ECO Trade and Development Bank

Annual Report
2017

JUNE 2018

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Board of Governors

As of 31 December 2017

Chairman, Board of Governors (May 2017 – June 2018): H.E. Seyed Ahmad Araghchi, Vice Governor, Foreign Exchange Affairs, Central Bank of the Islamic Republic of Iran

Islamic Republic of Afghanistan

Governor: H.E. Khalil Sediq, Governor, Central Bank of the Islamic Republic of Afghanistan

Alternate Governor: Mr. Wahid Nosher, First Deputy Governor, Central Bank of the Islamic Republic of Afghanistan

Republic of Azerbaijan

Governor: H.E. Shahin Mustafayev, Minister of Economy, Republic of Azerbaijan

Alternate Governor: Mr. Azer Bayramov, Deputy Minister of Finance, Republic of Azerbaijan

Islamic Republic of Iran

Governor: H.E. Seyed Ahmad Araghchi, Vice Governor, Foreign Exchange Affairs, Central Bank of the Islamic Republic of Iran

Alternate Governor: Mr. Gholamali Kamyab , Vice Governor, International Affairs, Central Bank of the Islamic Republic of Iran

Kyrgyz Republic

Governor: H.E. Baigonchokov Mirlanbek Konushbekovich, Deputy Minister of Finance, Kyrgyz Republic

Islamic Republic of Pakistan

Governor: H.E. Tariq Bajwa, Governor, State Bank of Pakistan

Alternate Governor: Mr. Shahid Mahmood, Finance Secretary, Finance Division, Government of Pakistan

Republic of Turkey

Governor: H.E. Osman Çelik, Undersecretary of Treasury of the Republic of Turkey

Alternate Governor: Mr. Raci Kaya, Deputy Undersecretary of Treasury of the Republic of Turkey

Board of Directors

As of 31 December 2017

Islamic Republic of Afghanistan

Director: Mr. Qaseem Rahimi, Second Deputy Governor, Central Bank of the Islamic Republic of Afghanistan

Alternate Director: Mr. Syed Ishaq Alavi, Director General, Monetary Policy Department, Central Bank of the Islamic Republic of Afghanistan

Republic of Azerbaijan

Director: Mr. Ruslan Rustamli, Director, Department for Cooperation with International Organizations, Ministry of Economy, Republic of Azerbaijan

Alternate Director: Mr. Famil Ismayilov, Deputy Head, International Relations Department, Ministry of Finance, Republic of Azerbaijan

Islamic Republic of Iran

Director: Ms. Afsaneh Laktabriz, Director, International Finance Department, Central Bank of the Islamic Republic of Iran

Alternate Director: Mr. Rasoul Sajjad, Director, International Department, Central Bank of the Islamic Republic of Iran

Kyrgyz Republic

Director: Murzaev Kubat Sadyrbekovich, Department of Public Investments and Technical Assistance, Ministry of Finance

Islamic Republic of Pakistan

Director: Mr. Noor Ahmed, Additional Finance Secretary, Finance Division, Government of Pakistan

Alternate Director: Mr. Amir Mohyuddin, Joint Secretary, External Finance Policy, Finance Division, Government of Pakistan

Republic of Turkey

Director: Ms. Bengü Aytekin, Head of Department, Multilateral Development Banks, Undersecretariat of Treasury of the Republic of Turkey

Management Committee

As of 31 December 2017

- Mr.Javaid Aslam, President & Chairman of the Board of Directors
- Mr.Burhanettin Aktaş, Vice President (Credits)
- Mr.Masoud Rekabdar, Vice President (Operations)

Audit Committee

As of 31 December 2017

- Syed Anwar-ul-Hasan Bokhari (Chairman of the Audit Committee), Additional Secretary, Wafaqi Mohtasib (Ombudsman), Islamabad

- Mr. Deniz Yilmaz, Head of Department, Directorate General of State Owned Enterprises, Undersecretariat of Treasury of Republic of Turkey

- Mr. Hamidreza Ghaniabadi
  Central Bank of Iran, Director, Banking Studies & Regulations Department

To the Board of Governors

H.E The Chairman,

Board of Governors of the

Economic Cooperation Organization (ECO) Trade and Development Bank

Dear Mr. Chairman,

In accordance with Article 26 (2) of the Agreement Establishing the ECO Trade and Development Bank and Section 10 of its By-Laws, I have the honor to submit for the kind attention of the esteemed Board of Governors, the Bank's Annual Report for 2017 as endorsed by the Board of Directors. The report covers the activities of the Bank including audited financial statements for 2017.

Please accept, Mr. Chairman, the assurances of my highest consideration

Javaid Aslam,

Chairman of the Board of Directors

President

ECO Trade and Development Bank

INTRODUCTION

Vision

To become the financial pillar of economic cooperation among ECO member states by fostering sustainable economic development and integration

Mission

- Promote and facilitate private and public sector investment, cooperation, development and job creation in member states through joint programs.
- Foster the growth of intra-regional trade
- Contribute to the economic and social development for the welfare of the people in member states.
- Promote good governance and environment consciousness in all efforts and projects

Core values

- Development orientation
- Efficiency & Flexibility
- Transparency & Accountability
- Innovation
- Teamwork
- Additionality
- Effective Corporate Governance
- Sustainability

Establishment

The Economic Cooperation Organization (ECO) Trade and Development Bank (ETDB) was established by the decision of the Council of Ministers of ECO member states as a Multilateral Development Bank (MDB) for the purposes of initiating, promoting and providing financial facilities to expand intra-regional trade as well as accelerating economic development. The Bank is structured and operating under prudent policies, rules and regulations which are similarly adopted by other MDBs.

The Articles of Agreement establishing the Bank became effective on August 3, 2005 following the parliamentary approvals of the founding members of the Bank namely the Islamic Republic of Iran, the Islamic Republic of Pakistan and the Republic of Turkey. The Articles of Agreement was registered by the United Nations (UN) under the number 44939 on May 19, 2008, acknowledging the international legal status of the Bank.

The Headquarters Agreement of the Bank was ratified by the Republic of Turkey in July 2007 and the Bank started its operations in December 2008. Its headquarters is in Istanbul (Turkey) and representative offices are in Karachi (Pakistan) and Tehran (Iran). The Bank is staffed with 38 professionals from member states as end of December 2017.

The main functions and activities of the Bank inter alia include:

- Financing development projects and intra-regional trade activities
- Facilitating private and public sector investments
- Cooperating with national and international financial institutions
- Mobilizing resources and providing other banking services as may be necessary for the advancement of its purposes

The role of the Bank is to promote sustainable growth in the ECO region. Within this framework, it is important for the Bank to further strengthen its niche in providing development finance and relevant services. The Bank continues to remain responsive to the needs through supporting development of priority projects and trade activities. Combined with its strong local presence and expertise on development challenges of the region, the Bank gives utmost effort to play an important role in reducing the risk perceptions about the member states individually and about the region as a whole while bringing new impetus for the regional cooperation. Therefore, the financial products and services offered by the Bank are based on the strategy to emerge and grow as a strong financial partner in promoting economic growth among member states. All transactions are developmental related and approved by the Board of Directors.

The products are tailored to specific financial requirements, including project, corporate and trade transactions, in order to afford the clients to benefit the most sophisticated financial techniques available in the financial markets. The Bank focuses on financing development programmes and projects at reasonable costs with favourable repayment conditions. Loan tenors may vary up to 10 years (in exceptional cases may exceed 10 years). Overall, the Bank takes lending decisions solely on the merits of projects and its development effect to the member states. In some instances, these projects are of a regional character, benefiting several countries and helping in their economic integration. Both public and private enterprises operating in the member states are benefitting from the resources of the Bank. The financial contribution of the Bank to a project can reach up to 50 percent of the project cost and in case of corporate and trade finance it may be extended up to 100 percent of the requirements provided that total amount of each loan shall not exceed internal operational limits of the Bank.

All operations are required to observe criteria set within the negative list of products policy, anti-money laundering regulations as well as procurement and environmental policies of the Bank. The main products and services offered by the Bank inter-alia include;

- Project Finance
- Corporate Finance
- Trade Finance
- M-SMEs Finance
- Co-financing and Syndication
- Guarantees
- Soft Loans
- Technical & Advisory Services

The primary target of the ETDB is to finance programmes and projects covering a wide range of socio-economic activities in line with national development plans. Based on its Business Plan and country specific partnership strategy documents, the Bank mainly focuses on following sectors:

- Transportation
- Energy
- Manufacturing
- Infrastructure
- Agriculture

Operational Principles

The Bank undertakes its activities within the framework of its operation cycle policy and relevant principles. Accordingly all operations that the Bank would conduct must be technically, economically, financially, legally, and environmentally sound accord with its policies and represent an acceptable risk. Financial viability ensures that the Bank can continue to implement its mandate effectively without impairing its capital base.

In particular, the Bank observe in all its operations compliance to the maximum extent possible with the applicable rules and regulations regarding procurement of goods and services, national legislation of member states, and with the provisions of the international conventions, treaties and agreements that limit, restrict or prohibit use, proliferation, generation, or otherwise disfavor the financing of operations that facilitate dealing in goods and services that pose a threat to health and safety of humans, other species, or the environment in general.

To this end, the Bank maintains a Negative List of Goods (including the Bank’s Environmental Exclusion List), which is regarded as restricted goods and services that stand excluded from financing in all its operations. Goods and services that have the potential of leaking into illegal use or, as a result of manufacturing, handling, storage or trade pose a threat to health and safety, security, or present an intrinsic risk for the environment are specifically excluded from Bank financing. The exclusion list inter alia include weaponry, ammunition, military goods, or goods that may be directly used for military purposes, tobacco, alcohol, narcotic drugs, psychotropic substances, wildlife products radioactive materials, including radioactive waste, etc. Each and every transaction of the Bank is closely monitored by specialist to ensure compliance with all internal and external guidelines and requirements, thereby ensuring full compliance with AML/CFT and KYC requirements. The overriding aim is to create and protect value for shareholders and other stakeholders through ethical, transparent and equitable business processes.

Governance Structure

The Bank is committed to corporate governance at the highest level to ensure transparency, accountability and adequate checks and balances on the Bank's activities. As a multilateral development institution, the Bank is not subject to the supervisory authority of any national jurisdiction. The Articles of Agreement establishing the ETDB define the governance structure which is managed through well-defined responsibilities of its Board of Governors (BoGs), Board of Directors (BoDs) and Management Committee. Accordingly, the corporate governance principals and standards adopted by the BoGs have been developed with close reference to best practices adopted by other peer institutions.

In compliance with its corporate governance policy, the Bank pays utmost attention to the transparency and accountability of its operations. It is fully committed to abide by the generic global corporate governance principles and models. The Bank’s corporate governance policy, codes of conduct and staff regulations outline the principles and practices that would be followed in the operations of the Bank. The key component of effective governance is a clear definition and delineation of responsibilities among the Board of Governors, the Board of Directors and management, as well as targeted reporting with a view to ensure appropriate execution of separate responsibilities.

The essential committees (e.g. Credit Committee, Asset and Liabilities Committee, etc.) of the Bank are fully functional to mitigate risks and sustain operational efficiency. The governance structure is supported by comprehensive internal and external auditing as well as appropriate financial and management information reporting. The Audit Committee of the Bank operates under a clearly defined mandate which spells out its responsibilities, scope, authority and procedure for reporting to the BoGs. The Committee serves in an advisory capacity to the BoGs and ensures that the Bank's assets are safeguarded, adequate internal controls are in place and that material risks are effectively managed.

The Bank presents financial statements in its Annual Report, prepared in accordance with the International Financial Reporting Standards (IFRS). Moreover, the Bank has in place a comprehensive Management Information System of reporting to the Board of Directors, in particular information referring to its operations, investments and financial results. In its reporting the Bank aims at providing appropriate information on risk and performance of its activities. Industry best practices guide the evolving reporting practice of the Bank.

The Board of Governors (BoGs)

All powers of the Bank are vested in the BoGs, which consists of one governor and one alternate governor appointed by each member country, who is high dignitaries/senior officials (Ministers/Undersecretaries/Governors of Central Banks) of the member states. With the exception of powers specifically reserved to it under the Establishment Agreement of the Bank including increasing the Bank's capital, admitting new members, appointing the President of the Bank, appointing external auditors for the audit of its accounts, approval of the Bank's financial accounts, allocation of net profit, and interpretation and amendment of the Establishing Agreement, etc. the BoGs has delegated its other powers to the Board of Directors, whose members are also appointed by each member state. The BoGs hold an annual meeting and such other meetings deemed necessary.

The Board of Directors (BoDs)

The BoDs is composed of representatives of the member states and have the authority necessary for management of the Bank except those vested with the BoGs. The powers of the BoDs inter alia include the following:

i. take decisions concerning the business of the Bank and its operations in conformity with the general directions of BoGs;
ii. submit the accounts for each financial year for the approval of the BoGs at each annual meeting; and

iii. approve the budget of the Bank;
iv. propose to the BoGs any amendment to the Establishment Agreement
v. establish such branches, subsidiaries and representative offices as may be necessary or appropriate to conduct the business of the Bank

The Directors hold office for a term of three (3) years and may be reappointed. The BoDs meet as often as the business of the Bank may require but not less than six times a year.

