ANNUAL REPORT
2021


Türkiye
Azerbaijan
Kyrgyzstan
Afghanistan
Iran
Pakistan

Operations in Member Countries

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MAIN FIELDS OF ACTIVITY

ENERGY

INDUSTRY

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BOARD OF GOVERNORS

As of 31 December 2021

Chairman, Board of Governors (Appointed on 24 June 2021 for one year): Governor of the Islamic Republic of Afghanistan

Islamic Republic of Afghanistan

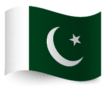
Governor: Abdul Qaher Haji Edris, Acting Governor, Central Bank of the Islamic Republic of Afghanistan
Alternate Governor: Mr. Noor Ahmad Agha, First Deputy Governor, Central Bank of the Islamic Republic of Afghanistan

Kyrgyz Republic

Governor: Mr. Akylbek Japarov, Deputy Chairman of the Cabinet of Ministers, Minister of Economy and Finance of Kyrgyz Republic
Alternate Governor: Mr. Mirlanbek Baigonchokov, Deputy Minister of Economy and Finance, Kyrgyz Republic

Republic of Azerbaijan

Governor: 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: Mr. Reza Baqir, Governor, State Bank of Pakistan
Alternate Governor: Mr. Yusuf Khan, Finance Secretary, Finance Division, Government of Pakistan

Islamic Republic of Iran

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

Republic of Türkiye

Governor: Mr. Murat Zaman, Deputy Minister of Treasury and Finance, Republic of Türkiye
Alternate Governor: Dr. Serhat Köksal, Acting Director General for Foreign Economic Relations, Ministry of Treasury and Finance, Republic of Türkiye

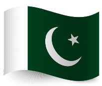
BOARD OF DIRECTORS

As of 31 December 2021

Islamic Republic of Afghanistan
Director: Mr. Ahmad Jawad Sadad, Acting Director General, Monetary Policy Dept., Central Bank of the Islamic Republic of Afghanistan
Deputy Director: Mr. Abdullah Masood, Deputy Director General, Monetary Policy Dept., 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. Awais Manzur Sumra, Additional Finance Secretary (EF) 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 Türkiye
Director: Ms. Bengü Aytekin, Head of Department, Multilateral Development Banks, Ministry of Treasury and Finance of the Republic of Türkiye

MANAGEMENT COMMITTEE

As of 31 December 2021

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 2021

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

Mr. Akif Bülent Boyacıoğlu,
Vice Chairman of Board of Treasury Controllers, Ministry of Treasury and Finance of Republic of Türkiye

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 2021 as endorsed by the Board of Directors. The report covers the activities of the Bank including audited financial statements for 2021.

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

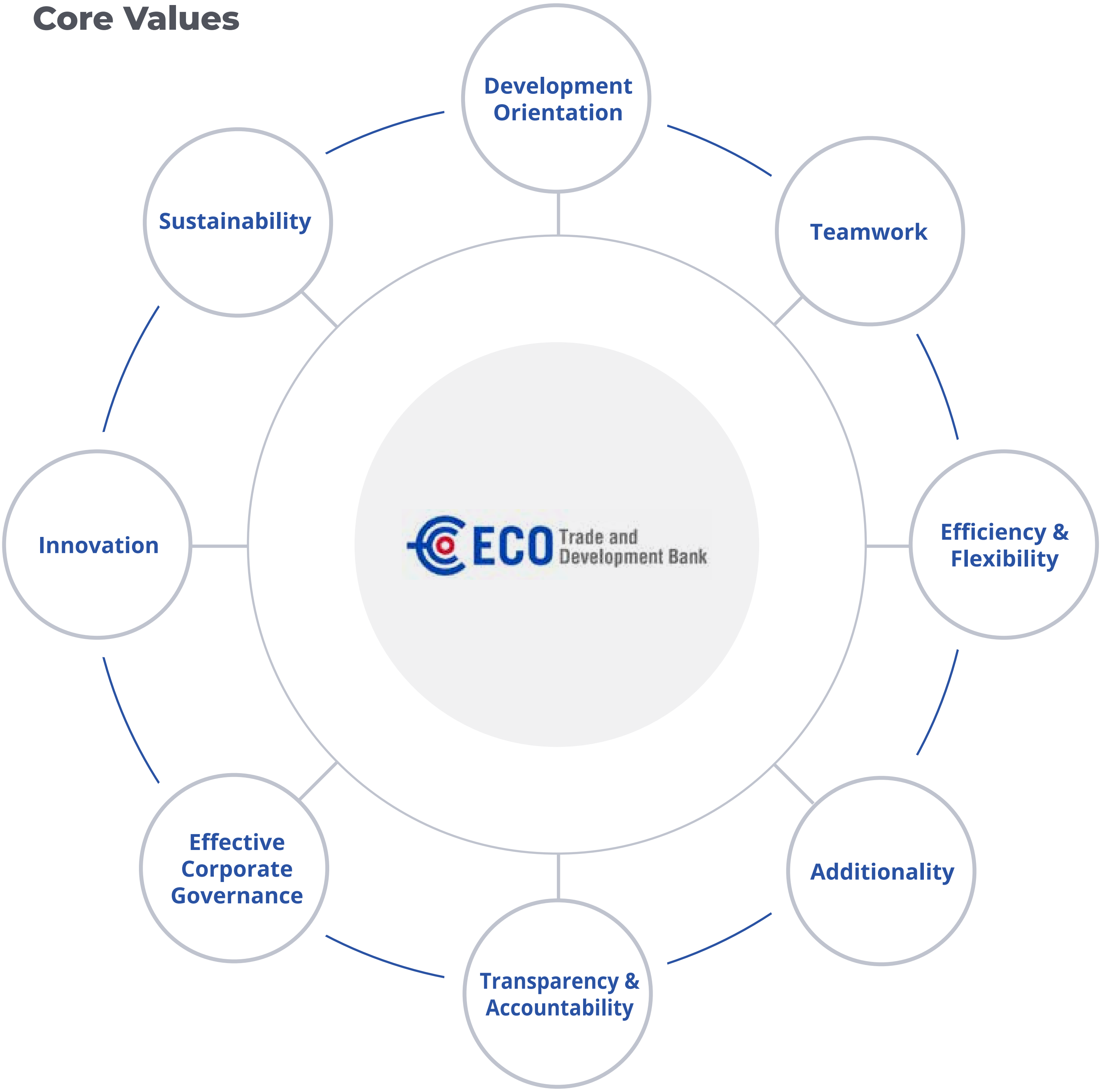
Vision

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 role of the Economic Cooperation Organization (ECO) Trade and Development Bank is to promote sustainable growth in the ECO region.

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 3 August 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 Türkiye. The Articles of Agreement was registered by the United Nations (UN) under the number 44939 on 19 May 2008, acknowledging the international legal status of the Bank.

The Headquarters Agreement of the Bank was ratified by the Republic of Türkiye in July 2007 and the Bank started its credit operations as of December 2008. Its headquarters is in Istanbul (Türkiye) and representative offices are in Karachi (Pakistan) and Tehran (Iran). The Bank is staffed with 34 employees from member states as end of December 2021.

