


ECO Trade and Development Bank


ANNUAL REPORT 2019

Operations in Member Countries

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AGRICULTURE

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BOARD OF GOVERNORS

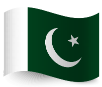
As of 31 December 2019

Chairman, Board of Governors (June 2019 – June 2020): Governor of the Islamic Republic of Pakistan

Islamic Republic of Afghanistan
Governor: H.E. Mr. Wahidullah Nosher, Acting Governor, Central Bank of the Islamic Republic of Afghanistan

Kyrgyz Republic
Governor: H.E. Mr. Sanjar Mukanbetov, Minister of Economy, Kyrgyz Republic
Alternate Governor: H.E. Mrs. Baktygul Jeenbaeva, Minister of Finance, Kyrgyz Republic

Republic of Azerbaijan
Governor: H.E. Mr. Mikayil Jabbarov, Minister of Economy, Republic of Azerbaijan
Alternate Governor: Mr. Azer Bayramov, Deputy Minister of Finance, Republic of Azerbaijan



Islamic Republic of Pakistan
Governor: H.E. Mr. Reza Baqir, Governor, State Bank of Pakistan
Alternate Governor: Mr. Naveed Kamran Baloch, Finance Secretary, Finance Division, Government of Pakistan

Islamic Republic of Iran
Governor: H.E. Mr. Gholamreza Panahi, Vice Governor for Foreign Exchange Affairs, Central Bank of the Islamic Republic of Iran
Alternate Governor: Dr. Hamid Ghanbari, Director General, International Affairs, Central Bank of the Islamic Republic of Iran

Republic of Turkey
Governor: H.E. Mr. Bülent Aksu, Deputy Minister of Treasury and Finance, Republic of Turkey
Alternate Governor: Mr. Kemal Çağatay İmirgi, Director General for Foreign Economic Relations, Ministry of Treasury and Finance, Republic of Turkey

BOARD OF DIRECTORS

As of 31 December 2019

Islamic Republic of Afghanistan
Director: Mr. Muhammad Qaseem Rahimi, Second Deputy Governor, Central Bank of the Islamic Republic of Afghanistan
Alternate Director: Mr. Syed Younas Sadat, Chief Financial Officer, 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 of the Republic of Azerbaijan
Alternate Director: Mr. Famil Ismayilov, Deputy Head, International Relations Department, Ministry of Finance of the Republic of Azerbaijan

Islamic Republic of Iran
Director: Ms. Shiva Ravoshi, Director General, Foreign Exchange Liabilities and Operations, Central Bank of the Islamic Republic of Iran
Alternate Director: Mr. Ali Akbar Nasiri, Director, International Finance Department, Central Bank of the Islamic Republic of Iran

Kyrgyz Republic
Director: Mr. Sultan Akhmatov, Deputy Minister, Ministry of Economy of the Kyrgyz Republic
Alternate Director: Mr. Bakyt Sydykov, Head of International Cooperation Department, Ministry of Finance of the Kyrgyz Republic

Islamic Republic of Pakistan
Director: Mr. Kamran Ali Afzal, Additional Finance Secretary, External Finance, 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, Ministry of Treasury and Finance of the Republic of Turkey

MANAGEMENT COMMITTEE

As of 31 December 2019

Mr. Yalçın Yüksel
President & Chairman of the Board of Directors

Mr. Mahdi Kasraiepoor
Vice President (Finance)

AUDIT COMMITTEE

As of 31 December 2019

Mr. Deniz Yılmaz
Deputy General Director, DG of Financial Markets and Exchange, Ministry of Treasury and Finance, Republic of Turkey

Mr. Abrar Ahmed Mirza
Joint Secretary (Budget), Ministry of Finance, Government of Pakistan

Mr. Abdolmahdi Arjmand Nejad
Director General, Supervision of Banks & Credit Institutions, Central Bank of I.R. of Iran

TO THE BOARD OF GOVERNORS

Board of Governors of the Economic Cooperation Organization (ECO)
Trade and Development Bank

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 honour to submit for the kind attention of the esteemed Board of Governors, the Bank's Annual Report for 2019 as endorsed by the Board of Directors. The report covers the activities of the Bank including audited financial statements for 2019.

Yalçın Yüksel,
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

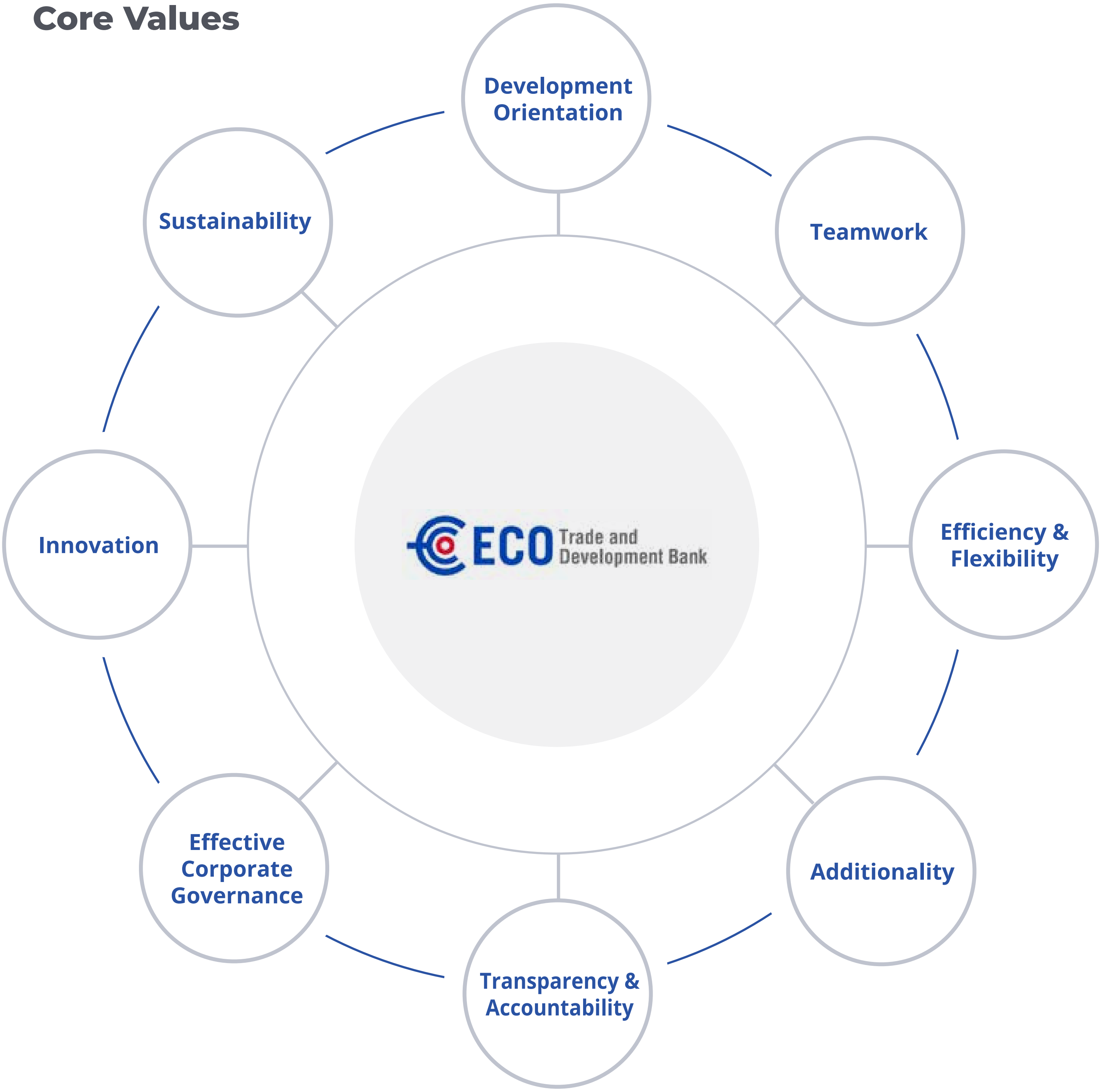
- Promote and facilitate private and public sector investment, cooperation, development and job creation in member states through joint programmes

- 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
Teamwork
Efficiency & Flexibility
Additionality
Transparency & Accountability
Effective Corporate Governance
Innovation
Sustainability
ECO Trade and Development Bank

INTRODUCTION

The ECO Trade and Development Bank is structured and operating under prudent policies, rules and regulations which are similarly adopted by other MDBs.

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 credit operations as of November 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 2019.

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% of the project cost and in case of corporate and trade finance it may be extended up to 100% 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 disfavour 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 includes 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.

INTRODUCTION

In compliance with its corporate governance policy, the ECO Trade and Development Bank pays utmost attention to the transparency and accountability of its operations.

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 Management Committee and essential business 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.

Board of Governors

All powers of the Bank are vested in the Board of Governors (BoGs), which consists of one governor and one alternate governor appointed by each member country, who are 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.

Board of Directors

The Board of Directors (BoDs) is composed of representatives of the member states and responsible for the direction of the Bank's general operations, exercising all powers delegated to it by 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 are non-resident and meet as often as the business of the Bank may require but not less than six times a year.

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 was expanded as the other ECO member states joined 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 had 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 2019, the paid in share capital was SDR 326,430 thousand since Kyrgyzstan is in process of payment of paid- in capital contribution.