The President

The legal representative and Chief Executive Officer of the Bank is the President. The President is appointed by the BoGs for a four (4) year term and also serves as the Chairman of the BoDs. The President is responsible for management of the business of the Bank in accordance with the Bank's rules and regulations and in line with the directives of the BoGs and the BoDs.

Capital Structure

The unit of account of the Bank is ECO Unit (EU). Each E.U is equivalent to one Special Drawing Right (SDR) of the IMF. The initial authorized capital of the Bank was SDR 1 billion and paid-in capital was SDR 300 million, which was equally paid-in by Turkey, Pakistan and Iran. The membership and capital base of the Bank has been expanding as the other ECO member states join the Bank. In this respect, the Islamic Republic of Afghanistan with paid-in capital contribution of SDR 15 million, the Republic of Azerbaijan with SDR 9.75 million paid-in capital contribution and the Kyrgyz Republic with paid-in capital contribution of SDR 2 million have become the new members of the Bank. Accordingly, the authorized capital of the Bank increased to SDR 1,089,100 thousand and the size of the paid-in capital shall amount to SDR 326,750 thousand. As of 31 December 2017 the paid in share capital was SDR 319,430 thousand since Azerbaijan, Afghanistan and Kyrgyzstan are in process of payment of their paid- in capital contributions.

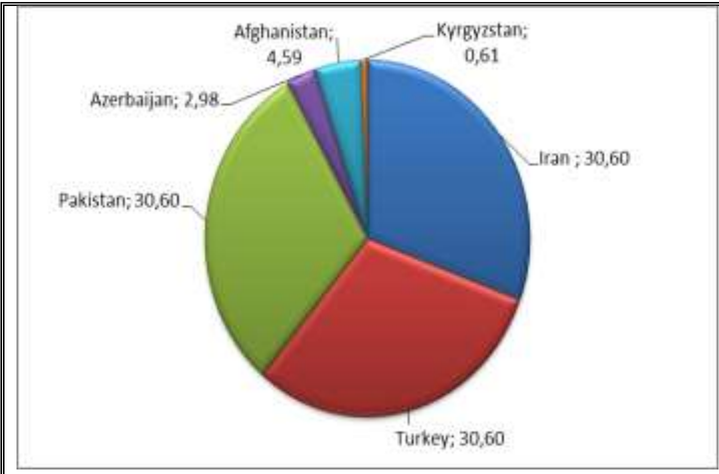
Kazakhstan, Tajikistan, Uzbekistan and Turkmenistan are still not members but are expected to become the member of the Bank.

As common feature of the MDBs capital structure, the ETDB has a share of its capital that is callable; an unconditional and full- faith obligation of each member country to provide additional capital whenever required. Out of the said authorized capital SDR 762,350 thousand may become payable, upon a unanimous decision of the BoGs.

Upon completion of the subscriptions by the new members, Turkey, Iran and Pakistan continued to be largest shareholders of the Bank with 30.6% stake each, followed by Afghanistan with 4.6%, Azerbaijan with 3.0% and Kyrgyzstan with 0.6%. Compared to previous year, the Bank's total equity grew by 3.9 percent and amounted SDR 373.346 million by the end of the 2017. Of this increase SDR 4.28

million was originated in the form of paid-in capital contribution payments of the new members and SDR 9.7 million was from retained earnings for the year.

Shareholder Structure (%)



Thousand SDR

Authorized Capital:
1,089,100
Callable Capital:
762,350
Paid-in Capital:
326,750
(Including Azerbaijan, Afghanistan and Kyrgyzstan payables)

According to "Articles of Agreement" establishing the Bank, the membership is open to all ECO member states. The current membership structure of the ETDB increased to six members namely Turkey, Iran, Pakistan, Afghanistan, Azerbaijan and Kyrgyzstan covering majority of the ECO member states. The prospect is to have all ECO member states as the member of the Bank and benefit from its activities. Accession of new members would not only increase the resources of the Bank but would also allow the Bank to further expand its operations and influence in the region.

The capital resources of the Bank are deliberate to increase as per the business requirements and joining of new members. The Bank is committed to efficient use of its current resources with an aim at optimizing the allocation of funds to different asset classes in the member states without neglecting its purpose and objectives. The Bank has modest financial resources compared to other MDBs and even to some commercial banks in the member states. Therefore, through a recapitalization process, the Bank would enjoy improved prospects for dynamic growth of its operations. Also, Bank's contribution to the sustainable development of member states would be further enhanced.

President's Message

The Bank deliberately continued to fulfill its mandate to support sustainable socio-economic development of its members. Development challenges faced by our member countries persuade our firm commitment to effectively channel the resources into sustainable investment. Thus, intensifying our efforts in mobilizing development finance remains to be our core business strategy.

It has been a decade since we left behind the global financial crisis. Largely synchronized recovery ensued significantly growth in global economy which stand at 3.8% in 2017 and it is forecasted to remain at same levels in coming two years. Globally, the broad-based recovery of the world economy is encouraging. The global trade has started to pick as well. The global merchandise trade grew at a rate of 4.7% in 2017, which represents a substantial improvement from the modest increase recorded in 2016. The larger threat is posed by increasing trade tensions and the possibility that we enter a sequence of unilateral policies and geopolitical tensions, all of which generate uncertainties for sustainable global trade and GDP growth.

The current positive dynamic has, to a large extent, been supported by unprecedented monetary stimulus by Central Banks which is strengthened by fiscal stimulus measures. Business and consumer confidence remain elevated. But, as the normalization of monetary policy in major economies gains momentum, financial markets may be subject to corrections and volatility. In emerging economies including ECO countries, the prospects for tighter global liquidity conditions could reduce capital flows, leading to higher borrowing costs, currency depreciation and decline in equity prices. This could adversely impact banking and corporate sector balance sheets as well as the capacity to roll over debt. In addition, major escalation in inward/protectionist measures and geopolitical developments would weigh on economic development strategies of the ECO member states. This delicate outlook requires good planning and sustaining favorable macroeconomic conditions.

Significant regulatory improvements complemented by rigorous supervision and sound risk management perspective were critical to the global financial industry which is considerably healthier than a decade ago. The Basel III banking regulations provided additional regulatory certainty including a stronger capital structure for the global industry. While it is true that the risk management measures and cost of compliance has risen dramatically due to the post-crisis prudential regulatory framework. Controlling risks and protecting against internal and external threats remain important. Combined with the growing optimism the current emphasis is on improving financial sector performance through growth and optimization. A financial system that is compatible with prudent standards is one of the basic factors of sound and sustainable development in our member states. Within this context, the post-global crisis period underline the need for the ECO countries to adopt effective macro-prudential policy actions that safeguards financial stability.

The positive developments in the ECO region are not independent of the recent global growth momentum. All the ECO member states witnessed positive GDP dynamics in 2017. The real GDP growth for the ECO region was realized at 5.5% in 2017 which was slightly lower than the 2016 growth print of 5.8%. With the improvement in oil and commodity prices, investment and prudent reforms, the economic activity gained a solid footing across the region. Total public debt of the region reached USD 709 billion as end of 2017 which amounted to 37 percent of the regional output is one of the lowest in the world among regional blocs. In 2017 estimated GDP per capita (PPP based) for the ECO region stood at USD 12,553 which amounted to a growth print of 6.4 percent compared to a year ago.

Against this relatively rosy background, I should highlight that our economies have still much to do in order to become robust and speed up convergence towards the development level of mature economies. Part of challenges to sustainable growth stem from global cycle but we have to deal with structural impediments, inefficiencies and undertake further reforms to address bottlenecks to potential growth. Unlike the previous three industrial revolutions, we are witnessing an exponential progress of the industry 4.0 paradigm. New technologies, like the digitalization of finance and artificial intelligence, hold tremendous opportunities, while posing challenges. It necessitates leading support for investment in technology and R&D as well as improvement in human capital and innovation, which are closely associated with productivity.

We are aware that responding to the diverse development needs in the region is beyond the capabilities of one single institution. But as a responsible development partner, the Bank continues to assist the member countries in financing developmental projects in various sectors and supporting trade activities. We have been successfully pursuing our strategic targets set in the business plan for 2013-17. Our involvement in realizations of various projects particularly in the areas of wind and solar power generation, transport, rural/agricultural infrastructure, healthcare and energy efficiency have been remarkable. The financial support of the Bank to such operations in the member states during 2013-2017 amounted to USD 270 million which enabled us to contribute realization of operations amounting to USD 3.3 billion. Actually, this indicates the additionalality effect of the Bank’s corporate and project finance operations in the member states.

Under our dedicated lending programme being implemented in cooperation with local financial institutions, since 2008, we have provided more than SDR 245 million loans for development of Micro and Small & Medium Size Enterprises (M-SMEs). In this framework, through micro-finance institutions, we have been expanding access to finance by the lower-income groups and micro-enterprises. Over 1,100 SMEs and 60,000 micro-entrepreneurs benefitted from these funds, thereby contributing to the economic development and job creation. On the other hand, we have a dedicated trade finance programme to foster the growth of intra-regional trade. Overall, since 2008, when the Bank started its operations, the total amount of loans disbursed to various operations in the member states exceeded SDR 975 million as end of 2017. About 60 percent of our disbursed funds are extended for financing trade, making the Bank's involvement in the region's trade more inclusive.

The 2017 has been a planning year for the Bank as we approached towards full implementation of the current business plan. Particularly, the total outstanding loans including undisbursed commitments reached to all-time high of SDR 313 million as end of 2017 which was above the targeted level. In addition, the total reserves including retained earnings exceeded the envisaged level by 29 percent which amounted to SDR 53 million by the end of 2017.
Notably, the quality of our well-diversified portfolio remains high, without any non-performing loan registered so far. Certainly, these positive results reflect the continued efforts of the Bank in improving operational processes and risk management approach. The Bank incorporates strong financial, social and environmental safeguards in order to expand its operations sustainably. Although the Bank does not aim to maximize earnings but earn a sufficient amount of return to maintain healthy financial ratios and safeguard its capital base. The Bank posted a net profit of SDR 9,771 thousand, representing 31 percent increase compared to previous year. The total assets of the Bank which amounted to SDR 495.5 million by the end of 2017 increased by 10.5 percent compared to 2012 end year figure.

We know that investment requirements in our member states are huge and, to meet these, we aim to work together with all relevant partners. Our dialogue with other Multilateral Development Banks such as IFC, EBRD, BSTDB, ADB, and IDB on developing strategic synergies for the benefit of the region has been intensified, and culminated with several co-financing arrangements.

Next year will mark 10 years of Bank's operationalization. We would be stepping up our efforts to make further contribution to the region's growth and development in the years to come. Taking this forward, I believe that the Bank shall make strides in two important fields during the new business plan period of 2018-2022. First, while sustaining the highest quality and optimum average maturity structure of the credit portfolio, mobilizing resources to increase our ability to finance development would be endeavored. Obtaining the highest possible credit rating and the best possible financing terms for our members would be the essential targets of the coming period. In a similar vein, continued efforts to boost the Bank's overall efficiency at the institutional level will be critical. Second, membership enlargement would remain a key institutional priority. The membership base of the Bank has been enlarged to include majority of the ECO member states. Addition of Kazakhstan, Tajikistan, Uzbekistan and Turkmenistan as members would help the Bank to focus activities over the entire region.

Finally, I would like to underline that there are a lot more grounds for us to cover. We would continue to support our member economies to become even better connected, more competitive, and achieve a more prosperous region. Although we also have some challenges which are not underestimated or ignored. But ETDB with its well-streamlined structure is stronger today. Taking this opportunity to I would like to express my sincere gratitude to the esteemed members of the BoGs and BoDs for their valuable guidance and continued support. I also thank my colleagues at the Bank for their dedication and team work which continues to manifest itself in the growth and financial performance of the Bank. ETDB will continue efforts to serve as the region's premier development partner.

Javaid Aslam
President

Executive Summary

As a regional Multilateral Development Bank (MDB), ETDB has a clear mandate to foster socio-economic development and support the growth of intra-regional trade among ECO member states. The vision of the Bank is to become the financial pillar of economic cooperation among the member states. The Bank's headquarter is in Istanbul (Turkey) and staffed with 38 professionals from member states. It has a modest equity amounting to SDR 373 million as end of 2017. The Bank is conducting its operations according to internationally accepted financial rules and prudent operational policies/procedures which are closely aligned with the practices of other MDBs.

The representative offices of the Bank in Tehran (Iran) and Karachi (Pakistan) have the role to identify and coordinate the operations of the Bank. During more than nine years of operation, the Bank has been able to built-up an efficient organizational structure and established fundamental internal regulatory framework to improve its operations. Although the Bank is endowed with a modest capital but its business model and targets remain realistic to continue supporting development of SMEs, trade and project finance in the member states. The right capabilities and knowledge built on internationally accepted practices are improving the ability of Bank to enhance loan growth, manage risks and implement good core expense management.

The year 2017 ended positively as global economies gained strength. Global output in 2017 is estimated by IMF to have grown by 3.8% and is projected to expand by 3.9% in both 2018 and 2019. Similarly, global merchandise trade grew at a rate of 4.7% in 2017, which marks a substantial improvement from the modest increase recorded in 2016. It is expected that world merchandise trade volumes will grow 4.4% in 2018, and around 4.0% in 2019. While risks to global projections appear broadly balanced in the near term they remain skewed on the downside in the medium-term. As for downside risks the overvaluation of financial assets and accompanying volatility can diminish growth and adversely affect financial conditions. Furthermore, escalating trade conflicts, tighter financing conditions, and sharper monetary policy normalization and geopolitical risks can also negatively affect global growth projections. Nevertheless, the current economic adjustment challenge in many countries is to be become ever more productive.