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 development 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 adopted by the Board of Governors and Board of Directors. Accordingly all operations that the Bank would conduct must be technically, economically, financially, legally, and environmentally sound, in 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 observes 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 key component of effective governance is a clear definition and delineation of responsibilities among the Board of Governors, the Board of Directors and management.

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

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

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 EU 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 Türkiye, 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 amounted 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, Türkiye, Iran and Pakistan continued to be largest shareholders of the Bank with 30.60 percent stake each, followed by Afghanistan with 4.59 percent, Azerbaijan with 2.98 percent and Kyrgyzstan with 0.61 percent.

As of 31 December 2021 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:

Table-1: Share capital structure of the Bank (SDR thousand)

	Shares	Subscribed	Callable	Payable	Paid-in
Islamic Republic of Iran (*)	3,333	333,333	233,333	-	100,000
Islamic Republic of Pakistan (*)	3,333	333,333	233,333	-	100,000
Republic of Türkiye (*)	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**

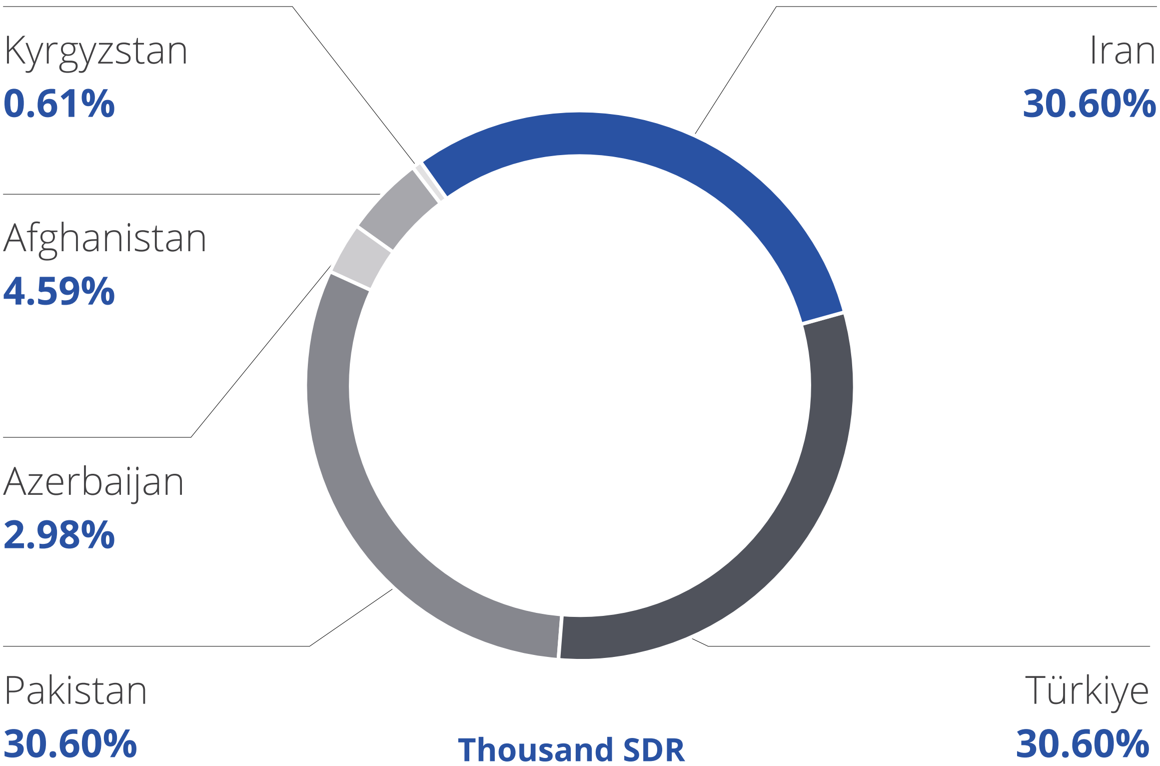
(*) Total number of shares, subscribed capital and callable capital of the three founding members are equal and 10,000; SDR 1,000,000 thousand and SDR 700,000 thousand, respectively.

Compared to previous year, the Bank's total equity grew by 2.2 percent and amounted to SDR 412.448 million by the end of the 2021. Of this increase, SDR 9 million was originated from retained earnings for the year.

INTRODUCTION

The ECO Trade and Development Bank has improved prospects for dynamic growth of its operations in further contributing to the sustainable development of the member states in the coming years.

Shareholder Structure (%)



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

According to the “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 Türkiye, 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 expected 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. Yet, the Bank has improved prospects for dynamic growth of its operations in further contributing to the sustainable development of the member states in the coming years.

PRESIDENT'S MESSAGE

As one of the successful institutions of the region, the ECO Bank became an important financial tool for the regional integration.

The total reserves and retained earnings of the ECO Bank reached to SDR 85.7 million by the end of 2021 representing an increase of 11.8 percent compared to previous year.

The year of 2021 was marked with the global economic recovery and higher inflationary pressures. Thus, eased epidemiologic restrictions, short-lived impact of the COVID-19 variants and realization of deferred demand had a positive effect on economic growth. As per the latest estimates, global GDP expanded by 6.1 percent in 2021 compared to a contraction of 3.1 percent in the previous year. Noticeably, inflation had surged in many countries because of soaring commodity prices and pandemic-induced supply-demand imbalances. Concerns regarding food and energy security have been elevated.

While the world is passing through very challenging times due to post-pandemic recovery phase, the economies are experiencing additional shocks of war in Ukraine and its associated repercussions. Besides the immediate humanitarian impact of the geopolitical conflict and the ongoing health consequences of the pandemic, we have been observing alarming rise in food and commodity prices. Oil and gas price shocks are complicating the balance between energy security and sustainability.

The combined impact of these shocks are threatening the lives and affecting the cost of living across the world. Global supply chains have been increasingly redrawn over the past years. As advanced economy central banks tighten policy and interest rates rise in those countries, emerging market and developing economies could face further withdrawal of capital and currency depreciations. These shifts have resulted in the global economy entering a new phase of volatility and setback for the global recovery. The global growth is projected to slow to 3.6 percent in 2022 and 2023. At the current trajectory, the countries need to rethink their approach to exposure, self-sufficiency and security in trade and production relationships.

The ECO region, similar to the global economy, witnessed a significant economic rebound with real GDP growth expanding by 7.5 percent in 2021 compared to 0.5 percent growth print achieved in previous year which reflected robust recovery supported by various policy measures adopted by respective member countries. However, the global developments are also creating significant spillovers to other countries including ECO countries. The long list of challenges calls for sound policy actions to prevent worse outcomes and improve economic prospects. At this point, it is important for our member states to employ necessary measures to protect vulnerable populations and sectors against high food and energy prices. Keeping trade flowing by strengthening positions in the international supply chain and facilitating the trade is important. I would like to note that investments in health, energy, food and technology would bring privileged advantages during the new normal. I'm very optimistic that our member states are going to come out stronger from these challenges and adapt themselves to new normal.

