included in income. Impairment losses once recognized and included in income on these equity investments carried at cost, are not reversed.

b2) Debt securities

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

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

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

c) Non-financial assets

At each financial position date the Bank reviews the carrying value of the non-financial assets and assesses whether there is any indication of impairment. If such indications exist an analysis is performed to assess whether the book value of the specific assets can be recovered. The recoverable amount is the higher amount between the net value of sale (value of sale reduced by sale expenses) and 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.

d) Renegotiated loans

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

Renegotiated loans are continuously monitored to ensure that all criteria are met and that future payments are likely to occur.

Financial Guarantees

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

Property and Equipment

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

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

Intangible Assets

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

Taxation

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

Provisions

The Bank raise non-risk management provisions for potential obligations and risks when the following circumstances exist: (a) there is an existing legal or constructive obligation as a result of past events, (b) for the obligation to be settled an outflow of resources embodying economic benefits is possible, 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 per cent (10%) of the subscribed capital including all paid, unpaid but payable, and unpaid but callable share capital.

Reserves and Retained Earnings

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

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

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

Revenues and Expenses

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

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

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

Staff Retirement and Termination Benefits

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

- The first pillar is a defined benefit scheme financed entirely by the Bank. The scheme's funding level and the Bank's contributions are determined on the basis of actuarial valuations performed annually by qualified, independent actuaries. The Bank is under the obligation to maintain the scheme fully funded, and to this effect, has always liquidated any past service deficit in the course of the year following the relevant actuarial valuation. Actuarial and asset gains or losses are recognized in "Other comprehensive income", and net gains or losses are included in remeasurements where any change in the effect of the asset ceiling, excluding those amounts that have been already included in personnel expenses, are also included.
- The second pillar is a defined contribution scheme to which both the employee and the Bank contribute equally at a rate of 0–12% of basic salary. Each employee determines his/her contribution rate and the mode of investment of the contributions.
- The third pillar is a defined contribution scheme funded entirely by each employee, up to 40% of basic salary.

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

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

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

Government Grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Grants relating to fixed asset expenditures are recognized in income on a straight-line basis over the same period as that applied for depreciation purposes. Those relating to administrative expenses are recognized in income matching with the expense incurred.

Operating Leases – the Bank as a Lessee

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

New and Forthcoming Accounting Standards

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

a) New currently effective requirements

- IFRS 14 Regulatory Deferred Accounts.
- Accounting for Acquisition of Interests in Joint Operations (Amendments to IFRS 11).
- Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38).
- Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41).
- Equity Method in Separate Financial Statements (Amendments to IAS 27).
- Annual Improvements to IFRS's 2012-2014 Cycle – various standards.
- Investment entities: Applying the Consolidated Exception (Amendments to IFRS 10, IFRS 12, and IAS 28).
- Disclosure Initiative (Amendment to IAS 1).

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

b) Forthcoming requirements

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016; however, the Bank has not applied the following new or amended standards in preparing these financial statements.

- Disclosure Initiative (Amendments to IAS 7), which is effective for annual reporting periods beginning on or after 1 January 2017.
- Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12), which is effective for annual reporting periods beginning on or after 1 January 2017.
- IFRS 9 Financial Instruments, which is effective for annual reporting periods beginning on or after 1 January 2018.
- IFRS 15 Revenue from Contracts from Customers, which is effective for annual reporting periods beginning on or after 1 January 2018.
- IFRS 16 Leases, which is effective for annual reporting periods beginning on or after 1 January 2019.
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28). Effective date: to be determined.
- Classification and Measurement of share-based Payments (Amendments to IFRS 2), which is effective for annual reporting periods beginning on or after 1 January 2018.
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4), which is effective for annual periods beginning on or after 1 January 2018.
- Transfers of Investment Property (Amendment to IAS 40), which is effective for annual periods beginning on or after 1 January 2018.
- Improvements to IFRS's 2014–2016 various standards, effective for annual periods beginning on or after 1 January 2017 and 1 January 2018.
- IFRIC Interpretation 22 Foreign Currency Transaction and Advance Consideration, which is effective for annual periods beginning on or after 1 January 2018.

A number of the above new or amended standards permit early adoption, which the Bank has not adopted to do. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 9, IFRS 15, and the Amendment to International Accounting Standard 7. The remaining new or amended standards noted above are not expected to have a significant impact on the Bank's financial statements.

4. USE OF ESTIMATES

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

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

- Provisions for the impairment of loan operations. The Bank's method for determining the level of impairment of loan operations is described in the "impairment" accounting policy and further explained in the relevant risk management policies. Portfolio provisions for loans not individually assessed as impaired amounted to EUR 8,445 thousand as indicated in note 11.

  In determining the collective provisions rate, the Bank takes into consideration PD (probability of default) and LGD (loss given default) factors extracted from the GEM's data base.

  Furthermore, there was a net increase on specific provisions during the year made for the identified impairment of EUR 3,628 thousand. Specific provisions are assigned according to the degree of potential impairment resulting from the impairment test that is conducted on the basis of objective evidence obtained through a risk asset review process.

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

- Staff retirement benefits. The Bank's has established a pension plan for its staff which is described in "staff retirement and termination benefits" accounting policy and is detailed under staff retirement plan in note 25. The present value of retirement benefit obligations is sensitive to the actuarial and financial assumptions used, including the discount rate applied. At the end of each year, the Bank determines the appropriate discount rate and other assumptions to be used to determine the present value of estimated future pension obligations, based on interest rates of suitable long-term bonds and on currencies as the EUR and USD. The Bank's liability to the staff retirement plan at the financial position date was EUR 4,648 thousand.

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

5. RISK MANAGEMENT

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

The Bank's lending risk management policy documents describe the procedures for approval, management and review of lending activity exposures. The Bank's Treasury Policies and Procedures 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's exposure to financial risk is through its financial assets and liabilities including any receivables from these financial assets. Two key aspects of financial risk are (i) credit risk and (ii) liquidity risk.

a) Credit risk

The Bank is subject to credit risk, which is the risk 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.

