



Black
Sea
Trade &
Development
Bank



BUILDING BRIDGES

between the countries of the Black Sea region

2006
annual report




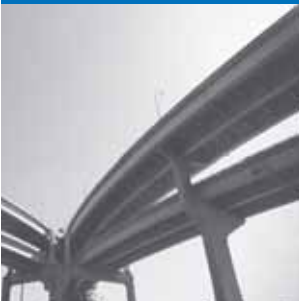




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Board of Governors

As of 31 December 2006

Republic of Albania

Governor: Mr. Sherefedin Shehu, Deputy Minister of Finance
Alternate Governor: Mr. Eno Bozdo, Deputy Minister of Economy, Trade and Energy

Republic of Armenia

Governor: Mr. Vardan Khachatryan, Minister of Finance and Economy
Alternate Governor: Mr. David Avetissian, Deputy Minister of Finance and Economy

Republic of Azerbaijan

Governor: Mr. Heydar Babayev, Minister of Economic Development
Alternate Governor: Mr. Samir Sharifov, Minister of Finance

Republic of Bulgaria

Governor: Mr. Georgi Kadiev, Deputy Minister of Finance
Alternate Governor: Mr. Dimiter Ivanovski, Deputy Minister of Finance

Georgia

Governor: Mr. Roman Gotsiridze, President, National Bank of Georgia
Alternate Governor: Mr. Lasha Gotsiridze, First Deputy Minister of Finance

Hellenic Republic

Governor: Mr. George Mergos, Secretary General, Ministry of Economy and Finance
Alternate Governor: Mr. Ioannis Papadakis, Senior Administrative Advisor, Commercial Bank of Greece

Republic of Moldova

Governor: Mr. Mihail Pop, Minister of Finance

Romania

Governor: Mr. Sebastian Vladescu, Minister of Public Finance
Alternate Governor: Mr. Claudiu Doltu, Secretary of State, Ministry of Public Finance

Russian Federation

Governor: Ms. Svetlana Ganeeva, Director of Investment Policy Department, Ministry of Economic Development and Trade
Alternate Governor: Mr. Dmitri Pankin, Director, International Relations, State Debt and Financial Assets, Ministry of Finance

Republic of Turkey

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

Ukraine

Governor: Mr. Arseniy Yatsenyuk, Minister of Economy
Alternate Governor: Mr. Anatoliy Shapovalov, First Deputy Head, National Bank of Ukraine

Board of Directors

Black Sea Trade and Development Bank



As of 31 December 2006

Republic of Albania

Director: Mr. Nezir Haldeda, General Director of Treasury, Ministry of Finance
Alternate Director: Ms. Anila Cili, Director of Treasury Department, Ministry of Finance

Republic of Armenia

Director: Mr. Arthur Javadyan, Vice Chairman, Central Bank of Armenia
Alternate Director: Mr. Nerses Mkrтчian, Head of International Economic Cooperation Department, Ministry of Foreign Affairs

Republic of Azerbaijan

Director: Mr. Mikayil Jabbarov, Deputy Minister of Economic Development

Republic of Bulgaria

Director: Ms. Nina Stavreva, Head of the Cabinet of the Minister of Finance
Alternate Director: Ms. Gergana Beremska, State Treasurer, Ministry of Finance

Georgia

Director: Mr. Dimitri Gvindadze, Deputy Minister of Finance
Alternate Director: Mr. George Chikava, Deputy Head of Operations Department, National Bank of Georgia

Hellenic Republic

Director: Mr. Dimitrios Giannos, General Director for International Economic Policy, Ministry of Economy and Finance
Alternate Director: Ms. Zoe Driva, Director for International Organizations and Policies, Ministry of Economy and Finance

Republic of Moldova

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

Romania

Director: Ms. Diana Blindu, Programs Coordinator, General Directorate for External Public Finance, Ministry of Public Finance
Alternate Director: Mr. Stefan Petrescu, General Director, General Directorate for External Public Finance, Ministry of Public Finance

Russian Federation

Director: Mr. Andrey Kondakov, Director of Economic Cooperation Department, Ministry of Foreign Affairs

Republic of Turkey

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

Ukraine

Director: Mr. Valeriy Pyatnytskiy, Deputy Minister of Economy
Alternate Director: Mr. Vitaliy Lisovenko, Deputy Minister of Finance

Audit Committee

As of 31 December 2006

Chairman

Mr. Valeriy PYATNYTSKIY
BSTDB Director for Ukraine

Members

Mr. Mikayil JABBAROV
BSTDB Director for the Republic of Azerbaijan

Mr. Dimitri GVINDADZE
BSTDB Director for Georgia

Ms. Elena MATVEEVA
BSTDB Director for the Republic of Moldova

Management

As of 31 December 2006



Hayrettin Kaplan
President



Mikhail Jernov
Vice President
Banking



Valentina Siclovan
Vice President
Operations



Sophia Kassidova
Vice President
Finance



Charalampos Tsarouchas
Secretary General

To the Board of Governors

Black Sea Trade and Development Bank



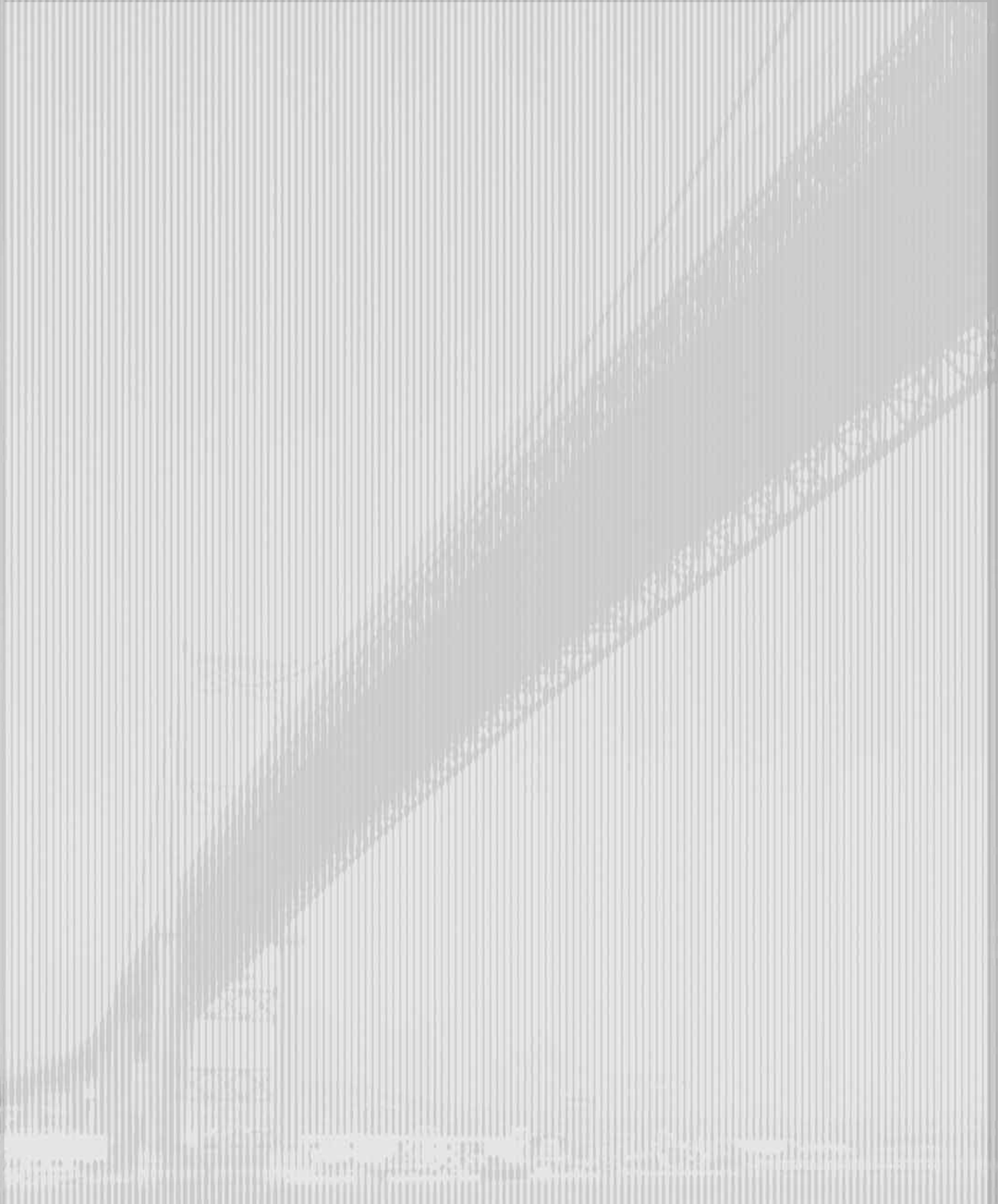
In accordance with Article 35 of the Agreement Establishing the Black Sea Trade and Development Bank and Section 10 of its By-Laws, I submit to the Board of Governors the Bank's Annual Report 2006 as endorsed by the Board of Directors. The Eighth Annual Report also contains the Bank's financial statements, including a separate financial statement for the operations of its Special Fund, as prescribed in Section 12 of the Bank's By-Laws.

Hayrettin Kaplan

Chairman of the Board of Directors

President

Black Sea Trade and Development Bank



Statement by the President

Black Sea Trade and Development Bank



The Black Sea Trade and Development Bank in 2006 achieved its best financial results since it became operational in 1999. Income before provisions grew 22% relative to 2005, and net profits increased over 240%. Perhaps more importantly, the Bank's operational activity continued to diversify and grow; in volume terms, the Bank's portfolio of Board approved operations grew 24% to 581m SDR, with the level of signed operations growing 16% and reaching 460m SDR, notwithstanding adverse exchange rate developments for the dollar, the Bank's main lending currency. The Bank approved a record 28 new operations during 2006 and signed 22, up from 16 and 17 respectively during 2005. Furthermore, the portfolio diversified as the Bank expanded into areas such as municipal infrastructure, broadened the range and type of products it offers and continued to focus increasing amounts of resources on its smaller shareholders, where needs are greatest. This was achieved while maintaining the high quality which has characterized the portfolio over the years.

The Bank's solid track record of achievement was acknowledged during 2006 in its credit rating, which received a one notch upgrade by Moody's to Baa1 in recognition of the improving financial fundamentals, good quality portfolio and strong shareholder support. From the perspective of the Bank, the principal consequence of the upgrade was that the rating is higher than that of 10 of its 11 shareholders, and this in turn allows the Bank to continue to offer regional firms ever more favorable financing terms to facilitate commerce and investment.

While 2006 was marked by encouraging operational developments, it was an important period for deliberation as well. The Bank updated its Medium Term Strategy and Business Plan for the period 2007-2010, which was approved by our Board of Governors in December. This strategy maps out the key strategic objectives and operational goals for the Bank in the coming four year period. The Business Plan was complemented by, and further broken down into, Country Strategies which laid out directions and targets for each Member within the overall operating context.

Although much of the updated Business Plan represents a continuation of previous strategies involving managed growth in a rapidly changing operating environment, there are subtle but key variations which reflect the evolving priorities of our shareholders as well as the changing needs of clients in the Black Sea Region.

The Black Sea Region continued its robust economic outturns in 2006, registering a regional average 6.5% GDP growth which included strong trade growth, rapidly expanding financial sector activity, and the attraction of record levels of foreign direct investment. A number of countries received credit rating upgrades, all registered positive growth ranging from healthy to exceptional, and they achieved this in a stable macroeconomic environment despite external challenges such as the volatility of global energy prices and exchange rate uncertainties.

While this economic expansion creates more business opportunities for institutions such as the Bank, it also requires adaptability to the changing needs of existing clients, and the ability to attract new clients who may lack working experience with international financial institutions. Firms and financial institutions active in the Region will seek new- often longer term, more complicated, or not yet extensively available- financial products which the Bank must be in a position to provide or facilitate. In this context, BSTDB aims (i) to broaden the range of sectors in which we are involved, as economic activity picks up and diversification becomes important for certain economies, (ii) to continue the greater focus on small shareholder countries or the needier regions of Member Countries, and (iii) to expand the financing of cross-country operations. These efforts will be accompanied by our continued outreach to other IFIs and important organizations for the region such as the European Union, as we seek to coordinate activities and intensify our still nascent collaboration so that we can support continued economic development and increasing regional cooperation.

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



Highlights of 2006



The Bank's active loan portfolio of approved operations increased to SDR 581 million (appx. USD 875 million). The Bank realized a profit of over SDR 11 million. In 2006 the Bank has approved 28 operations of a total amount of SDR 187 million. Signed with Bank clients are 22 operations for SDR 117 million.

Moody's upgraded BSTDB to Baa1 from Baa2 as a reflection of its improving financial fundamentals, good quality portfolio and strong shareholder support.

KfW Banking Group, Germany's official development finance agency actively involved in assisting economic development in the Black Sea Region, joined the Bank as an Observer in May 2006 to increase efforts in the shared commitment of supporting prosperity in all BSTDB member countries.

In 2006 the Board of Governors approved the Bank's Business Plan for the period 2007-2010, which sets out targets to double the portfolio of outstanding operations to SDR 600 million, to diversify sectors and expand financing of cross-country operations. With a view to achieving targets and objectives the Bank established an upfront loaded Action Plan, which incorporates among many features an enhanced marketing with a more country based focus, an increase of the Single Obligor limit to 7.5% of paid-in capital, reserves and surpluses, as well as the objective of attaining an A3 rating by end of 2010.

In 2006 BSTDB continued to diversify its products to include multi purpose loan facilities, specific bank to bank loans, mortgage loans, hybrid products, and such variations on product structures specially tailored to meet clients' needs.

BSTDB hosted two meetings of international financial institutions in Thessaloniki. The Spring meeting of the Multilateral Financial Institutions Working Group on the Environment discussed among many subjects: the European principles for environment, trans-boundary water management in Southeastern Europe, as well as multilateral environmental agreements. The IFIs Budget Workshop gathered finance and planning directors from different IFIs for regular consultations aiming at improving the link between strategy and financial resource management.

