ECO Trade and Development Bank

ANNUAL REPORT
2020


Türkiye
Azerbaijan
Kyrgyzstan
Afghanistan
Iran
Pakistan

Operations in Member Countries

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MAIN FIELDS OF ACTIVITY

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BOARD OF GOVERNORS

As of 31 December 2020

Chairman, Board of Governors (September 2020 – June 2021): Governor of the Republic of Turkey

Islamic Republic of Afghanistan

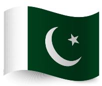
Governor: H.E. Mr. Ajmal Ahmady, Acting Governor, Central Bank of the Islamic Republic of Afghanistan

Kyrgyz Republic

Governor: H.E. Mr. Sanjar Mukanbetov, Minister of Economy, Kyrgyz Republic
Alternate Governor: H.E. Mr. Kiyalbek Mukashev, 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. Mr. Hamid Ghanbari, Director General of the 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: Dr. Mr. Serhat Köksal, Acting Director General for Foreign Economic Relations, Ministry of Treasury and Finance, Republic of Turkey

BOARD OF DIRECTORS

As of 31 December 2020

Islamic Republic of Afghanistan
Director: Mr. Ajmal Ahmady, Acting Governor, Central Bank of the Islamic Republic of Afghanistan

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

Republic of Azerbaijan
Director: Ms. Könül Aliyeva, Deputy 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 Pakistan
Director: Mr. Kamran Ali Afzal, Additional Finance Secretary, External Finance, Finance Division, Government of Pakistan
Alternate Director: Mr. Aamir Nazir Gondal, Joint Secretary, External Finance Policy, Finance Division, Government of Pakistan

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

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 2020

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

Mr. Mahdi Kasraiepoor
Vice President (Finance)

Mr. Sheryar Taj
Vice President (Credits)

AUDIT COMMITTEE

As of 31 December 2020

Mr. Deniz Yılmaz
Deputy General Director, DG of State Owned Enterprises, Ministry of Treasury and Finance, Republic of Turkey

Mr. Abrar Ahmed Mirza
Director General Hajj, Jeddah Ministry of Religious Affairs & Interfaith Harmony, 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

H.E the Chairman,
Board of Governors of the Economic Cooperation Organization (ECO) Trade and Development Bank

Dear Mr. Chairman,

In accordance with Article 26 (2) of the Agreement Establishing the ECO Trade and Development Bank and Section 10 of its By-Laws, I have the honor to submit for the kind attention of the esteemed Board of Governors, the Bank's Annual Report for 2020 as endorsed by the Board of Directors. The report covers the activities of the Bank including audited financial statements for 2020.

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

Yalçın Yüksel,
Chairman of the Board of Directors
President
ECO Trade and Development Bank

INTRODUCTION

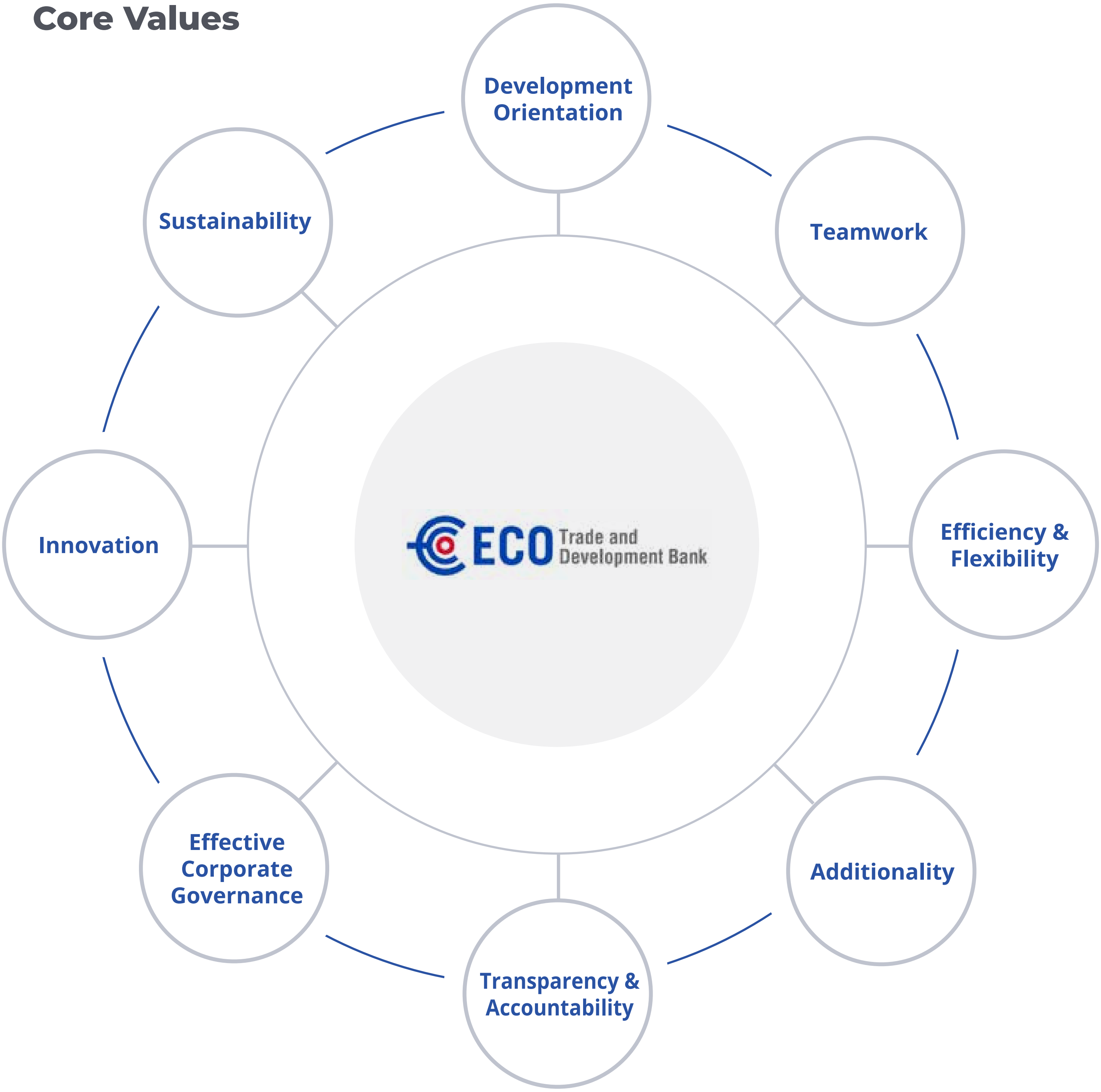
Vision

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 programs
- Foster the growth of intra-regional trade
- Contribute to the economic and social development for the welfare of the people in member states
- Promote good governance and environment consciousness in all efforts and projects

Core Values


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

INTRODUCTION

The ECO Trade and Development Bank is established for the purposes of initiating, promoting and providing financial facilities to expand intra-regional trade as well as accelerating economic development.

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 37 professionals from member states as end of December 2020.

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

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

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

The primary target of the ETDB is to finance programs 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:

- Manufacturing
- Infrastructure
- Financial institutions
- Energy
- Transport
- Agriculture

Operational Principles

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

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

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

INTRODUCTION

The Bank is committed to corporate governance at the highest level to ensure transparency and accountability.

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.

The Board of Governors (BoGs)

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

The Board of Directors (BoDs)

The BoDs is composed of representatives of the member states and 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;
- **iii.** approve the budget of the Bank;
- **iv.** propose to the BoGs any amendment to the Establishment Agreement; and
- **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.

The President

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

Capital Structure

The unit of account of the Bank is ECO Unit (EU). Each E.U is equivalent to one Special Drawing Right (SDR) of the IMF. The initial authorized capital of the Bank was SDR 1 billion and paid-in capital was SDR 300 million, which was equally paid-in by Turkey, Pakistan and Iran. The membership and capital base of the Bank 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 became 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.

The remaining four ECO member states namely Kazakhstan, Tajikistan, Uzbekistan and Turkmenistan are also expected to become the member of the Bank soon.

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.

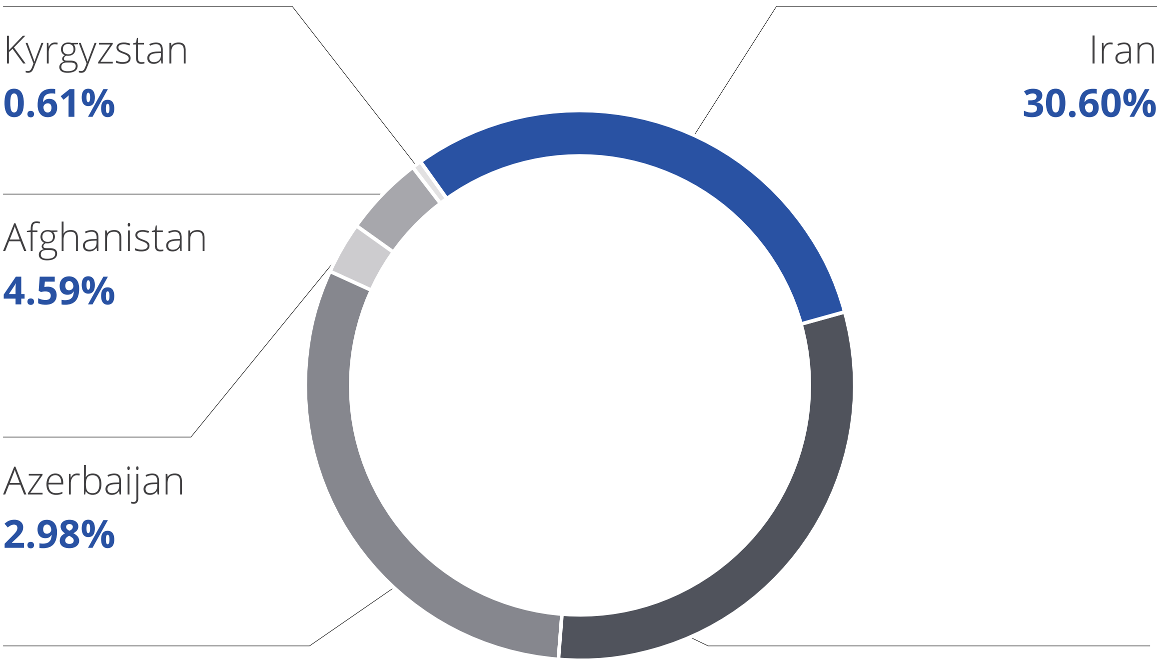
Upon completion of the subscriptions by the new members, Turkey, Iran and Pakistan continued to be largest shareholders of the Bank with 30.6% stake each, followed by Afghanistan with 4.6%, Azerbaijan with 3.0% and Kyrgyzstan with 0.6%.

Compared to previous year, the Bank's total equity grew by 2 percent and amounted SDR 403.392 million by the end of the 2020. Of this increase SDR 0.3 million was originated in the form of paid-in capital contribution payment of the new member and SDR 7.8 million was from retained earnings for the year.

INTRODUCTION

The ECO Trade and Development 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.

Shareholder Structure (%)



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

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. But, the Bank has improved prospects for dynamic growth of its operations and further contribute to the sustainable development of the member states in the coming years.

PRESIDENT'S MESSAGE

Our involvements in financing various development projects in the member states have been remarkable.

As the differential economic and social costs of the pandemic continue to leave enduring scar on the economies, the impact on youth, women, lower-skilled workers need to be addressed with a sense of urgency and comprehensively.

A year after the COVID-19 pandemic drove the world economy into the toughest challenges in generations, most of the countries since the last quarter of 2020 started to relax the restrictions on public life and reopen the economies. The effect of the pandemic has been very heavy, causing severe human sufferings and significant disruption in everyone's lives. However, as the social distancing, vaccinations, and treatments continue to slow the progress of the virus and save the lives, we should be vigilant about the further virus mutations. At this point, ensuring equitable access to vaccines, diagnostics and therapeutics is both the moral and economic challenge of our time. We need to speed the scope of the most ambitious vaccination effort in human history and continue monetary and fiscal effort to implement ambitious recovery plans.

After the worst global recession realized in 2020, the global growth is projected at 6 percent in 2021 and to moderate to 4.4 percent in 2022. We observe that economic recoveries are diverging across countries and sectors, reflecting variation in pandemic-induced disruptions and the extent of policy support. The sustained recovery is not only depends on wide-spread access to vaccines but also economic policies deployed during the post COVID-19 environment. More action is needed now. As the differential economic and social costs of the pandemic continue to leave enduring scar on the economies, the impact on youth, women, lower-skilled workers need to be addressed with a sense of urgency and comprehensively. Similarly, countries should be given the space to provide financial support to maintain business continuity, particularly for SMEs and sectors hardest hit by the pandemic. In fact, large monetary and fiscal injections in advanced economies helped prevent a bigger global downturn in 2020. The post-pandemic period may actually turn out to be solid economic growth decade.

Introduction of containment measures and mandatory lockdowns across the world dramatically altered the global trade growth projection since disruptions to production and supply chains have been severe. The sharp rebound in international trade in the second half of 2020 reflected pent-up demand and resumption of supply chains. But there is still some way to go in the cross-border services trade (tourism, transportation) which is expected to remain subdued until the pandemic is brought under control everywhere. According to new estimates, the volume of world merchandise trade is expected to increase by 8 % in 2021 after having fallen 5.3% in 2020.

The COVID-19 pandemic has once more underscored the sheer scale of global interconnectedness and potential for large spillovers. The ECO region was also hit heavily by the pandemic and our economies have had big shocks. However we have witnessed that our member countries have been fighting with the pandemic and its effects in a very successful manner. The member states have provided fiscal support to protect firms, households and vulnerable populations. Thus, the ECO region fared well in 2020 compared to other regional blocks by achieving a positive real GDP growth rate at 0.7% in 2020. Going forward, we expect that successful distribution of vaccines in the region, reopening up of the economies from lockdowns, recovery in international trade are going to lead to recovery of growth in all of our member countries. I'm very optimistic that our member states are going to come out stronger from this tragic crisis and adapt themselves to new normal. 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.

In this context, the Bank has been closely monitoring the developments and taking all the necessary measures to safeguard the health and well-being of our employees and their families and keeping our operations running as smooth 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 unprecedented 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 1,421 million as end of 2020. We are pursuing a dedicated trade finance program 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 which amounted to SDR 291 million as end of 2020 showed an increase of 41 percent compared to previous year. 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 7,757 thousand and the total assets of the Bank amounted to SDR 468 million by the end of 2020.

PRESIDENT'S MESSAGE

Together with our members and development partners, we expect to achieve a strong recovery from COVID-19 and continue our efforts toward a more prosperous, resilient, and sustainable ECO region.

As a part of the Bank's endeavors to support its member states to address the impacts of the COVID-19 pandemic, we have launched the soft loan facility for 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 infrastructure, 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. Meanwhile, 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.

Looking ahead, it would be critical for the Bank to remain agile and adaptive in supporting the efforts of the member states to recover from the pandemic. In this respect we have been focused to sustain the highest quality of the credit portfolio and further increase our credit operations. In addition, membership enlargement remain to be a key institutional priority for us. 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. Together with our members and development partners, we expect to achieve a strong recovery from COVID-19 and continue our efforts toward a more prosperous, resilient, and sustainable ECO region.

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. Due to pandemic precautions, we have conducted the meetings of the Board of Directors successfully through online format. We also held our Annual Meeting of Board of Governors in September 2020 virtually for the first time. Our business continuity planning ensured safe and seamless continuation of our operations as our staff members adapted rapidly to flexible working scheme and remote working conditions. In this respect, I would like to 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. Since 2008, this Bank has had some challenges and we still have some challenges to overcome, however, we have succeeded to overcome these challenges and remained responsive and met the expectations. We look to the years ahead with tremendous energy and optimism.

Yalçın Yüksel
President

468

SDR Million Total Assets

While maintaining a robust liquidity position, the Bank posted a net profit of SDR 7,757 thousand and the total assets of the Bank amounted to SDR 468 million by the end of 2020.

We stand ready to contribute our fair share to assist the member countries.

Real GDP growth for ECO Region

The ECO region fared well in 2020 compared to other regional blocks by achieving a positive real GDP growth rate at 0.7% in 2020.

EXECUTIVE SUMMARY

The ECO Trade and Development Bank is conducting its operations according to internationally accepted financial rules and prudent operational policies.

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 37 professionals from member states. It has a modest equity amounting to SDR 403 million as end of 2020. 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 programs supporting development of Micro, Small and Medium Size Enterprises (M-SMEs) and trade transactions, investments in project & structure finance in the member countries. In November 2020 the Bank marked the twelfth anniversary of the launch of its operations. The knowledge and experience built on internationally accepted practices are improving the capabilities of Bank to fulfil its establishment mandate and maintain financial viability.

Nevertheless, the year 2020 has been marked a year of terrible loss of lives and livelihoods due to COVID-19 pandemic. Many have lost loved ones to the widening reach of the pandemic. The pandemic has inflicted an unprecedented toll on the people, society, and economies. While millions of people still remain unemployed, the economies are working to overcome the challenges.

On the global perspective, after a contraction of –3.3 percent in 2020, the global economy is projected to grow at 6 percent in 2021, moderating to 4.4 percent in 2022. Strong monetary and fiscal policies implemented by many economies were the biggest factors in limiting the effects of the pandemic. The evidence so far indicates supportive financial conditions and the policy rates at historic low (in some cases, negative) levels in major economies succeeded in easing financial conditions thereby supporting jobs and economic growth. However, output losses have been relatively large for countries that rely on tourism and commodity exports and for those with limited policy space to respond. On the other hand second and third infection waves have necessitated renewed restrictions in many countries, which also delayed the implementation of economic recovery measures.

Nevertheless, the global trade has been recovering since the last quarter of 2020 after re-opening of economies, which is predicted an 8 percent pickup in the volume of world merchandise trade in 2021 following a 5.3 percent decline the previous year. In sum, the COVID-19 continues to pose the greatest threat to the outlook for sustainable growth, as weakness in services trade, lagging vaccination timetables and growing range of variants could easily undermine the recovery.

ECO region was not spared and was hit by the pandemic shock and individual member countries undertook various policy measures entailing fiscal stimulus and monetary accommodation to mitigate the adverse impact on region's economies. However, the ECO region fared well in 2020 compared to other regional blocks by achieving a weak but positive real GDP growth rate at 0.7% in 2020 which was 0.4% in last year.

ECO region's nominal GDP stood at USD 1.96 trillion in 2020 compared to USD 1.98 trillion recorded in 2019 slightly falling by 1 percent and was equivalent to 2.2 percent of the global output. In 2020 GDP (PPP-based) stood at USD 5.86 trillion compared to USD 5.75 trillion recorded last year which amounted to a growth print of 1.9 percent in nominal terms. In 2020 estimated GDP per capita (PPP-based) for the ECO region, stood at USD 11,865 compared to USD 11,835 last year which amounted to a growth rate of 0.25 percent.

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. Certainly the world would markedly be different as the COVID-19 pandemic subsides. While implementation of strong measures continue to stem the spread of the virus, access to effective vaccines are key for recovery from this pandemic. 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 new 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 center of the development trend.

EXECUTIVE SUMMARY

The ECO Trade and Development Bank continued to incorporate strong financial, social and environmental safeguards in order to expand its operations sustainably.

In consideration of the global market developments and specific country conditions, the targets of the current Business Plan (2018-2022) which was revised by the Board of Governors during its 19th Annual Meeting held on 30 September 2020 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 1,421 million as end of December 2020

b. Good asset quality was maintained with a diversified portfolio in terms of sector and country. The outstanding loan portfolio including undisbursed commitments which amounted to SDR 206 million by the end of 2019 increased to SDR 291 million as end of 2020.

c. The average internal credit rating score assigned to the total outstanding loan portfolio was 3.7 points by the end of 2020 which represented a moderate 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 2020, the Bank classified four 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 1,000 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 43,000 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 2020.

h. The Bank posted a net profit of SDR 7,757 thousand in 2020, representing 4 percent decrease compared to SDR 8,091 thousand in 2019 as a result of the sharp decline in market interest rates

i. The total reserves and retained earnings of the Bank amounted to SDR 76.6 million by the end of 2020 representing an increase of 10.2% compared to 2019 end year figure.

j. The RoA was 1.7% and the RoE stood at 1.9% as end of December 2020 which was fairly similar level compared to 2019 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, 2020 has been a year that the economic and social life around the world has been under the influence of the COVID-19 pandemic. With the effect of the pandemic, international trade, tourism and especially capital flows to developing countries were subdued. While possible risks emanating from high debt rates and long-term low interest rates remained to be addressed during the post-pandemic period. The Bank has been closely monitoring the developments and taking all the necessary preventive measures to protect the health and well-being of its staff members as well as their families. Despite the challenges, the Bank was able to keep its operations running as smooth as possible through adoption of flexible working scheme, remote office access and virtual meeting platforms. With a comprehensive risk management framework encompassing all stages of operation cycle, the Bank remains poised to enhance its operations during the new normal as well. Certainly with the support of member states and other partners, the Bank looks forward to play further role in supporting sustainable development, integration and prosperity in the ECO region.

