



Annual Report

2021

**Redefining  
Development  
Support**



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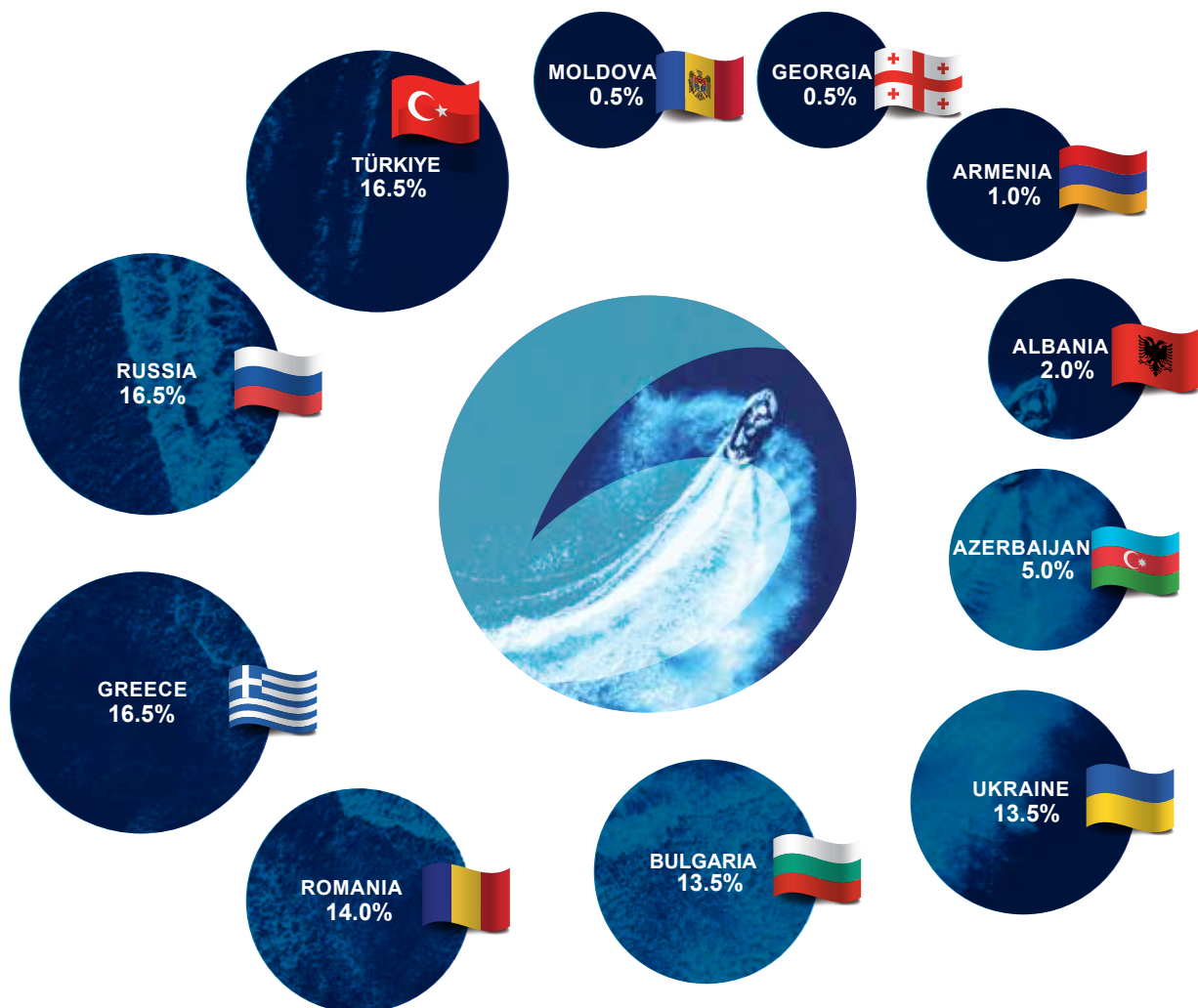
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# Introduction

## Who We Are

The Black Sea Trade and Development Bank (BSTDB), an international financial institution with headquarters in Thessaloniki, Greece, was established by Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Türkiye, and Ukraine. BSTDB started operations in June 1999 and has an authorized capital of EUR 3.45 billion and a subscribed capital of EUR 2.29 billion.



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

As an international financial institution, the Bank has preferred creditor status. This means that the Bank will usually (i) not reschedule debt payments with respect to its loans to, or guaranteed by, its member countries and (ii) not reschedule its loans to private sector borrower due to a general foreign exchange unavailability in the borrower's country.

## CORPORATE GOVERNANCE

### Management Structure

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

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

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

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

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

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

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

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

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

### Reporting and Disclosure

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



With respect to external financial reporting, the Bank presents financial statements in its quarterly Summary Statements to the Board of Directors, and both the interim financial statements and the Annual Report are published on the Bank's website. Pursuant to Article 35 of the Establishing Agreement, published reports are accessible [transmitted to] the Governments of the Member States, members of the Board of Governors and Directors, and the BSEC Permanent International Secretary.

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

## Internal Audit

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.

## Board of Governors

### As of 31 December 2021

#### REPUBLIC OF ALBANIA

Governor: Ms. Adela XHEMALI, Deputy Minister of Finance & Economy

Alternate Governor: position vacant

#### REPUBLIC OF ARMENIA

Governor: Mr. Arthur JAVADYAN, Ambassador-at large,  
Chairman of the Board of the Centre for Economic Perspectives Foundation

Alternate Governor: Mr. Davit NAHAPETYAN, Board Member, Central Bank of Armenia

#### REPUBLIC OF AZERBAIJAN

Governor: Mr. Samir SHARIFOV, Minister of Finance

Alternate Governor: Mr. Mikayil JABBAROV, Minister of Economy

#### REPUBLIC OF BULGARIA

Governor: Ms. Monica DIMITROVA-BEECHER, Deputy Minister of Finance

Alternate Governor: Ms. Gergana BEREMSKA, Director, International Financial Institutions and Cooperation Directorate,  
Ministry of Finance

#### GEORGIA

Governor: Mr. Koba GVENETADZE, Governor, National Bank of Georgia

Alternate Governor: Mr. Lasha KHUTSISHVILI, Minister of Finance

#### HELLENIC REPUBLIC

Governor: Mr. Adonis-Spyridon GEORGIADIS, Minister of Development & Investments

Alternate Governor: position vacant

#### REPUBLIC OF MOLDOVA

Governor: Mr. Dumitru BUDIANACHI, Minister of Finance

Alternate Governor: position vacant

#### ROMANIA

Governor: Mr. Alin CHITU, Secretary of State, Ministry of Public Finance

Alternate Governor: Ms. Boni Florinela CUCU, General Director, General Directorate for ECOFIN,  
Financial Assistance and International Financial Relations, Ministry of Public Finance

#### RUSSIAN FEDERATION

Governor: Mr. Timur MAKSIMOV, Deputy Minister of Finance

Alternate Governor: position vacant

#### REPUBLIC OF TÜRKİYE

Governor: Mr. Murat ZAMAN, Deputy Minister of Treasury & Finance

Alternate Governor: position vacant

#### UKRAINE

Governor: Ms. Yuliia SVYRYDENKO, First Deputy Prime Minister & Minister of Economy

Alternate Governor: Mr. Volodymyr KUCHYN, Head, Office for European Integration & International Programs,  
National Bank of Ukraine

## Board of Directors

### As of 31 December 2021

#### REPUBLIC OF ALBANIA

Director: Mr. Arlind GJOKUTA, Secretary General, Ministry of Finance & Economy

Alternate Director: position vacant

#### REPUBLIC OF ARMENIA

Director: Mr. Andranik GRIGORYAN, Director, Financial Stability Directorate, Central Bank of Armenia, Member of Executive Committee

Alternate Director: Mr. Argam ARAMYAN, Head, International Cooperation Department, Ministry of Finance

#### REPUBLIC OF AZERBAIJAN

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

Alternate Director: position vacant

#### REPUBLIC OF BULGARIA

Director: Ms. Milena BOYKOVA, Director, Government Debt Directorate, Ministry of Finance

Alternate Director: position vacant

#### GEORGIA

Director: Ms. Ekaterine GUNTSADZE, Deputy Minister of Finance

Alternate Director: position vacant

#### HELLENIC REPUBLIC

Director: Mr. Ioannis TSAKIRIS, Deputy Minister of Development & Investments

Alternate Director: position vacant

#### REPUBLIC OF MOLDOVA

Director: Ms. Elena MATVEEVA, Director, Public Debt Department, Ministry of Finance

Alternate Director: position vacant

#### ROMANIA

Director: Ms. Diana BLINDU, Head of Division, General Directorate for ECOFIN, Financial Assistance and International Financial Relations, Ministry of Public Finance

Alternate Director: position vacant

#### RUSSIAN FEDERATION

Director: Mr. Dmitry BIRICHEVSKIY, Director, Department of Economic Cooperation, Ministry of Foreign Affairs

Alternate Director: position vacant

#### REPUBLIC OF TÜRKİYE

Director: Dr. Serhat KOKSAL, Acting Director General, Foreign Economic Relations, Ministry of Treasury and Finance

Alternate Director: position vacant

#### UKRAINE

Director: Mr. Taras KACHKA, Deputy Minister of Economy, Trade Representative of Ukraine

Alternate Director: position vacant

## Audit Committee

### As of 31 December 2021

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

Mr. Famil ISMAYILOV, Director for the Republic of AZERBAIJAN and Audit Committee member

Ms. Ekaterine GUNTSADZE, Director for GEORGIA and Audit Committee member

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



## MANAGEMENT



**Dmitry Pankin**

President  
Chairman of the Board of Directors



**Hasan Demirhan**  
Vice President Banking



**Ivaylo Moskovski**  
Vice President Risk



**Valeriy Piatnytskyi**  
Vice President Finance



**Aristotelis Spiliotis**  
Secretary General

## To the Board of Governors

In accordance with Article 35 of the Agreement Establishing the Black Sea Trade and Development Bank and Section 10 of its By-Laws, I submit to the Board of Governors the Bank's Annual Report for 2021 as endorsed by the Board of Directors. The Twenty Third Annual Report contains the Bank's financial statements; separate financial statements for the operations of the Bank's Special Funds have also been issued, as prescribed in Section 12 of the Bank's By-Laws.

Dmitry Pankin  
President  
Chairman of the Board of Directors

## Statement by the President



The Member Countries of the Black Sea Trade and Development Bank posted strong performances for 2021, as regional GDP grew by around 6.5%, more than making up for the pandemic induced contraction of -2.3% in 2020. The 2021 outturn is even more impressive for the fact that, due to the limited downturn of 2020, the majority of the expansion was driven by private investment and demand and based upon the healthy macroeconomic position of most economies. This permitted solid growth even as Governments began to rein in the fiscal deficits and stabilize public debt levels that expanded in 2020 in the face of the pandemic.

For BSTDB, 2021 was the third year of implementation of its Medium-Term Strategy and Business Plan 2019-2022, and it was one of the most successful years of operation since the Bank's inception. Shifting from responding to the pandemic in 2020, when operational activity had focused upon supporting existing clients and providing financing for firms dealing with the impact of economic decline, the Bank returned in 2021 to a more diversified approach helping firms to continue deferred investments or undertake expansion in order to capitalize on new opportunities. For the year, BSTDB's portfolio grew 14.6%, reaching € 2,370.2 million. The Bank's Board of Directors approved 29 new operations, seven more than in 2020, for € 733.9 million. New signings leaped from 20 in 2020 to 32 in 2021, up 31.5% in volume terms to € 820.7 million. Net income grew over 300% to € 43.9 million.

During the 2018-2021 period, the operational portfolio averaged 19% growth per annum. This is testimony to the robust demand for the Bank's services, as it has enhanced its presence, and to the growing impact of its projects. At the same time, this growth brought into perspective the need to consider potential limits to the ability of the Bank to continue beyond the current strategy period since, like all multilateral development banks, BSTDB is committed to maintaining prudent financial ratios for its capital.

The Bank's positive prospects and the ways in which its shareholders would like it to evolve were reflected in the Long-Term Strategic Framework (LTSF) 2021-2030, the key document that links the Bank's dual mandate to its strategic priorities. The LTSF was adopted by the Board of Governors in June 2021, and it reaffirmed the vision of the Bank to become a pre-eminent institution in the Black Sea Region promoting economic development and regional cooperation.

In addition, the Member Countries agreed to initiate the process for a new capital increase, the first one since 2008. This willingness, undertaken during a time of post-pandemic fiscal and monetary tightening and competing demands for government resources, demonstrates the dedication of the shareholders to the Bank. It is expected to increase the paid-in and subscribed capital of the Bank by 35%, increasing buffers and mobilization capacity, and enhancing the scale and impact of its support.

A retrospective of 2021 in the Black Sea Region must necessarily touch upon the subsequent tragic events that began in early 2022, if it is not to be considered out of touch. The death, devastation, and destruction in Ukraine overwhelm other considerations.

Its impact will have global implications and in this respect 2022 will be a very important year for the Bank to take stock of its role in the evolving environment and to consider its approach in the coming years. BSTDB was established as a wholly locally-owned organization that seeks to enhance integration and increase cross-border economic activities. That objective will always remain relevant, and within this framework the Bank remains committed to re-initiating efforts at regional cooperation and recovery, alongside other development institutions and the international community.

Dmitry Pankin  
Chairman of the Board of Directors  
President  
Black Sea Trade and Development Bank

**14.6%**

**Long-Term Strategy [2021-2030]**  
7% annual portfolio growth  
up to € 1.5Bn per annum

- In 2021 the Bank managed to maintain its growth and portfolio quality against the challenging conditions of the pandemic crisis. The BSTDB outstanding portfolio grew 14.6% over 2020 to reach EUR 2.37 billion. During the year, the Board of Directors approved EUR 733.9 million in new operations, while the Bank signed 32 loan agreements for EUR 820.7 million, with disbursements to business clients exceeding EUR 1 billion. These operational achievements occurred even as the Bank maintained its consistently high portfolio quality. The Bank maintained profitability for the seventeenth consecutive year.
- BSTDB adopted its Long-Term Strategy for the period of 2021-2030. The Strategy puts an emphasis on the Bank's strengthened relevance for member countries and development impact in the Black Sea region. The Bank is targeting annual portfolio growth of about 7% while maintaining a diversified portfolio of operations across countries and sectors, with a high priority assigned to financing for the environment and to supporting activities with significant regional cooperation value, such as trade and infrastructure development. The Bank's annual commitments are envisaged to grow steadily up to EUR 1.5 billion per annum.
- Building on solid restructuring arrangements that it has helped its clients put in place, the Bank achieved to lower its problematic loans at 3.24% of the total portfolio, marking a decrease from last year's 4% and a decrease in the overall value of problematic loans by about 15%. The flexibility in accepting short-term standstill agreements or swiftly adopting rescheduling arrangements in sight of the first lockdown measures in 2020 proved successful, since all three of the affected problematic borrowers managed to fully recover in 2021 and resume their loan repayments. In addition, one problematic loan was fully repaid and there were no new entries in the problematic loans portfolio.
- The Bank undertook its first in-house consultancy services exercise for a large client active in the energy sector, under which the Bank fully reviewed the client's group historic financials, business plan, forecasts, and future financial viability. This exercise envisages preparing the company to potentially access financing from international debt markets, international financial institutions, and private banks.

&gt; &gt; &gt; &gt; &gt; € 2.37Bn

€ 733.9M in new operations

€ 820.7M in 32 loan agreements

## Climate Change Strategy

Subscribed capital increase &gt; € 931.5M &gt; &gt; &gt; &gt; &gt; € 3.10Bn

- The Bank's shareholders decided to increase the BSTDB subscribed capital by EUR 931.5 million to reach EUR 3.10 billion. According to the Bank's capital structure, the paid-in portion to be provided by the Member Countries represents 30% of the subscribed capital and will amount to about EUR 245 million. The subscription process will be finalized by end-September 2022, and the BSTDB shareholders will start making the capital payments in annual installments from 2023 until 2030. The subscribed capital increase will enable BSTDB to fulfil the strategic objectives set forth in the Long-Term Strategy for 2021-2030 to promote economic development and regional cooperation of Member States and strengthen the Bank's response capacity in crisis situations while increasing its relevance to shareholders. The new subscription leaves unsubscribed 10% of the total authorized BSTDB capital of EUR 3.45 billion, which will remain available, inter alia, for potential new shareholders.
- In November 2021 BSTDB received an upgrade of its long- and short-term ratings from Standard & Poor's (by one notch, to A/A-1), with stable outlook. The key reasons for the upgrade named by S&P were the BSTDB's confirmed policy relevance, illustrated by solid loan book growth over the past three years and the shareholders' decision to inject new capital, as well as the demonstrated Bank's resilience and very strong financial risk profile, with only a mild impact of the pandemic on the Bank's asset quality.
- As part of the strategic partnership with the national institutions in the BSTDB Member States, the Bank entered into a Framework Agreement for Pandemic Crisis Response Program with the National Guarantee Fund in Bulgaria. The Program, offered jointly by the National Guarantee Fund and BSTDB, will provide portfolio guarantees to commercial banks in Bulgaria in support of their SME lending activity and mobilize up to EUR 75 million of new financing which can support about 250 Small and Medium-sized Enterprises in Bulgaria.
- The Board of Directors approved the first Climate Change Strategy that represents the Bank's vision and approach to addressing climate change. The Strategy defines a more purposeful role for the BSTDB in supporting its shareholders in both mitigating and coping with the impacts of climate change mainly by shifting the financing priorities to more climate positive operations and increasing the climate co-benefit potential in its operations. By doing so, the Bank intends to better align its financing with the Member States' climate priorities.



# Economic Overview of the Black Sea Region in 2021<sup>1</sup>

## Macroeconomic Trends in 2021

Despite persistent challenges, the global economy grew 5.5% in 2021, pushing global GDP above pre-pandemic levels, albeit still below the levels forecast before the emergence of COVID-19. While strong growth improved certain macroeconomic fundamentals, challenges remained as new versions of the virus kept re-emerging along with concerns related to supply-chain constraints. The rapid rollout of vaccines and improvised lock-down measures were the key component of a strong rebound while the virus was still spreading. Early access and necessary infrastructure to administer the vaccines meant that advanced economies fared far better than expected previously, while in emerging and developing economies growth rates were in line with expectations.

The strong global rebound and relatively early access to vaccines benefitted Black Sea Trade and Development Bank member countries also<sup>2</sup>. According to the preliminary data, following a 2.3% contraction in 2020, these countries recovered better than expected with growth in the region reaching 6.6% in 2021. While growth rates among the BSTDB members varied from as low as 3.4% to 13.9%, almost all of them recovered from losses inflicted in 2020, and by the last quarter of 2021, their GDP was above the pre-pandemic levels.

It is worth noting that BSTDB Region growth exceeded global growth in 2021 and as such the Region has fared better than in the post-2009 period, when recovery in the region was slower and below the global growth rate. This is likely because compared with the late 2000s, countries in the region had better macro fundamentals and policy responses, along with unique global coordination.

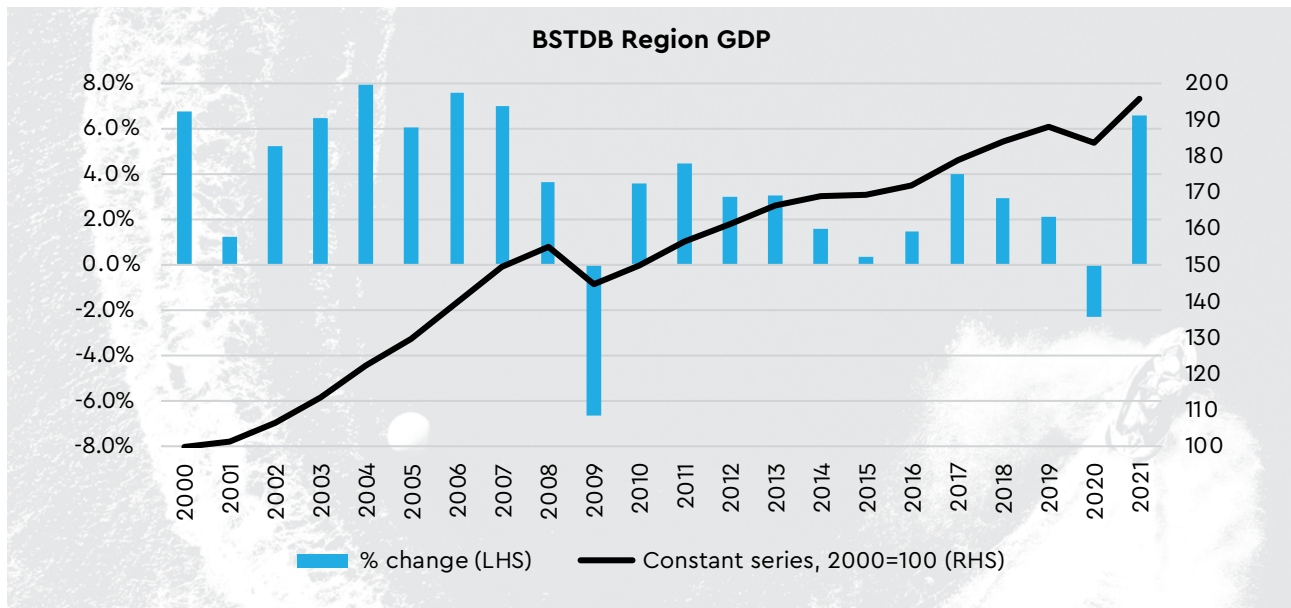
In both crisis years, the region and the world experienced contraction. However, unlike the global economy, the GDP decline in the BSTDB region was lower in 2020 than in 2009, reflecting the better fundamentals and buffers built on after the 2008 crisis. The 2008 crisis revealed shortcomings of the growth model based on fast growth dependent on external borrowing and/or fiscal largesse. Since that crisis, authorities in the region followed relatively conservative policies, which, at the expense of the faster growth, helped to build external and fiscal buffers. So, the BSTDB Region encountered pandemic-related challenges better prepared than in 2008.

Better buffers allowed governments to implement policies supportive of growth, namely easing of the monetary policy and fiscal expansion. It should be mentioned that global coordination of the countercyclical policies was better organized in 2020, with almost all countries easing their monetary policy and pursuing fiscal expansion. So, by the end of the acute phase of the pandemic, thanks to various fiscal support policies, households had unprecedented savings and were ready to spend, while low-interest rates further supported consumption and investment. As a result, demand surged by the end of 2020, following the easing of restrictions, thereby driving economic growth.

<sup>1</sup> Note on Sources: Black Sea Region data are based on BSTDB calculations from national statistical agencies of the countries of the Black Sea Region and the International Monetary Fund IFS Database. Sources for non-regional data include the IMF's World Economic Outlook publications. As many figures at the time of writing represent estimates for 2021, actual final figures may differ in detail, but the overall trends discussed in this section will not be altered.

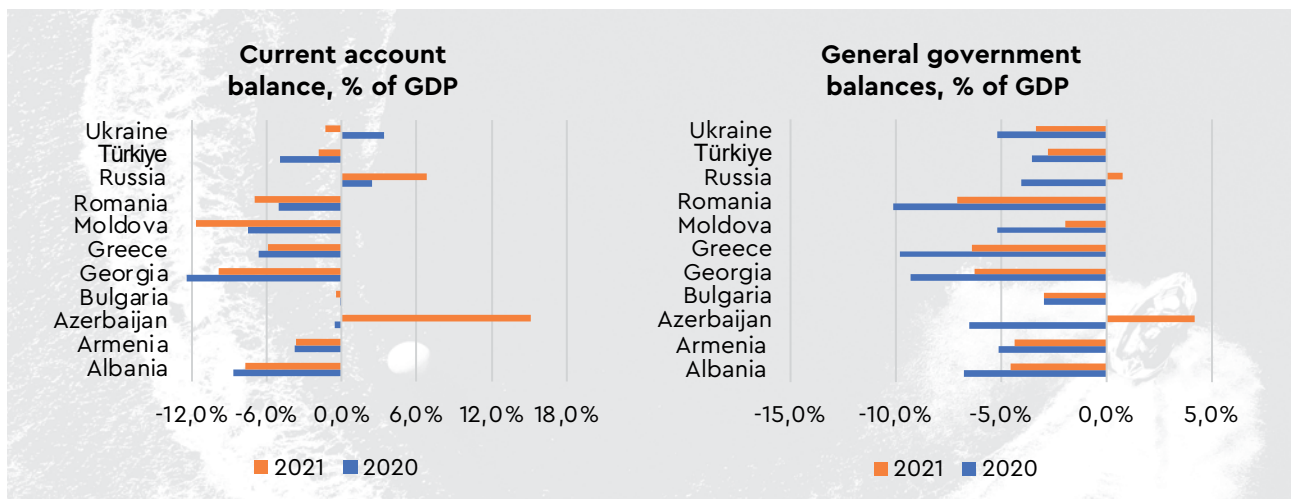
<sup>2</sup> Comprised of the 11 member countries of the Black Sea Trade and Development Bank (BSTDB): Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Türkiye, and Ukraine.





Source: Respective national statistical agencies, BSTDB calculations

This combination of domestic and external demand drove economic recovery in the BSTDB Region, where, following three consecutive quarters of contraction, GDP was up 1.3% y/y in 1Q21. This was followed by a sharp surge of 13.4% y/y growth in 2Q21, and a subsequent retreat of the growth rate to 5.7% y/y and 6.9% y/y respectively in 3Q21 and 4Q21. As a result, key macroeconomic fundamentals, like external and fiscal balances started improving again in 2021. Aside from the general surge in demand, in some countries increasing commodity prices and in others recovery of tourism and transport services played an important role in improving external balances. However, as booming domestic demand drove imports, a few member countries experienced a deterioration of the external balances.



Source: Relevant national agencies, BSTDB calculations

Unlike with the current account balance, all BSTDB member countries experienced significant improvement in their fiscal balances as support packages were withdrawn and economic growth generated revenues. To sum up, solid domestic buffers and global concerted efforts helped to support economies in 2020 during the pandemic. This support helped economies to rebound sharply in 2021 once restrictions were removed. The rebound, in turn, helped to reverse various fiscal and monetary policies of the previous years and return to the policy of improving buffers.

Table 1: Summary of Key Economic Indicators for 2020 and 2021, by BSTDB Member Country

	Real GDP Change		Inflation		Cur. Acc. Bal., % of GDP		Budget Bal., % of GDP		FDI, % of GDP	
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Albania	-3.5%	8.5%	1.6%	2.0%	-8.7%	-7.7%	-6.7%	-4.5%	6.7%	6.4%
Armenia	-7.4%	5.7%	1.2%	7.2%	-3.8%	-3.7%	-5.1%	-4.3%	0.6%	2.6%
Azerbaijan	-4.2%	5.6%	2.8%	6.7%	-0.5%	15.2%	-6.5%	4.2%	-0.7%	-3.3%
Bulgaria	-4.4%	4.2%	1.7%	3.3%	-0.1%	-0.4%	-2.9%	-2.9%	4.6%	1.7%
Georgia	-6.8%	10.4%	5.2%	9.6%	-12.4%	-10.1%	-9.3%	-6.1%	3.6%	6.2%
Greece	-9.0%	8.3%	-1.2%	1.2%	-6.6%	-5.9%	-9.8%	-6.4%	1.4%	2.2%
Moldova	-7.4%	13.9%	3.8%	5.1%	-7.7%	-11.6%	-5.3%	-1.9%	1.3%	1.7%
Romania	-3.7%	5.9%	2.6%	5.1%	-5.0%	-7.0%	-10.1%	-7.1%	1.4%	3.0%
Russia	-2.7%	4.7%	3.4%	6.7%	2.4%	6.9%	-4.0%	0.8%	0.2%	-1.4%
Türkiye	1.8%	11.0%	12.3%	19.6%	-5.0%	-1.7%	-3.5%	-2.7%	0.6%*	0.9%*
Ukraine	-3.8%	3.4%	2.7%	9.4%	3.4%	-1.3%	-5.2%	-3.3%	0.0%	3.4%

The success of the supporting policies during the crisis was validated both by the subsequent economic recovery and by the rating agencies. In 2021 there was one case of rating upgrade among BSTDB members and there were more improvements in the outlooks than downward changes.

Table 2: Regional Credit Ratings at end 2021

	Moody's	S&P	Fitch
Albania	B1 stable	B+ stable	...
Armenia	Ba3 stable	B+ positive	B+ stable
Azerbaijan	Ba2 positive	BB+ stable	BB+ stable
Bulgaria	Baa1 stable	BBB stable	BBB positive
Georgia	Ba2 stable	BB negative	BB stable
Greece	Ba3 stable	BB positive	BB stable
Moldova	B3 stable	...	...
Romania	Baa3 stable	BBB- stable	BBB- negative
Russia	Baa3 stable	BBB- stable	BBB stable
Türkiye	B2 negative	B+ negative	BB- negative
Ukraine	B3 stable	B stable	B positive

However, delayed and strong demand, along with supply-side challenges has also led to inflationary pressures in the Region<sup>3</sup>. This has effectively put a brake on recovery based on an easy monetary stance. To tame the rising inflation and expectations, monetary authorities in various countries, including the BSTDB Region, were forced to revert to raising interest rates. Higher interest rates, in turn, will slow down economic growth in the near future.

\*Net FDI, % of GDP

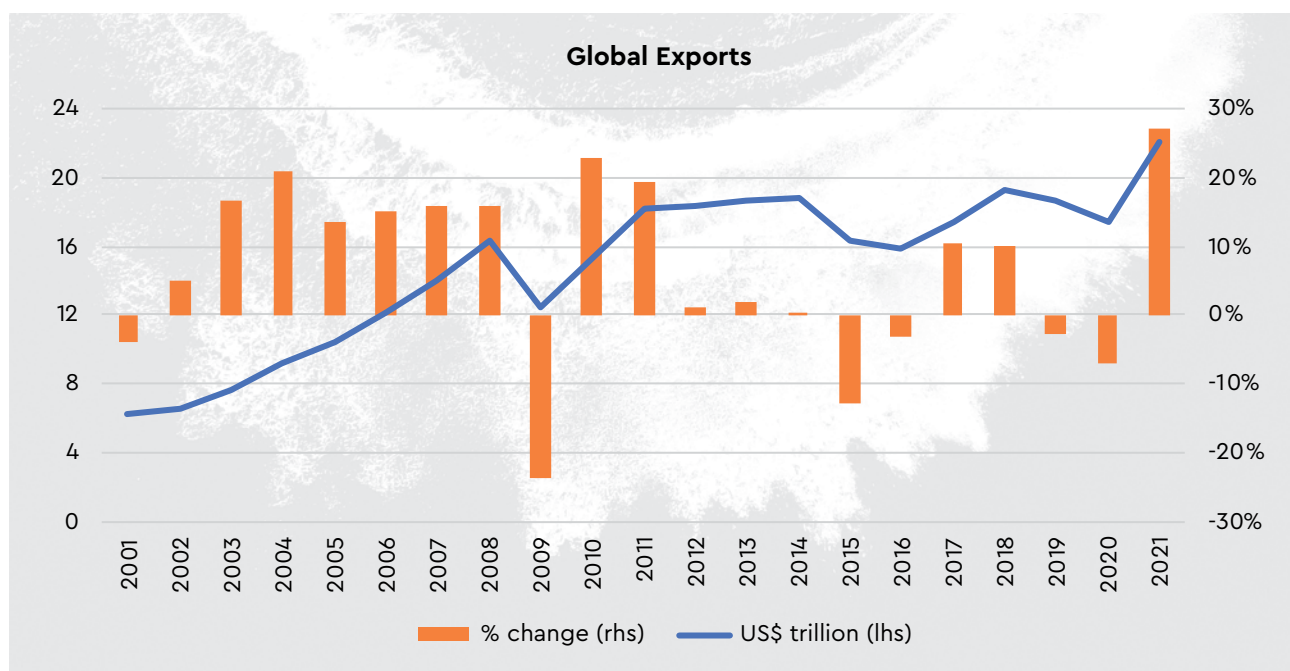
3 Extensive analysis of the inflationary trends is presented in the report as a special topic.