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

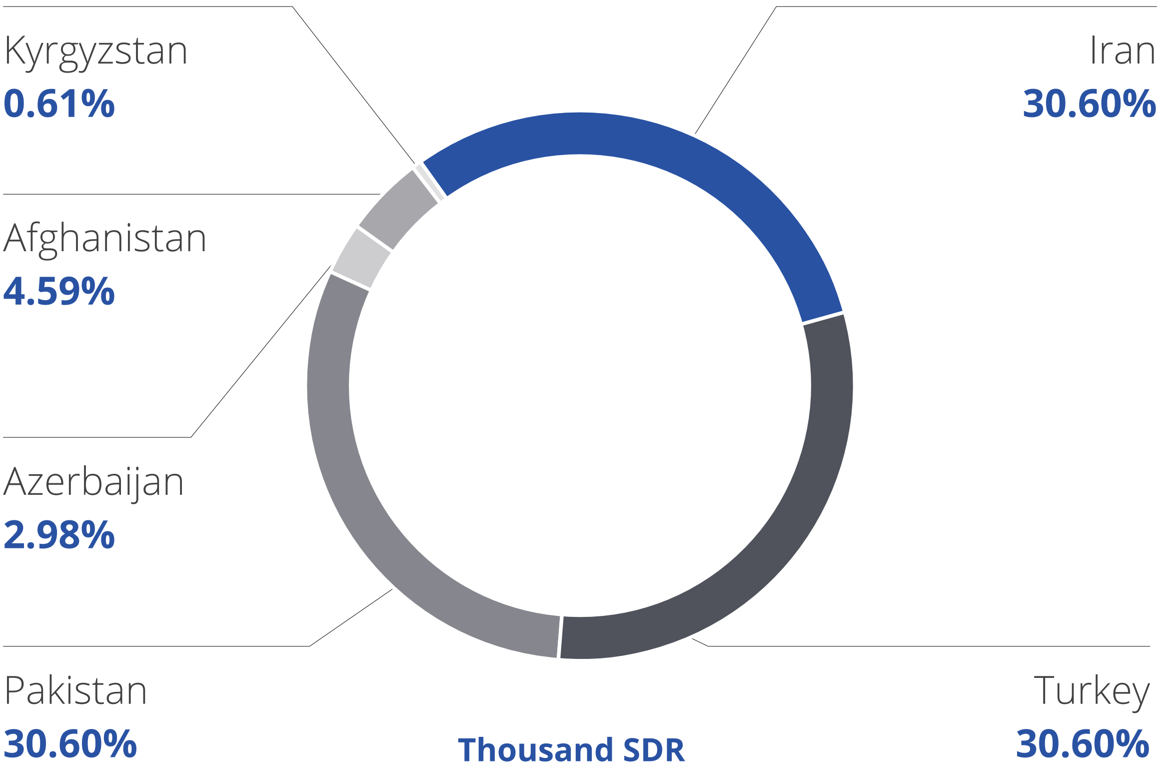
As common feature of the MDBs capital structure, the ETDB has a share of its capital that is callable; an unconditional and full- faith obligation of each member country to provide additional capital whenever required. Out of the said authorized capital SDR 762,350 thousand may become payable, upon a 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 2.8% and amounted SDR 395.319 million by the end of the 2019. Of this increase SDR 2.7 million was originated in the form of paid-in capital contribution payments of the new members and SDR 8 million was from retained earnings for the year.

INTRODUCTION

The current membership structure of the ECO Trade and Development Bank increased to six members namely Turkey, Iran, Pakistan, Afghanistan, Azerbaijan and Kyrgyzstan covering majority of the ECO member states.

Shareholder Structure (%)



Thousand SDR
Authorized Capital: 1,089,100
Callable Capital: 762,350
Paid-in Capital: 326,750
(Including 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

Investments in health, digitalization, technology and food will bring privileged advantages during the new normal.

We have been closely monitoring the developments regarding the COVID-19 and taking all the necessary measures to safeguard the health and wellbeing of our employees and their families and keeping our operations running as smoothly as possible.

During 2019, we have experienced increasingly challenging global context in the course of global growth recovery. Supportive financial conditions and the policy rates at low (in some cases, negative) levels in major economies led to a reassessment of projections for stronger global activity and enhanced hopes for inclusive growth. But, the onset of the COVID-19 pandemic that rapidly send shockwaves around the globe since the beginning of 2020 has been causing severe human sufferings and significant disruption in everyone's lives and it continues to heavily impact every economy. We are in the midst of a once-in-a-century global health crisis, with far-reaching economic and social consequence.

The resilience of our health systems, business structures, value chains, trading relations and finances appears not to have been ready and sufficient for preventing such crisis. Eventually, introduction of containment measures and forced lockdowns across the world dramatically altered the global growth projection which is recently expected to be about –4.9% in 2020. In light of the large degree of uncertainty around the pandemic's severity and economic impact, the world merchandise trade in 2020 is also estimated to contract by 13% under optimistic scenario. Supply-chain disruptions, mandatory lockdowns, border closures and shifts in consumer behaviours dampening the aggregate demand. While implementation of strong measures continues to stem the spread of the virus, access to effective vaccines are key for strong recovery from this pandemic. Therefore, it is critically important to foster resilience, effective collaboration and solidarity to overcome this crisis.

The countries across the world have scaled up their fiscal support to mitigate the economic fallout from the pandemic and the stringent lockdowns. Announced fiscal measures are now estimated at near USD 11 trillion globally which is three times more than the response to the 2008–09 financial crisis. While global financial conditions continue to be accommodative by historical standards it is estimated that the global economic activities will gradually attempt to return to normal after the second half of 2020. Although the rising risk of a second pandemic wave, making the prospects bleaker and less predictable but in 2021 global growth is projected at 5.4%. Effective policies are essential to forestall the possibility of worse outcomes, and the necessary measures to reduce contagion and protect lives are an important investment in long-term human and economic health.

As many countries started to move towards implementation of normalization plans, everyone needs to come back to life and get used to the «new normal». The new phase of the world economy would be fundamentally reshaping the human interactions, inter-dependence, trade and globalization, while accelerating digitalization and automation. In this respect, we have been witnessing that our member states continue their process of fighting with this pandemic in a very successful manner. However, the pandemic represents a massive, unprecedented global economic and financial shock that is having impact on ECO region growth developments as well. The real GDP growth for the ECO region was realized at 0.1% in 2019 compared to 1.5% growth print achieved in 2018 and reflects a significant slowdown in pace of economic growth in region. Taking into account the adverse impact of COVID-19 related economic shocks it is projected that in 2020, the region would see further deterioration in economic growth rates. At this point, it is important for our member states to keep trade flowing by maintaining the continuity of the international supply chain and facilitating the trade particularly customs processes. I would like to note that investments in health, digitalization, technology and food would bring privileged advantages during the new normal. We are optimistic that our member states will come out stronger from this tragic crisis and adapt to new normal.

We live in a region representing about 6.5% of the world's population but just have 2.2% that share in the global economy. The difference between the two is the key for setting the course for ambitious development targets that are bold yet doable. The ECO countries have a strong endowment, untapped potential and significant growth prospects. We need to take a focused approach that removes barriers and galvanizes the sectors around a bold growth agenda. Therefore, the recovery is likely to face headwinds but the potentials of the member states hold conducive conditions for quick recovery. As we move beyond 2020, the regional growth is expected to set to an improved plateau for solid and more inclusive growth.

In this context, the Bank has been closely monitoring the developments regarding the COVID-19 and taking all the necessary measures to safeguard the health and wellbeing of our employees and their families and keeping our operations running as smoothly as possible. We have activated our contingency plans in order ensure business continuity. Through implementing flexible working scheme and remote working measures, the Bank has been able to continue its operations. We have been focused to be more flexible, agile and responsive during these hard times.

At this delicate period, we stand ready to contribute our fair share to assist the member countries. In this respect, our involvements in financing various development projects in the member states have been remarkable. Since 2008, when the Bank started its operations, the total amount of loans disbursed to various operations in the member states reached to SDR 1,196 million as end of 2019. We are pursuing a dedicated trade finance programme to foster the growth of intra-regional trade. About 60% of our disbursed funds were extended for financing trade, making the Bank's involvement in the region's trade more inclusive. Notably, the quality of our well-diversified portfolio remains high. The total outstanding loans including undisbursed commitments stood at SDR 206 million as end of 2019. Certainly, these positive results reflect the continued efforts of the Bank in improving operational processes and risk management architecture. 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. While maintaining a robust liquidity position, the Bank posted a net profit of SDR 8,091 thousand and the total assets of the Bank amounted to SDR 468 million by the end of 2019.

PRESIDENT'S MESSAGE

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.

As a part of the Bank's endeavours to support its member states to address the impacts of the COVID-19 pandemic, we have launched the soft loan facility to be extended for the respective government authorities of the member states. This facility will be utilized only for rehabilitation and recovery of the COVID-19. We have also temporarily increased the maximum deviation rate of country exposure limits in order to mobilize our humble resources at optimum level. Moreover, we are focused on supporting investments in health, education, energy and agriculture infrastructures, enhancing credit lines via financial institutions to address the needs of the micro, small and medium sized enterprises, providing finance for trade transactions with particular attention given to medical supplies, medicines, personal protective equipment, agriculture and food products.

We are aware that responding to the diverse needs in the region is beyond the capabilities of one single institution. Therefore, we put utmost importance to enhance our relation 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.

In many respects, the COVID-19 has been the most acute tragedy of the humanity in this century. Despite adoption of dramatic fiscal and monetary counter measures by the countries, it has probably provoked the worst economic crisis of our lifetimes. In these critical conjectures, it is vitally important for the Bank to continue building on its strong foundations, undertake high-quality investments and maintain financial sustainability. Building on our core expertise, we are committed to further enhance our efforts to continue making remarkable contribution to the region's growth and development in the years to come.

It is important to note that the year 2020 will mark the 12th year of Bank's operationalization. It has been critical for the Bank to remain agile and adaptive. I believe that the Bank shall make strides in two central issues. First, while sustaining the highest quality and optimum average maturity structure of the credit portfolio, mobilize reasonable resources to increase its ability to finance development. Obtaining the highest possible credit rating and the best possible financing terms for our members would be the essential targets of the coming period. 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. Moreover, accession of Kazakhstan, Tajikistan, Uzbekistan and Turkmenistan as members would help the Bank to focus activities over the entire region.

On a final note, I would like to take this opportunity to express my sincere gratitude to the esteemed members of the Board of Governors and Board of Directors 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. While the coming period present immense opportunities for the ETDB, however the challenges are not underestimated or ignored. As I have recently taken over the Office of President of the Bank, I shall build on the solid foundation laid by my predecessors and steer this institution to greater heights of prosperity. This is especially important now given the challenges caused by the unprecedented COVID-19 crisis. The Bank will continue to be relevant and deliver impact that increases sustainability and prosperity of the member states.

Yalçın Yüksel
President

60%
Disbursed funds

About 60% of our disbursed funds were extended for financing trade, making the ETDB's involvement in the region's trade more inclusive.

We put utmost importance to enhance our relation with all relevant partners.

Real GDP growth for ECO Region

The real GDP growth for the ECO region was realized at 0.1% in 2019 compared to 1.5% in 2018 and reflects a significant slowdown in pace of economic growth in region.

EXECUTIVE SUMMARY

The vision of the ECO Trade and Development Bank is to become the financial pillar of economic cooperation among the member states.