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

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

Presented in EUR (000)	At 31 December 2016	At 31 December 2015
Cash and bank balances	70,034	49,745
Debt investment securities	414,539	139,299
Derivative financial instruments	576	3,485
Loans	1,139,072	1,049,732
Other assets	25,652	16,366
On-balance-sheet	**1,649,873**	**1,258,627**
Undrawn commitments	160,191	205,466
Total	**1,810,064**	**1,464,093**

b) Analysis by rating agency

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

	2016				
Presented in EUR (000)	Aaa–Aa3	A1–A3	Baa1–Ba3	Unrated	**Total**
Analysis by Moody's rating					
Cash and bank balances	70,034	-	-	-	**70,034**
Debt investment securities	28,542	226,374	159,623	-	**414,539**
Equity investments	-	-	-	52,766	**52,766**
At 31 December	**98,576**	**226,374**	**159,623**	**52,766**	**537,339**
Of which issued by					
Governments	-	15,283	24,156	-	**39,439**
Corporates	28,542	211,091	135,467	52,766	**427,866**
Cash deposits at banks	70,034	-	-	-	**70,034**
At 31 December	**98,576**	**226,374**	**159,623**	**52,766**	**537,339**
Of which classified as					
Available-for-sale	28,542	226,374	159,623	52,766	**467,305**
Held-to-maturity	-	-	-	-	**-**
Amortized cost	70,034	-	-	-	**70,034**
At 31 December	**98,576**	**226,374**	**159,623**	**52,766**	**537,339**

	2015				
Presented in EUR (000)	Aaa–Aa3	A1–A3	Baa1–Ba3	Unrated	**Total**
Analysis by Moody's rating					
Cash and bank balances	49,745	-	-	-	**49,745**
Debt investment securities	15,000	124,299	-	-	**139,299**
Equity investments	-	-	-	63,800	**63,800**
At 31 December	**64,745**	**124,299**	**-**	**63,800**	**252,844**
Of which issued by					
Governments	-	-	-	-	**-**
Corporates	15,000	124,299	-	63,800	**203,099**
Cash deposits at banks	49,745	-	-	-	**49,745**
At 31 December	**64,745**	**124,299**	**-**	**63,800**	**252,844**
Of which classified as					
Available-for-sale	15,000	124,299	-	63,800	**203,099**
Held-to-maturity	-	-	-	-	**-**
Amortized cost	49,745	-	-	-	**49,745**
At 31 December	**64,745**	**124,299**	**-**	**63,800**	**252,844**

c) Credit risk in loans portfolio

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

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

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

	Presented in EUR (000)						
Internal risk rating category	Neither past due nor impaired	Past due but not impaired	Impaired	**Total**	Collective provisions for impairment	Specific provisions for impairment	**Total**
Excellent	-	-	-	**-**	-	-	**-**
Very strong	-	-	-	**-**	-	-	**-**
Strong	-	-	-	**-**	-	-	**-**
Good	125,798	-	-	**125,798**	996	-	**996**
Fair	452,960	-	-	**452,960**	3,587	-	**3,587**
Weak	457,616	-	-	**457,616**	3,624	-	**3,624**
Special attention	26,474	3,558	33,511	**63,543**	238	6,376	**6,614**
Expected loss	-	-	39,155	**39,155**	-	15,310	**15,310**
At 31 December 2016	**1,062,848**	**3,558**	**72,666**	**1,139,072**	**8,445**	**21,686**	**30,131**

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

d) Collateral and credit enhancements

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

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

  The main types of collateral that may be obtained by the Bank are: mortgages on properties and equipment, pledges of equity shares and investment instruments, assignment of rights on certain contracts, cash or blocked deposits, and other third-party guarantees. If necessary, the Bank reassesses the value of collateral in order to determine if additional collateral is needed to be provided by the borrower. At 31 December 2016, the secured portfolio was 65.7% (2015: 63.4%) of the total outstanding loans.

- Other financial instruments. Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Bonds and Euro Commercial Paper held by the Bank as investment securities are generally unsecured. The Bank may hold cash or government securities as collateral against its derivative contract counterparties. At 31 December 2016, the Bank holds cash collateral to the amount of EUR 36,950 thousand (2015: EUR 15,880 thousand).

e) Liquidity risk

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

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

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% of the Bank's net cash requirements over the next twelve months on a rolling basis. 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 include estimated interest amounts, and therefore do not match to the statement of financial position.

Presented in EUR (000)	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	**Total**
Borrowings	685	1,906	77,094	902,696	39,411	**1,021,792**
Derivative financial instruments	-	35,100	-	-	-	**35,100**
Payables and accrued interest	-	10,920	4,648	-	-	**15,568**
Financial Liabilities at 31 December 2016	**685**	**47,926**	**81,742**	**902,696**	**39,411**	**1,072,460**
Borrowings	-	1,824	233,844	291,382	60,197	**587,247**
Derivative financial instruments	-	20,427	-	-	-	**20,427**
Payables and accrued interest	-	5,206	1,183	-	-	**6,389**
Financial Liabilities at 31 December 2015	**-**	**27,457**	**235,027**	**291,382**	**60,197**	**614,063**

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

Market Risk

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

a) Foreign exchange risk

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

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

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

Presented in EUR (000)	Euro	United States dollar	Swiss franc	Other	Total
Assets					
Cash and bank balances	66,664	3,301	5	64	**70,034**
Debt investment securities	219,951	194,588	-	-	**414,539**
Derivatives financial instruments	576	-	-	-	**576**
Loans	465,527	634,725	-	38,820	**1,139,072**
Deferred income	(2,400)	(4,904)	-	(322)	**(7,626)**
Impairment losses on loans	(13,184)	(16,640)	-	(307)	**(30,131)**
Equity investments	32,174	15,496	-	5,096	**52,766**
Other assets	8,836	15,186	337	1,293	**25,652**
Total	778,144	841,752	342	44,644	**1,664,882**
Liabilities					
Borrowings	73,179	622,577	93,423	73,354	**862,533**
Derivative financial instruments	35,100	-	-	-	**35,100**
Payables and accrued interest	6,624	7,808	50	1,086	**15,568**
Total	114,903	630,385	93,473	74,440	**913,201**
Net financial instruments	663,241	211,367	(93,131)	(29,796)	**751,681**
Derivative financial instruments	101,524	(212,931)	93,119	34,628	**16,340**
Currency balance at 31 December 2016	**764,765**	**(1,564)**	**(12)**	**4,832**	**768,021**