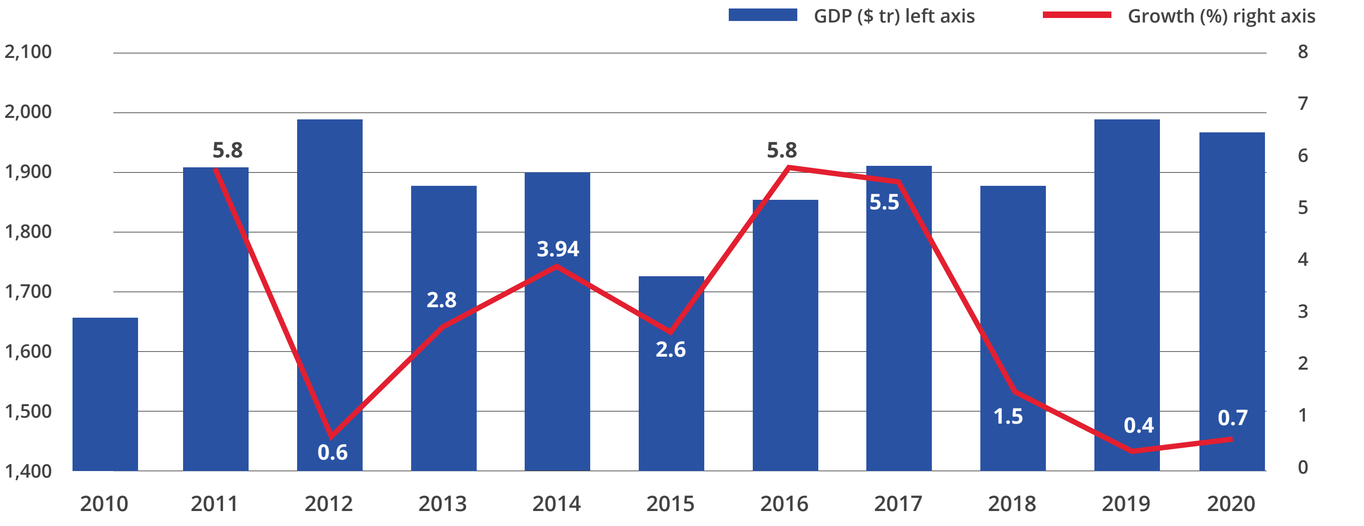
ECONOMIC OVERVIEW

In 2020 two of the region's biggest economies, which account for 65% of output, Turkey and Iran, posted positive economic growth which helped the region to record anemic but positive growth.

The onset of COVID-19 pandemic at the end of the first quarter of 2020 led to a massive shock to global economic output. Countries around the world imposed various levels of containment measures to control the spread of the virus which had a varied impact on their respective economies. As a result of the ensuing demand and supply shocks, economic activity across various sectors was significantly curtailed, which resulted in significant output losses. Since then, businesses and employers have learned to adapt to work under various degrees of containment measures which have resulted in economies recouping some the output losses. Policy measures, adopted by the individual governments in the form of fiscal and monetary stimulus have also helped the economies to better absorb the pandemic shock. As per the latest IMF data global GDP contracted by 3.3% in 2020 and projections for the next two years stand at 6% and 4.4% but growth will remain below the pre-pandemic growth rate in large number of countries.

ECO region was not spared and was hit by the pandemic shock and individual member countries undertook various policy measures entailing fiscal stimulus and monetary accommodation to mitigate the adverse impact on region's economies. Real GDP growth for the ECO region was realized at 0.7% in 2020 compared to 0.4% growth print achieved last year and reflects a weak recovery in pace of economic growth in region (Figure 1).

Figure 1: ECO Region's Growth Trend



Source: Staff estimates

The pronounced deceleration in region-wide growth observed in the last few years had somewhat moderated in 2017 and economic activity had seemed to have gained a solid footing across the region, but starting in 2018 and continuing into the 2019 region's economic growth slowed markedly. In 2020 two of the region's biggest economies, which account for 65% of output, Turkey and Iran, posted positive economic growth which helped the region to record anemic but positive growth. Economies of five member countries contracted due to a significant slowdown in economic activity due to COVID-19 shock (Table 1).

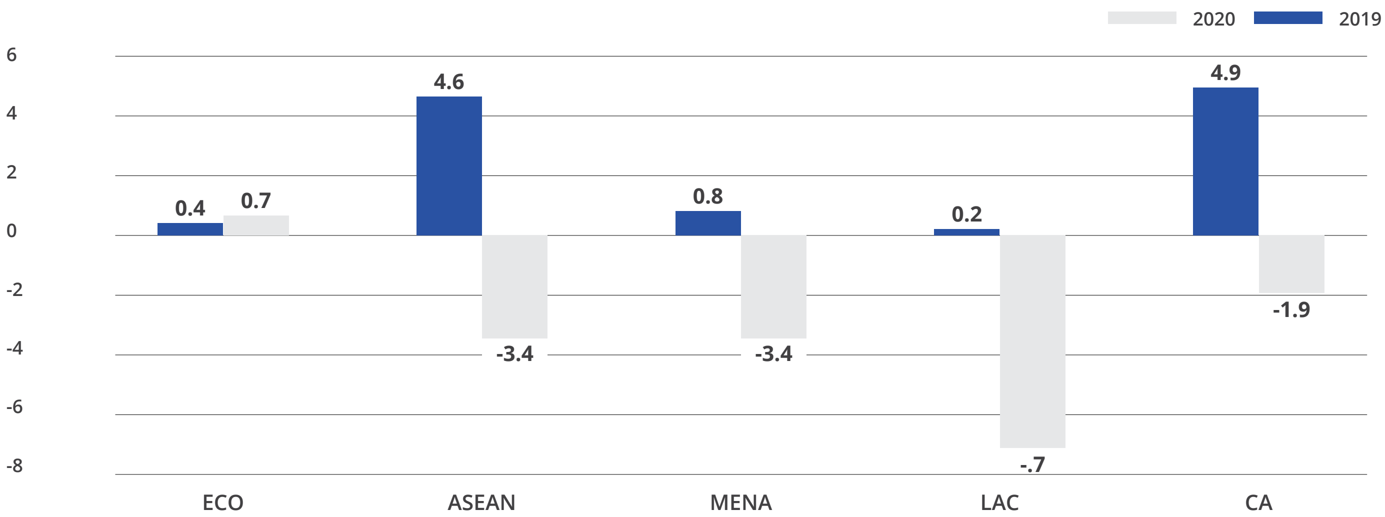
Fall in oil prices in 2020 due to global economic slowdown coupled with worsening external market conditions especially in regards to Russian economy which contracted by 3.05%, led to ECO region's natural resource-dependent economies to experience a decline in commodity exports which led to pressure on their external accounts. Fall in remittances as the Russian economy slowed down led to deterioration in Central Asian member states external balances which rely heavily on the above flows to finance their current account balances and drive domestic consumption.

ECO region's nominal GDP stood at USD 1.96 trillion in 2020 compared to USD 1.98 trillion recorded in 2019 slightly falling by 1% and was equivalent to 2.2% of the global output. A better gauge of the region's output trends is captured by observing GDP measured in terms of purchasing power parity (PPP). In 2020 GDP (PPP-based) stood at USD 5.86 trillion compared to USD 5.75 trillion recorded last year which amounted to a growth print of 1.9% in nominal terms.

Living standard as measured by average nominal GDP per capita income metric stood at an estimated USD 3,976 for the ECO region in 2020, declining from USD 4,084 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 2020 estimated GDP per capita (PPP-based) for the ECO region, stood at USD 11,865 compared to USD 11,835 last year which amounted to a growth rate of 0.25%.

ECO region's comparison with other comparator regional blocks in regards to economic performance as measured by real GDP growth rate shows that it has overperformed in 2020 relative to other regional blocks (Figure 2).

Figure 2: Real GDP Growth Rates of Selected Regions*



*Source: IMF * MENA (Middle East & North Africa), ASEAN (Association of Southeast Asian Nations), LAC (Latin American Countries), CA (Central Asian)*

ECONOMIC OVERVIEW

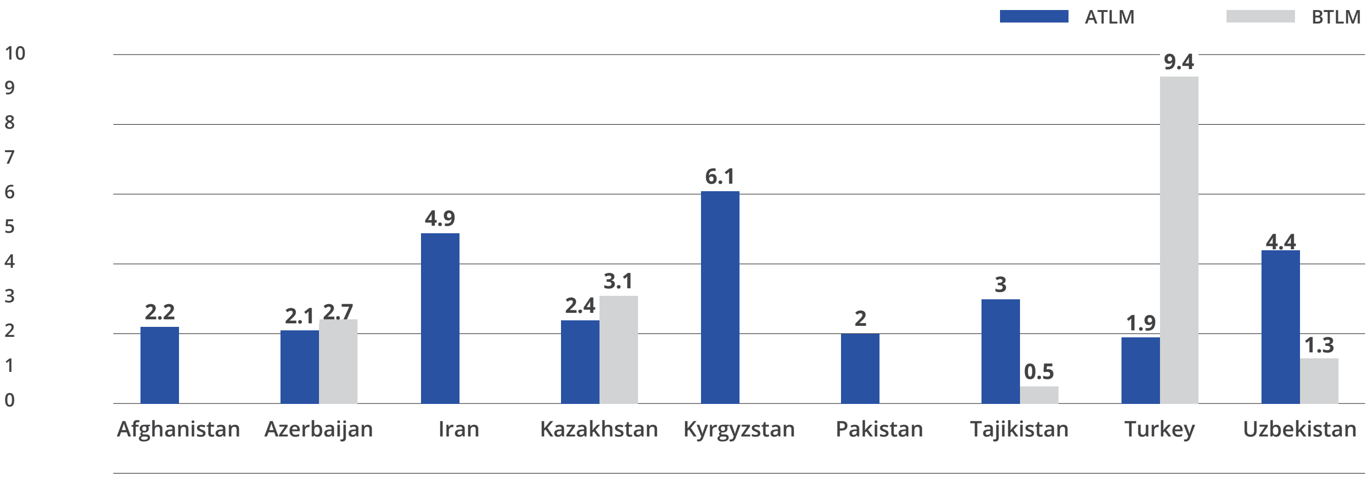
ECO region's comparison with other comparator regional blocks in regards to economic performance as measured by real GDP growth rate shows that it has overperformed in 2020 relative to other regional blocks.

Developments in headline inflation varied across the ECO region with the region as a whole recording inflation of 12.9% in 2020 compared to 16.5% recorded last year (Table 1). In 2020 additional inflationary pressures was created due to the pandemic shock which resulted in supply chain bottlenecks and stockpiling of food by consumers and governments on account of food security. In Iran, Turkey, Pakistan, and Uzbekistan average inflation rate reached double-digits. In Iran continued pressure on the currency led to the sharp depreciation of the rial which resulted in a spike in inflation which stood at 36.5%. In Turkey inflationary pressures built up due to currency depreciation, food inflation and credit-fueled growth. Inflation rose in Uzbekistan due to rise in energy prices, increase in wages and taxes. In Azerbaijan, inflation fell from a high of 13% in 2017 to 2.8% in 2020 as inflation expectations subsided due to stabilization of currency, tepid economic recovery, and rebalancing in external and domestic imbalances.

In 2020, the government fiscal balances significantly deteriorated in almost all ECO countries amid a fall in tax revenue due to slowdown in economic activity, containment measures, and a fall in aggregate demand. Furthermore, the rise in fiscal expenditures as governments enacted a number of policies to provide massive fiscal stimulus to alleviate the adverse impact of the pandemic shock on households and businesses also put pressure on fiscal resources. Turkmenistan was the only member country whose budget balance turned to surplus from the deficit recorded last year. The regional fiscal deficit to GDP ratio in 2020 increased to 5.9% compared to 3.7% last year (Table 1).

In response to the pandemic-related economic and social challenges, different member countries adopted different types of fiscal measures. IMF has recently collated information on fiscal measures adopted by different countries and has categorized them as above-the-line measures (ATLM) and below-the-line measures (BTLM). ATLM measures include additional spending, capital grants, targeted subsidies, and tax relief. BTLM measures include the creation of assets such as equity or loan in a firm. It also encompasses contingent liabilities like guarantees and quasi-fiscal operations. Together these can be lumped as liquidity support. Figure 3 below provides the types of fiscal support provided by member countries as a percentage of GDP.

Figure 3: Fiscal Measures in Response to COVID-19 Pandemic (% of GDP)



Source: IMF

The overall regional current account (CA) deficit in 2020 rose to a massive USD 52.3 billion from USD 7.2 billion recorded last year and was equivalent to 2.6% of GDP compared to 0.4% last year (Table 1). Most countries witnessed deterioration in their CA deficits with the exception of Afghanistan which posted a surplus of 10.7% of GDP compared to 11.7% of GDP last year. Current account deficits across the region deteriorated due to trade disruptions, fall in remittances, and contraction in global economic output. The significant widening in the region's CA deficit was primarily due to Turkey's current account balance switching to a sizeable deficit from the surplus recorded last year as a result of significant decline in travel revenues caused by the pandemic and surge in gold imports (Table 1).

In the table listed below key economic indicators of the ECO region and member countries for 2020 are presented.

Table 1: Key Economic Indicators by ECO Region and Member Countries-2020

	Real GDP Growth (%)	Average consumer Inflation (%)	Central Gov. Budget Balance/GDP (%)	Current Account Balance/GDP (%)
Afghanistan	-5	5.6	-2.4	10.7
Azerbaijan	-4.2	2.8	-6.4	-0.85
Iran	1.5	36.5	-8.3	-0.7
Kazakhstan	-2.6	6.7	-7.3	-3.5
Kyrgyzstan	-7.9	6.3	-6.7	-8.2
Pakistan	-0.4	10.7	-8.01	-1.1
Tajikistan	4.5	8.5	-4.4	-2.3
Turkey	1.8	12.3	-3.4	-5.2
Turkmenistan	0.8	7.5	0.07	-0.5
Uzbekistan	1.6	12.8	-3.2	-5.4
ECO	0.7	12.9	-5.9	-2.6

Source: National Statistical Offices & IMF

ECONOMIC OVERVIEW

The COVID-19 pandemic and the concomitant demand and supply shocks to economies around the globe led to a global economic contraction of 3.3% in 2020.

The general gross government debt to GDP ratios increased moderately across the member countries. Gross government debt to GDP ratios rose due to a rise in the fiscal expenditures and issuance of domestic debt to fund fiscal stimulus. The total public debt of the region reached USD 866 billion which amounted to 44% of the regional output which is on the lower side when compared to comparator regional blocs.

ECO member countries' currencies exhibited higher volatility compared to last year. In Central Asian states governments' currencies came under pressure as remittance flows were disrupted on account of the economic slowdown in Russia and various containment measures which restricted the movement of labor. Uzbekistan continued to experience pressure on its currency due to liberalization of foreign exchange and devaluation of its main trading partner's currencies and so experienced 10% depreciation against the US dollar. Turkey witnessed pressure on its currency with lira depreciating by 25% against the US dollar due to the deteriorating external imbalances. Pakistan's currency somewhat stabilized in 2020 depreciating by just 3% after being devalued five times by cumulative 27% in 2018 and 11% against US dollar in 2019. The Iranian currency has been under pressure since 2016 mainly due to impositions of sanctions.

Future Outlook

The COVID-19 pandemic and the concomitant demand and supply shocks to economies around the globe led to a global economic contraction of 3.3% in 2020. IMF projects global growth to recover to 6% in 2021 and then moderate to 4.4% in 2022. The projection assumes strong global recovery on the back of the successful rollout of vaccines in advanced economies. Massive fiscal stimulus packages planned in the USA and EU are also expected to have significant spillover effects for the rest of the world through knock-on effects on international trade and aggregate demand.

ECO region fared well in 2020 by achieving an anemic but positive growth rate given the economic backdrop which saw a sharp reduction in economic activity due to various containment measures that led to a fall in aggregate demand and output. Going forward successful rollout of vaccines in the region, opening up of the economies from lockdowns, recovery in international trade and economies of the major trading partners is projected to lead to recovery of growth in all the member countries.

BUSINESS STRATEGY AND BALANCE SHEET ITEMS

In 2020, the operational focus has been intensified through credit lines extended to financial institutions for development M-SMEs and trade activities.

Even during the peak of the COVID-19 pandemic in 2020, the operations of the Bank did not lose focus. In line with its mandate, the Bank continued to remain responsive to support the sustainable development efforts of the member countries through offering various products and services. In 2020, the operational focus has been intensified through credit lines extended to financial institutions for development M-SMEs and trade activities. The total loans disbursed were amounted to SDR 225 million during 2020. Loans to corporates centered 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. Overall, since 2008, when the Bank started its operations, the total amount of loans disbursed to various operations in the member states amounted to SDR 1,421 million as end of December 2020.

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. With the pandemic threatening to reverse recent improvements in lives and livelihoods in the member states, the Bank would focus on measures to support post-pandemic recovery in the member states. In this respect, an optimal average loan maturity structure would be sustained to ensure a constant flow of new operations in the coming years. The average remaining tenor of loan portfolio of the Bank which was 1.5 years as end of 2019 remained in the same levels as end of 2020. 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 their paid-in capital contribution payments without any delay. Currently majority of ECO member states are members of the Bank. During 2020, 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 and benefit from its services. 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 Bank devotes necessary resources to manage credit, market, and operational risks. 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, the Bank ensures prudent risk management principles and business processes to maintain a decent loan book size and risk profile.

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 credit operations in Azerbaijan and making preparations to capitalize on other investment avenues. The Bank is also putting efforts to launch its operations in Afghanistan and Kyrgyzstan as well.

The Business Plan (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. However, due to economic challenges in the member states and special business circumstances particularly emerged due to COVID-19 pandemic necessitated the Bank to revise the targets of the current business plan. In this respect the Board of Governors during its 19th Annual Meeting held on 30 September 2020 revised the Business Plan (2018-2022). The revised Business Plan has been adopted in view of a viable funding scenario. Accordingly, the Bank is expected to expand its operations modestly based on its funding capacity, which is mainly composed of equity (paid-in capital and retained earnings) and short-term borrowings. However, the Bank would look into opportunities for long-term borrowing in order to further enhance its funding capacity.

The supervision and monitoring practices 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 COVID-19 challenges and appropriate remedial measures and turn around strategies implemented promptly. As the global economic activities gradually attempted to return to normal since the second half of 2020, the rising risk of equitable access to vaccines and emerging of virus mutations, making the business prospects bleaker and less predictable.

BUSINESS STRATEGY AND BALANCE SHEET ITEMS

As the business and geographical operational scope is expanding with joining of new members, the ECO Trade and Development Bank devotes necessary resources to manage credit, market, and operational risks.

Under these challenging global economic developments, strengthening business continuity and organizational resilience is an ongoing task for the Bank. In line with the current revised business plan and country strategy reports, the following main business means would be sustained by the Bank;

- Maintaining a well-diversified (sector and country wise) portfolio with effective risk-management framework,
- Ensuring an update operating structure, processes and procedures,
- Building a robust project pipeline,
- Initiating 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 favorable 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 activities in the member states during the year have been affected due to COVID-19 pandemic, which led to a different performance and the projected business plan of the Bank as well. Thus, the outstanding loan portfolio including undisbursed commitments which reached to SDR 291 million by the end of 2020 remained below the business plan target of SDR 310 million. Average internal credit rating score assigned to the total outstanding loan portfolio of the Bank was 3.7 points by the end of 2020 which represented a 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 466 million in terms of 2020 funding scenario of the business plan. In parallel to this projection, the total assets of the Bank amounted to SDR 468 million by the end of 2020.

The Bank has been able to continue markedly attaining positive income levels. However, the net income which was SDR 7.8 million by the end of 2020 remained below the business plan's target level of SDR 9.4 million due to low interest environment and provisioning requirement. 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 2021, the Bank would put efforts to overcome the challenges and put efforts to achieve revised business plan targets as per the emerging business environment.

(i) Balance Sheet

By the end of 2020, the Bank's total assets were SDR 467,926 thousand (31 December 2019: SDR 468,589K). Bank placements amount to SDR 174,713 thousand representing 37 percent of total balance sheet size. Other loans to banks and loans to customers amount to SDR 102,120 thousand and SDR 148,671 thousand, respectively.

Composition of Assets 31 December 2020

Grafik gelecek

As at 31 December 2020, 86 percent of the Bank's assets were funded with the members' equity which amounts to SDR 403,392 thousand. Majority of liabilities were composed of money market deposits and amount to SDR 59,145 thousand.