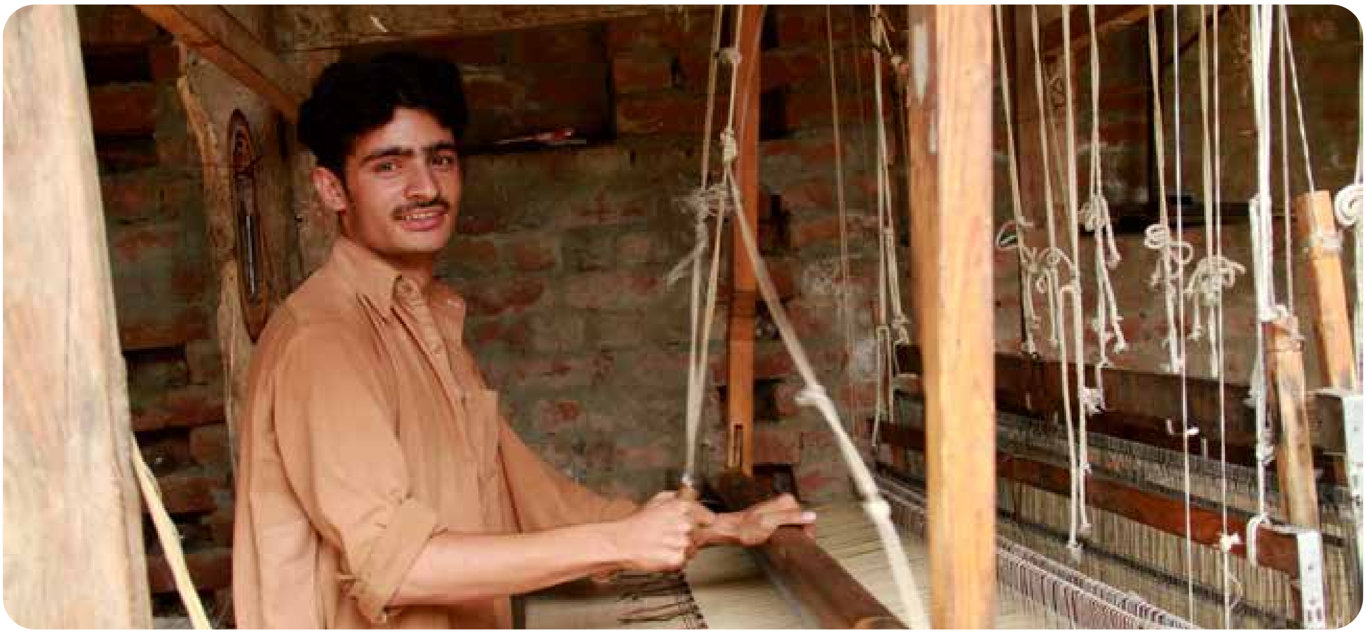
The ETDB was established as a regional Multilateral Development Bank (MDB) and started its credit operations in November 2008. It has a clear mandate to foster socio-economic development and support the growth of intra-regional trade among ECO member states. The vision of the Bank is to become the financial 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 395 million as end of 2019. 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 in the respective member states. 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. The Bank provides sustainable, medium and long-term financing to customers in both the private and public sectors on competitive market terms to complement commercial lending. The financial products and services of the Bank include corporate and sovereign loans, loans to municipalities, and loans to public-private partnerships, loan programmes supporting development of Micro, Small and Medium Size Enterprises (M-SMEs) and trade transactions, investments in project & structure finance in the member countries. The knowledge and experience built on internationally accepted practices are improving the capabilities of Bank to enhance its loan portfolio, manage risks and maintain financial viability.

In November 2019 the Bank marked the eleventh anniversary of the launch of its operations. During the period, the Bank has broadened the array of activities, providing longer time horizons and accommodating more complicated finance structures to fulfil its establishment mandate. The 2019 has been a challenging year for the Bank in several aspects. The general slowing of global economic activity that occurred in 2019 impacted the economies of the member states as well. Moreover, rising geopolitical uncertainties and country specific business environment has limited the Bank to translate its plans into appreciably increased investment activity in the member countries.

On the global perspective, eleven years after the global financial crisis, the global growth trajectory softened to 3.6% in 2018 and further declined to 2.9% in 2019. The key risks posed by trade related disputes, geopolitical tensions, policy uncertainties, and volatility in financial market sentiments are generating uncertainties for sustainable global growth. In addition, along with serious health consequences around the world, the COVID-19 pandemic emerged at the beginning of 2020 is expected to cause a sharp decline in global economic activity and threaten growth and employment. Although the global trade is gradually improving across most countries after re-opening of economies, but the widespread resurgence of coronavirus infections would pose new risks to the global recovery and further delay trade negotiations on various fronts.

The challenges emerging from global developments continue to weigh on ECO region growth developments. Real GDP growth for the ECO region was realized at 0.1% in 2019 compared to 1.5% growth print achieved in 2018 and reflects a significant slowdown in pace of economic



growth in region. The pronounced deceleration in region-wide growth observed in the last few years had somewhat moderated in 2016 and economic activity had seemed to have gained a solid footing across the region as reflected in sustained growth momentum witnessed in 2017. But starting in 2018 and continuing into 2019 economic growth slowed markedly in two of the member countries, which account for 65% of the region's GDP, which consequently squeezed region's overall growth print.

ECO region's nominal GDP stood at USD 1.89 trillion in 2019 compared to USD 1.87 trillion recorded in 2018 and was equivalent to 2.2% of the global output. In 2019 GDP (PPP based) stood at USD 6.34 trillion compared to USD 6.24 trillion recorded last year which amounted to a growth print of 1.6% in nominal terms.

ECO region posted an anaemic growth rate in 2019 and taking into account the adverse impact of COVID-19 related economic shocks it is projected that in 2020 the region will see further deterioration in growth as major economies of the region such as Turkey, Iran and Pakistan are projected to contract. Similarly, other members of the region are also projected to observe contraction in their economic growth rates.

The swift and massive shock of the COVID-19 pandemic and shutdown measures exposed vulnerabilities in the production and supply chains about everywhere. Targeted fiscal support remains to be vital. And monetary policy focus from stabilization to accommodation plays a critical role in cushioning the macroeconomic and financial imbalances. Certainly, the world would markedly be different when the COVID-19 pandemic subsides. While implementation of strong measures continues to stem the spread of the virus, access to effective vaccines are key for recovery from this pandemic. In view of the current challenges to re-start economies and re-establish trade, investment and financing links, a second wave may magnify the challenges. Therefore, the recovery is likely to face headwinds but the potentials of the member states hold conducive conditions for quick recovery. Looking ahead, continuing active testing/tracking of cases would enable early isolation and treatment, with adequate resources being channelled to the health sector. Meanwhile, appropriate measures shall continue to boost productivity, adopt supply chain diversification strategies and improve position in global supply chain, trade and investment inflows. The main requirement is to adapt economies to the exigencies of the crisis and ready for the next normal (post-COVID-19) where healthcare and life sciences, digitalization, artificial intelligence, automation, logistics, 3D design technologies, clean energy, etc. are expected to be at the front and centre of the trend.

EXECUTIVE SUMMARY

The ECO Trade and Development Bank ensures firm adherence to sound banking principles and avoids strictly practices which are detrimental to its present robust financial position.

In consideration of the global market developments and specific country conditions, the targets of the current Business Plan (2018-2022) which was set in June 2018 would be revised accordingly and reflected in the annual budget targets. The Country Partnership Strategy (CPS) documents which are updated regularly remain to be the primary analytical and planning guideline that enables the Bank to present and evaluate specific investment opportunities 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 diversified vis-à-vis the member states and the sectors. The Bank maintains a highly developmental intensive loan portfolio. 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 credit operations, the total loans disbursed to various operations in the member states amounted to SDR 1,196 million as end of December 2019.

b. Good asset quality was maintained with a diversified portfolio in terms of sector and country. The outstanding loan portfolio including undisbursed commitments amounted to SDR 206 million by the end of 2019.

c. The average internal credit rating score assigned to the total outstanding loan portfolio was 2.9 points by the end of 2019 which represented a sound 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. As of 31 December 2019, the Bank classified two of its loans as Stage 3 and all other financial assets in Stage 1. Sovereign guarantees are held as collaterals against such project finance loans and expected to be resolved soon. Since delays in these public sector loans are not directly linked to deterioration in client's financials but technical issues related to delay in resource allocations from national budget.

e. 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.

f. The Micro and Small & Medium Size Enterprises support program and trade finance facility continue to deliver positive developmental results. Over 1,500 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 65,000 micro-entrepreneurs have benefitted from intermediated funds of the Bank.

g. The total assets of the Bank amounted to SDR 468 million by the end of 2019.

h. The Bank posted a net profit of SDR 8,091 thousand in 2019, representing 15% decrease compared to SDR 9,509 thousand in 2018, due to building impairment loss of SDR 5,125 thousand

i. The total reserves and retained earnings of the Bank amounted to SDR 68.8 million by the end of 2019 representing an increase of 13% compared to 2018 end year figure.

j. The RoA was 1.7% and the RoE stood at 2.1% as end of December 2019 which was fairly similar level compared to 2018 end year figures.

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 risk management measures 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.

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.

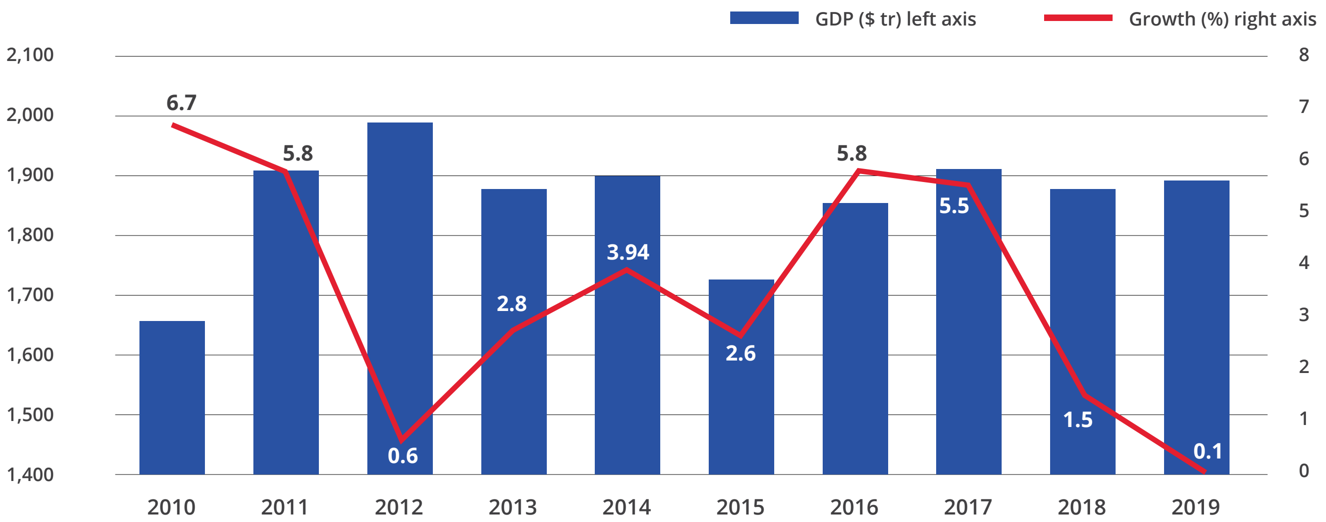
Overall, in consideration of the current global challenges and limitations in business conditions in the member states, the Bank would continue to focus on advancing its vision over the coming years and adopt the necessary measures to achieve them. The strong regional ownership structure and deep understanding of business dynamics in the member states provide the Bank a specific comparative advantage in mobilizing available 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

The pronounced deceleration in region-wide growth observed in the last few years had somewhat moderated in 2016 and economic activity had seemed to have gained a solid footing across the region as reflected in sustained growth momentum witnessed in 2017.