# Trade Dynamics

## Global Trends

Driven by resurgent demand and increasing commodity prices, global exports in nominal US\$ terms were up 27.0% in 2021, reaching a record high of US\$ 22.1tn. This surge can be explained by a low base of the previous year and post-pandemic jump in demand and a shift in trade from services to trade in goods as people started spending more time at home. Pandemic measures that started in late 2019 in China and were imposed later in other countries created both supply-side bottlenecks to exports and undermined demand. So, global exports were down 2.7% and 7.2% in 2019 and 2020 respectively. This trend was reversed as the pandemic measures started to be eased in the second half of 2020. The easing of restrictions resulted in a surge in demand and opening of trade hubs.

As postponed orders of manufactured goods started to be shipped, exports from countries like China (+29.6% in 2021), the USA (+22.8%), and Germany (+18.0%) surged. Additionally, the re-activation of the global trade drove exports from countries like Singapore (+24.0%) and the Netherlands (+58.7%). Plus, the economic rebound pushed up demand for crude oil and other commodities, which was reflected in higher exports from countries like Russia (+45.6%), Canada (+28.6%), and Saudi Arabia (+60.6%). However, exports increased from other countries too. According to the data from the IMF, of the 210 countries/administrative units reporting export data, 183 countries reported an increase in their exports. Exports declined in 27 countries/administrative units, which accounted for 0.1% of global exports.

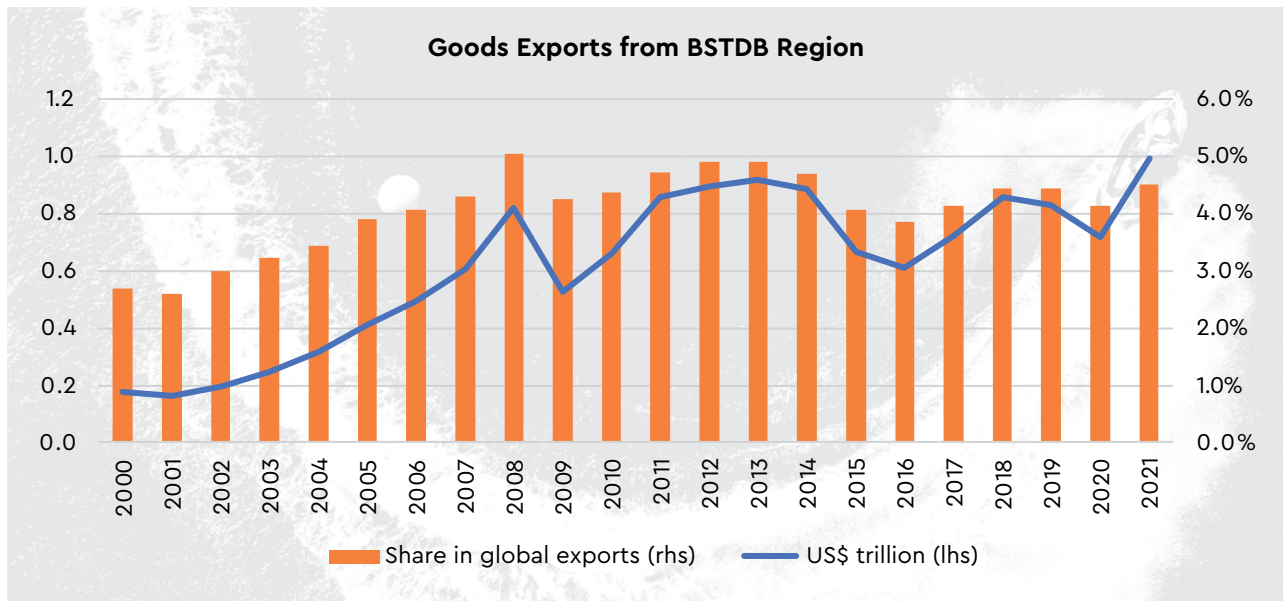


Source: Direction of Trade Statistics, IMF.

## BSTDB Region

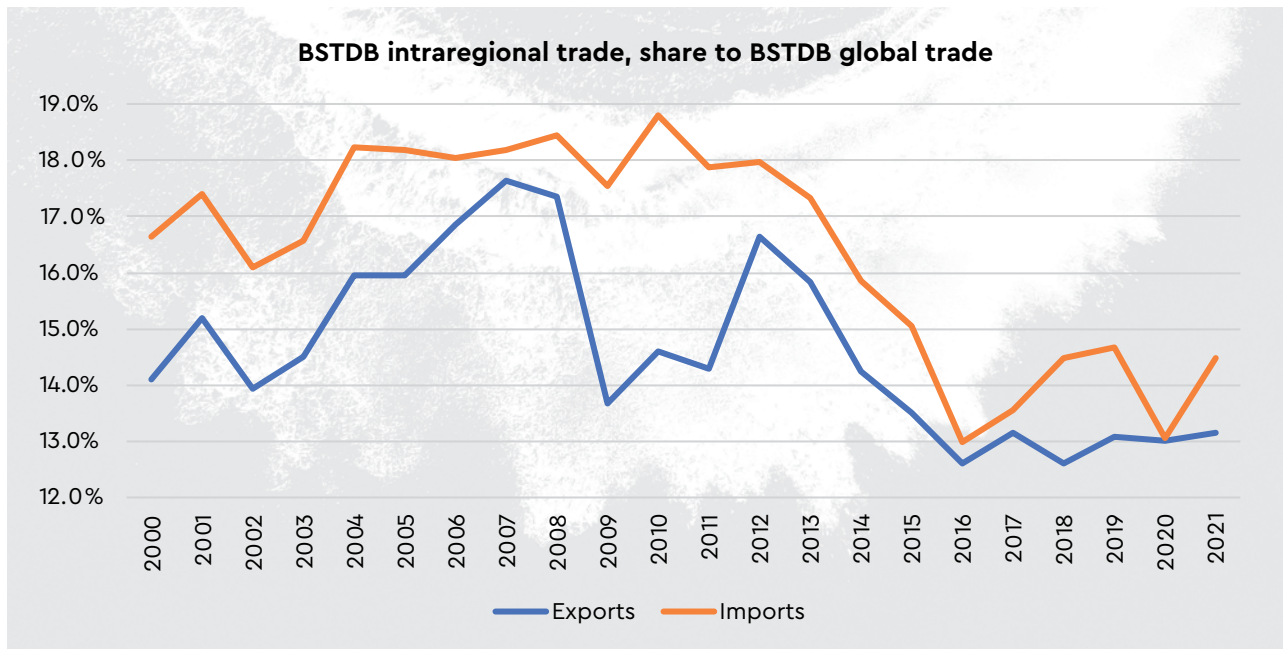
In line with the global trends, exports of goods from the BSTDB member countries also increased in 2021 reaching a record high of US\$ 1.0tn or up 38.2%. With exports from the BSTDB Region increasing faster than global exports, the share of the BSTDB region in global exports increased from 4.1% in 2020 to 4.5% in 2021 but they were still below the record high of 5.1% reached in 2008. Given the size of the economy, the major positive contribution came from an increase in exports from Russia (+45.6%), followed by Türkiye (+32.8%), and Ukraine (+33.4%). Overall, the export growth rate among the 11 BSTDB member countries ranged from 19.1% to 61.6% in 2021 and it reached record high levels in 8 member countries.





Source: Direction of Trade Statistics, IMF.

Similar to total exports, exports from BSTDB member countries to other BSTDB member countries (intra-regional trade) also increased (+39.8%). At US\$ 130.9bm, intra-regional exports were at the highest level since 2014 and corresponded to 13.2% of total exports, up from 13.0% in 2020. Despite minor fluctuations, the share of intra-regional exports in total exports has remained in a narrow range of 12.6%-13.5% in the last 7 years.

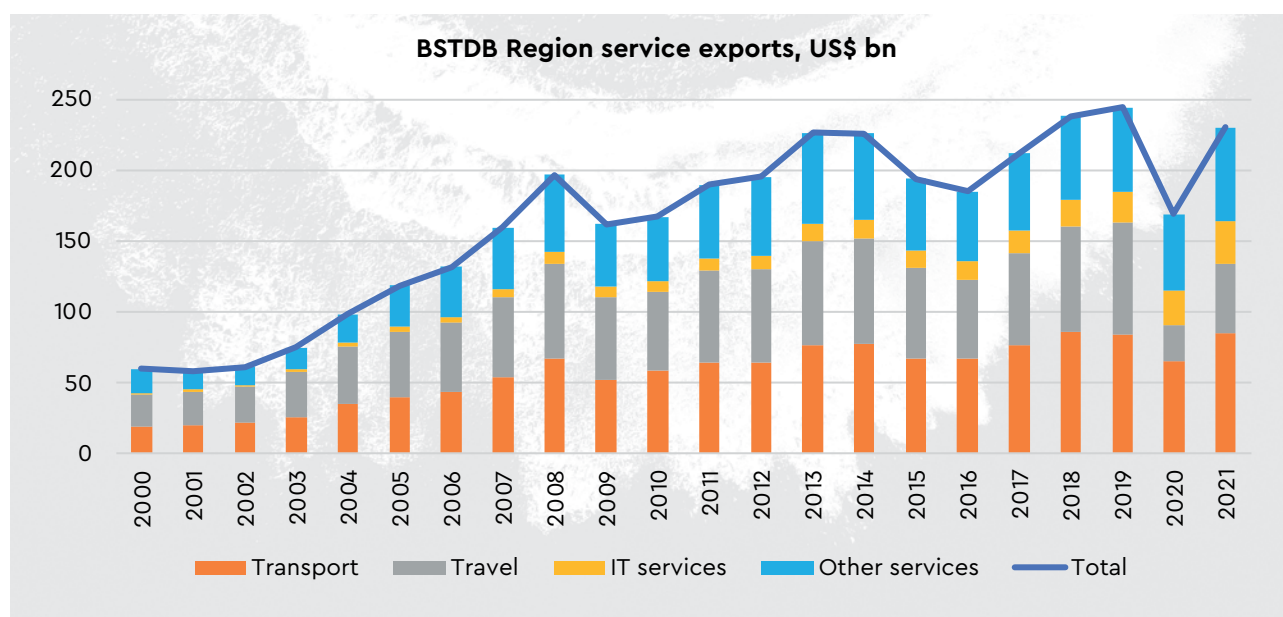


Source: Direction of Trade Statistics, IMF.

Both intra-regional exports and imports, as a ratio to total exports and imports declined from 2012 until 2016 and remained relatively flat since then. However, unlike for exports, import share from within the region increased more from 13.1% in 2020 to 14.5% in 2021. This was likely driven by an increase in commodity prices, particularly crude oil and gas.

## Export of Services

Along with goods, exports of services also recovered in 2021. Following a 30.8% fall in 2020, exports of services from the BSTDB Region were up 35.9% in 2021 to US\$ 230.5bn. Service exports' growth was driven by travel receipts (+95.4%) and transport services exports (+35.9%). However, unlike in exports of goods, exports of services are still below the pre-pandemic levels as pandemic-related restrictions still hamper sectors like tourism.

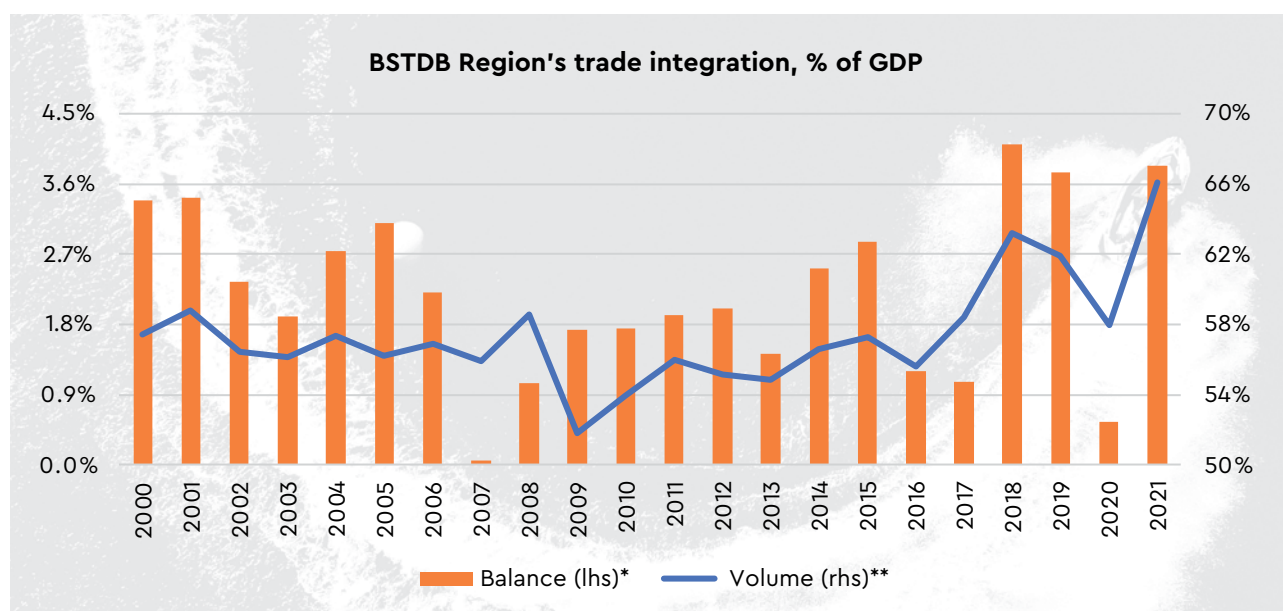


Source: Relevant national data providers, IMF, and Eurostat.

Overall, since the start of the pandemic, there has been a change in consumption behavior, characterized by the shift from consumption of services to consumption of goods. This was driven by the lockdowns and widely available opportunities to buy goods online. By contrast, since many services require live presence, or face to face interaction, pandemic restrictions hit them especially hard. This shift is probably reflected in the trade dynamics too as the share of goods in total exports of goods and services has increased. In the BSTDB Region, for example, it increased from 77.0% in 2019 to 81.1% in 2021. While there are significant variations among the member countries in absolute terms, in all of them the share of goods in total exports of goods and services was higher in 2021 than in 2019.

Compared to exports, the increase in imports in the BSTDB region was relatively moderate. It is worth mentioning that the drop in imports in 2020 was also relatively moderate compared to exports. After a drop of 4.5% in 2020, imports of goods increased 27.4% in 2021, reaching a record high of US\$ 896.2bn. Service imports were also up by 26.0%, driven by the import of transport services and partial recovery in travel expenses.

With exports increasing faster than imports, the Region's trade balance improved significantly and the surplus was close to the record high posted in 2018. Moreover, with both exports and imports increasing, the Region's global trade integration, measured as total trade volume to GDP, increased further in 2021 and reached a record high of 66.1%.



Source: Relevant national data providers, IMF Balance of Payments data.

\*Trade balance in goods and services (exports minus imports), Balance of Payments methodology.

\*\*Trade volume in goods and services (exports plus imports), Balance of Payments methodology.

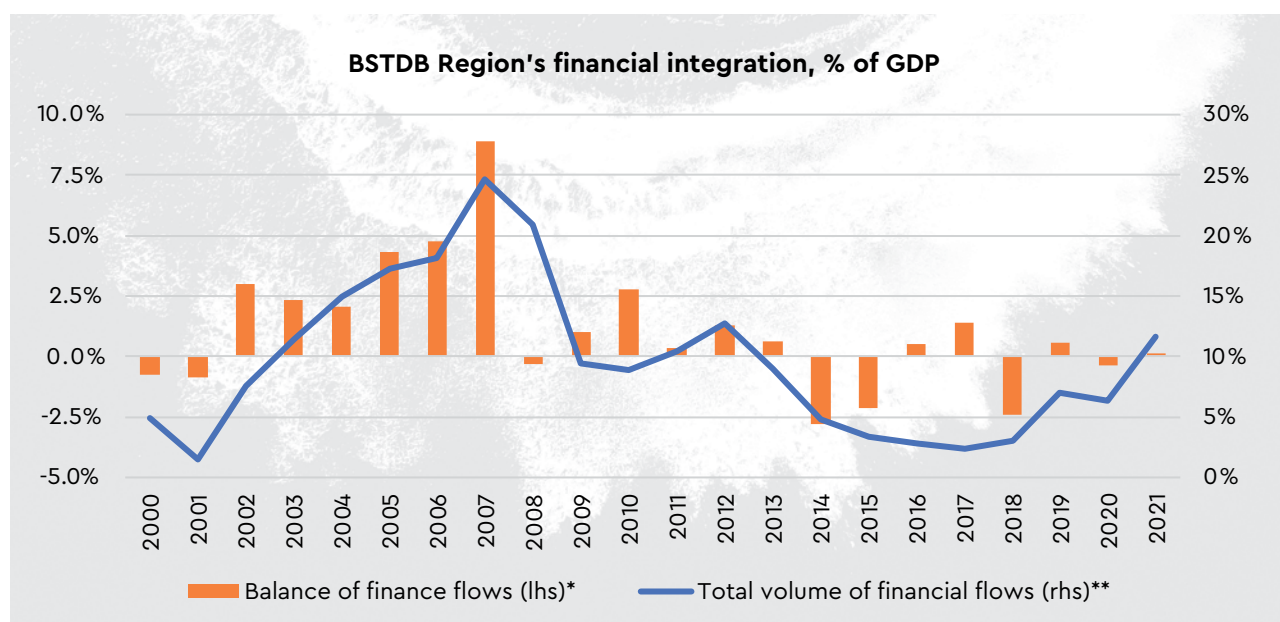
## Foreign Direct Investments and Other Financial Flows

The resurgent global demand and shifting supply chain patterns required more capacity in alternative destinations, which, in turn, meant more foreign direct investments (FDI). The resilience of the BSTDB countries and their closeness to the final markets, along with educated workforces and available infrastructure, made these countries attractive for FDI. According to the latest official data, the BSTDB Region received US\$ 81.0bn (2.3% of GDP) in foreign direct investment inflows in 2021, up from US\$ 30.4bn (1.0% of GDP) in 2020 and a record high level since 2014.

The surge in FDI inflows was accompanied by other inflows in the form of portfolio investments, loans, deposits, etc. Overall, those inflows were up to US\$ 123.6bn in 2021, from US\$ 59.2bn in the previous year.

However, these inflows were accompanied by outflows. Direct investments of BSTDB residents abroad were up from US\$ 11.5bn in 2020 to US\$ 76.3bn in 2021, while other financial outflows were up from US\$ 88.4bn to US\$ 124.8bn. The increase in both inflows (net incurrence of liabilities) and outflows (net acquisition of financial assets), is an indication of the Region's increasing global integration. As the chart below shows, the total volume of financial flows as a ratio to GDP was up from a low of 2.4% in 2017 to 11.7% in 2021. Increasing global financial integration can be perceived as increasing vulnerabilities given that it preceded the global financial crisis in the late 2000s. However, there is a need to check the balance of the flows as an indication of the "healthiness" of the integration. As the chart below shows, global integration in the 2000s was mostly one-sided, dominated by financial inflows. This time, however, outflows in general match inflows, thereby lowering vulnerabilities associated with sudden changes in financial flows.





Source: Relevant national data providers, IMF Balance of Payments data.

\* Balance of liabilities (inflows) and assets (outflows) for FDI, portfolio investments, and other investments within the Balance of Payments statistics

\*\* sum of liabilities (inflows) and assets (outflows) for FDI, portfolio investments, and other investments within the Balance of Payments statistics.

Overall, the surging current account surplus, along with relatively balanced financial flows resulted in a further increase in the reserves in the region, further improving buffers against potential external shocks. According to the official data, inflows into reserves in 2021 reached US\$ 101.9bn, the highest level since 2008 and more than offsetting the drawdown of around US\$ 26.4bn in the previous year.

## Outlook

After a solid recovery in 2021, it was expected that growth rates would moderate in 2022 and 2023 and hover around 4.0%. It was expected that in addition to the existing challenges like COVID 19 and supply chain problems the world would need to deal with rising inflation, increasing commodity prices, and increasing global interest rates. While manageable, these challenges fed uncertainty and, therefore, risks were generally on the downside. The war in Ukraine, in addition to a humanitarian catastrophe and direct harm to the Ukrainian economy, amplified uncertainties regionally and globally, undermined growth prospects, and further amplified already existing challenges. Sanctions on Russia, aside from hurting Russia directly, add further downside risks for the region.

Under these conditions, it is challenging to attempt credible macroeconomic forecasts. Given the scale of the physical destruction and humanitarian problems that the war is causing, it is evident that Ukraine will experience a drastic drop in economic activity in 2022. Russia will also experience contraction in 2022 as resources are diverted to the war and sanctions further cripple economic activity. Given that several BSTDB member countries are closely tied with the Russian and Ukrainian economies, they will also suffer negative consequences from the war. The impact on other member countries, which are more integrated with the EU and the West, might be more limited. However, sectors like tourism and exports will need to downscale their expectations. Also, food and commodity prices are projected to increase further or remain elevated as Ukraine and Russia are major providers of wheat, sunflower seed, crude oil, natural gas, and various metals. This, in turn, will further feed inflation in the region and beyond.

The outlook also depends on the duration of the invasion. The longer hostilities last, the worse the outlook will be. However, it is highly likely that as soon as hostilities end, Ukraine will get significant financial assistance to rebuild the country, and sanctions on Russia might get eased and/or revoked. This will provide the basis for a new rebound in these two countries and will definitely have a positive spillover effect in the region.

Other than the war, the world is still struggling with COVID 19 and it is not yet expected to be eradicated any time soon. However, radical lockdown measures are not expected anymore given the availability of vaccines and better treatment possibilities. Therefore the virus' impact on the outlook is limited.

Inflation is becoming the major challenge facing the region and beyond. In some countries, price increases are at nearly four decade highs and the recent war in Ukraine is feeding inflation further. There is a risk that the world might be moving from a long low inflation period to high and volatile inflation period. This will require different tools and timely action to avoid the persistence of high inflation. The war will especially affect food prices, thereby hurting poor countries more and might lead to an increase in poverty.

Supply chain problems are another challenge facing the world as supply bottlenecks remain and feed shipping costs and delivery times. While adding to inflation, this process might eventually lead to the diversification of supply chains. It is expected that producers globally will try to reduce reliance on a single source or single region, and shift to supply chains based on diversified nodes, with production facilities in various regions. As such, countries that attract investment for that purpose will benefit from the current supply chain challenges. Given the proximity to wealthy 'final' markets, available infrastructure, and educated workforce, BSTDB member countries are among the potential beneficiaries of this process.

To sum up, since the end of February 2022, the regional and global focus has, naturally, shifted to the war in Ukraine. It is having a significant negative impact on the economies of the directly involved countries with spillovers to others in the region. The negative consequences of the war will depend on the duration of the hostilities. Once hostilities are over, reconstruction in Ukraine will be the priority and there are reasons to expect that Ukraine will get significant international assistance for that purpose. Reconstruction in Ukraine will have a positive spillover effect on other regional countries. The eventual revocation of sanctions on Russia would further boost regional economies in the post-war period. So, while downside risks dominate as long as war continues, the Region will likely see strong rebound once hostilities are over.

# In focus: Inflation Dynamics in the Black Sea Region: Elevated Inflation Should Remain a Challenge in 2022

Since early 2021 inflation has picked up both in advanced and emerging economies. In some countries, it has reached the highest levels for the last decades. At first, the expectations among policymakers in advanced economies were that inflationary pressures were temporary and in the medium-term inflation would revert to central banks' target rates. However, actual inflation has remained elevated for several months in a row. Additionally, the rapid spread of the Omicron variant of the COVID-19 virus at the end of 2021, the recent war in Ukraine, and the subsequent sanctions introduced against the Russian Federation further amplified the uncertainty on the supply side thereby supporting inflation. As a result, expectations have started to shift towards inflationary pressures persisting for longer than initially anticipated.

Whether inflation is a permanent or temporary (transitory) phenomenon is an important question since it will warrant different policy responses both in advanced and emerging economies. While the relative importance depends on a multitude of factors and varies from country to country, in most emerging economies, including BSTDB member countries, price dynamics tend to be influenced by global factors such as monetary policies in major economies and developments in international commodity markets. However, domestic factors still play an important role as monetary and fiscal stances, exchange rate pressures, or rising inflation expectations may fuel inflation pressures in addition to what global factors would suggest.

BSTDB member countries are no exception to the global trends and have recently experienced a surge in inflation. The present analysis will assess the causes for the inflationary surge in BSTDB member countries in 2021. This in turn will require measuring the impact of the supply shocks on inflation as well as the contribution of both global and domestic factors.

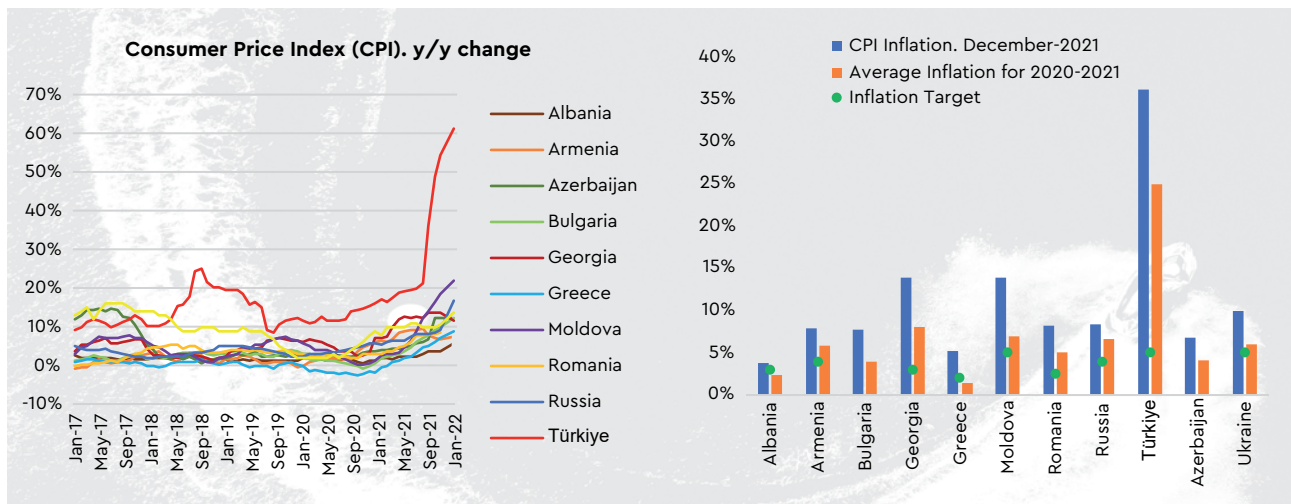
As the COVID-19 pandemic progressed and lockdown measures were implemented, authorities in many countries responded by increasing budgetary spending to address challenges faced by both the general economy and the health sector in particular. This, naturally, led to a surge in public deficits. The latter, together with supporting economic recovery put additional demand side pressures on inflation. To better understand these pressures, it is preferable to analyze the evolution of inflation in the non-tradable or services sector, where price developments are mostly driven by domestic factors. Additionally, the pace of wage growth will be assessed to understand if inflation resulted in a growth of wages or vice versa, and thus if the risk of development of a wage price spiral has emerged. Finally, the analysis will discuss the evolution of inflationary expectations and the outlook for inflation in BSTDB member countries.

## Supply Shocks and Base Effect

Inflation accelerated in all countries in the Black Sea Region in 2021. However, the inflation rate and the underlying factors behind it vary significantly across countries. In some countries, especially those that have experienced a subdued inflation in 2020, inflation virtually approached the central banks' target rates. In other countries, inflation exceeded significantly central bank targets. But overall, the upward trend of inflation in 2021 became a challenge for all countries in the region.

To start with, one of the reasons for high inflation in 2021 was a low level of inflation in the previous year, that is, a low base effect. Conventionally, inflation is measured by comparing the current price levels to that from the previous year. Therefore, with subdued price growth in 2020, even recovery to trend levels in 2021 would have yielded higher inflation. One way to assess this base effect is to use average inflation over the last two years (2020-2021) and compare it with the latest figures (December 2021). This exercise shows that the base effect is quite important for most countries. If we exclude the low base effect, inflation will remain high, but it would be much closer to central banks targets. The base effect is evident in both the Consumer Price Index (CPI) and the Producer Price Index (PPI). The spreadsheet with new graph is attached.

Figure 1. Annual inflation and base effect

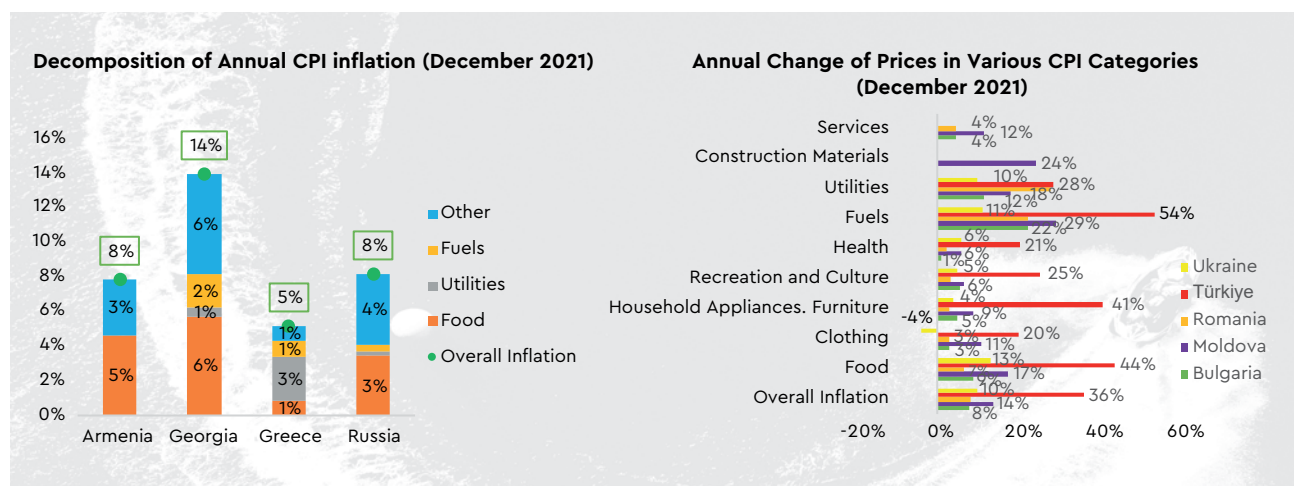


Source: National statistics offices

Other important determinants of inflation in 2021 were supply-side factors stemming from developments in global commodity markets. 2021 was marked by a sharp rise in international commodity prices, food, and energy in particular. International prices of key food products such as wheat, sugar, oils, and meat increased in the range of 35%-50%, thereby fueling inflation globally, including in BSTDB member countries. However, the degree of impact of international food prices on member states varied depending on the income levels of each country. Food products account for a higher share of the consumer basket in countries with low income levels. Therefore, the impact of food price increases on headline inflation was higher in relatively poorer countries. For instance, food accounted for the bulk of the rise of inflation in Armenia and Georgia in 2021.