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

b) Interest rate risk

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

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

	Interest bearing					
Presented in EUR (000)	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Non-interest bearing	**Total**
Assets						
Cash and bank balances	70,033	-	-	-	1	**70,034**
Debt investment securities	139,366	100,000	18,974	156,199	-	**414,539**
Derivative financial instruments	-	-	-	-	576	**576**
Loans	229,165	303,343	530,744	75,820	-	**1,139,072**
Equity investments	-	-	-	-	52,766	**52,766**
Other assets	-	-	-	-	25,652	**25,652**
Total	438,564	403,343	549,718	232,019	78,995	**1,702,639**
Liabilities						
Borrowings	-	64,346	82,873	715,314	-	**862,533**
Derivative financial instruments	-	-	-	-	35,100	**35,100**
Payables and accrued interest	-	-	-	-	15,568	**15,568**
Total	-	64,346	82,873	715,314	50,668	**913,201**
Derivative financial instruments	(14,168)	(106,348)	(421,390)	541,906	-	**-**
Interest rate risk at 31 December 2016	**424,396**	**232,649**	**45,455**	**58,611**	**28,327**	**789,438**

	Interest bearing					
Presented in EUR (000)	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Non-interest bearing	**Total**
Assets						
Cash and bank balances	49,744	-	-	-	1	**49,745**
Debt investment securities	124,299	15,000	-	-	-	**139,299**
Derivative financial instruments	-	-	-	-	3,485	**3,485**
Loans	152,150	287,987	571,611	37,984	-	**1,049,732**
Equity investments	-	-	-	-	63,800	**63,800**
Other assets	-	-	-	-	16,366	**16,366**
Total	326,193	302,987	571,611	37,984	83,652	**1,322,427**
Liabilities						
Borrowings	-	46,047	247,149	247,752	-	**540,948**
Derivative financial instruments	-	-	-	-	20,427	**20,427**
Payables and accrued interest	-	-	-	-	6,389	**6,389**
Total	-	46,047	247,149	247,752	26,816	**567,764**
Derivative financial instruments	(177,225)	(111,518)	184,587	104,156	-	**-**
Interest rate risk at 31 December 2015	**148,9686**	**145,422**	**509,049**	**(105,612)**	**56,836**	**754,663**

c) Sensitivity analysis

The Bank's interest rate sensitivity analysis comprises two elements. Firstly, there is the differential between the interest rate the Bank earns on its assets and the cost of borrowing to fund these assets. For this element the Bank matches, as closely as possible, interest rate periods, thus minimizing sensitivity. Secondly, there is the absolute rate earned on assets that are funded by the Bank's equity resources. The majority of these equity resources are currently invested in the Bank's loan portfolio at floating rates; therefore, subjecting earnings on equity resources to some degree of fluctuation.

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

Presented in EUR (000)	At 31 December 2016	At 31 December 2015
Euro	329,000	234,000
United States dollar	(105,000)	(1,043,900)
Total re-pricing gap	224,000	(809,900)
Shift of 50 basis points in the EUR curve	**1,119**	**(4,050)**

Operational Risk

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

Where any such risks are identified, appropriate mitigation and control measures are put in place. The Bank's operational risk management focuses on proactive measures to mitigate the operational risk. The Bank is committed to following best practices and market standards in the area of accountability, transparency, and business ethics. Due diligence conducted on customers and counterparties takes into consideration the Anti-Fraud Corruption and Monetary Laundering Policy and Know-Your Customer Procedures.

Classification and Fair Value

a) Classification

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

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

b) Financial assets and liabilities

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

Presented in EUR (000)	At 31 December 2016		
	Loans and receivables	At amortized cost	Carrying amount
Assets			
Cash and bank balances	-	70,034	**70,034**
Loans	1,139,072	-	**1,139,072**
Deferred income	-	(7,626)	**(7,626)**
Impairment losses on loans	(30,131)	-	**(30,131)**
Other assets	25,652	-	**25,652**
Total financial assets	**1,134,593**	**62,408**	**1,197,001**
Liabilities			
Borrowings	-	862,533	**862,533**
Payables and accrued interest	-	15,568	**15,568**
Total financial liabilities	**-**	**878,101**	**878,101**

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

c) Fair value hierarchy

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

-Level 1: Quoted market prices in active markets for identical assets or liabilities,

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

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

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

Presented in EUR (000)	Level 1	Level 2	Level 3	Carrying amount
Derivative financial instruments – assets	-	576	-	**576**
Available-for-sale:				
Debt investment securities	414,539	-	-	**414,539**
Equity investments	-	-	52,766	**52,766**
Derivative financial instruments – liabilities	-	(35,100)	-	**(35,100)**
At 31 December 2016	**414,539**	**(34,524)**	**52,766**	**432,781**

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

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

d) Fair value measurement in Level 3

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

Presented in EUR (000)	At 31 December 2016	At 31 December 2015
At 1 January	63,800	84,860
Total gains or (losses) for the year recognized in the income statement	(4,404)	3,645
Total gains or (losses) recognized in other comprehensive income	(4,097)	(24,688)
Purchases, sales, issues, and settlements	(2,533)	(17)
At end of year	**52,766**	**63,800**

e) Sensitivity analysis for Level 3

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

Presented in EUR (000)	Carrying amount	Favorable change	Unfavorable change
Equity investments	52,766	2,638	(2,638)

Capital Management

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

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

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

The capital usage of the Bank is guided by statutory and financial policy parameters. Article 15 of the Establishing Agreement limits the total amount of outstanding loans, equity investments, and guarantees made for ordinary operations to 150% of the Bank's unimpaired subscribed capital, reserves, and surpluses, establishing a 1.5:1 institutional gearing ratio. Additionally, disbursed equity investments shall not at any time exceed an amount corresponding to the Bank's total unimpaired paid-in capital, surpluses, and general reserve.

At the 36th meeting of the Board of Directors in 2008, the operational gearing ratio was set at 100% of the Bank's unimpaired paid-up capital, reserves, and surpluses, and the usable portion of the callable capital. This limit on the total amount of operations which includes all callable capital is approximately EUR 2.2 billion.