Real GDP growth for the ECO region was realized at 0.1% in 2019 compared to 1.5% growth print achieved in 2018 and reflects a significant slowdown in pace of economic growth in region (Figure 1). The pronounced deceleration in region-wide growth observed in the last few years had somewhat moderated in 2016 and economic activity had seemed to have gained a solid footing across the region as reflected in sustained growth momentum witnessed in 2017. But starting in 2018 and continuing into 2019 economic growth slowed markedly in two of the member countries, which account for 65% of the region's GDP, which consequently squeezed region's overall growth print. Iran as per the latest IMF estimates contracted by 7.5% and in case of Turkey growth decelerated to 0.94%.

Figure 1: ECO Region's Growth Trend



Source: Staff estimates

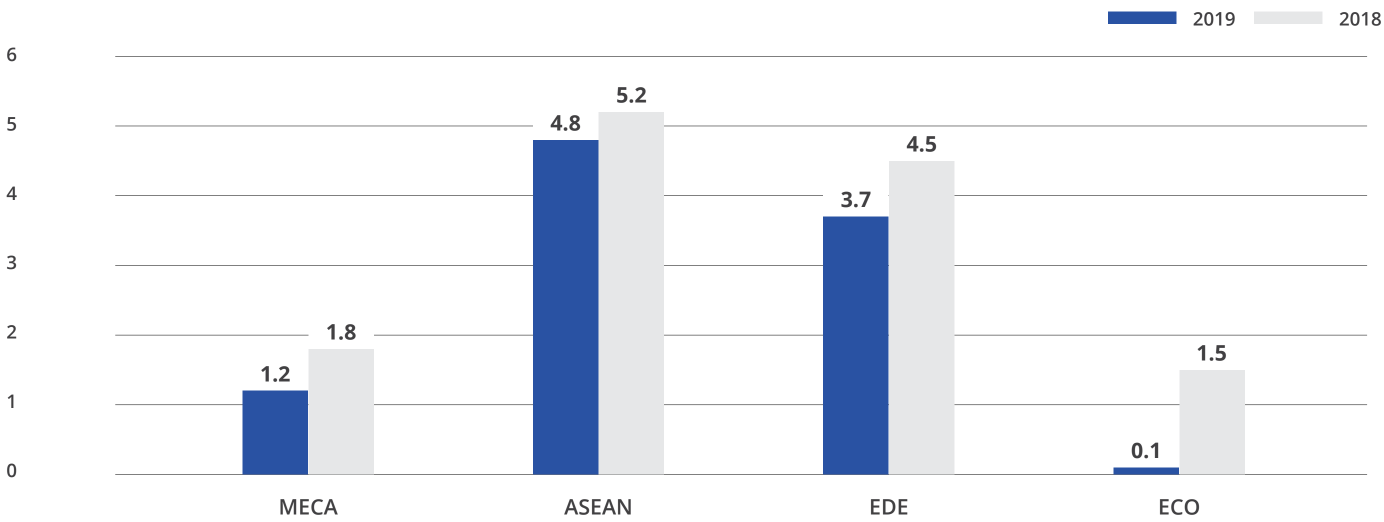
Recovery in oil prices which started in 2016 and continued throughout 2018 coupled with improved external market conditions especially in regard to Russian economy helped ECO region's natural resource dependent economies to post recovery in commodity exports. Russian economy gained traction in 2017 and grew by 1.3% in 2019 after experiencing recession in 2015 and 2016. Resultantly, accelerated momentum was witnessed in remittances across Central Asian states. Furthermore, economic reforms undertaken in the form of fiscal support, foreign exchange liberalization and structural adjustment allowed the said countries to better address the external and domestic economic imbalances and helped them sustain the growth momentum from last year.

ECO region's nominal GDP stood at USD 1.89 trillion in 2019 compared to USD 1.87 trillion recorded in 2018 and was equivalent to 2.2% 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 2019 GDP (PPP based) stood at USD 6.34 trillion compared to USD 6.24 trillion recorded last year which amounted to a growth print of 1.6% in nominal terms.

Living standard as measured by average nominal GDP per capita income metric stood at an estimated USD 3859 for the ECO region in 2019, declining from USD 3886 recorded last year. 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 2019 estimated GDP per capita (PPP based) for the ECO region stood at USD 12,925 compared to USD 12,915 last year which amounted to a growth rate of 0.07%.

ECO region's comparison with other comparator regional blocks in regard to economic performance as measured by real GDP growth rate shows that it has underperformed in 2019 relative to other regional blocks (Figure 2).

Figure 2: Real GDP Growth Rates of Selected Regions, 2019



Source: IMF

Developments in headline inflation varied across the ECO region with region as a whole recording an inflation of 17.9% in 2019 compared to 20.4% recorded last year. In Iran, Turkey and Uzbekistan inflation rate reached double-digits. In Iran continued pressure on the currency led to sharp depreciation of the rial which resulted in a spike in inflation which stood at 41.6%. In Turkey inflationary pressures built up due to currency depreciation and credit fuelled growth. Inflation rose in Uzbekistan due to rise in energy prices, increase in wages and taxes. In Azerbaijan inflation fell from a high of 12.9% in 2017 to 2.6% in 2019 as inflation expectations subsided due to stabilization of currency, tepid economic recovery and rebalancing in external and domestic imbalances.

ECONOMIC OVERVIEW

The regional fiscal deficit to GDP ratio in 2019 increased to 4.4% compared to 2.6% last year but is still moderate compared to other comparator regions.

In 2019 the government fiscal balances 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. Pakistan and Iran with budget deficit to GDP ratio standing at 8.8% and 5.5% respectively were the exception whose fiscal balance deteriorated due to increase in expenditures and fall in revenues.

The regional fiscal deficit to GDP ratio in 2019 increased to 4.4% compared to 2.6% last year but is still moderate compared to other comparator regions (Table 1).

The overall regional current account (CA) deficit in 2019 shrank to USD 8.6 billion from USD 23.5 billion recorded last year and was equivalent to -0.45% of GDP compared to -1.3% last year (Table 1). Most countries witnessed smaller CA deficits with the exception of Kazakhstan which posted a deficit of 3.6% of GDP compared to 0.12% of GDP last year. Turkey was successful in shrinking its CA balance and transformed its external balance to surplus from deficit last year as economic activity slowed down and external rebalancing took place. Iran transformed its surplus from last year to deficits.

In the table listed below key economic indicators of ECO region and member countries for 2019 are presented.

Table 1: Key Economic Indicators by ECO Region and Member Countries-2019

	Real GDP Growth (%)	Average consumer Inflation (%)	Central Gov. Budget Balance/GDP (%)	Current Account Balance/GDP (%)
Afghanistan	3.04	2.3	-0.98	8.5
Azerbaijan	2.2	2.6	8.4	9.1
Iran	-7.5	41.1	-5.5	-0.06
Kazakhstan	4.5	5.2	2.6	-3.6
Kyrgyzstan	4.4	1.2	-0.14	-9.1
Pakistan	3.3	6.7	-8.8	-4.9
Tajikistan	7.5	7.8	-2.1	-3.34
Turkey	0.94	15.2	-5.3	1.06
Turkmenistan	6.3	5.09	-0.25	5.06
Uzbekistan	5.6	14.5	0.01	-5.6
ECO region	0.1	17.9	-4.4	-0.4

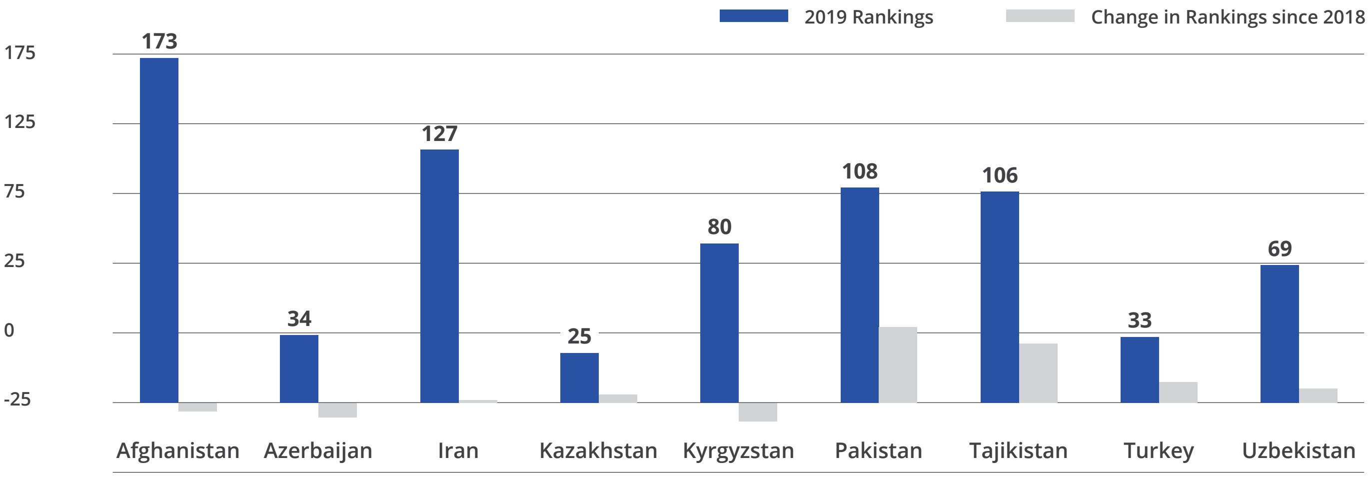
Source: National Statistical Offices & IMF

The general gross government debt to GDP ratios in general moderated across the member countries. Gross government debt to GDP ratios declined due to more stability in member countries respective currencies, lesser issuance of domestic debt and contraction of foreign loans to finance public sector projects. Pakistan was the exception where gross government debt to GDP ratio jumped to 83.5% from 71.6% of GDP recorded last year. Total public debt of the region reached USD 716 billion which amounted to 37% of the regional output which is on the lower side when compared to comparator regional blocs.

ECO member countries' currencies exhibited less volatility compared to last year. In Central Asian states governments took measures to address domestic and external imbalances which led to stability in their respective currencies. Uzbekistan continued to experience pressure on its currency due to liberalization of foreign exchange and devaluation of its main trading partner's currencies and some experienced 14% depreciation against US dollar. Turkey witnessed pressure on its currency with lira depreciating by 12% against US dollar due to the deteriorating external imbalances. Pakistan's currency was devalued five times by cumulative 27% in 2018 to address the growing external imbalances and experienced depreciation of 11% against US dollar in 2019. Iranian currency has been under pressure since 2016 mainly due to impositions of international restrictions.