In 2006 the European Commission's Capital Requirements Directive was finalized, comprising Directive 2006/48/EC and Directive 2006/49/EC, in which BSTDB is recognized as a Multilateral Development Bank by the EU.

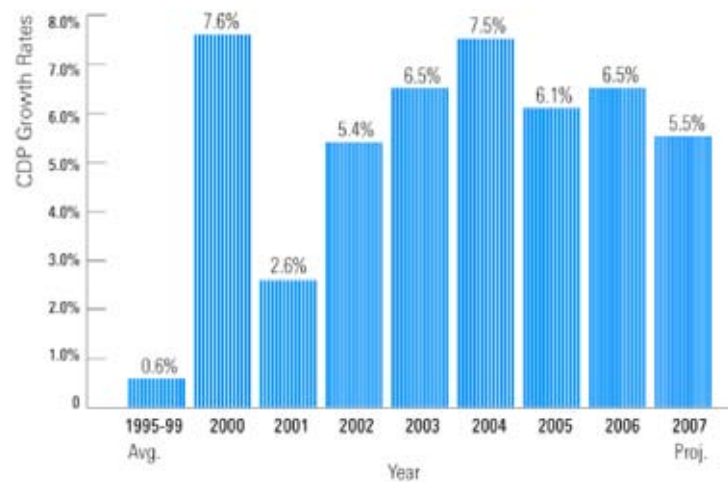
In 2006 the Board of Directors appointed Mr. George Kottas as Secretary General for a term of three years starting in January 2007.

The Black Sea Region **Overview**

Note on Sources: Black Sea Region data based on BSTDB calculations from National Statistical Agencies of the countries of the Black Sea Region and the International Monetary Fund IFS Database. Additional sources referred to include Global Economic Prospects 2006 of the World Bank (and earlier GEPs), and the Economist Intelligence Unit. As many figures represent estimates for 2005 and 2006, actual final figures may differ in detail, but the overall trends discussed in this section would not be altered.

The Member States of the Black Sea Trade and Development Bank continued to show strong real GDP growth in 2006, with rates reaching an estimated 6.5%. This rate of growth followed up and exceeded the 6.1% real GDP growth in 2005, demonstrating that the recent growth has been sustained at this high level over an extended period of time (See Figure 1).

**Figure 1:
Real GDP Growth in the Black Sea Region**



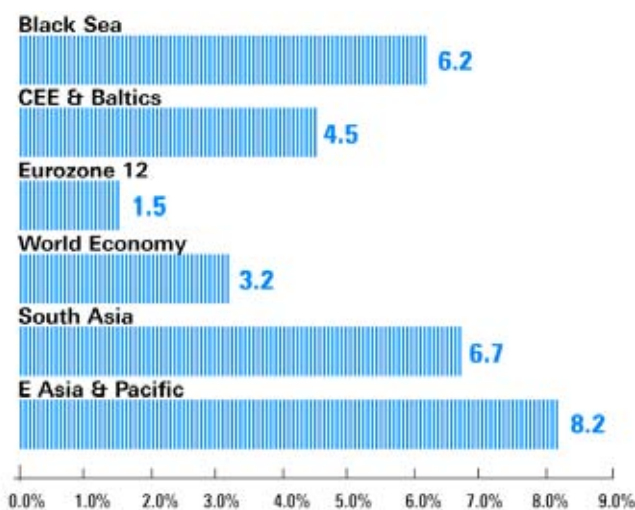
Taking a longer term perspective, the Black Sea Region grew at an average rate of 6.2% per annum during the period between 2000 and 2006 (See Figure 2). The Black Sea Region's performance is all the more impressive:

- (i) when placed in the context of global growth and measured against growth in other regions, and
- (ii) when examining the factors and structural features behind the performance of the individual countries which comprise the region.

The Black Sea Region Overview

Undoubtedly, the Black Sea Region has enjoyed a very encouraging time since 2000, and prospects for 2007 are also favorable. However, this positive period should be seen as part of a process, starting with efforts at macroeconomic stabilization and structural reform, and continuing with clear development policies that have as ultimate aims the reduction of poverty and increases in living standards, coupled with the deepening of regional cooperation and the strengthening of cross-country links.

Figure 2:
BSTDB Members Aggregate Growth vs. World Growth
(average growth rates over the last five years)

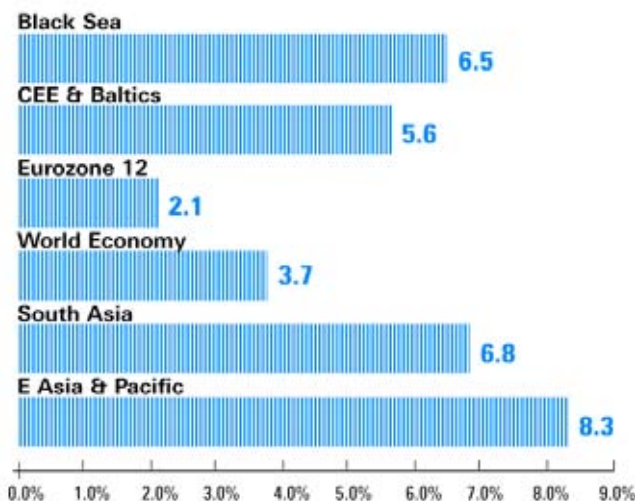


Black Sea Region Growth in the Global Context

As Figure 2 shows, the real economic growth observed in the Black Sea Region was more than triple the average annual rate of growth of the Eurozone 12 during the 2000-2006 period and almost double the rate of the world economy. It was also considerably higher than the average annual rate of 4.5% achieved by the Baltic states and the countries of Central and Eastern Europe which collectively comprise the eight so-called 'transition' states which joined the EU in 2004, and which have been most prominently lauded by international institutions and key players in international markets for the success of their transition from centrally planned economies to market oriented economies.

In comparison with the rest of the world economy, the Black Sea Region was the third fastest growing region between the 2000-2006 period, exceeded only by the 8.2% annual average rate achieved by the developing countries of the East Asia and Pacific, a region which was buoyed by China's tremendous economic expansion, and a shade under South Asia's 6.7%, which was led by India's impressive outturns. The growth rate accelerated in 2006 further closing the gap between the Black Sea Region and the other fast growing areas of the South East Asia and the Pacific (See Figure 3).

Figure 3:
BSTDB Members Aggregate Growth vs. World Growth in 2006



Sectoral and Structural Features of Black Sea Region Growth

Perhaps the most important evidence of structural change derives from the sectoral shift in the composition of the growth. Industrial growth has been more or less in line with GDP growth in most Black Sea countries, leaving its proportion in the overall economy generally unchanged. For the Black Sea Region as a whole, the share of the industrial sector in the economy is approximately 30%. The agricultural sector throughout the region has seen erratic developments, partly due to adverse weather conditions in some years. Overall, agricultural growth was very low, and the sector's contribution to GDP formation declined to a point where it accounts for less than 10% of GDP formation region-wide.

By way of contrast the services sector grew rapidly at rates which exceeded the overall rate of GDP growth. Thus the service sector as a share of the economies of the region grew, and it now accounts for over 60% of GDP formation in the region. Retailing and sales, financial services, telecommunications, tourism, etc. represent some of the most dynamic sub-sectors of the region's economy, and have recorded impressive outturns, generating much of the new employment observed in the region. It is not coincidental that many small and medium sized enterprises (SMEs) operate in the services sector, as these have proven to be the main engines of economic growth globally in many economies (including the so-called 'transition' ones), and have tended to be the most flexible and vibrant portion of the private sector of the region's economies. This is especially encouraging since healthy SME development, in a context of macroeconomic stability, bodes favorably for maintenance of the high growth rates achieved.

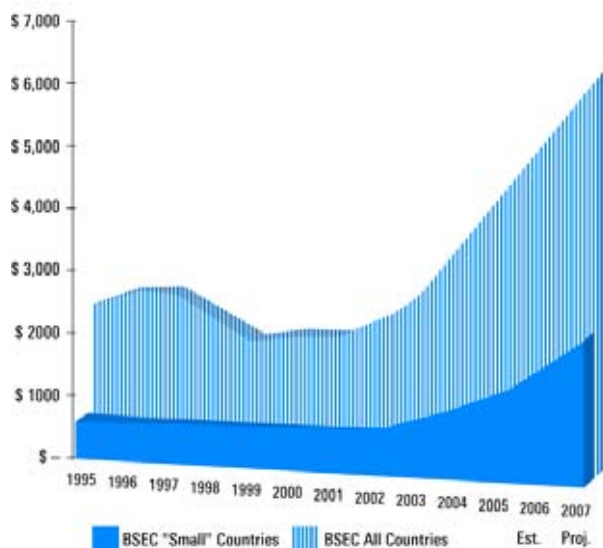
Special mention within services must be made of the construction sector, which has grown particularly rapidly, with demand for housing and business construction rising swiftly across the Black Sea Region, irrespective of country size, structure of economies, or overall national income levels. The rise in income levels, the upsurge in external inflows, declining interest rates, changing tastes and a need to renew housing stocks all combined- to varying degrees in individual countries- to generate a housing and construction boom that has impacted every BSTDB member country.

Overall, the region's economies have transformed steadily as they have grown during this period, with the importance of the role of the private sector growing and becoming ever more vital for further growth. The share of private expenditure in overall GDP has risen, for while rates of public investment and consumption growth have varied from country to country, private investment and consumption have grown across the board, accounting either for the bulk or the entirety of the incremental growth observed in GDP.

Real Income Growth

The sustained growth has translated into rapidly growing income levels (See Figure 4). Per capita incomes have increased across the board, with the regional average having tripled in six years in dollar terms, from roughly USD 2,000 in 2000 to about USD 6,000 in 2006. This increase is matched by data on average wage levels, with all countries (except Greece and Turkey) experiencing at least a doubling of average real wages and in some cases even a tripling reflecting a sustained and commendable rise in living standards throughout the region. Other key indicators of living standards, such as health and education data, have shown improvements and poverty surveys have shown that absolute poverty rates are declining, in some cases dramatically.

Figure 4: Growth in Per Capita GDP in the BSTDB Region



The Black Sea Region Overview

Business Environment and FDI record

This impressive growth in economic activity and living standards is a reflection of the improvements in the business environment in the Black Sea Region. As a consequence, the region has improved (lowered) levels of country risk in recent years.

Therefore, an increased willingness of foreign investors to risk resources was observed in the economies of BSTDB member countries. Readiness to put effort and financial resources into an economy remains a useful indicator of how the economy is perceived by the international investors and builds on and reinforces achievements. Economies thus enter a virtuous circle of growth and development. (see Table 1).

Consequently, credit to private firms and households has grown rapidly in most regional countries, interest rate margins have declined substantially, and the length of average terms of lending have increased. While bank lending as a share of GDP still falls well short of the levels observed in countries with well developed long functioning financial systems (e.g. North America and EU-15), this is increasingly being viewed as a measure of the potential of the economy in question to develop further. Stock market performance in various regional economies was outstanding in 2006, even exceeding the strong performance of 2005.

The extent of foreign investors confidence is exemplified by this stock market performance, but also and more importantly by the amount of foreign direct investment (FDI) attracted.

Table 1: BSTDB Sovereign Credit Ratings

Country	December 1999			March 2007		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch
Albania	—	—	—	—	—	—
Armenia	—	—	—	Ba2	—	BB-
Azerbaijan	—	—	—	Ba1	—	BB+
Bulgaria	B2	B+	B+	Baa3	BBB+	BBB
Georgia	—	—	—	—	B+	—
Greece	A2	A-	BBB+	A1	A	A
Moldova	B2	—	B-	Caa1	—	B-
Romania	B3	B-	B-	Baa3	BBB-	BBB
Russia	Ca	SD	CCC	Baa2	BBB+	BBB+
Turkey	B1	B	B+	Ba3	BB-	BB-
Ukraine	B3	—	—	B1	BB-	BB-