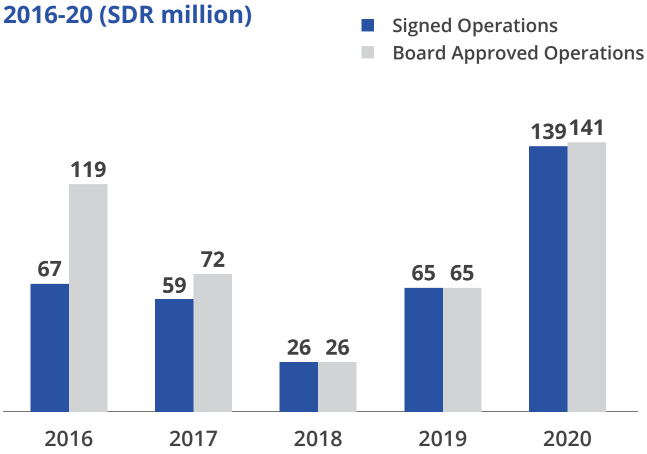
Composition of Liabilities & Equity 31 December 2020

Grafik gelecek

(ii) Loan Portfolio

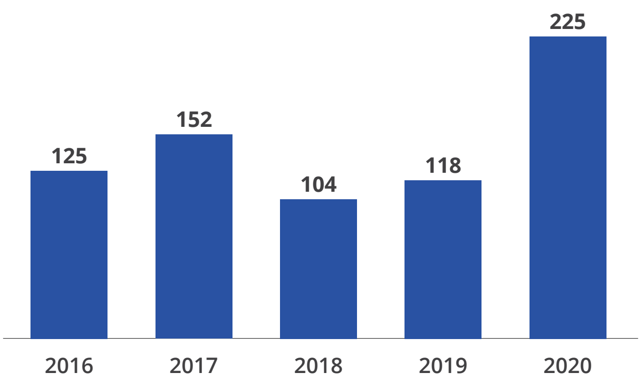
The Bank initiated loan operations in November 2008 and total approved operations (M-SME finance operations to financial intermediaries, trade, corporate and project finance operations to customers) amounted to SDR 1,799 million and among them signed operations amounted to SDR 909 million.

Signed operations vs. Board approvals 2016-20 (SDR million)



Total disbursements to these operations by the end of 2020 is SDR 794 million and additionally SDR 627 million of short term trade finance loans were disbursed to banks in member countries. As at 31 December 2020, total disbursed loans are SDR 1,421 million.

Annual Disbursements 2016-20 (SDR million)



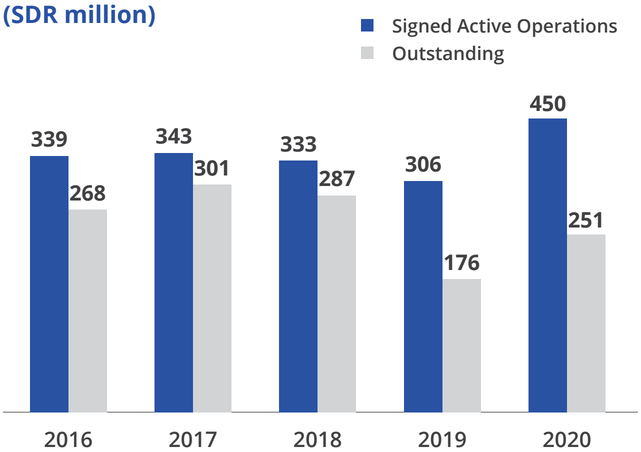
BUSINESS STRATEGY AND BALANCE SHEET ITEMS

The outstanding loan portfolio of the ECO Trade and Development Bank is SDR 250,791 thousand as of 31 December 2020 vis-à-vis SDR 176,400 thousand as at 31 December 2019.

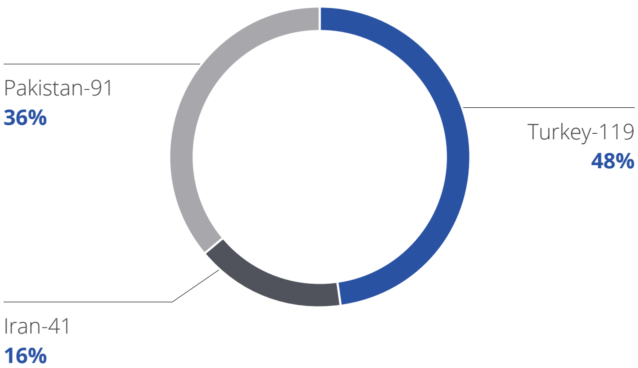
The outstanding loan portfolio of the Bank is SDR 250,791 thousand as of 31 December 2020 vis-à-vis SDR 176,400 thousand as at 31 December 2019. Funds committed but not yet disbursed stood at SDR 40,441 thousand as at 31 December 2020.

The allocation of outstanding loan portfolio among member countries as of 31 December 2020 is as follows:

Portfolio Development (SDR million)

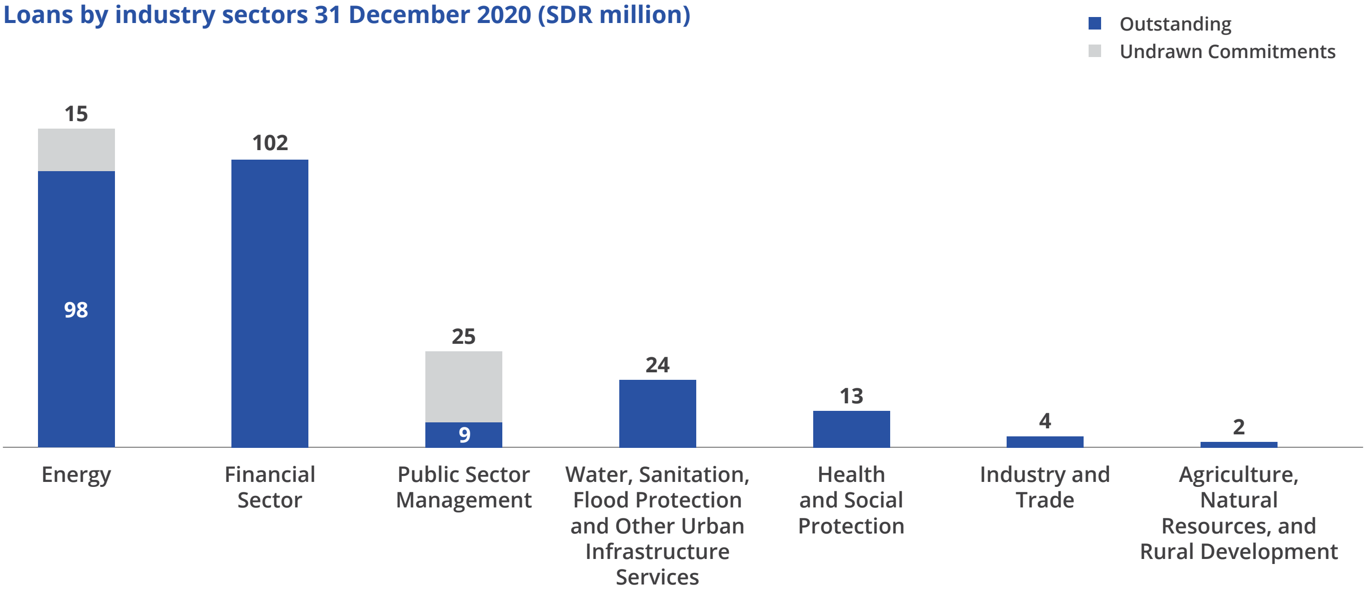


Outstanding loans by Country31 December 2020 (SDR million)



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 2020 is as follows:

Loans by industry sectors 31 December 2020 (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 economic activity and trade in the member states, 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 7,164 thousand in 2020 from SDR 9,556 thousand in 2019. Treasury activities in 2020 generated interest income of SDR 5,359 thousand (2019: SDR 5,327K) from money market and securities portfolio. The Bank booked SDR 1,809 thousand impairment for credit risks for its financial assets in 2020 (2019: SDR 1,502K gain). As a result, operating income for the year was SDR 11,328 thousand in 2020 representing 33 percent decrease compared to SDR 17,001 thousand in 2019.

BUSINESS STRATEGY AND BALANCE SHEET ITEMS

Other administrative costs which include travel, office occupancy, third party fees, maintenance costs, etc. decreased SDR 110 thousand compared to 2019 to an amount of SDR 263 thousand.

(iv) Expenses
Interest expense for the year decreased to SDR 742 thousand in 2020 from SDR 837 thousand in 2019, due to the decreased volume of money market deposits. General and administrative expenses decreased to SDR 3,565 thousand in 2020 from SDR 3,773 thousand in 2019.

Personnel expenses including salaries, benefits, contributions made on behalf of the employees and staff development expenses amounted to SDR 3,171 thousand (2019: SDR 3,239K).

Other administrative costs which include travel, office occupancy, third party fees, maintenance costs, etc. decreased SDR 110 thousand compared to 2019 to an amount of SDR 263 thousand (2019: EU 373K). Overall, general and administrative expenses were well within the 2020 Budget, reflecting the Bank's focus on budgetary discipline and effective cost controls.

In 2020, other operating expenses were SDR 6 thousand (2019: SDR 5,137K). As a result operating expenses decreased to SDR 3,571 thousand (2019: SDR 8,910K).

(v) Net Income
The Bank posted a net profit of SDR 7,757 thousand, representing 4 percent decrease compared to SDR 8,091 thousand in 2019 as a result of the sharp decline in market interest rates.

(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 establishment 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 68,885 thousands which is 6.3% of the subscribed capital.

Financial resul 2016-20

Thousands of SDR	2020	2019	2018	2017	2016
Assets	467,926	468,589	481,759	495,511	474,375
Liquid assets	211,552	286,945	183,029	183,455	196,296
Loan portfolio	250,791	176,400	287,355	301,428	267,805
Other assets	5,583	5,244	11,375	10,628	10,274
Liabilities	64,534	73,270	97,252	122,165	115,048
Borrowings	59,145	67,509	92,692	117,228	109,139
Other liabilities	5,389	5,761	4,560	4,937	5,909
Members' equity	403,392	395,319	384,507	373,346	359,327
Income	13,885	17,843	16,153	15,032	12,647
Interest and fees	13,433	15,390	14,988	13,983	11,725
Other income	452	2,453	1,165	1,049	922
Expenses	-6,128	-9,752	-6,644	-5,261	-5,173
Interest and fees	-748	-842	-849	-924	-752
Administrative	-3,565	-3,773	-3,755	-4,337	-4,421
Other expenses	-1,815	-5,137	-2,040	0	0
Net profit	7,757	8,091	9,509	9,771	7,474

(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 recognized for such financial assets.

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

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

As of 31 December 2020, the Bank classified four of its loans as Stage 3 and all other financial assets in Stage 1. In 2020, as a result of the increase in the volume of Stage 3 loans the Bank recorded additional expected credit loss allowance of SDR 1,809 thousand.

(viii) Key financial indicators (2016- 2020)

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.

Although the Bank continued to raise positive annual profit over the last five years but its level is decreasing. Retained earnings have been added to members' equity together with the capital contributions of its new member countries. Consequently, return on equity decreased to 1.9 per cent in 2020 from 2.1 percent in 2019.

Strict budgetary discipline and effective cost control resulted in 19 percent decrease in general and administrative expenses from 2016 to 2020. Due to maturity of the short term money market deposits leverage ratio decreased to 14.7 percent.

	2020	2019	2018	2017	2016
Financial performance					
Return on members' equity	1.9%	2.1%	2.5%	2.7%	2.1%
Return on average assets	1.7%	1.7%	1.9%	2.0%	1.6%
Net interest margin	1.9%	2.4%	2.2%	2.1%	1.8%
Interest income / average interest bearing assets	2.7%	3.2%	3.0%	2.9%	2.5%
Efficiency					
General & Administrative expenses / revenues	26.5%	24.7%	25.1%	31.0%	37.7%
Leverage					
Total debt / members' equity	14.7%	17.1%	24.1%	31.4%	30.4%
Capital strength					
Outstanding loans / members' equity	62.2%	44.6%	74.7%	80.7%	74.5%

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 1,421 million as end of 2020.

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 1,421 million as end of 2020.

Loan disbursements during 2008-2020 as per country (Millions of SDR)

	Iran	Pakistan	Turkey	Azerbaijan	Total
SME/M-SME Dev. Loans	34	43	196	2	274
Short term trade finance	64	111	449	3	627
Corporate finance	60	266	61	-	387
Project finance	65	38	31	-	134
Total	**222**	**457**	**737**	**5**	**1,421**

(i) M-SMEs Finance

The Micro and Small & Medium Enterprises (M-SMEs), play important role in economic growth, employment, expanding trade and generating income for low income people in the member states. In line with its main goals, promoting the production and innovation capacity of vibrant M-SMEs in the member states remains a priority for the Bank. Under M-SMEs facility, the Bank has been extending medium term funds to local financial institutions including commercial banks, participation banks, micro-finance institutions and leasing companies for more effective access to finance by M-SMEs.

SME Development Loan can be utilized for the purpose of Export Financing (no destination limitation), Import Financing (from ECO member states) and working capital needs of the small and medium sized companies. The SME loan agreements with the selected financial intermediaries have encompassed specific performance criteria by which the ETDB can verify that loans are being used for the agreed purposes and amounts which are provided by ETDB will be normally used to create a revolving fund sub-loans.

Moreover, through loans provided to 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 2008-2020, the Bank disbursed SDR 274 million M-SME facilities to the qualified customers in the member states. Based on the data provided by the partner financial institutions, over 1,000 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 43,000 micro-entrepreneurs have benefitted from intermediated funds of the Bank. The top three sectors were agriculture (44%), enterprise (24%) and livestock (18%). The total outstanding loans under this program stood at SDR 41million as end of December 2020.

(ii) Short Terms Trade Finance Facility

In order to provide financial facilities to expand intra-regional trade, ETDB extends short-term loans with a tenor of up to 2 years to selected banks in its countries of operations. These loans are structured to fund trade-related advances to local companies for the purpose of pre-shipment finance, post-shipment finance necessary for the performance of foreign trade contracts. As per the ETDB's Negative List of Product Policy, 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 credit agreements are signed between the ETDB and the selected banks. All commercial banks based in the member states with an established record of trade finance operations are eligible to apply to join this program. During 2008-2020, total disbursed loans under trade finance facility to member countries amounted to SDR 627 million.

- Export Finance Facility is developed to provide advance financing to exporters necessary to produce manufactured goods, commodities and agricultural products for export and also developed to extend deferred payment terms for the buyers, if needed. Loans may cover both pre-shipment and/or the post-shipment (shipments date back up to 1 month) periods of an export transaction.

- Import Finance Facility is provided through ETDB intermediary banks to buyers/importers based in the member states to finance imports of commodities, capital goods and manufactured products originating from ECO member states. These loans are provided to increase competitiveness of goods produced in ECO member states and may improve the competitive position of manufacturing exporters in the region.

BUSINESS ACTIVITIES

The ECO Trade and Development Bank concluded a EUR 40 million project finance deal in order to provide financing to Istanbul Project Coordination Unit (IPCU) for the financing of Istanbul Seismic Risk Mitigation And Emergency Preparedness Project (ISMEP).

Trade Finance is a core business of the Bank and it has had a great impact on promoting intra-regional trade among the member countries and facilitating increased volume of exports from member countries within and outside the region. The challenging situation in the member states continued during the year with subdued markets coupled with the effects of the COVID-19 pandemic. Despite the challenges, ETDB pursued and expanded its trade finance operations as one of the main activities of the Bank which effectively impacts the growth and economic prosperity of the region. The total loans disbursed under this facility were amounted to SDR 91 million during 2020. In terms of trade, the top sectors for import/export transactions were food, steel and textiles. Extending the network of financial intermediaries in member countries will be our main goal which adds more FIs in our portfolio in the coming years.

(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 2008-2020 period including undisbursed commitments under corporate and project finance operations have been intensified and amounted to SDR 521 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 footprint and visibility in the developmental corporate, project and trade financing activities in the member states through offering customized solutions in line with its overall objectives of fostering sustainable economic development and social progress.

In 2020, 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 infrastructure development, large scale manufacturing, renewable energy & trade financing, in line with the defined country strategies of the Bank. The marketing efforts of CPF Department remained focused both towards public and private sector institutions, offering loans on standalone basis and/or club deals involving other MDBs and Financial Institutions providing financing to the Member States and their private enterprises. 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.

This being a pandemic year affected the entire world in unprecedented ways and ECO Member states were no exception. As a support to its member countries to cater to the emergency requirements related to COVID-19, the Bank offered soft loans to its member states to deal with the global COVID-19 pandemic and one member state availed the facility to finance its initial emergency expenditure requirements for the health sector.

The Bank concluded a EUR 40 million project finance deal in order to provide financing to Istanbul Project Coordination Unit (IPCU) under Istanbul Governorship through the Ministry of Treasury and Finance of Republic of Turkey for the financing of Istanbul Seismic Risk Mitigation And Emergency Preparedness Project (ISMEP). The main objective of the project is to improve the disaster resilience of critical public facilities and to enhance emergency preparedness of the city of Istanbul. ETDB's project finance loan will be utilized for the reconstruction of about 15 schools in Istanbul which will also function as emergency shelters in case of a calamity.

Istanbul Risk Mitigation and Emergency Preparedness Project (ISMEP) is a comprehensive project which covers supportive and preventive practices for preparedness, mitigation, response, and recovery - before, during, and after a disaster has struck. The project was initiated by the Government of Turkey and the World Bank and became effective in 2006 by the establishment of Istanbul Project Coordination Unit (IPCU) under Istanbul Governorship.

The main components of the project are;
A. Enhancing Emergency Preparedness
B. Seismic Risk Mitigation for Public Facilities
C. Enforcement of Building Codes and
D. Project Management

The project started with funding from the World Bank (EUR 310 million and EUR 109.8 million) and additional funding was provided from European Investment Bank (EIB), Council of Europe Development Bank (CEB) Islamic Development Bank (IDB), German Development Bank and Asian Infrastructure Investment Bank (AIIB). Total funding provided to the project so far is EUR 2.28 billion and retrofitting /construction of 1379 public buildings (schools, hospitals etc.) has been completed so far.

BUSINESS ACTIVITIES

As a support to its member countries to cater to the emergency requirements related to COVID-19, the Bank offered soft loans to its member states to deal with the global COVID-19 pandemic.

The Bank concluded a Syndicated Mudaraba / Murabaha Facility with International Islamic Trade Finance Corporation (ITFC) in order to support the trade requirements of its member state Pakistan, where USD 50 million was approved and disbursed under the Syndicated Loan for import of oil & gas 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.

During 2020, the Corporate and Project Finance activities continued exploring the opportunities for new initiatives in the Member States and several new project finance operations were explored in the fields of home appliances manufacturing industry, hydro power dam construction project for energy, capacity enhancement for cold rolling mill plant, wind power plant and tiles manufacturing capacity enhancement and food industry.

On risk and portfolio management side, the Bank laid special emphasis on ensuring frequent and optimal supervision and monitoring of the already completed operations to pre-empt any signs of weakness. During the year, the implementation and monitoring of concluded project finance deals continued.

The Bank is also continuously exploring for opportunities in the Republic of Azerbaijan and Islamic Republic of Afghanistan & Kyrgyz Republic and is in contact with the relevant offices and businesses as well as other Multilateral Organizations which are already active in these states.

Overall, the total outstanding loans under corporate and project finance operations including undisbursed commitments were amounted to SDR 189 million as end of December 2020. Average internal credit rating score assigned to the outstanding loan portfolio of the corporate and project finance operations was 3.7 points by the end of 2020 which represented a low risk level on a scale of 1 to 10.

The ECO Trade and Development Bank continued expanding its footprint and visibility in the developmental corporate, project and trade financing activities in line with its overall objectives of fostering sustainable economic development and social progress.

Some of the Corporate and Project finance operations in the member states during 2008-2020 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
13.	Government of Turkey	Istanbul Seismic Risk Mitigation and Emergency Preparedness (ISMEP) Project	48,664,000	-
14.	Government of Turkey	Soft loan (COVİD-19 Recovery)	18,249,000	-

TREASURY OPERATIONS

Treasury made the net interest income of SDR 5.3 million and net swap income of SDR 1 million for the year 2020.

While maintaining the adequate liquidity cushion and managing the relevant risks, the treasury operations continued to make the best possible use of funds. Asset Liability Committee of the Bank (ALCO) supervises the treasury's asset management policies and provides it with any input that it deems to be necessary. The major functions of ETDB 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 cash flow. 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.

b) Market and Liquidity Risk Management:

The market risks- namely currency and interest rate risks and the liquidity risk are daily monitored and managed by the Treasury Department under the supervision of the ALCO.

ALCO sets the market and liquidity risk limits and defines the guidelines for managing these risks. Additionally, in the context of "enterprise risk on macro level"; the Risk Management Department oversees the Bank's compliance with the liquidity and the market risk limits. Risk Management Department monitors the interaction of the liquidity and market risks with the credit risk. The Bank's market risk and liquidity risk policies are more conservative as compared to the general banking practices.

Currency Risk Management:

As a development bank denominated in SDR, the Bank mitigates the currency risk by using the appropriate on and off balance sheet hedging instruments. Currency risk VaR calculations and daily open position reporting are used as monitoring tools for the currency risk.

Interest Rate Risk Management:

Rather than using derivative off balance sheet hedging instruments; the interest rate risk is managed on balance sheet by matching the maturity structure of the assets and liabilities in terms of tenor and currency.