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

6. OPERATING SEGMENTS

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

	2016			2015		
Presented in EUR (000)	Lending	Treasury	Total	Lending	Treasury	Total
Income statement						
Interest income	61,806	6,170	67,976	52,193	890	53,083
Net fees and commissions	1,746	2	1,748	1,074	1	1,075
Other income (expense)	747	4	751	2,596	1	2,597
Total segment revenues	64,299	6,176	70,475	55,863	892	56,755
Less: interest expense	(32,744)	(5,427)	(38,171)	(11,895)	(4,061)	(15,956)
Net fair value and foreign exchange	-	(1,488)	(1,488)	-	601	601
Less: personnel and other admin. expenses	(17,624)	(875)	(18,499)	(16,809)	(973)	(17,782)
Less: depreciation and amortization	(579)	(11)	(590)	(654)	(11)	(665)
Segment income before impairment	13,352	(1,625)	11,727	26,505	(3,552)	22,953
Less: impairment / fair value (losses)	(9,976)	-	(9,976)	(7,739)	-	(7,739)
Net income (loss) for the year	**3,376**	**(1,625)**	**1,751**	**18,766**	**(3,552)**	**15,214**

	31 December 2016			31 December 2015		
Presented in EUR (000)	Lending	Treasury	Total	Lending	Treasury	Total
Financial position						
Segment assets	1,180,722	485,149	1,665,871	1,096,782	192,529	1,289,311
At end of year			**1,665,871**			**1,289,311**
Segment liabilities	878,101	35,100	913,201	547,337	20,427	567,764
Members' equity	-	-	752,670	-	-	721,547
At end of year			**1,665,871**			**1,289,311**

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

7. INTEREST INCOME

Interest and similar income is analyzed as follows:

Presented in EUR (000)	Year to 31 December 2016	Year to 31 December 2015
From loans and advances	61,806	52,193
From placements with financial institutions	5	6
From investment securities available-for-sale	5,044	151
From derivative financial assets at fair value	1,121	733
Interest income	**67,976**	**53,083**

8. INTEREST EXPENSE

Interest and similar expense is analyzed as follows:

Presented in EUR (000)	Year to 31 December 2016	Year to 31 December 2015
From borrowed funds	8,422	4,859
From issued debt	23,149	6,268
From derivative financial liabilities at fair value	5,037	3,951
From amortized issuance and arrangement costs	1,173	768
From other charges	390	110
Interest expense	**38,171**	**15,956**

9. NET FEES AND COMMISSIONS

Net fees and commissions is analyzed as follows:

Presented in EUR (000)	Year to 31 December 2016	Year to 31 December 2015
Guarantee fees	180	90
Management fees	490	326
Appraisal fees	116	184
Administration fees	81	32
Arrangement fees	-	116
Surveillance fees	69	81
Prepayment / cancellation fees	675	125
Other fees	137	121
Net Fees and commissions	**1,748**	**1,075**

10. PERSONNEL AND OTHER ADMINISTRATIVE EXPENSES

Administrative expenses are analyzed as follows:

Presented in EUR (000)	Year to 31 December 2016	Year to 31 December 2015
Salaries and benefits	11,490	10,958
Staff retirement plans	2,827	2,938
Personnel expenses	**14,317**	**13,896**
Professional fees and related expenses	860	811
Utilities and maintenance	1,395	1,327
Other administrative	1,927	1,748
Other administrative expenses	**4,182**	**3,886**

The average number of staff employed during the year was 109 (2015: 104). The number of staff at 31 December 2016 was 110 (2015: 108). Further analysis of the staff retirement plan is presented in note “Employee benefits”.

11. IMPAIRMENT LOSSES ON LOANS

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

Presented in EUR (000)	Collective	Specific	Total
At 31 December 2014	6,947	40,787	47,734
Charge	2,664	9,747	12,411
Release	(1,506)	(3,188)	(4,694)
Against loan disposal	-	(25,641)	(25,641)
Against write-offs	-	(7,148)	(7,148)
Foreign exchange adjustments	393	3,501	3,894
At 31 December 2015	8,498	18,058	26,556
Charge	6,359	7,241	13,600
Release	(6,659)	(1,079)	(7,738)
Against write-offs	-	(2,812)	(2,812)
Foreign exchange adjustments	247	278	525
At 31 December 2016	**8,445**	**21,686**	**30,131**

The Bank’s collective impairment evaluation is currently based on the Global Emerging Markets (“GEMs”) data base and the internal rating. The Bank’s rating scorecards which determine operation risk levels were developed by the Bank with the assistance of Moody’s Analytics.

At 31 December 2016, the Bank categorized seven loans as impaired with an exposure amount of EUR 72,666 thousand (2015: four loans with an exposure amount of EUR 42,081 thousand), out of which two are categorized as non-performing. Provisions on these assets amounted to EUR 21,686 thousand (2015: EUR 18,058 thousand). Management estimates that the allowance for the impaired loans is adequate to cover potential or unforeseen uncollectible amounts in the existing portfolio.

12. DEBT INVESTMENT SECURITIES

Debt investment securities are analyzed as follows:

Presented in EUR (000)	At 31 December 2016	At 31 December 2015
Government bonds	39,439	-
Corporate bonds	128,153	10,002
Commercial papers	246,947	129,297
Debt investment securities	**414,539**	**139,299**

13. DERIVATIVE FINANCIAL INSTRUMENTS

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

	At 31 December 2016			At 31 December 2015		
Presented in EUR (000)	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Currency swap purchases	40,000	40,000	-	185,000	185,000	-
Currency swap sales	(40,149)	(39,691)	-	(181,063)	(181,515)	-
Designated fair value hedges	-	267	(35,100)	-	-	(20,427)
Derivative financial instruments	**(149)**	**576**	**(35,100)**	**3,937**	**3,485**	**(20,427)**

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

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

14. LOANS

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

Presented in EUR (000)	At 31 December 2016	At 31 December 2015
At 1 January	1,049,732	877,122
Disbursements	443,738	371,958
Less: repayments	(366,957)	(210,183)
Disposal	-	(25,641)
Write-offs	(2,812)	(7,148)
Foreign exchange movements	15,371	43,624
Loans total	1,139,072	1,049,732
Less: deferred income	(7,626)	(7,664)
Less: impairment losses	(30,131)	(26,556)
Loans net of impairment	**1,101,315**	**1,015,512**

During 2016, the Bank had written off a loan reflecting the deteriorating environment in the Region. This operation was for many years impaired and categorized as non-performing.

As of 31 December 2016, all loan facilities are classified as standard apart from seven that were impaired. Out of the impaired loans, two are categorized as non-performing with an exposure amount of EUR 39,155 thousand. As of this date, the amount of interest and similar income that has not been accrued related to impaired loans was EUR 13,024 thousand, out of which an amount of EUR 2,435 thousand refers to the current year.

At 31 December 2016, the Bank had three restructured loan operations for the reporting year.