In the World Bank's "Doing Business 2020" report which provides ease of doing business ranking for 190 countries, Kazakhstan with a score of 25 had the best ranking among the ECO region member countries moving up the ranking by 3 points from last year. Most of the member countries ranking improved with exception of Afghanistan and Azerbaijan whose ranking deteriorated. Pakistan, Tajikistan and Turkey moved most up the ranking by 28, 20 and 10 points, respectively (Figure 3).

Figure 3: Ease of Doing Business Indicator-2019



Source: Doing Business 2020, World Bank

Future Outlook

The COVID-19 pandemic and the concomitant demand and supply shocks to economies around the globe is projected to lead to significant contraction of economic growth in vast majority of economies around the world. IMF has recently updated its growth projections in June 2020 and expects global GDP to contract by 4.9% in 2020 and then post a moderate recovery in 2021 but growth will remain below the pre-pandemic growth rate. Similarly, emerging and developing economies are expected to contract by 3% in 2020.

ECO region posted an anaemic growth rate in 2019 and taking into account the adverse impact of COVID-19 related economic shocks, IMF projects that the region will see further deterioration in growth in 2020 as major economies of the region such as Turkey, Iran and Pakistan are projected to contract by 5%, 6% and 0.4%, respectively. Similarly, other members of the region are also projected to observe contraction in their economic growth rates.

BUSINESS STRATEGY AND BALANCE SHEET ITEMS

The ECO Trade and Development Bank provides a range of short-to-long term loan products to private and state owned entities.

In line with its mandate, the Bank continued to remain focused and responsive to support the sustainable development efforts of the member countries through offering various products and services. In 2019, 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 1,196 million as end of December 2019.

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 would be sustained to ensure a constant flow of new operations. The average remaining tenor of loan portfolio of the Bank which was 1.28 years as end of 2018 increased to 1.52 years as end of 2019. 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 completed/continued their paid-in capital contribution payments without any delay. Currently majority of ECO member states are members of the Bank. During 2019, 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 and risk profile has been achieved.

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 assesses 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 new Business Plan (2018-2022) which was approved by the Board of Governors during its 17th Annual Meeting held on 28 June 2018, in Istanbul provided an opportunity to review achievements gained during the past years and defines the strategic road map of the Bank for the coming years. Accordingly, the Bank would advance its vision and translate the strategic objectives into goals over the coming five-year period.

The current plan has been developed in view of a viable funding scenario. Accordingly, the Bank is expected to expand its operations based on its funding capacity, which is mainly composed of equity (paid-in capital and retained earnings) and short-term borrowings. The average annual growth rate of funding capacity for 2018-22 periods is estimated to be 2.8%. Nevertheless, depending on the market conditions the targets of the current plan would be revised and reflected in the annual budget targets. The favourable conclusion of external credit rating processes would enable the Bank to look into opportunities for long-term borrowing as well to further enhance its funding capacity.

BUSINESS STRATEGY AND BALANCE SHEET ITEMS

The ECO Trade and Development Bank is ever increasing its visibility and transparency through enhanced operational structure and external relations.

Under supervision and monitoring practices project visits by the Bank and the project consultant company continued in order to enhance compliance and enable the Bank to understand and proactively resolve the issues affecting Bank-financed projects. Special attention has been given to projects that are vulnerable to global or local economic challenges and appropriate remedial measures and turn around strategies implemented promptly. The Bank is ever increasing its visibility and transparency through enhanced operational structure and external relations. 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 with a strong risk profile,
- Ensuring an update operating structure, processes and procedures
- Building a robust project pipeline,
- Sustaining credit operations in the new member states,
- Continuing efforts to increase 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.

Since the economic situation of member states during the year have been volatile and generally downward trend is projected, the demand for loans has been affected, which led to a different performance and the projected business plan of the Bank as well. In fact, the Bank was expected more disbursements in Iran & Pakistan, while the new situation impeded execution of many of forecasts. The devaluation of the currencies along with low risk appetite caused many customers to be more conservative for borrowing. Thus, the outstanding loan portfolio including undisbursed commitments which reached to SDR 206 million by the end of 2019 remained below the business plan target of SDR 368 million. Average internal credit rating score assigned to the total outstanding loan portfolio of the Bank was 2.9 points by the end of 2019 which represented a very low risk level on a scale of 1 to 10. The portfolio credit risk of ETDB is strong and reflects the prudent risk approach of the Bank.

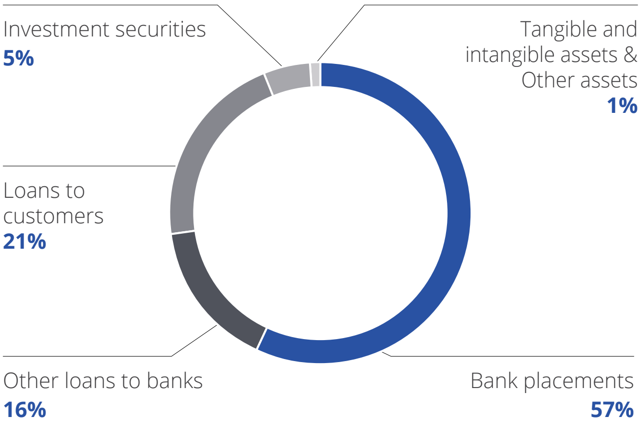
The total assets of the Bank were projected to amount SDR 520 million in terms of 2019 funding scenario of the business plan. However, the total assets of the Bank amounted to SDR 468 million by the end of 2019. The difference in the business plan scenario vis-a-vis the current situation in the asset size derives mainly from decrease in the short-term borrowed funds.

The Bank has been able to continue markedly attaining positive income levels. However, the net income which was SDR 8 million by the end of 2019 remained below the business plan's target level of SDR 11 million due to total impairment losses regarding the headquarters building of the Bank amounted to SDR 5 million. 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. It may be underlined that while ensuring the portfolio quality, during 2020, the Bank would put efforts to achieve outstanding loans envisaged in the budget and revise the business plan targets as per the emerging business environment.

(i) Balance Sheet

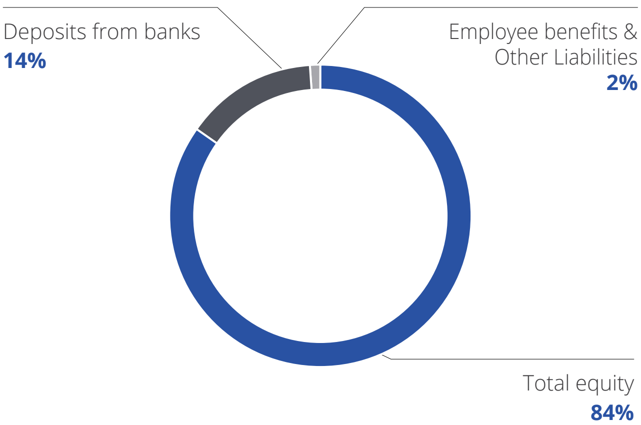
By the end of 2019, the Bank's total assets were SDR 468,589 thousand (31 December 2018: SDR 481,759 K), representing a 3% contraction. Bank placements amount to SDR 265,095 thousand representing 57% of total balance sheet size. Other loans to banks and loans to customers amount to SDR 77,517 thousand and SDR 98,883 thousand, respectively.

Composition of Assets 31 December 2019



As at 31 December 2019, 84% of the Bank's assets were funded with the members' equity amounting to SDR 395,319 thousand. Majority of liabilities were composed of money market deposits and amount to SDR 67,509 thousand.

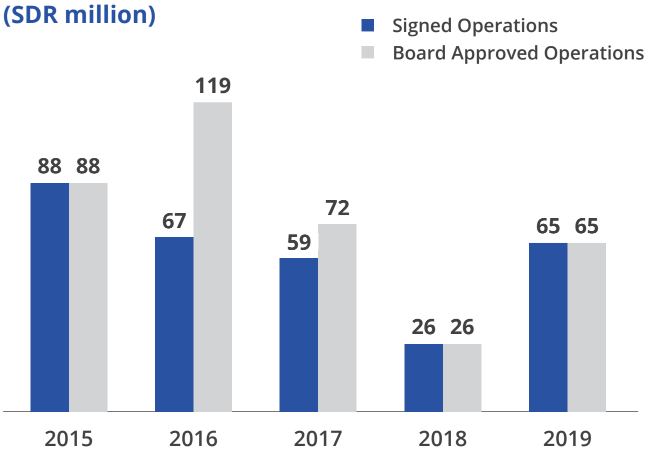
Composition of Liabilities & Equity 31 December 2019



(ii) Loan Portfolio

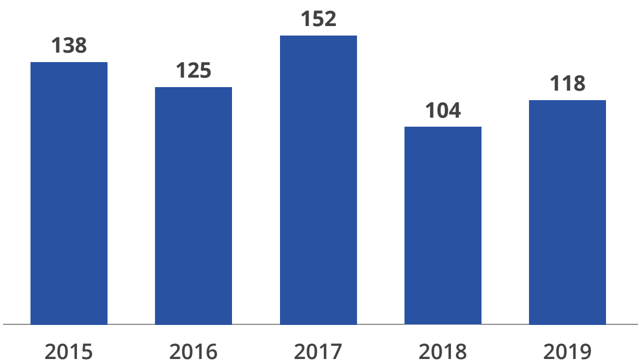
The Bank initiated loan operations in November 2008 and total approved operations (M-SME finance operations to financial intermediaries, trade and project finance operations to customers) amounted to SDR 1,658 million and among them signed operations amounted to SDR 770 million.

Signed Operations vs. Board Approvals (SDR million)



Total disbursements to these operations by the end of 2019 is SDR 665 million and additionally SDR 531 million of short term trade finance loans were disbursed to banks in member countries. As at 31 December 2019, total disbursed loans are SDR 1,196 million.

Annual Disbursements (SDR million)



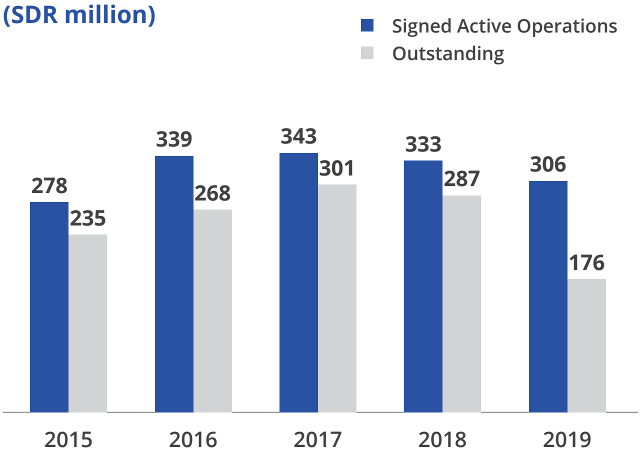
BUSINESS STRATEGY AND BALANCE SHEET ITEMS

The outstanding loan portfolio of the ECO Trade and Development Bank is SDR 176,400 thousand as of 31 December 2019 vis-à-vis SDR 287,355 thousand as at 31 December 2018.