Liquidity Risk Management:

The Bank follows highly conservative liquidity risk policy by keeping its liquidity coverage ratio (liquid assets to net cash requirement ratio) at 100% at all times. This ratio is monitored daily for the cash flow management. Additionally, ALCO defines and monitors the liquidity level limit as a percentage of the liquid assets to selected balance sheet items. Also, stress test scenarios are applied to keep the liquidity coverage ratio at adequate levels.

In the course of business, the credit lines made available for treasury operations of the Bank are reviewed during the annual limit renewals of counterparties by the ALCO and the Credit Committee and approved by the Board of Directors. Additionally, Risk Management Department regularly also assesses whether the credit risk of a treasury asset has increased significantly or not.

As end of 2020, the total treasury portfolio was SDR 212 million. Treasury made the net interest income (Net money market + securities) of SDR 5.3 million and net swap income of SDR 1 million for the year 2020.

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 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.

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, since 2009, the Bank is allocating a certain amount to technical assistance activities within its annual budget. The strategy of the Bank is to use this limited amount in order to co-finance and mobilize external grant sources from bilateral and multilateral donors.

In this respect, the Bank has 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 several workshops which had aimed to enhance the intra-regional trade. In 2020, the Bank continued consultations with the ECO Secretariat to address the relevant technical assistance requests. Overall, 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

The Risk Management Department (RMD) 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.

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) is responsible for evaluating and appraising credit proposals from a risk perspective, setting up an appropriate risk rating system, formulating and monitoring the assignment of provisions, and periodically reviewing the portfolio of the Bank and classifying them.

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.

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

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 3.7 points by the end of 2020.

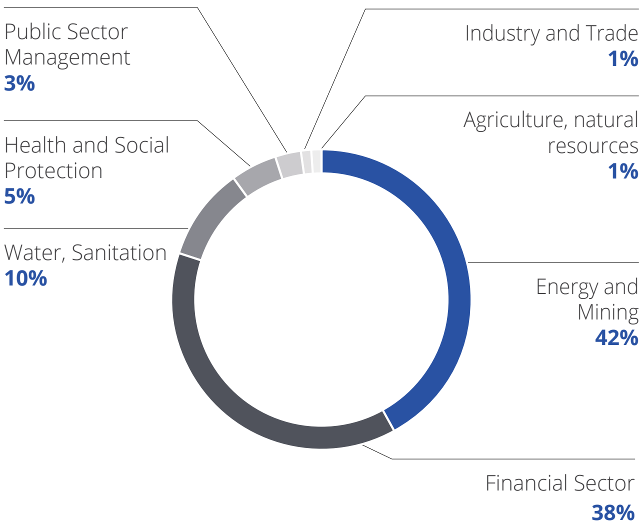
credit rating and also to act as an Early Warning Signal. Furthermore, by applying sensitivity analysis to key financial data on the stress test model developed by RMD, the borrowers' ability and vulnerability to absorb financial shocks without incurring losses are calculated. The stress test result 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. 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 3.7 points by the end of 2020 (2019; 3.6 points) which represented a sound risk level on a scale of 1 to 10.

The Bank's portfolio is categorized into three stages as per the IFRS 9 regulations. Depending on the number of days of delays in repayment or a significant increase the credit risk of a client, the Bank changes the status of its exposures between these categories and assigns calculated provisions. Accordingly, total volume of Stage 3 loans increased to SDR 40 million by the end of December 2020 which was SDR 9 million as end of 2019. Sovereign guarantees are held as collaterals against loans to customers that are classified under Stage 3. In 2020, as a result of the increase in the volume of Stage 3 loans, the Bank recorded additional expected credit loss allowance of SDR 1,809 thousand.

As of December 2020, the share of energy sector and mining had the largest share in ETDB's loan portfolio and was realized as 42 percent and has gained a lot of track since 2019 by increasing 5pps since 2019 which is a sovereign risk and is of short-term nature. The second largest share in the sector distribution belongs to financial sector which came with a share of 38 percent and is down by 4pps since December 2019. The concentration of operations in financial 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. As of December 2020, ETDB portfolio also doesn't carry a sub-sector concentration risk.

Breakdown of outstanding loans by sectors



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 market risk, counterparty risk limits in treasury operations as well as country exposure limits in credit operations. Accordingly, the treasury operations and credit portfolio of the Bank are reviewed on a monthly basis by the ALCO.

PROJECT IMPLEMENTATION AND MONITORING

The project implementation & monitoring department's role is to create and update data bases, to provide advice to the business departments on loan agreement covenants as well as to monitor and report the progress for the management.

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 credit operations: assessment of environmental factors, project procurement processes, 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.

From environment perspective, the Bank 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 member states. Transactions involving goods mentioned in the ETDB's Negative List of Products Policy (including the Environmental Exclusion List) are excluded from financing. The objective is to ensure that the operations do not add to existing pollution and favor 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. The Bank hopes to continue this trend in order to achieve environmental policy objectives in the future.

In monitoring the procurement processes, the Bank ensures that funds allocated to operations are utilized solely for the purpose of achieving operations' objectives in an efficient, economical, fair, and transparent manner. In this respect, the PIMD 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.

During the year 2020, the data bases are updated daily and monthly exception and annual supervision reports are provided to the Credit Committee.

The responsibilities of monitoring function starts with inception of an operation and lasts until the repayments are made and operation is completed. Throughout this period, the PIMD's role is to create and update data bases, to provide advice to the business departments on loan agreement covenants as well as to monitor and report the progress for the management. During the year 2020, the data bases are updated daily and monthly exception and annual supervision reports are provided to the Credit Committee.

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 2020, twelve (12) Credit Committee meetings (including 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.

INFORMATION TECHNOLOGY (IT) SERVICES

During 2020, the Bank benefitted from its strong technological infrastructure. The virtualization platform deployed by the Bank enabled the staff members to have secure remote access and conduct their daily works remotely due to the restrictions arising from pandemics.

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. The IT Department 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, online virtual meeting platforms and remote office access for all staff members, etc.

During 2020, the Bank benefitted from its strong technological infrastructure. The virtualization platform deployed by the Bank enabled the staff members to have a reliable secure remote access to the office environment and conduct their daily works remotely due to the restrictions (including lockdown) arising from pandemics. In response to the international (and local) flight restrictions due to the pandemics, the Bank organized BoGs and BODs meetings via the virtual meetings. With the introduction of virtual meeting environment, the Bank has ensured business continuity of the Bank without any interruption to the on-going business.

The relevant improvements have been achieved 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 taken 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 were implemented.

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 Center located outside Istanbul on daily basis. On regular basis, data recovery tests are conducted in order to ensure integrity of the replicated legacy data.

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. In order to increase efficiency of business workflows and reduce physical storage needs of the Bank by converting the printed documents into digital data, the Bank has initiated the Digital Archiving Project in 2020 and established a Digital Archive Working Group (DAWG) for this purpose, which is expected to finalize its work by the end of first half of 2021.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INTERNAL AUDIT FUNCTION

The Internal Audit Department assists the Management to accomplish its objectives by evaluating and improving the effectiveness of risk management, internal control and corporate governance.

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 to improve the Bank's operations. Roles, responsibilities and objective of IAD include ensuring that 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 approach, IAD assists the Management to accomplish its objectives by evaluating and improving the effectiveness of risk management, internal control and corporate governance in the Bank. To this end, IAD periodically reviews the control environment and processes of the various units in the Bank in order to ensure that they are efficiently and effectively carrying out their function in adherence to policies, procedures, guidelines and the Credit Operation Manual (COM) of the Bank.

Additionally, IAD also provides consultancy services by advising and providing recommendations to the Management on improving and enhancing the existing control environment.

During the audit year 2020-21, in line with the Bank's goals & objectives and in adherence to the internal audit plan, IAD carried out the following activities:-

Implemented a Risk Based Internal Audit (RBIA) plan and executed timely delivery of audited assignments to ensure that processes and activities are being carried out in adherence to the approved policies, procedures and the COM. To this end, IAD reviewed the adequacy of risk and internal control processes in order to ensure compliance with policies, procedures and business objectives and also to ensure that risks were identified and managed within each internal audit assignment. Based on the outcome of the field work and testing of the control points, IAD prepared periodic audit reports summarizing the result of the audit activities and where necessary made recommendations to mitigate the identified risk. Additionally, IAD followed up on the adequacy of the actions taken on recommendations made in the previous audit reports to ensure that effective remedial actions were taken and advised the Audit Committee accordingly.

During the audit year 2020-21, IAD carried out process audit of various units in the Bank and prepared the following audit reports for the below mentioned units in the Bank.

- Office of the General Counsel (OGC)
- Risk Management & Financial Analysis departments (RMD & FAD)
- Project Implementation & Monitoring department (PIMD)
- Follow up on previous audit reports

Based on the outcome of the field work and testing of samples, IAD identified gaps, if any, in the existing internal controls and in risk management and made recommendations to enhance the same.

In adherence to the Internal Audit Charter, future plans and audit activities will be based on the RBIA plan which IAD prepares after discussing it with the Management and the Audit Committee. On approval of the plan, IAD will identify the control points for the planned audited entities and accordingly undertake process audit of the various units as per the plan for the audit year 2021-22. Additionally, IAD will follow up on the previous audit reports as well.

COMPLIANCE FUNCTION

The Policy and Compliance Department assists the Management of the Bank in identifying and assessing potential compliance and conflict of interest issues.

The Management Committee of the Bank is responsible for the effective management of the Bank's compliance and operational risk. In this respect, the Policy and Compliance Department (PCD) in line with the Compliance Charter adopted by the Board of Directors has been assisting the Management of the Bank in identifying and assessing potential compliance and conflict of interest issues. The Bank defines the compliance risk as the risk of legal or regulatory sanctions, material financial loss or loss to reputation that the Bank may suffer as a result of its failure to comply with regulations, policies and procedures adopted by the Bank and relevant international standards of best/good practices. While the operational risk is specifically defined 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.

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. During 2020, there was not any major event confronted by the Bank and cases of negligence or breach of staff regulations/code of conduct by staff members are appropriately addressed by the Management Committee and results are informed to the Board of Directors.
The Bank, as an international financial organization, is accountable to its stakeholders and in its activities calls for very high standards of integrity, transparency and accountability.

The Bank has established necessary internal controls based on 'four eyes principle' and proper segregation of duties within the Bank's departments. Therefore, compliance process, however, does not relieve departmental heads and their staff of their responsibility for the maintenance and improvement of departmental controls with regard to compliance and operational risks in their respective areas. The head of division/departments as the first line of defense are responsible for controls and risks and for action to correct deficiencies in systems of control. Moreover, corporate and property insurance policies and recovery arrangements ensures the Bank to confront potential losses which may occur as a result of various events and natural disasters.

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 2020 audit, the Bank's auditors are Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi, "a member of Ernst & Young Global Limited".

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 closely following-up the membership enlargement engagements 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 and its affiliated bodies. In order to improve the exiting cooperation and mutual understanding, the Bank participated in the ECO Chamber of Commerce and Industry's extra ordinary virtual meeting held on 5 May 2020 and the 18th General Assembly along with the 28th Executive Committee held on 19 October 2020 through video-conference method.

The Bank also took part in the First Meeting of the Heads of National Developments Fund of the ECO, held virtually, on 16 December 2020.

Beside, while joining the virtual meetings of the peer organizations, close contacts have also been developed with the peer regional finance and development organizations.

To build and maintain a favorable climate of public opinion, the Bank continued to keep close cooperation especially with the business organizations operating in the ECO region 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

Human resources management is one of the most significant factors for ETDB in continuity of success in operations and reaching medium and long term goals. Therefore, best international standards and practices are adopted with respect to human resources. The main roles of Human Resources Department are maintaining HR processes, staffing and recruitment, handling compensations and benefits, training and development, and performance appraisal. As end of December-2020, the total number of staff of the Bank was 37 (2019-year end: 38). While adhering to the principle of selecting the best candidate for the job, preference is given to the citizens of the member states in recruitment of staff members.

ETDB offers a competitive compensation and benefit scheme including comprehensive medical and life insurance plans, and relocation allowance and ongoing assistances to employees who moved to take up a post. The Bank operates a pension plan comprised of; first pillar which is a fully funded defined benefit scheme, second pillar which is a matched defined contribution scheme and third pillar which is a fully staff funded scheme.

ETDB views professional development of existing employees as a necessary condition for fulfilment of its mandate and achievement of institutional goals. In this respect, employee training is vital for maintaining the level of professionalism and skills as well as for enhancement of the employees' productivity. In 2020, with the changing working environment due to pandemic conditions employees were motivated to attend virtual seminars, conferences and training programs. Training needs are analyzed continuously in order to match individual skills and needs for professional competency with the work requirements.

The Bank implements a performance management system in order to improve the performances of the Bank and the employees. Clear and measurable objectives with specific targets are set before the appraisal period and accurate assessment of the employees' performance are obtained.

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 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 2020, annual budget and resource allocation process was executed in parallel with preparation of 2021 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

In view of the ongoing precautionary measures implemented by the countries due to the COVID-19 pandemic and its risks on health affecting the international travels, the 19th Annual Meeting of the Board of Governors was held virtually on 30 September 2020. At the meeting, the Board members reviewed the performance of the Bank and approved the 2019 Financial Statements annexed to the 2019 External Audit Report. The Board also designated the Governor of the Republic of Turkey as the Chairman for almost one year term from September 2020 to June 2021.

Ernst & Young was selected as the External Auditor of the Bank for 2020 by the Board of Governors through voting without meeting procedure.

BOARD OF DIRECTORS MEETINGS

As a responsible body for the overall guidance of the Bank's operations, the Board of Directors held five meetings during the year of 2020. Due to the COVID-19 pandemic and its health risks on the international travels, those meetings were held virtually. In addition to the virtual BoD meetings, 12 urgent decisions were also taken via "voting without meeting" procedure in line with the requirements of the Bank during 2020. In those meetings and the decisions, 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.

In 2020, the Board of Directors also approved the Revised Business Plan (2018-22) of the Bank.

THE ECONOMIC COOPERATION ORGANIZATION TRADE AND DEVELOPMENT BANK

Financial Statements as at and for the year ended
31 December 2020 with Independent Auditors' Report Thereon

THE ECONOMIC COOPERATION ORGANIZATION TRADE AND DEVELOPMENT BANK

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Report on the Audit of the Financial Statements

To the Board of Governors of The Economic Cooperation Organization Trade Development Bank.

Opinion

We have audited the accompanying financial statements of The Economic Cooperation Organization Trade and Development Bank (the "Bank"), which comprise the statement of financial position as at 31 December 2020, statement of profit or loss and statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

Other Matter

The financial statements of the Bank as at 31 December 2019 were audited by another audit firm which expressed an unqualified opinion in their report issued on 21 May 2020.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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Key audit matters

We have determined that there are no key audit matters to communicate in our report.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. (The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Building a better working world

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Bank audit. We remain solely responsible for our audit opinion.

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

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

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

The partner in charge of the audit resulting in this independent auditor's report is Fatih Polat.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Fatih Polat, SMMM
Associate Partner

İstanbul, Turkey
9 June 2021

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

	Notes	31 December 2020	31 December 2019
ASSETS			
Loans and advances to banks	13	276,833	342,612
Loans and advances to customers	14	148,671	98,883
Investment securities	15	36,839	21,850
Derivative financial instruments	12	809	850
Property and equipment	16	3,061	3,394
Investment property	17	999	770
Intangible assets	18	4	24
Other assets	19	710	206
Total assets		**467,926**	**468,589**
LIABILITIES			
Deposits from banks	20	59,145	67,509
Derivative financial instruments	12	930	579
Employee benefits	21	3,508	3,027
Other liabilities	22	951	2,155
Total liabilities		**64,534**	**73,270**
EQUITY			
Share capital	23	326,750	326,430
Reserves	23	68,885	60,798
Retained earnings		7,757	8,091
Total equity		**403,392**	**395,319**
Total liabilities and equity		**467,926**	**468,589**

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

Profit or Loss	Notes	31 December 2020	31 December 2019
Interest income	24	12,523	14,883
Interest expense	24	(742)	(837)
Net interest income before impairment for credit risks		**11,781**	**14,046**
Impairment (loss)/gain for credit risks, net	9.2.6	(1,809)	1,502
Net interest income after impairment for credit risks		**9,972**	**15,548**
Fee and commission income	25	910	507
Fee and commission expense	25	(6)	(5)
Net fee and commission income		**904**	**502**
Net trading income		450	950
Other operating income		2	1
Total operating income		**11,328**	**17,001**
Personnel expenses	26	(3,171)	(3,239)
Other administrative expenses	26	(263)	(373)
Depreciation and amortization	16, 17, 18, 26	(131)	(161)
Other operating expenses	27	(6)	(5,137)
Total operating expenses		**(3,571)**	**(8,910)**
Net profit for the period		**7,757**	**8,091**
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss			
Re-measurement (loss)/gain on defined benefit plans		(4)	1
Other comprehensive income		**(4)**	**1**
Total comprehensive income		**7,753**	**8,092**

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

	Notes	Share Capital	Revaluation reserves	Other reserves	Retained earnings	Total
Balance at 1 January 2019		**323,710**	**(3)**	**53,867**	**6,933**	**384,507**
Total comprehensive income						
Profit for the period		-	-	-	8,091	8,091
Other comprehensive income						
Re-measurement gain/(loss) on defined benefit plans	23.2	-	1	-	-	1
Total comprehensive income		**-**	**1**	**-**	**8,091**	**8,092**
Transactions with members of the Bank						
Contributions and distributions						
Increase in paid-in share capital	23.1	2,720	-	-	-	2,720
Appropriation of profit	23.3	-	-	6,933	(6,933)	-
Total contributions and distributions		**2,720**	**-**	**6,933**	**(6,933)**	**2,720**
Balance at 31 December 2019		**326,430**	**(2)**	**60,800**	**8,091**	**395,319**
Balance at 1 January 2020		**326,430**	**(2)**	**60,800**	**8,091**	**395,319**
Total comprehensive income						
Profit for the period		-	-	-	7,757	7,757
Other comprehensive income						
Re-measurement gain/(loss) on defined benefit plans	23.2	-	(4)	-	-	(4)
Total comprehensive income		**-**	**(4)**	**-**	**7,757**	**7,753**
Transactions with members of the Bank						
Contributions and distributions						
Increase in paid-in share capital	23.1	320	-	-	-	320
Appropriation of profit	23.3	-	-	8,091	(8,091)	-
Total contributions and distributions		**320**	**-**	**8,091**	**(8,091)**	**320**
Balance at 31 December 2020		**326,750**	**(6)**	**68,891**	**7,757**	**403,392**

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

	Notes	31 December 2020	31 December 2019
Cash flows from operating activities:			
Net profit for the period		7,757	8,091
Adjustments for:			
Depreciation and amortization	16, 17, 18, 26	131	161
Net impairment loss/(gain) on financial assets	9.2.6	1,809	(1,502)
Net impairment loss/(gain) on tangible assets	16, 17, 27	-	5,124
Accrued interest and expenses		(343)	983
Measurement of derivative financial instruments at fair value	12	392	85
Provision for employee benefit obligations		345	272
Other non-cash items		(936)	434
Cash flows from operating activities before changes in operating assets and liabilities		**9,155**	**13,648**
Changes in:			
Loans and advances to banks		(13,852)	8,879
Loans and advances to customers		(51,179)	35,652
Other assets		(544)	778
Employee benefits		(100)	(752)
Deposits from banks		(8,354)	(25,173)
Other liabilities		(331)	1,851
Net cash from/(used in) operating activities		**(65,205)**	**34,883**
Cash flows from investing activities:			
Acquisition of investment securities		(18,936)	(9,988)
Proceeds from redemption/sale of investment securities		4,115	10,887
Acquisition of tangible assets	16, 17	(7)	(2)
Net cash from/(used in) investing activities		**(14,828)**	**897**
Cash flows from financing activities:			
Increase in paid-in share capital	23.1	320	2,720
Net cash from/(used in) financing activities		**320**	**2,720**
Net increase/(decrease) in cash and cash equivalents		**(79,713)**	**38,500**
Cash and cash equivalents at 1 January		151,842	114,159
Effects of exchange-rate changes on cash and cash equivalents		107	(817)
Cash and cash equivalents at the end of the period	**11**	**72,236**	**151,842**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

A. BASIS OF PREPARATION

NOTE 1 – REPORTING ENTITY

The Economic Cooperation Organization Trade and Development Bank ('the Bank' or 'ETDB') is a multilateral development finance institution established under the Articles of Agreement ('the Agreement') with the mission; to promote and facilitate private and public sector investment, cooperation, development and job creation in member states through joint programs, to foster the growth of intra-regional trade, to contribute to the economic and social development for the welfare of the people in member states and promote good governance and environment consciousness in all efforts and projects.

The status, privileges and immunities of the Bank and persons connected therewith in the Republic of Turkey are defined in the Headquarters Agreement between the ECO Trade and Development Bank and the Government of the Republic of Turkey ('the Headquarters Agreement') signed on
27 December 2006. The Headquarters Agreement was ratified by the Grand National Assembly and the President of the Republic of Turkey by Law No. 5638 and was published in Official Gazette dated 3 July 2007 with No. 26571.