A spike in global energy prices was another driver of inflation in countries in the Black Sea region. International prices of crude oil rose more than 60% y/y in 2021, while those of natural gas almost tripled. Additionally, in some countries utility prices ballooned, becoming an important contributor to overall inflation. Price growth in those categories was much higher compared to the rest of the consumer basket. This is another reason to argue that the increase in headline inflation is driven mainly by international price developments rather than domestic inflationary pressures. If we exclude the effects of these one-off supply shocks, inflation will remain high, albeit much closer to central banks' targets in most countries.

Figure 2. Supply shocks are important determinants of inflation



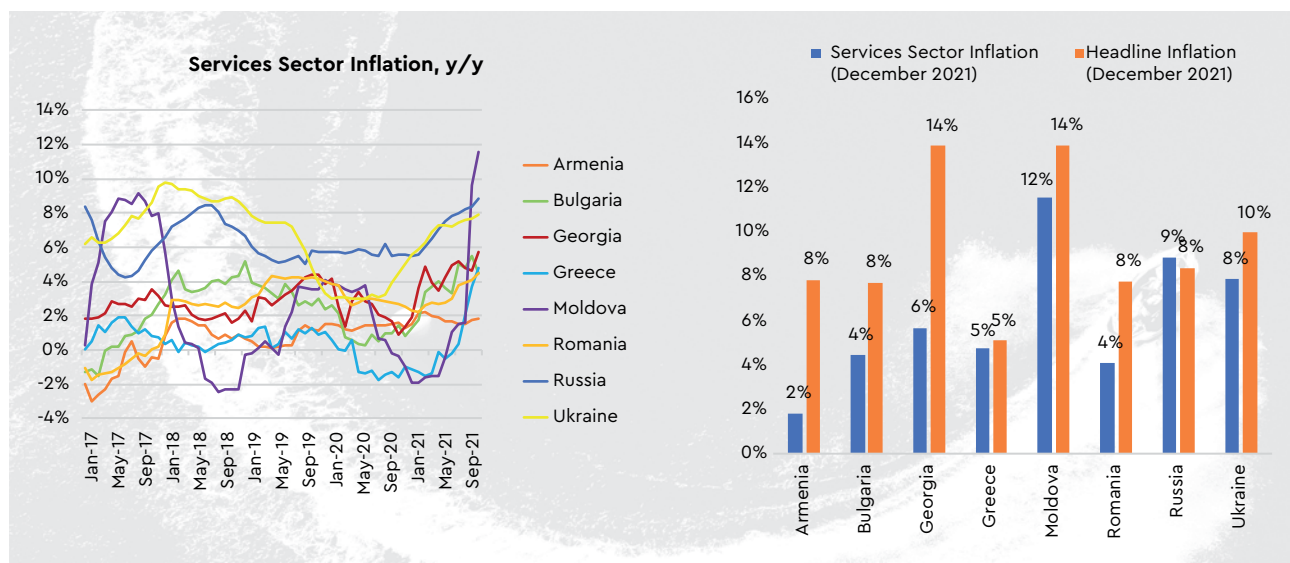
Source: National statistics offices



## Inflation in Services Sector and Wage Pressures

An important indicator that could capture the underlying trend of inflationary pressures, is the inflation in the services sector or the non-tradable sector, in which price dynamics depend more on domestic supply demand interaction rather than on global factors. In most BSTDB member countries, services inflation is lower than the headline inflation and hovers around central bank target rates. This indicates that the high headline inflation is driven mostly by exogenous factors. Exceptions to this trend are Russia, Ukraine, and Moldova, with high inflation also in the non-tradable sector. Another exception is Türkiye where large price increases were observed in a wide range of categories indicating that underlying domestic inflationary drivers exist in addition to exogenous price pressures.

**Figure 3. In most counties inflation in non-tradable sector shows lower underlying inflationary trend<sup>4</sup>**



Source: National statistics offices

It should be noted that like headline inflation, services sector inflation was subdued in 2020, creating a low base effect for 2021 readings. If we correct for this base effect, however, services inflation would remain low, thus suggesting minor domestic pressures on inflation. Although the current services inflation may not be worrisome, it needs to be carefully monitored in order to observe whether the trend is increasing.

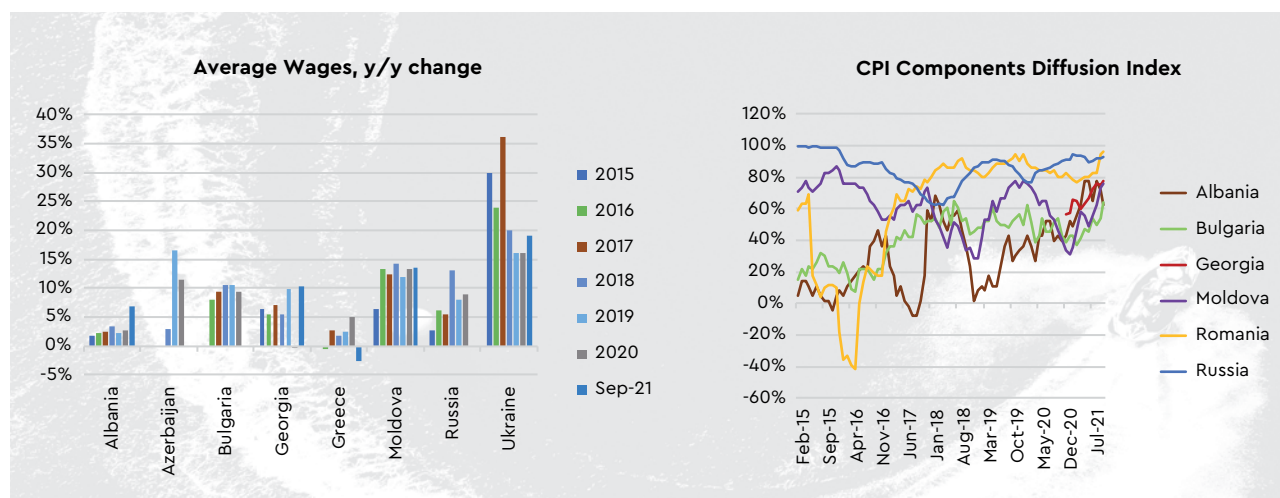
Under normal conditions, prolonged high inflation drives demand for higher wages, which in turn pushes up production costs and eventually creates additional inflationary pressures. If this process takes hold, the economy may end up in an inflation-wage spiral that may have long-term consequences. Therefore, one way to understand if rising inflation is a result of long-lasting inflationary pressures is to analyze the pace of wage growth and determine how it compares with actual inflation. In terms of wage growth, the picture is quite diverse across the countries in the region. While in some of them the wage growth is limited, in others it reached double-digit rates, which can feed price pressures.

Even though in most countries the data on both services sector inflation and wages does not give strong evidence of the underlying inflationary pressure, price growth is still observed for the largest portion of the CPI categories. The diffusion index<sup>5</sup>, the measure that shows the share of CPI basket components for which prices actually increased, is at one of the highest levels of the last five years in 2021, and serves as a signal for forthcoming inflationary pressures.

<sup>4</sup> For Russia and Ukraine core inflation is used as a proxy for services sector inflation.

<sup>5</sup> The diffusion index - the share of increasing items in the total basket minus the share of decreasing items in the total basket.

Figure 4. Wage growth and diffusion index



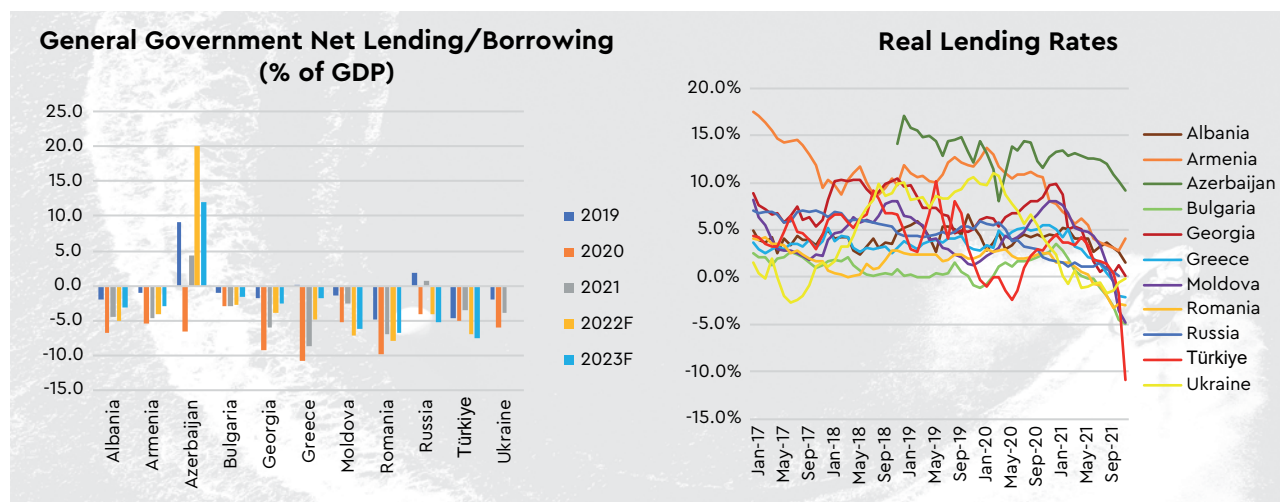
Source: National statistics offices

## Demand-Side Pressures on Inflation

Most countries in the Black Sea Region responded to the pandemic-induced economic crisis with massive fiscal and monetary stimulus in 2020-2021. Budgetary spending was channeled to support the economy and to meet increased healthcare costs. This, coupled with falling tax revenues, widened significantly fiscal deficits in 2020 and 2021. Higher public spending prevented a collapse on the demand-side of the economy at the early stage of the pandemic. It also paved the way for a strong demand-led recovery in later stages and created additional price pressures. However, according to IMF projections from the World Economic Outlook (WEO) report from October 2021, significant fiscal consolidation is projected in the coming years. Countries have committed to bringing fiscal deficits to sustainable levels. This means that in the coming years the demand-side pressures on inflation stemming from the fiscal stance will likely decline.

In nearly all BSTDB member countries, following the pandemic outbreak, there was also an easing of the monetary policies. This, together with rising inflation, pushed down real interest rates<sup>6</sup> on loans and, in some cases, real interest rates turned negative. Lower real lending rates increased demand for new loans, creating additional price pressures. As inflation risks intensified, central banks in most countries began to tighten policies in 2021, ceasing quantitative easing measures and increasing policy rates. Given the track record of most central banks, it is expected that monetary policies will remain tight until inflationary pressures abate. However, it will take time for the lending rates to reflect the increased policy rates. This, in the context of high inflation, means that real lending rates will remain depressed for a while.

Figure 5. Strong demand-side pressures on inflation coming from fiscal and monetary policies



Source: IMF WEO April 2022, national central banks



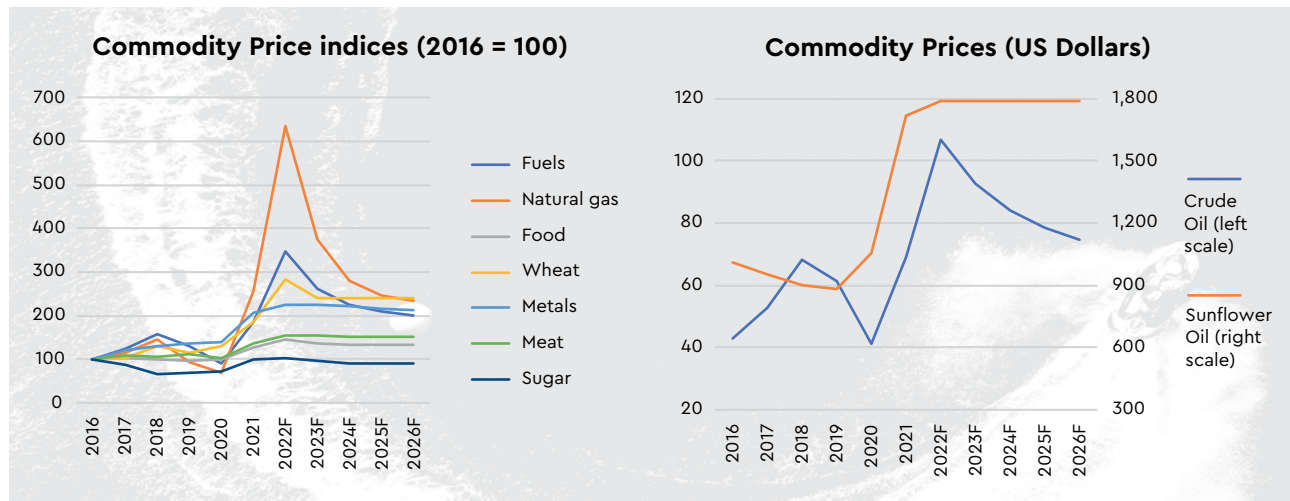
## Outlook for Inflation and Risks

Based on this brief research, it is possible to conclude that the major sources for the surge in inflation in 2021 were primarily global factors such as the increase in international commodity prices. For example, the food price index was up 27% y/y in 2021. Energy and metal prices also soared in 2021, thus contributing to inflation both through higher fuel prices and increased production costs.

According to the latest IMF's WEO projection from April 2022, international prices of food and energy were projected to increase in 2022 and stay elevated in the coming years. After the start of the war in Ukraine and accompanying sanctions against the Russian Federation, commodity prices have risen, in some cases sharply. Since the beginning of 2022, oil prices jumped by more than 30%. Furthermore, Russia and Ukraine are top suppliers of wheat globally, and war related concerns and expectations have pushed wheat prices up by more than 40% since the beginning of the year. Given these factors and uncertainties about the future of commodity prices, there are more upside risks to inflation in the Black Sea Region in 2022 and coming years. However, the extent of the impact is not yet clear due to the high uncertainty.

Exchange rate depreciation has emerged as another major risk for inflation, driven partly by expectations of monetary tightening in the United States and the Eurozone, but also as a result of the war in Ukraine and sanctions imposed against the Russian Federation. After the start of the war, and as a consequence of negative expectations, many currencies in the Black Sea Region came under pressure. Elevated risks and uncertainties will probably continue to have downward pressure on the local currencies in the BSTDB region in 2022, thereby feeding further inflation. To counter the fall, central banks will need to tighten monetary policies by raising rates. While this remains the most reliable way to fight inflationary expectations, it will also have a detrimental impact on growth, and the reduction in economic activity may render fiscal consolidation efforts more challenging.

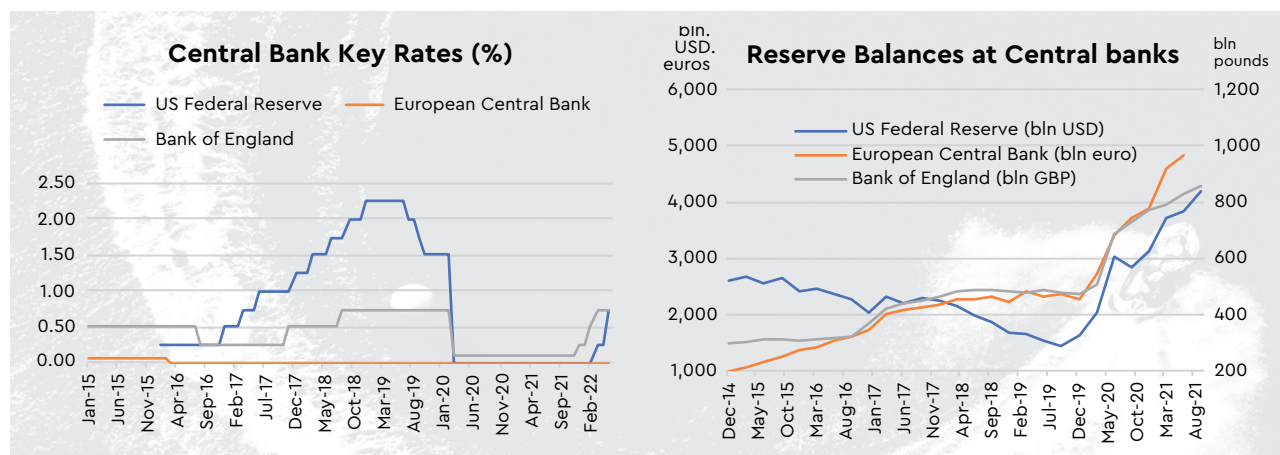
**Figure 6. Commodity prices are expected to stay elevated in coming years**



Source: IMF WEO April 2022

Pressures on the exchange rates and inflation in the Region could also stem from changes in the monetary policies in advanced economies. Before the COVID-19 pandemic, monetary policies in major advanced economies were already loose. In response to the crisis, the US Federal Reserve, the European Central Bank, and the Bank of England undertook additional policy easing through both new cuts in interest rates and implementing Quantitative Easing (QE). Consequently, the key rates for the US dollar, the euro, and the pound sterling approached and even went below zero, while reserve balances held by credit institutions more than doubled since the end of 2019.

**Figure 7. Expected tapering of monetary policies in advanced economies could become a challenge for inflation in BSTDB member countries**

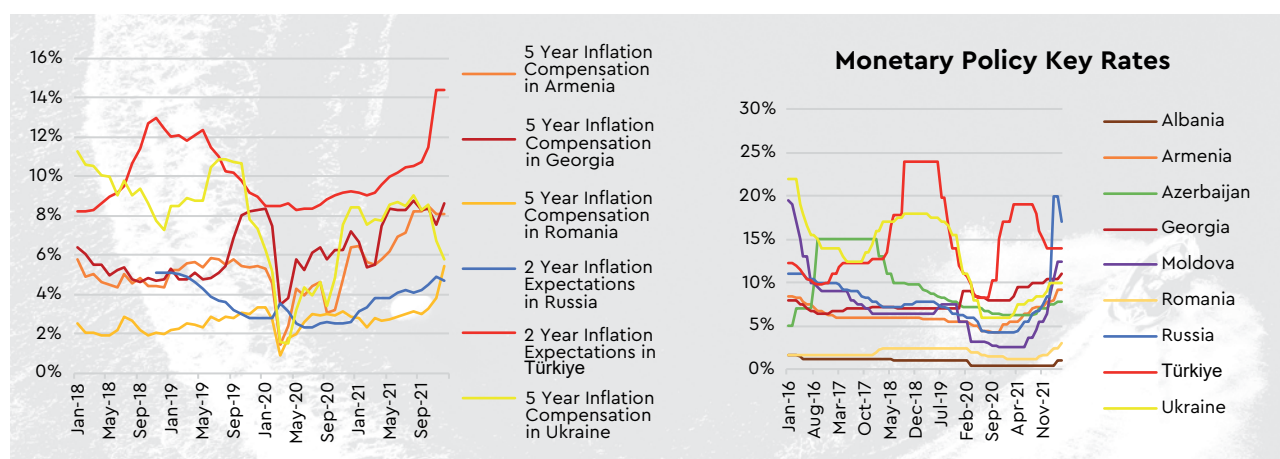


Source: National central banks

However, as advanced economies are also negatively affected by the recent spike of inflation, central banks in these countries have begun reversing their dovish policy stance. In December 2021 and March 2022, the Bank of England raised the official bank rate from 0.1% to 0.75%, while the US Federal Open Market Committee reduced the size of new bond purchases four times since November 2021 and raised the target range for the Fed rate by 75 basis point up to 0.75 to 1.0% in the last two meetings. Expectations for monetary policy tapering in advanced economies further strengthen major reserve currencies. This in turn could become a challenge for emerging economies, as it may trigger currency depreciations. Inflation risks stemming from currency depreciation are particularly challenging in emerging countries with high levels of dollarization of the economy, as it (i) causes an increase in imported inflation and (ii) pushes up inflation through higher debt-service costs for producers and increased inflationary expectations. High dollarization is an issue for many countries in the Black Sea Region and thus currency fluctuations become a challenge for these countries.

Another important determinant of inflation outlook in the region are inflationary expectations, which have risen over the course of 2021 in most countries. This was because of a combination of factors. First, the current surge in inflation covers most of the consumer basket, including frequently consumed items such as food. This, in turn, increases perceptions of consumers for the current inflation and raises expectations for future price hikes. Second, when actual high inflation persists, consumers internalize it and become more backward looking thereby lifting up inflation expectations. In some countries, higher inflationary expectations may be related also to exchange rate depreciation and/or expectations for such depreciation in the future.

**Figure 8. Inflationary expectations increased in 2021 in most BSTDB member countries<sup>7</sup>**



Source: National central banks, author's calculations

<sup>7</sup> For countries where data on inflationary expectations is not available, inflation compensations were calculated following Petra Gerlach-Kristen & Richhild Moessner & Rina Rosenblatt-Wisch, 2017. "Computing long-term market inflation expectations for countries without inflation expectation markets," Working Papers 2017-09, Swiss National Bank.

The spike in inflation in 2021 appeared to be the result of temporary supply-side factors. However, recent price increases in international commodity markets, exchange rate depreciations in the region, and elevated inflation expectations will likely put additional pressure on inflation. Therefore, it is expected that inflation in the region will stay elevated this year. To limit the impact from exchange rate depreciation and to contain inflation expectations central banks have started to tighten monetary policies. So, the medium and longer-term outlook for inflation, will depend on how successful monetary authorities in the countries in the Black Sea Region will be in bringing inflation expectations down.

In the last decade, central banks in the BSTDB member countries have improved monetary policy frameworks significantly and successfully managed to keep inflation under control. Central banks gained credibility, as inflationary expectations remained subdued. Improved central bank credibility, in turn, helped countries in the COVID-19-induced economic crisis, as monetary authorities were able to play a more active role in supporting the economy through both monetary and macroprudential policies. This allowed countries to reduce the socio-economic burden of the crisis. Yet, the recent increase in inflationary expectations is a challenge for central bank credibility. Therefore, most central banks in BSTDB member countries have already started tightening policies. Monetary policies are expected to remain tight in the next year and as long as inflationary expectations are contained.

## Key Findings

The largest part of the rise of inflation in 2021 in BSTDB member countries can be explained by temporary global supply shocks, such as increases in international commodity prices, food, and energy in particular. The low base effect – stemming from the subdued prices in 2020 – also played an important role for the high headline inflation in 2021. To better understand underlying domestic inflationary trends, it is appropriate to analyze the non-tradable or services sector price dynamics, which are driven largely by domestic market forces. Services sector inflation in most countries in the Black Sea Region is still low and hovers around the central bank target rates. Additionally, no strong evidence of wage growth on inflation has been observed in most countries. However, it should be noted that price increases are observed in most of CPI categories that could signal possible inflationary pressure in the future.

Economies in the BSTDB region started to recover in 2021 mainly due to the strong fiscal and monetary incentives implemented by authorities. This, together with the supporting economic recovery, contributed to strong demand-side pressures on inflation. Looking ahead, however, demand-side pressures on inflation are likely to subside on the back of anticipated fiscal consolidation and ongoing tightening of monetary policy across the countries in the region.

However, since the start of the war in Ukraine and sanctions imposed against the Russian Federation commodity prices started to rise again. The latter is expected to have a material impact on inflation development in the region this year. In addition, as a result of increased uncertainty, depreciation pressures in the region intensified, which, in turn, fuels inflation and feeds into higher inflation expectations as well. Central banks in most countries in the Black Sea Region have already started to tighten monetary policies to mitigate the impact from exchange rate depreciation and inflation expectations, but monetary policies cannot fully neutralize the impact on inflation stemming from international commodity prices.

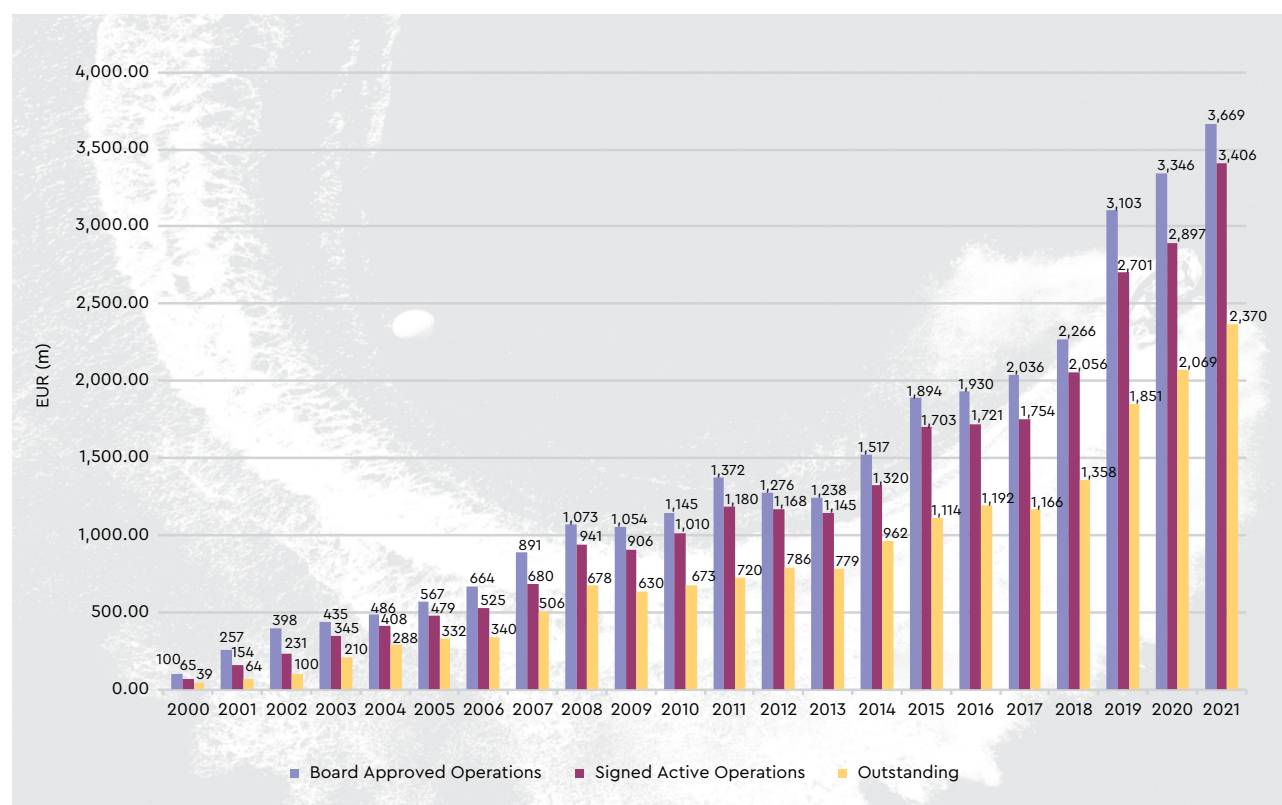
# BSTDB

## in the Black Sea Region

### Portfolio Description

Since the beginning of operations in June 1999, the Bank has approved 473 operations amounting to about EUR 8.3 billion. Throughout this period, there were 419 signed operations for a total signing amount of EUR 7.1 billion. A total of 345 operations for about EUR 5.3 billion were repaid. At end-2021, there were 136 operations in the total portfolio outstanding balance for EUR 2.37 billion.