In this context, caution is needed for the ECO countries to relatively remain vigilant to the global stresses. Real GDP growth for the ECO region was realized at 5.5% in 2017 which was slightly lower than the 2016 growth print of 5.8%. The ECO countries were affected by the global economic and financial crisis of 2007–2008, and then by the declining oil prices beginning in 2014. However, the pronounced deceleration in region-wide growth observed in the last few years had moderated in 2016 and economic activity gained a solid footing across the region thereafter with growth momentum being sustained in 2017. ECO region's nominal GDP increased to USD 1.91 trillion in 2017 which amounted to 2.4 percent of the global output. In 2017 estimated GDP per capita (PPP based) for the ECO region stood at USD 12,553 compared to 2016 estimate of USD 11,800 (PPP based), which amounted to a growth print of 6.4 percent.

The region is composed of countries with different level of development. There are promising opportunities for investment while the regional countries are advancing in their developmental goals and aspirations. Participation to global supply chain, trade and investment inflows to the region is increasing.

However, challenges faced by the ECO region include infrastructure deficit, greater regional connectivity through regional transport links, improving business climate, strengthening institutional capacity, addressing digital divide across the region and cooperative efforts to enhance human capital. ECO region also has significant presence of M-SMEs but the latter's expansion is constrained by lack of access to finance. In this respect, the Bank has positioned itself to contribute in addressing the above challenges by funneling financial resources to projects that enhance the regional connectivity and integration as this will contribute to enhancing inter-regional trade, promote competition and improve business climate.

The Bank continued its progress regarding achieving strategic objectives defined in its Business Plan (2013-2017). The 2017 has been a planning year for the Bank to formulate the fundamental assumptions of the new business plan for 2018-2022 period. However, the general business model of the Bank would be unchanged with focus on mobilizing further resources for enhancing trade, development of M-SMEs, supporting the financing and technical assistance needs of corporates and projects in the member states. Overall, the Bank ensures firm adherence to sound banking principles and avoids strictly practices which are detrimental to its present robust financial position. The current loan portfolio of the Bank is well diversified vis-à-vis the member states and the sectors. The Bank maintains a highly developmental intensive portfolio without having any NPLs.

Based on cross-country experiences, the Bank pursues a strategic dialogue with member countries through Country Partnership Strategy (CPS) documents. The CPS documents on all member states were updated in 2017 which are the primary analytical and planning guideline that enables the Bank to present and evaluate specific investment opportunities in the member states.

In line with the current business plan and country strategy reports, the main achievements of the Bank are summarized as below;

a. Since 2008, when the Bank started its operations, the total amount of loans disbursed to various operations in the member states amounted to SDR 975 million as end of December 2017.

b. Good asset quality was maintained with a well-diversified portfolio in terms of sector and country without any non-performing loan. The outstanding loan portfolio reached to all-time high of SDR 301 million by the end of 2017 which increased by 12.3 % compared to a year ago.

c. Average internal rating score assigned to the outstanding loan portfolio was 3.7 points by the end of 2017 which represented a reasonable risk level on a scale of 1 to 10. The Bank continued to incorporate strong financial, social and environmental safeguards in order to expand its operations sustainably.

d. Expansion of membership base has been pursued decisively. With joining of Azerbaijan, Afghanistan and Kyrgyzstan, the membership base of the Bank has been enlarged to include six ECO member states. Progress with regard to membership of other four ECO countries, namely Kazakhstan, Tajikistan, Turkmenistan and Uzbekistan pursued decisively.

e. The Bank succeeded in supporting development of new projects including a health related project in Turkey and two solar power projects in Pakistan and continued to capitalize on new opportunities to support financing needs of the public and private entities.

f. The Micro and Small & Medium Size Enterprises support program and trade finance facility continue to deliver positive developmental results. Over 1,100 SMEs benefitted from these funds which were mainly active in the manufacturing, printing, energy, telecommunication, food processing, construction, pharmaceuticals, textile, trade and services sectors, thereby contributing to the economic development and job creation. In addition, it is considered that over 60,000 micro-entrepreneurs have benefitted from intermediated funds of the Bank.

g. The total assets of the Bank amounted to SDR 495.5 million by the end of 2017 which increased by 4.5% compared to 2016 end year figure.

h. The total reserves and retained earnings of the Bank amounted to SDR 53 million by the end of 2017 representing an increase of 22% compared to 2016 end year figure.

i. Net profit amounting to SDR 9.7 million for the year 2017 increased by 30% compared to 2016 end year result.

j. The RoA was 2% and the RoE stood at 2.7% as end of December 2017 which increased slightly compared to 2016 end year figures of RoA-1.6% and RoE-2.1%.

k. While maintaining the adequate liquidity cushion, the treasury operations continued to make the best possible use of funds and avoid any currency open position.

l. The Bank has made significant progress in focusing its activities on enhancing Enterprise-wide Risk Management (ERM) approach and improving its internal credit rating system and compliance procedures.

m. The Bank continued to strengthen its technological infrastructure to leverage business by integrating all technological enhancements with the business processes mainly in three areas, SAP (Banking Application), Business Continuity (Disaster Recovery) and Security (Firewall upgrade).

n. The Bank continued to prepare regular supervision/monitoring reports to mitigate various risks in the specific operations and sustain the robust status of the loan portfolio.

o. Strategic cooperation arrangements with relevant Multilateral Development Banks such as IFC, BSTDB, EBRD, IsDB, ADB, etc. have been pursued to enhance co-financing operations.

p. Highly calibrated human resources and dedicated staff continue to manifest itself in the growth and encouraging financial performance of the Bank.

Overall, the Bank is committed to advance its vision over the coming years and adopt the necessary measures to achieve them. The strong regional ownership structure and deep understanding of business dynamics in the region provide the Bank a specific comparative advantage in mobilizing resources for sustainable development. With a comprehensive risk management framework encompassing all stages of operation cycle, the Bank remains poised to tap into any quality lending opportunity. Certainly with the support of member states and other partners, the Bank looks forward to further support sustainable development, integration and prosperity in the ECO region.

ECONOMIC OVERVIEW

Real GDP growth for the ECO region was realized at 5.5% in 2017 which was slightly lower than the 2016 growth print which stood at 5.8%. The pronounced deceleration in region-wide growth observed in the last few years had moderated in 2016 and economic activity gained a solid footing across the region thereafter with growth momentum being sustained in 2017. Robust growth in the Turkish economy standing at 7.4% in 2017 accelerated the region's overall headline growth whereas Iran's economy which experienced relatively modest growth of 4.5% compared with 12.5% growth print last year decelerated the overall region's growth which moderated relative to last year.

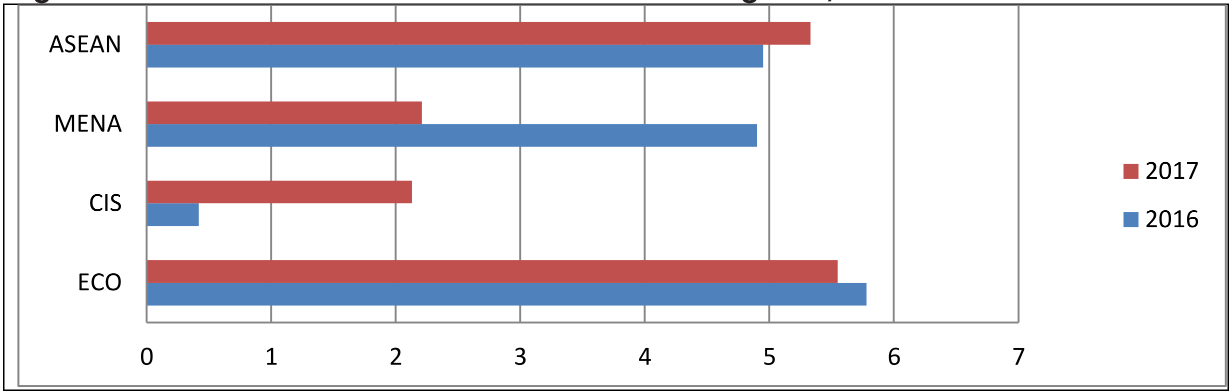
The gradual improvement in oil prices coupled with improved external market conditions in 2017 helped ECO region's natural resource dependent economies to post recovery in commodity exports. Furthermore, economic reforms undertaken in the form of fiscal support, foreign exchange adjustment and structural reforms allowed the said countries to be better placed to absorb the negative oil price shock. Economic recovery that took hold in Russia in 2016 gained traction in 2017 and resulted in upswing in remittances observed across Central Asian states. The above developments helped arrest the slowdown of their respective economies.

ECO region's nominal GDP increased to USD 1.91 trillion in 2017 which amounted to 2.4 percent of the global output. A better gauge of the region's output dynamics is captured by observing GDP measured in terms of purchasing power parity (PPP). In 2017 GDP (PPP based) stood at USD 5.9 trillion compared to USD 5.5 trillion (PPP based) recorded last year, which amounted to a growth print of 7.2 percent in nominal terms.

Living standard as measured by average nominal GDP per capita income metric rose for the ECO region in 2017 to an estimated USD 4013. A more nuanced approach is to look at GDP per capita measured on PPP basis to grasp a better understanding of the change in living standards in the region. In 2017 estimated GDP per capita (PPP based) for the ECO region stood at USD 12,553 compared to 2016 estimate of USD 11,800 (PPP based), which amounted to a growth print of 6.4 percent.

ECO region's comparison with other comparator regional blocks in regards to economic performance as measured by real GDP growth rate shows that it fared well relative to other blocks (Figure 1).

Figure 1: Real GDP Growth Rates of Selected Regions, 2017 Source:IMF



Developments in headline inflation varied across the ECO region with region as a whole recording an inflation of 9.1% compared to 7.7% recorded last year. In Azerbaijan, Turkey and Uzbekistan inflation rate reached double-digits. Inflation in Azerbaijan picked up due to switchover to free float from pegged exchange rate and removal of subsidies in electricity. In Turkey inflationary pressures built up due to currency depreciation and robust aggregate demand pressures. In Uzbekistan inflation resulted from local currency depreciation and rise in food prices. Turkmenistan, Iran, Kyrgyz Republic and Pakistan experienced rise in inflationary pressures. Inflation rose in Turkmenistan due to phasing out of subsidies. In Pakistan higher global prices for oil and other commodities resulted in higher inflation. In Kyrgyz Republic food and services price increases contributed to higher inflation. In Iran currency depreciation led to rise in inflation. Inflation in Kazakhstan stabilized from the devaluation shock in 2015 and moderated to single digits because of implementation of prudent monetary policy.

In 2017 the government fiscal balance deterioration witnessed over the last few years consolidated in almost all ECO countries amid a rise in revenue due to uptick in economic activity and gradual rise in oil prices. Uzbekistan and Afghanistan were the exception whose budget deficit rose due to pressure on revenues and increased public investments. The regional fiscal deficit to GDP ratio increased slightly to 3.06% compared to 2.7% last year but is still moderate compared to other comparator regions (Table 1).

The natural resource rich economies of ECO region saw major deterioration of their current account (CA) balances during the global financial crises and by 2017 all the economies had successfully made a transition in consolidating their external balances on account of rise in oil prices and uptick in foreign direct investment inflows. On the other hand, energy net-importer members witnessed deterioration in CA deficits on account of the gradual rise in oil prices prevalent and increased economic activity. The overall regional CA deficit in 2017 rose to USD 47.4 billion from USD 38.4 billion recorded last year while CA balance expressed as percentage of GDP for the ECO region stood at -2.5 percent compared to -2.07 percent in 2016 (Table 1).

In the table listed below key economic indicators of ECO region and member countries for 2017 are presented.