Presented in EUR (000)	At 31 December 2016	At 31 December 2015
Collectively impaired	1,062,848	1,007,651
Less: deferred income	(7,626)	(7,664)
Less: allowance for impairment	(8,416)	(8,498)
Carrying amount	1,046,806	991,489
Past due but not impaired	3,558	-
Less: allowance for impairment	(29)	-
Carrying amount	3,529	-
Individually impaired	72,666	42,081
Less: allowance for impairment	(21,686)	(18,058)
Carrying amount	50,980	24,023
Total carrying amount at amortized cost	**1,101,315**	**1,015,512**

Interest is generally based on Libor for USD loans and Euribor for EUR loans plus a margin. Margins are dependent on the risk category of each loan and typically range from 1.5% to 8.0%. The fair value of the loan portfolio is approximately equal to carrying value plus accrued interest, as all loans bear a variable interest rate and are given at market terms and conditions. Further analysis of the loan portfolio is presented in note "Operational analysis".

15. EQUITY INVESTMENTS

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

Presented in EUR (000)	% of Investment	At 31 December 2016 Cost	At 31 December 2016 Fair Value	At 31 December 2015 Cost	At 31 December 2015 Fair Value
SEAF Caucasus Growth Fund	21.39	7,812	6,024	7,314	5,627
Access Bank, Azerbaijan	20.00	9,118	5,095	9,996	16,934
Balkan Accession Fund	9.09	3,032	5,162	6,094	7,508
A-Park Kaluga, Russia	19.99	1,714	1,979	1,714	641
Emerging Europe Accession Fund	10.15	4,897	10,218	3,630	7,498
Rusal	0.01	4	170	4	119
ADM Ceecat Recovery Fund	5.65	8,687	10,155	10,259	11,274
European Virgin Fund	21.05	9,925	9,303	9,494	8,143
Teamnet International	8.33	5,599	4,660	5,125	6,056
Natfood	0.01	-	-	-	-
Equity investments available-for-sale		**50,788**	**52,766**	**53,630**	**63,800**

The valuation of such investments, which are unlisted, has been estimated using the most recent management accounts or the latest audited accounts as of 31 December 2016, as Management considers that the best available estimate of the fair value. The techniques applied to perform these valuations include equity calculations based on EBITDA and market data.

The increase of EUR 1,978 thousand corresponds to the difference between acquisition cost and fair value as of 31 December 2016. A fair value loss in the Access Bank was recorded through profit or loss of EUR 4,096 thousand due to its unrealized significant fair value reduction against the cost. On exit of an equity investment, the cumulative gain or loss is realized with a corresponding reversal of the unrealized gain or loss that was recorded prior to the exit from that investment.

During the year the Bank had realized a dividend income of EUR 6 thousand from its investment in the Rusal.

As of 31 December 2016, the Bank has a committed amount of EUR 8,238 thousand towards the above entities' participation. Further analysis of the equity investment portfolio is presented in note “Operational analysis”.

As at 31 December 2016, the Bank has three equity investments where it holds slightly more than 20 per cent of the investee share capital, but does not exert significant influence, hence the investment is not accounted for as an investment in an associate under IAS 28.

16. OPERATIONAL ANALYSIS

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

Presented in EUR (000)	At 31 December 2016		At 31 December 2015	
	Outstanding disbursements	Undrawn commitments	Outstanding disbursements	Undrawn commitments
Analysis by instrument				
Loans	1,139,072	138,150	1,049,732	180,098
Equity investments	52,766	8,238	63,800	10,063
Guarantees	-	13,803	-	15,305
At end of year	**1,191,838**	**160,191**	**1,113,532**	**205,466**
Analysis by country				
Albania	43,481	11,664	44,050	574
Armenia	97,341	5,317	95,537	638
Azerbaijan	91,296	27,160	125,787	48,597
Bulgaria	85,645	731	45,292	976
Georgia	78,270	28,607	66,277	26,230
Greece	95,314	-	42,138	6,200
Moldova	10,914	4,593	15,171	4,838
Romania	145,728	1,014	115,652	42,581
Russia	220,862	529	276,508	592
Turkey	263,790	79,174	229,659	64,456
Ukraine	59,197	1,402	57,461	9,784
At end of year	**1,191,838**	**160,191**	**1,113,532**	**205,466**
Loans analysis by sector				
Consumer discretionary	46,519	-	52,994	62
Consumer staples	120,509	-	115,428	24,531
Energy	78,949	6,432	33,205	24,800
Financial institutions	367,265	47,547	447,657	36,946
Health care	43,251	75,371	22,930	46,225
Industrials	92,178	-	123,105	-
Information technology	9,875	-	10,500	-
Materials	195,611	-	113,751	47,534
Real estate	5,878	-	24,722	-
Telecom services	50,000	8,800	-	-
Utilities	129,037	-	105,440	-
At end of year	**1,139,072**	**138,150**	**1,049,732**	**180,098**

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

Operations are monitored according to a schedule coordinated by the Department of Project Implementation and Monitoring, with inputs from the originated Banking Teams regarding the availability of financial data. Monitoring reports are completed by the Bank's Department of Project Implementation and Monitoring based on financial analysis prepared by the Department of Financial Analysis. Risk asset reviews, based on the mentioned monitoring reports, are performed by the Department of Risk Management, and may result in a downgrade or upgrade of an operation's status and, if a significant deterioration is noted, trigger an impairment test.

17. PROPERTY AND EQUIPMENT

Property and equipment is analyzed as follows:

Presented in EUR (000)	Buildings (leasehold)	Vehicle	Furniture and office accessories	Computers and office equipment	Total
Cost					
At 31 December 2014	734	95	568	1,460	2,857
Additions	56	-	48	175	279
Disposals	-	-	(22)	(50)	(72)
At 31 December 2015	790	95	594	1,585	3,064
Additions	37	105	21	89	252
Disposals	-	(95)	(38)	(154)	(287)
At 31 December 2016	**827**	**105**	**577**	**1,520**	**3,029**
Accumulated depreciation					
At 31 December 2014	445	71	481	1,104	2,101
Charges	174	19	43	178	414
Disposals	-	-	(22)	(50)	(72)
At 31 December 2015	619	90	502	1,232	2,443
Charges	126	17	40	180	363
Disposals	-	(95)	(38)	(154)	(287)
At 31 December 2016	**745**	**12**	**504**	**1,258**	**2,519**
Net book value					
At 31 December 2016	**82**	**93**	**73**	**262**	**510**
At 31 December 2015	171	5	92	353	621
At 31 December 2014	289	24	87	356	756

18. INTANGIBLE ASSETS

Intangible assets comprising computer software are analyzed as follows:

Presented in EUR (000)	Total
Cost	
At 31 December 2014	3,431
Additions	322
At 31 December 2015	3,753
Additions	222
At 31 December 2016	**3,975**
Accumulated amortization	
At 31 December 2014	3,017
Charges	253
At 31 December 2015	3,270
Charges	226
At 31 December 2016	**3,496**
Net book value	
At 31 December 2016	**479**
At 31 December 2015	483
At 31 December 2014	414

19. OTHER ASSETS

Other assets are analyzed as follows:

Presented in EUR (000)	At 31 December 2016	At 31 December 2015
Accrued interest	17,612	11,230
Advances and prepaid expenses	5,545	3,357
Other prepayments	184	184
Guarantee deposits	2,311	1,595
Other assets	**25,652**	**16,366**

20. BORROWINGS

Borrowing facilities and bond issuance, arranged as at the financial position date, are analyzed below. In addition to medium- or long-term borrowings and bond issuance, the Bank utilizes short-term financing in the form of ECP issuance or borrowings from commercial banks for cash management purposes. At 31 December 2016, the Bank had issued debt securities in the amount of EUR 653,323 thousand.