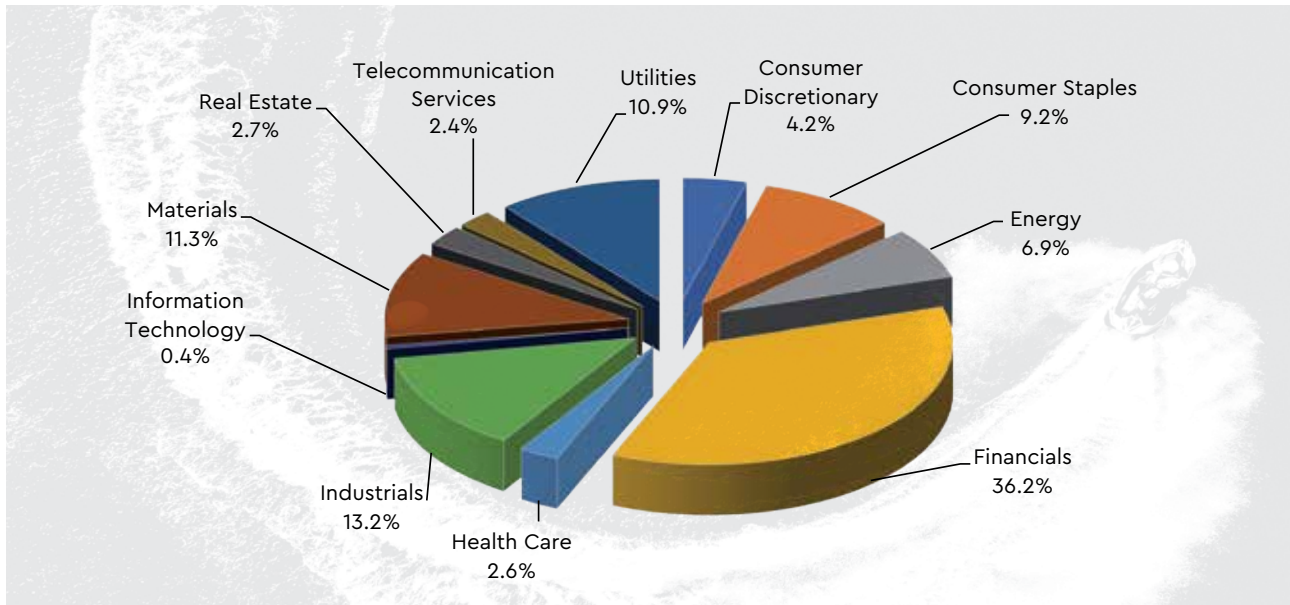
### BSTDB Portfolio Development 2000-2021



Source: BSTDB



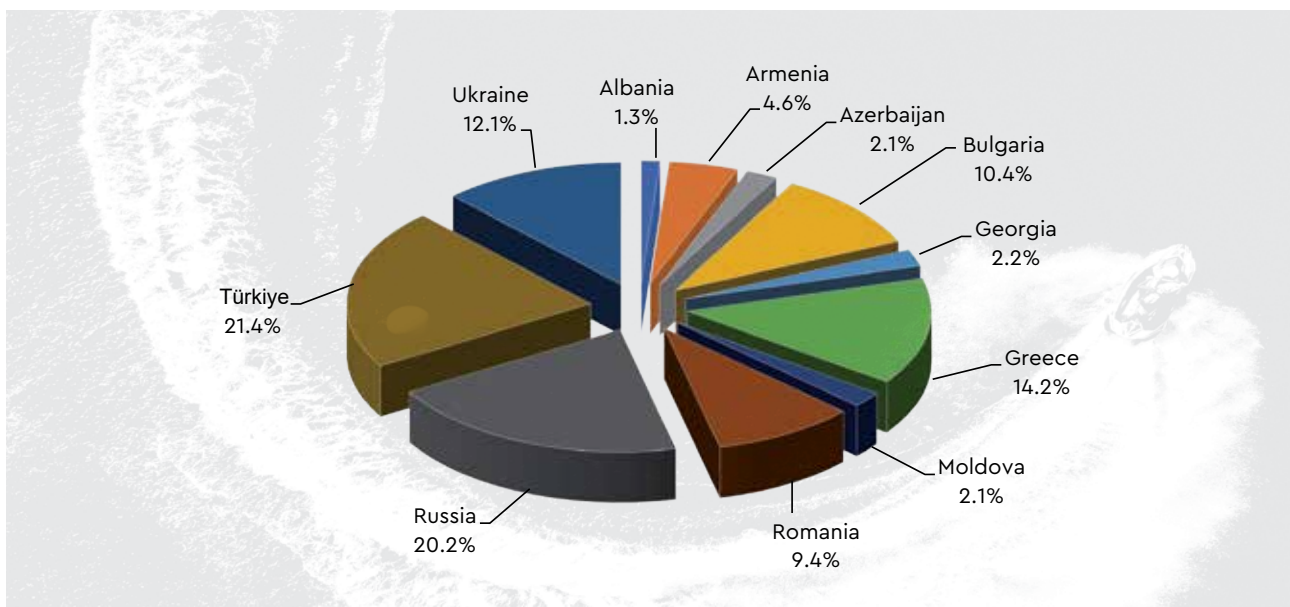
## Cumulative Signed Operations by Sector



Source: BSTDB

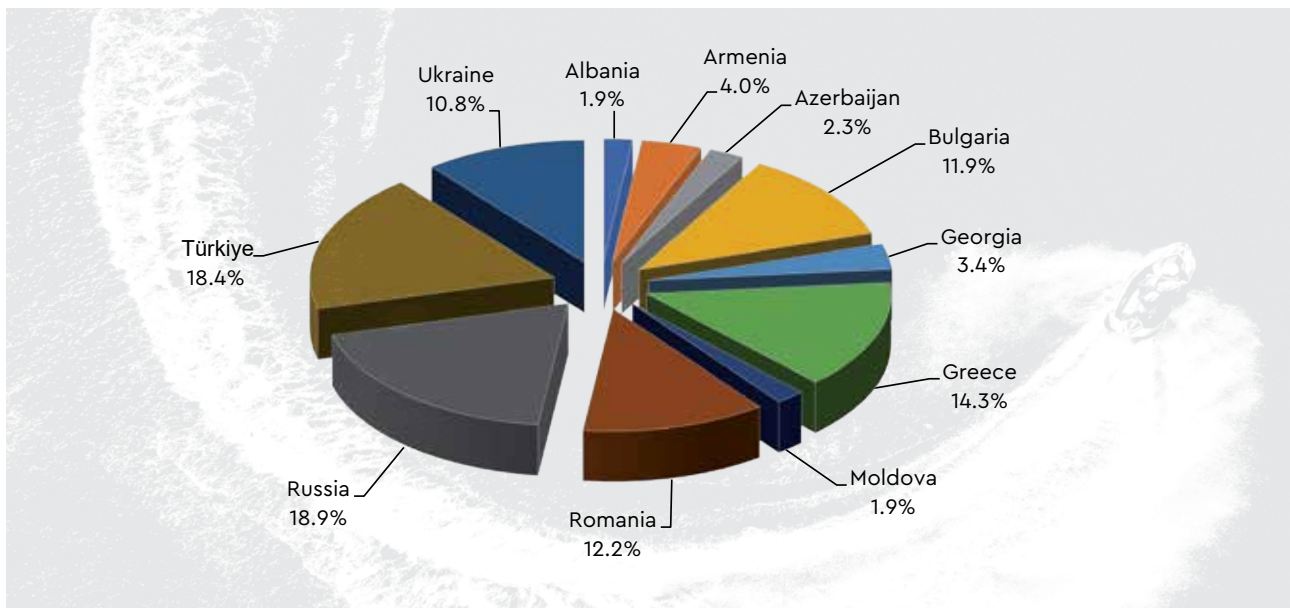
As of end-2021 the outstanding operations of the Bank (cumulative disbursements less repayments for active operations) represented EUR 2.37 billion, distributed by country as per the following graph:

## Outstanding Operations by Country



Source: BSTDB

## Active Signed Operations by Country



Source: BSTDB

## 2021 Portfolio Developments

In 2021 the Board of Directors approved 29 new operations for a total of EUR 733.9 million. Thirty-two operations were signed for a total of EUR 820.7 million. As a result, the Bank had 136 outstanding operations to 109 clients at the end of 2021.

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, industrials, utilities, materials, consumer staples and health care. 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 equity funds represented a further 1.09% of the outstanding portfolio.

Enhanced effort was put into increasing the share of the real (i.e. non-financial) sector, which reached 77.1% of outstanding portfolio at year-end. Half of the new approvals in 2021 went to the real sector. The sectorial structure was well diversified, with projects originating from various industries and economy sectors: energy, agribusiness, transport & public utilities, financing small and medium enterprises, leasing, trade finance etc.

## Co-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 2021, 53.6% of signed portfolio was co-financing. In terms of total signed active portfolio in the amount of EUR 3.4 billion, 48.7% of operations are co-financing. The share of co-financed active operations to total portfolio outstanding balance is 55.3%.



# Selected BSTDB Financings in 2021

## GEK Terna Bond (Greece)



The Bank has invested EUR 30 million in a sustainability-linked bond issued on the Athens Stock Exchange by GEK TERNA, a leading infrastructure and energy group in Greece. The proceeds of the BSTDB subscription shall be mainly used for the financing of business activities in infrastructure, energy, industrial and real estate sectors.

GEK TERNA's seven-year EUR 300 million bond will substantially support Group's extensive investment programme and growth plans. It will also contribute to the dynamic recovery of the Greek economy and to the adoption of environmental principles and their inclusion in daily lives.

It is the first sustainability-linked bond issued in the Greek market, indicating the Group's strong commitment to contribute to the effort against climate change.

GEK TERNA, with its strong social footprint, takes initiatives that enhance employment protection and have positive impact on the quality of daily life, in green growth, and sustainable development. The participation of the Bank in this landmark issuance strengthens the local capital market and promotes the green economy, while underlining BSTDB commitment to align its financing with the environmental, social and governance (ESG) goals of its member countries.

BSTDB approved amount:	EUR 30 million
Total Operation cost:	EUR 300 million
Type of financing:	bond
Maturity:	7 years

## TRANS-OIL GROUP (MOLDOVA)



In 2021 BSTDB continued to support Trans-Oil Group to expand its activity in Moldova and Romania. The Bank participated with USD 22.25 million in the second issue of Eurobonds of the Group and continues to extend pre-export financing (PXF) for another USD 25 million for the agricultural years up until 2023. The proceeds of the PXF loan are used to finance the Group's seasonal working capital needs associated with origination, primary processing, storage, and transportation of agricultural commodities sourced in Moldova and their subsequent export to other countries.

Trans-Oil Group, established in 1996, is a market leader in the origination and trading of grains and oilseeds in the Black Sea region. The company has developed into a group with an impressive global network of clients, specifically focusing on Europe, Southern Mediterranean, Türkiye, and North/West Africa.

The importance of this operation for BSTDB as a regional development institution, stems from its positive impact on growth, export and employment, as well as from the strategic position of the agricultural sector for Moldova. The operation is consistent with the priorities set in the BSTDB Country Strategy for Moldova, by supporting a leading private Moldovan group in expanding exports of agricultural produce. Trans-Oil Group is the first Moldovan company to issue Eurobonds, thus diversifying its financing means.

BSTDB approved amount:	USD 22.25 million and respectively USD 25 million
Total Operation cost:	USD 500 million and respectively USD 145.5 million
Type of financing:	bond and respectively loan
Maturity:	5 years and respectively two years, revolving

## Energean Oil & Gas S.A. II (Greece)



Following the successful start of the cooperation in 2018, BSTDB will provide a loan of up to EUR 90.5 million to Energean Oil and Gas S.A. (Energean), the only Greek oil and gas exploration and production company. The loan proceeds will fund Energean's investment plans, in particular the development of the Epsilon and Prinos fields and will finance the working capital needs of the company and the finalization of structural expenditures in the Prinos infrastructure complex.

The project will create jobs for suppliers of goods and services in the drilling and construction industries, for key Greek businesses amidst the on-going COVID-19 pandemic.

The project shall also assist the Hellenic Republic to develop exports, will contribute to the development of the local economy, boosting investment and generating additional tax and royalty revenues for the state budget.

The project will be co-financed by a EUR 9.5 million loan from the Greek State subordinated to the BSTDB facility, besides the EUR 90.5 million financing to be granted by BSTDB.

BSTDB approved amount:	EUR 90.5 million
Total Operation cost:	EUR 100 million
Type of financing:	loan
Maturity:	95 months



## One United Tower (Romania)



A EUR 50 million loan was approved for One United Tower S.A. to finance the development costs of “One Tower”, a green office building which is part of the newly developed “One Floreasca City” mixed-use complex located on a formerly abandoned industrial site in the Romanian capital. The “One Tower” building is part of a larger urban rejuvenation project involving also a residential component and aiming to get WELL global certification for people health and well-being. It has already received LEED Platinum-4 green certification, the world’s strictest environmental standard for buildings.

The project represents a major investment in the Romanian construction sector amidst the pandemic and will enhance the offer of quality business infrastructure in Bucharest. The loan supports the efforts of One United Properties group to accelerate the adoption of innovative construction practices for energy-efficient, sustainable, and healthy buildings. The group has been repeatedly awarded for the sustainability of their projects, something the Bank seeks to support and promote as a development institution.

BSTDB approved amount:	EUR 50 million
Total Operation cost:	EUR 54 million
Type of financing:	loan
Maturity:	11 years

## Ameriabank SME Loan (Armenia)

Within the scope of cooperation between Ameriabank CJSC and BSTDB, almost EUR 23 million were channeled in 2021 to small and medium-sized enterprises (SMEs) in Armenia. This loan is already the third credit facility signed between BSTDB and Ameriabank for supporting SMEs, the backbone of the Armenian economy.

This new 5-year loan will help SMEs to overcome the challenges brought by the COVID-19 pandemic and boost their revenues. Ameriabank, as the leading financial institution in Armenia, has committed to utilize the funds from BSTDB to tailor lending products which will not only support local SMEs but also promote financing of women-led enterprises and green projects.

Since the year 2014 BSTDB has provided approximately USD 50 million to Ameriabank to facilitate SMEs access to finance and hence support the development of the Armenian economy.

BSTDB approved amount:	EUR 22.95 million
Type of financing:	loan for SMEs
Maturity:	5 years



## Fondi Besa MSME Loan (Albania)



Based on the longstanding fruitful cooperation with Fondi Besa, a leading non-banking provider of loans to micro, small and medium-sized enterprises (MSMEs) in Albania, the Bank extended the fourth MSME loan of EUR 6 million to Fondi Besa for on-lending to micro and small enterprises across the country, focusing especially on companies outside large cities.

Micro, small and medium enterprises account for almost 90% of Albania's economy and represent the country's engine of growth and development. This new BSTDB loan to Fondi Besa complements the Bank's on-going support to key areas of the Albanian economy, such as agribusiness, manufacturing and services industry.

The BSTDB cooperation with Fondi Besa dates back to 2014. Since then, the Bank has provided financing totaling EUR 21 million in aggregate, thus offering to thousands of people access to financial means to start or extend their business activities and hence promoting job creation and contributing to the economic development of the country.

BSTDB approved amount:	EUR 6 million
Type of financing:	loan for MSMEs
Maturity:	3 years

## Basibank Dual Currency SME Loan (Georgia)

BSTDB extended a 3-year dual currency loan of USD 5 million and EUR 5 million to its partner bank Basisbank, to fuel the support to small and medium-sized enterprises (SMEs) in Georgia. Basisbank will channel the funds to domestic SMEs, to finance their investments, working capital needs and enhance their trade activity.

BSTDB's partnership with Basisbank began in 2012 with a revolving trade finance credit line that allowed Basisbank to provide over the years a total of USD 113 million to Georgian exporters and importers. Besides this trade finance facility, in 2016 BSTDB provided the first SME credit line to Basisbank, amounting to USD 5 million, which was followed by a dual currency USD 10 million/EUR 5 million SME facility in 2019. This is the third SME facility to a trusted longstanding partner bank of BSTDB, demonstrating the strong cooperation between the two institutions and the joint commitment to facilitate the development of SME businesses in the country by expanding their availability of financial support.

BSTDB approved amount:	USD 5 million and EUR 5 million
Type of financing:	loan for SMEs
Maturity:	3 years

## TURANBANK SME LOAN (AZERBAIJAN)



Building on the long-standing fruitful partnership between Turanbank and BSTDB, the Bank extended a new local currency loan of AZN 10 million to Turanbank for on-lending to Azerbaijani businesses. This new financing will assist Turanbank towards enhancing the availability of funding to small and medium-sized enterprises for their production and investment programs, as well as for their working capital needs.

This is BSTDB's second SME loan in local currency to Turanbank, after the successful utilization of the first facility provided in 2019, which reached over 3,000 SMEs in the country. BSTDB started the cooperation with Turanbank in 2011, having extended so far two trade finance credit lines and two SME facilities.

BSTDB approved amount:	AZN 10 million
Type of financing:	loan for SMEs
Maturity:	2 years

## National Guarantee Fund: First BSTDB Portfolio Guarantee Program for Financial Intermediaries (Bulgaria)

As part of the strategic partnership with the national institutions in the BSTDB Member States, the Bank entered into a Framework Agreement for Pandemic Crisis Response Program with the National Guarantee Fund in Bulgaria.

The Program offered jointly by the National Guarantee Fund and BSTDB will provide portfolio guarantees to commercial banks in Bulgaria in support of their lending to Small and Medium-sized Enterprises (SMEs) and will mobilize up to EUR 75 million of new financing, which can support about 250 SMEs in the country.

The Program is part of BSTDB strategic allocation of resources in response to COVID-19 crisis and will facilitate access to finance for SMEs, particularly during this critical time for the economy. Participating in the Program will give BSTDB the opportunity to provide diversified support to the financial sector in Bulgaria.

This is the first portfolio guarantee program for financial intermediaries offered by the Bank in support of the economic activity in the BSTDB Member States and is expected to be an important experience for future scaling up, including through cooperation with national development institutions in the Black Sea region.

BSTDB approved amount:	EUR 22.5 million
Type of financing:	guarantee
Maturity:	5 years

## AK Lease SME Loan (Türkiye)

Ak Finansal Kiralama A.Ş. (AK Lease) has been a financial intermediary partner of BSTDB since 2017, when the first leasing facility for Small and Medium-sized Enterprises (SMEs) was provided, in the amount of EUR 20 million. Nearly 200 Turkish SME clients of AK Lease received leasing financing from the proceeds of this first BSTDB facility.

The new USD 35 million leasing financing facility signed in 2021 builds on the successful implementation of the first loan and expands further the cooperation between BSTDB and AK Lease. Enhancing the SMEs access to finance and offering support for COVID-19 pandemic relief are the main objectives of this loan. The new financing will enable AK Lease to increase the availability of funds to SMEs, thus facilitating their investment in machinery, equipment and business vehicles, amid the pandemic during which access to finance is scarce because of the challenges in their operating environment. The BSTDB anticipates that about 500 SMEs would be able to benefit from these funds.

A key priority for BSTDB remains the provision of financial support to 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, including: employment creation, increased exports and enhanced competitiveness, higher tax revenues driven by increased economic activity, and positive multiplier effects in other sectors of the economy.

BSTDB approved amount:	USD 35 million
Type of financing:	loan for SMEs
Maturity:	5 years



# Addressing Climate Change and Sustainability

## The Approach

Climate Change and sustainability are addressed by BSTDB through the operations it finances, and the principles it follows. Thus, pollution prevention and mitigation, respect for fundamental human rights in the working environment; tackling climate change; protection of the Black Sea against pollution; efficient use of natural resources, protection and conservation of biodiversity; disclosure of information on environmental and social performance of its operations; and engagement in open dialogue with stakeholders, are all key principles that form the sustainability approach of BSTDB.

## Climate Change

Climate change affects the natural environment and human wellbeing through loss of ecosystems and their services, threats to water and food security, deterioration of man-made capital, and ability of economies to sustain growth and alleviate poverty. Thus, climate change threatens development, and combating it is an unprecedented global developmental challenge.

Over the years, BSTDB supported operations with positive climate impact, but it can play a more notable role in addressing this global issue. At the same time the Bank recognizes that climate change poses new challenges to fulfilling its mandate and remaining meaningful, relevant and effective for its shareholders.

While aware of the pandemic-related lingering economic exigencies and uncertainties, in March 2021 the Board of Directors approved the Bank's first Climate Change Strategy. The Strategy represents the vision and approach of BSTDB in addressing climate-related issues over the next ten years and beyond, and defines a more purposeful role for the Bank in supporting its shareholders to both mitigate and better cope with the impacts of climate change. By way of the document the Bank intends to better align its financing with the Member States climate priorities and commits to achieve the following three strategic objectives: 1) to gradually reduce net emissions in the portfolio by setting periodic emission targets aiming at achieving zero net emissions by 2050; 2) to gradually increase the share of its funding to climate positive operations and operations with climate co-benefits to at least 30 percent; and 3) to build capacity to better serve Member States' public and private sector actors in mitigation and adaptation efforts.

In successfully meeting these objectives BSTDB will develop a comprehensive implementation plan, which will systematically address climate issues at both strategic and operational level. GHG emission reduction is a crucial part of climate mitigation, and the Bank will strongly support future such efforts. Renewable energy investments, energy and resource efficiency, sustainable infrastructure, green buildings and electric transport systems will be among BSTDB's financing priorities. At the same time the Bank will gradually phase out support for carbon-intensive sectors.

Raising additional capital and exploring new sources of finance are central to fulfilling the Bank's strategic objective of mobilizing more capital for climate financing. BSTDB will seek to build a solid portfolio of green operations thus building expertise as well as gaining credibility. This will help attract more capital, including through green and climate bonds following the prevailing standards, access grants and technical assistance for project preparation needs, and contract concessional loans from climate funds.

BSTDB will build capacity to support and enhance mitigation and adaptation in both existing and new operations, either internally or by targeted outsourcing. This especially applies to vulnerable sectors such as construction and real estate, coastal infrastructure, agribusiness, mining, water-intensive sectors and utilities. These efforts will be made possible by both updating the Bank's assessment frameworks to account for climate risks as well as strengthening the due diligence process to identify and manage more accurately the climate change impacts on its operations. Using tools like carbon accounting methods and disclosure of the carbon intensity of its portfolio will help track and measure progress towards achieving the Bank's strategic goal.

BSTDB will seek balance on the issue of coal, by adhering to international best practices and trends, while respecting the sector's importance to its shareholders. This means that financing will be open for increased sustainability, or re-purposing of current operations. Similarly, considering the low carbon nature of nuclear energy and the fact that many



of the Bank's Member States see it as an effective way to achieve the emissions targets of the Paris Agreement, BSTDB will, under certain conditions, be prepared to finance such operations in cooperation with larger and more experienced MDBs. In doing so the Bank developed and embedded strict safety standards into its risk assessment framework, as well as comprehensive nuclear screening guidelines and due diligence requirements.

The Bank will periodically review and adjust the implementation plan so that it contributes effectively to achieving the Climate Change Strategy's goals and objectives. BSTDB will ensure the relevance of the Strategy itself through a mid-term review in 2025, followed by necessary adjustments. Overall, the Strategy will help the Bank contribute more effectively to meeting the needs of its Member States in reducing emissions, shifting to low carbon economies, and becoming more resilient to the impacts of climate change, and thus fulfilling its mandate in a more meaningful and relevant manner in the years to come.

## Environmental and Social Due Diligence

BSTDB screens all its prospective operations into A, B+, B, C and FI categories, depending on the associated potential environmental and social risks and impacts, and the scope of the environmental and social due diligence necessary to identify, assess and mitigate these risks and impacts. The due diligence of operations financed directly by BSTDB, depending on relevance in each specific case, focuses on such issues as the environmental and social management applied by the Borrowers; labor and working conditions and how people are treated in the working environment; the applied pollution prevention and abatement measures and how efficient the resources are being used; potential risks on the local communities, their health, safety and security; issues related to land acquisition, involuntary resettlement and economic displacement; impacts on biodiversity, ecosystem services and sustainable use of living natural resources; protection of any cultural heritage; and potential risks and impacts on Indigenous Peoples if present in the area of influence of the operation.

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

Category A operations are subject to Environmental and Social Impact Assessment (ESIA) process and require meaningful consultation with the public that may be affected by such operations. This includes setting of procedures for public notification, disclosure of related information about the operation before it may be considered by the BSTDB's Board of Directors, its potential environmental and social risks and impacts, public review and comment.

## Environmental and Social Standards and Compliance Requirements

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

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

## Public Disclosure of Environmental and Social Information

As an integral part of BSTDB's sustainability approach the Bank informs the public in a transparent and timely manner about the environmental and social aspects of its operations. This information is posted on the Bank's website as Operation Summary Documents (OSDs) and includes general information about the operation financed, as well as information on environmental and social screening, the potential risks and impacts, and how these will be addressed. OSDs are disclosed to the public after such operations are approved by the Bank's Board of Directors.

Category A operations are disclosed to the general and/or interested public before these are presented to BSTDB's Board of Directors for consideration. The operations in the private sector are disclosed not later than 30 calendar days before the Board of Directors meeting, and the operations in the public sector at minimum 60 calendar days before considered for approval. The environmental and social information related to Category A operations is disclosed on the Bank's website and is open for public comments.

## Monitoring and Institutional Aspects

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

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

## International Cooperation

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

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

# Annual Evaluation Overview

## independent ex-post evaluations

### A. Introduction

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

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

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

The annual evaluation overview presents a synthesis of the findings of the Bank's evaluated operations over the past 20 years, focusing on BSTDB's mandate fulfillment during the latest 5-year period. 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.

### B. Independent Evaluation: Methodology and Adherence to Highest IFI Standards

The BSTDB Evaluation Policy commits the independent evaluation to Good Practice Standards on Evaluation, as maintained by the Evaluation Cooperation Group (ECG) of the Multilateral Development Banks (MDBs). These standards, *inter alia*, ensure the organizational and behavioral independence of the evaluation function, safeguarding the important accountability role of the evaluation to the Boards of Directors/Governors. The Independent Evaluation Office officially became an observer at ECG in 2010 when it started to maintain pro-active role in enhancing and applying the respective MDB-specific standards in independent evaluation. In 2012 and 2013, the ECG performed a comprehensive peer review on the BSTDB's Evaluation Office, assessing its methodology, rigor and overall practice against the respective MDB standards. The review concluded that BSTDB meets the key standards on evaluation independence and made 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 MDB standards in evaluation.

The current evaluation overview provides an overall picture of BSTDB performance over the period of 2000-2021, with a highlight of the latest trends and developments (2017-2021), based on the analysis of 153 evaluations of completed operations and a dozen of related evaluation studies.

The analysis covers 20 years of BSTDB operations grouped into four five-year periods, to smooth-out annual fluctuations, as required by the applicable evaluation methodology. The 2017-2021 data is compared with the target of reaching 70% positively performing sample of evaluated operations set in the Bank's previous and current Medium-Term Business Plans.

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

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

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

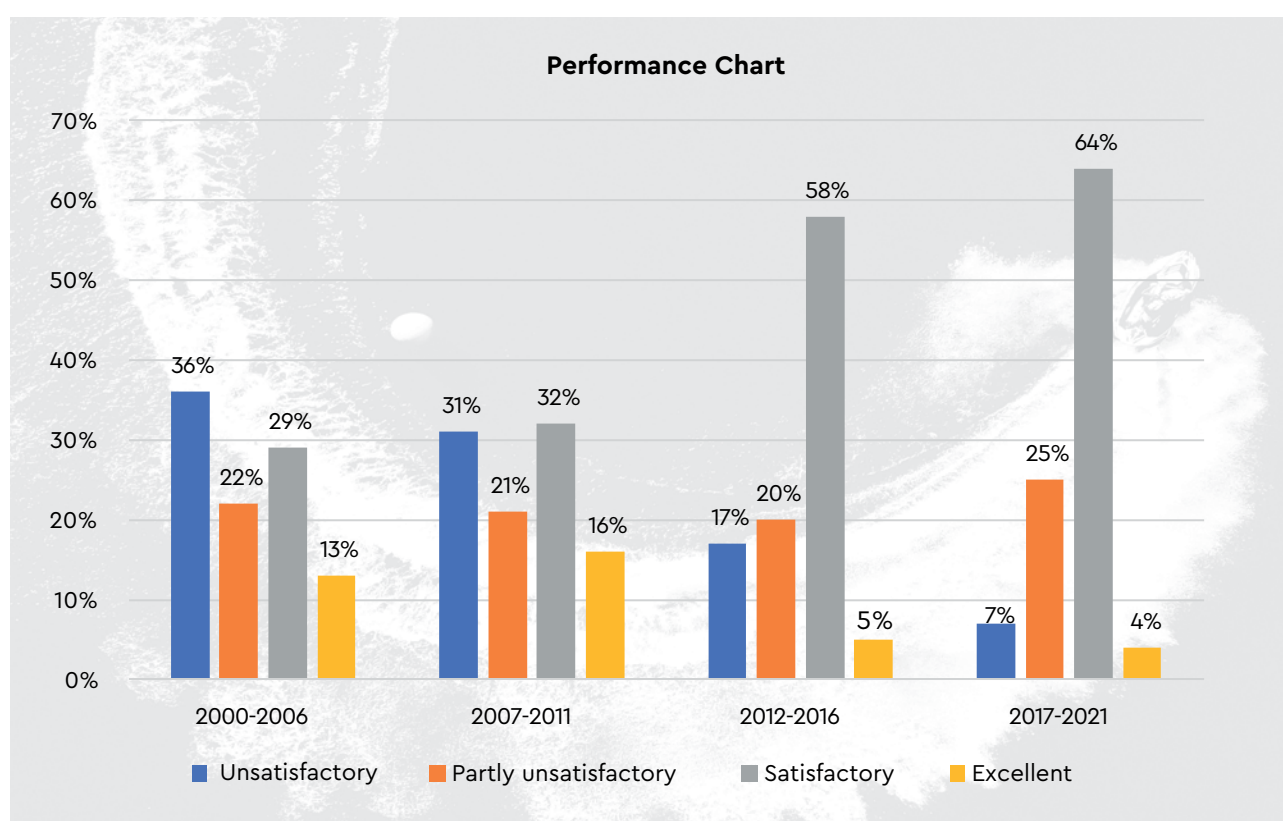
## C. Performance of Evaluated Operations

### C.1 Overall Performance

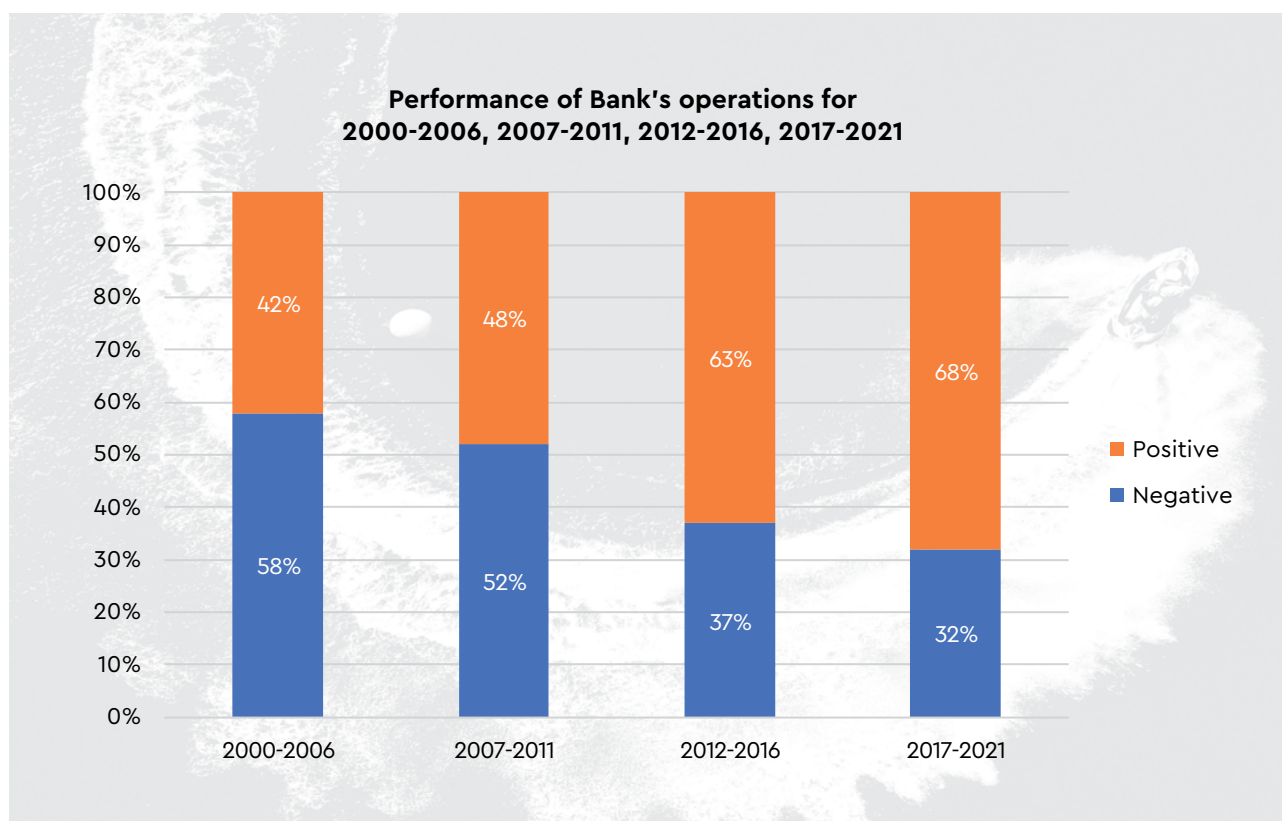
In the latest aggregate period (2017-2021) BSTDB's positively rated operations represent 68%, that is 2 percentage points below the target of 70%, set by the Bank's Medium-Term Strategy. In broader terms, the latest 5-year period reveals a positive trend compared to previous 5-year periods (upwards from 42% in 2000-2006, 48% in 2007-2011, and 63% in 2012-2016).

On the upper end of the ratings, the share of "Excellent" declined from 5% in 2012-2016, to 4% in 2017-2021.