The headquarters address of the Bank is "Bomonti Business Center, Cumhuriyet Mah. Silahşör Caddesi, Yeniyol Sk. No: 8 Kat: 14, 34380 Bomonti Şişli - İstanbul Turkey".

As of 31 December 2020, the number of employees of the Bank is 37 (31 December 2019: 38).

NOTE 2 – BASIS OF ACCOUNTING

These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ('IFRS'). On a proposal from the Management Committee, the Board of Directors adopted the financial statements for the year ended 31 December 2020 on 9 June 2021 and authorised their submission to the Board of Governors for approval.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4. Details of the Bank's accounting policies, including changes during the year, are included in Notes 6 and 7.

NOTE 3 – FUNCTIONAL AND PRESENTATION CURRENCY

In accordance with Article 4 of the Agreement, the unit of account of the Bank is ECO Unit ('EU') that is equivalent to one Special Drawing Right ('SDR') of the International Monetary Fund ('IMF'). As per Article 11 of the Agreement, the Bank's foreign currency facilities shall be denominated and payable in the currencies of which the SDR is composed or in EU. Accordingly, the Bank's 'functional currency' is the SDR and all transactions are recorded in SDR. The Bank's 'presentation currency' is EU.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

NOTE 4 – USE OF JUDGEMENTS AND ESTIMATES

In preparing these financial statements, the Management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to estimates are recognised prospectively.

4.1. Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes.

- Note 7.5.2. – classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.
- Note 7.5.7. – impairment of financial instruments: assessment of whether credit risk on the financial asset has increased significantly since initial recognition, selection and approval of models used to measure expected credit losses ('ECL').

4.2. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2020 is included in the following notes.

- Note 7.17. – measurement of defined benefit obligations: key actuarial assumptions.
- Note 9.2.6. – impairment of financial instruments: determining inputs into the ECL measurement model.
- Note 10. – determination of the fair values of financial instruments with significant unobservable inputs.

B. ACCOUNTING POLICIES

NOTE 5 – BASIS OF MEASUREMENT

The financial statements have been prepared on a historical cost basis, except for the Derivative financial instruments which are measured with fair value.

The Covid-19 pandemic, showed up in China, spread in various countries and caused upper respiratory infections. The pandemic has affected economic conditions locally and globally in especially the countries which are most exposed to it and caused operational malfunctions. As a result of world widespread of the pandemic, like all over the world, the measurements have been taken in member countries in order to prevent viral shedding.

Beside these measurements, economical measurements are being taken to minimise the effects of pandemic for individuals and firms in the world and in member countries. The Bank has disclosed the Covid-19 pandemic effect under Note 9-Financial Risk Review.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

NOTE 6 – CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the financial statements as at 31 December 2020 are consistent with those followed in the preparation of the financial statements of the prior year, except for the adoption of new standards effective as of 1 January 2020. Several amendments and interpretations apply for the first time in 2020, but do not have an impact on the financial statements of the Bank.

NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bank consistently applied the following accounting policies to all periods presented in these financial statements.

7.1. Foreign currency

Foreign currency transactions are translated into the functional currency using the indicative exchange rates at the dates of the transactions announced by IMF and Central Banks.

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

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on the settlement of such transactions and translation are recognized in 'Net trading income' in the statement of profit or loss and other comprehensive income ('OCI').

Exchange rates used by the Bank at the reporting dates were as follows:

		31 December 2020	31 December 2019
1 EU (SDR) =	United States Dollar	1.4403	1.3828
	Euro	1.1838	1.2359
	Chinese Yuan	9.4120	9.6618
	Japanese Yen	149.2553	150.8940
	British Pound	1.0732	1.0539
	Turkish Lira	10.6859	8.2140
	Iranian Rial	367,931.0000	177,694.0000
	Pakistani Rupee	230.7311	214.1450

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

7.2. Interest

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:
- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired financial assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. For purchased or originated credit-impaired ('POCI') financial assets, a credit adjusted effective interest rate is calculated using estimated future cash flows including ECL.

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

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit (“EU”) unless otherwise indicated.)

Presentation

Interest income and interest expense calculated using the effective interest method presented in the statement of profit or loss and OCI includes only interest on financial assets and financial liabilities measured at amortised cost.

7.3. Leases

7.3.1. Bank acting as a lessee – Operating leases

The Bank does not have assets acquired under finance lease agreements. Assets held under other leases are classified as operating leases and are not recognised in the statement of financial position.

Payments made under operating leases are recognised in profit loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

7.3.2. Bank acting as a lessor – Operating leases

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Rental income is included in other operating income and maintenance expenses are included in other administrative expenses.

7.4. Taxation

According to Article 12 of Headquarters Agreement dated 27 December 2006, within the scope of its official activities the Bank, its property, movable and immovable, assets income, of whatever nature such as interests, capital gains, currency gains, profits as well as its operations and transactions, purchase of goods and services shall be exempt from all present and future, direct and indirect taxation and duties, including but not limited to Value Added Tax, income tax, withholding tax, stamp duties, Banking and Insurance Transactions Tax, be it of a local or governmental nature.

7.5. Financial assets and financial liabilities

7.5.1. Recognition and initial measurement

The Bank initially recognizes loans and advances and deposits on the date on which they are originated. All other financial instruments such as derivative financial instruments and investment securities are recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to its acquisition or issue.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

7.5.2. Classification

Financial liabilities

The Bank classifies its financial liabilities, other than loan commitments, as measured at amortised cost.

Financial assets

On initial recognition, a financial asset is classified as measured at:
- Fair value through profit or loss ('FVPL');
- Fair value through other comprehensive income ('FVOCI'); or
- Amortised cost.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:
- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI').

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVPL:
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

All other financial assets are classified as measured at FVPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to the Management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether the Bank's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the key Management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

The Bank's assessment of the business model is not performed on the basis of scenarios that are not reasonably expected to occur, such as so-called 'worst case' or 'stress case' scenarios.

Financial assets that are managed and whose performance is evaluated on a fair value basis are measured at FVPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual flows are SPPI, the Bank considers contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money.

The Bank assesses whether a loan secured by collateral of the borrower limit the Bank's claim to cash flows of the underlying collateral or not (non-recourse loans). The Bank applies judgement in assessing whether the non-recourse loans meet the SPPI criterion. The Bank typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is a substantive operating entity or is a special-purpose entity;
- the Bank's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Bank will benefit from any upside from the underlying assets.

Reclassifications

The Bank reclassifies financial assets when and only when its business model for managing financial assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

7.5.3. Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the derecognised asset) and the sum of (i) the consideration received and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

7.5.4. Modifications of financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the de-recognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in de-recognition of the financial asset then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

7.5.5. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

7.5.6. Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a financial liability with a demand feature (e.g. demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

7.5.7. Impairment

The Bank recognises loss allowances for expected credit losses on the following financial instruments that are not measured at FVPL:
- loans and advances to banks;
- loans and advances to customers;
- debt investment securities; and
- loan commitments issued.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- financial instruments that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Bank considers a financial instrument to have low credit risk when its credit risk rating is from 1 up to and including 3.4 as per the Bank's internal credit rating system ('ICR').

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL are recognised are referred to as 'Stage 1 financial instruments'. A financial instrument that is not credit-impaired on initial recognition is classified in Stage-1 and its credit risk is continuously monitored by the Bank.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL are recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Financial instruments for which a lifetime ECL are recognised and which are credit-impaired are referred to as 'Stage 3 financial instruments'.

Impairment and classification of financial instruments in Stage-2 and Stage-3 are accounted by considering the staging rules, which is in-line with the 30 and 90 overdue days criteria.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized, and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

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Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:
- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'Impairment (loss)/gain for credit risks' in the statement of profit or loss and OCI.

7.6. Cash and cash equivalents

Cash and cash equivalents include cash and balances with banks repayable on demand and money market placements with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position (Note 11).

7.7. Derivatives

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The fair values of derivative financial instruments that are quoted in active markets are determined from quoted market prices in active markets including recent market transactions. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques, including discounted cash flow models. Where valuation techniques (for instance, models) are used to determine fair values, they are validated and periodically reviewed. Fair values of derivatives are carried as assets when positive and as liabilities when negative. The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). Derivative financial instruments are classified as held for trading (Note 12).

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7.8. Loans and advances

'Loans and advances' in the statement of financial position are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method (Notes 13 and 14).

7.9. Investment securities

The 'investment securities' in the statement of financial position includes:
- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method; and
- debt securities measured at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:
- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

7.10. Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment. Any gain and loss on disposal of an item of property and equipment is recognised within other income or expense in the statement of profit or loss and OCI.

Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in profit or loss. The estimated useful lives of significant items of property and equipment are as follows:

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	Useful lives
Equipment	4-5 years
Motor vehicles	5 years
Furniture and fixture	10 years
Buildings (Shell and core)	50 years
Buildings (Interior fit-out)	15 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate (Note 16).

7.11. Investment property

Investment property is measured at cost, less accumulated depreciation and impairment losses. Land and buildings that are held to earn rentals or for capital appreciation or both rather than for use in production, supply of goods or services, administrative purposes or sale in the ordinary course of business are classified as investment property.

Depreciation is calculated to write off the cost of items of investment property less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in profit or loss (Note 17). Estimated useful lives of investment property are as follows:

	Useful lives
Investment property (Shell and core)	50 years
Investment property (Interior fit-out)	15 years

7.12. Intangible assets

Intangible assets consist of computer software program and licenses. Intangible assets are measured at cost, less accumulated amortization and any accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Intangible assets are amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of intangible assets for the current and comparative periods is four to five years. Amortisation methods, useful lives and residual values are reviewed at each reporting period and adjusted if appropriate (Note 18).

7.13. Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the assets' recoverable amount is estimated.

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For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or cash-generating units (‘CGU’). A cash-generating unit is the smallest identifiable group of assets that generates cash inflows which are largely independent of the cash flows from other assets or group of assets.

The ‘recoverable amount’ of an asset or CGU is the greater of its value in use and its fair value less costs to sell. ‘Value in use’ is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. An impairment loss recognized in prior periods for an asset is reversed if the subsequent increase in the asset’s recoverable amount is caused by a specific event since the last impairment loss was recognized. Such a reversal amount cannot be higher than the previously recognized impairment and is recognized as income in the financial statements.

7.14. Deposits

Deposits from banks are the Bank’s source of debt funding. Deposits are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

7.15. Provisions, commitments and contingencies

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Where the effect of the time value of money is material, the amount of provision shall be the present value of the expenditures expected to be required to settle the obligation. The discount rate reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate shall be a pre-tax rate and shall not reflect risks for which future cash flow estimates have been adjusted.

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank are not included in these financial statements and are treated as contingent assets or liabilities (Note 27).

7.16. Loan commitments

‘Loan commitments’ are firm commitments to provide credit under pre-specified terms and conditions. The Bank has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument. The Bank has issued no loan commitments that are measured at FVPL. For loan commitments the Bank recognises a loss allowance. Liabilities arising from loan commitments are included in provisions.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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7.17. Employee benefits

7.17.1. Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as personnel expense in profit or loss. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. The Bank pays contributions to Turkish State Social Security Plan on a mandatory basis for the local employees who do not opt for the Bank's pension plan. The Bank has no further payment obligations once the contributions have been paid.

7.17.2. Pension plan

The Bank operates a pension plan implemented beginning from 1 October 2008, which includes first pillar as hybrid plan that is comprised of a defined benefit plan and defined contribution plan, second and third pillars as defined contribution plans. The local employees can opt for the Turkish State Social Security Plan voluntarily in lieu of the Bank's pension plan. The employees who opted for the Bank's pension plan are enrolled in the first pillar whereas participation in the second pillar is at their will. All employees are eligible to participate in the third pillar where participation in the first and/or second pillar is not a pre-requisite.

The requirements for the defined benefit part of the first pillar are attaining normal retirement age (which is 60 in accordance with the pension plan policy of the Bank), participating in the second pillar and transferring at least the amount equal to 90% of the first pillar contributions from the second pillar account to the first pillar account. If these requirements are met then the (participant) employee shall be entitled to the following benefits:

- Immediate pension equal to the amount of 1% of the annual average net basic salary of the employee during his/her eligible service period multiplied by number of years in service of the Bank;
- One twelfth of the immediate pension according to the previous paragraph that shall be paid to the employee every month.

The benefit provided will be as a lump sum but with respect to the rates that are linked to the length of the eligible service period for an employee not fulfilling the requirements described above. In case of death before normal retirement age, the benefit will be provided to employee or his/her legal beneficiary as a lump sum up equal to the balance of employee's account. Similarly in case of death of an employee already drawing pension, the full amount of the standing balance will be paid as a lump sum to employee's legal beneficiary.

According to the pension plan policy, an employee shall become entitled to a disability pension from the first pillar if the employee suffers a disability before attaining normal retirement age. If such a disability occurs the employee shall become entitled to disability pension in monthly amounts equals to 25% of the employee's last salary immediately before becoming disabled until the employee's normal retirement age. Nevertheless, the Bank shall continue its contribution for the first pillar for the disabled employee, until reaching normal retirement age on the basis of his/her last salary immediately before becoming disabled. After reaching the employee's normal retirement age the disability pension will cease and, upon the employee's choice it can be replaced by the pension benefits in accordance with the pension plan policy. The time during which the disability pension has been paid will be included in the employee's service at the Bank when calculating the total pension benefits of the employee after reaching normal retirement age.

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The pension plan is funded by contributions from employees and by the Bank depending on the type of the plan and with respect to the provisions of the pension plan policy. Contribution rates to the pension plan are as follows:

Pension contributions of basic salary	Bank %	Employee %
First pillar	12	-
Second pillar	up to 7[1]	up to 7
Third pillar	-	up to 10

[1] The Bank contributes to the second pillar if and only if employee contributes but at the same matching rate up to 7%.

For the defined benefit part of the hybrid plan and disability pension, the pension liability is calculated by using the 'projected unit credit method'. Under this method, the cost of providing pensions is charged to the statement of profit or loss and OCI so as to spread the regular cost over the service lives of employees.

Actuarial valuations for the pension plan have been performed by an independent actuarial firm in accordance with the methods and estimations determined in International Accounting Standard for Employee Benefits ('IAS 19'). The pension liability is measured at the present value of the estimated future cash outflows using interest rates of government securities that have terms to maturity approximately the terms of the related liability. All actuarial gains and losses are recognized in income and other comprehensive income over the average remaining service lives of the employees. Accounting has been made according to appraisals in the actuarial report dated 31 December 2019 and projections for the year 2020 in the related report. (Note 21.1).

The Bank keeps; assets of the pension plan under its treasury investment portfolio and liabilities related to first, second and third pillars separately for each participant under employee benefits (Note 21.1). The Bank accrues interest on its liabilities to the pension plan which is calculated using the average return of the Bank's treasury investment portfolio (Note 24).

7.17.3. Short term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Bank provides annual leave pay provision for the employees under its benefit system policy. Full-time professional staff members are entitled to an annual leave of fifteen workdays per year with service of less than and including ten years and twenty workdays per year with service after ten years and more. New professional staff members will be eligible for annual leave after six months of service (Note 21.2).

7.17.4. Reserve for employee severance indemnity – Defined benefit plan

Provision for employee severance indemnity represents the present value of the estimated total provision of the future probable obligation arising from the retirement of the employees calculated in accordance with the Turkish Labour Law. In accordance with Labour Law in Turkey, entities are required to make lump-sum termination indemnities to each employee whose employment is terminated due to retirement or for reasons other than resignation or misconduct and who has completed at least one year of service.

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Provision is made for the present value of the defined benefit obligation calculated using the projected unit credit method. Actuarial gains/losses are recognized under other comprehensive income.

These financial statements include provision for severance payment only for the service staff employed by the Bank according to Turkish Labour Law (Note 21.3).

7.18. Earnings per share

Since the Bank's shares are not traded in a public market and the Bank's financial statements are not filed or not in the process of filing with a securities commission or other regulatory organization for the purpose of issuing shares in a public market, the Bank is not required to disclose basic earnings per share information in accordance with IAS 33 Earnings Per Share.

7.19. Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with any of the other components of the Bank. All operating segments' operating results are regularly reviewed by the Management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (Note 28).

7.20. Comparatives

Comparative figures are reclassified, where necessary, to conform to change, in presentation of the 31 December 2020 interim financial statements.

NOTE 8 - THE NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

The accounting policies adopted in preparation of the financial statements as at 31 December 2020 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2020. The effects of these standards and interpretations on the Bank's financial position and performance have been disclosed in the related paragraphs.

8.1. The new standards, amendments and interpretations which are effective as at 1 January 2020

Definition of a Business (Amendments to IFRS 3)

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether an acquired set of activities assets is a business or not.

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The amendments:
• clarify the minimum requirements for a business;
• remove the assessment of whether market participants are capable of replacing any missing elements;
• add guidance to help entities assess whether an acquired process is substantive;
• narrow the definitions of a business and of outputs; and
• introduce an optional fair value concentration test.

The amendments to IFRS 3 are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively.

The amendments did not have a significant impact on the financial position or performance of the Bank.

Amendments to IFRS 9, IAS 39 and IFRS 7- Interest Rate Benchmark Reform

The amendments issued to IFRS 9 and IAS 39 which are effective for periods beginning on or after 1 January 2020 provide reliefs which enable hedge accounting to continue. For these reliefs, it is assumed that the benchmark on which the cash flows of hedged risk or item are based and/or, the benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of IBOR reform in connection with interest rate benchmark reform.

Reliefs used as a result of amendments in IFRS 9 and IAS 39 is aimed to be disclosed in financial statements based on the amendments made in IFRS 7.

The amendments did not have a significant impact on the financial position or performance of the Bank.

Definition of Material (Amendments to IAS 1 and IAS 8)

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition. The new definition states that, ‘Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments to IAS 1 and IAS 8 are required to be applied for annual periods beginning on or after 1 January 2020.

The amendments did not have a significant impact on the financial position or performance of the Bank.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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Amendments to IFRS 16 – Covid-19 Rent Related Concessions

In May 2020, the IASB issued amendments to IFRS 16 Leases to provide relief to lessees from applying IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the Covid-19 pandemic. A lessee that makes this election accounts for any change in lease payments related rent concession the same way it would account for the change under the standard, if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of the Covid-19 pandemic and only if all of the following conditions are met:
• The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
• Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
• There is no substantive change to other terms and conditions of the lease.

A lessee will apply the amendment for annual reporting periods beginning on or after 1 June 2020. Early application of the amendments is permitted.

The amendments did not have a significant impact on the financial position or performance of the Bank.

8.2. Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the financial statements are as follows. The Bank will make the necessary changes if not indicated otherwise, which will be affecting the financial statements and disclosures, when the new standards and interpretations become effective.

IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. The Bank will wait until the final amendment to assess the impacts of the changes.

IFRS 17 - The new Standard for insurance contracts

The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2023; early application is permitted. The standard is not applicable for the Bank and will not have an impact on the financial position or performance of the Bank.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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Amendments to IAS 1- Classification of Liabilities as Current and Non-Current Liabilities

In January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements. The amendments issued to IAS 1 which are effective for periods beginning on or after 1 January 2023, clarify the criteria for the classification of a liability as either current or non-current. Amendments must be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Early application is permitted.

The amendments are not applicable for the Bank and will not have an impact on the financial position or performance of the Bank.

Amendments to IFRS 3 – Reference to the Conceptual Framework

In May 2020, the IASB issued amendments to IFRS 3 Business combinations. The amendments are intended to replace to a reference to a previous version of the IASB's Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework) without significantly changing requirements of IFRS 3. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. The amendments issued to IFRS 3 which are effective for periods beginning on or after 1 January 2022 and must be applied retrospectively. Earlier application is permitted if, at the same time or earlier, an entity also applies all of the amendments contained in the Amendments to References to the Conceptual Framework in IFRS standards (March 2018).

The amendments are not applicable for the Bank and will not have an impact on the financial position or performance of the Bank.

Amendments to IAS 16 – Proceeds before intended use

In May 2020, the IASB issued amendments to IAS 16 Property, plant and equipment. The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and costs of producing those items, in profit or loss. The amendments issued to IAS 16 which are effective for periods beginning on or after 1 January 2022. Amendments must be applied prospectively only to items of PP&E made available for use on or after beginning of the earliest period presented when the entity first applies the amendment.

There is no transition relief for the first-time adopters. The amendments are not applicable for the Bank and will not have an impact on the financial position or performance of the Bank.

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Amendments to IAS 37 – Onerous contracts – Costs of Fulfilling a Contract

In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent assets. . The amendments issued to IAS 37 which are effective for periods beginning on or after 1 January 2022, to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making and also apply a "directly related cost approach". Amendments must be applied retrospectively to contracts for which an entity has not fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Earlier application is permitted and must be disclosed.

The amendments are not applicable for the Bank and will not have an impact on the financial position or performance of the Bank.

Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

In August 2020, the IASB issued Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to provide temporary reliefs which address the financial reporting effects when an interbank offering rate ('IBOR') is replaced with an alternative nearly risk-free rate ('RFR'), amending the followings:

Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform

The amendments include a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. Under this practical expedient, if the interest rates applicable to financial instruments change as a result of the IBOR reform, the situation is not considered as a derecognition or contract modification; instead, this would be determined by recalculating the carrying amount of the financial instrument using the original effective interest rate to discount the revised contractual cash flows.
The practical expedient is required for entities applying IFRS 4 Insurance Contracts that are using the exemption from IFRS 9 Financial Instruments (and, therefore, apply IAS 39 Financial Instruments: Classification and Measurement) and for IFRS 16 Leases, to lease modifications required by IBOR reform.

Relief from discontinuing hedging relationships

- The amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Amounts accumulated in the cash flow hedge reserve are deemed to be based on the RFR.
- For the IAS 39 assessment of retrospective hedge effectiveness, on transition to an RFR, entities may elect on a hedge-by-hedge basis, to reset the cumulative fair value changes to zero.
- The amendments provide relief for items within a designated group of items (such as those forming part of a macro cash flow hedging strategy) that are amended for modifications directly required by IBOR reform. The reliefs allow the hedging strategy to remain and not be discontinued.
- As instruments transition to RFRs, a hedging relationship may need to be modified more than once. The phase two reliefs apply each time a hedging relationship is modified as a direct result of IBOR reform.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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Separately identifiable risk components

The amendments provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

Additional disclosures

Amendments need additional IFRS 7 Financial Instruments disclosures such as;
How the entity is managing the transition to RFRs, its progress and the risks to which it is exposed arising from financial instruments due to IBOR reform, quantitative information about financial instruments that have yet to transition to RFRs and if IBOR reform has given rise to changes in the entity's risk management strategy, a description of these changes.

The amendments are mandatory, with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods.

The Bank is in the process of assessing the impact of the amendments on financial position or performance of the Bank.

8.3. Annual Improvements – 2018–2020 Cycle

In May 2020, the IASB issued Annual Improvements to IFRS Standards 2018–2020 Cycle, amending the followings:
• IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter: The amendment permits a subsidiary to measure cumulative translation differences using the amounts reported by the parent. The amendment is also applied to an associate or joint venture.
• IFRS 9 Financial Instruments – Fees in the "10 per cent test" for derecognition of financial liabilities: The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either borrower or lender on the other's behalf.
• IAS 41 Agriculture – Taxation in fair value measurements: The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring fair value of assets within the scope of IAS 41.

Improvements are effective for annual reporting periods beginning on or after 1 January 2022.Earlier application is permitted for all. The Bank is in the process of assessing the impact of the amendments on financial position or performance of the Bank.

C. FINANCIAL RISK REVIEW AND FAIR VALUE

NOTE 9 – FINANCIAL RISK REVIEW

This section provides details of the Bank's exposure to risk and describes the methods used to manage those risks. The most important types of risk to which the Bank is exposed are credit risk, liquidity risk, market risk and, compliance and operational risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit (“EU”) unless otherwise indicated.)

9.1. Risk management framework

The Bank is committed to actively identify and manage all risks inherent in its activities in order to support its sustainable profitability objective and safeguard its capital base. The Bank pays particular attention to managing credit risk in the course of its core activities and treasury operations, liquidity risk, market risk as well as compliance and operational risks in its organisation and activities.

By virtue of its mandate, the credit risk inherent in the Bank's ordinary operations is relatively high, due to the geographic concentration of its operational portfolio and the nature of the Bank’s involvement in the projects it undertakes in conformity with article 2 of the Agreement. The application of sound banking principles in the Bank's credit process seeks to ensure that these significant credit risks are properly identified and managed while other risks resulting from its ordinary operations should be mitigated to the extent possible. 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, liquidity and market risk are established.

The Bank’s risk management policies are established for the identification and assessment of the risks, which the Bank may be exposed to and also to set appropriate risk limit controls for monitoring the same. The financial policies of the Bank approved by the Board of Directors establish the guiding principles for sound financial management and provide the framework within which the Bank pursues its business objectives.

Audit Committee is composed of three members from the different member countries, appointed by the Board of Governors. Audit Committee’s purpose is to assist Board of Governors in fulfilling its oversight responsibilities.

The Board of Directors has established the Credit Committee which is responsible to guide the lending departments through the approval process from Concept Clearance to Final Review, in conformity with the Bank’s Operations Cycle Policy. It considers all matters related to the lending operations of the Bank and expresses opinions with respect to the appropriateness of the due diligence and appraisal process.

The Board of Directors has established Asset and Liability Management Committee (‘ALCO’) which is responsible for setting strategic direction in market risk management and transfer pricing. ALCO establishes specific numerical limits, targets and guidelines within which tactical and operational asset and liability management decision-making must take place.

9.2. Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Bank’s loans and advances, investment securities and derivatives. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure – e.g. individual obligor default risk, country and sector risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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9.2.1. Management of credit risk

The Bank's primary exposures to credit risk arise through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of these assets on the statement of financial position. In view of the Bank's philosophy of prudent lending, the function of credit risk management has become a critical fulcrum of the Bank's long term vision and success. Credit analysis is conducted by using various information sources and applying qualitative and quantitative methodologies.

The Bank reviews lending operations and manages the main areas of credit risk which are inherent to the lending activities of the Bank in order to ensure that decisions are made in line with the Bank's strategy and that loan applications are prudently reviewed. Lending decisions are made to clients by following the guidelines laid down in various policies and through coordination with other business units to ensure that the loans are made in line with the Bank's overall risk appetite and strategy. All credit applications are evaluated by the Credit Committee which in case of approval elevates the same to the Board of Directors for final approval.

In addition to compliance function, the Bank's Management also provides oversight and direction to the activities of risk management to ensure that the Bank's risk profile is in line with its strategy and operating environment, in a manner which ensures protection to the shareholders.

9.2.2. Exposure to credit risk

The Bank's exposure to credit risk as at 31 December 2020 and 31 December 2019 are as follows:

	31 December 2020	31 December 2019
Loans and advances to banks	276,833	342,612
Loans and advances to customers	148,671	98,883
Investment securities	36,839	21,850
Derivative financial instruments	809	850
Total	**463,152**	**464,195**

As of 31 December 2020, the Bank has no assets held for resale (31 December 2019: None).

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9.2.3. Segment analysis of credit risk exposures

The following table breaks down the segment distribution of credit risk exposures.

	31 December 2020	31 December 2019
Treasury portfolio	**212,361**	**287,795**
Financial institutions-Bank placements	174,713	265,095
Investment securities	36,839	21,850
Derivative financial instruments	809	850
Loan portfolio	**250,791**	**176,400**
Customers-Trade/Corporate finance	94,053	45,651
Financial institutions-Trade finance	61,267	48,855
Project finance	54,618	53,232
Financial institutions-SME support program	40,853	28,662
Total	**463,152**	**464,195**

9.2.4. Credit quality analysis

The Bank uses internal credit risk grading that reflects its assessment of the probability of default of individual counterparties. The Bank assigns its internal risk rating to all counterparties including borrowers and sovereigns in the Loan and Treasury portfolios and reflects the credit worthiness of counterparties. The Bank's internal risk rating depicts the credit worthiness of borrowers on a scale of 1 to 10 with a score of 1 denoting the lowest expectation of default while a score of 10 denotes non-performing. The table below shows the Bank's internal risk ratings, definitions and respective categories.

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ETDB risk Rating category	Broader category	ETDB definition	ETDB risk rating
1	Standard	Excellent	1.00
2	Standard	Very strong	1.01 → 2.40
3	Standard	Strong	2.41 → 3.40
4	Standard	Good	3.41 → 4.40
5	Standard	Fair	4.41 → 5.40
6	Standard	Weak	5.41 → 6.50
7	Watch	Special attention	6.51 → 7.40
8	Sub-standard	Expected loss/Impaired	7.41 → 7.60
9	Doubtful	Expected loss/ Impaired	7.61 → 8.60
10	Non-performing	Expected loss/Impaired	8.61 → 10.00

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The following table sets out information about the credit quality of financial assets measured at amortised cost and loan commitments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments, the amounts in the table represent the amounts committed.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 7.5.7.

	31 December 2020				31 December 2019
	Stage 1	Stage 2	Stage 3	Total	Total
Loans and advances to banks at amortised cost					
2: Very strong	-	-	-	-	68,250
3: Strong	3,489	-	-	3,489	196,280
4: Good	216,564	-	-	216,564	42,191
5: Fair	55,246	-	-	55,246	38,196
6: Weak	3,657	-	-	3,657	-
Total	278,956	-	-	278,956	344,917
Loss allowance	(2,123)	-	-	(2,123)	(2,305)
Carrying amount	**276,833**	**-**	**-**	**276,833**	**342,612**
Loans and advances to customers at amortised cost					
1: Excellent	99,344	-	-	99,344	68,936
3: Strong	3,853	-	-	3,853	-
4: Good	8,101	-	-	8,101	16,093
5: Fair	-	-	-	-	5,010
10: Non-performing	-	-	39,907	39,907	9,424
Total	111,298	-	39,907	151,205	99,463
Loss allowance	(72)	-	(2,446)	(2,518)	(578)
Carrying amount	**111,226**	**-**	**37,461**	**148,687**	**98,885**
Debt investment securities at amortised cost					
3: Strong	5,212	-	-	5,212	22,006
4: Good	20,098	-	-	20,098	-
5: Fair	11,814	-	-	11,814	-
Total	37,124	-	-	37,124	22,006
Loss allowance	(285)	-	-	(285)	(156)
Carrying amount	**36,839**	**-**	**-**	**36,839**	**21,850**
Loan commitments					
1: Excellent	40,441	-	-	40,441	30,336
Total	40,441	-	-	40,441	30,336
Loss allowance	(16)	-	-	(16)	(2)
Carrying amount	**(16)**	**-**	**-**	**(16)**	**(2)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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The following table sets out information about the overdue status of loans and advances to banks and loans and advances to customers in Stages 1, 2 and 3.

	31 December 2020				31 December 2019
	Stage 1	Stage 2	Stage 3	Total	Total
Loans and advances to banks at amortised cost – gross carrying amount					
Current	278,956	-	-	278,956	344,917
Overdue ≤30 days	-	-	-	-	-
Overdue <60 days	-	-	-	-	-
Overdue ≤90 days	-	-	-	-	-
Overdue > 90 days	-	-	-	-	-
Total	**278,956**	**-**	**-**	**278,956**	**344,917**
Loans and advances to customers at amortised cost – gross carrying amount					
Current	106,868	-	-	106,868	90,039
Overdue ≤30 days	4,430	-	-	4,430	-
Overdue <60 days	-	-	-	-	-
Overdue ≤90 days	-	-	20,051	20,051	-
Overdue > 90 days	-	-	19,856	19,856	9,424
Total	**111,298**	**-**	**39,907**	**151,205**	**99,463**

9.2.5. Collateral held and other credit enhancements

Loans and advances to customers

The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. The Bank may take collateral in the form of a sovereign guarantee issued by a member state, bank guarantee, first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because of the Bank's focus on corporate customers' creditworthiness, the Bank does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely. For credit-impaired loans, the Bank obtains appraisals of collateral because it provides input into determining the management credit risk actions.

In addition to the collaterals included in the tables below, the Bank holds other types of collateral and credit enhancements, such as second charges and floating charges for which specific values are not generally available.

Sovereign guarantees are held as collaterals against loans to customers that are classified under Stage 3.

The following table sets out the percentage of total exposure that is secured with different types of collaterals.

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(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

	31 December 2020		31 December 2019	
	Customers- Trade/Corporate finance	Project finance	Customers - Trade/Corporate finance	Project finance
Sovereign loans	96%	16%	77%	3%
Sovereign guarantee	-	69%	-	78%
Letter of credit from an FI	4%	8%	23%	9%
Charge on fixed assets	-	7%	-	10%
Total	**100%**	**100%**	**100%**	**100%**

9.2.6. Amounts arising from ECL

Significant increase in credit risk

The Bank monitors whether a financial instrument has experienced a significant increase in credit risk or not, on ad-hoc and regular basis as explained below.

The Bank executes supervision and monitoring process individually for all of its loan exposures, at least once in a year. The aim of this practice is to follow implementation and identify problems and changed circumstances as early as possible so that appropriate action may be applied on a timely basis to achieve the operation's objectives and to protect the Bank's investment. Apart from individual supervision and monitoring, Risk Management Department ('RMD') of the Bank is responsible for preparation of regular risk asset reviews for the Bank's loan portfolio at least annually. In normal course of business, the credit lines made available for treasury operations of the Bank are reviewed during the annual limit renewals of counterparties. Additionally, RMD also assesses whether the credit risk of a treasury asset has increased significantly or not. Finally, at each reporting date the Bank assesses whether the credit risk of any financial instrument has increased significantly since initial recognition or not.

Some of the quantitative and qualitative criteria that the Bank considers are as below:

- Change in Capital Adequacy Ratio
- Change in Minimum Capital Requirement
- Change in value of collateral
- Change in the value of guarantee
- Change in financial support from a parent company
- Changes to the contractual framework
- Expected change in loan documentation
- Change in credit spread
- Change in regulatory environment
- Change in management
- Shift or obsoletion of the technology
- Gross Domestic Product Growth Rate

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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- Inflation
- Exchange Rate
- Interest rate
- Unemployment Rate
- External Rating
- Credit Default Swap Rate

There is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. 30 days past due presumption can be rebutted if there is reasonable and supportable information, that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due.

By using the qualitative and quantitative factors given above together with the recent financial information of the asset, RMD offers to transfer a financial asset to Stage 2 or Stage 3 if the internal rating exceeds 6.50 and 7.40, respectively.

Inputs, assumptions and techniques used for estimating impairment

The Expected Credit Losses are the product of the probability of default ('PD'), the exposure at default ('EAD'), and loss given default ('LGD'), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation.
- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months or over the remaining lifetime. For example, for a loan commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral and other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default.

Usual practices for deriving PD values for credit exposures often focus on mapping mechanisms to bank-wide master scales or external ratings. However, the Bank's credit exposure is with an overall good quality of borrowers and composed of high-volume-low-number transactions.

As the Bank does not have sufficient default experience over years, zero or close to zero PD estimates would not reflect the Bank's prudent risk management practice. In order to overcome this issue, the Bank benefitted from the results of the low-default portfolio research which is widely recognized as the industry best practice. The Bank estimated the PDs by upper confidence bounds while guaranteeing at the same time a PD ordering that respects the differences in credit quality by internal credit ratings.

Taking into account the Bank's preferential treatment among member states and lower risk of lost in case of a default of a financial institution compared to a customer; the Bank calibrated different LGD estimates for Sovereigns, financial institutions and other clients. Based on the type and coverage of collateral, LGD is adjusted in order to reflect probable loss in case of default.

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Definition of default

The Bank may consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

There is a rebuttable presumption that default occurs when contractual payments are more than 90 days past due. 90 days past due presumption can be rebutted if there is reasonable and supportable information available that demonstrates that even financial asset is more than 90 days past due this does not represent a default.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Loss Allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

Loans and advances to banks at amortised cost:

	31 December 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January	2,305	-	-	2,305
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remasurement of loss allowance	(73)	-	-	(73)
New financial assets originated	1,935	-	-	1,935
Financial assets that have been derecognised	(2,093)	-	-	(2,093)
Foreign exchange movements	49	-	-	49
Balance at the end of the period	**2,123**	**-**	**-**	**2,123**

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	31 December 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January	1,988	-	-	1,988
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remasurement of loss allowance	(94)	-	-	(94)
New financial assets originated	2,099	-	-	2,099
Financial assets that have been derecognised	(1,669)	-	-	(1,669)
Foreign exchange movements	(19)	-	-	(19)
Balance at the end of the period	**2,305**	**-**	**-**	**2,305**

Loans and advances to customers at amortised cost:

	31 December 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total[(1)]**
Balance at 1 January	80	-	500	580
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remasurement of loss allowance	(17)	-	1,893	1,876
New financial assets originated	39	-	-	39
Financial assets that have been derecognised	(13)	-	-	(13)
Foreign exchange movements	(1)	-	53	52
Balance at the end of the period	**88**	**-**	**2,446**	**2,534**

(1) Includes cash and non-cash balance.

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	31 December 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January	239	99	2,170	2,508
Transfer to Stage 1	99	(99)	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remasurement of loss allowance	(222)	-	(1,638)	(1,860)
New financial assets originated	13	-	-	13
Financial assets that have been derecognised	(45)	-	-	(45)
Foreign exchange movements	(4)	-	(32)	(36)
Balance at the end of the period	**80**	**-**	**500**	**580**

Investment securities at amortised cost:

	31 December 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January	156	-	-	156
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remasurement of loss allowance	112	-	-	112
New financial assets originated	43	-	-	43
Financial assets that have been derecognised	(17)	-	-	(17)
Foreign exchange movements	(9)	-	-	(9)
Balance at the end of the period	**285**	**-**	**-**	**285**

	31 December 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January	102	-	-	102
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remasurement of loss allowance	32	-	-	32
New financial assets originated	53	-	-	53
Financial assets that have been derecognised	(31)	-	-	(31)
Foreign exchange movements	-	-	-	-
Balance at the end of the period	**156**	**-**	**-**	**156**

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Impacts of Covid-19 Pandemic

In the preparation of the financial statements, the Bank reflected the possible effects of the Covid-19 Pandemic as of 31 December 2020. After Covid-19 pandemic, the Bank revised the PD values and accordingly provided additional provision of SDR 148 thousand for Stage 1 financial instruments which is represented under "Additional ECL" column.

	ECL Before Covid-19	ECL After Covid-19	Additional ECL
Financial institutions-Bank placements	1,260	1,339	79
Financial institutions-Trade finance	442	470	28
Financial institutions-SME support program	296	314	18
Investment securities	268	285	17
Customers-Trade/Corporate finance	42	45	3
Project finance	40	43	3
Total	**2,348**	**2,496**	**148**

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9.2.7. Concentration of credit risks

The Bank monitors concentration of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and advances, loan commitments and investment securities is shown below.

Concentration by sector:

	31 December 2020		31 December 2019	
	Outstanding	Undrawn commitments	Outstanding	Undrawn commitments
Financial sector	**314,481**	**-**	**365,312**	**-**
Bank placements	174,713	-	265,095	-
Financial institutions-Trade finance	61,267	-	48,855	-
Financial institutions-SME SP	40,853	-	28,662	-
Investment securities	36,839	-	21,850	-
Derivative financial instruments	809	-	850	-
Energy	**97,529**	**15,100**	**58,675**	**30,336**
Customers-Trade/Corporate finance	77,722	15,100	35,123	30,336
Project finance	19,807	-	23,552	-
Water, Sanitation, Flood Protection and other Urban Infrastructure Services	**23,715**	**-**	**25,335**	**-**
Project finance	23,715	-	25,335	-
Health and Social Protection	**12,666**	**-**	**-**	**-**
Customers-Trade/Corporate finance	12,666	-	-	-
Public sector management	**8,902**	**25,341**	**1,447**	**-**
Project finance	8,902	25,341	1,447	-
Industry and Trade	**3,665**	**-**	**10,528**	**-**
Customers-Trade/Corporate finance	3,665	-	10,528	-
Agriculture, natural resources, and rural development	**2,194**	**-**	**2,898**	**-**
Project finance	2,194	-	2,898	-
Total	**463,152**	**40,441**	**464,195**	**30,336**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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Concentration by geographic location:

	31 December 2020		31 December 2019	
	Outstanding	Undrawn commitments	Outstanding	Undrawn commitments
Turkey	**319,803**	**25,341**	**327,752**	**-**
Treasury portfolio	201,070	-	255,654	-
Loan portfolio	118,733	25,341	72,098	-
Pakistan	**91,005**	**15,100**	**71,849**	**30,336**
Treasury portfolio	73	-	19,337	-
Loan portfolio	90,932	15,100	52,512	30,336
Iran	**41,145**	**-**	**51,808**	**-**
Treasury portfolio	19	-	18	-
Loan portfolio	41,126	-	51,790	-
Other	**11,199**	**-**	**12,786**	**-**
Treasury portfolio	11,199	-	12,786	-
Loan portfolio	-	-	-	-
Total	**463,152**	**40,441**	**464,195**	**30,336**
Treasury portfolio	212,361	-	287,795	-
Loan portfolio	250,791	40,441	176,400	30,336

9.3. Liquidity risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent to the Bank's operations and investments.

9.3.1. Management of liquidity risk

Liquidity risk is managed by Treasury Department under the guidelines provided by ALCO which are in line with the policies approved by the Board of Directors. According to the ALCO approved procedures at all times, the Bank has at its disposal a liquidity pool large enough to finance new assets or refinance existing assets. Under stressed conditions, liquidity risk is managed within the contingency liquidity plan framework approved by ALCO.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The key elements of the Bank's liquidity strategy are as follows.

- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.
- Minimizing maturity mismatches.
- Stress testing of the Bank's liquidity position against various exposures.

Treasury Department receives information from other business units regarding the liquidity profile of their financial assets and details of other projected cash flows arising from projected future business. Treasury Department then maintains a portfolio of short-term liquid assets, largely made up of money market placements, to ensure that sufficient liquidity is maintained.