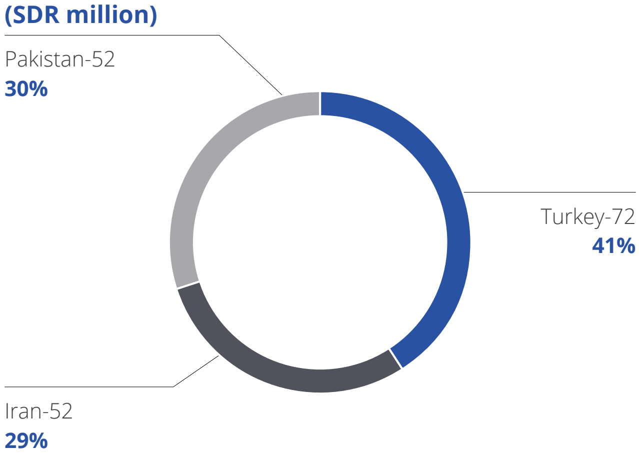
The outstanding loan portfolio of the Bank is SDR 176,400 thousand as of 31 December 2019 vis-à-vis SDR 287,355 thousand as at 31 December 2018. Funds committed but not yet disbursed stood at SDR 30,336 thousand as at 31 December 2019.

The allocation of outstanding loan portfolio among member countries as of 31 December 2019 is as follows:

Portfolio Development (SDR million)

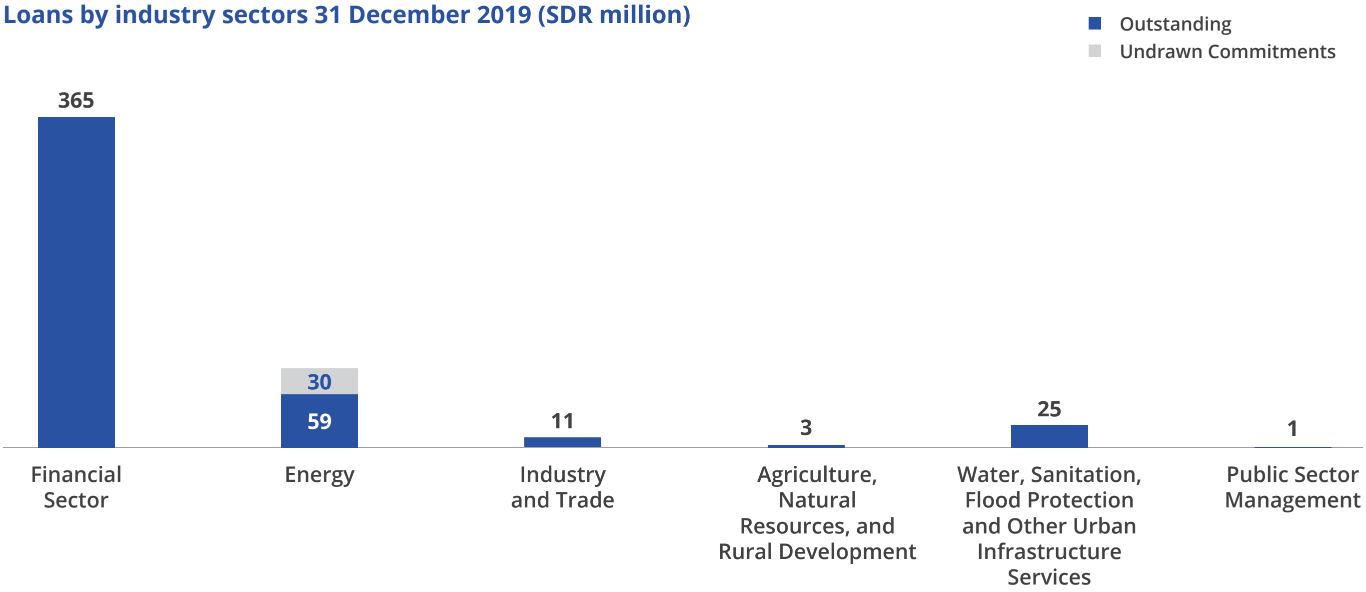


Outstanding Loans by Country 31 December 2019 (SDR million)



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 concentration 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 2019 is as follows:

Loans by industry sectors 31 December 2019 (SDR million)



(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 in economic activity/trade and provide necessary impetus for poverty alleviation, development of human resource, capital and technology for advancement 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 decreased to SDR 9,556 thousand in 2019 from SDR 9,614 thousand in 2018. Treasury activities in 2019 generated interest income of SDR 5,327 thousand (2018: SDR 4,856 K) from money market and securities portfolio. The Bank reversed SDR 1,502 thousand expected credit loss allowance for its financial assets in 2019. As a result, operating income for the year was SDR 17,001 thousand in 2019 representing 28% increase compared to SDR 13,274 thousand in 2018.

BUSINESS STRATEGY AND BALANCE SHEET ITEMS

Other administrative costs which include travel, office occupancy, third party fees, maintenance costs, etc. decreased SDR 24 thousand compared to 2018 to an amount of SDR 373 thousand.

(iv) Expenses

Interest expense for the year decreased to SDR 837 thousand in 2019 from SDR 846 thousand in 2018, due to the decreased volume of money market deposits. General and administrative expenses increased to SDR 3,773 thousand in 2019 from SDR 3,755 thousand in 2018.

Personnel expenses including salaries, benefits, contributions made on behalf of the employees and staff development expenses amounted to SDR 3,239 thousand (2018: SDR 3,193K).

Other administrative costs which include travel, office occupancy, third party fees, maintenance costs, etc. decreased SDR 24 thousand compared to 2018 to an amount of SDR 373 thousand (2018: SDR 397K). Overall, general and administrative expenses were well within the 2019 Budget, reflecting the Bank's focus on budgetary discipline and effective cost controls.

In 2019, for the first time the Bank recognized impairment loss regarding its Head-Quarters premises which was SDR 5,125 thousands. As a result, operating expenses increased to SDR 8,910 (2018: SDR 3,765K).

(v) Net Income

The Bank posted a net profit of SDR 8,091 thousand, representing 15% decrease compared to SDR 9,509 thousand in 2018, due to building impairment loss of SDR 5,125 thousand.

(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 2019, reserves of the Bank amount to SDR 60,798 thousands which is 6% of the subscribed capital.

Financial results 2015-19

Thousands of SDR	2019	2018	2017	2016	2015
Net profit for the period	8,091	9,509	9,771	7,474	6,370
Paid-in capital	326,430	323,710	319,430	315,150	310,870
Reserves and retained earnings	68,889	60,797	53,916	44,177	36,540
Total members' equity	395,319	384,507	373,346	359,327	347,410

(vii) Provisioning

In line with IFRS 9 – Financial Instruments, the Bank establishes three stages impairment 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 recognised 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 recognised for such financial assets.

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

As of 31 December 2019, the Bank classified two of its loans as Stage 3 and all other financial assets in Stage 1.

In 2019, as a result of the re-payments from the loans which were classified in Stage 3 and reduction of the total loan portfolio volume the Bank reversed SDR 1,502 thousand expected credit loss allowance.

(viii) Key financial indicators (2015- 2019)

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. Level of business towards the mandate of the Bank enables efficient use of capital, while credit, liquidity and market risks are closely monitored and remain within the approved limits.

The Bank continued to raise positive annual profit over the last five years. Retained earnings have been added to members' equity together with the capital contributions of its new member countries. Return on equity increased from 1.9% in 2015 to 2.1% in 2019. But, remained below the level of 2017.

Strict budgetary discipline and effective cost control resulted in 14% decrease in total general and administrative expenses from 2015 to 2019. Accordingly, total operating expenses divided by revenues ratio continued to come further down to 24.7% in 2019.

Due to maturity of the short term money market deposits leverage ratio decreased to 17.1%.

	2019	2018	2017	2016	2015
Financial Performance					
Return on members' equity	2.1%	2.5%	2.7%	2.1%	1.9%
Return on Average Assets	1.7%	1.9%	2.0%	1.6%	1.4%
Net interest margin	2.4%	2.2%	2.1%	1.8%	1.6%
Interest income/average interest bearing assets	3.2%	3.0%	2.9%	2.5%	2.4%
Efficiency					
General & Administrative expenses/ revenues	24.7%	25.1%	31.0%	37.7%	38.6%
Leverage					
Total debt/members' equity	17.1%	24.1%	31.4%	30.4%	33.0%
Capital Strength					
Outstanding loans/members' equity	44.6%	74.7%	80.7%	74.5%	67.7%

BUSINESS ACTIVITIES

Since 2008, when the ECO Trade and Development Bank started its credit operations, the total loans disbursed to various operations amounted to SDR 1,196 million as end of 2019.

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 credit operations, the total loans disbursed to various operations amounted to SDR 1,196 million as end of 2019.

Loan disbursements during 2008-2019 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	64	108	356	3	531
Corporate finance	60	187	48	-	295
Project finance	64	38	23	-	125
Total	**222**	**376**	**593**	**5**	**1,196**

(i) Micro, Small and Medium Sized Enterprises (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 2008-2019, 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 1,500 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 65,000 micro-entrepreneurs have benefitted from intermediated funds of the Bank. The total outstanding loans under this program stood at SDR 28.8 million as end of December 2019.

(ii) Short Terms Trade Finance Facility

Despite having a challenging situation in the member states and volatile markets during 2019, 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. During 2008-2019, total disbursed loans through this form of facility to member countries amounted to SDR 531 million.

The trade finance strategy is designed to finance exports from member countries. However, on a selective base the Bank also provides finance for import of capital equipment (machinery and relevant spare parts), raw material (mainly energy related items such as oil, gas, coal, etc.), intermediary goods and essential humanitarian needs in health related items from outside the ECO region. 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. Transactions involving goods mentioned in the ETDB's Negative List of Goods (including the Bank's Environmental Exclusion List) are excluded from financing. The total outstanding loans under this facility were amounted to SDR 49 million as end of December 2019.

(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 2008-2019 period including undisbursed commitments under corporate and project finance operations have been intensified and amounted to SDR 450 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.

BUSINESS ACTIVITIES

The ECO Trade and Development Bank concluded a syndicated Mudaraba/Murabaha loan as a lead arranger with International Islamic Trade Finance Corporation (ITFC) in order to support the trade requirements of its member state, Government of Pakistan.