The share of BSTDB operations rated negatively (Partly Unsatisfactory or Unsatisfactory), indicates structural improvement, as the lowest-rated share (Unsatisfactory) decreased from 17% in 2012-2016 to 7% in 2017-2021.





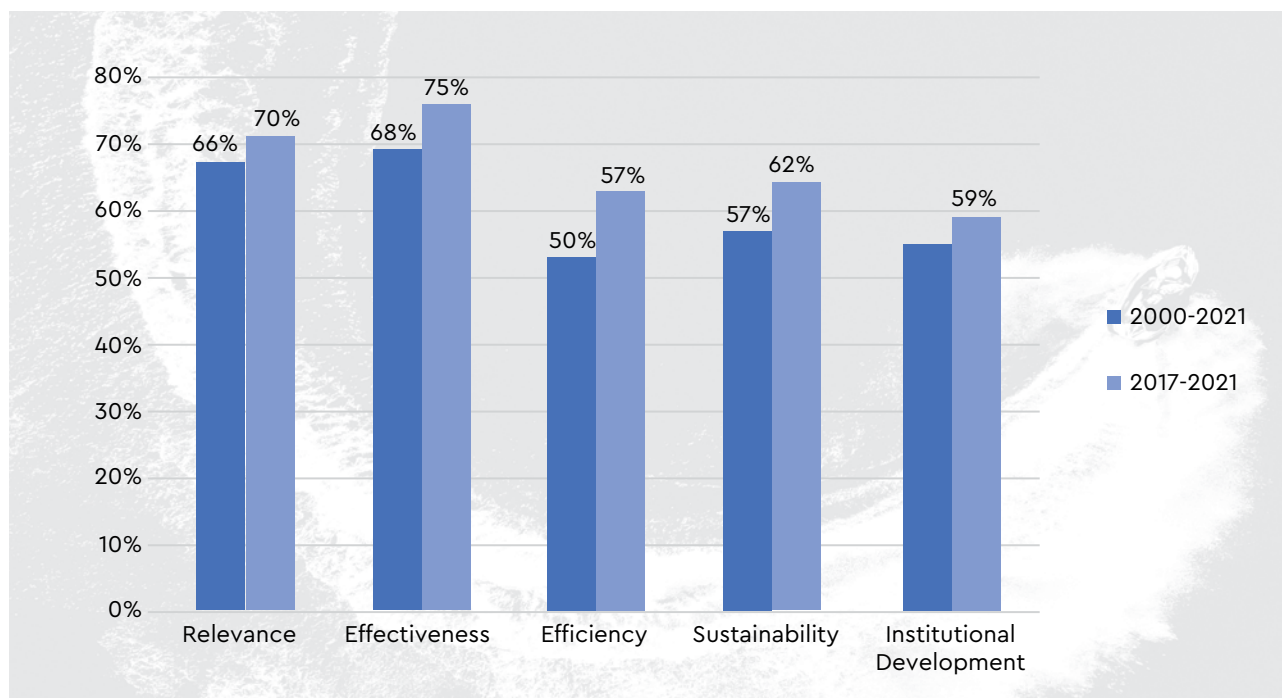


### *C.2 Relevance, Effectiveness, Efficiency, Sustainability and Institutional Development*

A more analytical review of the evaluation ratings under each of the five criteria (*Relevance, Effectiveness, Efficiency, Sustainability* and *Institutional Development*) is helpful to understand the broader picture, as well as where the Bank needs more efforts, to enhance overall performance. An outline of the share of positively rated operations, out of all 153 evaluated operations since 2000, indicates that performance on Relevance and Effectiveness is within the 70% target while the other 3 criteria require some attention:

- Relevance of operations – 67% (2000-2021) and 71% (2017-2021) positively rated
- Effectiveness – 69% (2000-2021) and 76% (2017-2021) positively rated
- Efficiency – 53% (2000-2021) and 63% (2017-2021) positively rated
- Sustainability – 57% (2000-2021) and 64% (2017-2021) positively rated
- Institutional Development – 55% (2000-2021) and 59% (2017-2021) positively rated

## PERFORMANCE DETAILS: 2000-2021



## D. Key Performance Indicators

Since 2016, the Independent Evaluation Office oversees the key Performance Indicators (KPIs), approved by the Board of Governors as part of the Bank's Medium-Term Strategy and Business Plan. While there are various indicators, the overview has a focus on the composite indicator of Mandate Fulfilment as it is fundamental for the Bank's role and mission. The target for this indicator is to maintain a share of 70% or higher of ex-post evaluated operations to rate positive on overall performance (combined *Relevance; Effectiveness; Efficiency; Sustainability and; Institutional Development*). As already noted, this share for the last 5-year period stands at 68%- very close but just below the target.

## E. Independent Validation of Self-evaluation Reports

The Bank's Operation Teams prepare self-evaluation reports on each operation (Operation Completion Reports- OCRs). The Independent Evaluation Office's normally issues performance ratings that differ relative to the ratings assigned by the operation teams in the respective OCRs. The divergence between the OCRs and the independent evaluations, expressed in binary terms (i.e. reflecting only the cases where the independent evaluation resulted in a change from positively rated self-evaluation to negatively rated<sup>8</sup>, or vice-versa) is as follows:

- The overall OCR performance ratings issued during 2017-2021 were validated by the independent evaluation without change in 68% of the cases.
- For the same period, the OCR ratings that were upgraded and downgraded by the independent evaluation were 0% and 32% of the total, respectively.

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

## F. Benchmarking with Peer IFIs

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

Since 2008 BSTDB maintains its performance generally in line with the comparable MDBs. The evaluation reveals 20 years of growth and improvement, within set targets, with some deviations. A typical recurring challenge is the side effect of volume-dominated incentives. Here a reference is made to the phenomenon known as “approval culture” - focusing on volumes of new operations with less effort on the quality and sustainability, hence eroding the development dimension, as well as related waves of premature cancellations.

The last 5-year data place the Bank within the average performance range among MDBs.

## G. 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.

## H. Conclusion

There is a consistent upward trend, with latest results (68%) being just below the target of 70% positively rated operations set in the Bank’s Medium-Term Business Plan. The evaluation reveals that more efforts should be devoted to operations’ efficiency, sustainability and institutional development, the latter referring mostly to enhancing the corporate governance.

Since 2008 BSTDB maintains its performance generally in line with the comparable MDBs, indicating certain advantages and lags such as waves of operation cancellations in certain periods, affecting the evaluation ratings downwards. The Bank will continue to perform peer benchmarking, both generally and with a particular focus, in order to stay abreast of good practice and latest developments in development finance.

# Institutional Activities

## Human Resources

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

### HR Development

In spite of the objective difficulties posed by the COVID-19 realities, the year 2021 was marked by the improvement of certain important HR policies. More specifically, important modifications were made to the Bank's Recruitment and Appointment Policy, Benefits and Allowance Policy, and Procedures for the Internship Program. A fully revised Performance Management Policy was adopted.

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

The modifications to the Bank's Benefits and Allowance Policy concentrated on streamlining the administration of certain important allowances, and fine-tuning the relationship of the benefits offered under the Policy with the ones described in the Bank's Headquarters Agreement.

The modifications to the Bank's Recruitment and Appointment Policy were aimed at streamlining and facilitating the recruitment process taking into account the overall lessons learnt from the recruitments conducted under COVID-19 limitations.

The modifications to the Bank's Procedures for the Internship Program concentrated on the incorporation of the relevant implementation experience in the part of Internship Program eligibility criteria, application process and maximum duration.

The revision of the Bank's Performance Management System has provided meaningful and precise tools for the evaluation of the Institutional and Departmental performance, through monitoring, measuring and evaluating the achievement of strategic goals and operational targets, with a view to fulfilling the Bank's mission and mandate. The revised Policy is placing a specific emphasis on managerial discretion for the distribution of individual bonuses within the Departmental bonus pool, the size of which is directly linked to Departmental performance.

### Staffing and Recruitment

The BSTDB conducts recruitment on a wide geographical basis. While preference is given to citizens of the Member Countries, recruitment is competitive and is based on the professional qualifications of the candidates. In the course of 2021, in spite of the COVID-19 limitations, the Bank managed to finalize recruitments for 6 positions, with the Bank's total headcount, as at 31.12.21, of 118 full-time employees.

### Staff Development

The BSTDB offers learning opportunities, addressing the development needs of its staff within the context of organizational business requirements. The Policy on Training, Learning and Development establishes a clear link between the institution's business needs and the development of professional and technical skills of the staff. In 2021, the emphasis was placed on in-house group trainings, which specifically covered the subjects of stress testing for banks; strategic asset liability management; securitisations (structure, legal analysis and documentation); international standard guarantee practice; records management, code of conduct and cyber security.



## Staff Benefit System

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

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

The BSTDB pension plan, launched in January 2003, is comprised of a fully funded defined benefit, and a defined contribution component funded through voluntary employees' and Bank's equal contributions. This combination offers the flexibility required for best meeting the needs of a multi-national work force.

## Information Technologies

With the challenges of the COVID-19 pandemic continuing throughout 2021, extending the Bank's need to support the teleworking capacity of staff, the IT department, aligning with business needs, started a digital transformation for the Bank, deploying a number of cloud-based applications and making preparations for other core functions to move to the cloud.

Mobility was provided to all staff by equipping them with laptops that can be used when working remotely, allowing access to almost all systems necessary to carry out their tasks, with only a limited number of systems continuing to require on-premises access for security reasons.

Capitalizing further on last year's implementation and migration to Microsoft Office 365 (M365), multiple business tasks and functionalities were migrated to the cloud-based applications, using the tools M365 offers to allow staff to collaborate internally with colleagues and externally with clients and third parties. A new BSTDB portal application has been created in Teams, bringing Bank communication and information closer to staff, including a new Corporate Intranet site.

Since the security perimeter of the Bank has been extended beyond the premises with staff working remotely, the Bank has updated its information security policies and has introduced new ones, ensuring a number of security controls are in place to provide a secure working environment that supports all types of users (staff working remotely, clients, and third-party business partners) that need to work with the Bank.

In 2021, the Bank's Board of Directors and its Management took the decision to move forward with a major digital transformation for the Bank by approving the implementation of the SAP RISE private cloud solution, SAP SuccessFactors, SAP Concur Travel, SAP Cloud Analytics, budget and forecasting, and a new Banking application for operations. This will allow the automation and improvement of a number of business processes and will improve the capture and use of data and information, allowing the Bank to capitalize on the SAP Cloud Analytics tools for better business decision making.

The Bank has enhanced its Enterprise Information Management (EIM) system based on OpenText Extended ECM for SAP, by extending further its records management capabilities, applying records management classifications to a number of official business documents (electronic and physical) and upgrading the OpenText software to the latest version so that it can be integrated with SAP Rise and SuccessFactors. Also, a new Information Security Classification and Management Policy, as well as a revised Records Management Policy are in place to improve and secure the management and handling of information in the Bank.

The IT Department has supported and enhanced the Bank's video conference meeting room facilities in order to carry out its Board of Directors, Boards of Governors and the Boards' Audit Committee meetings virtually. It has also supported various business activities that the Bank has carried out with clients virtually such as Webinars, business conference, etc.

The Bank has implemented a mobile device policy, where mobile devices (corporate mobile phones and tablets) that need to access Bank information, are configured with an Enterprise Mobile Management (EMM) and a Mobile Threat security software, to protect information access on the mobile devices.

## External Relations

During 2021, the External Relations and Communications Department focused on promoting the corporate image and awareness of the Bank through enhanced contacts with the media community and supported business generation against the backdrop of the continued pandemic crisis.

The BSTDB Public Information Policy was updated in line with international best practices and a new corporate Procedure on the Staff Contacts with the Media was adopted to promote better the Bank's visibility and public information disclosure on operations and institutional activities.

### Strengthened Outreach through Media

In 2021 the Bank enhanced its visibility in member countries through media relations assisted by external professional contractors in Bulgaria, Romania, Russia, and Ukraine. The number of published stories and other Bank-related content has significantly surged over the year to exceed 950 titles. Over 30 exclusive interviews by the BSTDB President and senior management were published on the topics of post-pandemic recovery in the Black Sea region and the relevant Bank's activities.

A highly successful BSTDB Media Event for thirty leading journalists from member countries was held in a physical format in Greece, which generated multiple publications and significantly boosted the Bank's awareness with the regional media community.

A visible improvement was achieved on the Bank's social media platforms. At the year end the Bank was followed by a global audience in excess of 49,000 people, which is a 15% increase on the last year. In 2021 BSTDB social media content was seen 7.2 million times around the world, showing 20% increase in 'impressions' on the BSTDB material achieved in 2020, which was also a good year. The Bank crashed through 10,000 followers on LinkedIn, the main business oriented social platform comprising key financial and business figures in the Black Sea region and beyond. A core quality indicator – the engagement rate with BSTDB content on LinkedIn was very high at 5.2%, outperforming that of many peer IFIs.

### Supporting Business Generation

Despite the ongoing pandemic restrictions, the Bank continued exploring cooperation opportunities with other development institutions. The BSTDB President and senior management had online meetings the top management of the OPEC Fund and the new President of the Nordic Investment Bank.

BSTDB held a webinar on the promotion of Russian exports and investment in the Black Sea region in collaboration with the Russian business association "Business Russia", the Russian Export Centre and the Ministry of Finance of Russia. The Bank made an online presentation and discussed business opportunities with Greek companies which are members of the Hellenic-Russian Chamber of Commerce.

The EU Green Deal is expected to have important implications on BSTDB countries with major exports to the EU. BSTDB has initiated a discussion platform with participation of national regulating authorities and expert community, which held a webinar on the "Impact of the EU Green Deal on the Black Sea Region" with speakers and participants representing the competent state agencies from ten of the Bank's Member Countries.

During the year, the Bank's management and professional staff participated as speakers and panelists in 33 third-party international business conferences and events in the areas of the Bank's operations.

## Administrative Services

### Contribution to the Bank's Activities in 2021

During 2021, the Administrative Services Department concentrated its efforts in solidifying the hybrid work arrangements (a mixture of office work and teleworking) for the seamless performance of purchasing processes during and beyond pandemic-induced lockdowns; on supporting the vaccination drive for expatriate personnel and their dependents; on promoting efforts for the acquisition of new premises; and on resolving long-standing issues related to the expatriate staff's privileges and immunities. Its most substantial achievements were as follows:

- Teleworking: The department completed a study of the entire institution's performance during the hybrid working period and presented comprehensive recommendations for the post-pandemic era to the management. The department also implemented a remote approval system and electronic circulation of related documentation for the reconciliation of travel claims, while it further improved its system of exchange of electronic documentation for purchasing payments with no additional IT infrastructure or investment.
- New premises: The department proceeded with the completion of the detailed terms of a call for tenders for the Bank's permanent premises and its international announcement – with a deadline in the first quarter of 2022.



Financial Statements for the Year Ended  
31 December 2021

**Together with Auditor's Report**



# INTERNAL CONTROLS OVER EXTERNAL FINANCIAL REPORTING

## Responsibility for external financial reporting

### Management's responsibility

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

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

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

Management is responsible for establishing and maintaining effective internal controls over external financial reporting for financial statement presentations in conformity with IFRS. Management maintains a comprehensive system of controls intended to ensure that transactions are executed in accordance with management's authorisation, assets are safeguarded and financial records are reliable. The system of internal controls contains monitoring mechanisms, and actions are taken to correct deficiencies identified. Management believes that internal control over external financial reporting, which are subject to scrutiny and testing by management and internal audit, and are revised as considered necessary, support the integrity and reliability of the financial statements.

There are inherent limitations in the effectiveness of any system of internal controls, including the possibility of human error and the circumvention of overriding controls.

Accordingly, an effective internal controls system can provide only reasonable, as opposed to absolute, assurance with respect to the financial statements presentation and preparation. Furthermore, the effectiveness of an internal controls system can change over time.

The Bank's Board of Directors has appointed an Audit Committee, which assists the Board in its responsibility to ensure the soundness of the Bank's accounting practices and the effective implementation of the internal controls that management has established relating to finance and accounting matters. The Audit Committee is comprised entirely of members of the Board of Directors. The Audit Committee meets periodically with management in order to review and monitor the financial, accounting and auditing procedures of the Bank and related financial reports. The internal auditors regularly meet with the Audit Committee, to discuss the adequacy of internal controls over financial reporting and any other matters which they believe should be brought to the attention of the Audit Committee.

The Bank's assessment of the effectiveness of its internal controls over external financial reporting was based on the criteria set forth in the "Internal Control – Integrated Framework" (2013) issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). Based upon this assessment, management concluded that as of 31 December 2021, its internal control over financial reporting was effective.

In addition to providing an audit opinion on the fairness of the financial statements for the year ended 31 December 2021, the external auditors of the Bank conducted an independent assessment of the Bank's internal control over financial reporting as of 31 December 2021 and their assurance report is presented separately in this financial report.

**Dmitry Pankin**  
President

**Valeriy Piatnytskyi**  
Vice President, Finance

**Black Sea Trade and Development Bank**  
Thessaloniki  
6 June 2022



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## INDEPENDENT REASONABLE ASSURANCE REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

### Report on the effectiveness of Internal Control over Financial Reporting

We were engaged by the Board of Directors of the Black Sea Trade and Development Bank (the Bank) to report on the effectiveness of internal control over financial reporting of the Bank as of December 31, 2020, in the form of an independent reasonable assurance conclusion about whether the internal control over financial reporting is effective based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

### Bank's Responsibilities

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

### Our Responsibility

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

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

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

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

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

Definition and Limitations of Internal Control over Financial Reporting



A Bank's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A Bank's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Bank are being made only in accordance with authorizations of management and directors of the Bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Bank's assets that could have a material effect on the financial statements.

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

#### Conclusion

In our opinion, Black Sea Trade and Development Bank maintained, in all material respects, effective internal control over financial reporting, as of 31 December 2021, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

Athens, 6 June 2022

The Certified Public Accountant

#### **Alexandra Kostara**

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Black Sea Trade and Development Bank (the Bank), which comprise the statement of financial position as at 31 December 2021 and the statements of income and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Black Sea Trade and Development Bank as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as these have been incorporated into Greek legislation. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We have been independent of the Bank during the whole period of our appointment in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as incorporated into Greek legislation and the ethical requirements in Greece relevant to the audit of the financial statements and we have fulfilled our ethical requirements in accordance with the applicable legislation and the above mentioned Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Emphasis of Matter

We draw your attention to note 28 of the financial statements where it is described the negative impact of the geopolitical turmoil in Ukraine and Russia, that begun in February 2022, on the quality of some of the Bank's assets. Our report is not qualified in respect to this matter.

#### Key Audit Matters

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





Key audit matter	How the matter was addressed in our audit
<b>Expected Credit Loss on Loans at amortized cost</b>	
<p>Loans at amortized cost of the Bank amounted to EUR 2,329 million as at 31 December 2021 (EUR 2,030 million as at 31 December 2020) and loss impairment to EUR 44 million (EUR 56 million as at 31 December 2020) as presented on the Statement of Financial Position.</p> <p>The Bank measures Expected Credit Losses (ECL) for loans at amortized cost both on an individual and a collective basis.</p> <p>The estimation of ECL on loans at amortized cost is considered a key audit matter as it is a complex calculation that involves the use of a number of assumptions and parameters such as probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) as well as assumptions around the inputs used and probability weight of the multiple economic scenarios.</p> <p>Significant Management judgements also relates to the criteria used for the staging assessment of loans at amortized cost.</p> <p>Management provided further information about principles and accounting policies for determining the allowance for impairment on loans at amortized cost and the management of credit risk in notes 3.6, 5, 12 and 15 to the financial statements.</p>	<p>Based on our risk assessment and following a risk based approach, we have evaluated the impairment methodologies applied and assumptions made by Management in relation to this key audit matter, which included, inter alia, the following audit procedures:</p> <ul style="list-style-type: none"> <li>- we obtained an understanding of the procedures and evaluated the design and implementation of relevant internal controls within the business process.</li> <li>- we assessed the appropriateness of the Bank's IFRS 9 impairment methodologies.</li> <li>- with the support of our internal financial risk modeling specialists we assessed the reasonableness of Management's assumptions and input data used in the model, including the analysis of the forecasted macroeconomic variables. We tested the mechanical elements of the calculations such as the EAD, the PD and stage allocation and reperformed the calculation of the ECL on a sample basis.</li> <li>- we tested the accuracy and completeness of critical data used in the ECL calculation by agreeing a sample of ECL calculation data points to source systems or documentation.</li> <li>- on a sample basis we assessed the reasonableness of the estimated expected credit loss for the individually assessed credit impaired exposures.</li> </ul> <p>We assessed the adequacy and completeness of the Bank's disclosures in respect of credit risk, structure and quality of loan portfolio and impairment allowance in accordance with IFRS 9.</p>

## Other Information

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

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

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



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

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

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

The Audit Committee of the Bank is responsible for overseeing the Bank's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

As part of an audit in accordance with ISAs, as these have been incorporated into Greek legislation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

Athens, 6 June 2022

The Certified Public Accountant

**Alexandra Kostara**

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# INCOME STATEMENT

For the year ended 31 December 2021

Presented in thousands of EUR	Note	2021	2020
Interest and similar income	7	105,171	97,856
Interest and similar expense	8	(58,492)	(61,048)
Net interest income (expense) on derivatives	9	13,799	7,427
<b>Net interest income</b>		<b>60,478</b>	<b>44,235</b>
Net fees and commissions	10	1,971	2,040
Dividend income		-	164
Net gains from equity investments through profit or loss	16	182	284
Net gains (losses) on derecognition of debt investment securities at fair value through other comprehensive income		4,855	(1,752)
Net (losses) on derecognition of financial liabilities at amortized cost		-	(2,049)
Unrealized net fair value gains (losses) on derivative instruments		(16,602)	7,410
Fair value gains (losses) on loans measured at fair value through profit or loss		683	(229)
Fair value (losses) on equity investments measured at fair value through profit or loss		-	(7)
Foreign exchange (losses) income		(559)	78
Other (losses) income		(4)	(4)
<b>Operating income</b>		<b>51,004</b>	<b>50,170</b>
Personnel expenses	11,26	(16,352)	(16,097)
Administrative expenses	11	(4,574)	(4,161)
Depreciation and amortization	18,19	(478)	(525)
<b>Income before impairment</b>		<b>29,600</b>	<b>29,387</b>
Impairment gains (losses) on loans measured at amortized cost	12	11,882	(12,894)
Impairment gains (losses) on debt investment securities measured at fair value through other comprehensive income		2,415	(2,278)
<b>Income for the year</b>		<b>43,897</b>	<b>14,215</b>

The accompanying notes, on pages 65 to 128 are an integral part of these financial statements



# STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

Presented in thousands of EUR	Note	2021	2020
Income for the year		43,897	14,215
Other comprehensive income (expense):			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (losses) gains on defined benefit scheme	24	2,310	(2,036)
Gains (losses) on equity investments financial assets	24	6,047	(3,577)
Items that are or may be reclassified subsequently to profit or loss:			
Gains (losses) on investment securities financial assets	24	(9,747)	4,697
Gains (losses) on cash flow hedges	24	(493)	-
Other comprehensive (expense) income		(1,883)	(916)
<b>Total comprehensive income</b>		<b>42,014</b>	<b>13,299</b>

The accompanying notes, on pages 65 to 128 are an integral part of these financial statements

# STATEMENT OF FINANCIAL POSITION

At 31 December 2021

Presented in thousands of EUR	Note	2021	2020
<b>Assets</b>			
Cash and due from banks	25	170,175	34,328
Deposits in margin accounts		30,740	26,240
Debt investment securities at fair value through other comprehensive income	13	652,448	687,961
Derivative financial instruments – assets	14	24,279	26,701
Loans at amortized cost	5,15	2,329,424	2,030,396
Less: deferred income	15	(14,700)	(13,813)
Less: impairment losses	5,12	(44,223)	(55,937)
Loans at fair value through profit or loss	15	15,014	12,525
Loans		2,285,515	1,973,171
Equity investments at fair value through profit or loss	5,16	791	791
Equity investments at fair value through other comprehensive income	5,16	24,986	25,519
Equity investments at fair value		25,777	26,310
Accrued interest receivable	15	27,181	23,512
Other assets	17	15,954	9,490
Property and equipment	18	368	429
Intangible assets	19	200	298
Right of use assets	22	245	579
<b>Total Assets</b>		<b>3,232,882</b>	<b>2,809,019</b>
<b>Liabilities</b>			
Short-term	20	167,756	111,120
Amounts due to financial institutions	20	438,293	315,992
Debt evidenced by certificates	20	1,657,416	1,465,218
Accrued interest payable	20	10,936	9,384
Borrowings		2,274,401	1,901,714
Margin accounts		16,590	22,920
Derivative financial instruments – liabilities	14	45,869	28,935
Other liabilities	21	10,257	11,359
Lease liability	22	43	383
Total liabilities		2,347,160	1,965,311
<b>Members' Equity</b>			
Authorized share capital	23	3,450,000	3,450,000
Less: unallocated share capital	23	(1,161,500)	(1,161,500)
Subscribed share capital	23	2,288,500	2,288,500
Less: callable share capital	23	(1,601,950)	(1,601,950)
Paid-in share capital		686,550	686,550
Reserves	24	100,312	58,298
Retained earnings		98,860	98,860
Total members' equity		885,722	843,708
<b>Total Liabilities and Members' Equity</b>		<b>3,232,882</b>	<b>2,809,019</b>
<b>Off-balance-sheet items</b>			
Commitments	5	237,471	274,031

The accompanying notes, on pages 65 to 128 are an integral part of these financial statements

# STATEMENT OF CHANGES IN MEMBERS' EQUITY

For the year ended 31 December 2021

Presented in thousands EUR	Share capital			Reserves	Retained Earnings	Total
	Subscribed	Callable	Payable			
<b>At 31 December 2019</b>	<b>2,288,500</b>	<b>(1,601,950)</b>	<b>-</b>	<b>54,009</b>	<b>89,850</b>	<b>830,409</b>
Income for the year	-	-	-	-	14,215	14,215
Other comprehensive income:						
Net gains (losses) on						
financial assets at fair						
value reserve through OCI	-	-	-	1,120	-	1,120
Actuarial (losses) gains on						
defined benefit scheme	-	-	-	(2,036)	-	(2,036)
Total comprehensive income						
for the year	-	-	-	(916)	14,215	13,299
Members' contributions	-	-	-	-	-	-
Transfer to general reserve	-	-	-	5,205	(5,205)	-
Total contributions	-	-	-	5,205	(5,205)	-
<b>At 31 December 2020</b>	<b>2,288,500</b>	<b>(1,601,950)</b>	<b>-</b>	<b>58,298</b>	<b>98,860</b>	<b>843,708</b>
Income for the year	-	-	-	-	43,897	43,897
Other comprehensive income:						
Net (losses) gains on						
financial assets at fair						
value reserve through OCI	-	-	-	(3,700)	-	(3,700)
Actuarial gains (losses) on						
defined benefit scheme	-	-	-	2,310	-	2,310
Effective portion of cash flow						
hedges (losses) gains	-	-	-	(493)		(493)
Total comprehensive income						
for the year	-	-	-	(1,883)	43,897	42,014
Members' contributions	-	-	-	-	-	-
Transfer to general reserve	-	-	-	43,897	(43,897)	-
Total contributions	-	-	-	43,897	(43,897)	-
<b>At 31 December 2021</b>	<b>2,288,500</b>	<b>(1,601,950)</b>	<b>-</b>	<b>100,312</b>	<b>98,860</b>	<b>885,722</b>

The accompanying notes, on pages 65 to 128 are an integral part of these financial statements

# STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

Presented in thousands of EUR	Note	2021	2020
<b>Cash flows from operating activities</b>			
Income for the year		43,897	14,215
Adjustment for items in income statement:			
Depreciation and amortization		478	525
Impairment losses on loans		(11,882)	12,623
Impairment losses on investment securities		(2,415)	2,278
Fair value losses on loans at FVTPL		(683)	229
Fair value (gains) losses on equity investments at FVTPL		-	7
Net interest income		(46,679)	(36,808)
Realized gains on disposal investment securities at FVTOCI		(4,855)	1,752
Realized losses from debt issued		-	2,049
Cash generated from (used for) operations:			
Proceeds from repayment of loans		903,419	561,715
Proceeds from repayment of equity investments		7,169	1,231
Funds advanced for loans		(1,072,130)	(783,932)
Funds advanced for equity investments		(460)	(732)
Net movement in derivative financial instruments		35,958	(1,190)
Working capital adjustments:			
Interest income received		101,502	98,678
Interest income paid		(56,940)	(63,316)
Decrease (increase) in deposit margin accounts		(4,500)	(20,340)
Decrease (increase) in other assets		(6,464)	2,029
Increase (decrease) in margin accounts		(6,330)	18,370
Increase (decrease) in other liabilities		(1,442)	713
Increase (decrease) in deferred income		887	5,643
Net cash from / (used in) operating activities		(121,470)	(184,261)
<b>Cash flows from investing activities</b>			
Proceeds investment securities at FVTOCI		3,155,700	1,227,280
Purchase of investment securities at FVTOCI		(3,106,219)	(1,459,327)
Purchase of property, software and equipment		(320)	(341)
Net cash from / (used in) investing activities		49,161	(232,388)
<b>Cash flows from financing activities</b>			
Proceeds received from share capital		-	-
Proceeds from borrowings		1,677,859	944,201
Repayment of borrowings		(1,306,724)	(539,074)
Net cash from financing activities		371,135	405,127
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>298,826</b>	<b>(11,522)</b>
Cash and cash equivalents at beginning of year		272,666	284,188
<b>Cash and cash equivalents at end of year</b>	25	<b>571,492</b>	<b>272,666</b>

The accompanying notes, on pages 65 to 128 are an integral part of these financial statements.



# NOTES TO THE FINANCIAL STATEMENTS

## 1. ESTABLISHMENT OF THE BANK

### 1.1 Agreement Establishing the Bank

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

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

As at financial position date the Bank’s shar-e-holders comprised of the following 11 countries: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, the Russian Federation, Türkiye and Ukraine.

### 1.2 Headquarters Agreement

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

### 1.3 Governing Bodies

Each of the Member States of the Bank is represented on the Board of Governors (BoG), with all powers of the Bank vested in the BoG. With the exception of certain reserved powers, the BoG has delegated the exercise of its powers to the Board of Directors (BoD), while retaining overall authority.

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

## Notes to the Financial Statements

**1.3.1 Board of Governors**

Country	Governor
Albania	Ms. Adela Xhemali
Armenia	Mr. Arthur Javadyan
Azerbaijan	Mr. Samir Sharifov
Bulgaria	Ms. Monica Dimitrova-Beecher
Georgia	Mr. Koba Gvenetadze
Greece	Mr. Adonis-Spyridon Georgiadis
Moldova	Mr. Dumitru Budianschi
Romania	Mr. Alin Chitu
Russia	Mr. Timur Maksimov
Türkiye	Mr. Murat Zaman
Ukraine	Ms. Yuliia Svrydenko

**1.3.2 Board of Directors**

Country	Director
Albania	Mr. Arlind Gjokuta
Armenia	Mr. Andranik Grigoryan
Azerbaijan	Mr. Famil Ismayilov
Bulgaria	Ms. Milena Boykova
Georgia	Ms. Ekaterine Guntsadze
Greece	Mr. Ioannis Tsakiris
Moldova	Ms. Elena Matveeva
Romania	Ms. Diana Blindu
Russia	Mr. Dmitry Birichevskiy
Türkiye	Dr. Serhat Koksall
Ukraine	Mr. Taras Kachka

## Notes to the Financial Statements

### 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

#### 2.1 Basis of Preparation

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

These financial statements for the year ended 2021 were submitted by the Management Committee to the Board of Directors (BoD) for approval on 6 June 2022 and were approved for issuance on that date.