Table 1: Key Economic Indicators by ECO Region and Member Countries-2017

	Real GDP Growth (percent)	Inflation (percent), average consumer	Central Gov. Budget Balance/GDP (percent)	Current Account Balance/GDP (percent)
Afghanistan	2.5	4.9	-0.61	1.6
Azerbaijan	0.07	13	1.52	3.5
Iran	4.2	9.8	-2.3	4.2
Kazakhstan	3.9	7.4	-6.3	-2.9
Kyrgyzstan	4.5	3.2	-3.3	-7.7
Pakistan	5.3	4.1	-5.6	-4.1
Tajikistan	7.1	7.3	-2.4	-2.6
Turkey	7.4	11.1	-2.3	-5.5
Turkmenistan	6.5	8	-2.8	-11.5
Uzbekistan	5.3	12.5	-1.7	3.7
ECO	5.5	9.1	-3.1	-2.5

Source: (i) National Statistical Offices & (ii) IMF

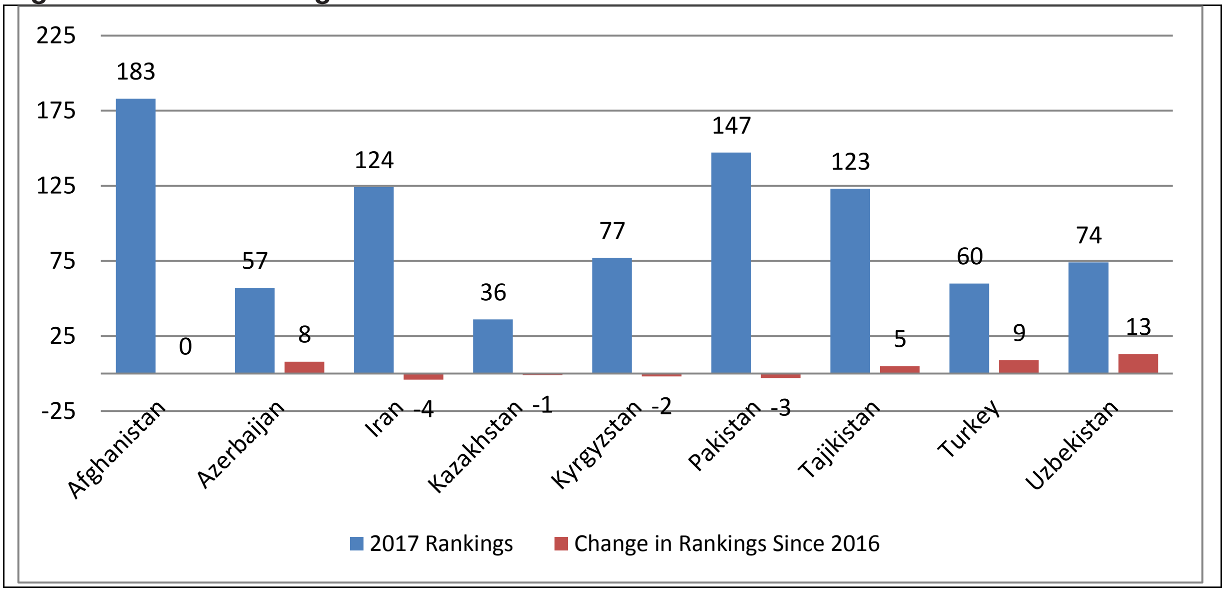
The general gross government debt to GDP ratios in general were up across the member countries. Gross government debt to GDP ratios increased due to the depreciation of the member countries respective currencies, issuance of domestic debt to support strategic sectors and contraction of foreign loans to finance public sector projects. Total public debt of the region reached USD 709 billion which amounted to 37 percent of the regional output which is one of the lowest in the world among regional blocs.

The adverse impact of external negative shock experienced by Central Asian countries during the global financial crises abated and downward pressure on their respective currencies eased relative to the preceding year with the exception of Uzbekistan which experienced a significant devaluation under the government's implementation of foreign exchange reform.

Turkey continued to witness downward pressure on its currency and rapid depreciation and surge in volatility was observed due to the deteriorating external imbalances. Pakistan's currency was devalued by 5% to address the growing external imbalances. Other member countries' currencies were somewhat relatively stable and didn't show any significant variation.

In the World Bank's "Doing Business 2018" report which provides ease of doing business ranking for 190 countries, Kazakhstan scored the best ranking among the ECO region member countries. Azerbaijan, Tajikistan, Turkey and Uzbekistan moved up the rankings compared to the preceding year. Rest of the member countries witnessed deterioration in their respective rankings (Figure 2).

Figure 2: Ease of Doing Business Indicator- 2017



Source: Doing Business 2018, World Bank

OPERATIONS

1. Business Strategy and Balance Sheet Items

In line with its mandate and available resources, the Bank continued to remain focused and responsive to support the sustainable development efforts of the member countries through offering various products and services. 2017 has been reasonably a good year for the ETDB. The operational focus has been intensified through credit lines extended to financial institutions for development M-SMEs and trade activities. Loans to corporates centred for development of projects in various sectors and catering their trade finance needs. In view of the development priorities of the member states, effectiveness, financial viability and accountability have been main pillars of the Bank's operational strategy. Since 2008, when the Bank started its operations, the total amount of loans disbursed to various operations in the member states amounted to SDR 975 million as end of December 2017.

The Bank provides a range of short-to-long term loan products to private and state owned entities. However, average tenure of the loan portfolio is monitored closely in order to ensure that any new operation does not disturb the optimal average maturity structure target of the Bank. In the coming years, an optimal average loan maturity structure sustained towards 3-4 years to ensure a constant flow of new operations. The average original tenor of loan portfolio which was 5.1 years as end of 2014 was reduced to 4.3 years as end of 2017. The funds available for Bank's lending operations, offered at near-market terms. Loans are normally provided under sovereign guarantee, although the Bank may accept an unsecured position where this is judged to be consistent with sound banking principles.

The membership base of the Bank was expanded by joining of Azerbaijan, Afghanistan and Kyrgyzstan. The said new members continued their paid-in capital contribution payments without any delay. Currently majority of ECO member states are members of the Bank. During 2017, in cooperation with the ECO Secretariat the Bank continued to communicate with the remaining four ECO member states to encourage them to join the Bank. Accession of new members would not only increase the resources of the Bank but would also allow the Bank to further expand its operations and influence in the region.

As the business and geographical operational scope is expanding with joining of new members, the Bank is intensifying its efforts on enhancing risk management perspective. The importance of well-functioning risk management system has been clearly demonstrated during the financial turbulence of the last few years. The Bank maintained its current well-diversified portfolio across member states and sectors so as to mitigate concentration risk. The internal rating model of the Bank has been recently supplemented with a sensitivity analysis practices. Overall, a decent loan book size without any non-performing loans record has been achieved. The outstanding loan portfolio reached to all-time high of SDR 301 million by the end of 2017 which increased nearly 13 percent compared to 2016.

The Bank has also focused to increase co-financing agreements with relevant MDBs, bilateral financial institutions to mobilize additional resources to prospective projects in the member states. The Bank has been conducting its operations with sound corporate governance and operational policies to ensure responsibility, transparency and accountability. All operations are required to observe criteria set within the negative list of products policy, anti-money laundering regulations as well as environmental policy.

Building on the experiences of past years, the current country partnership strategy reports for the member states which were updated in 2017 provide basis for assessing potential investment requirements and further enhancing the operational dialogue with the public and private sector. The Bank has successfully launched its first credit operation in Azerbaijan and making preparations to capitalize on other investment avenues. The Bank is also putting efforts to launch its operations in Afghanistan and Kyrgyzstan as well.

The Business Plan (2013-2017) adopted by the Board of Governors (BoGs) define the strategic road map of the Bank. The 2017 has been a planning year for the Bank as it approaches towards implementation of its current business plan. In line with the current business plan and country strategy reports, the following main business means have been sustained by the Bank;

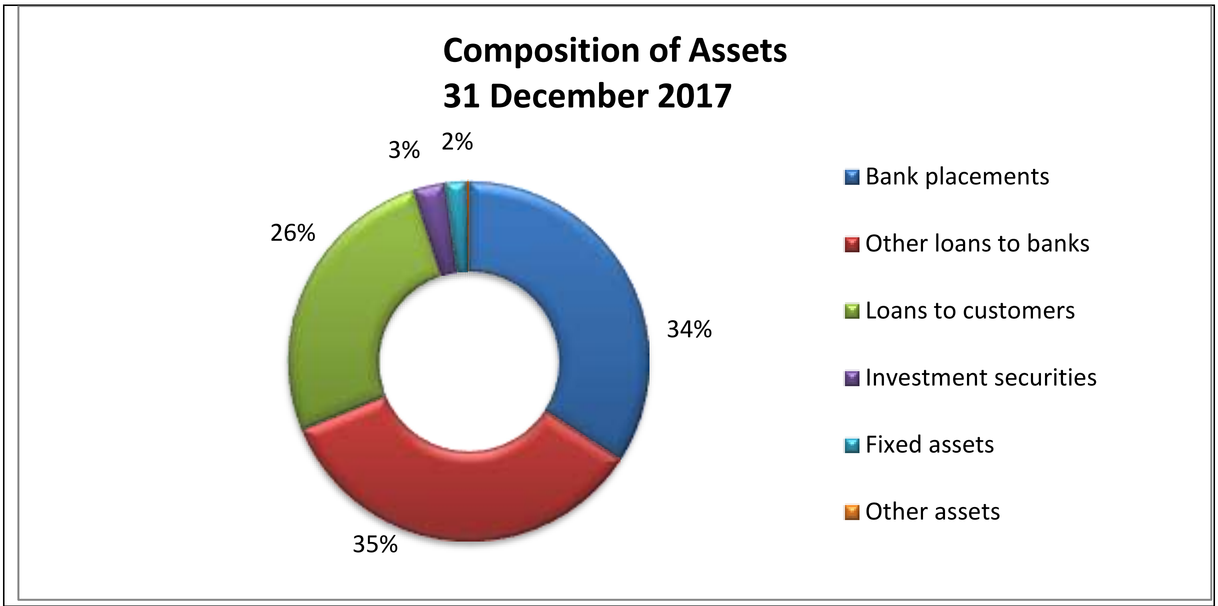
- Maintaining a well-diversified (sector and country wise) portfolio without non-performing loan,
- Ensuring an update operating structure, processes and procedures
- Building a robust project pipeline,
- Expanding credit operations in the new member states,
- Increasing the membership base,
- Enhancing the co-financing arrangements with relevant partners,
- Making preparation for obtaining a favourable external credit rating,
- Strengthening the enterprise-wide risk management perspective,
- Maintaining an efficient IT infrastructure to ensure well-functioning of an integrated system,
- Improving the human resources and technical capabilities on need basis,
- Adhering to prudent banking practices notably in view of new developments in the field of Anti-Money Laundering and Combating the Financing of Terrorism (AML-CFT) and KYC requirements.

The Bank performed well above the low-case funding scenario targets. In terms of base-line funding scenario of the business plan the total assets of the Bank were projected to amount SDR 650 million and to SDR 726 million by the end of 2016 and 2017 respectively. However, the total assets of the Bank was SDR 474 million by the end of 2016 and further increased to SDR 495 million as end of 2017. The difference in the target of base-line scenario vis-a-vis the current situation derives mainly from capital increase assumptions and long-term borrowing plan.

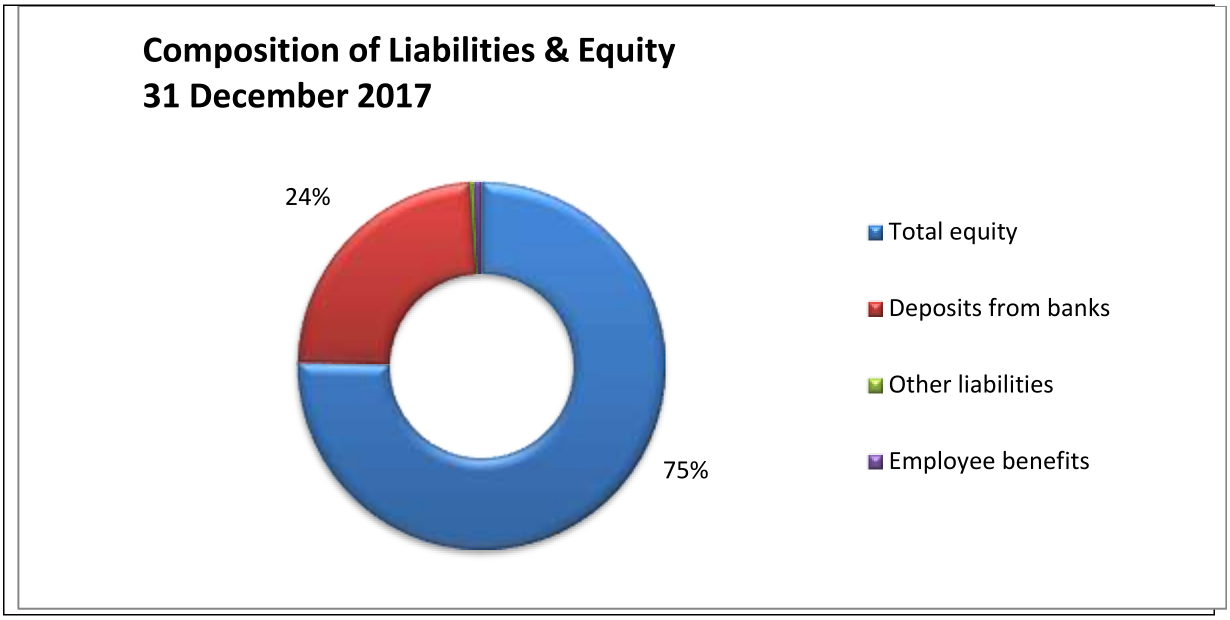
Nevertheless, the Bank has been able to markedly attain higher income levels compare to targets of the base-line funding scenario. The total reserves including retained earnings which accumulated to SDR 53 million by the end of 2017 exceeded the business plan's 2017 target level of SDR 41 million. The disbursements of committed loans with respect to approved operations in the member states would also continue in the coming years as per their progress levels. Meanwhile, lending activities are expected to progress in the coming period through approval of series of operations and projects in the pipeline. Eventually these would increase the Bank's outstanding loan levels to the permissible limits envisaged in the capital utilization framework.

(i) Balance Sheet

By the end of 2017, the Bank's total assets were SDR 495,511 thousand representing a 4.5 percent expansion compared to 2016. Bank placements amount to SDR 169,387 thousand representing 34 percent of total balance sheet size. Other loans to banks and loans to customers amount to SDR 171,630 thousand and SDR 129,798 thousand, respectively.