Figure 5:
Foreign Direct Investment in the Black Sea Region 2000 - 2006

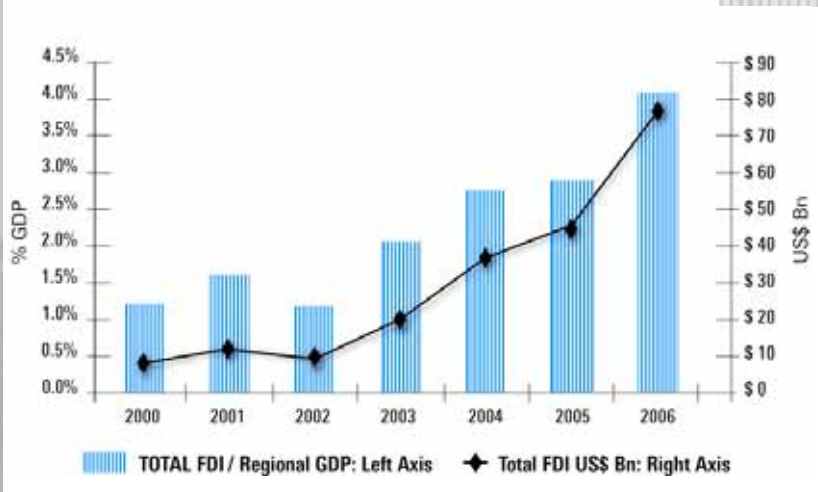


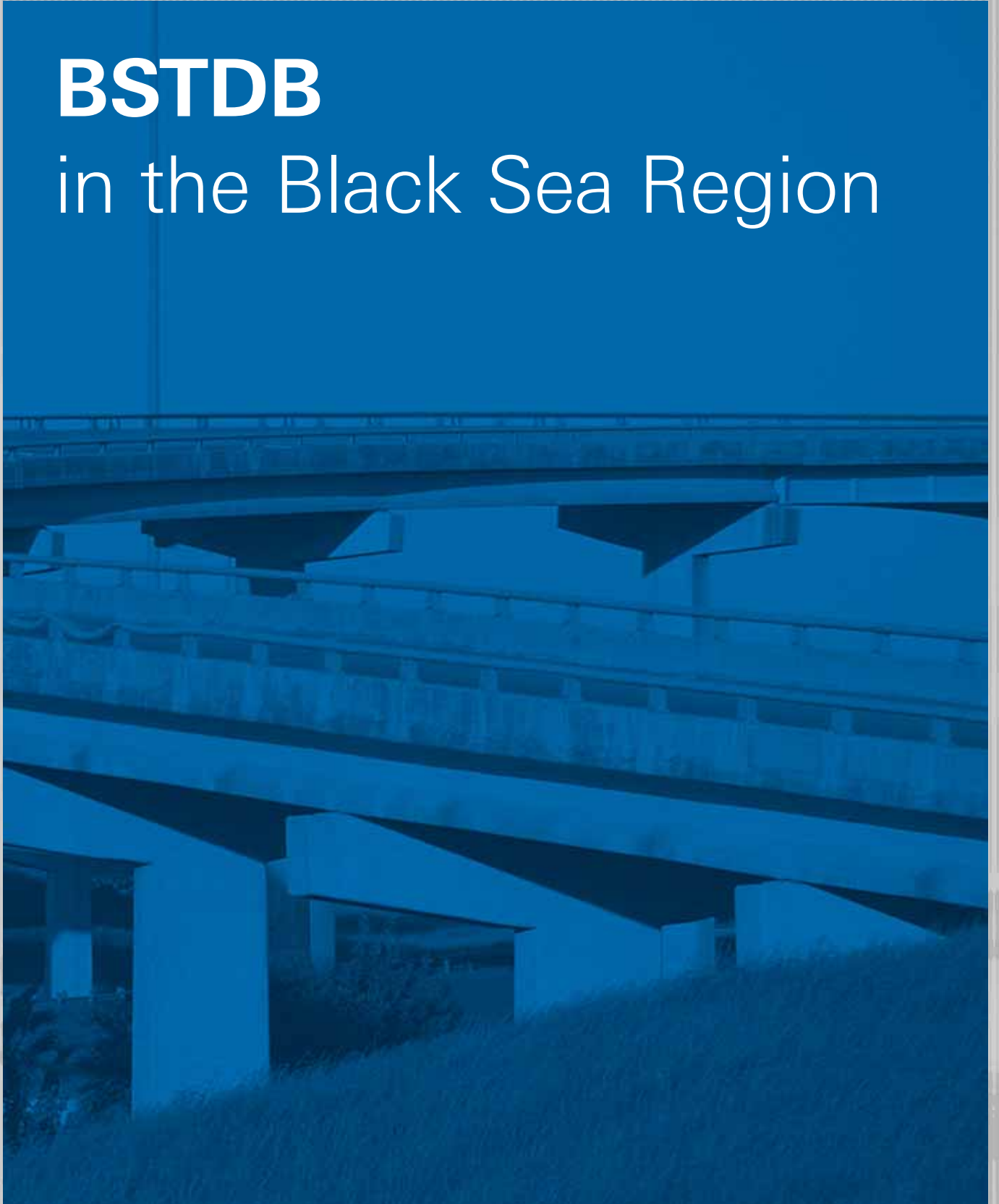
Figure 5 shows the positive trend in foreign direct investment in the Black Sea Region between 2000-2006, with the level of FDI as a share of GDP more than doubling in 2005 relative to 2000 and even higher relative to historic averages from the 1990s. The Black Sea Region historically has lagged behind the countries of the CEE & the Baltics in attracting FDI. However, this trend saw a reversal in recent years. Between 2000 and 2005, FDI levels increased from US\$ 2 billion to US\$ 47 billion.

In 2006 a record volume of FDI flew into the Black Sea Region; member countries of the Bank attracted USD 80 billion, compared to USD 47 billion in 2005, an impressive growth of 70% in just 1 year. This reflects successful privatization programs, as well as purchases of private firms and green field investments.

For the Black Sea Region, the set of indicators shows a confluence of trends and scores in the direction of an improving business environment and decreasing levels of country risk.

BSTDB

in the Black Sea Region





ACHIEVEMENTS AND TARGETS

BSTDB has completed seven years of operations. Over this period, it has achieved financial sustainability, on the back of the good credit quality of its loan portfolio and strong shareholder support. As a result, the Bank was assigned an investment grade credit rating by Moody's that has been recently upgraded to "Baa1".

The Bank's portfolio of outstanding operations, which increased by 10% in the course of FY2006, is expected to nearly double between end-2006 and end-2010, to reach SDR 600 million. This forecast increase reflects the expected stable and sustainable rate of growth in new operations and outstanding amounts, which will support income generation and culminate in a stronger financial position. This will be reflected in an annual average growth rate of 17% to 18%, in total outstandings, over the 2007-10 period.

To this end, the amount of new commitments (newly signed operations) will average about SDR 165 million per year. These portfolio targets will also require an increase in the Bank's total borrowings of approximately SDR 60 million per year. To support this increase the Bank targets achieving at a minimum an A3 credit rating from Moody's by 2010.

In accordance with the Bank's Medium Term Strategy adopted in 2006, to cover the 2007–2010 period, the BSTDB will further diversify its sectors of operations to include the commercial private sector, real estate, and municipal infrastructure. It will also seek to expand operations in small shareholding countries and make concerted efforts to increase its visibility and presence in local markets through enhanced marketing and promotional efforts. It will also expand financing of cross-country project operations and trade financing transactions, as well as operations whose benefits accrue to at least two Member States or generate positive neighbourhood effects. In order to achieve these goals, the Bank will increase cooperation with partner institutions, attempt to attract donor funds for technical assistance and cooperation, while also developing new programs with a regional focus.

Over the 2007–2010 timespan, the BSTDB will seek to sustain strong income levels. In all of its operations, the Bank will impose strict control over expenditures and seek to extract productivity gains from a higher "survival rate" of operations and from a more efficient

processing cycle. The Bank will also strive to enhance its competitiveness, in line with its operational priority of achieving high economic development and regional economic cooperation impacts, while taking all measures that are necessary in order to ensure long-term financial sustainability.

OVERVIEW OF OPERATIONAL PRIORITIES AND PRODUCTS

The Bank has established its niche in areas where it can promote development directly or be additional to the efforts of other donors or local institutions. It has selected as its main target market medium sized locally incorporated companies exhibiting characteristics including: dynamism and rapid expansions, export orientation, transfer of technology and know-how, environmentally friendly processes, high levels of value added and creators of employment. The sectoral focus differs from country to country, according to the priorities of both the authorities and business organizations. The Bank has concentrated its attention, region wide, on a few sectors that are the driving force of economic growth in member countries at this time: energy, gas and oil, transportation, manufacturing, financial sector, construction, and telecommunications.

The Bank has build up a portfolio of good quality assets and viable projects, mainly comprised of short-term revolving facilities and medium to long term project and corporate finance loans, complemented by occasional equity investments and guarantee products. This asset strategy provides a flexible approach to market conditions while using relatively moderate levels of exposure concentration, while at the same time helping the Bank to generate sufficient cash-flow to cover expenditures, maintain quality and expand the asset portfolio. The Bank maintains a strong asset quality following a careful due diligence process and strict monitoring procedures. As of 31 December 2006, the Bank had one loan on a non-accrual status.

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

BSTDB in the Black Sea Region

PRODUCTS

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

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

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

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

Project and Corporate Finance

The Bank provides financing for private and public sector activities, tailored to meet the particular requirements of each project.

The Bank's Structured and Project Finance transactions typically involve the financing of projects in the energy, telecommunication and maritime sectors for modernization and expansion purposes. When the Bank is involved in larger Structured and Project Finance transactions its flexibility in the structuring of operations and its relatively fast internal decision-making process allow a quick response to requests from other IFIs for participation as co-financier. These same qualities of speed and flexibility have allowed the Bank to structure smaller-size transactions. Recently the Bank has made increasing use of its potential to participate in public-sector structured financed deals, which typically involve large amounts and long tenors. The ongoing focus is both on limited-scale transactions where the Bank is able to play a leading role and also on larger transactions where the Bank participates as a co-financier.

The Bank's Corporate Finance activity focuses principally on the manufacturing sector. Such transactions are mostly used to fund capital expenditure for modernization and expansion as well as, to a lesser extent, for working capital, refinancing and general corporate purposes. The Bank concentrates on well-established companies in all its countries of operations and selects those whose activity involves a high degree of regional cooperation and development in the Black Sea Region.

The main advantage for the Bank in this area is that the corporate sector in the Black Sea Region has still limited, albeit improving, access to long-term finance. The role of the Bank is thus that of improving the financial flexibility of the corporate sector by offering medium to long-term financing.

Equity transactions

The Bank's equity investments may be made in a variety of forms, investing in either existing or new ventures and in special purpose companies. Equity financing can be provided either directly or through the intermediation of

Selected BSTDB Financings in 2006

RUSAL

BSTDB provided a secured loan of USD 23 million to RUSAL ARMENAL (Armenia), for the partial financing of the Company's modernization program at their foil rolling plant in Armenia.

RUSAL ARMENAL is an Armenian closed joint stock company producing aluminium foil and packaging material. RUSAL ARMENAL is a 100% owned subsidiary of the Russian Aluminium Group (RUSAL), a private Russian group of companies, involved in the production of primary aluminium and finished aluminium products.

RUSAL is one of the world's three largest primary aluminium producers, providing primary aluminium and value-added casthouse products to customers in 50 countries. Headquartered in Moscow, with operations in 9 regions of Russia and 13 countries globally, RUSAL accounts for 75% of aluminium production in Russia and 10% internationally. RUSAL has 47,000 employees and was established in March 2000 through a merger of several of the largest aluminium smelters and alumina refineries in the CIS.

The BSTDB financing will contribute to the development of the Armenian manufacturing sector and foster the expansion of international trade in the Black Sea Region.

Moreover the project is expected to establish new job opportunities and create an important source of additional export earnings and tax revenues for Armenia.

Amount:	USD 23 million
Type of financing:	Corporate Finance
Maturity:	7 years

BSTDB in the Black Sea Region

a specialized investment fund. The Bank may also make quasi equity investments in various forms, including but not limited to certain types of subordinated loans. The decision to keep equity investments as a small proportion of its operations reflects the aim of the Bank to keep a low-risk portfolio profile at this stage.

Guarantees

The Bank provides full risk financial guarantees or partial guarantees, where either (i) it provides all inclusive risk cover for a portion of debt service, or (ii) it covers specific risk events for all or part of the debt service. Guarantees are one of the most important instruments available to the Bank to stimulate credit and capital markets in the region, mobilize additional capital, encourage the capital investments from outside the region and provide facilities otherwise unavailable on reasonable terms. Operations involving guarantees are appraised, processed and supervised in the same manner as those involving direct credit extensions and are subject to the same limits and requirements. Guarantees are not intended to play a

dominant role in the Bank's portfolio, but rather to function as a strategic instrument assisting with resource mobilization, and increased trade flows and investment in the region.

Operations through Financial Institutions

The Bank seeks to play the role of a stable partner for the region's financial institutions using them as intermediaries for the funding of key elements for economies in transition. This activity has the additional benefit of helping to develop and strengthen the regional bank and non-bank financial sector. Additional advantages to conducting business through financial intermediaries are as follows:

- Most products, such as pre-export, mortgage, SME financing, will normally require a financial intermediary to perform due diligence on the local borrower and assume that risk - the Bank has limited outreach capacity on local companies and individuals, and therefore cannot assume directly and entirely the related risks.

Selected BSTDB Financings in 2006

BALKAN ACCESSION FUND

By investing EUR 10 million in a non banking financial institution that specializes in equity investments, BSTDB will provide financial assistance to real sector companies in its member countries. The investment will help attract funding both from traditional investors and from those new to the Black Sea Region. BSTDB funds will be invested exclusively in companies operating in the BSTDB member countries - Albania, Bulgaria, Moldova, Romania, and Ukraine.

The Balkan Accession Fund is a private equity fund, committed to investing in those small and medium-size companies that are most likely to benefit from the economic growth of the second-wave of EU accession countries, primarily in Romania and Bulgaria. The Fund will facilitate investments by providing tailored transactions that best meet the requirements of companies that are industry leaders having strong management, growth potential in their sectors, and clear domestic and regional expansion capabilities. The Fund will seek investments predominantly in financial services, retail, logistics, consumer products, healthcare, information technology, telecommunications, media, and other consumer related services.

Amount:	EURO 10 million
Type of financing:	Equity Investment

- In the interest of facilitating economic development in member countries, the Bank will want to support local financial intermediaries and help this important sector of the economy grow, rather than exclude local financial institutions from a transaction.
- The Bank will not compete with local financial intermediaries, but will work with them to fulfill its mandate.

For signed facilities to be utilized efficiently by financial intermediaries, an effective system for generation of eligible transactions has to be established. This requires significant marketing efforts and the Bank will coordinate with financial intermediaries to promote these lines to their final customers. So far, active utilization of signed operations has been successfully achieved in line with the Bank's strategy. As a result both the effectiveness of the operations and the portfolio characteristics have been enhanced.

Trade Finance Products

In accordance with the Bank's mandate, the promotion of trade between the member countries is a high priority and has been developed as a core business. Trade financing and promotion are seen by the Bank as effective means of increasing intra-regional cooperation, bringing stability to the region, and accelerating economic development in the shareholder countries.

The governments and the business communities of the member countries have welcomed the Bank's focus on trade financing. In response, the Bank has developed a comprehensive Trade Finance Program tailored to the needs of the regional market. The Bank has successfully introduced the following trade finance products under the Trade Finance Program:

- Pre-Export Finance Facility
- Multiple Buyer Credit Facility
- Single Buyer Credit Facility
- Single / Multiple Supplier Refinancing Credit Facility

Selected BSTDB Financings in 2006

ABSOLUT BANK

Brief Project Description: Provision of USD 15 million Bank to Bank Loan to Absolut Bank for mortgage financing purposes.