Pursuant to Article 23 of the Establishing Agreement, these financial statements shall be subject to approval by the Board of Governors (BoG) in their Annual Meeting to be held on 23 June 2022.

#### Basis of measurement

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

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

#### Functional and presentation currency

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

#### Use of Estimates and Judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments and use of estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those reported. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

The areas where the Bank has applied judgement and used estimates and assumptions are: estimation of expected credit losses of loans, fair valuation of financial instruments not quoted in active markets, including OTC derivatives and certain debt securities, impairment of investment securities, estimation of retirement benefits obligation, and contingencies from litigation.

The areas involving a higher degree of judgment or areas where assumptions and estimates are significant to the financial statements are disclosed in the Note 4.

## Notes to the Financial Statements

### 2.2 Going Concern

The Bank's Board of Governors considered the Bank's ongoing financial sustainability when approving the Bank's "Long-Term Strategic Framework (LTSF) 2021-2030" in June 2021, which reflects the Bank's prospects and the ways in which its shareholders would like it to evolve.

Further and in support of the new LTSF, the Board of Governors has approved an increase to the subscribed capital of the Bank, to take place over the period 2023-2030.

The financial statements for 2021 have been prepared on a going concern basis. The Bank's capital and liquidity position were confirmed by the Board of Directors on 6 June 2022, the date on which the financial statements were approved.

In the context of formulation and approval of the next Medium-term Strategy and Business Plan 2023-2026, the Board of Governors will provide in the second half of the year the necessary guidance and in this context will recommend adjustments to the LTSF 2021-2030 to the extent to which it will be deemed appropriate.

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

#### 3.1 Adoption of New and Amended Standards (IFRS)

New standards and amendments to standards which were issued by the International Accounting Standards Board (IASB), applied on 1 January 2021:

- **IAS 1: Presentation of Financial Statements**

IAS 1 sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows. Effective 1 January 2011, earlier application is permitted. The amendments are effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted. The adoption is not expected to have any material impact on the Bank's financial statements.

- **IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors**

IAS 8 is applied in selecting and applying accounting policies, accounting for changes in estimates and reflecting corrections of prior period errors. The standard requires compliance with any specific IFRS applying to a transaction, event or condition, and provides guidance on developing accounting policies for other items that result in relevant and reliable information. Changes in accounting policies and corrections of errors are generally retrospectively accounted for, whereas changes in accounting estimates are generally accounted for on a prospective basis. Effective 1 January 2011, earlier application is permitted. The amendments are effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted. The adoption is not expected to have any material impact on the Bank's financial statements.



## Notes to the Financial Statements

- **IAS 12: Income Taxes**

IAS 12 implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test. First effective as Canadian GAAP under Part I for interim and annual financial statements relating to fiscal years beginning on or after 1 January 2011. The amendments are effective for annual periods beginning on or after 1 January 2017. Earlier application is permitted. The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Early adoption is permitted. The adoption will not have any impact on the Bank's financial statements.

- **IAS 16: Property, Plant and Equipment**

IAS 16 outlines the accounting treatment for most types of property, plant and equipment. Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model, and depreciated so that its depreciable amount is allocated on a systematic basis over its useful life.

Effective for interim and annual financial statements relating to fiscal years beginning on or after 1 January 2011, earlier application is permitted. The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted. The adoption is not expected to have any material impact on the Bank's financial statements.

- **IAS 37: Provisions, Contingent Liabilities and Contingent Assets**

IAS 37 outlines the accounting for provisions (liabilities of uncertain timing or amount), together with contingent assets (possible assets) and contingent liabilities (possible obligations and present obligations that are not probable or not reliably measurable). Effective for interim and annual financial statements relating to fiscal years beginning on or after 1 January 2011, earlier application is permitted. The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted. The adoption is not expected to have any material impact on the Bank's financial statements.

- **IAS 41: Agriculture**

IAS 41 sets out the accounting for agricultural activity – the transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). The standard generally requires biological assets to be measured at fair value less costs to sell. Effective for interim and annual financial statements relating to fiscal years beginning on or after 1 January 2011, earlier application is permitted. The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted. The adoption will not have any impact on the Bank's financial statements.

- **IFRS 1: First-time Adoption of International Financial Reporting Standards**

IFRS 1 sets out the procedures that an entity must follow when it adopts IFRS for the first time as the basis for preparing its general purpose financial statements. The IFRS grants limited exemptions from the general requirement to comply with each IFRS effective at the end of its first IFRS reporting period. Effective for interim and annual financial statements relating to fiscal years beginning on or after 1 January 2011, earlier application is permitted. The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted. The adoption will not have any impact on the Bank's financial statements.

## Notes to the Financial Statements

### • IFRS 3: Business Combinations

IFRS 3 outlines the accounting when an acquirer obtains control of a business (e.g. an acquisition or merger). Such business combinations are accounted for using the 'acquisition method', which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date. Effective for interim and annual financial statements relating to fiscal years beginning on or after 1 January 2011, earlier application is permitted. The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier. The adoption is not expected to have any material impact on the Bank's financial statements.

### • IFRS 17: Insurance Contracts

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The IASB tentatively decided to defer the effective date of IFRS 17, Insurance Contracts to annual periods beginning on or after 1 January 2022 [The IASB has also published 'Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)' to defer the fixed expiry date of the amendment also to annual periods beginning on or after 1 January 2023]. The adoption is not expected to have any material impact on the Bank's financial statements.

## 3.2 Foreign Currencies Translation

Foreign currency transactions are initially recorded in EUR by applying to the foreign currency amount the exchange rate between the EUR and the foreign currency at the rate prevailing at the date of transaction.

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

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

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in income statement except for foreign exchange differences on non-monetary items which are at FVTOCI as equity investments which are recognized in other comprehensive income.

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

		31 December 2021	31 December 2020
	= United States dollar	1.13260	1.22710
	= Pound sterling	0.84028	0.89903
	= Russian ruble	85.30040	91.46710
1 EUR	= Azerbaijani manat	1.92650	2.08900
	= Georgian lari	3.50400	4.02330
	= Armenian dram	542.61000	641.11000
	= Romanian leu	4.94900	4.86830

## Notes to the Financial Statements

### 3.3 Cash and Cash Equivalents

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

### 3.4 Recognition and Initial Measurement, and Derecognition of Financial Instruments

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

#### 3.4.1 Date of recognition

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

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

#### 3.4.2 Date of derecognition

The Bank derecognizes a financial asset or a portion of a financial asset when (i) the contractual rights to the cash flow from the financial asset expire, (ii) loses control of the contractual rights that comprise the financial asset or a portion of the financial asset or (iii) the Bank retains the right to receive cash flows from the asset, but has assumed the obligation to pay it in full without material delay to a third party under a 'pass through' arrangement. The Bank derecognizes a financial liability when a liability is extinguished, that is when the obligation specified in the contract is discharged, cancelled or expires. The evaluation of the transfer of risks and rewards of ownership precedes the evaluation of the transfer of control for derecognition transactions.

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

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

### 3.5 Financial Assets

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

## Notes to the Financial Statements

### 3.5.1 Classification and subsequent measurement

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

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

The Bank includes in this category financial assets which are non-derivative with fixed or determinable payments and with fixed maturities meeting the above criteria. They are initially recognized at fair value plus any transaction costs and including any premium or discount that may arise on the date of acquisition. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. They are subsequently measured at AC using the effective interest method, less any allowance for expected credit losses. All such financial assets are recognized on settlement date.

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

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

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

All such financial assets are recognized on trade date.

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

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



## Notes to the Financial Statements

After initial recognition at cost, these financial assets are subsequently measured at fair value with all gains and losses arising from changes in fair value (realized and unrealized), including foreign exchange gains and losses, recognized in other comprehensive income, and are not reclassified to income statement. For those financial instruments there is no impairment assessment. The fair value for those not purchased from an active market is determined using accepted valuation techniques which use unobservable inputs. These valuation techniques used are net asset value, when this is deemed to approximate fair value, and earnings-based valuations using comparable information and discounting cash flows. The Bank's equity investments are included in this category. All such financial assets are recognized on settlement date.

4. **Financial assets measured at FVTPL:** this category includes financial assets that do not meet the criteria to be classified in any of the above categories as well as financial assets that the Bank holds for trading. Their classification depends primarily on the following two important factors (i) the Bank's business model for these assets and (ii) the characteristics of the contractual cash flows of the asset.

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

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

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

### 3.5.2 Measurement

The Bank measures financial assets at fair value on initial recognition, as detailed above. In the event the Bank considers that the fair value on initial recognition differs from the transaction price, that difference is recognized as a gain or loss on initial recognition but only if the fair value is based on a requested active market price for identical assets or is based on a valuation technique using data solely from identified markets. In all other cases, the difference between the transaction price and the fair value is deferred and is only recognized in the income statement when the inputs become observable, or when the instrument is derecognized.

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

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

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

## Notes to the Financial Statements

### 3.5.3 Business model assessment

The factor of the business model refers, amongst others, to the manner in which the Bank manages its financial assets by classifying them in portfolios that are part of its business model. The adopted business model determines the source of revenue, as it arises from individual portfolios either through the collection of contractual cash flows or from the sale of financial assets or the combination of the above.

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

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

The Business Model applied to loan portfolio, treasury portfolio and equity investment portfolio is reassessed at each reporting period. The reassessment of the Business Model has been established in order to determine if evidence initially used has changed. The assessment process applied by the Bank through its business model, based on strategic objectives, classifies its assets in the following three categories in accordance with IFRS 9:

#### i) **Hold to collect**

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

#### ii) **Hold to collect and sell**

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

#### iii) **Trading portfolio**

The financial assets held for trading are classified as 'Trading portfolio'. The Bank had no financial assets in trading portfolio.

### 3.5.4 Loans

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

The Bank classifies in loan category bonds which are purchased with a view of a development impact and such purchases are performed based on the Bank's loan financing criteria and follow the thorough appraisal and approval process of the Bank. Such bonds at 31 December 2021 were a gross amount of EUR 294,330 thousand (2020: EUR 267,588 thousand). Management has concluded that presentation within loans present fairly the Bank's financial position.

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

## Notes to the Financial Statements

### 3.6 Impairment

#### 3.6.1 Financial assets

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

##### i) Calculation of expected credit loss

ECLs are a probability-weighted average estimate of credit losses that reflects the time value of money. Upon initial recognition of the financial instruments in scope of the impairment policy, the Bank records a loss allowance equal to 12-month ECL, being the ECL that result from default events that are possible within the next twelve months. Subsequently, for those financial instruments that have experienced a significant increase in credit risk (SICR) since initial recognition, a loss allowance equal to lifetime ECL is recognized, arising from default events that are possible over the expected life of the instrument. The expected credit losses are weighted on the basis of three macroeconomic scenarios (adverse, basic and favorable).

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

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

The Bank calculates impairment losses on a portfolio basis, except for financial assets that are credit-impaired in which case they are calculated on an individual basis. The Bank applies three main components to measure expected credit losses which are a LGD, PD and EAD, and assigns general market scenarios for potential credit risk deterioration. There can be transfers of exposures from one stage to another, depending on whether there is a change in the credit risk of that exposure. Probability of default is an estimate of the likelihood of default over a given time horizon.

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

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

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

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

## Notes to the Financial Statements

- Exposure at Default (EAD) is defined as the estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and undrawn commitments based on the Bank's own experience.
- Loss Given Default (LGD) represents the extent of the loss that the Bank expects for exposures that are in default and is defined as the difference between the contractual cash flows and those that the Bank expects to collect, including collateral amounts. LGD, which is usually expressed as a percentage of the EAD, varies according to the category of the counterparty, the category and priority of the claim, the existence of collateral and other credit enhancements.

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

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

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

### iii) Significant increase in credit risk

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

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

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

Generally, there will be a significant increase in credit risk before a financial asset becomes credit-impaired or an actual default occurs. The assessment of significant increase in credit risk is key in transferring an exposure from Stage 1 to Stage 2 and the respective change in the ECL measurement from 12-month to lifetime ECL.

## Notes to the Financial Statements

### iv) Credit-impaired

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

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

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

### v) Definition of default

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

#### a. Qualitative

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

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

#### b. Quantitative

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

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

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



## Notes to the Financial Statements

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

### 3.6.2 Non-financial assets

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

### 3.6.3 Renegotiated financial assets

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

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

A distressed restructuring is an indication of unlikeliness to pay where this is likely to result in a diminished financial obligation caused by the material (change in the net present value of the asset by more than 10%) forgiveness, or postponement of either principal, interest or, where relevant fees. Distressed restructuring occurs when forbearance measures have been extended towards a debtor. Therefore, those forbore exposures where the forbearance measures are likely to result in a diminished financial obligation are classified as defaulted.

Restructured operations will be considered cured and normalized after two successful repayments (average of 6 months per repayment) and could therefore be subject to a Stage movement.

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

### 3.6.4 Write-offs

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

### 3.6.5 Write-backs

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

## Notes to the Financial Statements

### 3.7 Financial Liabilities

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

#### 3.7.1 Borrowings

Borrowing transactions which are amounts due to financial institutions and debts evidence by certificates, are recognized in the statement of financial position at the time the funds are transferred to the Bank. They are measured initially at the fair value of the funds transferred, less any transaction costs. They are subsequently measured at amortized cost unless they qualify for hedge accounting in which case the amortized cost is adjusted for the fair value movements attributable to the risks being hedged. Interest expense is accrued in the income statement within "Interest expense" using the effective interest rate method.

#### 3.7.2 Other liabilities

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

### 3.8 Offsetting of Financial Assets and Liabilities

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

### 3.9 Derivatives

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

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

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

Derivatives can include interest rate and cross currency swaps, forward foreign exchange contracts, interest rate future contracts, and options on interest rates and foreign currencies. Such financial instruments are initially recognized in the statement of financial position (SOF) at fair value and are subsequently measured at their fair value. They are carried in the SOFP as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in fair value of derivative financial instruments 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.

The Bank enters into derivatives, to protect the Bank from financial risks such as currency risk, market price risk and interest rate risk. Such hedges are entered into to lessen or eliminate economic exposure. The Bank's policies on risk management are to not take significant interest rate or foreign exchange risks, and to aim where possible to match assets, liabilities and derivatives.

The majority of the Bank's lending activities is at floating rates linked to USD Libor or Euribor. When lending at a fixed rate the Bank will often use interest rate swaps to produce floating rate interest payments.

The Bank's borrowings, particularly bonds issuances, tend to be at a fixed rate and sometimes in currency denominations other than EUR or USD. The Bank in order mitigate the aforementioned underlying risks uses either interest rate or cross currency interest rate swaps to produce floating rate liabilities in USD or EUR.

## Notes to the Financial Statements

All the Bank's interest rate or cross currency swaps are explicitly tied to a balance sheet asset or liability. Typically, the fixed rate on the swap and the matching asset or liability have the same characteristics (term, payment dates etc.).

Foreign exchange forwards (paired purchases and sales of currencies on different dates) of maturities typically less than three months are not tied to specific assets or liabilities. These are undertaken to manage surpluses and shortfalls in EUR and USD and are not undertaken for speculative purposes. All derivatives are documented under International Swaps and Derivatives Association (ISDA) master netting agreement with Credit Swap Annexes (CSAs) and marked to market and cash collateralized daily. The Department of Treasury, under the guidance of ALCO and the supervision of the ALM unit, is responsible for the primary usage and managing interest rate and currency risks in the Bank's statement of financial position.

The notional amounts and fair values of the derivative instruments are disclosed in Note 14. The fair value hierarchy level of derivatives is disclosed in Note 5.

### 3.9.1 Derivatives and hedge accounting

The Bank designates certain derivatives as hedging instruments in respect of foreign currency rate and interest rate risk in fair value or cash flow hedges. The bank does not apply fair value hedge accounting of portfolio of hedges of interest rate risk. In addition, the bank does not use the exception to continue using IAS 39 hedge accounting rules, that is the Bank applies IFRS 9 in full.

In accordance with its wider risk management, as set out in Note 5, when a hedging relationship meets the specified hedge accounting criteria, it is the Bank's strategy to apply either fair value or cash flow hedges based on the exposure being hedged. Transactions that are entered into in accordance with the Bank's hedging objectives, but do not qualify for hedge accounting, are referred to in these financial statements as economic hedge relationships.

At the inception of the hedge relationship, the Bank formally documents how the hedging relationship meets the hedge accounting criteria, by recording the economic relationship between the hedged item and the hedging instrument, the nature of the risk, the risk management objective and strategy for undertaking the hedge as well as the method that will be used to assess the effectiveness of the hedging relationship. Furthermore, both at the inception and on an ongoing basis (at least on each reporting date or upon significant change, whichever comes first), the Bank documents whether an economic relationship exists between the hedging instrument and the hedged item.

In order the Bank to apply hedge accounting, the following requirements must be met:

- There must be an expectation that the fair value or the cash flows of the hedging instrument and the value or the cash flows of the hedged item, will "systematically" change in response to movements in the same underlying(s) that are economically related, providing a degree of offset between the hedged item and the hedging instrument. The assessment relates to expectations about hedge effectiveness and is only forward-looking.
- The effect of credit risk should not dominate the value changes that result from that economic relationship.
- The weightings of the hedged item and the hedging instrument, which define the hedge ratio of the hedging relationship, are the same as that resulting from the quantity of the hedged item that the Bank actually hedges and the quantity of the hedging instrument that the Bank actually uses to hedge that quantity of hedged item.
- If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Bank adjusts the hedge ratio of the hedging relationship by rebalancing the hedge, so that it meets the qualifying criteria again.

## Notes to the Financial Statements

For the assessment of hedge effectiveness requirements and when measuring the hedge effectiveness / ineffectiveness, the Bank uses qualitative and supplementary quantitative analysis where applicable. Sources of hedge ineffectiveness between the hedged items and hedging instruments, can arise from:

- Differences in timing of cash flows.
- Different applied discount interest rate curves.
- Non-nil fair value of derivatives at the designation date.
- The effect of changes in counterparties' credit risk on the fair values.

The Bank discontinues hedge accounting prospectively only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable) or the hedging instrument expires or is sold, terminated or exercised.

The notional amounts and fair values of the derivative instruments designated are disclosed separately in Note 14. Hedge accounting disclosures are provided in Note 5.

### 3.9.1.1 Fair value hedges

Applying fair value hedge accounting enables the Bank to reduce fair value fluctuations of the recognized fixed rate financial liabilities as if they were floating rate instruments linked to the attributable benchmark rates, thus hedging the exposure that is attributable to interest rate risk/foreign currency risk and could affect reported earnings.

The Bank only hedges changes due to interest rates, such as benchmark rates, which are typically the most significant component of the overall fair value change. The Bank assesses hedge effectiveness by comparing fair value movements of the hedging instruments and the hedged items attributable to changes in these benchmark rates.

For designated and qualifying fair value hedges, the change in the fair value of the qualifying hedging instruments is recognized in profit or loss whereas the carrying value of a hedged item that is not already measured at fair value, is adjusted for the fair value change attributable to the hedged risk in the statement of financial position ("Borrowings"), with a corresponding entry in profit or loss. The Bank recognizes the hedging gains or losses from the hedging instrument in profit or loss, in the same line as the adjustment for the hedged item ("net fair value gains (losses) on derivative instruments"). Accordingly, any ineffective part is recognized immediately in profit or loss.

Upon discontinuation of hedge accounting, the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk, is amortized to profit or loss from that date, based on how the hedged item impacts profit or loss. If the hedged item is derecognized, the unamortized fair value hedge adjustment included in the carrying amount of the hedged item is recognized immediately in profit or loss.

### 3.9.1.2 Cash flow hedges

Applying cash flow hedge accounting, the Bank hedges the exposure to the variability in cash flows attributable to interest rate risk and foreign exchange risk associated with a recognized liability that could affect reported earnings.

The effective portion of changes in the fair value of the derivative is recognized in Other Comprehensive Income (OCI) and presented in the cash flow hedge reserve within equity ("Cash Flow Hedge Reserve"), whereas any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss ("Unrealized net fair value gains (losses) on derivative instruments").

## Notes to the Financial Statements

The amount accumulated in the cash flow hedge reserve is limited to the cumulative fair value hedge of the hedged item from the inception of the Hedge less any amounts recycled to profit or loss.

For assessing the hedge effectiveness, the hypothetical derivative approach is applied, which involves establishing a notional derivative that would be the ideal hedging instrument for the hedged exposure (i.e. swap with a zero fair value at inception of the hedge relationship with the same critical terms as the hedged items) and then use as a proxy for measuring hedge effectiveness, the comparison between the cumulative changes in the fair value of the hypothetical derivative and the fair value of the actual hedging instrument.

Provided that the hedged cash flows are no longer expected to occur, then the Bank immediately reclassifies the amount in the cash flow hedge reserve from OCI to profit or loss, however on hedge discontinuations, if the hedged cash flows are still expected to occur, then the amount accumulated in the cash flow hedge reserve is not reclassified until the hedged cash flows affect profit or loss.

### 3.10 Financial Guarantees

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

### 3.11 Property and Equipment

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

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

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

Depreciation is provided to write off the cost of each asset to their residual values on a straight-line basis over their estimated useful lives. The annual depreciation rates applied were as follows:

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



## Notes to the Financial Statements

### 3.12 Intangible Assets

Intangible assets comprise software expenditures and other intangible assets. These assets are amortized on a straight-line basis over the best estimate of their useful lives, which is software for desktops of three years and software for servers of five years. At each reporting date, management reviews intangible assets and assesses whether there is any indication of impairment. If such indications exist an analysis is performed to assess whether the carrying amount of intangible assets is fully recoverable. A write-down is made if the carrying amount exceeds the recoverable amount.

### 3.13 Right of Use Assets

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

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

The Bank provides for the recognition of a right-of-use asset and a lease liability upon lease commencement in case that there is a contract, or part of a contract, that conveys to the Bank the right to use an asset for a period of time in exchange for a consideration. More details are provided within the lease accounting policy Note 3.21.

### 3.14 Taxation

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

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

### 3.15 Provisions

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

### 3.16 Share Capital and Dividends

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

### 3.17 Reserves and Retained Earnings

In accordance with the Establishing Agreement of the Bank the general reserve is created from the profits of the Bank for meeting any unforeseeable risks or contingencies. The revaluation reserve represents the accumulated change in fair value of those financial assets that are measured at fair value through other comprehensive income of the Bank. The retained earnings of the Bank is the accumulated undistributed and unallocated net income over the years.

## Notes to the Financial Statements

### 3.18 Income and Expense

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

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

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

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

#### i) **Amortized cost (AC) and gross carrying amount**

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

#### ii) **Calculation of interest income and expense**

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

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

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

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

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

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

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

## Notes to the Financial Statements

### iii) Fees and commissions

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

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

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

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

### iv) Interest rate benchmark reform

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

## 3.19 Staff Retirement and Termination Benefits

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

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

Actuarial and asset gains or losses are recognized in 'Other comprehensive income', and net gains or losses are included in remeasurements where any change in the effect of the asset ceiling, excluding those amounts that have been already included in personnel expenses, are also included.

- b. The second pillar is a defined post-employment contribution scheme to which both the employee and the Bank contribute equally at a rate of 0-12% of basic salary. The Bank has no obligation to pay further contribution if the employee discontinues their contribution. Each employee determines his/her contribution rate and the mode of investment of the contributions.
- c. The third pillar is a defined contribution scheme funded entirely by each employee, up to 40% of basic salary and is not recorded in the Bank's financial statements.

## Notes to the Financial Statements

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

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

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

### 3.20 Related Parties

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

### 3.21 Leases – the Bank as a Lessee

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

The Bank applied the practical expedient in IFRS 16 to contracts that were identified as leases in order to determine whether an arrangement contains a lease, on transition to contracts that were previously identified as leases under IAS 17 and IFRIC 4. Consequently, the Bank's leases are only for office space; and does not lease land, corporate vehicles, or technical or IT equipment, nor does the Bank have any sale-and-leaseback transactions. The Bank elected to apply the modified retrospective transition approach, without restatement of comparative figures. Under this approach, the Bank was able to choose on a lease by lease basis to measure the right-of-use asset at the same amount as the lease liability.

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

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

## Notes to the Financial Statements

### 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Bank's financial statements requires Management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, income and expense and accompanying notes. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets and liabilities affected in future periods. The Bank believes that the significant judgments, estimates and assumptions used in the preparation of its condensed interim financial statements are appropriate given the factual circumstances as of the date of preparation. The most significant areas, for which critical judgments, estimates and assumptions are required in applying the Bank's accounting policies, are the following:

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

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

- Criteria used for staging assessment of loans and advances to customers.
- Assumptions for future cashflows of individually assessed credit-impaired exposures.
- The input and assumptions used to estimate the impact of multiple economic scenarios.

For loans that are individually assessed which have a lifetime ECL and that are credit-impaired in Stage 3, the impairment allowance results from the impairment test that is conducted on the basis of objective evidence obtained through a risk asset review process. An impairment test includes projected cash in-flows and out-flows, available for debt service until maturity, which are discounted at the original effective interest rate (EIR) to reach a net present value for a particular operation, less any collateral that can be realized.

#### 4.1 Covid-19

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

1. The Bank's equity investments which will likely see a reduced fair value due to the downward pressure, although the Bank has a small portfolio such investments, and therefore the Bank's profitability will not be materially impacted.
2. The Bank's loan portfolio due to business disruption that can occur in economic activity in the region will put pressure for borrowers, affecting those operating primarily in the service and consumer goods industries. This could likely force debt restructuring and an increase in defaults among less robust operations. The Bank's profitability could be impacted by a severe increase in ECL on performing loans, driven by worsening of the macro-economic outlook scenarios.

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



## Notes to the Financial Statements

### 5. RISK MANAGEMENT

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

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

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

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

Once an operation is approved and disbursed, it is then monitored to ensure thorough and regular evaluations of its credit quality. Operations are monitored according to a schedule coordinated by the of Project Implementation and Monitoring Department, with inputs from the originating Operation Teams regarding the availability of financial data. Monitoring reports are completed by the Bank's Project Implementation and Monitoring Department based on financial analysis prepared by the Financial Analysis Department. Risk asset reviews, based on the previously mentioned monitoring reports, are performed by the Risk Management Department, and may result in a downgrade or upgrade of an operation's status and, if a significant deterioration is noted, trigger an impairment test.

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

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

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

## Notes to the Financial Statements

### Financial Risk

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

#### a) Credit risk

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

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

For credit risks incurred by the Bank's Treasury in its investment and hedging activities, the BoD has approved policies and guidelines for the determination of counterparty and investment exposure limits in bonds, that includes member state bonds, and euro commercial paper. The Bank's Risk Management Department assigns and monitors these counterparty and issuer credit risk limits. Treasury credit risks are also reviewed on a regular basis by the Bank's ALCO.