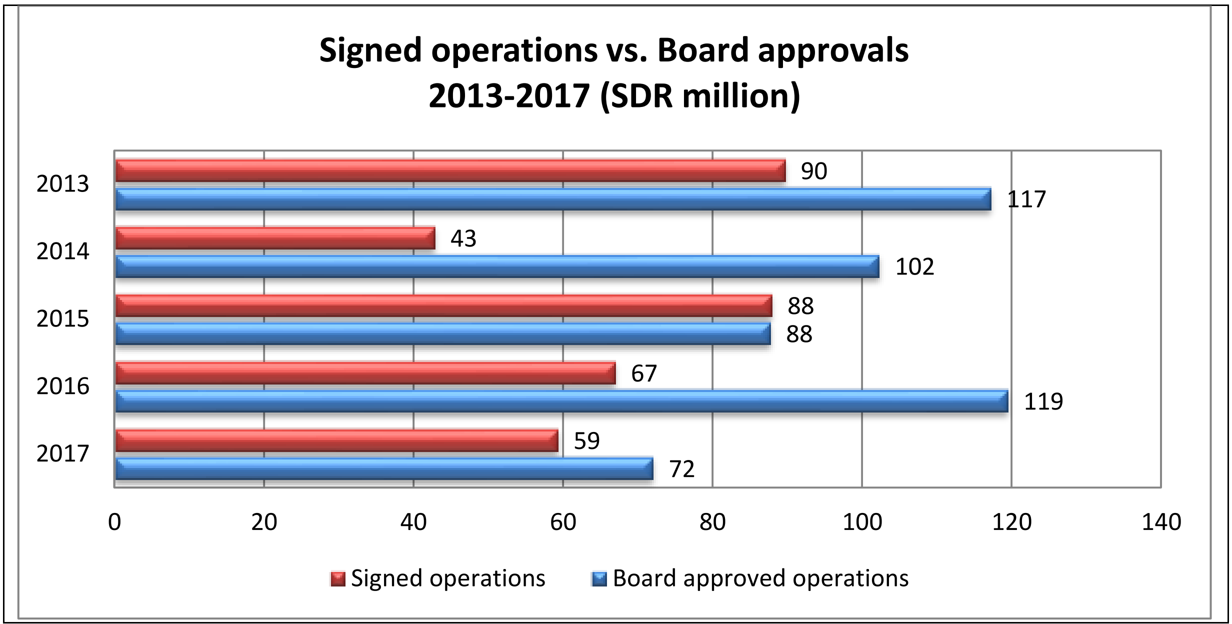


As end of December 2017, 75 percent of the Bank's assets were funded with the members' equity amounting to SDR 373,346 thousand. Majority of liabilities were composed of money market deposits and amount to SDR 117,228 thousand.

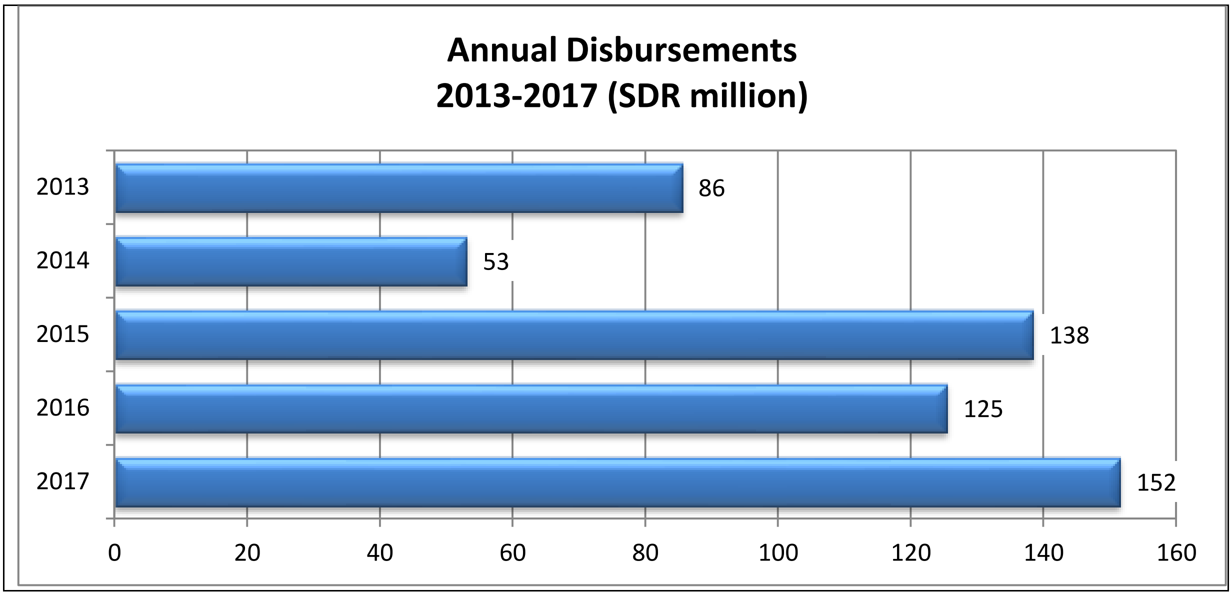


(ii) Loan Portfolio

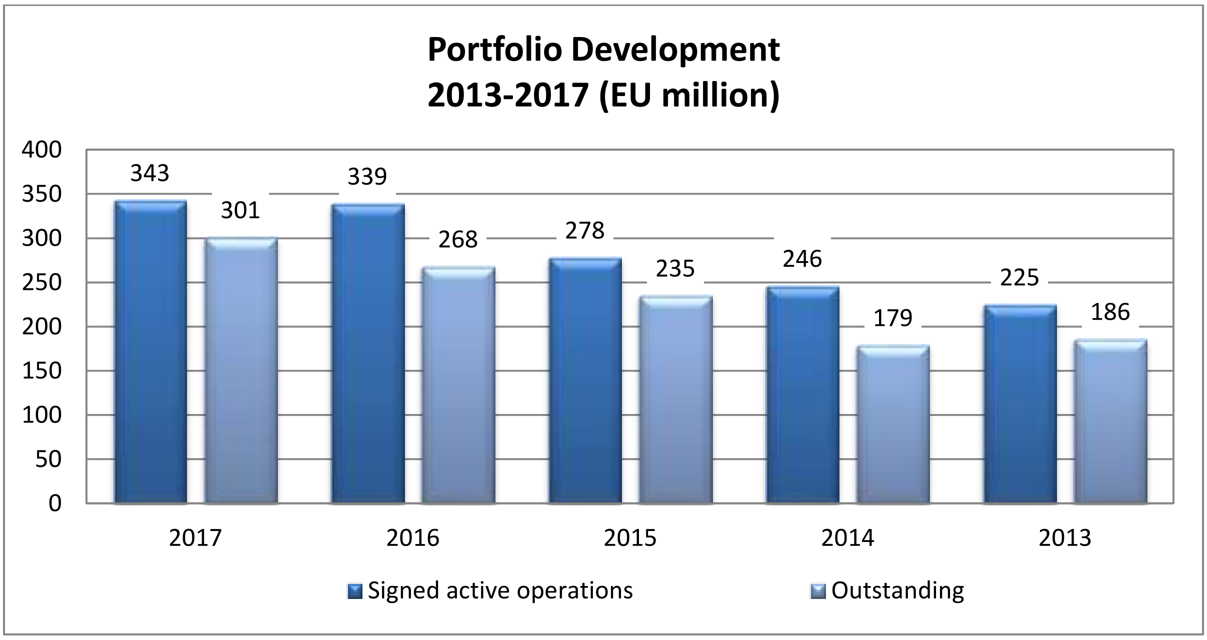
The Bank initiated loan operations in December 2008 and total approved operations (M-SME finance operations to financial intermediaries, trade and project finance operations to customers) amounted to SDR 1,566 million and among them signed operations amounted to SDR 679 million.



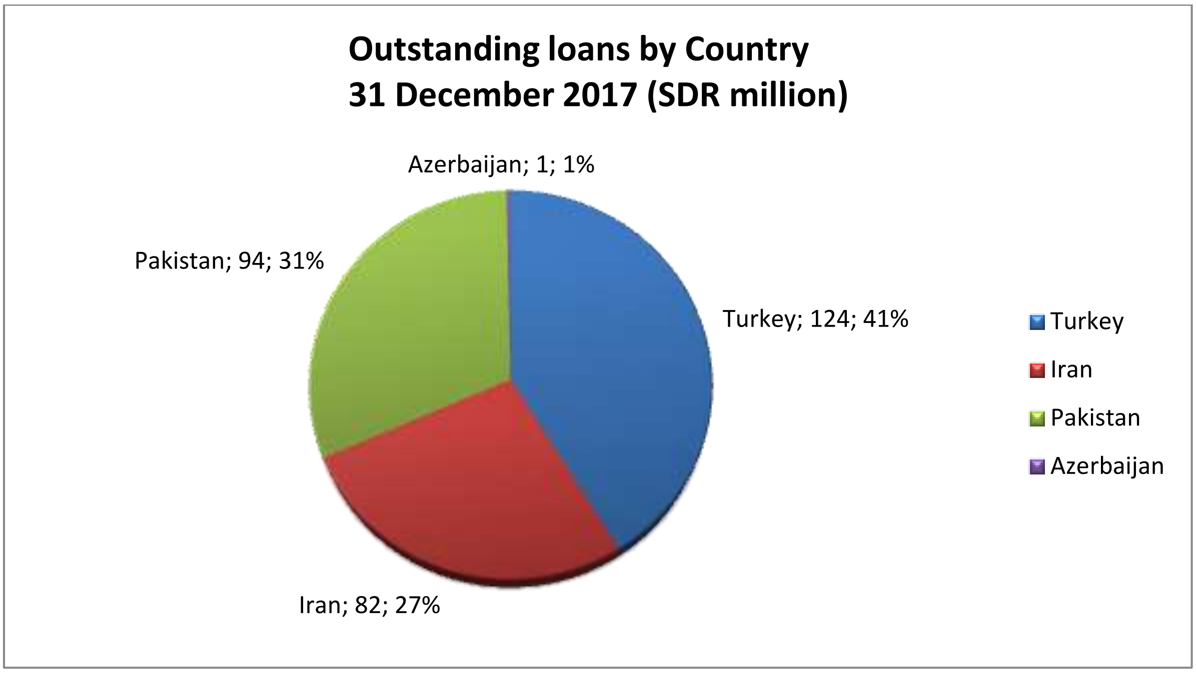
Total disbursements to these operations by the end of 2017 is SDR 604 million and additionally SDR 371 million of short term trade finance loans were disbursed to banks in member countries. As at December 2017, disbursed loans are EU 975 million and so far, the Bank did not have any non-performing loan.



The Bank increased the size of the outstanding loan portfolio to SDR 301,428 thousand as at 31 December 2017 (31 December 2016: SDR 267,805 K), an increase of nearly 13 per cent in one year and cumulative increase of 62 per cent vis-a-vis 31 December 2013. Funds committed but not yet disbursed stood at SDR 12,632 thousand as at 31 December 2017.



The allocation of active operations and outstanding portfolio among member countries as of 31 December 2017 is as follows:

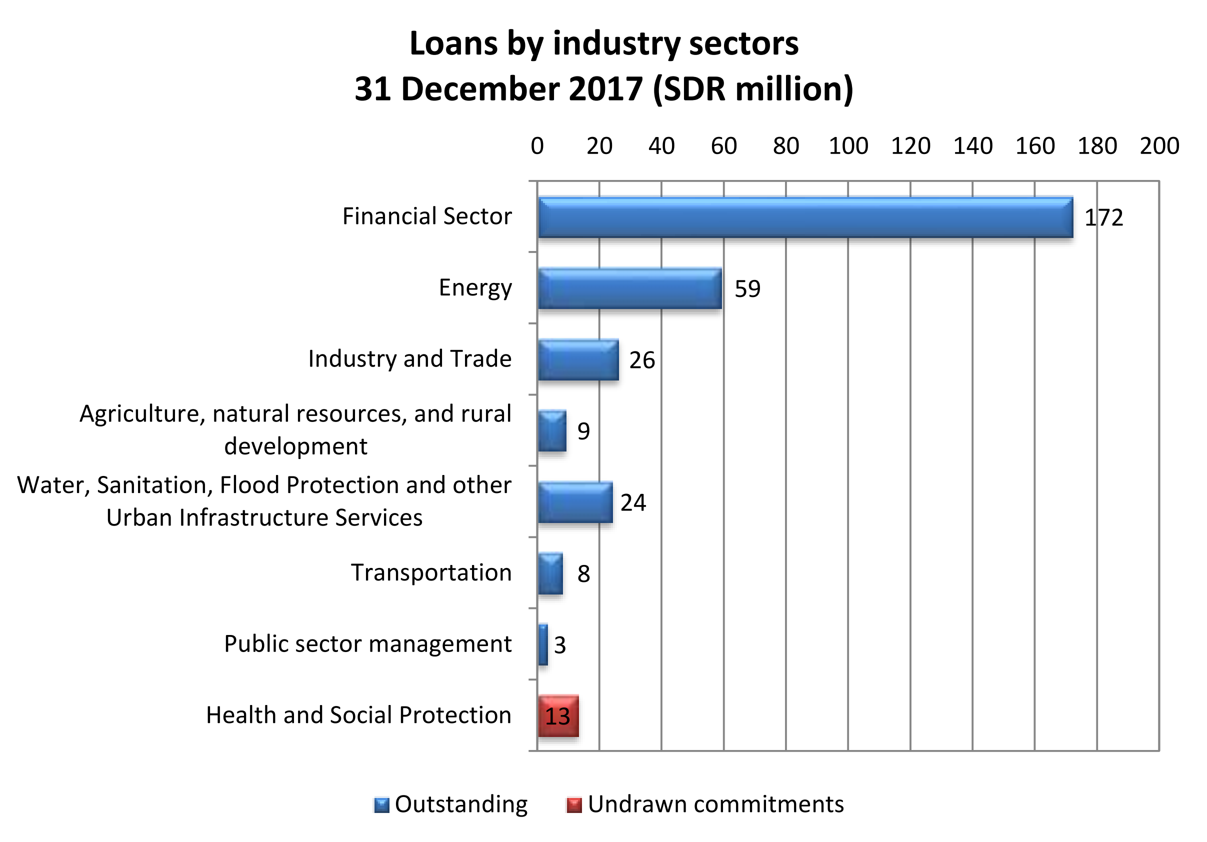


In addition, the Bank attempts to diversify its operations across different sectors. In this context, diversification of operations towards finance, energy, manufacturing, infrastructure, transportation and agriculture is given special attention. The Bank also increased the share of medium sized projects and private sector operations in its portfolio.