Purpose of the Project: The project aims to support the development of the rapidly growing mortgage finance banking sector in the Moscow and St. Petersburg regions, by providing an alternative source of funds to one of the leading participants in the Russian mortgage market - Absolut Bank, Moscow.

Absolut Bank has a well-established market presence and strong support from its shareholders. The loan offers an opportunity for BSTDB to extend long term mortgage finance to the rapidly developing mid market sector which cannot be accessed by BSTDB directly. Moreover, BSTDB will support the Borrower by providing access to international funding to finance Absolut's growing loan portfolio. The project will also demonstrate the viability of providing longer term funding to Russia's fast-growing banking sector.

This loan will assist in the successful implementation of the Russian government's national project to develop a mortgage finance activity that will in turn contribute to GDP growth, to mobilizing the output of the industrial sectors related to construction, and to increasing accessibility of the population to quality housing.

The loan to Absolut was the first facility provided by BSTDB to help develop mortgage lending and as such will provide the basis of a new product to be offered by the Bank in its other member countries.

Amount:	USD 15 million
Type of financing:	Bank to Bank loan for mortgage financing purposes
Maturity:	6 years

BSTDB in the Black Sea Region

The Bank's Trade Finance Program is designed to ensure that the Bank's funds are used primarily to promote intra-regional trade; the Bank's financing is available for the following trade transactions:

- Imports to a member country from another member country, and
- Exports from a member country to another member country
- Exports from a member country to a non-member country

The Bank will continue to offer these products, together with new variations, according to market conditions and client requirements.

Trade Finance Guarantee Facility

Risk appetite in terms of the country and commercial limits available from lenders for the region is one of the factors limiting the trade volume in the BSEC region. By providing country risk and commercial risk cover on short-term trade finance instruments the Bank will help to increase trade volume in the region. The Bank's

Guarantee applies to trade related payment instruments issued by selected banks and export credit agencies within the Black Sea Region. Small and medium sized companies, as well as large exporting companies will benefit from the Bank's guarantee program. Payment risk of the bank issuing the trade related payment instruments are assumed, either in full or up to an agreed percentage not exceeding the credit limit assigned to the bank. The issuing and confirming banks or ECAs assume importer and exporter risk. The confirming banks should be able to discount the trade related payment instrument and provide liquidity to the exporter or importer.

Leasing Credit Facility

The Bank views this instrument as an effective financing tool for the promotion of regional trade. Medium-term credit lines opened to leasing companies will enable them to offer their customers finance for capital expenditures on imports from other countries in the region.

Selected BSTDB Financings in 2006

In 2006, BSTDB continued to reach a larger number of companies and contribute to the increasing of intra-regional trade among the member countries, by adding the following new financial intermediaries to its portfolio:

ACBA-Credit Agricole Bank (former Agricultural Cooperative Bank of Armenia)
Facility Amount: USD 3,000,000
Type of Facility: Revolving Trade Finance Facility
Maturity: Revolving, with maximum disbursement term of 360 days

VTB-Georgia Bank, (former United Georgian Bank)
Facility Amount: USD 3,000,000
Type of Facility: Revolving Trade Finance Facility
Maturity: Revolving, with maximum disbursement term of 360 days

Bank Respublika, Azerbaijan
Facility Amount: EUR 2,300,000
Type of Facility: Trade Finance Facility
Maturity: Revolving, with maximum disbursement term of 360 days

TBC Bank, Georgia
Facility Amount: USD 5,000,000
Type of Facility: Revolving Trade Finance Facility
Maturity: Revolving, with maximum disbursement term of 360 days



Financing the Development of Small and Medium Enterprises

Small and medium enterprises (SMEs) are among the key driving forces of economic growth in the Black Sea Region. Growth of these firms has expanded rapidly in the region as the private sector has grown and they have played a key role in the generation of employment in member countries, in many cases accounting for well over half of all new job creation and an increasingly important share in gross value added. They have also played a key role in the development of the services sectors in the region and almost all operate in the private sector. As in the economies of developed countries, turnover in the creation and dissolution of SMEs has been more rapid than for larger enterprises, although their growing share of the economy indicates that there is still room for further growth in the region and potential for them to increase their positive role in fostering private sector growth and employment expansion.

The Bank's SMEs financing products are tailored to the specific needs of each individual country in line with their regional development and restructuring policies. BSTDB has emphasized the provision of assistance to SMEs in a number of its operations, offering an array of products mainly through financial intermediaries in the region.

TERMS AND CONDITIONS FOR FINANCING

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

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

Trade Finance Facilities can be either short-term with a tenor of up to 360 days or medium/long term with a tenor of up to 5 years. SME facilities have maximum maturity of 5 years with an average maturity of around 2.5 years.

Selected BSTDB Financings in 2006

EUROPLAN CJSC, Russia

Following the long and successful cooperation with Europlan, in 2006 the Board of Directors approved a third SME leasing facility for the amount of USD 18,000,000. BSTDB has signed agreements with Europlan in 2003 and 2005 for the amounts of USD 5,000,000 and USD 11,000,000 respectively.

The SME Leasing Facility will be used exclusively for financing new and refinancing of existing lease transactions with eligible lessees in Russia.

Leasing is one of the most efficient financing tools for SMEs. With a view to penetrating new markets with an innovative banking product, BSTDB cooperates with leasing institutions to deliver leasing products to the SMEs in the Region. The SME Leasing Facility complements the Trade Finance and SME products by reaching to the SMEs and offering the advantages of the leasing financing scheme.

Facility Amount approved: USD 18,000,000
Type of Facility: SME Leasing Facility
Maturity: 37 months from the date of each disbursement

BSTDB in the Black Sea Region

Co-Financing

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

In 2006 the Bank co-financed 2 major operations, namely Adana in Turkey and Astelit in Ukraine (see selected BSTDB financings in 2006). Since 1999, among the co-financiers with whom BSTDB cooperates are international financial institutions - EBRD, IFC and MIGA, official development institutions of developed countries - JBIC (Japan), DEG (Germany), SECO (Switzerland), Netherlands Development Finance Company (FMO), Norfund and Finnfund in Scandinavia, commercial banks – Calyon Bank, BNP Paribas S.A., ING Bank N.V., Cyprus Popular Bank, Citibank, US Ex-Im Bank, HVB Bank Romania SA, Bank Austria Creditanstalt AG, Bayerische Hypo-Und Vereinsbank AG, WestLB AG London, Turkiye Vakiflar Bankasi, Banca OPI S.p.a., Standard Bank, and corporations – Ericsson Credit AB, Nokia Corporation.

Special Fund

The Bank administers one Special Fund (the Hellenic Fund) established with the Contribution Agreement between the Government of the Hellenic Republic and BSTDB in July 2001. The Fund was instituted with an initial amount of Euro 800,000 and was replenished by Euro 500,000 in 2003. The Fund is tied to consulting companies based in Greece. However, up to 25% of an assignment cost may be allocated to consultants who are nationals of the Bank's other member countries.

Altogether, the Hellenic Fund has devoted around Euro 635,000 to consulting assignments since inception. Out of this amount Euro 593,000 were in fact disbursed. The sectors benefiting from these funds have included telecoms, oil & gas, manufacturing, transportation, agribusiness and banking. These funds were distributed among eight Member States - Albania, Ukraine, Georgia, Greece, Russia, Bulgaria, Armenia, and Moldova. In 2006 the Fund funded assignments in the amount of about Euro 92,000 on three assignments. The total disbursements from the Fund are expected to reach Euro 800,000 by the end of 2007.

Selected BSTDB Financings in 2006

In year 2006 BSTDB has signed SME Finance Facilities with the following financial intermediaries.

Banca Comerciala Carpatica, Romania

Facility Amount: EUR 10,000,000

Type of Facility: SME Finance Facility

Maturity: 4 years

TBC Bank, Georgia

Facility Amount: USD 5,000,000

Type of Facility: SME Finance Facility

Maturity: 3 years

ProCredit Bank, Ukraine

Facility Amount: USD 12,500,000

Type of Facility: Micro and SME Finance Facility

Maturity: 3 years

ProCredit Bank, Moldova

Facility Amount: USD 3,000,000

Type of Facility: Micro and SME Finance Facility

Maturity: 2 years



Environment Protection

The Bank works in a very dynamic region with high growth rates and great potential for further economic development, but still a region that faces many environmental challenges. Therefore, the Bank in its financing makes efforts to assist clients in the private sector to improve their environmental performance and become “greener” helping in this way the member countries to achieve a better state of environment and human well being.

It is also part of the Bank’s mandate, as a regional development institution, to promote environmental soundness and sustainable development in all its loan operations. Thus, the Bank seeks to ensure that all the potential environmental risks arising from any given operation that may affect the state of the environment, human well-being and ultimately the Bank itself, are properly identified, assessed and mitigated. Environmental implications are analysed and efficient mitigation measures are proposed in the overall decision-making process for each of the Bank’s commitments. For on-going operations the Bank closely monitors the environmental aspects of its financing.

In undertaking its environmental mandate the Bank is guided by its Environmental Policy and Environmental Assessment Procedures document. The environmental acceptability of proposed transactions together with the environmental performance of the potential clients are assessed in line with these procedures, as well as relevant best practices applied by other IFIs. All operations that pass the Bank’s Concept Clearance stage are subject to Environmental Assessment. In the case of environmentally complex operations, which require an Environmental Impact Assessment for instance, or an Environmental Audit, the Bank commissions relevant studies. These studies focus on both the environmental acceptability of the project and the environmental performance of the potential borrower. Public consultations are also considered if the operation is a source of contention locally.

The Bank closely cooperates with its counterparts elsewhere, as steps are taken to harmonize environmental rules applied by IFIs to their financing. To emphasize its commitment to this harmonization process the Bank took the initiative and hosted the Multilateral Financial Institutions’ Working Group on Environment meeting (MFI WGE) at its premises in Thessaloniki in May 2006. MFI WGE attendees included heads of the environmental departments from IFIs and development agencies around the world.

Selected BSTDB Financings in 2006

ADANA LIGHT RAIL TRANSIT SYSTEM

BSTDB provided USD 45 million to a syndicated loan that raised USD 136.7 million to complete the construction of the Adana Light Rail Transit System. The loan, with a maturity of 10 years, is extended to the Municipality of Adana and benefits from a guarantee (for 95% of the loan amount) by the Undersecretariat of the Turkish Treasury. West LB, Vakifbank and Banca Opi (Italy) are the other lenders that took part in the syndication.

The total cost of the project is USD 667 million and entails the turn-key construction of a complete light rail transit system (LRTS) in Adana, a large city with a population of almost 1.5 million. The LRTS will be 13.6 km long with bi-directional rail track, cut-and-cover tunnels, 5.5 km long viaduct and a 180 meters long composite bridge over Seyhan River. The system will serve about 280,000 passengers/day by the year 2011 and is expected to have significant positive impact in alleviating the traffic problems in Adana and in reducing pollution and traffic accidents. There is a high development impact of this project for BSTDB, as the financing supports the public transportation sector and mobilizes investments to the member countries.

Syndication Amount:	USD 136.7 million
BSTDB Participation:	USD 45 million
Type of financing:	Syndicated Loan
Maturity:	10 years

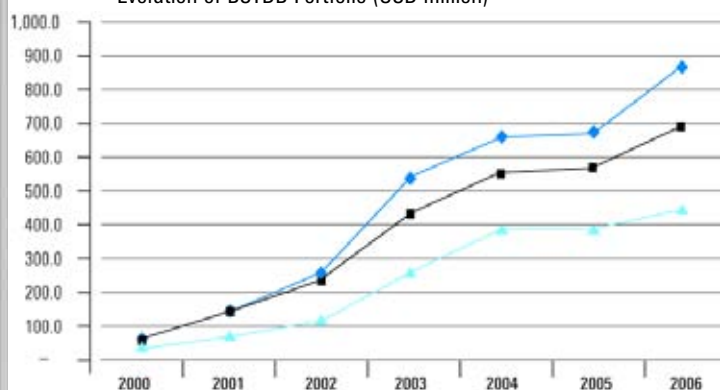
BSTDB in the Black Sea Region

PORTFOLIO DESCRIPTION

Portfolio Structure at end-2006

Since the beginning of operations in June 1999, the Bank has approved 113² operations for a total of USD 1,157 million. During the same period of time, of the USD 1,157 million approved, operations totaling USD 855 million were signed. At the end of 2006, 61 operations for a total amount of USD 427 million were outstanding and monitored in the Bank's active³ portfolio.

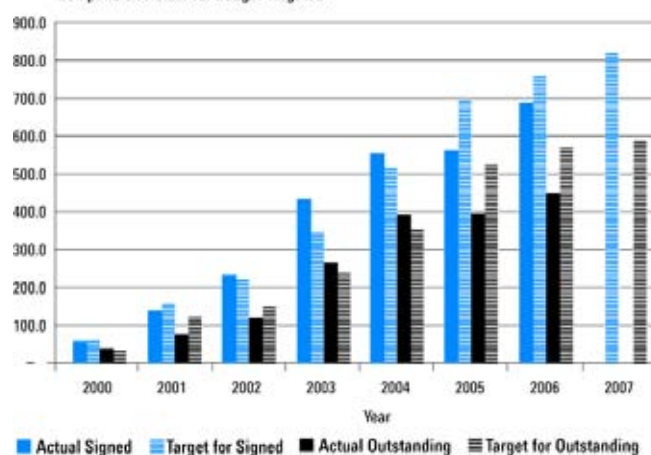
Evolution of BSTDB Portfolio (USD million)



The high volume of approvals in 2006 suggests a large amount of signings and disbursements in 2007, whereby the growth in the size of the Bank's portfolio would look more like the trend observed for the years 2000-2004.