Monthly liquidity stress testing is conducted under stress testing scenarios covering both normal and more severe market conditions. The scenarios are developed taking into account payment defaults on assets.

9.3.2. Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to net cash requirements (including projected loan disbursements). Ratios are maintained at a minimum of;

- 100% for the next 1 month,
- 100% for the next 3 months, and
- 75% for the next 12 months.

Details of the reported ratio of liquid assets to net cash requirements for the next 12 months at the reporting date and during the reporting period were as follows.

	31 December 2020	31 December 2019
At period end	268%	173%
Average for the period	697%	2356%
Maximum for the period	27384%	31185%
Minimum for the period	139%	173%

Additionally, the Bank's liquidity is maintained at a minimum of 12% of the total equity plus long term borrowing with remaining time to maturity greater than six months and it was not affected from Covid-19 pandemic.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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9.3.3. Maturity analysis for financial liabilities and financial assets

The following table sets out the remaining contractual maturities of the Bank's financial liabilities and financial assets.

	31 December 2020						
	Carrying Amount	**Gross Nominal inflow/ (outflow)**	**Less Than 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**
Financial liability by type							
Non-derivative liabilities							
Deposits from banks	59,145	(59,271)	(23,731)	(19,306)	(16,234)	-	-
Undrawn loan commitments	-	(40,441)	(40,441)	-	-	-	-
- Banks	-	-	-	-	-	-	-
- Customers	-	(40,441)	(40,441)	-	-	-	-
Total	**59,145**	**(99,712)**	**(64,172)**	**(19,306)**	**(16,234)**	**-**	**-**
Derivative liabilities							
Trading FX derivatives	930						
- Outflow		(78,928)	(18,255)	(51,356)	(9,317)	-	-
- Inflow		78,191	18,059	50,922	9,210	-	-
Total	**930**	**(737)**	**(196)**	**(434)**	**(107)**	**-**	**-**
Financial asset by type							
Non-derivative assets							
Loans and advances to banks	276,833	283,112	68,554	81,302	69,018	64,238	-
Loans and advances to customers	148,671	157,792	15,764	43,274	42,108	43,623	13,023
Investment securities	36,839	41,907	205	7,978	7,920	25,804	-
Total	**462,343**	**482,811**	**84,523**	**132,554**	**119,046**	**133,665**	**13,023**
Derivative assets							
Trading FX derivatives	809						
- Outflow		(27,123)	(9,621)	(14,374)	(3,128)	-	-
- Inflow		27,966	9,836	14,962	3,168	-	-
Total	**809**	**843**	**215**	**588**	**40**	**-**	**-**

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	31 December 2019						
	Carrying Amount	Gross Nominal inflow/ (outflow)	Less Than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years
Financial liability by type							
Non-derivative liabilities							
Deposits from banks	67,509	(67,829)	(15,953)	(10,829)	(41,047)	-	-
Undrawn loan commitments	-	(30,336)	(30,336)	-	-	-	-
- Banks	-	-	-	-	-	-	-
- Customers	-	(30,336)	(30,336)	-	-	-	-
Total	**67,509**	**(98,165)**	**(46,289)**	**(10,829)**	**(41,047)**	**-**	**-**
Derivative liabilities							
Trading FX derivatives	579						
- Outflow		(45,453)	(10,819)	(29,772)	(4,862)	-	-
- Inflow		44,978	10,635	29,611	4,732	-	-
Total	**579**	**(475)**	**(184)**	**(161)**	**(130)**	**-**	**-**
Financial asset by type							
Non-derivative assets							
Loans and advances to banks	342,612	347,894	117,701	94,277	113,466	22,450	-
Loans and advances to customers	98,883	105,480	895	34,618	21,793	36,491	11,683
Investment securities	21,850	25,379	96	839	2,676	21,768	-
Total	**463,345**	**478,753**	**118,692**	**129,734**	**137,935**	**80,709**	**11,683**
Derivative assets							
Trading FX derivatives	850						
- Outflow		(57,710)	-	(27,787)	(29,923)	-	-
- Inflow		58,777	-	27,918	30,859	-	-
Total	**850**	**1,067**	**-**	**131**	**936**	**-**	**-**

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The amounts in the above table have been compiled as follows.

Type of financial instrument	Basis on which amounts are compiled
Non-derivative financial liabilities and financial assets	Undiscounted cash flows, which include estimated interest payments
Undrawn loan commitments	Earliest possible contractual maturity.
Derivative financial liabilities and Derivative financial assets	Contractual undiscounted cash flows. The amounts shown are the gross nominal inflows and outflows for derivatives that have simultaneous gross settlement (e.g. forward exchange contracts and currency swaps).

The following table sets out the carrying amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled less than 12 months after the reporting date.

	31 December 2020	31 December 2019
Financial assets		
Loans and advances to banks	214,158	320,656
Loans and advances to customers	95,758	54,808
Investment securities	11,768	2,704
Financial liabilities		
Deposits from banks	59,145	67,509

The following table sets out the carrying amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled more than 12 months after the reporting date.

	31 December 2020	31 December 2019
Financial assets		
Loans and advances to banks	62,675	21,956
Loans and advances to customers	52,913	44,075
Investment securities	25,071	19,146
Financial liabilities		
Deposits from banks	-	-

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9.3.4. Liquidity reserves

The following table sets out the components of the Bank's liquidity reserves.

	31 December 2020		31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Demand deposits	382	382	2,081	2,081
Money market placements	174,331	175,689	263,014	264,763
Investment securities	36,839	38,011	21,850	22,569
Total	**211,552**	**214,082**	**286,945**	**289,413**

As of 31 December 2020, the Bank does not have any financial asset recognised in the statement of financial position that had been pledged as collateral for liabilities (31 December 2019: None).

9.4. Market risk

Market risk is defined as the risk that changes in market prices will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Bank's sustainability while optimising the return on risk. Since the Bank's ordinary operations are inherently relatively risky, a conservative and comprehensive risk management framework addressing market risk has been established.

9.4.1. Currency risk

Currency risk is defined as the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Bank's risk management policies do not allow holding of significant foreign currency positions.

The main measurement currencies of the Bank's operations are SDR basket currencies namely; Euro, US Dollar, Chinese Yuan, British Pound and Japanese Yen. As the functional currency of the Bank is SDR, the financial statements are affected by currency exchange rate fluctuations against SDR.

Considering the appetite of clients in the member countries only for US Dollar and Euro in loan and treasury operations, the Bank mostly invests in these two currencies. The currency swap and forward transactions are mostly held to provide liquidity in US Dollar and Euro against Chinese Yuan, British Pound and Japanese Yen.

By policies in place, the Bank monitors the current status of its assets and liabilities in contrast to SDR in order to ensure that it takes currency risk within the approved limits. For each currency, ALCO set a limit of ±1.0% of the equity for currency open positions. Treasury department is duly responsible to constantly monitor, to regularize any breach of the aforesaid limit and to report to ALCO on a monthly basis.

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In order to monitor the foreign currency exposures, net foreign currency position figures are adjusted by the currency neutral position amounts for Euro, US Dollar, Chinese Yuan, British Pound and Japanese Yen which is calculated based on their respective weights in SDR basket as of reporting date.

As at 31 December 2020 and 31 December 2019 the foreign currency position of the Bank is as follows:

	31 December 2020					
	US Dollar	Euro	Other	Total foreign currency	SDR ('EU')	Total
Assets						
Loans and advances to banks	64,118	212,705	10	276,833	-	276,833
Loans and advances to customers	86,438	62,233	-	148,671	-	148,671
Investment securities	36,839	-	-	36,839	-	36,839
Derivative financial instruments	-	-	-	-	809	809
Property and equipment	-	-	-	-	3,061	3,061
Investment property	-	-	-	-	999	999
Intangible assets	-	-	-	-	4	4
Other assets	170	474	66	710	-	710
Total assets	**187,565**	**275,412**	**76**	**463,053**	**4,873**	**467,926**
Liabilities and Equity						
Deposits from banks	-	59,145	-	59,145	-	59,145
Derivative financial instruments	-	-	-	-	930	930
Employee benefits	3,490	-	18	3,508	-	3,508
Other liabilities	325	596	30	951	-	951
Equity	-	-	(6)	(6)	403,398	403,392
Total liabilities and Equity	**3,815**	**59,741**	**42**	**63,598**	**404,328**	**467,926**
Net balance sheet position	**183,750**	**215,671**	**34**	**399,455**	**(399,455)**	**-**
Off-balance sheet derivative instruments net notional position(1)	(21,113)	(84,938)	106,157	106	-	106
Net foreign currency position	**162,637**	**130,733**	**106,191**	**399,561**	**(399,455)**	**106**
Currency neutral position	(161,720)	(130,612)	(107,123)	(399,455)	399,455	-
FX exposure in notional Ccy(2)	917	121	(932)	106	-	106

(1) Off-balance sheet derivative instruments net notional position in Chinese Yuan, British Pound and Japanese Yen are EU 42,887 thousand, EU 31,949 thousand and EU 31,321 thousand, respectively.
(2) The total foreign currency exposure in Japanese Yen, Chinese Yuan, British Pound, Turkish Lira, Iranian Rial and Pakistani Rupee are EU (559) thousand, EU (335) thousand, EU (69) thousand, EU 24 thousand, EU 4 thousand and EU 3 thousand, respectively.

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	31 December 2019					
	US Dollar	Euro	Other	Total foreign currency	SDR ('EU')	Total
Assets						
Loans and advances to banks	131,609	210,994	9	342,612	-	342,612
Loans and advances to customers	47,093	51,790	-	98,883	-	98,883
Investment securities	21,850	-	-	21,850	-	21,850
Derivative financial instruments	-	-	-	-	850	850
Property and equipment	-	-	-	-	3,394	3,394
Investment property	-	-	-	-	770	770
Intangible assets	-	-	-	-	24	24
Other assets	17	149	40	206	-	206
Total assets	**200,569**	**262,933**	**49**	**463,551**	**5,038**	**468,589**
Liabilities and Equity						
Deposits from banks	-	67,509	-	67,509	-	67,509
Derivative financial instruments	-	-	-	-	579	579
Employee benefits	3,012	-	15	3,027	-	3,027
Other liabilities	369	1,758	28	2,155	-	2,155
Equity	-	-	(2)	(2)	395,321	395,319
Total liabilities and Equity	**3,381**	**69,267**	**41**	**72,689**	**395,900**	**468,589**
Net balance sheet position	**197,188**	**193,666**	**8**	**390,862**	**(390,862)**	**-**
Off-balance sheet derivative instruments net notional position[1]	(32,291)	(70,871)	103,754	592	-	592
Net foreign currency position	**164,897**	**122,795**	**103,762**	**391,454**	**(390,862)**	**592**
Currency neutral position	**(164,673)**	**(122,317)**	**(103,872)**	**(390,862)**	**390,862**	**-**
FX exposure in notional Ccy[2]	**224**	**478**	**(110)**	**592**	**-**	**592**

[1] Off-balance sheet derivative instruments net notional position in Chinese Yuan, British Pound and Japanese Yen are EU 41,778 thousand, EU 32,535 thousand and EU 29,441 thousand, respectively.
[2] The total foreign currency exposure in Japanese Yen, British Pound, Chinese Yuan, Iranian Rial, Pakistani Rupee and Turkish Lira are EU (1,388) thousand, EU 658 thousand, EU 615 thousand, EU 4 thousand, EU 2 thousand and EU (1) thousand, respectively.

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Sensitivity analysis

The basis for the sensitivity analysis to measure foreign exchange risk is an aggregate corporate-level currency exposure. The aggregate foreign exchange exposure is composed of all assets and liabilities denominated in foreign currencies.

The currency value of the SDR is determined by summing the US Dollar equivalents of pre-determined amounts of the US Dollar, Euro, Japanese Yen, British Pound and the Chinese Yuan, with market exchange rates. Therefore, any change in the US Dollar parity of the other currencies effect SDR parities of all the basket currencies. In this respect, foreign currency sensitivity is calculated based on appreciation/depreciation of the US Dollar against other SDR basket currencies with 10 percent. This would have increased/ (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	31 December 2020		31 December 2019	
	Appreciation	**Depreciation**	**Appreciation**	**Depreciation**
US Dollar	9,311	(10,099)	9,156	(9,976)
Euro	(4,831)	5,780	(4,928)	5,429
Chinese Yuan	(1,600)	1,893	(1,662)	1,892
British Pound	(1,242)	1,345	(1,315)	1,427
Japanese Yen	(1,159)	1,379	(1,200)	1,283
Total	**479**	**298**	**51**	**55**

9.4.2. Interest rate risk

Interest rate risk is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Bank is exposed to the interest rate risk to the extent that interest-earning assets and interest-bearing liabilities mature or re-price at different time periods or in different amounts. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved duration limits for the liquid portfolio. The goal of interest rate risk management is to reduce effect of interest rate change on its Net Interest Income ('NII').

ALCO is the monitoring body for the interest rate risk and is assisted by Treasury Department in its periodical monitoring activities which is reviewed and discussed by ALCO during its monthly meetings and, if necessary, emergency ALCO Meetings which could be held at very short notice.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

The following is a summary of the Bank's interest rate gap position. The interest rate repricing gap table analyses the full-term structure of interest rate mismatches within the Bank's balance sheet based on either (i) the next repricing date or the maturity date if floating rate or (ii) the maturity date if fixed rate.

	31 December 2020					
	Up to 1 month	1 to 3 months	3 to 12 months	Over 1 year	Non-interest bearing	Carrying amount
Assets						
Loans and advances to banks	70,354	104,099	102,380	-	-	276,833
Loans and advances to customers	20,795	57,550	70,326	-	-	148,671
Investment securities	185	7,772	6,540	22,342	-	36,839
Derivative financial instruments	-	-	-	-	809	809
Property and equipment	-	-	-	-	3,061	3,061
Investment property	-	-	-	-	999	999
Intangible assets	-	-	-	-	4	4
Other assets	-	-	-	-	710	710
Total assets	**91,334**	**169,421**	**179,246**	**22,342**	**5,583**	**467,926**
Liabilities						
Deposits from banks	23,729	19,280	16,136	-	-	59,145
Derivative financial instruments	-	-	-	-	930	930
Employee benefits	-	3,259	-	-	249	3,508
Other liabilities	-	-	-	-	951	951
Total liabilities	**23,729**	**22,539**	**16,136**	**-**	**2,130**	**64,534**
Net repricing gap	**67,605**	**146,882**	**163,110**	**22,342**	**3,453**	**403,392**

	31 December 2019					
	Up to 1 month	1 to 3 months	3 to 12 months	Over 1 year	Non-interest bearing	Carrying amount
Assets						
Loans and advances to banks	121,465	104,192	116,955	-	-	342,612
Loans and advances to customers	5,519	57,840	35,524	-	-	98,883
Investment securities	86	807	1,811	19,146	-	21,850
Derivative financial instruments	-	-	-	-	850	850
Property and equipment	-	-	-	-	3,394	3,394
Investment property	-	-	-	-	770	770
Intangible assets	-	-	-	-	24	24
Other assets	-	-	-	-	206	206
Total assets	**127,070**	**162,839**	**154,290**	**19,146**	**5,244**	**468,589**
Liabilities						
Deposits from banks	15,949	10,811	40,749	-	-	67,509
Derivative financial instruments	-	-	-	-	579	579
Employee benefits	-	2,829	-	-	198	3,027
Other liabilities	-	-	-	-	2,155	2,155
Total liabilities	**15,949**	**13,640**	**40,749**	**-**	**2,932**	**73,270**
Net repricing gap	**111,121**	**149,199**	**113,541**	**19,146**	**2,312**	**395,319**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit (“EU”) unless otherwise indicated.)

Sensitivity analysis

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank’s financial assets and financial liabilities to various interest rate scenarios. For the assessment of the interest rate sensitivity of the Bank ±0.25% shift in the market interest rates were applied to the statement of financial position items which are subject to calculation.

As of reporting date, 25bp shock is applied for US Dollar and Euro for the assessment of the changes in the fair value of balance sheet items which are subject to calculation. It is assumed that the interest rates are shifted. Hence, the calculated figures do not reflect the effect on current profit or loss and equity if the interest rates during the period would have been different.

		31 December 2020		31 December 2019	
	Applied shock	**Profit or loss**	**Equity [1]**	**Profit or loss**	**Equity [1]**
US Dollar	- 0.25%	(106)	(106)	(61)	(61)
US Dollar	+ 0.25%	106	106	61	61
Euro	- 0.25%	(29)	(29)	(42)	(42)
Euro	+ 0.25%	29	29	42	42
Total (for negative shocks)		**(135)**	**(135)**	**(103)**	**(103)**
Total (for positive shocks)		**135**	**135**	**103**	**103**

[1] Includes the profit or loss effect.

9.5. Compliance and Operational risk

Compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss or loss to reputation that the Bank may suffer. Usually, this is the result of failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to banking activities. Operational risk is defined 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.

The Management Committee of the Bank is responsible for the effective management of the Bank’s compliance risk in care of the Bank’s Policy and Compliance Department (‘PCD’) and operational risk under comprehensive risk management perspective. The PCD assists the Management Committee in effectively supervising and managing the compliance risk that the Bank can face. To this end, PCD identifies, assesses, and advises on; reviews and reports accordingly on the Bank’s potential compliance risks.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

Appropriate measures are taken by the Bank to achieve a high level of operational risk awareness and to enhance the operational risk management. The Bank adopts market best practices and methods to monitor and manage its operational risks. Key processes for the management of operational risk include, amongst others; establishing the necessary internal controls such as the 'four eyes principle' and proper segregation of duties within the Bank's departments; the purchase of corporate and property insurance policies to confront potential losses which may occur as a result of various events and natural disasters; and the approval process of new products to identify and assess the operational risk related to each new product, activity, process and system.

9.6. Capital management

As a multilateral financial institution, the Bank is not subject to regulatory capital requirements. However, the Bank preserves an actively managed capital to prudently cover risks in its activities. In this respect, the Bank follows sound standards as benchmarks for risk management and capital framework. As per Article 7 of the Agreement, the total amount of equity investment of the Bank shall not exceed 20 percent of the paid-in capital of the Bank.

The principal sources of capital increase are through payments of the subscribed capital by the shareholders and the retention of the undistributed element of the profit. Pursuant to Article 4 of the Agreement, the capital stock of the Bank can be increased by the vote of the Board of Governors. In accordance with Article 27 of the Agreement, the Board of Governors determine annually what part of the net income of the Bank from ordinary capital operations shall be allocated to reserves, provided that no part of the net income of the Bank shall be distributed to members by way of profit until the General Reserves of the Bank shall have attained the level of 25 percent of the subscribed capital. In substance, the primary objective of the Bank's capital management is to ensure adequate capital is available to expand the Bank's operations.

NOTE 10 – FAIR VALUES OF FINANCIAL INSTRUMENTS

Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between instruments.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign currency exchange rates.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognised valuation models to determine the fair value of common and simple financial instruments, such as currency swaps, that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt securities and simple derivatives. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Bank uses proprietary valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and may be derived from market prices or rates or estimated based assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in determination of fair value. Management judgement and estimation are usually required for the selection of appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of the counterparty default and prepayments, determination of expected volatilities and correlations and selection of appropriate discount rates.

The following methods and assumptions were used to estimate the fair value of the financial instruments for which it is practicable to estimate fair value:
• The fair values of demand deposits denominated in other than presentation currency, which are translated at period-end exchange rates, are considered to approximate carrying values.
• The fair value of derivative financial instruments is estimated as the present value of future cash flows, using benchmark interest rates and yield curves.
• The fair values of loans and advances are determined by discounting contractual cash flows with the sum of original spread and the respective base interest rate as of the reporting date.
• The fair value of investment securities is estimated using the bid prices quoted as of the reporting date.
• The fair values of deposits from banks are determined by discounting contractual cash flows with the sum of original spread and the respective benchmark interest rate as of the reporting date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

As of 31 December 2020 and 31 December 2019, the carrying amounts and fair values of financial instruments, by the level in the fair value hierarchy into which each fair value measurement is categorised, are as follows:

	31 December 2020				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets not measured at fair value					
Loans and advances to banks	-	-	278,268	278,268	276,833
Loans and advances to customers	-	-	148,935	148,935	148,671
Investment securities	38,011	-	-	38,011	36,839
Financial assets measured at fair value					
Derivative financial instruments	-	809	-	809	809
Total financial assets	**38,011**	**809**	**427,203**	**466,023**	**463,152**
Financial liabilities not measured at fair value					
Deposits from banks	-	-	59,160	59,160	59,145
Financial liabilities measured at fair value					
Derivative financial instruments	-	930	-	930	930
Total financial liabilities	**-**	**930**	**59,160**	**60,090**	**60,075**

	31 December 2019				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets not measured at fair value					
Loans and advances to banks	-	-	344,380	344,380	342,612
Loans and advances to customers	-	-	99,163	99,163	98,883
Investment securities	22,569	-	-	22,569	21,850
Financial assets measured at fair value					
Derivative financial instruments	-	850	-	850	850
Total financial assets	**22,569**	**850**	**443,543**	**466,962**	**464,195**
Financial liabilities not measured at fair value					
Deposits from banks	-	-	67,500	67,500	67,509
Financial liabilities measured at fair value					
Derivative financial instruments	-	579	-	579	579
Total financial liabilities	**-**	**579**	**67,500**	**68,079**	**68,088**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

D. ASSETS

NOTE 11 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and balances with banks repayable on demand and money market placements with original maturities of less than three months. Cash and cash equivalents as of 31 December 2020 and 31 December 2019, included in the accompanying statement of cash flows are as follows:

	31 December 2020	31 December 2019
Loans and advances to banks-demand	382	2,081
Loans and advances to banks-time (gross) (with original maturity less than three months)	71,854	150,565
Interest accrual	156	168
Less: ECL/Impairment losses	(553)	(972)
Total	**72,236**	**151,842**

NOTE 12 – DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments mainly consist of foreign currency swaps and foreign currency forward contracts.