The attention of operations in finance sector emanates from the twin objectives of the Bank to support development of local financial institutions and enhance operations in financing trade and development of M-SMEs.

The Bank has been able to facilitate public-private cooperation schemes in realization of several infrastructure projects. Interventions in manufacturing sector supported the major industrial conglomerates in the member states to adopt new technologies and upgrade their production and export capacities.

The breakdown of the Bank's loan portfolio by industry sectors as of 31 December 2017 is as follows:



(iii) Revenues

The ultimate aim of the Bank's financial management is to establish and maintain financial viability. Financial viability ensures that the Bank can continue to implement its mandate effectively without impairing its capital base. It also enables the Bank to move towards self-sufficiency in meeting the growing demand for its financing.

To support its objective of financial viability, the Bank is guided primarily by market practice in managing its day-to-day affairs and applies a conservative risk/return oriented approach to treasury operations. As the Bank's main purpose is to promote economic activity and trade in the region, the Bank does not intend to maximize profits in the course of its activities, but seeks at least to recover its operating costs and the cost of capital employed.

The Bank pursues its operational mandate with strict budgetary discipline, ensuring that its limited resources are utilized efficiently. As a corollary of strict budgetary discipline, the Bank continuously strives for productivity enhancement.

Interest income from lending activities increased from SDR 7,565 thousand to SDR 9,921 thousand in 2017. Treasury activities in 2017 generated interest income of SDR 3,716 thousand (2016: SDR 3,745 K) from money market and securities portfolio. Operating income for the year was SDR 14,108 thousand in 2017 representing a 19 percent increase compared to SDR 11,895 thousand in 2016.

(iv) Expenses

Interest expense for the year increased from SDR 742 thousand in 2016 to SDR 920 thousand, due to the increased average tenor and spread of money market deposits. Operating expenses decreased from SDR 4,421 thousand in 2016 to SDR 4,337 thousand in 2017.

Personnel expenses (e.g. salaries, benefits, contributions made on behalf of the employees and staff development expenses) amounted to SDR 3,642 thousand, around the same level as in 2016.

Other administrative costs (e.g. travel, office occupancy, third party fees, maintenance costs, etc. had a decrease of SDR 58 thousand from the previous year to an amount of SDR 493 thousand. Overall, operating expenses were well within the 2017 Budget, reflecting the Bank's focus on budgetary discipline and effective cost controls.

(v) Net Income

The Bank posted a net profit of SDR 9,771 thousand, representing 31 percent increase compared to SDR 7,474 thousand in 2016 while the quality of the lending portfolio remained sound, experiencing no impaired loan operations. The main driver of the increase in profit is the improvement in the interest generated from loan portfolio with primarily attributable to market interest rates and volume of operations.

(vi) Reserves

Reserves represent the internal generation of capital through the retention of earnings. Pursuant to the Bank's financial policies, reserves are the ultimate protection of the Bank's share capital against impairment, resulting from credit losses in excess of provisions, or losses due to market, operational, and compliance risks.

As per the Establishing Agreement, the Bank sets aside retained income until the reserves of the Bank reach 25% of the subscribed capital. As at 31 December 2017, reserves of the Bank amount to SDR 53,867 which is 5% of the subscribed capital.

Financial results 2013-17

Thousands of SDR	2017	2016	2015	2014	2013
Net profit for the period	9,771	7,474	6,370	5,093	4,440
Paid-in capital	319,430	315,150	310,870	306,510	301,950
Reserves and retained earnings	53,916	44,177	36,540	30,580	24,604
Total members' equity	373,346	359,327	347,410	337,090	326,554

(vii) Provisioning

For the purposes of the Bank's provisioning requirements and in accordance with IAS 39 - Financial Instruments: Recognition and Measurement, provisions are deemed to be in one of the following two categories:

- Specific provisions are for the likelihood of impairment of specific, individually significant exposures, and have a direct relation to the asset whose likelihood of impairment they cover. Impairment is determined following an impairment test, carried out if evidence of credit deterioration is found during regular monitoring.
- Portfolio provisions relate to unidentified losses inherent in the Bank's performing loan portfolio.

Since, there are no financial assets that are impaired there is no specific allowance for impairment as of 31 December 2017. Having a loan portfolio of all significant loans reviewed regularly and no non-performing loan history general provisions were cancelled in 2015.

A new International Financial Reporting Standard, namely IFRS 9 – Financial Instruments replaced IAS 39 effective from 1 January 2018. IFRS 9 replaces the incurred losses model in IAS 39 with a model of expected credit loss. The new standard establishes three stages impairment model (general model) based on the change in credit quality subsequent to initial recognition.

Stage 1: Includes financial assets not having significant increase in their credit risk from initial recognition till the following reporting date or financial assets having low credit risk at the reporting date. 12-month expected credit losses are recognized for such financial assets.

Stage 2: Includes financial assets having significant increase in their credit risk subsequent to the initial recognition, but not having objective evidence about impairment. Life time expected credit losses are recognized for such financial assets.

Stage 3: Includes financial assets having objective evidence about impairment at the reporting date. Life time expected credit losses are recognized for such financial assets.

The impact of first time adoption of IFRS 9 on ETDB's financial statements will be reflected on the opening balance of retained earnings as of 1 January 2018. It is not anticipated a significant impact on the total equity as a result of the impairment calculation based expected credit loss model in accordance with IFRS 9.

(viii) Key financial indicators (2013- 2017)

Key financial indicators are presented for the Bank over the last five years. These ratios are influenced by the growth in banking portfolio, Management's adherence to cost consciousness and improvement in the revenues. Growth of business towards the mandate of the Bank enabled efficient use of capital, while credit, liquidity and market risks closely monitored and remained within the approved limits.

The Bank continued to raise annual profit over the last five years and added to members' equity together with the capital contributions of its new member countries. Return on equity increased from 1.4 per cent in 2013 to 2.7 percent in 2017.

Strict budgetary discipline and effective cost control resulted in only 2 percent increase in total operating expenses from 2013 to 2017. Accordingly, total operating expenses divided by revenues ratio came down to 31 percent in 2017 (2016: 37.7 per cent). In terms of leverage, the Bank maintained the same level of short term money market deposits over the last five years.

	2017	2016	2015	2014	2013
Financial performance					
Return on members' equity	2.7%	2.1%	1.9%	1.5%	1.4%
Return on average assets	2.0%	1.6%	1.4%	1.1%	1.0%
Net interest margin	2.1%	1.8%	1.6%	1.4%	1.1%
Interest income / average interest bearing assets	2.9%	2.5%	2.4%	2.5%	2.1%
Efficiency					
Total operating expenses / revenues	31.0%	37.7%	38.6%	38.4%	44.1%
Leverage					
Total debt / members' equity	31.4%	30.4%	33.0%	34.4%	38.1%
Capital strength					
Outstanding loans / members' equity	80.7%	74.5%	67.7%	53.0%	57.1%

2. Business Activities

As a regional development financial institution, the Bank follows a dynamic business model focused on enhancement of regional trade, development of M-SMEs, meeting the financing and technical assistance needs of corporates and projects in the member countries.

The funds available for Bank's lending operations, offered at near-market terms. Loans are normally provided under sovereign guarantee, although the Bank may accept an unsecured position where it is judged to be consistent with prudent risk perspective. The financial structure of a project/transaction, financial strength of the sponsors, technology, collaterals, tenor, and sector are also taken into consideration. The process of selecting projects and operations is based on the assessment of additionality and development effect. Development impact, in particular, tends to preclude a preferential factor in allocation funds towards projects and operations with the optimum risk/return ratio. Since 2008, when the Bank started its operations, the total loans disbursed to various operations exceeded SDR 975 million (USD 1.4 billion) as end of 2017.

Loan disbursements during 2008-2017 as per country (Millions of SDR)

	Iran	Pakistan	Turkey	Azerbaijan	Total
SME/M-SME Dev. Loans	34	43	166	2	245
Short term trade finance	53	108	207	3	371
Corporate finance	60	131	48	-	239
Project finance	59	38	23	-	120
Total	**206**	**320**	**444**	**5**	**975**

(i) M-SMEs Finance

The SMEs play important role in economic growth, employment and expanding trade in the member states. In line with its main goals, promoting the production and innovation capacity of vibrant SMEs in the member states remains a priority for the Bank. Under SMEs facility, the Bank has been extending medium term funds to local financial institutions including commercial banks, participation banks and leasing companies for more effective access to final beneficiaries. Moreover, through micro-finance institutions, the Bank focuses to increase access to finance by micro-enterprises and lower-income groups. Cooperation with partner financial institutions ensures that Bank's funds are transmitted to the M-SMEs effectively and development of financial institutions is supported as well. During 2008-2017, the Bank disbursed SDR 245 million M-SME facilities to the qualified customers in the member states. Based on the data provided by the partner financial institutions, over 1,100 SMEs benefitted from these funds which were mainly active in the manufacturing, printing, energy, telecommunication, food processing, construction, pharmaceuticals, textile, trade and services sectors, thereby contributing to the economic development and job creation. In addition, it is considered that over 60,000 micro-entrepreneurs have benefitted from intermediated funds of the Bank. The total outstanding loans under this program stood at SDR 80 million as end of December 2017.

(ii) Short Terms Trade Finance Facility

The Bank has been expanding its trade finance facility as one of its main activities with aim to support the economic growth and intra-regional trade. The total outstanding loans under this facility were amounted to SDR 91.6 million as end of December 2017 which increased by 20 percent compared to previous year. Under this facility, the Bank provides supports to traders through financial intermediaries in member countries for diverse activities including line of credits, issuing guarantees, discounting, forfaiting, buyer's credit which all are designed to meet all different requirements in trade finance. Trade finance operations shall comply with the relevant Bank policies and regulations. Transactions involving goods mentioned in the ETDB's Negative List of Goods (including the Bank's Environmental Exclusion List) are excluded from financing. During 2008-2017, total disbursed loans through this form of facility to member countries amounted to SDR 371 million.

(iii) Corporate and Project Finance

The Bank provides short/medium to long term finance to corporates for trade finance and capacity development needs. The project finance loans are provided in line with Bank's overall objective of fostering economic development in the member states. The process of selecting projects is based on but not limited to the assessment of incremental and development impact with special attention given to the national priorities of the member states.

The total disbursement during 2008-2017 period including undisbursed commitments under corporate and project finance operations have been intensified and amounted to SDR 371 million. Since 2008, when the Bank started its operations, several projects have been supported in the member states in the areas of transport, wind power, energy efficiency and rural/agricultural infrastructure. As a result, the Bank has continued and progressed in expanding its experience and visibility in the developmental corporate, project and trade financing activities through offering customized solutions in line with its overall objectives of fostering sustainable economic development and social progress.

In 2017, due to the continuous demand of raw material for the energy production plants of Pakistan, another trade loan of USD 40 million with two years tenure was disbursed to GoP in February 2017 for import of oil. On the other hand, in order to support development of renewable energy resources in Pakistan a USD 8.2 million project finance loan to Harappa Solar (Pvt.) Limited with local lenders Bank of Punjab (BOP) and Askari Bank was approved by BoD in January 2017 for the financing of the establishment of a 18 megawatt (MW) solar power farm near Harappa, Punjab Pakistan. A new project finance loan of USD 11.1 million to Zorlu Solar Pakistan Limited Company is being processed for the financing of the establishment of a 100 MW solar power farm in Punjab, Pakistan.

In October 2017 a project finance loan of EUR 15 Mln in favour of CCN Laboratuar Hizmetleri ve Yönetim AS was approved by BoD for the financing of a Medical Research Center which will be built in Ankara, Turkey.

The Bank cooperates actively with other international development institutions such as such as IFC, EBRD, BSTDB, ADB, and IDB in order to conduct co-financing arrangements in the common member states.

Overall, the total outstanding loans under corporate and project finance operations were amounted to SDR 129 million as end of December 2017 which increased by 17.2 percent compared to previous year. On risk and portfolio management side, the Bank laid special emphasis on ensuring frequent and optimal supervision and monitoring of operations to pre-empt any signs of weakness. It is heartening to note that the entire portfolio enjoys healthy and regular status without any signs of distress or irregularities, signifying high level of financial discipline and professionalism by the bank's clientele. Average internal credit rating score assigned to the outstanding loan portfolio of the corporate and project finance operations was 3.1 points by the end of 2017 which represented a sound risk level on a scale of 1 to 10.