We have been closely monitoring the developments and taking all necessary measures in order to support our member states. We have been focused to be more flexible, agile and responsive. Since the Bank started its operations in 2008, the total amount of loans disbursed to member countries reached to about SDR 1.5 billion as end of December 2021. This means that we have been able to provide loans to our member states about 5 times of our equity. Meanwhile, we have been maintaining robust financial ratios. The total reserves and retained earnings of the Bank reached to SDR 85.7 million by the end of 2021 representing an increase of 11.8 percent compared to previous year. Overall, as one of the successful institutions of the region, the Bank is emerging with a solid foundation to be an important financial tool for the regional integration.

In line with our mandate, financing the region's trade transactions continues to be the cornerstone of our business model. In this respect, we are managing a specific trade finance facility to foster the growth of intra-regional trade. About 65 percent of our disbursed funds are extended for financing trade, making the Bank's involvement in the region's trade more inclusive. We have been offering a finance facility in order to enhance SMEs' access to finance. Furthermore, we have been cooperating with micro-finance institutions in the member states to provide long-term and accessible loans to support employment and reduce poverty in the region. We are providing financial support for realization of development projects in the member countries. Our involvement in realization of various projects in the areas of wind power, solar energy, transport, infrastructure and energy efficiency have been remarkable. We have also temporarily increased the maximum deviation rate of country exposure limits in order to mobilize our humble resources at optimum level. Notably, while further increasing our capabilities, we make utmost effort to maintain highest credit portfolio quality without any non-performing loan.

The Bank does not aim to maximize earnings but earns 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 9,054 thousand in 2021, representing 16.7 percent increase compared to previous year. The total assets of the Bank amounted to SDR 465 million by the end of 2021.

PRESIDENT'S MESSAGE

ETDB has the responsibility to play more active role in the post-COVID-19 recovery period by providing financial solutions and contributing to sustainable development of the member states.

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.

Enlargement of the membership base of the Bank remain to be a key priority for us. In this respect, accession of remaining four ECO countries namely Kazakhstan, Tajikistan, Uzbekistan and Turkmenistan to the Bank would enable us to focus our activities over the entire region. The 15th ECO Summit meeting, which was held in Turkmenistan on 28 November 2021, while recognizing the growing interest of ECO member states in joining the Bank, emphasized the ETDB›s role in supporting and financing ECO projects and programs. Therefore, I am confident that all ECO member states would become the member of the Bank and benefit from its activities.

As the international financial institution of the ECO region, ETDB has the responsibility to play more active role in the post-COVID-19 recovery period by providing financial solutions and contributing to sustainable development of the member states. We are well-positioned to continue supporting our member countries on their way out of the economic challenges. Although we face some business challenges, we are working to maintain the highest credit portfolio quality while further increasing our capabilities. We continue to employ all options available to us in order to minimize the effect of such problem to our operations.

Our business continuity planning ensures safe and seamless continuation of our operations under the critical business conditions. In this respect, I would like to take this opportunity to express my sincere thanks and gratitude to the esteemed members of the Board of Governors and Board of Directors for their valuable guidance and continued support.

I would also like to thank my colleagues at the Bank for all their hard work and persistence in such an extraordinary year. We are committed to support realization of business initiatives which contribute to sustainable development of our member states. I look forward to further capitalize on our core strengths and develop new operations to provide greater value to our member countries.

Yalçın Yüksel
President

16.7%

Increase in Net Profit

The ECO Trade and Development Bank posted a net profit of SDR 9,054 thousand in 2021, representing 16.7% increase compared to previous year.

We support the realization of development projects in the member countries.

Real GDP growth for ECO Region

The ECO region witnessed a significant economic rebound with real GDP growth expanding by 7.5%.

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 December 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 (Türkiye) and staffed with 34 employees from member states. It has an equity amounting to SDR 412 million as end of 2021. 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 build an efficient organizational structure and established fundamental internal regulatory framework to improve its operations. Although the Bank is endowed with a modest capital, 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 and structure finance in the member countries. In December 2021, the Bank marked the thirteenth anniversary of the launch of its operations. The knowledge and experience built on internationally accepted practices are improving the capabilities of the Bank to fulfil its establishment mandate and maintain financial viability.

The COVID-19 pandemic has caused unprecedented health and economic consequences. Despite the almost miraculous development of effective vaccines, the virus continued to spread and mutate throughout the 2021. Amid the persistence of the pandemic, business and society pushed ahead on the recovery and began shifting toward sustainable, inclusive growth and crafting a new normal.

The global economy, after experiencing a significant slowdown in 2020, witnessed a broad economic recovery taking hold in 2021 across various countries underpinned by successful rollout of vaccines, support provided in form of significant monetary and fiscal stimulus packages and conducive financial conditions. As per the latest IMF estimates, global GDP expanded by 6.1 percent in 2021 compared to a contraction of 3.1 percent in the previous year. However, inflationary pressures built up due to higher food and energy prices, supply bottlenecks and pent up demand which led to broadening of inflationary pressures across countries.

ECO region, similar to the global economy, witnessed a significant economic rebound with real GDP growth expanding by 7.5 percent in 2021 compared to 0.5 percent growth print achieved in previous year which reflected robust recovery supported by various policy measures adopted by respective member countries entailing fiscal stimulus and monetary accommodation and successful rollout of vaccines.

ECO region's nominal GDP stood at USD 2.9 trillion in 2021 compared to USD 2.3 trillion recorded in the previous year increasing by 26 percent and was equivalent to 3.1 percent of the global output. In 2021, GDP (PPP-based) of the region stood at USD 6.9 trillion compared to USD 5.8 trillion in 2020 which amounted to a growth print of 18.9 percent in nominal terms. In 2021, estimated GDP per capita (PPP-based) for the ECO region stood at USD 14,423 compared to USD 11,865 last year which amounted to a growth rate of 21.5 percent.

The adverse consequences from the current geopolitical conflict and elevated inflation are expected to complicate the post-pandemic recovery. Interest rates are expected to rise as central banks tighten policy, exerting pressure on emerging market and developing economies. Meanwhile, the pandemic greatly accelerated the embrace of digital technologies, and countries with digital edge capabilities would be in better position to take lead on the new growth trends. But fundamental requirements to boost productivity, adopt supply chain diversification strategies and improve position in global supply chain, trade and investment inflows still apply and countries have to make bold moves in pursuit of innovation and other objectives. During the new normal (post-COVID-19); healthcare and life sciences, food, digitalization, artificial intelligence, automation, logistics, 3D design technologies, clean energy, etc. are expected to be at the front and center of the development trend.

In consideration of the global market developments and specific country conditions, the Bank made best efforts to achieve 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. 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 outstanding loan portfolio including undisbursed commitments which reached to SDR 254 million by the end of 2021 remained below the business plan target of SDR 325 million due to operational challenges in certain member states.

EXECUTIVE SUMMARY

The ECO Trade and Development Bank remains poised to enhance its operations during the new normal with a comprehensive risk management framework encompassing all stages of operation cycle.