Foreign currency forwards represent commitments to purchase or sell currency, including undelivered spot transactions.

Foreign currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economical exchange of currencies or interest rates. Currency swaps involve the exchange of the principal as well. The bank risks are represented by the potential cost of replacing the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an on-going basis with reference to the current fair value and the liquidity of the market. To control the level of risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms.

	31 December 2020		31 December 2019	
	Assets	Liabilities	Assets	Liabilities
Derivatives held for trading:				
Currency swaps	809	(930)	850	(579)
Total	**809**	**(930)**	**850**	**(579)**

The notional amounts of derivative transactions are explained in detail in Note 27.1.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

NOTE 13 – LOANS AND ADVANCES TO BANKS

As of 31 December 2020 and 31 December 2019, loans and advances to banks at amortised cost are as follows:

	31 December 2020	31 December 2019
Demand deposits	382	2,081
Money market placements	175,670	264,777
Bank deposits	176,052	266,858
Trade finance	61,737	49,189
SME support program	41,167	28,870
Other loans and advances to banks	102,904	78,059
Loans and advances to banks, gross	278,956	344,917
Less: ECL/Impairment losses	(2,123)	(2,305)
Loans and advances to banks at amortised cost, net	**276,833**	**342,612**

NOTE 14 – LOANS AND ADVANCES TO CUSTOMERS

As of 31 December 2020 and 31 December 2019, loans and advances to customers at amortised cost are as follows:

	31 December 2020	31 December 2019
Trade/Corporate finance	94,098	45,676
Project finance	57,107	53,787
Loans and advances to customers, gross	151,205	99,463
Less: ECL/Impairment losses	(2,534)	(580)
Loans and advances to customers at amortised cost, net	**148,671**	**98,883**

NOTE 15 – INVESTMENT SECURITIES

As of 31 December 2020 and 31 December 2019, investment securities are as follows:

	31 December 2020	31 December 2019
Debt investment securities measured at amortised cost:		
Bonds issued by financial institutions	37,124	22,006
Total debt investment securities measured at amortised cost	37,124	22,006
Less: ECL/Impairment losses	(285)	(156)
Investment securities, net	**36,839**	**21,850**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

NOTE 16 – PROPERTY AND EQUIPMENT

As of 31 December 2020 and 31 December 2019, property and equipment are as follows:

	31 December 2020	31 December 2019
Cost	7,994	8,586
Less: Accumulated depreciation	(1,069)	(1,022)
Less: Accumulated impairment loss	(3,864)	(4,170)
Net book value	**3,061**	**3,394**

Movements in property and equipment are as follows:

	Land and buildings	Furniture fixture and equipment	Total
31 December 2020			
Net book value at 1 January	3,371	23	3,394
Addition	-	7	7
Transfer	(254)	-	(254)
Depreciation charge	(77)	(9)	(86)
Net book value at period end	**3,040**	**21**	**3,061**
31 December 2019			
Net book value at 1 January	7,623	35	7,658
Addition	-	2	2
Impairment loss	(4,170)	-	(4,170)
Depreciation charge	(82)	(14)	(96)
Net book value at period end	**3,371**	**23**	**3,394**

As of 31 December 2020, property and equipment excluding the motor vehicles were insured against fire, theft and damage to the extent of EU 1,555 thousand. Motor vehicles are insured against accident to the extent of their acquisition cost.

At 31 December 2020, total impairment losses regarding the headquarters building of the Bank amount to EU 5,124 thousand (31 December 2019: EU 5,124 thousand) out of which EU 3,864 thousand (31 December 2019: EU 4,170 thousand) is related to the property classified under property and equipment.

At 31 December 2020, there were no capitalised borrowing costs related to the acquisition of property and equipment (31 December 2019: None).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

NOTE 17 – INVESTMENT PROPERTY

As of 31 December 2020 and 31 December 2019, investment properties are as follows:

	31 December 2020	31 December 2019
Cost	2,437	1,838
Less: Accumulated depreciation	(178)	(114)
Less: Accumulated impairment loss	(1,260)	(954)
Net book value	**999**	**770**

Movements of investment properties are as follows:

	31 December 2020	31 December 2019
Net book value at 1 January	770	1,743
Transfer	254	-
Impairment loss	-	(954)
Depreciation charge	(25)	(19)
Net book value at period end	**999**	**770**

Investment property comprises of four properties in the Bank's headquarters building. In the current period no rental income from investment property has been recognised in other operating income (31 December 2019: None). Direct operating expenses for investment property that did not generate rental income amount to EU 14 thousand (31 December 2019: EU 13 thousand). There were no direct operating expenses for investment property that generated rental income (31 December 2019: None).

At 31 December 2020, fair value of the investment property amount to EU 999 thousand (31 December 2019: EU 770 thousand). At 31 December 2020, total impairment losses regarding the investment property amount to EU 1,260 thousand (31 December 2019: EU 954 thousand).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

NOTE 18 – INTANGIBLE ASSETS

As of 31 December 2020 and 31 December 2019, intangible assets are as follows:

	31 December 2020	31 December 2019
Cost	453	452
Less: Accumulated amortization	(449)	(428)
Net book value	**4**	**24**

Movements of intangible assets were as follows:

	31 December 2020	31 December 2019
Net book value at 1 January	**24**	**70**
Amortization charge	(20)	(46)
Net book value at period end	**4**	**24**

NOTE 19 – OTHER ASSETS

As of 31 December 2020 and 31 December 2019, other assets are as follows:

	31 December 2020	31 December 2019
Receivables from clients (1)	638	155
Pre-paid expenses	22	28
Tax refunds	3	3
Other	47	20
Total	**710**	**206**

(1) The Bank receives over-due interest, front-end fees, commitment fees over the undrawn loan commitments and expenses related with loan operations. As of 31 December 2020, the Bank has interest receivables and fee receivables amounting to EU 327 thousand (31 December 2019: EU 6 thousand) and EU 311 thousand (31 December 2019: EU 149 thousand), respectively.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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E. LIABILITIES AND EQUITY

NOTE 20 – DEPOSITS FROM BANKS

As of 31 December 2020 and 31 December 2019, deposits from banks are as follows:

	31 December 2020	31 December 2019
Money market deposits	59,145	67,509
Total	**59,145**	**67,509**

NOTE 21 – EMPLOYEE BENEFITS

As of 31 December 2020 and 31 December 2019, employee benefits are as follows:

	31 December 2020	31 December 2019
Pension plan liabilities	3,376	2,922
Annual leave pay liability	114	90
Reserve for employee severance indemnity	18	15
Total	**3,508**	**3,027**

21.1. Pension plan liabilities

As of 31 December 2020 and 31 December 2019, pension plan liabilities are as follows:

	31 December 2020	31 December 2019
First pillar	1,192	1,166
Second pillar	1,195	1,009
Third pillar	185	129
Investment returns	715	546
Actuarial (gain)/loss	89	72
Total	**3,376**	**2,922**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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Movements for the pension plan liabilities are as follows:

	31 December 2020	31 December 2019
1 January	2,922	3,195
Increase during the year	728	739
Benefits paid	(157)	(1,001)
Actuarial (gain)/loss	20	(31)
Foreign exchange movements	(137)	20
At period end	**3,376**	**2,922**

The movement in the actuarial loss due to defined benefit obligation (disability pension liability) over the period is as follows:

	31 December 2020	31 December 2019
1 January	72	103
Current service cost	18	14
Interest cost	2	6
Actuarial (gain)/loss	-	(51)
Foreign exchange movements	(3)	-
At period end	**89**	**72**

The principal actuarial assumptions used were as follows (denominated in USD):

	31 December 2020 (%)	31 December 2019 (%)
Discount rate	3.5	3.5
Price inflation	2.3	2.3
Pay increase	3.5	3.5

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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Mortality rate

EVK00 standard mortality rates for males and females are used for pre and after retirement mortality. The average life expectancy in years of a pensioner after retiring at age 60 for both men and women on the reporting date are as follows:

	31 December 2020	31 December 2019
Male	21.48	21.48
Female	24.40	24.40

The sensitivity analysis of defined benefit obligation of excess liabilities as of 31 December 2020 is as follows:

Assumption change	Pension excluding in-service disability	Salary continuation
Discount rate +1%	(17.9%)	(8.7%)
Discount rate -1%	23.2%	9.9%

21.2. Annual leave pay liability

The Bank's liability is the sum of the monetary values of each full-time professional staff member's annual leave entitlement which is calculated based on the monthly basic salaries.

Movements for the annual leave pay liability are as follows:

	31 December 2020	31 December 2019
1 January	90	101
Provision for the period, (net)	24	(11)
At period end	114	90

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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21.3. Reserve for employee severance indemnity

The reserve has been calculated by estimating the present value of the future probable obligation of the Bank. IAS 19 requires actuarial valuation methods to be developed to estimate the entity's obligation for such benefits. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	31 December 2020	31 December 2019
Discount rate (%)	3.74	3.89
Turnover rate to estimate the probability of retirement (%)	100.00	100.00

The principal actuarial assumption is that the current maximum liability will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the maximum liability is revised semi-annually, the lower of maximum amount of TL 7,117 (31 December 2019: TL 6,380) and gross monthly income of the staff member has been taken into consideration in calculating the reserve for employee termination benefits.

Because of being a multilateral development bank which is operative in different jurisdictions, the necessity of immunity from judicial proceedings has been recognized for the Bank by the Government of Turkey under the provision of the Article 4 of the Headquarters Agreement. Therefore, provision for severance payment is not calculated for the professional staff of the Bank. These financial statements include provision for severance payment only for the service staff employed by the Bank according to Turkish Labour Law.

Movements in the reserve for employment termination benefits are as follows:

	31 December 2020	31 December 2019
1 January	15	14
Benefits paid	-	(1)
Current service cost	1	1
Interest cost	2	1
Actuarial (gain)/loss	4	-
Foreign exchange movements	(4)	-
At period end	**18**	**15**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

NOTE 22 – OTHER LIABILITIES

As at 31 December 2020 and 31 December 2019, other liabilities are as follows:

	31 December 2020	31 December 2019
Unearned income [(1)]	921	817
Payables	27	23
Other [(2)]	3	1,315
Total	**951**	**2,155**

[(1)] The Bank defers the income from front-end commissions during the tenor specified in the loan agreements.
[(2)] As of 31 December 2019 deposits from banks amount to EU 1,315 thousand were matured but settlement by the correspondent bank was effected in 2020.

NOTE 23 – EQUITY

23.1. Share capital

As of 31 December 2020 and 31 December 2019, issued share capitals are as follows:

	31 December 2020	31 December 2019
Authorized share capital	1,089,100	1,089,100
Less: unallocated share capital	-	-
Subscribed share capital	**1,089,100**	**1,089,100**
Less: callable share capital	(762,350)	(762,350)
Less: shares called but not yet due	-	(320)
Paid-in share capital	**326,750**	**326,430**

Total share capital paid-in during 2020 amounts to EU 320 thousand which was paid by Kyrgyz Republic (2019: share capital paid-in amounts to EU 2,720 thousand which was paid by Islamic Republic of Afghanistan and Kyrgyz Republic are EU 2,400 thousand and EU 320 thousand, respectively).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

As at 31 December 2020, share capital structure of the Bank showing the number of shares, the amount subscribed by each member, including their respective callable and payable as well as the amount paid-in is as follows:

	Shares	Subscribed	Callable	Payable	Paid-in
Islamic Republic of Iran [1]	3,333	333,333	233,333	-	100,000
Islamic Republic of Pakistan [1]	3,333	333,333	233,333	-	100,000
Republic of Turkey [1]	3,333	333,333	233,333	-	100,000
Islamic Republic of Afghanistan	500	50,000	35,000	-	15,000
Republic of Azerbaijan	325	32,500	22,750	-	9,750
Kyrgyz Republic	66	6,600	4,600	-	2,000
Total	**10,891**	**1,089,100**	**762,350**	**-**	**326,750**

[1] Total number of shares, subscribed capital and callable capital of the three founding members are equal and 10,000; EU 1,000,000 thousand and EU 700,000 thousand, respectively.

Out of the subscribed capital, EU 762,350 thousand may become payable (31 December 2019: EU 762,350 thousand), upon a unanimous decision of the Board of Governors, by the member countries in such manner and on such terms as deemed fit by the Board of Governors. The paid-in capital of EU 326,750 thousand (31 December 2019: EU 326,430 thousand) is reflected at its cost.

23.2. Reserves

As of 31 December 2020 and 31 December 2019, reserves are as follows:

	31 December 2020	31 December 2019
General reserves	68,891	60,800
Actuarial reserves	(6)	(2)
Total	**68,885**	**60,798**

In accordance with Article 27 of the Agreement, the Board of Governors determine annually what part of the net income of the Bank from ordinary capital operations shall be allocated to reserves, provided that no part of the net income of the Bank shall be distributed to members by way of profit until the general reserves of the Bank shall have attained the level of 25% of the subscribed capital.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit (“EU”) unless otherwise indicated.)

F. PERFORMANCE FOR THE PERIOD

NOTE 24 – NET INTEREST INCOME

	31 December 2020	31 December 2019
Interest income		
Loans and advances to banks	6,152	9,099
- money market placements	2,817	3,629
- other loans and advances	3,335	5,470
Loans and advances to customers	3,829	4,086
Investment securities at amortised cost	2,542	1,698
Total interest income	**12,523**	**14,883**
Interest expense		
Deposits from banks	(514)	(639)
Pension plan liabilities [1]	(228)	(198)
Total interest expense	**(742)**	**(837)**
Net interest income	**11,781**	**14,046**

[1] As the Bank keeps assets of the pension plan under its treasury investment portfolio, interest is accrued on the liabilities to the pension plan (Note 7.17.2).

The amounts reported above are calculated using the effective interest method.

NOTE 25 – NET FEE AND COMMISSION INCOME

	31 December 2020	31 December 2019
Fee and commission income		
From banks	408	226
From customers	502	281
Total fee and commission income	**910**	**507**
Commissions paid to banks	(6)	(5)
Total fee and commission expense	**(6)**	**(5)**
Net fee and commission income	**904**	**502**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

NOTE 26 – OPERATING EXPENSES

	31 December 2020	31 December 2019
Personnel expenses		
Salaries and benefits	2,705	2,787
Contributions to defined contribution/benefit plans [1]	397	379
Other contributions [2]	63	72
Other personnel expenses	6	1
Total personnel expenses	**3,171**	**3,239**
Other administrative expenses		
Office occupancy expenses [3]	90	104
Operational subscriptions expenses	74	85
Consultant and third party fees	30	35
Equipment, maintenance and support	26	35
Travel and accommodation expenses	5	70
Other	38	44
Total other administrative expenses	**263**	**373**
Depreciation and amortization	**131**	**161**
Impairment loss for property and equipment [4]	-	4,170
Impairment loss for investment property [4]	-	954
Other	6	13
Total other operating expenses	**6**	**5,137**
Total operating expenses	**3,571**	**8,910**

[1] Contributions are comprised of the contributions made by the Bank on behalf of the employees for the Bank's Pension Plan (Note 7.17.2) and Turkish State Social Security Plan (Note 7.17.1).
[2] Other contributions are comprised of life insurance and medical insurance contributions made by the Bank on behalf of the employees, as well as income tax on emoluments.
[3] Direct operating expenses for investment property that did not generate rental income amount to 14 EU thousand (31 December 2019: 13 EU thousand). There were no direct operating expenses for investment property that generated rental income (31 December 2019: None).
[4] Total impairment losses regarding the headquarters building of the Bank amount to EU 5,124 thousand (Note16 and Note 17).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

G. OTHER INFORMATION

NOTE 27 – COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business activities, the Bank undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements.

27.1. Commitments under derivative instruments

As of 31 December 2020 and 31 December 2019, breakdown of notional amounts of derivative transactions are as follows:

	31 December 2020					
	US Dollar	Euro	Chinese Yuan	British Pound	Japanese Yen	Total
Derivatives held for trading						
Currency swaps	-	-	42,887	31,949	31,321	106,157
Total purchases	**-**	**-**	**42,887**	**31,949**	**31,321**	**106,157**
Derivatives held for trading						
Currency swaps	(21,113)	(84,938)	-	-	-	(106,051)
Total sales	**(21,113)**	**(84,938)**	**-**	**-**	**-**	**(106,051)**
Off-balance sheet net notional position	**(21,113)**	**(84,938)**	**42,887**	**31,949**	**31,321**	**106**

	31 December 2019					
	US Dollar	Euro	Chinese Yuan	British Pound	Japanese Yen	Total
Derivatives held for trading						
Currency swaps	-	-	41,778	32,535	29,441	103,754
Total purchases	**-**	**-**	**41,778**	**32,535**	**29,441**	**103,754**
Derivatives held for trading						
Currency swaps	(32,291)	(70,871)	-	-	-	(103,162)
Total sales	**(32,291)**	**(70,871)**	**-**	**-**	**-**	**(103,162)**
Off-balance sheet net notional position	**(32,291)**	**(70,871)**	**41,778**	**32,535**	**29,441**	**592**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

27.2. Credit related and other commitments

As of 31 December 2020 and 31 December 2019, breakdown of commitments related to loan agreements and other commitments are as follows:

	31 December 2020	31 December 2019
Credit limit commitments [1]	40,441	30,336
Other commitments	8	5
Total	**40,449**	**30,341**

[1] The Bank has disbursement commitments as per the signed loan agreements.

NOTE 28 – SEGMENT ANALYSIS

The Bank is a multilateral financial institution dedicated to promoting and facilitating private and public sector investments, cooperation and development in member states and fostering the growth of intra-regional trade. The Bank operates in a specific geographical area and the primary reporting format for business segments includes Banking and Treasury operations. Banking activities represent loans to financial institutions for SME support and trade finance, loans to customers for projects, trade and corporate finance. Treasury activities include raising debt finance, investing surplus liquidity, managing the Bank's market risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

31 December 2020	**Banking**	**Treasury**	**Total**
Interest income	7,164	5,359	12,523
Fee and commission income	910	-	910
Total segment revenues	**8,074**	**5,359**	**13,433**
Interest expense	(258)	(484)	(742)
Fee and commission expense	(2)	(4)	(6)
Net trading income/(loss)	-	450	450
Other operating income	1	1	2
Operating expenses	(2,593)	(978)	(3,571)
Segment income before impairment	**5,222**	**4,344**	**9,566**
Net impairment (loss)/reversal	(2,132)	323	(1,809)
Net income for the period	**3,090**	**4,667**	**7,757**
Segment assets	**253,974**	**213,952**	**467,926**
Segment liabilities	**16,738**	**47,796**	**64,534**

31 December 2019	**Banking**	**Treasury**	**Total**
Interest income	9,556	5,327	14,883
Fee and commission income	507	-	507
Total segment revenues	**10,063**	**5,327**	**15,390**
Interest expense	(420)	(417)	(837)
Fee and commission expense	-	(5)	(5)
Net trading income/(loss)	-	950	950
Other operating income	1	-	1
Operating expenses	(6,729)	(2,181)	(8,910)
Segment income before impairment	**2,915**	**3,674**	**6,589**
Net impairment (loss)/reversal	2,318	(816)	1,502
Net income for the period	**5,233**	**2,858**	**8,091**
Segment assets	**179,329**	**289,260**	**468,589**
Segment liabilities	**1,437**	**71,833**	**73,270**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(Amounts expressed in thousands of ECO Unit ("EU") unless otherwise indicated.)

NOTE 29 – RELATED PARTY TRANSACTIONS

For the purpose of this report, the Bank's key management personnel are referred to as related parties.

The Bank's key management personnel are comprised of the President and two Vice Presidents. They are entitled to a staff compensation package that includes salary, medical and life insurance, participation in the Bank's pension plan and other short term benefits.

The salaries and other benefits paid to key management personnel amount to EU 487 thousand as at 31 December 2020 (31 December 2019: EU 566 thousand). This comprises salary and employee benefits of EU 428 thousand (31 December 2019: EU 492 thousand) and contributions made by the Bank on behalf of the management personnel of EU 59 thousand (31 December 2019: EU 74 thousand). Key management personnel do not receive post-employment benefits like termination benefits, any share-based payments or other long term benefits, except lump sum pension payment.

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

NOTE 30 – SUBSEQUENT EVENTS

None.

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