Some of the Corporate and Project finance operations in the member states during 2008-2017 are given below;

#	Name of Client	Operation	ETDB Loan Amount (USD)	Total project cost (USD)
1.	Istanbul Metropolitan Municipality /Turkey	Procurement of subway vehicles for Metro Line Project	35,000,000	420,000,000
2.	Tehran Province Water and Wastewater Company / Iran	Shahriar Water and Waste Water System Project	21,900,000	45,900,000
3.	Regional Water Authority of Iran (KRWA)/ Iran	Siazakh Irrigation Project	20,500,000	41,100,000
4	South Khorassan Waste Water Company / Iran	Birjand Waste Water Treatment Project	20,670,000	55,380,000
5.	Government of Pakistan	Trade Finance Facility	40,000,000	40,000,000
6.	Zorlu Energy Pakistan Limited/ Pakistan	Wind Power Farm Project	20,000,000	145,000,000
7.	DG Khan Cement Company Limited (DGKCC) / Pakistan	Waste heat recovery plant and refused derive fuel facilities Project	20,950,000	42,000,000
8.	Soft Loan to Government of Pakistan	Facility for supporting reconstruction and rehabilitation efforts following massive floods	10,000,000	580,000,000
9.	Vestel Elektronik San. ve Tic. A.Ş./Turkey	Corporate Finance -Trade Finance Facility	24,300,000	24,300,000
10.	Mazandaran Power Transmission Project/Iran	Expansion and modernization of electric transmission and distribution infrastructure	24,300,000	40,000,000
11.	CCN Labaratory/Turkey	Financing establishment of Medical Research Center Project	18,200,000	883,400,000
12.	Harappa Solar (Pvt) Limited/Pakistan	Solar Power Farm Project	8,221,350	24,618,000

3. Treasury Operations

The Treasury’s activities are auxiliary to the core business of the Bank. While maintaining the adequate liquidity cushion, the treasury operations continued to make the best possible use of funds and avoid any currency open position. ALCO supervises the treasury’s asset management policies and provides it with any input that it deems to be necessary. The major functions of Treasury include (i) cash flow management (ii) risk management and (iii) effective fund management.

(i) Cash Flow Management

Treasury Department is in charge of managing the Bank’s liquidity requirements. The Department engages in currencies borrowings and placements through money market transactions and ensures effective management of the Bank’s short-term funds utilizing various instruments such as FX swaps, placements and other available tools. Some of the highlights are as following:

- optimization of risk/return balance in line with the bank’s policies and regulations, BOD approvals, and ALCO & CC’s pertinent decisions;
- on time payment of the Bank’s commitment/disbursements and expenses;
- optimum utilization of the inflows with on time action;
- the minimum cost of gap-bridge borrowing.

(ii) Risk Management

Treasury is responsible for managing the market risk i.e. FX risk and interest rate risk and the liquidity risk. Treasury, by using in-house models, monitors the market risk and the liquidity risk and periodically reports the results to the ALCO (Asset Liability Committee). In line with the risk limits defined by ALCO, the department manages the risks through both on balance sheet transactions and off balance-sheet hedging instruments. According to the ALCO approved procedures at all times, the Bank must have at its disposal a liquidity pool large enough to finance new assets or refinance existing assets. The Bank‘s liquidity is ensured to meet the net cash requirements including coverage of projected loans over the period of 30 and 90 days and during the next 12 months horizons.

(iii) Fund Management

ETDB balance sheet is in SDR. Therefore, Treasury department is managing funds denominated in 5 major currencies in the SDR basket: USD; EURO, GBP, JPY and CNH. As one of its major functions, the Treasury provides funds for lending departments. The funds which remain unutilized by lending departments are placed in a manner to increase the return while keeping the necessary liquidity cushion.

The total Treasury assets amounted to SDR 181 million as end of December 2017. As end of 2017, Treasury has borrowed around SDR 117 million short-term funds from which around 30% have been provided for trade finance operations. In the coming years, the Bank would strive to manage medium-long term borrowing through bilateral, syndication and capital market based on the Bank’s lending portfolio and market opportunities. Treasury made the net interest income of SDR 3.2 million and net swap income of SDR 1.1 million for the year 2017. Overall, the Treasury Department operates in lock step with the evolving market conditions and manage the Bank’s liquidity with the optimal return while adhering to liquidity, FX and interest rate risk limits set by relevant committees and/or procedures.

4. Technical Assistance and Advisory Services

The Bank aims to assist member states in formulating and coordinating development strategies and plans; improving institutional capacities; undertaking sector and policy oriented studies; and improving knowledge about development, regional cooperation, and integration issues. The Technical assistance (TA) services have been determined as a key tool in meeting this objective and important element of the Bank's operational strategy. Overall, in view of its modest capital base, the Bank is allocating a certain amount to technical assistance activities within its annual budget. The strategy of the Bank is to use this limited amount in order to co-finance and mobilize external grant sources from bilateral and multilateral donors.

In this respect, the Bank has sponsored the ECO/IRU Silk Road Truck Caravan project and a WTO workshop organized for ECO countries in cooperation with the ECO Secretariat, the Ministry of Economy of Turkey and the Islamic Development Bank in Istanbul during July 2013.

The Bank also provided financial support to similar WTO-related workshops organized during 2-3 May 2016 and 25-26 October 2017 in Islamabad-Pakistan in coordination with the ECO Secretariat and the Ministry of Commerce of Pakistan. ETDB supports the accession of ECO Member States to the WTO which will also have positive effect on enhancement of intra-regional trade. Any trade agreement or facilitation arrangement within the region whether bilateral, multilateral (e.g. ECOTA) or at global level within the WTO framework would serve the ETDB to enhance its role and mandate to provide support for trade. Therefore, in cooperation with potential partners, the Bank would continue to build-up its expertise and resources for providing more technical assistance services in the coming years.

5. Risk Management

In pursuit of its developmental mandate, the Bank continued to strengthen its Enterprise-wide Risk Management (ERM) approach and avoid strictly practices which are detrimental to its financial position and institutional reputation. The Bank's ERM approach comprises the Board and senior management providing an active risk oversight role, an independent Compliance and Risk Management function responsible for policy formulation and review, assessment, monitoring and reporting and the audit function providing an objective review of the status of the risk management practices.

In view of the Bank's philosophy of prudent lending, the function of risk management has become a critical fulcrum of the Bank's long term vision and success. The Bank pays particular attention to managing credit risks in the course of its core activities, market risks in its treasury activities along with compliance and operational risks.

In this respect, the risk management function in the Bank provides an independent review and identifies key credit risk to the business proposals. Carries out on & offsite due diligence exercises on potential borrowers and calculates the overall credit score of the credit proposal by using an internal credit rating model. The model which produces an overall credit score is designed to capture the financial standing of borrowers in terms of financial strength, experience and market position in the industry. The credit rating model is based on various defined categories which are assigned credit scores using quantitative and qualitative information. In order to safeguard the interest of the Bank financial covenants & other conditions are proposed to ensure that where credit risk is not adequately mitigated, the same was off-set by including covenants in the loan agreement. The outcome of these analysis as an independent credit opinion which form an integral part of the Concept Clearance Document (CCD) & Final Review Document (FRD) submitted for the consideration of the Credit Committee (CC) and the BoDs.

On an aggregate level, the Bank‘s credit quality was maintained at a strong level and there has been no loan in the default category by the end of 2017. The average internal credit rating score assigned to the total outstanding loan portfolio was 3.7 points by the end of 2017 which represented a sound risk level on a scale of 1 to 10. On a quarterly basis, Risk Asset Review reports are prepared to ascertain the concentration, tenor, internal rating of the Bank’s portfolio.

As part of an Early Warning Signal (EWS) exercise, the risk management department conducts stress test on the Banks’ existing borrowers in order to assess their robustness to absorb financial shocks under various economic scenarios. The relevant reports provide details on the various levels of stress that counterparties can absorb before incurring losses. Moreover, to avoid breach in policy, the risk management department checks compliance and adherence to the defined country and operation limits. It also provides input on supervision reports submitted by the business departments and update the internal credit rating of obligors based on the latest available financial data.

The Bank’s treasury investment policy adopted by the BoDs defines the risk parameters to be observed by treasury in managing its exposures. The ALCO is responsible for setting strategic direction in ALM risk management and establishes specific numerical limits, targets, and guidelines within which tactical and operational ALM decision making takes place. Accordingly, the treasury credit risks and credit portfolio of the Bank are reviewed on a monthly basis by the ALCO.

The Bank defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk but excludes strategic and reputational risk. To this end, the Bank takes appropriate measures such as the ‘four eyes principle’ over processes, proper segregation of duties within the departments, purchase of corporate and property insurance policies to achieve a high level of controls and enhance the operational risk management perspective. The Bank continued to protect itself from potential risks by following rigorous anti-money laundering (AML), combating the financing of terrorism (CFT) and anti-corruption policies and training its staff accordingly.

6. Project Implementation and Monitoring

The project implementation & monitoring activities are focused to provide operation administration activities, including the registration and recording of the progress of an operation in the operation database. It also assists the Bank in the monitoring of the operations and providing recommendations for issues concerning the implementation of the operation including relevant covenants and the development of key indicators.

The Bank ensures proper maintenance of operation registration system and an Operational Database maintained to record operations for which eligibility review was approved by the Credit Committee. During the year 2017, the Bank managed to develop a new method for updating the database of operations. This new version of the database contains all necessary background information plus additional data which are gathered periodically from the operation team in the course of the implementation. The new database includes supervision elements which would be used in preparation of annual supervision and monitoring reports.

The Bank continued to prepare regular supervision and monitoring reports for various projects in order to monitor compliance with covenants and other major conditions of the loan agreement. In addition, regular Exception Reports were prepared to document breaches with regard to covenants of the loan agreements. In this respect, business proposals relating to various stages of operation cycle are reviewed by the relevant department and necessary inputs including collateral arrangement are proposed to safeguard the interest of the Bank. In addition, as part of overall function of monitoring of operations, attention was paid to the disbursements and reimbursements of funds while operations' securities were checked and updated.

The Credit Committee, as per the financial policies of the Bank, is the relevant body to discuss the credit related issues. In 2017, thirteen (13) Credit Committee meetings were convened to discuss various credit proposals. Afterwards all the credit proposals are submitted for the final decision of the BoDs.

7. Environment and Procurement

The Bank is accountable in all its operations for the proper use of funds. The Environment and Procurement department considers implementation of the potential projects which shall conform to Bank's environment and procurement policies. From the procurement perspective, the projects are considered to ensure that the procurement of goods and services in the project conforms to the rules and regulations of policy and loan agreement and supervise the implementation of procurement plans. The policy applies to all procurement contracts financed in whole or in part from bank loans. The rights and obligations of client and the providers of goods, works, and services for the project are governed by the bidding documents and by the contracts they sign with the providers of goods and services and not by procurement policy or the loan contract. While procurement of public sector projects are fully governed by the provisions of procurement policy, procurement by private sector projects may be exempt from some of the requirements mentioned in the policy. To this end, general principles to achieve economy, efficiency, competition, fair treatment and transparency guide the Bank's requirements.

The Bank also considers effective environmental reviewing as a quality stamp. From the environmental point of view, the project must adhere to the environmental policy and regulations governed by the bank as well as the host country's laws. This includes conformity of the project with acceptable internationally recognized standards and norms. The Bank is determined to promote environmental soundness and sustainable developments in all its operations through ensuring that the operation do not add to existing pollution and favor the use of cleaner technologies and renewable resources, waste reduction, and resource recovery and recycling. This is reflected in rejection of projects which mainly have a negative impact on the environment but rather promote a greener and healthier environment for the people affected by the project. Transactions involving goods mentioned in the ETDB's Negative List of Goods (including the Bank's Environmental Exclusion List) are excluded from financing.

In 2017, projects in Iran such as Siazakh Irrigation System continued its progress to the point that all proceeds from the loan were utilized and portion of project financed by the Bank was completed. Shahriar Wastewater Treatment Plant continued its trial operation stage which is expected to be completed by first quarter of 2018. And Birjand Wastewater Treatment Plant and Transmission Line continued its implementation and finished the year with 65% physical progress. Mazandaran Power Transmission project also continued its implementation in 2017 with progress of 87% for the Substations contract and 93% progress for the Transmission Lines contract.

In Pakistan, Harappa Solar Power Plant was implemented to completion and started operation. Also in Turkey, CCN Medical Research Center project passed the bank's internal evaluation and approvals which resulted in loan agreement signature by end of 2017.

In 2018, it is expected that both Birjand and Mazandaran projects' construction phase will be completed and CCN project starts its implementation stage.

8. Information Technology (IT) Services

The IT function continued to render a key supporting role in the Bank's operations. Within the scope of IT governance, where possible and financially feasible, emphasis placed on automated controls. The IT department maintained an array of financial business systems including SAP, Thomson Reuters, SWIFT, and financial portal on Intranet with SQL Database support. In line with the Bank's strategic plan, the Bank successfully implemented the customization “SAP System” for the delivery of new business requirements. The system enabled the Bank to automate various processes. Internal trainings for the staff have been conducted to make best use of the system features. In this respect, an internal SAP Steering Working Group (SSWG) is responsible to ensure facilitation of an efficient and effective system.