In parallel to business plan projections, the total assets of the Bank amounted to SDR 465 million by the end of 2021. The Bank has been able to continue attaining positive income levels which was above the business plan's target level. 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 1,543 million as end of December 2021

b. Good asset quality was maintained with a diversified portfolio in terms of sector and country. However, due to several operating challenges, the outstanding loan portfolio which amounted to SDR 251 million by the end of 2020 decreased to SDR 238 million as end of 2021.

c. The average internal credit rating score assigned to the total outstanding loan portfolio was 3.7 points by the end of 2021 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 2021, 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. 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 is being pursued decisively.

f. The Micro and Small & Medium Size Enterprises support program and trade finance facility continue to deliver positive developmental results. The SMEs which benefitted from these funds were mainly active in the manufacturing, energy, mining, agriculture and forestry, construction, textile, machinery & equipment sectors, thereby contributing to the economic development and job creation. In addition, it is considered that over 44,000 micro-entrepreneurs have benefitted from intermediated funds of the Bank.

g. The total assets of the Bank amounted to SDR 465 million by the end of 2021.

h. The Bank posted a net profit of SDR 9,054 thousand in 2021, representing 16.7 percent increase compared to previous year.

i. The total reserves and retained earnings of the Bank amounted to SDR 85.7 million by the end of 2021 representing an increase of 11.8 percent compared to 2020 end year figure.

j. The RoA was 1.9 percent and the RoE stood at 2.2 percent as end of December 2021 which was slightly higher than 2020 end year figures (2020; RoA-1.7 percent, RoE-1.9 percent).

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.

p. In order to strengthen the Bank's internal control system, the archives of the Bank have been transferred to digital media through implementation of a digital archiving project.

q. The Bank has been making necessary preparation and adaptation regarding phasing out of London interbank offered rate (LIBOR) and transition to alternative reference rates.

r. Internal regulatory policy documents and regulations have been reviewed and necessary updates and arrangements have been made accordingly.

s. Developments regarding the COVID-19 pandemic have been closely followed and all necessary preventive measures have been taken in order to maintain the Bank's activities without any interruption and safeguard the health and working conditions of the staff members.

Despite the challenges, the Bank was able to keep its operations running as smooth as possible through adoption of appropriate strategies. 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.

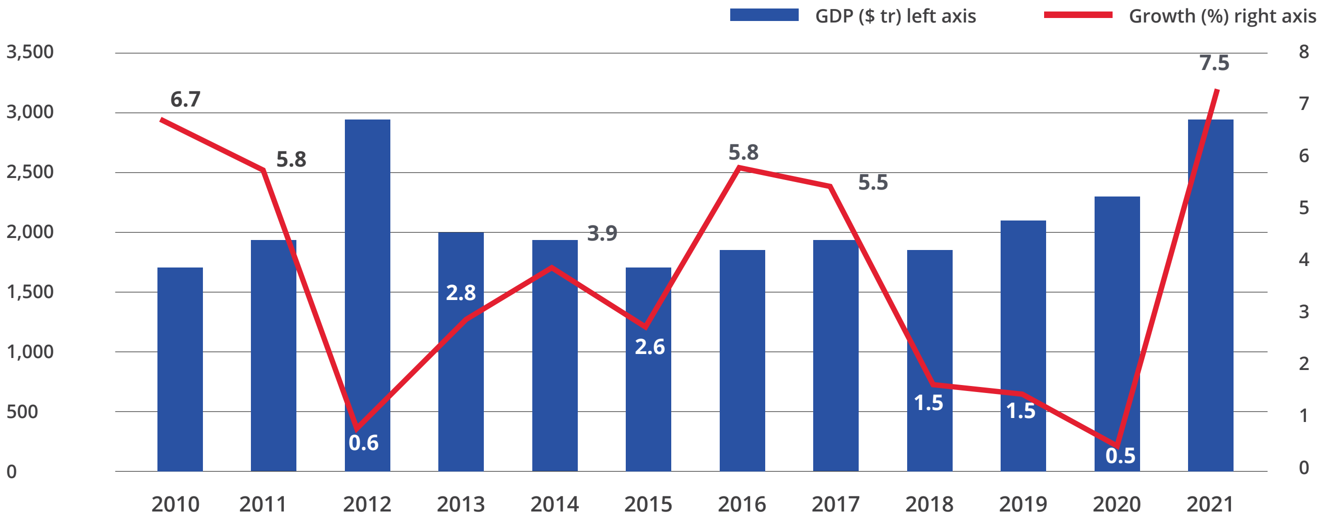
ECONOMIC OVERVIEW

In 2021 all countries in the region registered sharp rebound, moving on the path to pre-pandemic growth trajectory.

The global economy after experiencing a significant slowdown in 2020 witnessed a broad economic recovery taking hold in 2021 across various countries underpinned by successful rollout of vaccines, support provided in form of significant monetary and fiscal stimulus packages and conducive financial conditions. As per the latest IMF estimates, global GDP expanded by 6.1 percent in 2021 compared to a contraction of 3.1 percent in the previous year. Inflationary pressures built up due to higher food and energy prices, supply bottlenecks and pent up demand which led to broadening of inflationary pressures across countries. Most of the economies were starting to normalize monetary accommodation and gradually phase out the fiscal stimulus.

ECO region, similar to the global economy, witnessed a significant economic rebound with real GDP growth expanding by 7.5 percent in 2021 compared to 0.5 percent growth print achieved last year which reflected robust recovery supported by various policy measures adopted by respective member countries entailing fiscal stimulus and monetary accommodation and successful rollout of vaccines (Figure 2). 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 2020 region's economic growth slowed markedly. In 2021 all countries in the region registered sharp rebound which was supported by low base effect, robust recovery in underlying demand, easing of supply bottlenecks and lockdowns with respective economies moving on the path to pre-pandemic growth trajectory.

Figure 2: ECO Region Growth Trend



Source: ETDB staff estimates

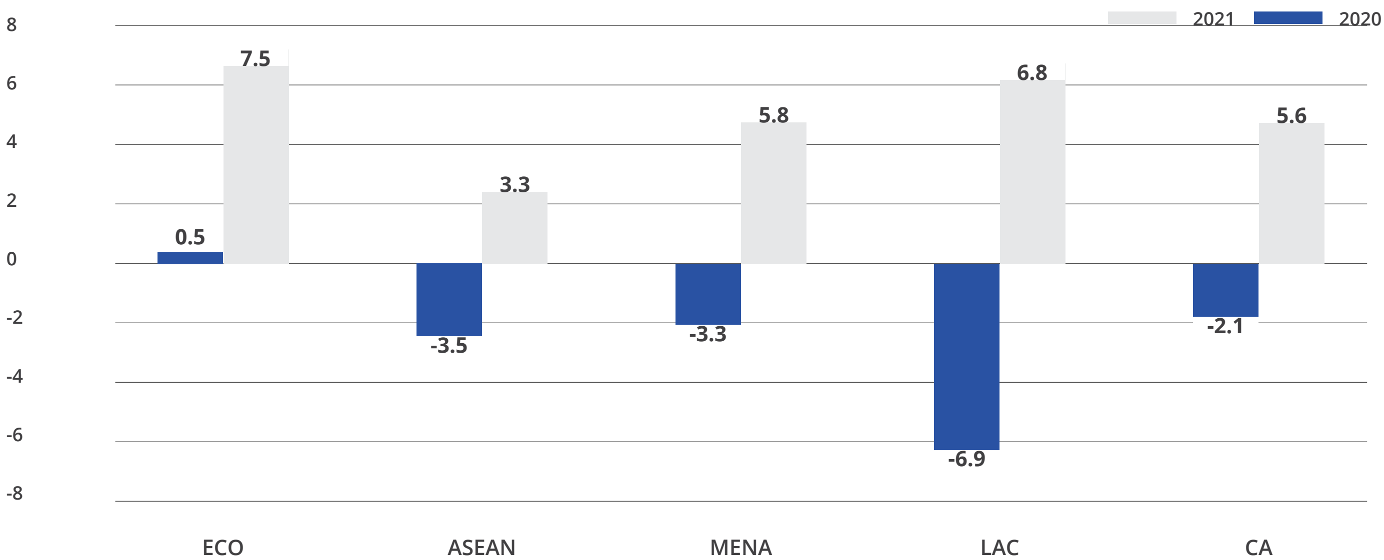
Increase in oil prices in 2021, underpinned by broad global economic recovery taking hold coupled with stabilizing global trade, especially in regards to Russian economy rebounding by 4.7 percent, led to ECO region's natural resource-dependent economies to experience a rise in commodity exports and remittances which led to stabilizing of their external accounts. Central Asian economies traditionally rely significantly on remittance flows to finance their current account balances and drive domestic consumption.