In 2019, the Corporate and Project Finance has been active in monitoring the existing approved projects, initiating contacts with new clients for new transactions and staying in contact with other multilateral financial institutions for co-financing opportunities in the member states. The sectors which were looked into were mainly infrastructure, renewable energy and trade financing which are in line with the defined country strategies of the Bank. The marketing efforts were both towards public and private sector institutions, offering loans on stand-alone basis and/or club deals involving other MDBs and Financial Institutions providing financing to the Member States.

The Bank concluded a syndicated Mudaraba/Murabaha loan as a lead arranger with International Islamic Trade Finance Corporation (ITFC) in order to support the trade requirements of its member state, Government of Pakistan. USD 50 million was approved and disbursed under the syndicated loan for import of oil for country's energy requirements. Another loan agreement of USD 40 million was signed with the Ministry of Finance, Government of Pakistan for financing the import of oil/gas for the energy sector requirement of the member country. The same was disbursed within 2019. Given the country's huge demand and potential for incremental power generation through renewable sources, the bank continues to consider further exposure in renewable power generation projects in Pakistan.

During the year, the implementation and monitoring of project finance deals in Iran continued and additional loan of EUR 6.79 million towards the completion of Birjand Wastewater Network Project in Iran was disbursed in 2019 to Southern Khorasan Wastewater Company.

In Turkey the focus of the Bank has been on the transportation and infrastructure sectors. The Bank is now focusing on possible infrastructure projects which have socio economic benefits. The Bank is also looking for deal opportunities in the Republic of Azerbaijan and Islamic Republic of Afghanistan & Kyrgyz. Republic.

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 including undisbursed commitments were amounted to SDR 129 million as end of December 2019. 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. Average internal credit rating score assigned to the outstanding loan portfolio of the corporate and project finance operations was 2.36 points by the end of 2019 which represented a very low risk level on a scale of 1 to 10.

Some of the Corporate and Project finance operations in the member states during 2008-2019 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	27,220,000	73,607,000
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.	Harappa Solar (Pvt) Limited/ Pakistan	Solar Power Farm Project	8,221,350	24,618,000
12.	Government of Pakistan	Trade Finance Facility-Syndication	50,000,000	500,000,000

TREASURY OPERATIONS

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).

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 a) cash flow management; b) market and liquidity risk management.

a) Cash Flow Management:
Treasury Department is in charge of managing the Bank's liquidity requirements. The Department engages in borrowings and placements through money market and capital 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.

b) Risk Management:
Treasury is responsible for managing (i) the market risk i.e. FX risk and Interest rate risk and (ii) the liquidity risk

Since the Bank's ordinary operations are inherently relatively risky, the management of treasury activities is conservative. A comprehensive risk management framework for treasury activities, particularly addressing credit and market risk are established. 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.

As end of 2019, the total treasury portfolio was SDR 287 million. Treasury made the net interest income (Net money market + securities) of SDR 5.3 million and net swap income of SDR 0.97 million for the year 2019. Going forward, Treasury Department aims to operate 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.

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 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, since 2009, the Bank has provided financial support to the initiatives of the ECO Secretariat such as implementation of project on monitoring the conditions regarding international road transport of goods across the region and organizing workshops which had aimed to enhance the intra-regional trade. In 2019, the Bank received the ECO Secretariat's technical assistance request for hiring a professional consultant from one of the ECO Member States to conduct a research/study on forming an ECO Vision Fund. Upon submission of the details of the Terms of Reference (ToRs) of the relevant consultant by the ECO Secretariat, the Bank would consider the proposal in order to provide the necessary financial and technical support.

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.

RISK MANAGEMENT

In line with the ECO Trade and Development Bank's policies and procedures, the Risk Management Department (RMD) continued to provide an independent review to the business departments during various stages of the operations.

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 line with the Bank's policies and procedures, the Risk Management Department (RMD) continued to provide an independent review to the business departments during various stages of the operations. In order to identify the possible credit risk present in investment proposals and to mitigate the same with the coordination of the business departments, RMD evaluated and appraised credit proposals submitted by business departments and identified key credit risk elements present in the transaction.

In this respect, in order to obtain a single credit score that captures the overall financial standing of the borrower in terms of its financial strength and overall market position in the industry, RMD calculates the internal credit rating of borrowers based on quantitative & qualitative data. The internal credit rating on borrowers is calculated using the credit rating model developed by RMD. The relevant parameters are divided into separate categories and respective weights are assigned. The model then assigns scores to each category based on a scale from one to ten and then finally calculates an overall credit score on the borrower. 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 the credit risk analysis is presented in the form of Concept Assessment and Specific Risk Assessment reports which formed 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. Before providing a risk assessment to any proposal, RMD also checks compliance with country and operation limits in order to avoid breach in the approved policies and guidelines of the Bank and to ensure that credit lines approved are within the defined operational limits.

ECO Trade and Development 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.

RMD also provides inputs on supervision and monitoring reports submitted by the business departments and updated the internal credit rating of obligors based on the latest financial data. This was done to highlight deterioration (if any) in the overall financial health of the borrower in terms of deterioration in the internal credit rating and also to act as an Early Warning Signal. Furthermore, by applying sensitivity analysis to key financial data on the stress test model developed by RMD, the borrowers' ability and vulnerability to absorb financial shocks without incurring losses are calculated. The stress test result also acts as an Early Warning Signal for the Bank to take a proactive action if necessary.

Apart from supervision and monitoring reports, RMD prepares Risk Asset Review reports to ascertain the concentration, tenor, rating of the Bank's portfolio. RMD also provides the same calculation for CPF and BNFI portfolios in order to observe independent risk profile of the loan book of the Bank. On an aggregate level, the Bank's credit quality was maintained at a strong level. The average internal credit rating score assigned to the total outstanding loan portfolio was 2.9 points by the end of 2019 (2018; 4.4 points) which represented a sound risk level on a scale of 1 to 10. During 2019, the loans status was improved with the repayments and by end of December 2019 only two of them have over-due payments. Accordingly, total volume of Stage II & Stage III loans reduced to SDR 9 million by the end of December 2019 which was SDR 47 million as end of 2018.

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. In this regard, RMD monitors breach in operational limits as defined in the related policies of the Bank as well as breach in treasury counterparty exposure limits as defined in the related policies of the Bank. 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.

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, based mainly upon the timely and regular updates provided by the operation team.

In all its operations, the Bank is accountable for the proper use of funds. In this respect, the Project Implementation and Monitoring department (PIMD) of the Bank follows three separate functions with respect to operations: Environment, Procurement, and Monitoring of implementation. Each function has an objective which needs to be followed in order to assure proper planning and execution of operation activities described as operation implementation and is carried out in the best interest of the operation, client, and the Bank.

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, based mainly upon the timely and regular updates provided by the operation team. It provides recommendations at pre-signing stages for issues concerning the implementation of the operation and it's monitoring, including relevant covenants and the development of key indicators for monitoring and reporting purposes.

During the year 2019, the department managed to continue monitoring the implementation of operations and updating the database of credit operations and included the operations' disbursements and repayments transactions. Moreover, a physical archive of operations containing documents, resolutions, and agreements related to the operation was created and kept up to date.

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 ECO Trade and Development 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.

The Credit Committee, as per the financial policies of the Bank, is the relevant body to discuss the credit related issues. The PIMD has the role of the Credit Committee's Secretary. In 2019, ten (10) Credit Committee meetings (plus one Voting without meeting) were convened to discuss various credit proposals. Afterwards, the accepted credit proposals are submitted for the final decision of the BoDs.

The environment function assures that operations are implemented according to internationally recognized standards of environmental regulations and principles in order to promote environmental soundness and sustainable development in the bank's member countries. The objective is to ensure that the operations do not add to existing pollution and favour the use of cleaner technologies and renewable resources, waste reduction, and resource recovery and recycling practices. This is reflected in the Bank's selection of projects to finance in wind and solar energies, irrigation, and wastewater treatment which are all classified as categories of projects in climate change prevention classification of United Nations under Climate Finance. Transactions involving goods mentioned in the ETDB's Negative List of Goods (including the Bank's Environmental Exclusion List) are excluded from financing.

The objective of procurement function is to assure that funds allocated to operations are expended solely for the purpose of achieving operations' objectives in an efficient, economical, fair, and transparent manner. In this respect, the Bank has oversight role in procurement planning and processes performed by the clients to procure goods, works, and services through competitive means as well as procurement contract administration. The Procurement Policy of the Bank applies to all contracts financed in whole or in part by bank loans to clients in both public and private sectors. The authority of the Bank in this regard is mandated through the loan agreement which governs the roles and responsibilities of clients and the Bank.

INFORMATION TECHNOLOGY SERVICES

Within the scope of Information Technology (IT) Services governance, the ECO Trade and Development Bank maintains an array of financial business systems including SAP, Thomson Reuters, SWIFT, and financial portal on Intranet with SQL Database support.

The IT function continued to render a key supporting role in development and maintenance of internal network of desktop workstations, laptops, digital office equipment, networking equipment, operating systems and servers in conjunction with the Bank's business requirements.

Within the scope of IT governance, the Bank maintains an array of financial business systems including SAP, Thomson Reuters, SWIFT, and financial portal on Intranet with SQL Database support. IT Department also provided a helpdesk function for 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, remote office access for Rep Offices, etc.

During 2019, the Bank continued to improve its technological infrastructure mainly in areas of SAP Banking Application, SWIFT Customer Security Programme (CSP), business workflows over intranet and the system for ETDB staff attendance (SEA). The Bank successfully continued with the management of SAP Operating System (BASIS) and customization "SAP System" for the delivery of new business requirements.

On the part of security measures required by the Global SWIFT Organization, the Bank has been taking necessary steps in order to comply with the requirements. Particularly, while improving physical security for the IT environment and plans for incident response, the Bank ensured restriction of internet access and protected critical systems from general IT environment, reduction of attack surface and vulnerabilities, detection of anomalous activity to systems or transaction records.