As can be seen from the following graph, after three years (2002, 2003, 2004) when the actual figures at year end came in excess of the budgeted amounts, the Bank shifted to a budgeting style in line with these achievements. However, specific conditions prevailing in 2005 (ample liquidity in the market and low interest rates) determined many development finance institutions to face prepayments from clients who preferred to restructure their debt, and therefore budgetary targets were missed. In 2006 the lag effect of developments, in particular the level of incremental approvals, have been responsible for actual figures coming short of targets. This situation however is considered to have consumed its effects and not to further affect the results in coming years.

Comparison Actual vs. Budget Targeted



Developments During 2006

Operational activity accelerated in 2006. The Board of Directors approved 28 operations for a total amount of SDR 187 million (USD 281 million), up from 16 and 17 respectively during 2005, raising the total active portfolio of approvals to SDR 581 million. 22 operations for SDR 117 million (USD 176 million) were signed. Disbursements during the year amounted to SDR 298 million.

In 2006 the Bank received 92 business proposals, of which 51 were reviewed for eligibility and 41 were presented for Concept Clearance. Out of the 35 proposals approved for final review, 13 were approved by the Board of Directors and 6 operations were signed. In 2006 the Board also approved 15 operations which passed through the evaluation, appraisal and approval by the Credit Committee in 2005 or earlier. The Bank signed with clients, in addition to the 6 operations generated in 2006, 16 operations, of which the greatest number are from within the 15 additional Board approved proposals, but also a limited number consist of renewable facilities. A number of 7 operations approved in 2006 are expected to be signed in 2007, while other 20 operations are to be submitted for approval, in addition to other business proposals, which will be identified and processed during 2007.

² The total number of approved operations is 113, but one operation (SEAF - SME equity investment fund) is split among the three beneficiary countries, Albania, Bulgaria and Romania, resulting thus in a total number of operations by country of 111.

³ The active operations in the Bank's portfolio are those currently in any of the phases from Board approval to full repayment (approved, signed, disbursed and in repayment).

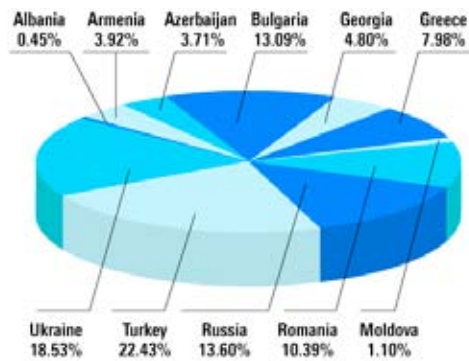
The structure of the Bank's active portfolio by country and by sector is as follows:

Active Portfolio Structure by Country

Approved Operations by the Board of Directors

There are currently 78 Board approved operations for a total amount of USD 875 million.

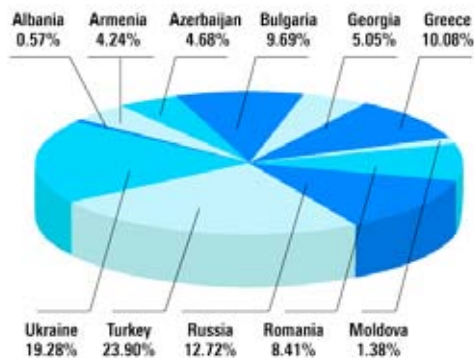
The distribution by country is depicted in the following graph:



Source: BSTDB

Signed Operations

Of the approved amount, 69 operations are signed for a total amount of USD 692.8 million. Their distribution by country is as follows:



Source: BSTDB

Outstanding Operations

As of end-2006 the outstanding operations of the Bank (cumulative disbursements less repayments for active operations) represented USD 448.4 million, distributed by country as depicted in the following graph:



Source: BSTDB

Active Portfolio Structure by Sector

Approved Operations

By sector, the Bank, had at end-2006, approved by the Board USD 278.6 million in 18 operations in manufacturing, USD 265 million in 37 operations through financial institutions, USD 147.4 million in 8 operations in energy, USD 11.2 million in 5 operations in transport and public utilities, and USD 78.7 million in 4 operations in telecommunications.

Outstanding Operations

As at end-2006 the Bank had USD 448.4 million in 63 outstanding operations, of which 34 (USD 140.4 million) were with the financial sector, 15 (USD 149.5 million) in manufacturing, 7 (USD 70 million) in energy, 4 (USD 40.9 million) in transport and public utilities sector, and 3 (USD 47.5 million) in telecommunications.

Use of **Resources**



RESOURCES MANAGEMENT

Human Resources

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

The Bank's recruitment policies provide for the hiring of employees on a wide geographical basis, preference being given to the citizens of member countries. At the end of 2006, the Bank had 99 employees, from 14 member and non-member countries.

During 2006 a number of human resources policies were revised to increase the clarity, fairness and transparency of the system.

The Bank operates a market-oriented staff compensation and benefits policy designed to match the employment standards of other IFIs. In 2006, the Bank negotiated an upgrade of its health insurance plan that emphasizes preventive health care and reduces administration requirements through an on-line claim tracking system.

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

Information Technologies

As part of the IT Strategy of BSTDB, the SAP Treasury module was implemented and went live within the first half of the year; this has allowed BSTDB to enhance its financial management reporting. In the meantime, the SAP IT infrastructure has been upgraded, to run SAP software on a high availability IT system, reducing possible downtime.

BSTDB has also established an IT Governance Group in order to ensure that IT goals are met and IT risks are mitigated in such a way that IT will deliver value to sustain and grow the organization and to promote alignment between IT and the business areas. BSTDB has also upgraded and improved its electronic security in order to eliminate potential Internet threats. BSTDB

has progressed in finalizing its Business Continuity Plan and is in the process of testing it.

Administrative Services

In 2006, new procedures for the records of the Bank were approved, establishing a platform for preserving institutional memory, regulating access to archives and avoiding loss of evidence. In the same framework, the Records and Information Unit proceeded with the revamping of the Code of BSTDB Rules, which was expanded to include all areas of corporate activity and introduced an improved codification system over previous versions, so as to strengthen compliance to the internal processes of the Bank, create a uniform way of communication and permit the identification of institutional areas in need of optimization.

External Relations and Communications

The Bank continued to develop its institutional relations with the Organization of the Black Sea Economic Cooperation and its related bodies, the Member States governments, local authorities and business community to further promote regional cooperation. Following initial institutional and business contacts, established with a view to increasing joint activities in supporting growth in BSTDB member countries, KfW Banking Group was granted an Observer Status, by BSTDB, in May 2006, for an initial period of two years.

In its drive to generate business and facilitate investments in its member countries, BSTDB sponsored several regional business events, including the 1st Caucasus International Banking and Finance Conference (Baku, June 2006) and the Caspian and Black Sea Banking and Finance Conference (Istanbul, November 2006). The Bank also co-organized with the BSEC Business Council and Ukrainian Chamber of Commerce and Industry a seminar on SME financing in Kyiv, Ukraine. The Bank hosted its annual Black Sea Business Day in Azerbaijan (June 2006) under the auspices of the Government of the Republic of Azerbaijan and with the support of local business associations. In order to explore business opportunities

Use of Resources

in the South of Russia, a region of high priority for BSTDB, the Bank actively participated as a Partner in the Kuban Economic Forum held in Sochi (September 2006) on the invitation of the Krasnodar Administration, as well as in the Presentation of the Krasnodar Region Investment Potential to the Turkish business community (Istanbul, December 2006).

Planning and Budgeting

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

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

The Bank also has established Management Information Systems to support its internal structure by providing detailed financial and management information. This is utilised for decision-making, performance reporting, monitoring and internal control purposes. Such financial information and reports are prepared and distributed at the appropriate levels of responsibilities.

FINANCIAL MANAGEMENT

Revenues

In this year of operation, total lending volume of the Bank has reached SDR 375 million, which represents a 12% expansion from the previous year. The Bank increased the size of its outstanding loan portfolio to SDR 299,924 thousand. Total income from lending activities rose to SDR 23,743 thousand during the year from SDR 19,854 thousand in 2005. Treasury activities in 2006 generated total interest income of SDR 3,021 thousand from placements with other

financial institutions and investment in short-term money market instruments. Operating income for the year was SDR 22,713 thousand.

Expenses

Administrative expenses, including depreciation, for the year were SDR 10,068 thousand, an increase of SDR 889 thousand on 2005. Administrative expenses include salaries, benefits and other administrative costs.

Salaries and benefits, in the amount of SDR 7,968 thousand showed an increase of SDR 831 thousand from the previous year. Other administrative costs had a modest increase from the previous year an amount of SDR 185 thousand.

Overall, administrative expenses were well within the 2006 Budget, reflecting the Bank's effective cost controls.

Net Income

Income before provisions during the year was SDR 12,645 thousand, an increase of SDR 2,260 thousand against 2005. Net income was higher than the previous year driven by the increase in revenues, and the quality of the Bank's lending portfolios, where provisioning charges were either released or adjusted downward. The Bank posted a net income for the year of SDR 11,470 thousand compared to SDR 3,358 thousand in 2005.

Capital Base

As specified in the Establishing Agreement, the BSTDB's initial authorised capital stock is one billion (1,000,000,000) Special Drawing Rights (SDR) divided into one million (1,000,000) shares, each with a par value of one thousand (1,000) SDR.

All participating Member States of the Bank had fully subscribed to their portion of the initial authorized capital stock. The subscribed capital is composed of:

- ten per cent (10%) fully paid shares;
- twenty per cent (20%) paid by promissory notes (eight equal annual instalments, encashment starting from the year 1998); and
- seventy per cent (70%) callable shares.

The aggregate par value of the initial authorised fully



paid shares is SDR 100 million and that of the capital paid by promissory notes is SDR 200 million. At the Sixth Annual Meeting of the Board of Governors held in June 2004, Armenia, Georgia and Moldova requested a fifty per cent reduction of their portion of subscribed capital, which was approved by the Board of Governors.

As of 31 December 2006, SDR 291 million were due to be paid-up by the participating Member States, in accordance with the schedule stipulated in the Agreement. This included the ten per cent fully paid shares and the eight annual instalments of the twenty per cent shares payable by promissory notes. The total initial authorized capital stock of the Bank of SDR one billion remained unchanged.

Gearing Ratio

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

The Bank's institutional gearing ratio, the statutory limit on the total amount of ordinary operations (outstanding loans, equity investments and guarantees) is 150% of the Bank's unimpaired subscribed capital, reserves and surpluses, and as at 31 December 2006 stood at slightly above SDR 1.5 billion.

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

Provisioning

The IFRS-compliant provisioning policy is designed to ensure that the level of general provisions is commensurate with overall portfolio risk levels. While each operation indirectly contributes to the general provisions, specific provisions are only allocated if and when there is evidence of deterioration within a particular operation. Total provisions (general and specific) at the end of 2006 stood at SDR 21,017 thousand, equivalent to 7.1% of the outstanding loan

portfolio. Only one operation was considered non-performing and had specific provisions assigned against it.

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

Market risks

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

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

Investment / Liquidity

The Bank's surplus funds totalling SDR 109,522 thousand as at 31 December 2006 were invested in three types of interest rate instruments:

- Short-term deposits with institutions long term rated at a minimum of A2/A by either Standard & Poors or Moodys credit rating agencies;
- Euro commercial paper rated at a minimum short term A2/P2 by either Standard & Poors or Moodys credit rating agency; and
- Eurobonds of maturities up to five years long term rated at a minimum AA- / Aa3 by either Standard & Poors or Moodys credit rating agency.

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

The Banks liquidity ratio calculated as liquid assets over the next 12 months net cash requirement, including signed undisbursed commitments, stood at 243% on 31 December 2006.

Use of Resources

Borrowing

At end of 2006, the Bank had signed loan agreements equivalent to EUR 15 million and USD 110 million. As the size of the Bank's operation portfolios continue to increase, and taking into consideration its minimum liquidity requirements, the Bank will access sources of long term funds in 2007.

In 2006 the Bank was upgraded by Moodys, from its initial investment grade rating of long term Baa2 to Baa1. The short term rating has remained unchanged P2.

Risk Analysis

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

Risk Mitigation

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

Evaluation

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

A major strategic task in 2006 was the Bank's first comparative institutional performance review. It

enhanced BSTDB's 3-year business/strategy plan and was complemented by an assessment of IFIs' use of Balanced Scorecard and Institutional Learning.

Preferred Creditor Status

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

- not reschedule debt payments or participate in debt rescheduling agreements with respect to its loans to, or guaranteed by, its Member States of operation;
- not reschedule its loans to private sector borrower where the borrower's inability or anticipated inability to service its debt is due to a general foreign exchange shortage in the borrower's country.

CORPORATE GOVERNANCE

Management Structure

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

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

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

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



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

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

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

Compliance

The Bank's Compliance and Operational Risk Management Office has the responsibility for implementing anti-money-laundering measures by overseeing integrity issues and maintaining sound institutional practices. Financial and due diligence is integrated into the Bank's normal approval of new business and to the review of existing activity. The Bank screens all uncertain transactions to ensure that they do not represent a money laundering risk.

The Bank provides corporate integrity and anti-money-laundering training to its staff in order to raise skill levels and increase awareness of these concerns.

Reporting and Disclosure

The 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 based on International Financial Reporting Standards. With respect to external financial reporting, the Bank presents financial statements in its quarterly Summary Statements and in the Annual Report. Pursuant to Article 35 of the Establishing Agreement, these

reports are transmitted to the Governments of the Member States (Annual Report only), members of the Board of Governors and Directors and the BSEC Permanent International Secretary. The Annual Report for 2006 is the eighth report published following the commencement of operations of the Bank.