ECO region's nominal GDP stood at USD 2.9 trillion in 2021 compared to USD 2.3 trillion recorded in the previous year increasing by 26 percent and was equivalent to 3.1 percent 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 2021 GDP (PPP-based) stood at USD 6.9 trillion compared to USD 5.8 trillion last year which amounted to a growth print of 18.9 percent in nominal terms.

Living standard as measured by average nominal GDP per capita income metric stood at an estimated USD 6,225 for the ECO region in 2021, rising from USD 4,589 recorded last year. A more nuanced approach is to look at GDP per capita measured on PPP-basis to grasp a better appreciation of the change in living standards in the region. In 2021 estimated GDP per capita (PPP-based) for the ECO region, stood at USD 14,423 compared to USD 11,865 last year which amounted to a growth rate of 21.5 percent.

ECO region's comparison with other comparator regional blocks in regards to economic performance as measured by real GDP growth rate shows that it over-performed in 2021 relative to other regional blocks (Figure 3).

Figure 3: 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

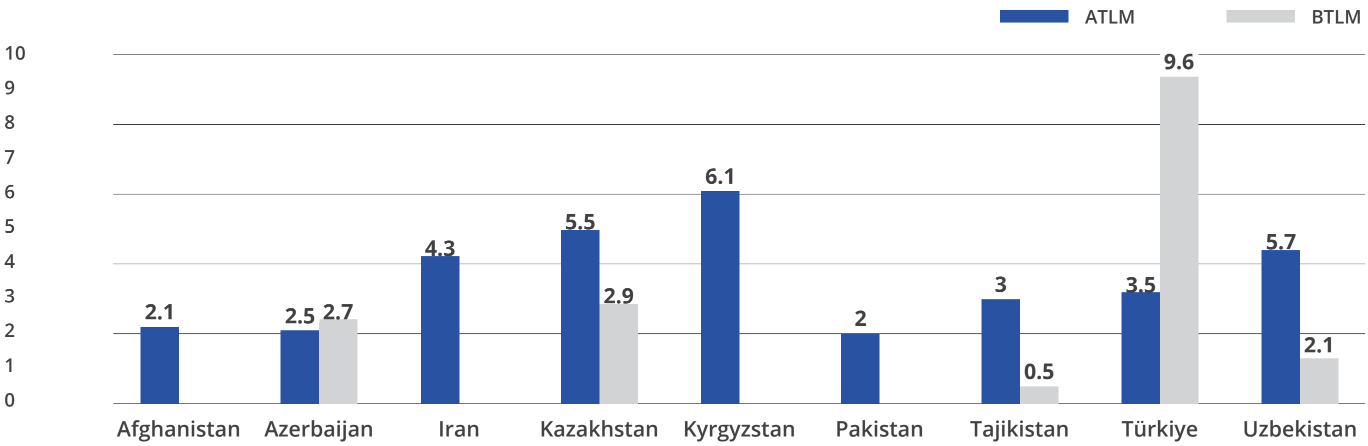
In response to the pandemic-related economic and social challenges, different member countries adopted different types of fiscal measures.

Developments in headline inflation varied across the ECO region with the region as a whole recording inflation of 20 percent in 2021 compared to 12.9 percent print last year (Table 2). In 2021 additional inflationary pressures were 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, Türkiye, Kyrgyz Republic, Turkmenistan and Uzbekistan average inflation rate reached double-digits. In Iran continued pressure on the currency led to the sharp depreciation of the Iranian rial which resulted in a spike in inflation which stood at 40.1 percent. In Türkiye inflationary pressures built up due to currency depreciation, food inflation and supply chain disruptions. Inflation rose in Uzbekistan due to rise in energy prices, increase in wages and taxes. In Azerbaijan, inflation rose to 6.6 percent in 2021 as prices picked up due to supply chain disruption and increase in commodity and energy prices.

In 2021, the regions governments' fiscal balances significantly deteriorated in almost all ECO countries amid a fall in tax revenue due to a marked slowdown in economic activity due to containment measures and the consequent fall in aggregate demand. Furthermore, the rise in fiscal expenditures as governments enacted a number of fiscal policies to provide massive stimulus to alleviate the adverse impact of the pandemic shock on households and businesses also put upward pressure on fiscal resources. Azerbaijan 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 2021 fell to 3.9 percent compared to 5.3 percent last year primarily due to rise in region's output (Table 2).

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 4 below provides the types of fiscal support provided by member countries as a percentage of GDP as of September 2021.

Figure 4: Fiscal Measures in Response to COVID-19 Pandemic (percent of GDP)



Source: Fiscal Monitor Database of Country Fiscal Measures in Response to COVID-19 Pandemic-IMF

The overall regional current account (CA) balance in 2021 switched to surplus of USD 11 billion from USD 54 billion deficit recorded last year and was equivalent to 0.4 percent of GDP compared to -2.4 percent last year (Table 2). Most countries witnessed deterioration in their CA deficits with the exception of Azerbaijan, Tajikistan, Turkmenistan and Iran which posted respective surpluses. Current account deficits across the region deteriorated due to trade disruptions, fall in remittances, and contraction in global economic output. The reversal of region's CA deficit to surplus in 2021 from deficit last year was primarily on account of Iran's current account balance switching to a sizeable surplus from the deficit recorded last year as a result of significant increase in oil revenues with the rise in oil prices. In the table listed below key economic indicators of the ECO region and member countries for 2021 are presented.

Table 2: Key economic indicators by ECO region and member countries-2021

	Real GDP Growth (percent)	Inflation (percent), average consumer	Central Gov. Budget Balance/GDP (percent)	Current Account Balance/GDP (percent)
Afghanistan	NA	NA	NA	NA
Azerbaijan	5.6	6.6	4.3	15.1
Iran	4	40.1	-4.5	2
Kazakhstan	4	8	-4.1	-2.9
Kyrgyzstan	3.7	11.9	-1.2	-5.2
Pakistan	5.6	8.9	-6.1	-0.5
Tajikistan	9.2	8.7	-2.0	2.8
Türkiye	11	19.6	-2.7	-1.8
Turkmenistan	4.9	14.9	-0.1	1.9
Uzbekistan	7.4	10.8	-4.6	-6.9
ECO	7.5	20	-3.9	0.4

Source: National Statistical Offices & IMF

ECONOMIC OVERVIEW

The total public debt of the region reached USD 1,386 billion which amounted to 46.5 percent of the regional output which is on the lower side when compared to comparator regional blocs.