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

	At 31 December 2021	At 31 December 2020
Presented in EUR (000)		
Cash and due from banks	170,175	34,328
Deposits in margin accounts	30,740	26,240
Debt investment securities	652,448	687,961
Derivative financial instruments	24,279	26,701
Loans	2,344,438	2,042,921
Equity investments	25,777	26,310
Accrued interest receivable	27,181	23,512
Other assets	15,954	9,490
<b>On-balance-sheet</b>	<b>3,290,992</b>	<b>2,877,463</b>
Undrawn commitments	237,471	274,031
<b>Total</b>	<b>3,528,463</b>	<b>3,151,494</b>

## Notes to the Financial Statements

**a1. Analysis by rating agency**

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

Presented in EUR (000)	2021				Total
	Aaa – Aa3	A1 – A3	Baa1 – Ba3	Unrated	
Analysis by Moody’s rating					
Cash and bank balances	170,175	-	-	-	170,175
Deposits in margin accounts	20,100	10,640	-	-	30,740
Debt investment securities	9,063	553,167	90,218	-	652,448
Derivatives financial instruments	-	-	-	24,279	24,279
Equity investments	-	-	-	25,777	25,777
Accrued interest receivable	-	-	-	27,181	27,181
Other assets	-	-	-	15,954	15,954
At 31 December	199,338	563,807	90,218	93,191	946,554

Of which issued by

Corporates/governments	9,063	553,167	90,218	25,777	<b>678,225</b>
Cash deposits at banks	190,275	10,640	-	-	<b>200,915</b>
Other	-	-	-	67,414	<b>67,414</b>
<b>At 31 December</b>	<b>199,338</b>	<b>563,807</b>	<b>90,218</b>	<b>93,191</b>	<b>946,554</b>

Of which classified as

Fair value through profit or loss	-	-	-	25,070	<b>25,070</b>
Fair value through other comprehensive income	9,063	553,167	90,218	24,986	<b>677,434</b>
Amortized cost	190,275	10,640	-	43,135	<b>244,050</b>
<b>At 31 December</b>	<b>199,338</b>	<b>563,807</b>	<b>90,218</b>	<b>93,191</b>	<b>946,554</b>

## Notes to the Financial Statements

	2020				
Presented in EUR (000)	Aaa – Aa3	A1 – A3	Baa1 – Ba3	Unrated	Total
Analysis by Moody’s rating					
Cash and bank balances	34,328	-	-	-	34,328
Deposits in margin accounts	26,240	-	-	-	26,240
Debt investment securities	93,950	353,346	240,665	-	687,961
Derivatives financial instruments		-	-	26,701	26,701
Equity investments	-	-	-	26,310	26,310
Accrued interest receivable	-	-	-	23,512	23,512
Other assets	-	-	-	9,490	9,490
At 31 December	154,518	353,346	240,665	86,013	834,542
Of which issued by					
Corporates/governments	93,950	353,346	240,665	26,310	714,27
Cash deposits at banks	60,568	-	-	-	160,568
Other	-	-	-	59,703	59,703
At 31 December	154,518	353,346	240,665	86,013	834,542
Of which classified as					
Fair value through profit or loss	-	-	-	27,492	27,492
Fair value through other comprehensive income	93,950	353,346	240,665	25,519	713,480
Amortized cost	60,568	-	-	33,002	93,570
At 31 December	154,518	353,346	240,665	86,013	834,542

**a2. Credit risk analysis**

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

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

## Notes to the Financial Statements

**a3. Credit risk in loans portfolio**

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

Credit risk for 2021 is analyzed as follows:

Presented in EUR (000)								
Internal risk rating category	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total	ECL allowance			Total
					12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
At 1 January 2021	1,720,472	231,532	78,392	<b>2,030,396</b>	15,499	3,055	37,383	<b>55,937</b>
Excellent	-	-	-	-	-	-	-	-
Very strong	-	-	-	-	-	-	-	-
Strong	-	-	-	-	-	-	-	-
Good	3,053	-	-	<b>3,053</b>	1	-	-	<b>1</b>
Fair	827,702	-	-	<b>827,702</b>	729	-	-	<b>729</b>
Weak	1,141,657	153,694	19,247	<b>1,314,598</b>	4,226	175	8,297	<b>12,698</b>
Special attention	6,073	126,321	20,036	<b>152,430</b>	27	444	3,327	<b>3,798</b>
Expected loss	-	-	31,641	<b>31,641</b>	-	-	26,997	<b>26,997</b>
<b>At 31 December 2021</b>	<b>1,978,485</b>	<b>280,015</b>	<b>70,924</b>	<b>2,329,424</b>	<b>4,983</b>	<b>619</b>	<b>38,621</b>	<b>44,223</b>

Credit risk for 2020 is analyzed as follows:

Presented in EUR (000)								
Internal risk rating category	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total	ECL allowance			Total
					12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
At 1 January 2020	1,484,999	272,290	50,898	<b>1,808,187</b>	2,891	5,986	34,437	<b>43,314</b>
Excellent	-	-	-	-	-	-	-	-
Very strong	-	-	-	-	-	-	-	-
Strong	-	-	-	-	-	-	-	-
Good	4,906	-	-	<b>4,906</b>	1	-	-	<b>1</b>
Fair	608,957	-	-	<b>608,957</b>	1,251	-	-	<b>1,251</b>
Weak	1,106,609	140,832	-	<b>1,247,441</b>	14,247	1,215	-	<b>15,462</b>
Special attention	-	90,700	50,726	<b>141,426</b>	-	1,840	14,585	<b>16,425</b>
Expected loss	-	-	27,666	<b>27,666</b>	-	-	22,798	<b>22,798</b>
<b>At 31 December 2020</b>	<b>1,720,472</b>	<b>231,532</b>	<b>78,392</b>	<b>2,030,396</b>	<b>15,499</b>	<b>3,055</b>	<b>37,383</b>	<b>55,937</b>



## Notes to the Financial Statements

### a5. Credit risk by country and sector

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

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

Presented in EUR (000)	At 31 December 2021		At 31 December 2020	
	Outstanding balance	Undrawn commitments	Outstanding balance	Undrawn commitments
Concentration by instrument				
Loans	2,344,438	208,203	2,042,921	245,143
Equity investments	25,777	6,833	26,310	6,962
Guarantees	-	22,435	-	21,926
<b>At end of year</b>	<b>2,370,215</b>	<b>237,471</b>	<b>2,069,231</b>	<b>274,031</b>
Concentration by country				
Albania	29,673	27	34,624	27
Armenia	108,823	4,507	91,269	98
Azerbaijan	49,438	12	105,366	12
Bulgaria	248,397	57,946	156,921	124,254
Georgia	52,921	20,004	100,979	11,803
Greece	335,926	100,192	380,255	8,788
Moldova	48,686	27	36,662	4,464
Romania	224,213	29,055	121,246	729
Russia	477,945	8,236	322,708	52,107
Türkiye	507,258	5,459	478,820	49,748
Ukraine	286,935	12,006	240,381	22,001
<b>At end of year</b>	<b>2,370,215</b>	<b>237,471</b>	<b>2,069,231</b>	<b>274,031</b>
Concentration by sector				
Consumer discretionary	91,695	8,659	77,272	10,000
Consumer staples	217,544	20,000	115,264	28,039
Energy	57,251	92,395	194,763	-
Financial institutions	541,638	23,609	566,994	9,678
Health care	107,456	4,616	97,734	19,014
Industrials	510,462	4,526	363,011	144,397
Information technology	3,976	-	4,056	-
Materials	318,048	26,488	240,177	12,224
Real estate	99,736	25,954	44,670	25,954
Telecom services	-	-	-	-
Utilities	422,409	31,224	365,290	24,725
<b>At end of year</b>	<b>2,370,215</b>	<b>237,471</b>	<b>2,069,231</b>	<b>274,031</b>
Incurred by				
Sovereign	356,314	95,669	354,973	20,464
Non-sovereign	2,013,901	141,802	1,714,258	253,567
<b>At end of year</b>	<b>2,370,215</b>	<b>237,471</b>	<b>2,069,231</b>	<b>274,031</b>

## Notes to the Financial Statements

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

### a6. Collateral and credit enhancements

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

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

The main types of collateral that may be obtained by the Bank are: mortgages on properties and equipment, pledges of equity shares and investment instruments, assignment of rights on certain contracts, cash or blocked deposits and other third party guarantees. If necessary, the Bank reassesses the value of collateral in order to determine if additional collateral is needed to be provided by the borrower. At 31 December 2021 the secured portfolio was 55.8% (2020: 53.9%) of the outstanding loans balance.

- Other financial instruments. Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Bonds and euro commercial paper held by the Bank as investment securities are generally unsecured. The Bank may hold cash or government securities as collateral against its derivative contract counterparties. At 31 December 2021 the Bank had pledged as collateral for derivative transactions a net amount of EUR 14,150 thousand (2020: EUR 3,320 thousand).
- For loans that are credit-impaired at the reporting date the Bank has collateral held as security, an amount of EUR 38,864 thousand to mitigate credit risk. The types of collateral with approximate values are real estate EUR 21,782 thousand, machinery and equipment EUR 6,175 thousand, and pledged shares EUR 10,907 thousand.

### b) Liquidity risk

Liquidity risk arises in the general funding of the Bank's financing and investment activities and in the management of positions. It concerns the ability of the Bank to fulfill its financial obligations as they become due and is a measure of the extent to which the Bank may require funds to meet those obligations. It involves both the risk of unexpected increases in the cost of funding the portfolio of assets at appropriate maturities and rates and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

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

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

## Notes to the Financial Statements

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

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

The table below presents the maturity profile of the undiscounted cash flows for financial liabilities placed based on the remaining period from the financial position date to the contractual maturity date. It indicates the earliest maturity dates that the Bank's counterparties have the ability to demand repayment.

The figures represent undiscounted cash flows (except for derivatives liabilities), and include estimated interest amounts, and therefore do not match to the statement of financial position.

Contractual maturities for financial liabilities at 31 December 2021 and 31 December 2020 were:

Presented in EUR (000)	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
Borrowings	22,073	60,808	330,493	1,371,971	690,781	<b>2,476,126</b>
Derivative financial instruments	-	1,854	3,087	14,732	26,196	<b>45,869</b>
Other and lease liabilities	-	1,616	8,684	-	-	<b>10,300</b>
<b>Financial Liabilities at 31 December 2021</b>	<b>22,073</b>	<b>64,278</b>	<b>342,264</b>	<b>1,386,703</b>	<b>716,977</b>	<b>2,532,295</b>
Borrowings	18,223	60,944	555,212	1,167,718	229,256	<b>2,031,353</b>
Derivative financial instruments	-	-	12,540	1,514	14,881	<b>28,935</b>
Other and lease liabilities	-	1,513	10,229	-	-	<b>11,742</b>
<b>Financial Liabilities at 31 December 2020</b>	<b>18,223</b>	<b>62,457</b>	<b>577,981</b>	<b>1,169,232</b>	<b>244,137</b>	<b>2,072,030</b>

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

### c) Market Risk

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

The Bank funds its operations by using the Bank's own share capital and by borrowing on the international capital markets. The Bank aims to match, wherever possible, the currencies, tenors and interest rate characteristics of its borrowings with those of its lending portfolios. When necessary, the Bank uses derivative instruments to reduce its exposure to exchange rate and interest rate risks.

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

## Notes to the Financial Statements

### c1. Foreign exchange risk

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

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

<b>At 31 December 2021</b>		United	Swiss		
Presented in EUR (000)	Euro	States	franc	Other	Total
<b>Assets</b>					
Cash and due from banks	79,921	88,793	-	1,461	<b>170,175</b>
Deposits in margin accounts	30,740	-	-	-	<b>30,740</b>
Debt investment securities	375,444	277,004	-	-	<b>652,448</b>
Derivative financial instruments	7,914	15,394	-	971	<b>24,279</b>
Loans	1,565,941	703,859	-	74,638	<b>2,344,438</b>
Deferred income	(9,724)	(4,694)	-	(282)	<b>(14,700)</b>
Impairment losses on loans	(38,510)	(1,574)	-	(4,139)	<b>(44,223)</b>
Equity investments	12,588	13,109	-	80	<b>25,777</b>
Accrued interest receivable	12,830	8,103	-	6,248	<b>27,181</b>
Other assets	13,293	2,168	331	162	<b>15,954</b>
<b>Total</b>	<b>2,050,437</b>	<b>1,102,162</b>	<b>331</b>	<b>79,139</b>	<b>3,232,069</b>
<b>Liabilities</b>					
Borrowings	443,098	998,702	339,530	493,071	<b>2,274,401</b>
Margin accounts	16,590	-	-	-	<b>16,590</b>
Derivative financial instruments	29,261	16,608	-	-	<b>45,869</b>
Other and lease liabilities	10,300	-	-	-	<b>10,300</b>
<b>Total</b>	<b>499,249</b>	<b>1,015,310</b>	<b>339,530</b>	<b>493,071</b>	<b>2,347,160</b>
<b>Currency balance at 31 December 2021</b>	<b>1,551,188</b>	<b>86,852</b>	<b>(339,199)</b>	<b>(413,932)</b>	<b>884,909</b>

## Notes to the Financial Statements

<b>At 31 December 2020</b>					
Presented in EUR (000)	Euro	United States dollar	Swiss franc	Other	Total
<b>Assets</b>					
Cash and due from banks	6,507	26,785	-	1,036	<b>34,328</b>
Deposits in margin accounts	26,240	-	-	-	<b>26,240</b>
Debt investment securities	485,640	202,321	-	-	<b>687,961</b>
Derivative financial instruments	2,667	23,141	-	893	<b>26,701</b>
Loans	1,275,916	562,747	-	204,258	<b>2,042,921</b>
Deferred income	(9,336)	(3,988)	-	(489)	<b>(13,813)</b>
Impairment losses on loans	(48,495)	(3,083)	-	(4,359)	<b>(55,937)</b>
Equity investments	10,851	15,374	-	85	<b>26,310</b>
Accrued interest receivable	7,596	9,580	16	6,320	<b>23,512</b>
Other assets	6,372	2,308	535	275	<b>9,490</b>
Total	1,763,958	835,185	551	208,019	<b>2,807,713</b>
<b>Liabilities</b>					
Borrowings	342,087	1,042,201	185,697	331,729	<b>1,901,714</b>
Margin accounts	22,920	-	-	-	<b>22,920</b>
Derivative financial instruments	15,812	10,107	-	3,016	<b>28,935</b>
Other and lease liabilities	11,742	-	-	-	<b>11,742</b>
Total	392,561	1,052,308	185,697	334,745	<b>1,965,311</b>
<b>Currency balance at 31 December 2020</b>	<b>1,371,397</b>	<b>(217,123)</b>	<b>(185,146)</b>	<b>(126,726)</b>	<b>842,402</b>

**c2. Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate, favorably or unfavorably, due to changes in market interest rates. The length of time for which the rate of interest is determined on a financial instrument indicates to what extent it is exposed to that interest rate risk.

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

The tables below provide information of the Bank's interest rate risk exposure on non-trading financial assets and liabilities. The Bank's assets and liabilities are included at carrying amount and categorized either on the contractual maturity date of the financial instruments (including derivative 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.



## Notes to the Financial Statements

At 31 December 2021	Interest bearing					Non-interest bearing	Total
	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		
Presented in EUR (000)							
<b>Assets</b>							
Cash and due from banks	170,174	-	-	-	-	1	<b>170,175</b>
Deposits in margin accounts	-	-	-	-	-	30,740	<b>30,740</b>
Debt investment securities	166,545	242,122	123,561	120,220	-	-	<b>652,448</b>
Derivative financial instruments	-	-	-	23,782	497	-	<b>24,279</b>
Loans	436,401	429,322	667,522	811,193	-	-	<b>2,344,438</b>
Equity investments	-	-	-	-	-	25,777	<b>25,777</b>
Accrued interest receivable	-	-	-	-	-	27,181	<b>27,181</b>
Other assets	-	-	-	-	-	15,954	<b>15,954</b>
Total	773,120	671,444	791,083	955,195	497	99,653	<b>3,290,992</b>
<b>Liabilities</b>							
Borrowings	22,073	266,343	450,956	1,524,093	-	10,936	<b>2,274,401</b>
Margin accounts	-	-	-	-	-	16,590	<b>16,590</b>
Derivative financial instruments	-	1,854	3,087	14,732	26,196	-	<b>45,869</b>
Other and lease liabilities	-	-	-	-	-	10,300	<b>10,300</b>
Total	22,073	268,197	454,043	1,538,825	26,196	37,826	<b>2,347,160</b>
<b>Interest rate risk at 31 December 2021</b>	<b>751,047</b>	<b>403,247</b>	<b>337,040</b>	<b>(583,630)</b>	<b>(25,699)</b>	<b>61,827</b>	<b>943,832</b>

At 31 December 2020	Interest bearing					Non-interest bearing	Total
	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		
Presented in EUR (000)							
<b>Assets</b>							
Cash and due from banks	34,326	-	-	-	-	2	<b>34,328</b>
Deposits in margin accounts	-	-	-	-	-	26,240	<b>26,240</b>
Debt investment securities	98,267	151,519	220,532	217,643	-	-	<b>687,961</b>
Derivative financial instruments	-	-	3,212	2,057	21,432	-	<b>26,701</b>
Loans	421,284	338,931	675,357	607,349	-	-	<b>2,042,921</b>
Equity investments	-	-	-	-	-	26,310	<b>26,310</b>
Accrued interest receivable	-	-	-	-	-	23,512	<b>23,512</b>
Other assets	-	-	-	-	-	9,490	<b>9,490</b>
Total	553,877	490,450	899,101	827,049	21,432	85,554	<b>2,877,463</b>
<b>Liabilities</b>							
Borrowings	32,842	126,128	641,012	1,092,348	-	9,384	<b>1,901,714</b>
Margin accounts	-	-	-	-	-	22,920	<b>22,920</b>
Derivative financial instruments	-	-	12,540	1,514	14,881	-	<b>28,935</b>
Other and lease liabilities	-	-	-	-	-	11,742	<b>11,742</b>
Total	32,842	126,128	653,552	1,093,862	14,881	44,046	<b>1,965,311</b>
<b>Interest rate risk at 31 December 2020</b>	<b>521,035</b>	<b>364,322</b>	<b>245,549</b>	<b>(266,813)</b>	<b>6,551</b>	<b>41,508</b>	<b>912,152</b>

## Notes to the Financial Statements

### c3. Sensitivity analysis

#### Currency risk sensitivity

The Bank is marginally sensitive to exchange rate fluctuations of the US dollar and the Euro. The Bank's paid-in capital is held in Euro and the Bank's loan portfolio is typically denominated as 60% Euro, 30% US dollar and 10% other local currencies. In addition, the Bank's administrative expenses are denominated in Euro, and the Bank's income is typically denominated as 60% Euro, 30% US dollar and 10% other local currency. The Bank has addressed this sensitivity to currency risk by increasing its percentage of loans denominated in Euro, and therefore increasing its Euro denominated income.

#### Interest rate sensitivity

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

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

	At 31 December 2021	At 31 December 2020
Presented in EUR (000)		
Euro	2,142,000	1,386,000
United States dollar	(973,000)	(43,000)
Total re-pricing gap	1,169,000	1,343,000
<b>Shift of 50 basis points in the EUR curve</b>	<b>5,846</b>	<b>6,716</b>

## Notes to the Financial Statements

### c4. Hedges of interest rate risk and foreign currency risk

#### Fair value hedges

The Bank uses pay floating/receive fixed interest rate and cross-currency interest rate swaps to hedge the interest rate and foreign currency risks, deriving from its issuance of both Euro and denominated in foreign currencies debt (mainly USD, AUD and RON). The Bank hedges interest rate risk to the extent of the benchmark interest rate exposure of the floating leg (mainly Euribor, USD Libor). Provided that the aforementioned exposures satisfy the hedge accounting criteria (please see Note 3.9.1), these are designated in fair value hedges.

Upon designation, the fair value change on the qualifying hedging instruments is recognized in profit or loss. Also, the change in fair value of the hedged item attributable to the hedged risk is recognized in the same line item in profit or loss. If the carrying amount of the hedged item is not already measured at fair value (measured at cost or amortized cost), then it is adjusted accordingly, with a corresponding entry. The Bank recognizes any ineffective portion of the fair value hedge relationships in profit and loss under the "Unrealized net fair value gains (losses) on derivative instruments" line item.

Upon hedge discontinuation, any hedging adjustment made to a hedged item for which the effective interest method is used, is amortized to profit or loss, by adjusting the effective interest rate from the date on which amortization begins. If the hedged item is derecognized, then the adjustment is recognized immediately in profit or loss.

The Bank establishes a hedge ratio 1:1, by aligning the par amount of the fixed-rate liability and the notional amount of the interest rate and cross currency swap designated as a hedging instrument. Note 3.9.1 sets out more details on the accounting policy of the fair value hedges.

At 31 December 2021, the Bank held the following interest rate and cross currency swaps as hedging instruments in fair value hedges of interest and foreign currency risk (2020: nil):

Presented in EUR (000)	At 31 December 2021	
	1–5 years	Over 5 years
<b>Interest Rate Swaps</b>		
Hedge of borrowings/euro notes:		
Nominal amount		120,000
Average fixed interest rate		1.44%
<b>Cross Currency Swaps</b>		
Hedge of borrowings/other notes:		
Nominal amount	15,847	19,330
Average EUR:AUD exchange rate		1.56
Average EUR:PLN exchange rate	4.60	
Average fixed interest rate	2.12%	2.91%

## Notes to the Financial Statements

The amounts relating to items designated as hedging instruments and hedge ineffectiveness at 31 December 2021 were as follows (2020: nil):

Presented in EUR (000)		At 31 December 2021					
	Nominal amount	Carrying amount		Line item in the statement of financial position where the hedging instrument is included	Change in fair value used for calculating hedge ineffectiveness for 2021	Ineffectiveness recognized in profit or loss	Line item in profit or loss that includes hedge ineffectiveness
		Assets	Liabilities				
Interest rate swaps – hedge of borrowings	120,000	-	6,118	Derivative financial instruments – liabilities	(6,118)	(471)	Net fair value gains (losses) on derivative instruments
Cross currency swaps – hedge of borrow- ings	35,178	-	3,177	Derivative financial instruments – liabilities	(3,177)	1,389	Net fair value gains (losses) on derivative instruments
<b>Total</b>	<b>155,178</b>	<b>-</b>	<b>9,294</b>		<b>(9,294)</b>	<b>918</b>	

The amounts relating to items designated as hedged items at 31 December 2021 were as follows (2020: nil):

Presented in EUR (000)		At 31 December 2021		
	Carrying amount	Line item in the statement of financial position in which the hedged item is included	Change in value used for calculating hedge ineffectiveness	
	<b>Assets</b>	<b>Liabilities</b>		
Euro Notes issued	-	114,353	Borrowings	5,647
Other Notes Issued	-	30,612	Borrowings	4,566
<b>Total</b>	<b>-</b>	<b>144,965</b>		<b>10,213</b>

During the year ended 31 December 2021, there were no amounts related to settled swaps.

## Notes to the Financial Statements

### Cash flow hedges

As part of the risk management strategy objective, the Bank also uses pay fixed/receive fixed cross-currency interest rate swaps, in order to hedge the exposure to the variability in cash flows attributable to interest rate risk and foreign exchange risk in respect to its issuance of fixed rate notes denominated in foreign currencies (e.g. CHF). When such hedging relationships meet the specified hedge accounting criteria, these are designated in cash flow hedges.

Upon designation, the effective portion of changes in the fair value of the derivatives that are designated and qualify as cash flow hedges is recognized in Other Comprehensive Income (OCI) and accumulated under the heading of cash flow hedge reserve, limited to the cumulative change in fair value of the hedged item from the inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit and loss and is included in the "Unrealized net fair value gains (losses) on derivative instruments" line item.

The Bank establishes a hedge ratio 1:1, by aligning the par amount of the fixed-rate liability and the notional amount of the interest rate and cross currency swap designated as a hedging instrument. Note 3.9.1 sets out more details on the accounting policy of the cash flow hedges.

At 31 December 2021, the Bank designated a pay fixed-receive fixed cross-currency interest rate swap (USD:CHF) in cash flow hedge relationship. The hedging instrument's nominal amount was EUR 143,177 thousand, with the corresponding hedged item being Swiss franc notes issued, as included in the Bank's statement of financial position (under "Borrowings" line item).

For this outstanding hedged designation, the balance in the cash flow hedge reserve amounts to EUR 493 thousand loss (2020: nil) (see Note 24).

During the year ended 31 December 2021, there were no amounts related to settled swaps.

### C5. Equity price risk

The Bank has a small equity investments portfolio and as such does not have significant market risk exposure concerning foreign exchange or equity price risk on this portfolio. At 31 December 2021 the Bank's equity investments are classified at FVTOCI, except for one, and are primarily unlisted.

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

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

### Operational Risk

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



## Notes to the Financial Statements

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

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

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

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

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

The Bank's anti-cyber attack controls are checked and aligned with industry best practice by the DIT.

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

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

### Fair Value Hierarchy

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

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

## Notes to the Financial Statements

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	-	24,279	-	<b>24,279</b>
Fair value through profit or loss:				
Loans	-	-	15,014	<b>15,014</b>
Equity investments	-	-	791	<b>791</b>
Fair value through other comprehensive income:				
Debt investment securities	652,448	-	-	<b>652,448</b>
Equity investments	-	-	24,986	<b>24,986</b>
Derivative financial instruments – liabilities	-	(45,869)	-	<b>(45,869)</b>
<b>At 31 December 2021</b>	<b>652,448</b>	<b>(21,590)</b>	<b>40,791</b>	<b>671,649</b>

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

Presented in EUR (000)	Level 1	Level 2	Level 3	Carrying Amount
Derivative financial instruments – assets	-	26,701	-	<b>26,701</b>
Fair value through profit or loss:				
Loans	-	-	12,525	<b>12,525</b>
Equity investments	-	-	791	<b>791</b>
Fair value through other comprehensive income:				
Debt investment securities	687,961	-	-	<b>687,961</b>
Equity investments	-	-	25,519	<b>25,519</b>
Derivative financial instruments – liabilities	-	(28,935)	-	<b>(28,935)</b>
<b>At 31 December 2020</b>	<b>687,961</b>	<b>(2,234)</b>	<b>38,835</b>	<b>724,562</b>

### Fair Value Measurement in Level 3

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

Presented in EUR (000)	At 31 December 2021	At 31 December 2020
At 1 January	12,525	12,754
Disbursements	1,806	-
Total gains (losses) recognized in the income statement	683	(229)
<b>At end of year</b>	<b>15,014</b>	<b>12,525</b>

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

## Notes to the Financial Statements

Presented in EUR (000)	At 31 December 2021	At 31 December 2020
At 1 January	26,310	30,386
Total gains (losses) recognized in the income statement	-	(7)
Total gains (losses) recognized in other comprehensive income	6,047	(3,577)
Disbursements	460	732
Repayments	(7,169)	(1,231)
Foreign exchange adjustments	129	7
<b>At end of year</b>	<b>25,777</b>	<b>26,310</b>

## Sensitivity Analysis for Level 3

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

Presented in EUR (000)	Valuation techniques	Carrying amount	Favorable change	Unfavorable change
Loans	Discounted cash flows models	15,014	751	(751)
Equity investments	Net asset value and EBITDA multiplies	25,777	1,289	(1,289)
<b>At 31 December 2021</b>		<b>40,791</b>	<b>2,040</b>	<b>(2,040)</b>

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

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

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

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

## Notes to the Financial Statements

## Financial Instruments not Measured at Fair Value

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

Presented in EUR (000)	At 31 December 2021			Carrying Amount	Fair value
	Level 1	Level 2	Level 3		
<b>Assets</b>					
Cash and due from banks	170,175	-	-	<b>170,175</b>	170,175
Deposits in margin accounts	30,740	-	-	<b>30,740</b>	30,740
Loans at amortized cost	294,330	-	2,035,094	<b>2,329,424</b>	2,335,855
Accrued interest receivable	-	-	27,181	<b>27,181</b>	27,181
Other assets	-	-	15,954	<b>15,954</b>	15,954
<b>Total financial assets</b>	<b>495,245</b>	<b>-</b>	<b>2,078,229</b>	<b>2,573,474</b>	<b>2,579,905</b>
<b>Liabilities</b>					
Borrowings	438,293	1,836,108	-	<b>2,274,401</b>	2,299,564
Margin accounts	16,590	-	-	<b>16,590</b>	16,590
Other and lease liabilities	-	8,684	1,616	<b>10,300</b>	10,300
<b>Total financial liabilities</b>	<b>454,883</b>	<b>1,844,792</b>	<b>1,616</b>	<b>2,301,291</b>	<b>2,326,454</b>

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

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

## Notes to the Financial Statements

### Capital Management

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

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

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

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

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

At the 36<sup>th</sup> meeting of the BoD in 2008, the operational gearing ratio was set at 100% of the Bank's unimpaired paid-up capital, reserves and surpluses, and the usable portion of the callable capital. This limit on the total amount of operations which includes all callable capital is approximately EUR 2.6 billion.

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

## Notes to the Financial Statements

## 6. OPERATING SEGMENTS

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

The Bank's primary source of revenues is interest income from above mentioned activities. In addition, the Bank also derives revenues from net fees and commissions and other income that comprise: dividend income, net gains from equity investments at fair value through profit or loss, net gains from loans, net gains from investment securities held at amortized cost and at fair value through profit or loss, and other income.

Information on the financial performance of Lending and Treasury activities is prepared regularly and provided to the President, the Bank's chief operating decision-maker. As such, these activities have been identified as the operating segments which the President assesses their performance in a manner associated with the financial statements and consistent with the prior year that is as follows:

Presented in EUR (000)	2021			2020		
	Lending	Treasury	Total	Lending	Treasury	Total
<b>Income statement</b>						
Interest income	97,702	7,469	105,171	88,338	9,518	97,856
Net fees and commissions	1,971	-	1,971	2,040	-	2,040
Other income	178	4,855	5,033	444	(1,752)	(1,308)
Total segment revenues	99,851	12,324	112,175	90,822	7,766	98,588
Interest expense	(57,491)	(1,001)	(58,492)	(60,442)	(606)	(61,048)
Net interest income (expense)						
on derivatives	-	13,799	13,799	-	7,427	7,427
Gains (losses) on other financial instruments	683	(16,602)	(15,919)	7,174	(2,049)	5,125
Foreign exchange	-	(559)	(559)	-	78	78
Personnel and administrative expenses	(19,312)	(1,614)	(20,926)	(18,697)	(1,561)	(20,258)
Depreciation and amortization	(466)	(12)	(478)	(515)	(10)	(525)
Segment income before impairment	23,265	6,335	29,600	18,342	11,045	29,387
Less: impairment / fair value (losses)	11,882	2,415	14,297	(12,894)	(2,278)	(15,172)
<b>Income for the year</b>	<b>35,147</b>	<b>8,750</b>	<b>43,897</b>	<b>5,448</b>	<b>8,767</b>	<b>14,215</b>



## Notes to the Financial Statements

	31 December 2021			31 December 2020		
Presented in EUR (000)	Lending	Treasury	Total	Lending	Treasury	Total
<b>Financial position</b>						
Segment assets	2,355,240	877,642	3,232,882	2,033,789	775,230	2,809,019
<b>At end of year</b>			<b>3,232,882</b>			<b>2,809,019</b>
Segment liabilities	2,284,701	62,459	2,347,160	1,913,456	51,855	1,965,311
Members' equity	-	-	885,722	-	-	843,708
<b>At end of year</b>			<b>3,232,882</b>			<b>2,809,019</b>

**Segment Revenues – Geographic**

The Bank's revenues arise from the following areas. Revenues are attributed to the area on the basis of an operation's location in which it operates:

Presented in EUR (000)	Year to 31 December 2021	Year to 31 December 2020
Albania, Bulgaria and Greece	22,589	17,522
Armenia, Azerbaijan, Georgia and Türkiye	34,104	41,696
Moldova, Romania, Russian Federation and Ukraine	43,158	31,604
Treasury	12,324	7,766
<b>Total segment revenues</b>	<b>112,175</b>	<b>98,588</b>

**7. INTEREST AND SIMILAR INCOME**

Interest and similar income is analyzed as follows:

Presented in EUR (000)	Year to 31 December 2021	Year to 31 December 2020
From loans at amortized cost	97,124	87,826
From due from banks	88	95
From debt securities at FVTOCI	7,381	9,423
Total interest income for financial instruments not measured at FVTPL	104,593	97,344
From loans at FVTPL	578	512
<b>Interest and similar income</b>	<b>105,171</b>	<b>97,856</b>

## Notes to the Financial Statements

**8. INTEREST AND SIMILAR EXPENSE**

Interest and similar expense is analyzed as follows:

Presented in EUR (000)	Year to 31 December 2021	Year to 31 December 2020
From borrowed funds	6,916	7,191
From issued debt	50,575	53,251
From other charges	1,001	606
<b>Interest and similar expense</b>	<b>58,492</b>	<b>61,048</b>

**9. NET INTEREST ON DERIVATIVES**

Net interest on derivatives is analyzed as follows:

Presented in EUR (000)	Year to 31 December 2021	Year to 31 December 2020
Interest on derivatives receivable	47,766	51,223
Interest on derivatives payable	(33,967)	(43,796)
<b>Net interest on derivatives</b>	<b>13,799</b>	<b>7,427</b>

**10. NET FEES AND COMMISSIONS**

Net fees and commissions is analyzed as follows:

Presented in EUR (000)	Year to 31 December 2021	Year to 31 December 2020
Guarantee fees	484	579
Management fees	538	448
Appraisal fees	-	8
Administration fees	50	54
Participation fees	398	123
Surveillance fees	37	51
Prepayment / cancellation fees	298	718
Other fees	166	59
<b>Net Fees and commissions</b>	<b>1,971</b>	<b>2,040</b>

## Notes to the Financial Statements

**11. PERSONNEL AND ADMINISTRATIVE EXPENSES**

Administrative expenses is analyzed as follows:

Presented in EUR (000)	Year to 31 December 2021	Year to 31 December 2020
Salaries and benefits	12,770	12,761
Staff retirement plans	3,582	3,336
<b>Personnel expenses</b>	<b>16,352</b>	<b>16,097</b>
Professional fees and related expenses	1,568	1,355
Utilities and maintenance	1,523	1,557
Other administrative	1,483	1,249
<b>Administrative expenses</b>	<b>4,574</b>	<b>4,161</b>

The average number of staff employed during the year was 117 (2020: 114). The number of staff at 31 December 2021 was 118 (2020: 115). Further analysis of the staff retirement plan is presented in the Note "Employee benefits".