	At 31 December 2016		At 31 December 2015	
Presented in EUR (000)	Amount used	Amount arranged	Amount used	Amount arranged
Euro	73,179	113,179	74,843	94,843
United States dollar	622,577	622,577	165,596	165,596
Japanese yen	12,155	12,155	-	-
Swiss franc	93,423	93,423	277,260	277,260
Romanian lei	22,380	22,380	4,834	4,834
Georgian lari	38,819	38,819	18,415	18,415
Total	**862,533**	**902,533**	**540,948**	**560,948**

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

21. PAYABLES AND ACCRUED INTEREST

Payables and accrued interest are analyzed as follows:

Presented in EUR (000)	At 31 December 2016	At 31 December 2015
Accrued interest	9,913	4,112
Social Insurance Fund (IKA) contributions	4	4
Pension plan obligation	4,648	1,183
Suppliers and other accrued expenses	953	1,058
Other	50	32
Payables and accrued interest	**15,568**	**6,389**

22. SHARE CAPITAL

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

The authorized capital stock of the Bank may be increased at such time and under such terms as may seem advisable.

The Bank's capital stock is divided into paid-in shares (fully paid and payable in installments) and callable shares. Payment for the paid-in shares subscribed to by members was made over a period of years in accordance with Article 6 of the Establishing Agreement for the initial capital raising purpose of the Bank, and as determined in advance by the Bank for capital increases (in the only capital increase of the Bank so far, the structure of payments specified was similar to the one in Article 6). The same Article states that payment of the amount subscribed to in respect of the callable shares is subject to call only as and when required by the Bank to meet its obligations.

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

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

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

All participating members had fully subscribed to the initial authorized share capital in accordance with Article 5 of the Establishing Agreement. Subsequently, at the Sixth Annual Meeting of the Board of Governors, held on 6 June 2004, three Member States, Armenia, Georgia, and Moldova, requested a fifty per cent reduction of their portion of subscribed capital, from 2% to 1% of the initial authorized capital the Board of Governors approved their request. On 5 October 2008 the new shares pursuant to the capital increase of the Bank were offered in the same structure as the initial authorized share capital, in the amount of EUR 1.150 billion, and were fully subscribed by the Member States. Furthermore, Azerbaijan also subscribed to the 3% of the initial authorized share capital that remained unallocated, after the above mentioned participation reduction, while Romania subscribed both to their allocation of new shares and to those that would have been allocated to Georgia had it chosen to participate in the capital increase. This subscription process followed a decision taken by the Board of Governors in December 2007 to triple the Bank's authorized capital to EUR 3.450 billion and to double the subscribed capital to EUR 2.3 billion, while leaving authorized capital of EUR 1.150 billion unallocated. On October 2011 the Board of Governors approved the request from Moldova for a fifty per cent reduction of its portion of subscribed capital, from 1% to 0.5%, and those shares were released to unallocated share capital.

The above share capital is analyzed as follows:

Presented in EUR (000)	At 31 December 2016	At 31 December 2015
Authorized share capital	3,450,000	3,450,000
Less: unallocated share capital*	(1,161,500)	(1,161,500)
Subscribed share capital	2,288,500	2,288,500
Less: shares not yet called	(1,601,950)	(1,601,950)
Less: shares payable but not yet due	(72,741)	(107,669)
Less: shares payments past due	-	(2,468)
Paid-up share capital	613,809	576,413
Advance against future call	-	-
Paid-in share capital	**613,809**	**576,413**

* Shares available to new or existing Member States.

Initial Capital

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

Capital Increase

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

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

	At 31 December 2016		
Presented in EUR (000)	Initial capital	Capital increase	**Total**
Authorized share capital	1,150,000	2,300,000	**3,450,000**
Less: unallocated share capital	(34,500)	(1,127,000)	**(1,161,500)**
Subscribed share capital	1,115,500	1,173,000	**2,288,500**
Less: shares not yet called	(780,850)	(821,100)	**(1,601,950)**
Less: shares payable but not yet due	-	(72,741)	**(72,741)**
Less: shares payments past due	-	-	**-**
Paid-up share capital	334,650	279,159	**613,809**
Advance against future call	40	(40)	**-**
Paid-in share capital	**334,690**	**279,119**	**613,809**

Statement of Subscriptions

A statement of capital subscriptions illustrating the number of shares and the amount subscribed by each member is shown below, including their respective callable, payable, and the amount paid. The capital subscription status at the current financial position date is analyzed as follows:

		Subscribed	Callable	Payable	Paid
Member	Shares	Presented in EUR (000)			
Albania	40,000	46,000	32,200	2,875	10,925
Armenia	20,000	23,000	16,100	575	6,325
Azerbaijan	100,000	115,000	80,500	2,875	31,625
Bulgaria	270,000	310,500	217,350	7,763	85,387
Georgia	10,000	11,500	8,050	-	3,450
Greece	330,000	379,500	265,650	9,488	104,362
Moldova	10,000	11,500	8,050	-	3,450
Romania	280,000	322,000	225,400	8,337	88,263
Russian Fed.	330,000	379,500	265,650	9,488	104,362
Turkey	330,000	379,500	265,650	9,488	104,362
Ukraine	270,000	310,500	217,350	21,852	71,298
Total	**1,990,000**	**2,288,500**	**1,601,950**	**72,741**	**613,809**

23. RESERVES

Reserves are analyzed as follows:

Presented in EUR (000)	General	Available-for-sale	Other	Total
At 31 December 2014	49,251	24,842	(2,704)	71,389
Gains (losses) on revaluation of available-for-sale	-	(24,703)	-	(24,703)
Remeasurements of defined benefit scheme	-	-	2,360	2,360
Transferred from retained earnings	4,404	-	-	4,404
At 31 December 2015	53,655	139	(344)	53,450
Gains (losses) on revaluation of available-for-sale	-	(5,003)	-	(5,003)
Remeasurements of defined benefit scheme	-	-	(3,021)	(3,021)
Transferred from retained earnings	1,751	-	-	1,751
At 31 December 2016	**55,406**	**(4,864)**	**(3,365)**	**47,177**

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

24. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are analyzed as follows:

Presented in EUR (000)	At 31 December 2016	At 31 December 2015
Cash on hand	1	1
Investments maturing up to 1 month:		
Bank balances	70,033	49,744
Available-for-sale portfolio	137,973	124,299
Investment maturing from 1 month to 3 months:		
Available-for-sale portfolio	100,070	15,000
Cash and cash equivalents	**308,077**	**189,044**

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

25. EMPLOYEE BENEFITS

Under the Defined Benefit Scheme

If separated at or after the normal retirement age (60 years old), a staff member will be entitled to a full immediate pension equal to 1% of his annual pensionable salary (i.e. average of the two best out of the last five years) multiplied by his/her years of service at the Bank. If separated at or after the early retirement age (55 years old), as staff member will be entitled to a reduced immediate pension, or deferred pension payable from any month until the staff member's normal retirement age. If separated before the early retirement age, a staff member will be entitled to a deferred pension payable from any month between the staff member's early and normal retirement age. Upon separation at any age, a staff member will have a choice between the appropriate type of pension and a lump sum termination benefit.

A qualified actuary performs an actuarial valuation of this scheme at each end of year using the projected unit method, which is rolled forward to the following year accounts. The most recent valuation date was 31 December 2016. The present value of the defined benefit obligation and current service cost was calculated using the projected unit credit method.

Presented in EUR (000)	At 31 December 2016	At 31 December 2015
Amounts recognized in the statement of financial position		
Present value of the defined benefit obligations	25,021	19,879
Fair value of plan assets	(20,373)	(18,696)
Net liability at end of the year	**4,648**	**1,183**
Amounts recognized in the income statement		
Service cost	1,748	1,843
Net interest on the net defined benefit liability/(asset)	19	96
Administration expense	64	54
Total included in personnel expenses	**1,831**	**1,993**
Remeasurements recognized in other comprehensive income		
At 31 December	(3,931)	(6,291)
Liability gain (loss) due to changes in assumptions	(4,032)	1,822
Liability experiences gain (loss) arising during the year	601	127
Return on plan assets excluding income statement amounts	410	411
Total amount recognized in OCI during the year	(3,021)	2,360
Cumulative in other comprehensive income (expense)	**(6,952)**	**(3,931)**
Principal actuarial assumptions used		
Discount rate	1.88%	2.71%
Expected return on plan assets	1.88%	2.71%
Future salary increase	2.00%	2.00%
Future pension increase	2.00%	2.00%
Average remaining working life of employees	12 years	13 years

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

The expected return on assets as per provision of the revised IAS 19, has been set equal to the discount rate assumption, i.e. at 1.88% pa.

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

Presented in EUR (000)	At 31 December 2016	At 31 December 2015
Major categories of plan assets		
Cash instruments	16%	7%
Fixed interest	40%	50%
Equities	39%	33%
Other	5%	10%
Reconciliation of plan assets		
Market value at 1 January	18,696	15,657
Expected return	519	371
Contributions paid	1,387	3,114
Benefit pensions and lump sum paid to pensioners	(575)	(803)
Expenses	(64)	(54)
Asset gain (loss)	410	411
Fair value of plan assets	**20,373**	**18,696**

The actual investment return on assets of the Fund for the period was 5.7%. The expected return on plan assets has been based on asset structure allowed by the Fund, as well as the yield of high quality corporate bonds. The Bank estimate of contributions to be paid in 2017 will not materially differ from those paid in the current year.

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

Presented in EUR (000)	2016	2015	2014	2013	2012
Defined benefit obligations	25,021	19,879	20,321	13,879	12,381
Plan assets	(20,373)	(18,696)	(15,657)	(13,758)	(9,382)
Plan deficit (surplus)	4,648	1,183	4,664	121	2,999
Net experience adjustments on plan liabilities (assets)	**4,032**	**(1,822)**	**5,624**	**(443)**	**2,706**

Sensitivity Analysis

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

	At 31 December 2016		At 31 December 2015	
Presented in EUR (000)	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	(3,434)	3,434	(3,148)	3,148
Future salary growth (1% movement)	1,902	(1,902)	1,879	(1,879)

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

Under the Defined Contribution Scheme

Upon separation, a staff member will be entitled to receive in cash the full balance standing to the credit of his/her individual account for the second and third pillars. The pension expense under this scheme was EUR 962 thousand (2015: EUR 909 thousand) and is included in “Personnel expenses”.

Under the Greek State Social Insurance Fund

The pension expense of staff that is alternatively entitled to retirement benefits from this fund was EUR 34 thousand (2015: EUR 36 thousand) and is included in “Personnel expenses”.

26. OPERATING LEASES

The Bank has entered into lease contracts for its Headquarters and other premises. These are operating leases and include renewal options and periodic escalation clauses. There is no commitment at end of year for non-cancellable lease contracts. Rental expenses for the period included in “Other administrative expenses” totaled EUR 696 thousand (2015: EUR 701 thousand).

27. RELATED PARTIES

The Bank has the below related parties.

Key Management Personnel

Key management personnel comprise: the President, Vice Presidents, and Secretary General. They are entitled to a staff compensation package that includes a salary, covered by medical insurance, participation in the Bank’s retirement schemes, and are eligible to receive other short-term benefits. The amounts paid to key management personnel during the year were EUR 1,256 thousand (2015: EUR 1,327 thousand). Key management personnel may receive post-employment benefits, other long-term benefits and termination benefits, but do not receive any share-based payments.

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

Special Funds

Special funds are established in accordance with Article 16 of the Establishing Agreement and are administered under the terms of rules and regulations adopted by the Bank. Special Funds are audited on an annual basis and their assets and fund balances are not included in the Bank’s statement of financial position. During 2016, the Bank administered two special funds. Extracts from the audited financial statements are included under the “Summary of special funds”.