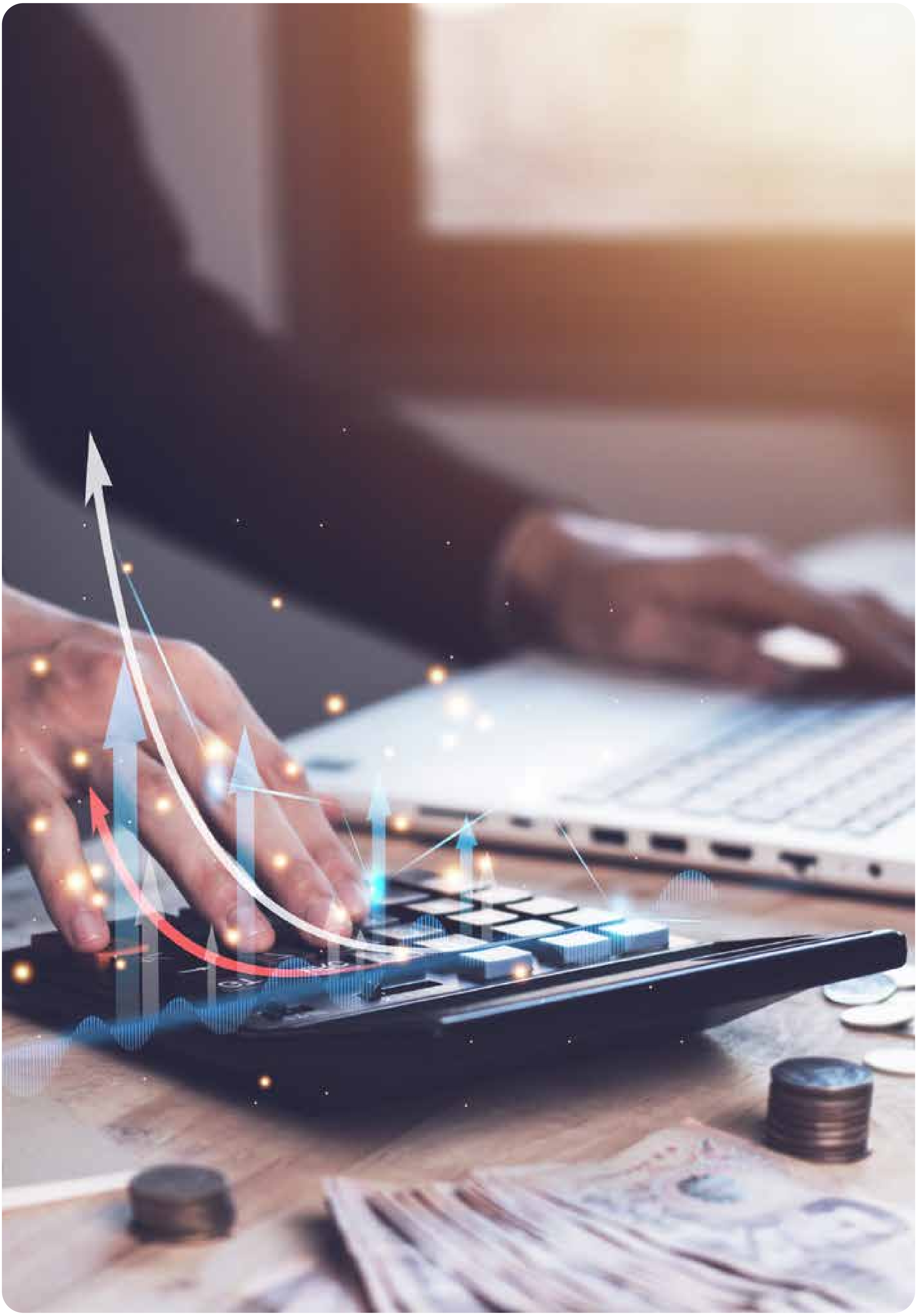
The general gross government debt to GDP ratios increased moderately across the member countries. Gross government debt to GDP ratio rose due to a rise in the fiscal expenditures and issuance of domestic debt to fund fiscal stimulus. The total public debt of the region reached USD 1,386 billion which amounted to 46.5 percent of the regional output which is on the lower side when compared to comparator regional blocs.

ECO member countries' currencies exhibited moderate volatility compared to last year. In Central Asian states pressure on respective currencies eased relative to last year as remittance flows stabilized due to economic recovery taking hold in Russia and rise in energy and commodity prices. Türkiye witnessed pressure on its currency with Turkish lira depreciating against the US dollar due to the deteriorating external imbalances. Pakistan's currency displayed volatility depreciating as rupee came under pressure due to deteriorating external balances.

Future Outlook

In 2021 global economy was projected to return to normal economic activity over the next two years following the COVID-19 pandemic negative shock and the associated economic slowdown. Similarly, ECO region after a sharp rebound observed in 2021 was expected to return to pre-pandemic growth trajectory with employment and inflation converging to historical norms.

The recent war in Ukraine which erupted in early 2022 with the Russian invasion is projected to derail the nascent global economic recovery that started to take hold in the latter part of 2021. IMF in its latest projections has downgraded global GDP growth to 3.6 percent in 2022 from earlier 4.4 percent. Similarly, ECO region will also experience the significant negative supply shock of the Ukraine crises which is projected to significantly slow the economic activity across the region and the respective economies. Inflation is expected to remain elevated for some time due to worsening of the already precarious supply chain links and food, energy and commodity disruptions, brought on by the Ukraine crises.



BUSINESS STRATEGY AND BALANCE SHEET ITEMS

The ECO Trade and Development Bank devotes necessary resources to manage credit, market, and operational risks.

In line with its mandate, the Bank continued to support the sustainable development efforts of the member countries through various products and services. The operational focus has been intensified through credit lines extended to financial institutions for supporting M-SMEs and trade activities. The total loans disbursed amounted to SDR 122 million during 2021. Loans to corporates centered for development of projects in various sectors and catering to 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 1,543 million as end of December 2021.

The Bank provides a range of short-to-long term loan products to private and public sector entities. Average tenure of the loan portfolio is monitored closely in order to ensure a constant flow of new operations in the coming years. In view of the effects of the pandemic, the Bank focused on measures to support post-pandemic recovery in the member states. The average remaining tenor of the loan portfolio of the Bank which was 1.5 years as end of 2020 increased to 1.8 years as end of 2021 due to provision of long term project finance facilities. The funds available for Bank's lending operations have been offered at near-market terms. ETDB is exposed to London interbank offered rate (LIBOR) across various modalities. The most significant is the LIBOR-based loan product, which is ETDB's main lending product. In view of the global transformation with regard to phasing out of LIBOR and transition to alternative reference rates, the Bank has set up a working group to closely monitor the developments and prepare for adoption of alternative reference rates.

Loans are normally provided under sovereign or bank guarantee, although the Bank may accept an unsecured position where this is judged to be consistent with sound banking principles.