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

Internal Audit

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

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

External Auditors

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

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

Financial Statements and Notes





Financial Statements for the Year Ended
31 December 2006
Together with Auditor's Report

INCOME STATEMENT

For the year ended 31 December 2006

Expressed in thousands of SDR	Note	2006	2005
Interest and similar income			
From loans		22,246	17,931
From placements with financial institutions		697	469
From investment securities		2,324	1,233
Interest expense and similar charges		(4,082)	(2,009)
Net interest income		21,185	17,624
Net fees and commissions	4	1,497	1,923
Net income (loss) on foreign exchange		79	39
Other income (expense)		(48)	(22)
Operating income		22,713	19,564
Administrative expenses	5	9,834	8,887
Depreciation and amortisation	13,14	234	292
Income before impairment		12,645	10,385
Impairment losses on loans	6	1,175	7,027
Net income for the year		11,470	3,358

The accompanying notes are an integral part of this statement.

Financial Statements and Notes

BALANCE SHEET

At 31 December 2006

Expressed in thousands of SDR	Note	2006	2005
Assets			
Cash and bank balances	18	993	21,695
Placements with financial institutions	18	4,985	16,763
Investment securities:			
Available-for-sale		27,491	0
Held-to-maturity	18	76,053	49,351
Total deposits and investments		109,522	87,809
Derivative financial instruments	8	0	495
Loans	9,11	295,072	273,736
Less: impairment losses on loans	6	(21,017)	(20,548)
Loans net of impairment		274,055	253,188
Equity investments:			
Available-for-sale	10,11	4,852	3,920
Other assets	12	6,502	6,790
Property and equipment	13	203	239
Intangible assets	14	587	388
Total Assets		395,721	352,829
Liabilities			
Borrowings	15	73,506	42,858
Derivative financial instruments	8	26	0
Payables and accrued interest	16	1,754	713
Deferred income	4	2,295	2,150
Total liabilities		77,581	45,721
Members' Equity			
Authorised share capital	7	1,000,000	1,000,000
Less: unallocated share capital	7	(30,000)	(30,000)
Subscribed share capital	7	970,000	970,000
Less: callable share capital	7	(679,000)	(679,000)
Advance against future call	7	37	35
Paid-in share capital		291,037	291,035
Reserves	17	13,493	5,682
Retained earnings		13,610	10,391
Total members' equity		318,140	307,108
Total Liabilities and Members' Equity		395,721	352,829
Off-balance-sheet items			
Commitments	11	75,075	57,776

The accompanying notes are an integral part of this statement.



STATEMENT OF CHANGES IN MEMBERS' EQUITY

For the year ended 31 December 2006

Expressed in thousands of SDR	Share capital			Reserves	Retained earnings	Total
	Subscribed	Callable	Payable			
At 31 December 2004	970,000	(679,000)	(24,221)	3,666	7,182	277,627
Net gain of available-for-sale (note 10)				1,867		1,867
Income recognised directly in equity				1,867		1,867
Net income for the year					3,358	3,358
Total income for the year				1,867	3,358	5,225
Paid-in share capital			24,250			24,250
Advance against future call			6			6
General reserve				149	(149)	0
At 31 December 2005	970,000	(679,000)	35	5,682	10,391	307,108
Net (loss) of available-for-sale (note 10)				(440)		(440)
Income recognised directly in equity				(440)		(440)
Net income for the year					11,470	11,470
Total income for the year				(440)	11,470	11,030
Advance against future call			2			2
General reserve				8,251	(8,251)	0
At 31 December 2006	970,000	(679,000)	37	13,493	13,610	318,140

The accompanying notes are an integral part of this statement.

Financial Statements and Notes

STATEMENT OF CASH FLOWS

For the year ended 31 December 2006

Expressed in thousands of SDR	Note	2006	2005
Cash flows from operating activities			
Net income for the year		11,470	3,358
Adjustment for:			
Impairment losses on loans	6	1,175	7,027
Depreciation and amortisation	13,14	234	292
Interest and similar income		(25,267)	(19,633)
Interest expense and similar charges		4,082	2,009
Foreign exchange adjustments on provisions	6	(706)	211
Operating income before changes in operating assets		(9,012)	(6,736)
Derivative movements	8	521	368
Decrease (increase) in other assets	12	66	(534)
Increase (decrease) in accounts payable	16	693	346
Increase (decrease) in deferred income	4	145	(237)
Interest and similar income received		23,609	18,266
Interest and similar charges paid	16	(3,734)	(1,995)
Fair value movements		188	0
Cash generated from operations		12,476	9,478
Proceeds from repayment of loans	9	148,483	141,072
Proceeds from repayment of equity investments		349	1,273
Funds advanced for loans	9	(169,818)	(170,496)
Funds advanced for equity investments		(1,911)	(770)
Net cash used in operating activities		(10,421)	(19,443)
Cash flows from investing activities			
Purchase of available-for-sale investment securities		(27,491)	0
Purchase of property, technology and equipment	13, 14	(397)	(276)
Net cash used in investing activities		(27,888)	(276)
Cash flows from financing activities			
Increase in paid-in share capital	7	0	24,250
Decrease in share capital short-term receivable	7	1,880	1,162
Increase (decrease) in advance against future call	7	2	6
Paid-in share capital received		1,882	25,418
Proceeds from borrowings	15	101,483	53,463
Repayments of borrowings	15	(70,834)	(17,260)
Net cash provided by financing activities		32,531	61,621
Net increase (decrease) in cash and cash equivalents		(5,778)	41,902
Cash and cash equivalents at beginning of year		87,809	45,907
Cash and cash equivalents at end of year	18	82,031	87,809

The accompanying notes are an integral part of this statement.



Notes to the Financial Statements

For the year ended 31 December 2006

1. ESTABLISHMENT OF THE BANK

1.1 Agreement Establishing The Bank

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

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

As at 31 December 2006 the Bank's shareholders comprised 11 countries: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russian Federation, Turkey and Ukraine.

1.2 Headquarters Agreement

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

1.3 Approval Of Financial Statements

The financial statements for 2006 were submitted by the Management Committee to the Board of Directors for approval on 27 April 2007. Pursuant to Article 23 of the Agreement, these financial statements shall be subject to approval by the Board of Governors in their Annual Meeting to be held on 17 June 2007.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis Of Financial Statements

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

The Bank's unit of account is Special Drawing Rights (SDR) for its authorised share capital, in accordance with Article 4 of the Agreement. Pursuant to this, the Bank's functional currency is the SDR component currencies and all transactions are recorded in these original currencies. The Bank's presentation currency is the SDR.

Financial Statements and Notes

2.2 Foreign Currencies

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

Exchange rates used by the Bank at the balance sheet date have as follows:

	31 December 2006	31 December 2005
1 SDR = United States dollar	1.50440	1.42927
Euro	1.14151	1.20756
Japanese yen	178.81321	168.04000
Pound sterling	0.76638	0.83005

2.3 Financial Instruments

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

2.3.1 Financial Assets – Investments

The Bank classifies investments into the following categories; financial assets at fair value through income statement, available-for-sale financial assets and held-to-maturity financial assets. Their classification is determined at the time of acquisition and accounted for at trade date.

2.3.1a available-for-sale

Financial assets such as the Bank's equity investments are classified as available-for-sale. After initial recognition at cost these financial assets are measured at fair value. The fair value of the available for sale securities that are traded in organized financial markets is determined by reference to quoted market bid prices or discounted cash flow models. For those where there is no active market fair value is determined using accepted valuation techniques.

The unrealized gains and losses which arise from fluctuations in fair value are recognized as a separate component of equity until the financial asset is sold or derecognized for any other reason or until the investment is determined to be impaired, at which time, the cumulative gain or loss previously reported in equity is included in the income statement.

An investment in securities is considered to be impaired when its accounting value exceeds its recoverable amount and events and circumstances indicate that the carrying amount may not be recoverable in the future.

2.3.1b held-to-maturity

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

The interest arising from investment securities is reported as interest income in the income statement.

2.3.1c derivative financial instruments

The Bank enters into transactions in derivative instruments: primarily foreign exchange forward contracts. Derivative financial instruments are initially recognized in the balance sheet at cost and subsequently are remeasured at their fair value.



Fair values are obtained from quoted market prices, to the extent publicly available, discounted cash flows and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

For derivatives that do not qualify for special hedge accounting, any gains or losses arising from changes in fair value are taken directly to net income or loss for the period.

2.3.1d **loans and advances to customers**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. Subsequently, loans are measured at amortised cost using the effective interest rate method. All loans are recognized when cash is advanced to borrowers at settlement date.

Loans and advances are classified as non-performing when payment of interest or principal is contractually past due and unpaid. Interest accrued on these loans is not recognised as income until cash is received.

2.3.1e **impairment for loan losses**

Based upon its evaluation of credits granted, the Bank estimates the total credit risk provision that it believes is adequate to cover uncollectable amounts in the Bank's loan and receivable portfolio including losses under guarantees and commitments. If there is objective evidence that the Bank will not be able to collect all amounts due (principal and interest) according to original contractual terms of the loan, such loans are considered and classified as "non-performing". The amount of the loss is measured as the difference between the loan's carrying amount and the present value of expected future cash flows discounted at the loan's original (or current) effective interest rate as determined under the contract, or as the difference between the carrying value of the loan and the fair value of collateral, if the loan is collateralized and foreclosure is probable.

Impairment and uncollectability are measured and recognized individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are either not individually significant or not individually identified as impaired.

The Bank ceases to accrue interest on those loans classified as non-performing for more than 90 days, or earlier when there is reasonable doubt as to actual collection, and for which the recoverable amount is determined primarily in reference to fair value of collateral.

On the portfolio basis, management estimates that the allowance over cash and non-cash loans (excluding those that are non-performing) respectively, is adequate to cover potential or unforeseen uncollectible amounts in the existing performing cash and non-cash loan portfolio.

The carrying amount of such assets is reduced to its estimated recoverable amount through use of an allowance for impairment account. Assumptions are reviewed regularly to reduce difference between loss estimates and actual loss experience. A write-off is made when all or part of a loan is deemed uncollectable or in the case of debt forgiveness. Write-offs are charged against previously established allowances and reduce the principal amount of a loan. Recoveries of loans written off in earlier periods are included in the income statement.

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

Financial Statements and Notes

2.3.2 Recognition And Derecognition

The Bank recognizes a financial asset or financial liability in its balance sheet when and only when it becomes a party to the contractual provisions of the instrument. The evaluation of the transfer of risks and rewards of ownership precedes the evaluation of the transfer of control for all derecognition transactions. The Bank derecognizes a financial asset or a portion of financial asset when and only when it loses control of the contractual rights that comprise the financial asset or a portion of the financial asset. The Bank derecognizes a financial liability when and only when a liability is extinguished, that is when the obligation specified in the contract is discharged, cancelled and expired.

2.4 Property And Equipment

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

- Furniture, furnishings and appliances 20.0%
- Personal computers 33.3%
- Office and telecommunication equipment 20.0%
- Transportation vehicles 20.0%

Expenditure on leasehold buildings and improvements are depreciated over the remaining term of the lease.

2.5 Intangible Assets

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

2.6 Impairment Of The Value Of Assets

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

2.7 Staff Retirement And Termination Benefits

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

- The first pillar is a defined benefit scheme financed entirely by the Bank. The Bank's contributions are determined on the basis of actuarial valuations using the projected unit credit method, performed annually by qualified, independent actuaries;
- The second pillar is a defined contribution scheme to which both the employee and the Bank contribute equally at a rate of 0-7.5% of basic salary. Each employee determines his/her contribution rate and the mode of investment of the contributions; and
- The third pillar is a defined contribution scheme funded entirely by each employee, up to 40% of basic salary.

Local staff is alternatively entitled to retirement benefits from the Greek State Social Insurance Fund (IKA). Current service costs in respect of both the pension plan and social insurance fund (IKA) are recognised as an expense and included in "Administrative expenses".



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

2.8 **Taxation**

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

2.9 **Borrowings**

Borrowings are stated at cost. Borrowing costs are recognised as expenses and recorded on an accrual basis.

2.10 **Other Provisions**

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

2.11 **Share Capital And Dividends**

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

2.12 **Netting of Assets And Liabilities**

The netting off of assets and liabilities in the financial statements is permitted only if a contractual right exists which allows the netting off of such balances as well as the intention for the mutual settlement of the whole amount of the asset or the liability, or of the settlement of the amount which arises following the netting off of the balances.

2.13 **Income And Expenses**

Interest income and expense are recorded on an accrual basis, with the exception on those assets that are individually identified as impaired for which interest is recognised through unwinding the discount used in the present value calculations applied to the expected future cash flows. In accordance with IAS 18, front-end fees and where applicable commitment fees, pertaining to loans are amortised through the income statement using the effective interest rate method over the life of the loans. In the case of early repayment, cancellation or acceleration the outstanding deferred income from the related fees are recalculated taking into account the new maturity date.

Other commitment and guarantee fees and fees received in respect of services provided over a period of time are recognised as income on an accrual basis matching the period during which the commitment exists or the services are provided.

Dividends are recognised when received. Administrative expenses are recorded on an accrual basis.

Financial Statements and Notes

2.14 **Government Grants**

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

2.15 **Cash And Cash Equivalents**

For the purpose of the "statement of cash flows" cash and cash equivalents consist of cash on hand, placements with other financial institutions and debt securities with maturities of three months or less.

2.16 **Use Of Estimates**

The preparation of financial statements involves management estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Differences in judgement may arise from impairment losses on loans as referred in note 6 and the staff retirement plan as referred in note 22. Such differences are believed not material and do not affect these financial statements.

2.17 **Judgements**

In the process of applying the Bank's accounting policies, management has made certain judgements apart from those involving estimations, which have been described in the notes that follow.

3. RISK MANAGEMENT

3.1 **Financial Risk**

The Bank is exposed to financial risk through its financial assets and liabilities including the receivables from these financial assets. The key aspects of financial risk are (i) credit risk (ii) liquidity risk (iii) foreign exchange risk and (iv) interest rate risk.

The basic principle of the Bank as far as the management of the financial risk is concerned, is the equivalent matching of assets and liabilities from the lending and the investment contracts.