28. SUMMARY OF SPECIAL FUNDS

With the Hellenic Government

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

Presented in EUR (000)	At 31 December 2016	At 31 December 2015
Statement of movements		
Balance brought forward	29	82
Net income (loss) for the year	-	-
Less: disbursements	(21)	(53)
Balance of Available Funds	**8**	**29**
Financial position		
Placements with other financial institutions	8	29
Total Assets	**8**	**29**
Unallocated fund balance	8	29
Total Liabilities and Contributor Resources	**8**	**29**

With the Development Bank of Austria

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

Presented in EUR (000)	At 31 December 2016	At 31 December 2015
Statement of movements		
Balance brought forward	186	247
Net income (loss) for the year	(2)	(1)
Less: disbursements	(92)	(60)
Balance of Available Funds	**92**	**186**
Financial position		
Placements with other financial institutions	92	186
Total Assets	**92**	**186**
Unallocated fund balance	92	186
Total Liabilities and Contributor Resources	**92**	**186**

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Black Sea Trade and Development Bank ("the Bank"), which comprise the statement of financial position as at 31 December 2016, the statements of income and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

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

Impairment Losses on Loans

There are significant provisions for loan impairment. Impairment provisions represent management's best estimate of the losses incurred within the loans to customers at the balance sheet date. They are calculated on an individual basis for individually significant loans with objective evidence of impairment and on a collective basis for groups with similar credit risk characteristics. Loans that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised, are not included in the collective assessment for impairment. The appropriateness of impairment losses on loans is a key area of judgment for management. Management makes complex subjective judgments over both timing of recognition of impairment and the estimation of the size of any such impairment, as the process involves various assumptions and factors including the financial condition of the counterparty and expected future cash flows. As a consequence we identify this area as a key risk of material misstatement in the financial statements.

The audit procedures we performed to address this area of focus were:

- We assessed and tested the design and operating effectiveness of controls over the monitoring of the credit watch list, exception reports and credit file review processes. We have been able to rely on these controls for our audit.
- For specific allowances, the appropriateness of provisioning methodologies and policies were independently assessed for a sample of loans across the portfolio selected on the basis of risk. An independent review was formed on the levels of provisions booked based on the detailed loan and counterparty information in the credit file. Calculations within a sample of discounted cash flow models were reperformed.

- For collective impairments we reviewed and evaluated the sufficiency of the models and data used by the Bank. We reviewed the completeness and the accuracy of the parameters and data used by the Bank for the calculation of the collective impairment and the assessment of the adequacy of those loans and advances being tested individually.
- We assessed whether the disclosures in the financial statements adequately reflect the Bank's exposure to credit risk.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report, but does not include the financial statements and our auditors' report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt

on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

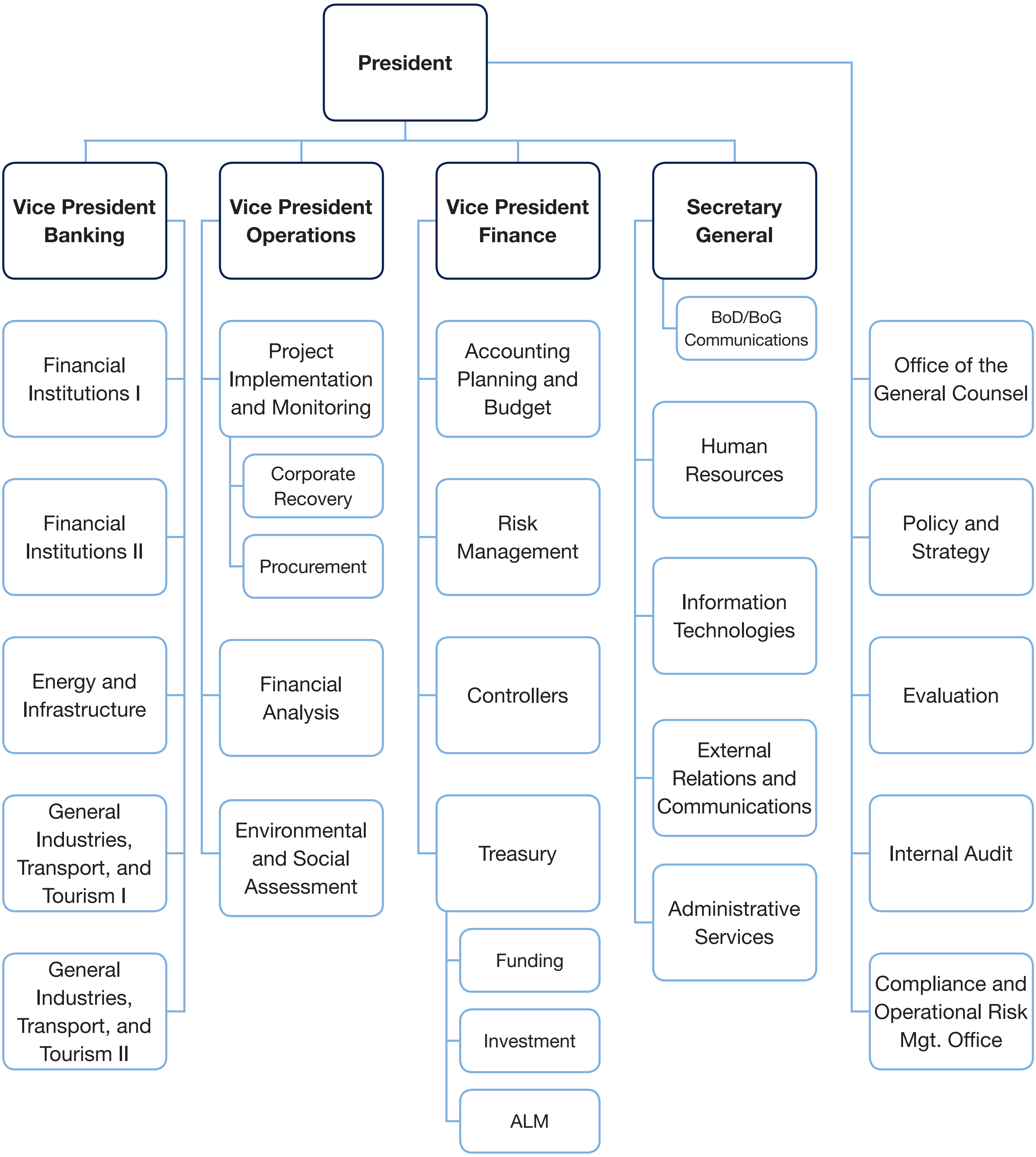
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

KPMG Certified Auditors AE
Athens, Greece
26 May 2017

Organizational Chart



As of 31 December 2016

Annex B

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