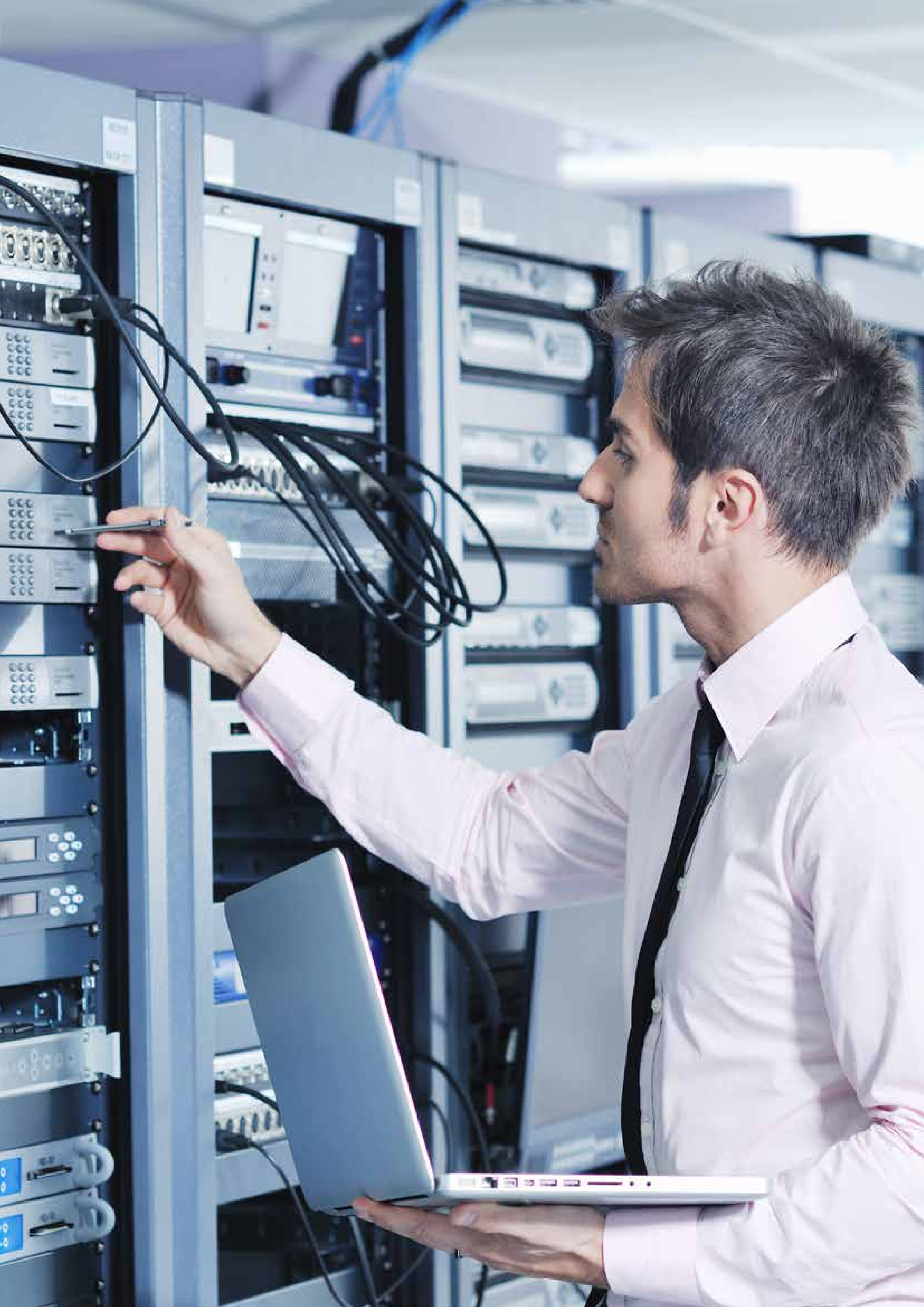
The IT Dept. has improved the proprietary application (5500 lines coded in Visual Basic) named System for ETDB Attendance (SEA) for daily entry/exit activity control for attendance and annual working day plan of the staff members.

The Intranet portal with the latest up-to-date functionality (document search, indexing) was maintained according to the requirements of the Bank. Automation of Business Workflows such as HR Leave Request Form, HR Intraday Request Form, etc. over Intranet was enabled for a paperless environment. 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 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 Centre located outside Istanbul on daily basis. On regular basis, data recovery tests are conducted in order to ensure integrity of the replicated legacy data.

A helpdesk service is functional for 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, the Bank will continue with the IT infrastructure maintenance and enhancement activities in order to leverage the Bank's business by integrating all technological enhancements with the business processes.



INTERNAL AUDIT AND COMPLIANCE

Internal auditing is an independent, objective assurance and consulting activity designed to add value in improving the ECO Trade and Development Bank's operations.

In line with its defined roles and responsibilities, the Internal Audit Department (IAD) undertakes audit activities in accordance with the International Standards for the Professional Practice of Internal Auditing and in adherence to the Internal Audit Charter of the Bank.

Internal auditing is an independent, objective assurance and consulting activity designed to add value in improving the Bank's operations. Roles, responsibilities and objective of IAD include ensuring that the Bank's operations are conducted according to the highest professional standards by providing an independent, objective assurance activity and advising Management on best industry practices. Through a risk-based and disciplined approach, IAD assists the Bank to accomplish its objectives by evaluating and improving the effectiveness of risk management, internal control and corporate governance. IAD reviews the various business units and processes at appropriate intervals to ensure that the functions of risk management, internal control, and corporate governance are efficiently and effectively carried out in adherence to policies, procedures, guidelines and the Credit Operation Manual (COM) of the Bank.

Additionally, IAD also performs consultancy services by advising and providing recommendations to Management on improving the existing risk management, corporate governance and internal control systems.

During the audit year 2019-20, IAD in line with the Bank's goals & objectives and in adherence to the internal audit plan, carried out the following activities:

Implemented the Risk Based Internal Audit (RBIA) plan and executed timely delivery of audited assignments to ensure that processes and activities were carried out in accordance with the rules and regulations of the Bank. IAD reviewed the adequacy of risk and internal control processes to ensure compliance with policies, procedures and business objectives and also to ensure that risks were appropriately identified and managed within each internal audit assignment and made recommendations to enhance the same. Additionally, IAD followed up on the adequacy of the actions taken on recommendations made in the previous audit reports to ensure that effective and adequate remedial actions were taken and advised the Audit Committee accordingly. IAD also informed the Audit Committee and the Management of emerging trends and produced periodic audit reports summarizing the result of the audit activities.

During the audit year 2019-20, IAD carried out process audit of various units in the ECO Trade and Development Bank.

During the audit year 2019-20, IAD carried out process audit of various units in the Bank and prepared the following audit reports:

- Audit of Treasury Operations
- Audit of Treasury Back Office (TBO)
- Audit of overdue and non-performing loans
- Follow up on previous audit reports

Based on the audit of the various processes carried out, IAD identified gaps in the existing internal controls and in risk management and made recommendations to enhance and rectify them.

In adherence to the Internal Audit Charter, future plans and audit activities will be based on the annual audit plan which IAD prepares and submits to the Management & the Audit Committee for review and approval prior to the Board of Governors meeting. Based on the audit plan and the risk assessment, IAD plans to undertake process audit of different units in the Bank during the audit year 2020-21 and follow up on previous audit reports as well.

On the compliance function, the Policy and Compliance Department (PCD) in line with the Compliance Charter by the Board of Directors has been assisting 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 Management and 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.

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 to audit the affairs of the Bank and to report to the Board of Directors. In relation to the 2019 audit, the Bank's auditors are KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. "a member of KPMG international cooperative".

The External Auditors' provide a signed auditor's opinion on the truth and fairness of the Bank's financial statements. 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.

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 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.

INTERNATIONAL RELATIONS

The Bank continued actively to improve its institutional relations with the member states, international institutions and the business communities. In this respect, as one of the specialized institute of the ECO, the Bank has been maintaining a close liaison with the ECO Secretariat. In order to improve the exiting cooperation and mutual understanding, the Bank participated in the 24th Meeting of the ECO Council of Ministers (CoM) preceded by Senior Officials' Meeting (SOM), held on 8-9 November 2019, in Antalya, the Republic of Turkey. In addition, the representative of the Bank paid official visit to the Ministry of Energy and the Central Bank of the Islamic Republic of Iran in March 2019 to enhance the existing institutional relations.

Besides, close contacts have also been maintained with the peer regional finance and development organizations. To build and maintain a favourable climate of public opinion, the Bank continued to keep close cooperation especially with the business organizations operating in the ECO region as well. 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.

HUMAN RESOURCES

Efficient and optimal management of Human Resources (HR) functions has been always a top priority for the ETDB in order to achieve the strategic targets in line with its mission and vision. Therefore, ETDB strives for recruiting high-calibre people as well as retaining 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-2019, the total number of staff of the Bank was 38 (2018-year end: 39). The Bank does its recruitment with preference given to its member countries equally The Bank provides learning opportunities to its staff by taking into consideration the development need of staff members in parallel to annual staff performance process as well as business requirements. Therefore, staff members are motivated to attend seminars and conferences in addition to training programs, particularly those organized by ECO Secretariat.

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 contribution and defined benefit promises. The second pillar is a Defined Contribution plan that is voluntary and the Bank matches employees' contributions up to a level of 7% of the participant's net basic salary.

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.

ETDB's corporate governance structure is supported by appropriate financial and management information reporting. 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.

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 are developed and effective performance measurement control mechanism has been established.

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 2019, annual budget and resource allocation process was executed in parallel with preparation of 2020 annual budget. During the period, performance of the Bank is monitored and reported to the Senior Management and Board of Directors. FRB puts utmost effort on improvement of management information reporting in the Bank. Analyses relating to operations, revenues and cost effectiveness will continue to be conducted. Moreover, key monitoring tools and effective performance measurement control mechanism will be improved.

BOARD OF GOVERNORS MEETINGS

The 18th Annual Meeting of the Board of Governors was held on 4 July 2019 in Istanbul. At the meeting, the Board members reviewed the performance of the Bank and approved the 2018 Financial Statements annexed to the 2018 External Audit Report. The Board also designated the Governor of the Islamic Republic of Pakistan as the Chairman for one year term from June 2019 to June 2020.

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 2019. 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, SME, 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.

The Board also adopted amendments to the relevant policies and guidelines of the Bank to ensure compliance to best practices. In this context, the "Accounting and Financial Reporting Policy", "Organizational Structure Policy", "Termination Policy", and "Recruitment and Appointment Policy" were amended by the Board of Directors. In 2019, the Board of Directors also approved the Country Partnership Strategy Reports for the six member countries of the Bank.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SINESS GRAPH

HEADQUARTERS OFFICE, ISTANBUL
Correspondence Address:
ECO Trade & Development Bank
Bomonti Business Center
Cumhuriyet Mah. Silahşör Cad.
Yeniyol Sok. No: 8
Kat: 14-15-16, 34380 Bomonti
Şişli - Istanbul - TURKEY

Switchboard: (+90) (212) 393 63 00
Central Fax: (+90) (212) 393 63 01
Website: www.etdb.org
E-mail : info@etdb.org

REPRESENTATIVE OFFICE, TEHRAN
Correspondence Address:
Unit 101, No: 199
Dastgerdi St.
Parsa Building
1919817511, Tehran
Islamic Republic of Iran

Telephone: (+98) (21) 264 08 321,
(+98) (21) 264 08 322
Fax: (+98) (21) 229 27 020
E-mail: tehran-office@etdb.org

REPRESENTATIVE OFFICE, KARACHI
Correspondence Address:
Office Suite No. 612,
Forum Building,
Block-9, Clifton, Karachi
Islamic Republic of Pakistan

Telephone: (+92) (21) 35306996,
(+92) (21) 35306997
Fax: (+92) (21) 35831569
E-mail: karachi-office@etdb.org