The Bank may also provide personal loans and advances to staff, including those in Management. Such loans and advances are fully guaranteed by the second pillar of the staff retirement scheme, that installments repaid are deducted within the employee payroll. These amounts are fully repayable prior to departure of that employee and are granted in accordance with the Bank's Human Resources rules and regulations. At 31 December 2021 the outstanding balance granted was EUR 4,930 thousand (2020: EUR 5,160 thousand).

**12. IMPAIRMENT LOSSES ON LOANS**

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

Presented in EUR (000)	Stage 1	Stage 2	Stage 3	Total
At 31 December 2019	2,891	5,986	34,437	43,314
New loans originated	2,913	-	-	2,913
Release	(574)	(3,275)	(1,355)	(5,204)
Transfer	(2,465)	8	2,457	-
Change in model or risk parameters	13,072	401	1,712	15,185
Foreign exchange adjustments	(338)	(65)	132	(271)
At 31 December 2020	15,499	3,055	37,383	55,937
New loans originated	1,519	-	-	1,519
Release	(4,652)	(2,652)	(1,299)	(8,603)
Transfer	(248)	248	-	-
Change in model or risk parameters	(7,400)	-	2,602	(4,798)
Foreign exchange adjustments	265	(32)	(65)	168
<b>At 31 December 2021</b>	<b>4,983</b>	<b>619</b>	<b>38,621</b>	<b>44,223</b>

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

## Notes to the Financial Statements

Total impairment losses on loans was EUR 44,223 thousand in 2021, a decrease of EUR 11,714 thousand compared to 2020. The decrease in Expected Credit Loss (ECL) is mainly attributed to the stabilization of the Covid-19 pandemic, driven by modest improvements of macroeconomic variables used for some member countries as their economies bounced back from the Covid-19 pandemic. The increase amount in Stage 3 is due to the deterioration of a few loans reducing their carrying amount.

In 2019 the Bank purchased a portion of a loan in deep discount an amount of EUR 8,278 thousand which paid EUR 2,097 thousand and credited an impairment loss of EUR 6,181 thousand recognized in stage 3 rather than purchased credit impaired, as the loan agreement on the portion purchased specified that the contractual obligations would be identical as that of the Bank's.

### Staging Criteria 12-month ECL (Stage 1)

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

### Staging Criteria Lifetime ECL (Stages 2 and 3)

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

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

### Revolving Facilities and Undrawn Commitments

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

The estimate of the ECLs on irrevocable loan commitments is consistent with its expectations of drawdowns on that loan commitment. Therefore, the Bank considered (i) the expected portion of the loan commitment that will be drawn down within 12 months of the reporting date when estimating 12-month expected credit losses and (ii) the expected portion of the loan commitment that will be drawn down over the expected life of the reporting date when estimating lifetime expected credit losses. At 31 December 2021 the amount of expected credit losses was EUR 193 thousand for loan commitments of EUR 208,203 thousand (2020: EUR 983 thousand for loan commitments of EUR 245,143 thousand).

## 13. DEBT INVESTMENT SECURITIES

Debt investment securities are analyzed as follows:

	At 31 December 2021	At 31 December 2020
Presented in EUR (000)		
Bonds	136,132	291,179
Commercial papers	516,316	396,782
<b>Debt investment securities</b>	<b>652,448</b>	<b>687,961</b>

## Notes to the Financial Statements

**14. DERIVATIVE FINANCIAL INSTRUMENTS**

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

The first column shows the sum of notional amounts, which is the amount of a derivative's nominal value, whereas the second and third columns depict the fair value of the outstanding derivatives.

Presented in EUR (000)	At 31 December 2021		
	Notional amount of derivative contracts	Fair Value	
		Assets	Liabilities
Derivatives held for hedging:			
Derivatives designated and effective as hedging instruments carried at fair value hedges:			
Interest Rate Swaps	120,000	-	(6,118)
Cross Currency Swaps	35,178	-	(3,177)
Total Derivatives designated in fair value hedges:	155,178	-	(9,294)
Derivatives designated and effective as hedging instruments in cash flow hedges:			
Cross Currency Swaps	143,177	231	-
Total Derivatives designated in cash flow hedges:	143,177	231	-
Derivatives held for risk management purposes- not designated in hedging relationships:			
Interest Rate Swaps	379,263	15	(16,969)
Cross Currency Swaps	1,061,402	23,934	(19,606)
Forwards	-	-	-
Cap/floor	160,000	99	-
Total Derivatives held for risk management purposes- not designated in hedging relationships:	1,600,665	24,049	(36,575)
Total	1,899,019	24,279	(45,869)

## Notes to the Financial Statements

Presented in EUR (000)

At 31 December 2020

	Notional amount of derivative contracts	Fair Value	
		Assets	Liabilities
Derivatives held for hedging:			
Derivatives designated and effective as hedging instruments carried at fair value hedges:			
Interest Rate Swaps	-	-	-
Cross Currency Swaps	-	-	-
Total Derivatives designated in fair value hedges:	-	-	-
Derivatives designated and effective as hedging instruments in cash flow hedges:			
Cross Currency Swaps	-	-	-
Total Derivatives designated in cash flow hedges:	-	-	-
Derivatives held for risk management purposes- not designated in hedging relationships:			
Interest Rate Swaps	801,225	1,625	(11,548)
Cross Currency Swaps	902,619	23,499	(16,397)
Forwards	83,433	1,577	(990)
Cap/floor	160,000	-	-
Total Derivatives held for risk management purposes- not designated in hedging relationships:	1,947,277	26,701	(28,935)
<b>Total</b>	<b>1,947,277</b>	<b>26,701</b>	<b>(28,935)</b>

The Bank enters into derivatives for risk management purposes and contains derivatives which are designated as hedging instruments in qualifying hedge relationships, more details of which are provided in Note 5. Derivatives which are not designated as hedging instruments in qualifying hedge relationships, are used to manage the Bank exposure to interest rate and foreign exchange risks.

The Bank's exposure to derivative contracts is monitored on regular basis as part of its overall risk management framework. For more information about how the Bank manages its market risks, see Note 5.

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 derivative assets and financial liabilities are generally not offset in the statement of financial position unless the IFRS netting criteria are met.



## Notes to the Financial Statements

**15. LOANS**

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

Presented in EUR (000)	At 31 December 2021	At 31 December 2020
Loans at amortized cost:		
At 1 January	2,030,396	1,808,187
Disbursements	1,072,130	783,932
Less: repayments	(833,928)	(482,661)
Write-offs	-	-
Foreign exchange movements	60,826	(79,062)
Outstanding disbursements	2,329,424	2,030,396
Less: deferred income	(14,700)	(13,813)
Less: impairment losses	(44,223)	(55,937)
Loans at fair value:		
Outstanding disbursements	19,705	14,939
Fair value adjustment	(4,691)	(2,414)
<b>Loans net of impairment</b>	<b>2,285,515</b>	<b>1,973,171</b>

At 31 December 2021 the principal amount of outstanding disbursements was EUR 2,349,129 thousand (2020: EUR 2,045,335 thousand).

For the year ended the amount of accrued interest receivable pertaining to loans was EUR 25,260 thousand (2020: 19,671 thousand).

The carrying amount of loans with respect to their related stages and allowance for impairment is analyzed below as Stage 1 (stable), Stage 2 (significant increase in credit risk) and Stage 3 (credit-impaired):

Presented in EUR (000)	At 31 December 2021	At 31 December 2020
Stage 1	1,385,983	1,222,927
New loans originated	664,414	529,120
Transfer	(71,912)	(31,575)
Less: deferred income	(14,700)	(13,813)
Less: allowance for impairment	(4,983)	(15,499)
Carrying amount	1,958,802	1,691,160
Stage 2	208,103	226,745
Transfer	71,912	4,787
Less: allowance for impairment	(619)	(3,055)
Carrying amount	279,396	228,477
Stage 3	70,924	51,604
Transfer	-	26,788
Less: allowance for impairment	(38,621)	(37,383)
Carrying amount	32,303	41,009
Fair value through profit or loss	15,014	12,525
<b>Carrying amount</b>	<b>2,285,515</b>	<b>1,973,171</b>

Interest is generally based on Libor for USD loans and Euribor for EUR loans plus a margin. Margins are dependent on the risk category of each loan and typically range from 1.5% to 8.0%. Further analysis of the loan portfolio is presented in Note "Risk management".

## Notes to the Financial Statements

## 16. EQUITY INVESTMENTS

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

Presented in EUR (000)	% of Investment	At 31 December 2021		At 31 December 2020	
		Cost	Fair Value	Cost	Fair value
Balkan Accession Fund	9.09	-	791	-	791
At fair value through profit or loss		-	791	-	791
SEAF Caucasus Growth Fund	21.39	5,631	5,494	5,074	4,954
Access Bank, Azerbaijan	0.06	783	81	722	85
A-Park Kaluga, Russia	19.99	1,714	980	1,714	940
Emerging Europe Accession Fund	10.15	2,064	6,865	2,194	5,685
Rusal	0.01	4	363	4	161
ADM Ceecat Recovery Fund	5.37	3,750	3,190	3,901	3,059
European Virgin Fund	21.05	724	7,251	6,253	10,258
Teamnet International	8.33	5,599	-	5,599	-
Natfood	37.98	-	-	-	-
EOS Hellenic Renaissance Fund	2.01	544	762	1,055	377
At fair value through other comprehensive income		20,813	24,986	26,516	25,519
<b>Equity investments at fair value</b>		<b>20,813</b>	<b>25,777</b>	<b>26,516</b>	<b>26,310</b>

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 2021, as Management considers that these provide the best available estimate of the investments' fair value. The techniques applied to perform these valuations include equity calculations based on EBITDA and market data.

During the year the Bank had realized a net income of EUR 182 thousand from its investment in the Balkan Accession Fund.

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

As of 31 December 2021 the Bank has a committed amount of EUR 6,833 thousand towards further participation in the above entities. Further analysis of the equity investment portfolio is presented in the Note "Risk management".

As of 31 December 2021 the Bank has few equity investments where it holds slightly more than 20 per cent of the investee share capital, but does not exert significant influence, hence the investments are not accounted for as an investment in an associate under IAS 28.

## Notes to the Financial Statements

**17. OTHER ASSETS**

Other assets is analyzed as follows:

Presented in EUR (000)	At 31 December 2021	At 31 December 2020
Advances and prepaid expenses	3,508	4,068
Accrued interest on derivatives	7,259	-
Other prepayments	187	187
Other financial assets	4,930	5,160
Guarantee deposits and non-current	70	75
<b>Other assets</b>	<b>15,954</b>	<b>9,490</b>

**18. PROPERTY AND EQUIPMENT**

Property and equipment is analyzed as follows:

Presented in EUR (000)	Buildings (leasehold)	Vehicle	Furniture and office accessories	Computers and office equipment	Total
Cost					
At 31 December 2019	882	150	603	1,775	3,410
Additions	3	-	40	168	211
Disposals	-	-	-	-	-
At 31 December 2020	885	150	643	1,943	3,621
Additions	22	-	12	154	188
Disposals	-	-	(5)	(24)	(29)
<b>At 31 December 2021</b>	<b>907</b>	<b>150</b>	<b>650</b>	<b>2,073</b>	<b>3,780</b>
Accumulated depreciation					
At 31 December 2019	859	78	521	1,463	2,921
Charges	15	30	40	186	271
Disposals	-	-	-	-	-
At 31 December 2020	874	108	561	1,649	3,192
Charges	13	18	29	189	249
Disposals	-	-	(5)	(24)	(29)
<b>At 31 December 2021</b>	<b>887</b>	<b>126</b>	<b>585</b>	<b>1,814</b>	<b>3,412</b>
Net book value					
<b>At 31 December 2021</b>	<b>20</b>	<b>24</b>	<b>65</b>	<b>259</b>	<b>368</b>
At 31 December 2020	11	42	82	294	429
At 31 December 2019	23	72	82	312	489

## Notes to the Financial Statements

**19. INTANGIBLE ASSETS**

Intangible assets comprising computer software is analyzed as follows:

Presented in EUR (000)	Total
Cost	
At 31 December 2019	4,642
Additions	130
At 31 December 2020	4,772
Additions	132
<b>At 31 December 2021</b>	<b>4,904</b>
Accumulated amortization	
At 31 December 2019	4,220
Charges	254
At 31 December 2020	4,474
Additions	230
<b>At 31 December 2021</b>	<b>4,704</b>
Net book value	
<b>At 31 December 2021</b>	<b>200</b>
At 31 December 2020	298
At 31 December 2019	422

## Notes to the Financial Statements

## 20. BORROWINGS

Borrowing facilities and bond issues debt evidenced by certificates, arranged as at the financial position date, are analyzed below. In addition to medium- or long-term borrowings and bond issuance, the Bank utilizes short-term financing in the form of ECP issuance or borrowings from commercial banks for cash management purposes.

Presented in EUR (000)	At 31 December 2021		At 31 December 2020	
	Amount used	Amount arranged	Amount Used	Amount arranged
Borrowed by				
Amounts borrowed	2,263,465	2,360,389	1,892,330	1,983,076
Accrued interest payable	10,936	-	9,384	-
<b>Total</b>	<b>2,274,401</b>	<b>2,360,389</b>	<b>1,901,714</b>	<b>1,983,076</b>
Denomination by				
Euro	440,525	537,449	339,581	389,581
United States dollar	994,362	994,362	1,038,768	1,079,514
Swiss franc	339,004	339,004	185,223	185,223
Romanian lei	200,985	200,985	173,046	173,046
Azerbaijani manat	5,191	5,191	4,841	4,841
Georgian lari	18,550	18,550	67,109	67,109
Pound sterling	59,285	59,285	-	-
Czech koruna	84,480	84,480	34,296	34,296
Hungarian forint	48,755	48,755	49,466	49,466
Japanese yen	38,266	38,266	-	-
Australian dollar	18,834	18,834	-	-
Polish zloty	15,228	15,228	-	-
Accrued interest payable	10,936	-	9,384	-
<b>Total</b>	<b>2,274,401</b>	<b>2,360,389</b>	<b>1,901,714</b>	<b>1,983,076</b>
Maturity by				
Short-term, within one year	364,302	364,302	579,700	579,700
Long-term, over one year	1,899,163	1,996,087	1,312,630	1,403,376
Accrued interest payable	10,936	-	9,384	-
<b>Total</b>	<b>2,274,401</b>	<b>2,360,389</b>	<b>1,901,714</b>	<b>1,983,076</b>

The interest rate on borrowings falls within a range of Euribor or USD Libor of plus 0 to 230 basis points. There is no collateral against the above borrowed funds.

## Notes to the Financial Statements

**21. OTHER LIABILITIES**

Other liabilities is analyzed as follows:

Presented in EUR (000)	At 31 December 2021	At 31 December 2020
Social insurance fund (EFKA) contributions	2	3
Pension plan obligation	8,684	10,229
Suppliers and other accrued expenses	1,512	1,068
Other	59	59
<b>Other liabilities</b>	<b>10,257</b>	<b>11,359</b>

**22. LEASE LIABILITY**

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

Presented in EUR (000)	Total
Lease liability due to initial application of IFRS 16 at 1 January 2019	1,931
Prepayment of rental	(196)
Interest expense on the lease liability	-
Lease payments recognized in administrative expenses	(676)
Lease liability at 31 December 2019	1,059
Lease payments recognized in administrative expenses	(676)
Lease liability at 31 December 2020	383
Renewal of lease term	349
Less payments recognized in administrative expenses	(689)
<b>Lease liability at 31 December 2021</b>	<b>43</b>

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

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



## Notes to the Financial Statements

### 23. SHARE CAPITAL

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

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

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

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

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

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

All participating members had fully subscribed to the initial authorized share capital in accordance with Article 5 of the Establishing Agreement. Subsequently, at the Sixth Annual Meeting of the Board of Governors held on 6 June 2004 three Member States, Armenia, Georgia and Moldova requested a 50% reduction of their portion of subscribed capital, from 2% to 1% of the initial authorized capital and the BoG approved their request. On 5 October 2008 the new shares pursuant to the capital increase of the Bank were offered in the same structure as the initial authorized share capital, in the amount of EUR 1.15 billion, and were fully subscribed by the Member States.

## Notes to the Financial Statements

Furthermore, Azerbaijan also subscribed to the 3% of the initial authorized share capital that remained unallocated, after the above mentioned participation reduction, while Romania subscribed both to their allocation of new shares and to those that would have been allocated to Georgia had it chosen to participate in the capital increase. This subscription process followed a decision taken by the BoG in December 2007 to triple the Bank's authorized capital to EUR 3.45 billion and to double the subscribed capital to EUR 2.3 billion, while leaving authorized capital of EUR 1.15 billion unallocated. On October 2011 the BoG approved the request from Moldova for a 50% reduction of its portion of subscribed capital, from 1% to 0.5%, and those shares were released to unallocated share capital.

The above share capital is analyzed as follows:

Presented in EUR (000)	At 31 December 2021	At 31 December 2020
Authorized share capital	3,450,000	3,450,000
Less: unallocated share capital*	(1,161,500)	(1,161,500)
Subscribed share capital	2,288,500	2,288,500
Less: shares not yet called	(1,601,950)	(1,601,950)
Paid-up share capital	686,550	686,550
Advance against future call	-	-
<b>Paid-in share capital</b>	<b>686,550</b>	<b>686,550</b>

\* Shares available to new or existing Member States.

### Initial Capital

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

### Capital Increase

The capital increase of EUR 1.15 billion is divided into EUR 345 million paid in capital and EUR 805 million callable capital. Pursuant to the Board of Governors decision in October 2008, the EUR 345 million paid in portion is divided into 10% (EUR 115 million) fully paid shares in 2010 and 20% (EUR 230 million) payable shares by promissory notes or other obligation issued by members in eight equal successive annual installments in the years 2011 to 2018. As of October 2011, the capital increase was reduced by EUR 11.5 million of the subscribed share capital, due to an approved reduction by the BoG in participation by Moldova.

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

Presented in EUR (000)	At 31 December 2021		
	Initial capital	Capital increase	Total
Authorized share capital	1,150,000	2,300,000	<b>3,450,000</b>
Less: unallocated share capital	(34,500)	(1,127,000)	<b>(1,161,500)</b>
Subscribed share capital	1,115,500	1,173,000	<b>2,288,500</b>
Less: shares not yet called	(780,850)	(821,100)	<b>(1,601,950)</b>
Paid-up share capital	334,650	351,900	<b>686,550</b>
Advance against future call	40	(40)	-
<b>Paid-in share capital</b>	<b>334,690</b>	<b>351,860</b>	<b>686,550</b>

## Notes to the Financial Statements

### Statement of Subscriptions

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

Member	Shares	Subscribed	Callable	Payable	Paid
Presented in EUR (000)					
Albania	40,000	46,000	32,200	-	13,800
Armenia	20,000	23,000	16,100	-	6,900
Azerbaijan	100,000	115,000	80,500	-	34,500
Bulgaria	270,000	310,500	217,350	-	93,150
Georgia	10,000	11,500	8,050	-	3,450
Greece	330,000	379,500	265,650	-	113,850
Moldova	10,000	11,500	8,050	-	3,450
Romania	280,000	322,000	225,400	-	96,600
Russian Fed.	330,000	379,500	265,650	-	113,850
Türkiye	330,000	379,500	265,650	-	113,850
Ukraine	270,000	310,500	217,350	-	93,150
<b>Total</b>	<b>1,990,000</b>	<b>2,288,500</b>	<b>1,601,950</b>	<b>-</b>	<b>686,550</b>

### 24. RESERVES

Reserves are analyzed as follows:

Presented in EUR (000)	General	Revaluation reserve	Other	Total
At 31 December 2019	73,386	(15,637)	(3,740)	54,009
Gains (losses) on revaluation of investments	-	1,120	-	1,120
Actuarial (losses) gains on defined benefit scheme	-	-	(2,036)	(2,036)
Transferred from retained earnings	5,205	-	-	5,205
At 31 December 2020	78,591	(14,517)	(5,776)	58,298
Gains (losses) on revaluation of investments	-	(3,700)	-	(3,700)
Actuarial (losses) gains on defined benefit scheme	-	-	2,310	2,310
Gains (losses) on cash flow hedging instruments	-	-	(493)	(493)
Transferred from retained earnings	43,897	-	-	43,897
<b>At 31 December 2021</b>	<b>122,488</b>	<b>(18,217)</b>	<b>(3,959)</b>	<b>100,312</b>

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

The revaluation reserve contains fair value movements recognized on the Bank's assets and liabilities that are recorded as other comprehensive income.

The other reserves contain movements to the remeasurements of the Bank's defined benefit pension scheme, and a foreign exchange translation adjustment of EUR 3,587 thousand which has been crystalized from 2013 onward when the unit of account of the Bank became the EUR and all the Bank's authorized share capital was redenominated from SDR to EUR (see section "Capital Management" of this report).

The cash flow hedge reserve that is included in other reserves, amount of EUR 493 thousand loss for 2021 (2020: nil) and comprises the effective portion of the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges.

## Notes to the Financial Statements

**25. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents is analyzed as follows:

Presented in EUR (000)	At 31 December 2021	At 31 December 2020
Cash on hand	1	2
Due from banks	170,174	34,326
Investments maturing up to 1 month:		
At fair value through other comprehensive income portfolio	165,049	86,782
Investment maturing from 1 month to 3 months:		
At fair value through other comprehensive income portfolio	236,268	151,556
<b>Cash and cash equivalents</b>	<b>571,492</b>	<b>272,666</b>

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

**26. EMPLOYEE BENEFITS****Under the Defined Benefit Scheme**

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

A qualified actuary performs an actuarial valuation of this scheme at each end of year using the projected unit method, which is rolled forward to the following year accounts. The most recent valuation date was 31 December 2021. The present value of the defined benefit obligation and current service cost was calculated using the projected unit credit method.

## Notes to the Financial Statements

	At 31 December 2021	At 31 December 2020
Presented in EUR (000)		
Amounts recognized in the statement of financial position		
Present value of the defined benefit obligations	36,375	34,427
Fair value of plan assets	(27,691)	(24,198)
<b>Net liability at end of the year</b>	<b>8,684</b>	<b>10,229</b>
Amounts recognized in the income statement		
Service cost	2,353	2,115
Net interest on the net defined benefit liability/(asset)	76	84
Administration expense	50	49
<b>Total included in personnel expenses</b>	<b>2,479</b>	<b>2,248</b>
Remeasurements recognized in other comprehensive income		
At 31 December	(9,363)	(7,327)
Liability gain (loss) due to changes in assumptions	905	(2,819)
Liability experiences gain (loss) arising during the year	(225)	319
Return on plan assets excluding income statement amounts	1,630	464
Total amount recognized in OCI during the year	2,310	(2,036)
<b>Cumulative in other comprehensive income (expense)</b>	<b>(7,053)</b>	<b>(9,363)</b>
Principal actuarial assumptions used		
Discount rate	1.22%	0.80%
Expected return on plan assets	1.22%	0.80%
Future salary increase	1.00%	1.00%
Future pension increase	2.10%	1.50%
Average remaining working life of employees	10 years	11 years

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

The expected return on assets as per provision of the revised IAS 19, has been set equal to the discount rate assumption, i.e. at 1.22% pa.

## Notes to the Financial Statements

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

Presented in EUR (000)	At 31 December 2021	At 31 December 2020
Major categories of plan assets		
Cash instruments	15%	12%
Fixed interest	45%	47%
Equities	36%	37%
Other	4%	4%
Reconciliation of plan assets		
Market value at 1 January	24,198	23,200
Expected return	199	290
Contributions paid	1,714	1,591
Benefit pensions and lump sum paid to pensioners	-	(1,298)
Expenses	(50)	(49)
Asset gain (loss)	1,630	464
<b>Fair value of plan assets</b>	<b>27,691</b>	<b>24,198</b>

The actual investment return on assets of the Fund for the year was 7.8%. 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 2022 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)	2021	2020	2019	2018	2017
Defined benefit obligations	36,375	34,437	30,736	24,445	27,111
Plan assets	(27,691)	(24,198)	(23,200)	(20,474)	(21,879)
Plan deficit (surplus)	8,684	10,229	7,536	3,971	5,232
<b>Net experience adjustments on plan liabilities (assets)</b>	<b>225</b>	<b>(319)</b>	<b>296</b>	<b>359</b>	<b>(419)</b>

### 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 2021		At 31 December 2020	
Presented in EUR (000)	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	(3,631)	3,631	(3,303)	3,303
Future salary growth (1% movement)	2,627	(2,627)	2,381	(2,381)

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



## Notes to the Financial Statements

### Under the Defined Contribution Scheme

Upon separation, a staff member will be entitled to receive in cash the full balance standing to the credit of his/her individual account for the second and third pillars. The pension expense under this scheme was EUR 1,093 thousand (2020: EUR 1,073 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 10 thousand (2020: EUR 15 thousand) and is included in 'Personnel expense'.

## 27. RELATED PARTIES

The Bank has the following related parties.

### Key Management Personnel

Key management personnel comprise: the President, Vice Presidents and Secretary General. They are entitled to a staff compensation package that includes a salary, medical insurance cover, participation in the Bank's retirement schemes and are eligible to receive other short-term benefits which can include a bonus. Key management personnel may receive post-employment benefits, other long-term benefits and termination benefits, but do not receive any share-based payments.

The amounts paid to key management personnel during the year were EUR 1,337 thousand (2020: EUR 1,257 thousand), of which comprises salary and employee benefits of EUR 1,126 thousand (2020: EUR 1,046 thousand) and post-employment benefits of EUR 211 thousand (2020: EUR 211 thousand).

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

### Special funds

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

## 28. EVENTS AFTER THE REPORTING PERIOD

There have been no material events since the reporting period that would require adjustment to these financial statements. Events after the reporting period that would require adjustment to these financial statements are those that provide evidence of conditions that existed at 31 December 2021.

Events after the reporting period, that are indicative of conditions that arose thereafter, do not lead to adjustment of the financial statements but are disclosed in the event that they are material.

The geopolitical turmoil that begun on February 24, and the consequences thereof, have negatively impacted the economies of Ukraine, Russia and possibly affect further the economies of other neighboring countries. Those developments will negatively impact the quality of some of the Bank assets, and are likely to result in a sizeable increase in impairment losses. The losses associated with these developments will be recognized in the 2022 financial statements and because of the high uncertainty that exists as how the situation will develop it is not possible currently to reliably estimate those losses.

## Notes to the Financial Statements

At 31 December 2021 the Bank carried on its statement of financial position the following loan and investment securities:

- Ukraine: Loans of EUR 299 million and Debt investment securities of EUR 14 million.
- Russian Federation: Loans of EUR 485 million and Equities of EUR 1.3 million.

At 6 June 2022 there had been no other material events after the reporting period to disclose.

On 6 June 2022 the Board of Directors reviewed the financial statements and authorized them for issue. These financial statements will be subsequently submitted for approval to the Board of Governors.

### 29. SUMMARY OF SPECIAL FUNDS

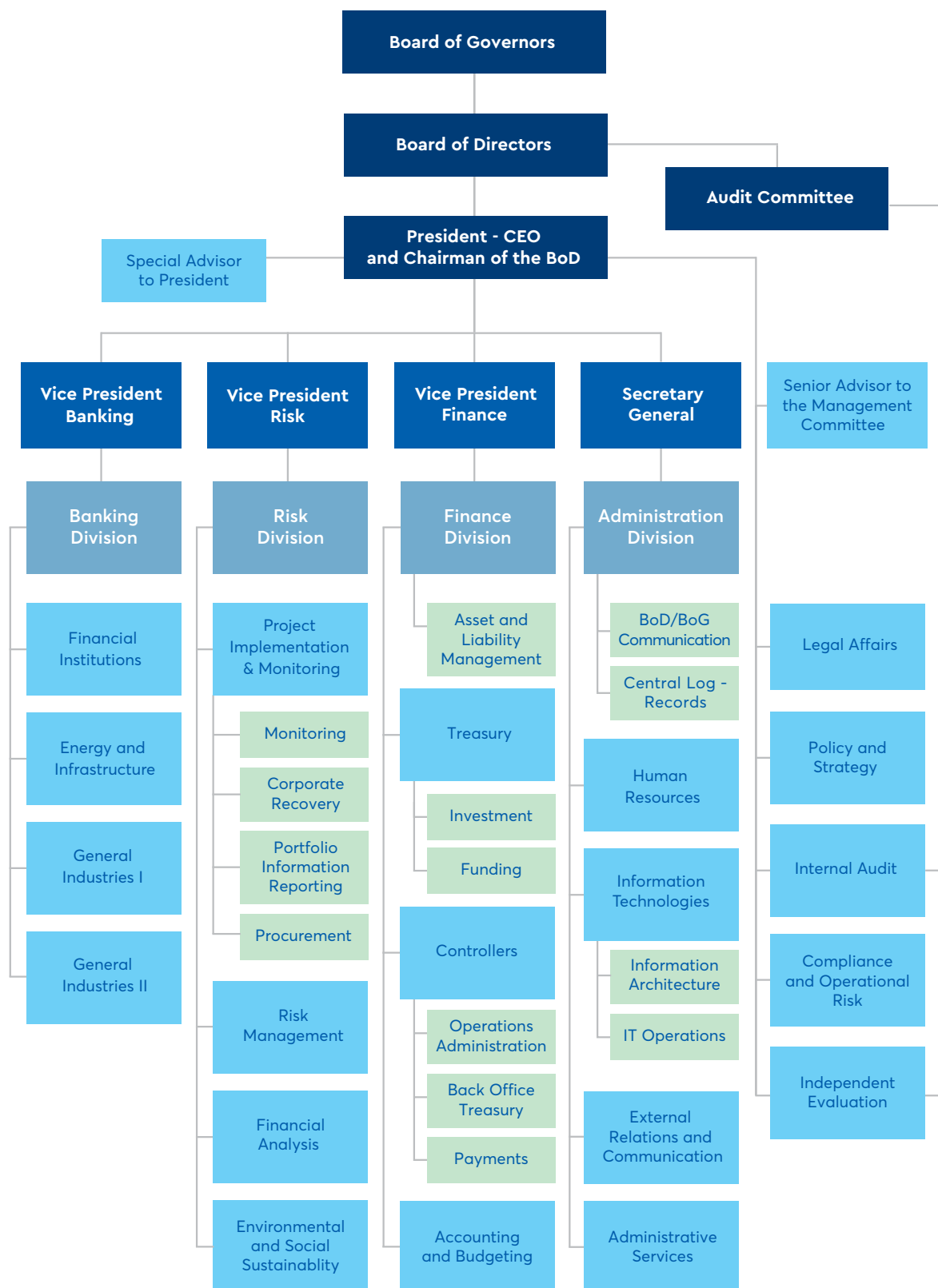
#### With the Hellenic Government

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 2021	At 31 December 2020
Statement of movements		
Balance brought forward	8	8
Net income (loss) for the year	-	-
Less: disbursements	-	-
<b>Balance of available funds</b>	<b>8</b>	<b>8</b>
Financial position		
Placements with other financial institutions	8	8
<b>Total Assets</b>	<b>8</b>	<b>8</b>
Unallocated fund balance	8	8
<b>Total Liabilities and Contributor Resources</b>	<b>8</b>	<b>8</b>

## Annex A

### Organizational Chart



As of 31 December 2021

## Annex B

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