The current members of ETDB include six ECO members namely Türkiye, Iran, Pakistan, Afghanistan, Azerbaijan and Kyrgyzstan covering majority of the ECO member states. According to "Articles of Agreement" establishing the Bank, the membership is open to all ECO member states. During 2021, in cooperation with the ECO Secretariat, the Bank continued to communicate with the remaining four ECO member states namely Kazakhstan, Tajikistan, Turkmenistan and Uzbekistan 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 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 and other 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 assess potential investment requirements and mark necessity of further enhancing operational dialogue with the public and private sector representatives. The Bank has successfully launched its credit operations in Azerbaijan and making preparations to capitalize on other investment avenues. The Bank is putting efforts to launch its operations in Afghanistan and Kyrgyzstan as well.

In consideration of the economic challenges in the member states and special business circumstances which particularly emerged due to COVID-19 pandemic, the Bank revised the targets of its 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. Additionally, 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 enabled 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 have been implemented promptly. In line with the current revised business plan and country strategy reports, the following main business means would be sustained by the Bank;

BUSINESS STRATEGY AND BALANCE SHEET ITEMS

The net income which was SDR 9.1 million by the end of 2021 remained above the business plan's target level of SDR 5.1 million.

- Maintaining a well-diversified (sector and country wise) portfolio with effective risk-management framework,
- Effective management of the loan disbursement and repayment operations
- Ensuring an updated 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.

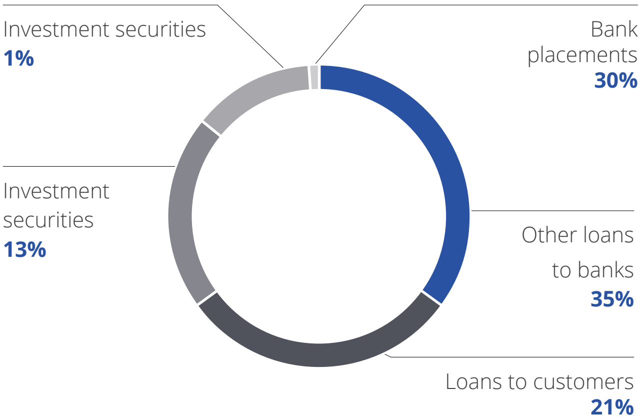
The economic activities in the member states during the year have been mainly focused on recovery from COVID-19 pandemic. In addition, due to certain operational challenges, the Bank achieved different performance regarding its operational targets projected in business plan. The outstanding loan portfolio including undisbursed commitments which reached to SDR 254 million by the end of 2021 remained below the business plan target of SDR 325 million. Average internal credit rating score assigned to the total outstanding loan portfolio of the Bank was 3.7 points by the end of 2021(2020: 3.8 points) 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. According to the funding scenario of the business plan, the total assets of the Bank were projected to amount SDR 458 million in 2021. In parallel to this projection, the total assets of the Bank amounted to SDR 465 million by the end of 2021.

The Bank has been able to continue attaining positive income levels. The net income which was SDR 9.1 million by the end of 2021 remained above the business plan's target level of SDR 5.1 million. Meanwhile, lending activities are expected to progress in the coming period through approval of series of operations and projects in the pipeline. Eventually, these would increase the Bank's outstanding loan levels to the permissible limits envisaged in the capital utilization framework. It may be underlined that while ensuring the portfolio quality, during 2022, the Bank would put efforts to achieve revised business plan targets as per the emerging business environment.

(i) Balance Sheet

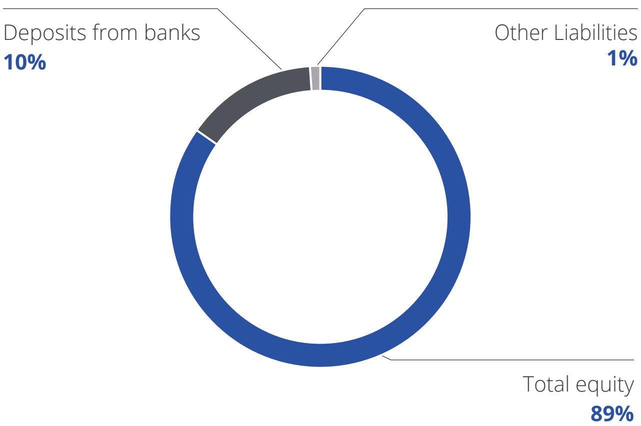
By the end of 2021, the Bank's total assets were SDR 464,692 thousand (31 December 2020: SDR 467,926 thousand). Bank placements amount to SDR 161,895 thousand representing 35 percent of total balance sheet size (31 December 2020: SDR 174,713 thousand). Loans to customers and loans to banks amount to SDR 140,780 thousand and SDR 97,485 thousand, respectively (31 December 2020: SDR 148,671 thousand and SDR 102,120 thousand).

Figure 5: Composition of Assets (31 December 2021)



As of 31 December 2021, 89 percent of the Bank's assets were funded with the members' equity which amounts to SDR 412,448 thousand (31 December 2020: SDR 403,392 thousand). Majority of liabilities were composed of money market deposits which amount to SDR 48,108 thousand (31 December 2020: SDR 59,145 thousand).

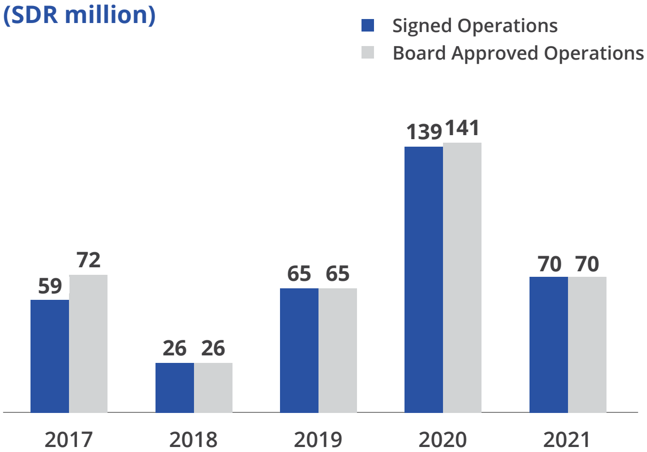
Figure 6: Composition of Liabilities & Equity (31 December 2021)



(ii) Loan Portfolio

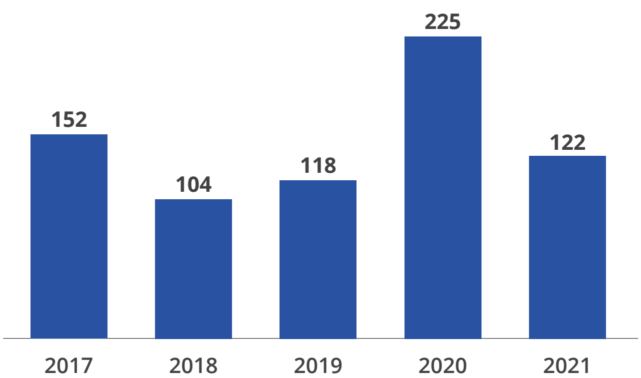
The Bank initiated loan operations in December 2008 and total approved operations (M-SME finance operations to financial intermediaries, trade, corporate and project finance operations to customers) amounted to SDR 1,869 million and among them signed operations amounted to SDR 979 million.