On the part of IT security, necessary measures are taken in order to increase security level of the Bank’s Corporate Legacy data in line with the best IT industry practices. In order to comply with the 5651 Turkish internet legislation and monitor internet usage of the Bank’s staff and/or visitors in case of any misconduct or misuse, IT Department installed two separate firewalls to log internet traffic for both WIFI internet access and Backoffice Corporate Internet access. The Bank maintains comprehensive Disaster Recovery systems in order to ensure rapid recovery and high availability for its operations in case of any severe event. The latest technologies are being using to replicate corporate legacy data residing on mission-critical systems on the existing platform to an ISP’s Data Center located outside Istanbul on daily basis. On regular basis, data recovery tests are conducted in order to ensure integrity of the replicated legacy data.

The new Intranet portal with the latest up-to-date functionality (document search, indexing) was implemented according to the requirements of the Bank staff. Automation of Business Workflows such as HR Leave Request Form, HR Intraday Request Form, etc. over Intranet was enabled for a paperless environment such. With the automation of workflows tailored to the needs of the staff, a high level of efficiency was achieved by avoiding time-consuming manual processes previously used by the Bank’s staff. The IT Dept. has developed a proprietary application (4500 lines coded in Visual Basic) named System for ETDB Attendance (SEA) for daily entry/exit activity control and annual working day plan of the staff members.

A helpdesk service has been providing assistance to all ETDB staff with use of MS Office Professional and other related software as well as the printers and photocopiers. Besides the software support, this helpdesk support additionally covered connection problems, password recovery, file services, printer services, internet services, email services, telephony services, and remote office access for Representative Offices, etc.

Going forward, while managing costs, IT infrastructure maintenance and enhancement services will continue in order to ensure that the Bank regularly improves its capabilities to this end.

9. Internal Audit and Compliance functions

In view of strengthening the corporate governance perspective of the Bank, the BoDs in its 64th meeting held on March 9, 2017 decided to separate the Internal Audit and Compliance functions from each other. Accordingly, the name of “the Internal Audit and Compliance Department" has been amended to be "the Internal Audit Department-(IAD)". The compliance functions have been assigned to a separate department which was renamed as Policy and Compliance Department (PCD). Moreover, BoDs adopted the new "Internal Audit Charter" and the new "Compliance Charter" of the Bank while incorporating the view/comments of the Audit Committee members. Accordingly the new responsibilities of the aforesaid departments were redefined and approved by the BoDs.

Through a risk-based annual audit plan approved by the Bank's Audit Committee, the IAD reviews the Bank's business units and processes at appropriate intervals. Each annual audit plan delineates IAC's annual activities during its calendar year which starts on 1st July each year and end on 30th June next year. The main objective of such reviews is to assure whether the functions of risk management, control, and corporate governance in the Bank's operations and processes are efficiently and effectively carried out according to the Bank's senior management instructions, policies, procedures, credit operation manual and in a manner consistent with the objectives and strategies of the Bank. Additionally, it performs a consulting role by advising the senior management including recommendations for improvements on issues such as operations, policies, procedures, manuals, risk management, internal control systems and efficient usage of the Bank's resources.

The IAD informed the Audit Committee and the Management of emerging trends, successful practices, and significant measurement criteria in internal auditing, issued periodic reports to the Audit Committee and the Management of the Bank summarizing the result of the audit activities. The IAD completed its audit work and prepared the following audit reports;

- Audit of the process that the Corporate & Project Finance (CPF) department follows for extending credit facilities.
- Audit of the process that the Banking & Non-Banking Financial Institutions (BNFI) department follows for extending credit facilities.
- Audit of the process that the Office of the Chief Economist (OCE) follows when conducting Economic Analysis of project finance operations.
- Audit of the process that the Administrative Services Department (ASD) follows to make internal purchase of goods, services & works on behalf of the Bank.

On the compliance function, the PCD has assisted the Bank in identifying, assessing, monitoring and reporting in matters relating to the institution, its operations and to personal conduct. The PCD also ensures compliance with policies, procedures, guidelines, rules and regulations, and assesses the degree of compliance with them, assists the Bank in managing the compliance risk, and also provides consulting in the areas of anti-money laundering (AML), know-your-customer (KYC), and combating terrorist financing activities, helping Bank's departments to smoothly run their activities and responsibilities.

Particular emphasis is placed on adopting reference best practices. In this context, the PCD provides relevant and necessary advice for the staff on related issues. The Bank, as an international financial organization, is accountable to its stakeholders and in its operations calls for very high standards of integrity, transparency and accountability.

10. External Auditors

Upon the recommendations of the Board of Directors and approval of the Board of Governors, qualified external auditors of international repute registered in a member country are appointed for a term of one year, renewable on such terms and conditions as approved by the Board of Directors to audit the affairs of the Bank and to report to the Board of Directors on a periodic basis as may be decided by the Board of Directors. In relation to the 2017 audit, the Bank's auditors are 'Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.' a member of KPMG international cooperative.

The External Auditors provided a signed auditor's opinion on the truth and fairness of the Bank's 2017 financial statements prepared in accordance with International Financial Reporting Standards (IFRS). Appointment or discharge of the external auditors is recommended and their performance is reviewed by the Audit Committee.

At the conclusion of their annual audit, the External Auditors prepare a management letter for the Management of the Bank, which is reviewed in detail and discussed with the Audit Committee, setting out the External Auditor's observations and recommendations for strengthening the control environment and Management's responses.

11. Membership to the Bank

According to "Articles of Agreement" establishing the Bank, the membership is open to all ECO member states. The Bank is keen to have all ECO member states as the member of the Bank and benefit from its activities. The Bank has adopted a New Membership Principles in order to effectively facilitate accession of new members. Accordingly, in cooperation with the ECO Secretariat, the Bank continued to pursue a comprehensive program to encourage other ECO member states to become a member. Consequently, Afghanistan, Azerbaijan and Kyrgyzstan have become the members of the Bank and membership base of the Bank has been enlarged to include majority of the ECO member states. The new members of the Bank continue to make their paid-in capital contributions payments on time according to the agreed installments.

The other four ECO member states namely Kazakhstan, Tajikistan, Turkmenistan and Uzbekistan are also expected to join the Bank soon. The Bank is determined to closely follow-up the matter in coordination with the ECO Secretariat. This would certainly help the Bank to further expand its operations and development influence across the region effectively.

12. International Relations

The Bank continued to improve its institutional relations with the member states, international institutions and the business communities. The Bank has been maintaining a close liaison with the ECO Secretariat and has duly participated in the relevant events and meetings of the Secretariat. In this respect, as one of the specialized institute of the ECO, the Bank was represented in the 22nd Meeting of ECO-Council of Ministers and 13th ECO Summit Meeting which was held in Islamabad, Pakistan on 26 February-1 March 2017 and the 13th Meeting of the Heads of ECO Railway Authorities/7th Meeting of Railway Committee of ECO Transit Transport Coordination Council that was held in Baku, Azerbaijan on 16-18 April 2017.

The Bank has also attended the 9th Meeting of the High Level Working Group of ECO Container Train on Islamabad-Tehran-Istanbul (ITI) Route which was held on 12 July 2017 in Islamabad at the Ministry of Pakistan Railways, the 4th Seminar on Trading Patterns in ECO Region and Accession of ECO to World Trade Organization that was held in Islamabad, Pakistan on 25-26 October and the 28th Regional Planning Council (RPC) Meeting that was held in Islamabad, Pakistan on 11-14 December 2017.

In addition, the Bank attended to the 2nd Annual Meeting of the Board of Governors of the Asian Infrastructure Investment Bank (AIIB) that was held in Jeju, Korea on 16-18 June and to the 42nd Annual Meeting of the Islamic Development Bank Group (IsDB) that was held in Jeddah, Saudi Arabia on 14-17 May 2017.

Beside, joining the annual meetings and general assembly meetings of the peer organizations, close contacts have been developed with the peer regional finance and development organizations. The General Counsel of the AIIB paid a courtesy visit to the ECO Trade and Development Bank on 2 June 2017.

To build and maintain a favorable climate of public opinion, the Bank continued to keep close cooperation especially with the business organizations operating in the ECO region. The effective relation with media has been kept alive through press releases published about the operations of the Bank. The website of the Bank has also been updated as an effective tool for creating a better awareness of the Bank's role and operations in member countries and worldwide.

13. Human Resources

The Bank acknowledges that the efficient and successful management of Human Resources (HR) function is fundamental to the success of any organization and realization its strategic targets. The main objective is to adopt the best HR practices in the finance industry. The Bank adheres to this key factor in recruiting high-caliber people as well as to retain its staff members within the best international practices. The HR management has been structured on four essential fundamentals: fair and transparent recruitment process, a competitive remuneration system, performance appraisal policy and offering learning opportunities to its staff.

As end of December-2017, the total number of staff of the Bank was 38 (2016-year end: 39). The Bank does its recruitment with preference given to its member countries equally. Learning and development of staff are fundamental to attracting and retaining/developing required skills. The Bank has been implementing the performance management and appraisal system in order to evaluate individual performances to acknowledge and reward high performance as well as helping to identify training needs.

Compensation and benefits constitute the very basic pillar of HR management, where the Bank regularly reviews the Benefit System Policy vis-à-vis the needs. Additionally the Bank provides its staff and their family members a comprehensive medical plan as well as life insurance plan for its staff members. The Bank operates a pension plan which includes first pillar as hybrid plan that is comprised of a defined benefit plan and defined contribution plan and second and third pillars as defined contribution plan. The Bank benefits from the SAP HR-platform which enables an online track of staff members' personal information, remuneration details, and organizational changes.

14. Planning and Budgeting

The Bank's planning and budgeting process is carried out within the directives of BoDs approved policies and based on the medium-term strategy defined in the Business Plan approved by the BoGs. The Business Plan which is comprised of the strategic, operational and financial plans of the Bank, is further detailed at country level in the respective country partnership strategy reports, and is implemented through annual budgets. The annual budget document is approved by the BoDs and includes short-term strategies, operational targets, work programs and related financial reports.

The Bank pursues its operational mandate with strict budgetary discipline, ensuring that its limited resources are utilized efficiently. The Bank's financial management is based on the principles which inter alia include financial viability, market and performance orientation, comprehensive risk management, transparency, accountability and effective corporate governance.

Financial viability ensures that the Bank can continue to implement its mandate effectively without impairing its capital base. It also enables the Bank to move towards self-sufficiency in meeting the growing demand for its financing. As a corollary of strict budgetary discipline, the Bank continuously strives for productivity enhancement.

In its financial reporting, the Bank aims to provide appropriate information on risk and performance of its activities. Industry best practice guides the evolving disclosure practice both in public financial reports and management information reporting. The Bank presents financial statements in the Annual Report, prepared in accordance with the International Financial Reporting Standards. Pursuant to Article 26 of the Establishing Agreement, Annual Report is transmitted to the member states and the ECO Secretariat.

The Bank has an integrated accounting, budgeting, and reporting system which enabled efficient and effective implementation of financial and management reporting. Execution of the Annual Budget is monitored on an on-going basis and the results are reported to the Senior Management and BoDs on a regular basis. The Bank maintains a basic Management Information System to support its internal structure by providing detailed financial and management information. Analyses relating to operations, revenues and cost effectiveness continued to be conducted. This data is utilized for decision-making, performance reporting, monitoring and internal control purposes. Moreover, key monitoring tools will be developed and effective performance measurement control mechanism shall be established.

The Financial Reporting and Budget Department (FRB) is responsible for financial and management information reporting of the Bank as well as preparation and execution of annual budgets. In 2017, annual budget and resource allocation process was executed in parallel with preparation of 2018 annual budget. During the period, performance of the Bank is monitored and reported to the Senior Management and Board of Directors.

Analyses relating to operations, revenues and cost effectiveness will continue to be conducted. Moreover, key monitoring tools will be developed and effective performance measurement control mechanism will be established.

The IFRS 9 Financial Instruments imposes changes in classification and provisioning requirements of financial instruments. The new standard will be effective after 1 January 2018. In this respect, the Bank is making necessary studies regarding the amendment of Bank’s provisioning policies.

15. Board of Governors Meetings

The 16th Annual Meeting of the Board of Governors was held on 23 May 2017 in Istanbul. At the meeting, the Board members reviewed the performance of the Bank and approved the 2016 Financial Statements annexed to the 2016 External Audit Report. The Board designated the Governor of the Islamic Republic of Iran as the Chairman for one year term from May 2017 to June 2018.

16. Board of Directors Meetings

As a responsible body for the overall guidance of the Bank’s operations, the Board of Directors held six meetings during 2017. In these meetings, the Board of Directors covered a broad range of policy, financial and administrative issues including margin for loan pricing, credit limits for trade, M-SME financing facilities, treasury investments and guarantees for various financial institutions operating in the member countries. Term, project and corporate loans were also endorsed by the BoDs in order to support the economic development in the region. Financial support to the 4th Seminar on Trading Patterns in the ECO Region and Accession of the ECO to the World Trade Organization provided to the ECO Secretariat.

The Board also adopted amendments to the relevant policies and guidelines of the Bank to ensure compliance to best practices. The new Country Partnership Strategy documents covering 2017-18 periods on all the member countries were adopted.