3.1.1 **Credit Risk**

The Bank is subject to credit risk, which is the risk that a counter party will be unable to meet its obligations as they fall due. Customers are the main source of credit risk since they might be unable to cover their part of the obligation or of the claims that have already been attributed to the Bank. The Bank reviews on a regular basis the credit limits of counterparties and takes actions accordingly.

3.1.2 **Liquidity Risk**

The liquidity risk concerns the ability of the Bank to fulfil its financial obligations as they become due. The management of the liquidity risk is concentrated on the timing of the cash in-flows and out-flows as well as in the adequacy of the available cash and liquidity securities. For this, the Bank estimates and relates all expected cash flows from assets and liabilities.

3.1.3 **Foreign Exchange Risk**

The Bank operates in the Black Sea Region and is subject to exchange rate risk coming mainly from the translation of the SDR constituent currencies. The Bank monitors its assets and liabilities in the SDR basket currencies in order to ensure it takes no significant foreign exchange risks.



3.1.4 Interest Rate Risk

The interest rate risk is the risk that arises from changes in the future financial cash flows due to fluctuations of interest rates.

The Bank closely monitors the consequences of interest rate risk analysing the duration of its lending and investment securities portfolios, along with its relevant liabilities, in combination with the money market developments.

3.2 New Accounting Standards And Interpretations Of IASB

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods on or after 1 January 2007 or later periods but which the Bank has not early adopted, as follows:

IFRS 7: Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective for financial years beginning on or after 1 January 2007).

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Bank assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital.

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

IFRS 8 replaces IAS 14 Segment Reporting and adopts a management approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the balance sheet and income statement and entities will need to provide explanations and reconciliations of the differences. The Bank is in the process of assessing the impact this new standard will have on its financial statements.

IFRIC Interpretation 7: Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective for financial years beginning on or after 1 March 2006).

IFRIC 7 requires entities to apply IAS 29 Financial Reporting in Hyper-inflationary Economies in the reporting period in which an entity first identifies the existence of hyperinflation in the economy of its functional currency as if the economy had always been hyperinflationary. IFRIC 7 is not relevant to the Bank's operations.

IFRIC Interpretation 8: Scope of IFRS 2 (effective for financial years beginning on or after 1 March 2006).

IFRIC 8 clarifies that IFRS 2 Share-based payment will apply to any arrangement when equity instruments are granted or liabilities (based on the value of an entity's equity instrument) are incurred by an entity, when the identifiable consideration appears to be less than the fair value of the instruments given. IFRIC 8 is not relevant to the Bank's operations.

IFRIC Interpretation 9: Reassessment of Embedded Derivatives (effective for financial years beginning on or after 1 June 2006).

Financial Statements and Notes

IFRIC 9 requires an entity to assess whether a contract contains an embedded derivative at the date an entity first becomes a party to the contract and prohibits reassessment unless there is a change to the contract that significantly modifies the cash flows. IFRIC 9 is not relevant to the Bank's operations.

IFRIC Interpretation 10: Interim Financial Reporting and Impairment (effective for financial years beginning on or after 1 November 2006).

This Interpretation may impact the financial statements should any impairment losses be recognised in the interim financial statements in relation to available for sale equity investments, unquoted equity instruments carried at cost and goodwill as these may not be reversed in later interim periods or when preparing the annual financial statements. Although it is relevant to the Bank's activities it does not impact the financial statements in the initial period of application.

IFRIC Interpretation 11: IFRS 2 – Group and Treasury Share Transactions (effective for financial years beginning on or after 1 March 2007).

This Interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by an entity even if the entity chooses or is required to buy those equity instruments from another party, or the shareholders of the entity provide the equity instruments needed. The Interpretation also extends to the way in which subsidiaries, in their separate financial statements, account for schemes when their employees receive rights to equity instruments of the parent. IFRIC 11 is not relevant to the Bank's operations.

IFRIC Interpretation 12: Service Concession Arrangements (effective for financial years beginning on or after 1 March 2008).

The interpretation outlines an approach to account for contractual arrangements arising from entities providing public services. It provides for the operator should not account for the infrastructure as property, plant and equipment, but recognize a financial asset and / or an intangible asset. IFRIC 12 is not relevant to the Bank's operations.



4. NET FEES AND COMMISSIONS

Net fees and commissions are analysed as follows:

Expressed in SDR (000)	Year to 31 December 2006	Year to 31 December 2005
Front-end fees	1,009	986
Commitment fees	288	280
Guarantee fees	-	113
Management fees	57	100
Appraisal fees	72	68
Prepayment/cancellation fees	71	317
Other	-	59
Net fees and commissions	1,497	1,923

The deferred income balance as of 31 December 2006 was SDR 2,295 thousand and as of 31 December 2005 was SDR 2,150 thousand. Such amounts are recognised in the income statement over the period from disbursement to repayment of the related loan in accordance with IAS 18.

5. ADMINISTRATIVE EXPENSES

Administrative expenses in the income statement are analysed as follows:

Expressed in SDR (000)	Year to 31 December 2006	Year to 31 December 2005
Salaries and benefits	6,443	5,823
Staff retirement plan (note 22)	1,525	1,314
Other administrative expenses	2,516	2,331
Total	10,484	9,468
Host country reimbursement	(650)	(581)
Administrative expenses	9,834	8,887

The average number of staff employed during the year was 97 (2005: 96). The number of staff at 31 December 2006 was 99 (2005: 94)

Financial Statements and Notes

6. IMPAIRMENT LOSSES ON LOANS

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

Expressed in SDR (000)	Portfolio	Specific	Total
At 1 January	14,391	6,157	20,548
Charge for the year	322	853	1,175
Foreign exchange adjustments	(392)	(314)	(706)
At 31 December 2005	14,321	6,696	21,017

At 31 December 2006 the Bank categorised one loan as impaired. The total exposure amounts to SDR 6,696 thousand and the provision on this asset amounted to SDR 6,696 thousand.

7. SHARE CAPITAL

In accordance with Article 4 of the Agreement, the initial authorised share capital of the Bank is one billion SDR divided into one million shares having a par value of one thousand SDR each. All participating members had fully subscribed to their portion of the initial authorised share capital in accordance with Article 5 of the Agreement.

Subsequently, at the Sixth Annual Meeting of the Board of Governors held on 6 June 2004, three Member States, Armenia, Georgia and Moldova requested a fifty per cent reduction of their portion of subscribed capital, from 2% to 1% of total authorised capital. The Board of Governors approved their request, recognising the importance of full commitment of the Member States by way of payment of obligations towards their respective shares. The total initial authorised capital stock of the Bank of SDR one billion remained unchanged. The issued share capital at end of the year is analysed as follows:

Expressed in SDR (000)	At 31 December 2006	At 31 December 2005
Authorised share capital	1,000,000	1,000,000
Less: unallocated share capital*	(30,000)	(30,000)
Subscribed share capital	970,000	970,000
Less: shares not yet called	(679,000)	(679,000)
Called-up share capital	291,000	291,000
Advance against future call	37	35
Paid-in share capital	291,037	291,035

* Shares available to new or existing Member States.

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



At end of the year one Member State had not yet fully settled the called up and due portion of their capital obligations. The balance of share capital due but not received at 31 December 2006 was SDR 860 thousand and at 31 December 2005 was SDR 2,740 thousand. The capital subscription status, which has no change since 31 December 2004, and voting power based on the paid amount, of each member at 31 December 2006 is analysed as follows:

Member	Shares	Subscribed	Callable	Payable	Paid	Voting power
		Expressed in SDR (000)				
Albania	20,000	20,000	14,000	6,000	6,000	2.0%
Armenia	10,000	10,000	7,000	3,000	3,000	1.0%
Azerbaijan	20,000	20,000	14,000	6,000	6,000	2.0%
Bulgaria	135,000	135,000	94,500	40,500	40,500	14.0%
Georgia	10,000	10,000	7,000	3,000	2,140	0.7%
Greece	165,000	165,000	115,500	49,500	49,500	17.1%
Moldova	10,000	10,000	7,000	3,000	3,000	1.0%
Romania	135,000	135,000	94,500	40,500	40,500	14.0%
Russian Fed.	165,000	165,000	115,500	49,500	49,500	17.1%
Turkey	165,000	165,000	115,500	49,500	49,500	17.1%
Ukraine	135,000	135,000	94,500	40,500	40,500	14.0%
Total	970,000	970,000	679,000	291,000	290,140	100%

8. DERIVATIVE FINANCIAL INSTRUMENTS

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

The table below shows the fair values of such instruments together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

Forward foreign exchange contracts are valued by using spot exchange rates at the balance sheet date, and forward foreign exchange points are accrued on a daily basis.

Expressed in SDR (000)	At 31 December 2006		At 31 December 2005	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Currency swap purchases	7,530	7,528	30,543	30,433
Currency swap sales	7,508	7,502	30,737	30,928
Derivative financial instruments	(22)	(26)	194	495

Financial Statements and Notes

9. LOANS

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

Expressed in SDR (000)	At 31 December 2006	At 31 December 2005
At 1 January	273,736	244,310
Disbursements	154,173	144,445
Less: repayments	(128,988)	(125,341)
Foreign exchange movements	(3,849)	10,964
Written off	-	(642)
At end of year	295,072	273,736
Less: impairment losses on loans (note 6)	(21,017)	(20,548)
Loans net of impairment	274,055	253,188

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 4.0%. As of 31 December 2006 there is one impaired loan for which interest is not being accrued.

The fair value of the loan portfolio is approximately equal to book value plus amortise cost as all loans bear a variable interest rate and are given at market terms and conditions. Further analysis of the loan portfolio is presented in note 11.

10. EQUITY INVESTMENTS

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

Expressed in SDR (000)	% of investment	Total net equity	At 31 December 2006		At 31 December 2005	
			Carrying amount	Fair value	Carrying amount	Fair value
SEAF Trans-Balkan Fund LLC	18.33	7,384	1,354	1,996	1,848	2,696
Micro Finance Bank of Azerbaijan	25.55	4,568	1,148	1,163	1,129	1,224
Balkan Accession Fund	1.76	96,364	1,696	1,693	-	-
Available-for-sale			4,198	4,852	2,977	3,920

The valuation of such investments, which are unlisted, has been based on their latest audited accounts as of the 31 December 2005. An increase of SDR 1,239 thousand since the acquisition of the investments was due to an unrealized gain in fair value, attributable to the Bank's participation. The Bank has not realized any gains or losses during the year.

The Bank has a committed amount of SDR 7,537 thousand towards the above entities share capital, which as of 31 December 2006 has not been called-up.



11. OPERATIONAL ANALYSIS

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

Expressed in SDR (000)	At 31 December 2006		At 31 December 2005	
	Outstanding disbursements	Undrawn commitments	Outstanding disbursements	Undrawn commitments
Analysis by instrument				
Loans	295,072	67,538	273,736	57,505
Equity investments	4,852	7,537	3,920	271
At end of year	299,924	75,075	277,656	57,776
Analysis by country				
Armenia	18,274	2,454	769	1,014
Azerbaijan	18,948	1,943	8,776	5,335
Bulgaria	14,482	12,810	23,103	16,172
Georgia	15,057	5,451	12,238	5,947
Greece	39,032	-	42,050	-
Moldova	2,462	2,161	157	2,327
Romania	18,024	4,380	25,975	1,423
Russia	35,640	13,294	32,839	16,792
Turkey	64,311	25,416	71,157	7,096
Ukraine	70,005	-	57,896	1,399
Regional	3,689	7,166	2,696	271
At end of year	299,924	75,075	277,656	57,776
Analysis by sector				
Trade finance & SME's	71,776	16,887	60,502	17,830
Manufacturing	117,280	39,202	128,505	20,805
Infrastructure	94,551	11,254	88,649	19,141
B. NB Financial institutions	16,317	7,732	-	-
At end of year	299,924	75,075	277,656	57,776

Financial Statements and Notes

12. OTHER ASSETS

Other assets in the accompanying balance sheet are analysed as follows:

Expressed in SDR (000)	At 31 December 2006	At 31 December 2005
Receivables and accrued interest	4,861	3,203
Paid-in share capital not received	860	2,740
Advances and prepaid expenses	234	212
Pending pension plan	130	-
Rental reimbursement receivable*	334	581
Guarantee deposits	83	54
Other assets	6,502	6,790

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

13. PROPERTY AND EQUIPMENT

Property and equipment in the accompanying balance sheet are analysed as follows:

Expressed in SDR (000)	Buildings (leasehold)	Vehicle	Furniture and office accessories	Computers and office equipment	Total
Cost					
At 31 December 2004	129	32	344	991	1,496
Additions	17	-	4	85	156
At 31 December 2005	146	32	348	1,076	1,602
Additions	5	-	6	81	92
At 31 December 2006	151	32	354	1,157	1,694
Accumulated depreciation					
At 31 December 2004	122	28	309	748	1,207
Charges for the year	9	4	22	121	156
At 31 December 2005	131	32	331	869	1,363
Charges for the year	6	-	12	110	128
At 31 December 2006	137	32	343	979	1,491
Net book value					
At 31 December 2006	14	0	11	178	203
At 31 December 2005	15	0	17	207	239



14. INTANGIBLE ASSETS

Intangible assets* in the accompanying balance sheet are analysed as follows:

Expressed in SDR (000)	Total
Cost	
At 31 December 2004	1,060
Additions	170
At 31 December 2005	1,230
Additions	305
At 31 December 2006	1,535
Accumulated amortisation	
At 31 December 2004	706
Charges for the year	136
At 31 December 2005	842
Charges for the year	106
At 31 December 2006	948
Net book value	
At 31 December 2006	587
At 31 December 2005	388

* Intangible assets comprises of computer software.

15. BORROWINGS

Borrowing facilities arranged at end of year were SDR 86,646 thousand of which an amount of SDR 13,140 thousand was not used, as analysed below. In addition to medium or long-term borrowings, the Bank utilises short-term financing in the form of borrowings from major commercial banks for cash management purposes.

Expressed in SDR (000)	At 31 December 2006		At 31 December 2005	
	Amount used	Borrowings arranged	Amount used	Borrowings arranged
Euro	-	13,140	-	12,422
United States dollar	73,121	73,121	42,443	42,443
Other	385	385	415	415
Total	73,506	86,646	42,858	55,280

The Interest rate on borrowings falls within a range of USD Libor to USD Libor+50 points. There is no collateral against the above borrowed funds. The fair value of the borrowings is approximately equal to carrying value.

Financial Statements and Notes

16. PAYABLES AND ACCRUED INTEREST

Payables and accrued interest in the accompanying balance sheet are analysed as follows:

	At 31 December 2006	At 31 December 2005
Expressed in SDR (000)		
Interest	430	82
Social insurance fund (IKA) contributions	22	18
Pension plan obligation (note 22)	691	444
Suppliers and other accrued expenses	611	169
Payables and accrued interest	1,754	713

17. RESERVES

Reserves in the accompanying balance sheet are analysed as follows:

	At 31 December 2006	At 31 December 2005
Expressed in SDR (000)		
General reserve	12,066	3,815
Available-for-sale revaluation	1,427	1,867
Reserves	13,493	5,682

The general reserve constitutes any unforeseeable risks or contingencies that may not qualify as provisions and is normally build-up from released provisioning charges during the year. In addition, the revaluation reserve has been adjusted relating to the decrease in unrealized profit of SDR 440 thousand on available-for-sale investments.

18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, placements with other financial institutions and financial assets with maturities of three months or less. In the accompanying balance sheet they are analysed as follows:

	At 31 December 2006	At 31 December 2005
Expressed in SDR (000)		
Cash	1	1
Bank balances/placements and/or investments:		
Up to 1 month	82,030	87,808
Cash and cash equivalents	82,031	87,809

The commercial paper held in the Bank's portfolio is rated at a minimum of A2 by Standard and Poors or P2 by Moody's, in accordance with internal financial policies.



19. CURRENCY RISK

The Bank's policy is to take no significant foreign exchange risk, but to invest its SDR denominated capital and reserves in the SDR constituent currencies at the appropriate weights.

The table below provides a currency breakdown of the Bank's assets and liabilities.

Expressed in SDR (000)	United States dollar	Euro	Japanese yen	Pound sterling	Special drawing right	Total
Assets						
Cash and bank balances	416	376	66	135		993
Placements with financial institutions	4,985					4,985
Investment securities	13,179	28,340	32,436	29,589		103,544
Loans	208,643	86,429				295,072
Impairment losses on loans	(16,992)	(4,025)				(21,017)
Equity investments	3,159	1,693				4,852
Other assets	2,730	2,164	390	358	860	6,502
Net property and equipment					203	203
Net intangible assets					587	587
Total assets	216,120	114,977	32,892	30,082	1,650	395,721
Liabilities						
Borrowings	73,506					73,506
Derivative financial instruments					26	26
Payables and accrued interest	509	1,213		32		1,754
Deferred income					2,295	2,295
Members' equity					318,140	318,140
Total liabilities and members' equity	74,015	1,213	0	32	320,461	395,721
Net assets (liabilities)	142,105	113,764	32,892	30,050	(318,811)	0
Derivative financial instruments	(7,528)	-	-	7,502	26	0
Net currency balance at 31 December 2006	134,577	113,764	32,892	37,552	(318,785)	0
Correct SDR weights*	133,922	114,499	32,803	37,561	318,785	
Currency position at 31 December 2005	655	(735)	89	(9)	0	
Net currency balance at 31 December 2005	120,318	110,068	38,692	36,601	(305,679)	0

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

Financial Statements and Notes

20. LIQUIDITY RISK

Liquidity is a measure of the extent to which the Bank may be required to raise funds to meet its obligations. The Bank's commitment to maintaining a strong liquidity position is established in policies, approved by the Board of Directors, that require a minimum target liquidity ratio of 50% (liquid assets divided by the net cash requirements for the next twelve months). Liquid assets are maintained in short-term placements and negotiable securities.

The table below provides an analysis of assets, liabilities and members' equity by relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment patterns allow for early repayment possibilities. Therefore, in the case of liabilities the earliest possible repayment date is shown, while for assets it is the latest possible repayment date. Those assets and liabilities that do not have a contractual maturity date are grouped together in the "maturity undefined" category.

Expressed in SDR (000)	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and bank balances	993						993
Placements with financial institutions	4,985						4,985
Investment securities	76,053			27,491			103,544
Loans	6,438	27,863	67,875	167,337	25,559		295,072
Impairment losses on loans						(21,017)	(21,017)
Equity investments						4,852	4,852
Other assets	1,094	5,325				83	6,502
Net property and equipment						203	203
Net intangible assets						587	587
Total assets	89,563	33,188	67,875	194,828	25,559	(15,292)	395,721
Liabilities							
Borrowings			39,883	33,238		385	73,506
Derivative financial instruments		26					26
Payables and accrued interest		1,063	691				1,754
Deferred income	2,295						2,295
Members' equity						318,140	318,140
Total liabilities and members' equity	2,295	1,089	40,574	33,238	0	318,525	395,721
Liquidity position at 31 December 2006	87,268	32,099	27,301	161,590	25,559	(333,817)	0
Liquidity position at 31 December 2005	98,621	28,766	72,163	103,087	20,338	(322,975)	0

* The fair value of investment securities maturing up to one year approximates the book value.



21. INTEREST RATE RISK

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

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

Expressed in SDR (000)	Bearing floating interest					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		
Assets							
Cash and bank balances	992					1	993
Placements with financial institutions	4,985						4,985
Investment securities	76,053	27,491					103,544
Loans	74,129	103,955	116,988				295,072
Impairment losses on loans						(21,017)	(21,017)
Equity investments						4,852	4,852
Other assets						6,502	6,502
Net property and equipment						203	203
Net intangible assets						587	587
Total assets	156,159	131,446	116,988	0	0	(8,872)	395,721
Liabilities							
Borrowings		73,121				385	73,506
Derivative financial instruments						26	26
Payables and accrued interest						1,754	1,754
Deferred income						2,295	2,295
Members' equity						318,140	318,140
Total liabilities and members' equity	0	73,121	0	0	0	322,600	395,721
Interest rate risk at 31 December 2006	156,159	58,325	116,988	0	0	(331,472)	0
Interest rate risk at 31 December 2005	102,778	77,216	133,440	5,667	0	(319,101)	0

Financial Statements and Notes

22. STAFF RETIREMENT PLAN

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

Defined Benefit Scheme

The defined benefit scheme covers all eligible employees of the Bank. A qualified actuary performs an actuarial valuation of this scheme at each end of year using the projected unit method, which is rolled forward to the following year mid term accounts. The most recent valuation date was 31 December 2005. The present value of the defined benefit obligation and current service cost was calculated using the projected unit credit method.

Expressed in SDR (000)	At 31 December 2006	At 31 December 2005
Amounts recognised in the balance sheet		
Present value of the defined benefit obligations	3,347	3,226
Fair value of plan assets	(2,594)	(2,500)
	753	726
Unrecognised actuarial gains (losses)	108	104
Net liability	861	830
Expenses for the year	1,114	-
Past service obligation	130	-
Contributions paid	(1,414)	(368)
At end of year	691	462
Amounts recognised in the income statement		
Current service cost	553	494
Interest cost	114	-
Expected return on plan assets	(114)	-
Past service obligation	561	444
Total included in administrative expenses	1,114	938
Principal actuarial assumptions used		
Discount rate	4.00%	4.00%
Expected return on plan assets	4.20%	4.20%
Future salary increases	2.30%	2.30%
Average remaining working life of employees	14 years	14 years

Defined Contribution Scheme

The pension expense under this scheme was SDR 330 thousand (2005: SDR 299 thousand) and is included in "Administrative expenses".

Greek State Social Insurance Fund

The pension expense of staff that is alternatively entitled to retirement benefits from this fund was SDR 81 thousand (2005: SDR 77 thousand) and is also included in "Administrative expenses".



23. OPERATING LEASES

The Bank has entered into lease contracts for its Headquarters and other premises. These are operating leases and include renewal options and periodic escalation clauses. There is no commitment at end of period for non-cancellable lease contracts. Rental expenses for the year included in "Administrative expenses" totalled SDR 650 thousand (2005: SDR 610 thousand). The Hellenic Republic will grant the rental already being reimbursed amounting to SDR 650 thousand.

24. SPECIAL FUNDS ADMINISTERED BY THE BANK

Special funds may be established in accordance with Article 16 of the Agreement and are administered under the terms of rules and regulations adopted by the Bank. At 31 December 2006 the Bank administered and audited the Technical Cooperation Special Fund, whose assets and fund balance are not included in the Bank's balance sheet.

The objective of the fund, which has been funded by the Hellenic Republic, is to contribute to the economic development of the Black Sea Region's Member Countries. The fund extends technical assistance grants for preparation of high quality project documentation including business plans, feasibility studies and financial reporting methods and standards. The movement in the fund for the years 2006 and 2005 is shown below.

Expressed in SDR (000)	At 31 December 2006	At 31 December 2005
Fund statement of movement		
Balance of fund brought forward	588	723
Contribution received	-	-
Interest and other income	14	11
Less: disbursements	(54)	(104)
Less: other operating expenses	(2)	(2)
Foreign exchange movements	35	(40)
Balance of fund available	581	588
Fund balance sheet		
Assets		
Placements with other financial institutions	581	588
Total Assets	581	588
Liabilities		
Allocated fund balance	-	-
Unallocated fund balance	581	588
Total Liabilities and contributor's resources	581	588

25. POST BALANCE SHEET EVENTS

There are no material post-balance sheet events that would require disclosure or adjustment to these financial statements.

Auditor's Report

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

We have audited the accompanying financial statements of "Black Sea Trade and Development Bank", which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

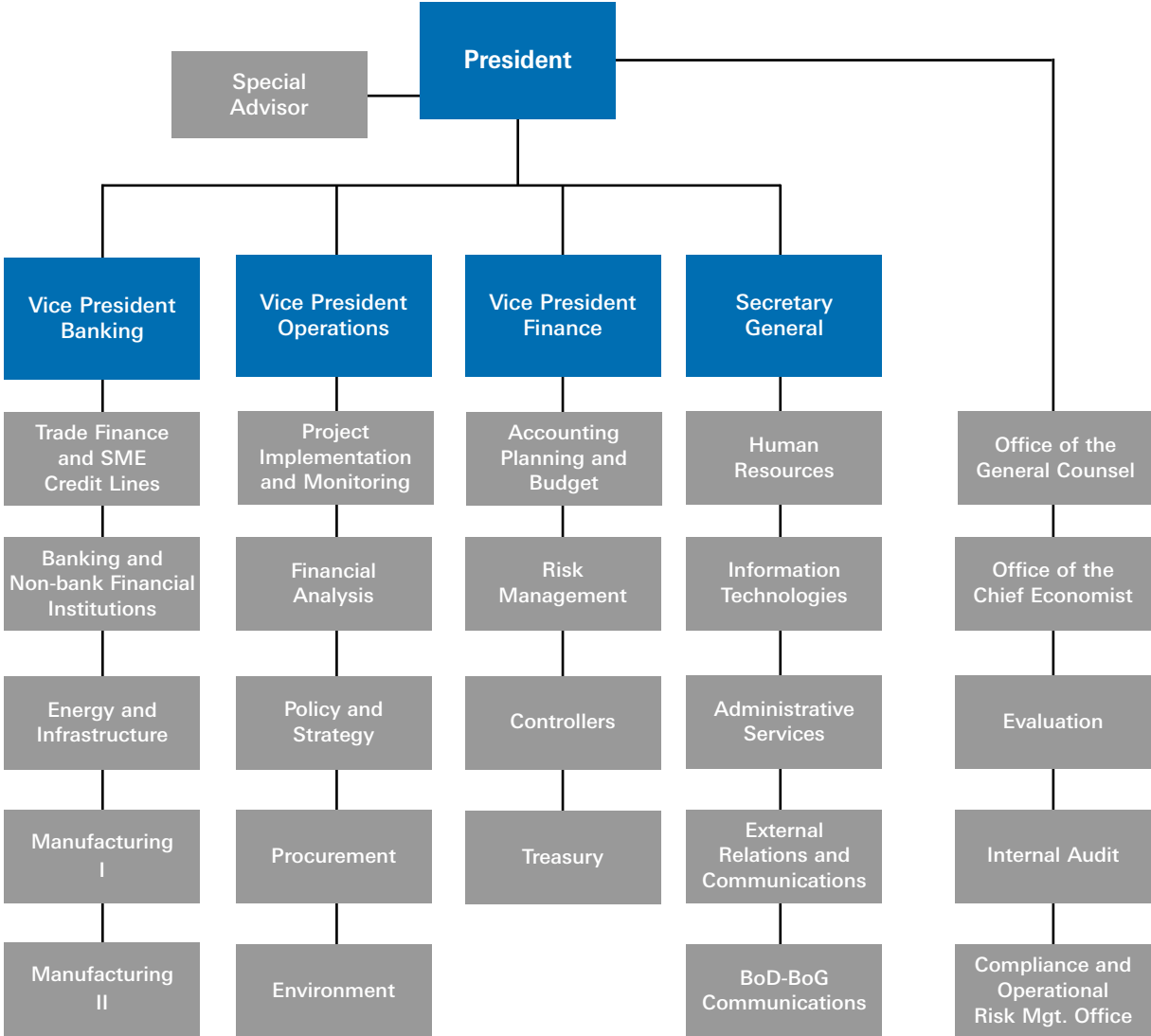
In our opinion, the financial statements present fairly, in all material respects, the financial position of "Black Sea Trade and Development Bank" as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst and Young,

Athens, Greece,
27 April 2007

Annex I Organizational Chart

As of 31 December 2006



Annex II

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