Signed operations vs. Board approvals 2017-21 (SDR million)



Total disbursements to these operations by the end of 2021 stood at SDR 886 million and additionally SDR 657 million of short term trade finance loans were disbursed to banks in member countries. As of 31 December 2021, total disbursed loans reached to SDR 1,543 million.

Figure 8: Annual loan disbursements 2017-21 (SDR million)



BUSINESS STRATEGY AND BALANCE SHEET ITEMS

The outstanding loan portfolio of the ECO Trade and Development Bank is SDR 238,265 thousand as of 31 December 2021 vis-à-vis SDR 250,791 thousand as of 31 December 2020.

The outstanding loan portfolio of the Bank is SDR 238,265 thousand as of 31 December 2021 vis-à-vis SDR 250,791 thousand as of 31 December 2020. Funds committed but not yet disbursed stood at SDR 16,162 thousand as of 31 December 2021.

The allocation of outstanding loan portfolio among member countries as of 31 December 2021 is as follows:

Figure 9: Portfolio development 2017-21 (SDR million)

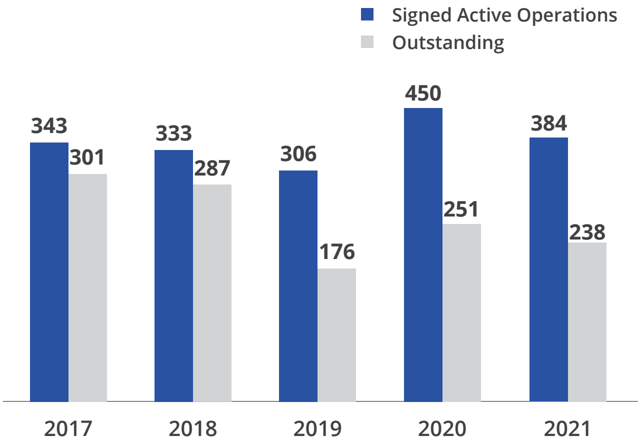
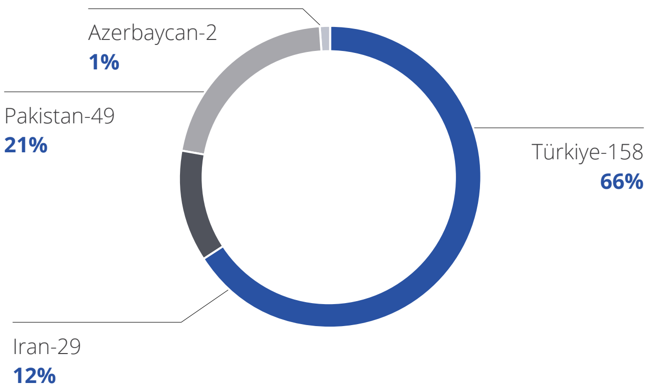
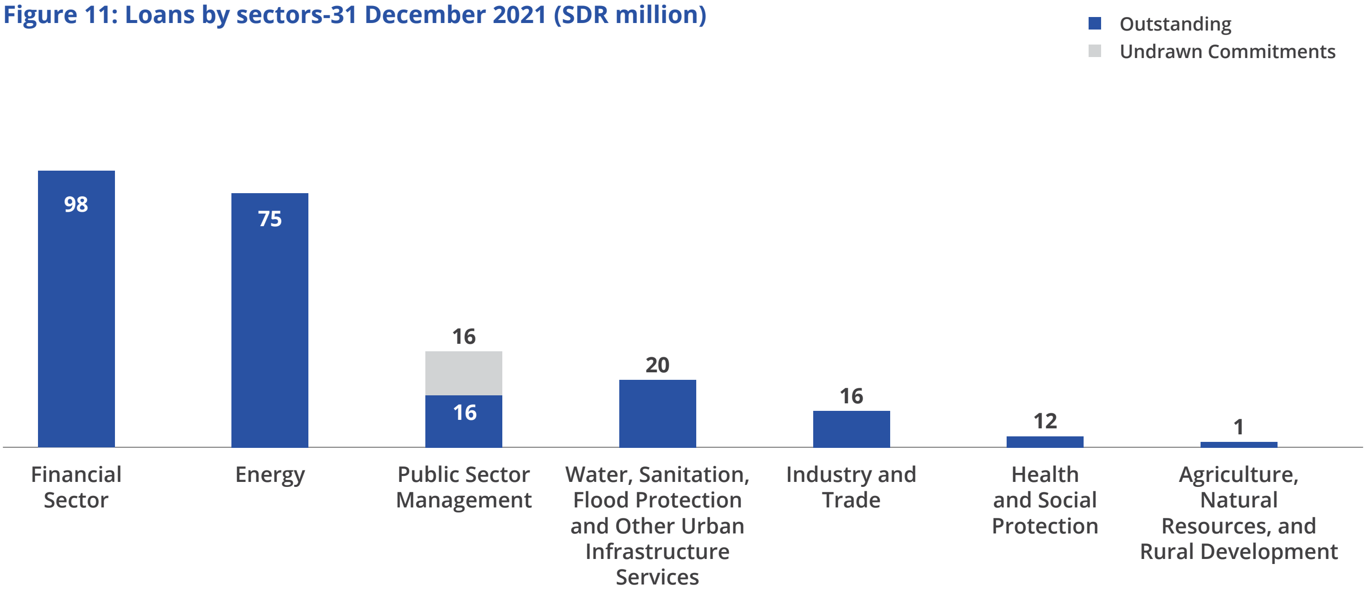


Figure 10: Outstanding loans by country- 31 December 2021 (SDR million, percentage)



In addition, the Bank attempts to diversify its operations across different sectors. In this context, diversification of operations towards finance, energy, trade, 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. Operations 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 sectors as of 31 December 2021 is as follows:

Figure 11: Loans by sectors-31 December 2021 (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 5,688 thousand in 2021 from SDR 7,164 thousand in 2020. Treasury activities in 2021 generated interest income of SDR 5,240 thousand (2020: SDR 5,359 thousand) from money market and investment securities portfolio. The Bank booked additional SDR 124 thousand loss allowance for credit risk for its financial assets in 2021 (2020: SDR 1,809 thousand). As a result, operating income for the year 2021 was SDR 12,370 thousand, indicating 9 percent increase compared to SDR 11,328 thousand in 2020.

BUSINESS STRATEGY AND BALANCE SHEET ITEMS

Strict budgetary discipline and effective cost control resulted in 24 percent decrease in general and administrative expenses from 2017 to 2021.

(iv) Expenses

Interest expense for the year decreased to SDR 482 thousand in 2021 from SDR 742 thousand in 2020, due to the decreased volume of money market deposits. General and administrative expenses decreased to SDR 3,315 thousand in 2021 from SDR 3,565 thousand in 2020.

Personnel expenses including salaries, benefits, contributions made on behalf of the employees and staff development expenses amounted to SDR 2,954 thousand (2020: SDR 3,171 thousand).

Other administrative costs which include travel, office occupancy, third party fees, maintenance costs, etc. decreased from SDR 263 thousand in 2020 to SDR 233 thousand in 2021. Overall, general and administrative expenses were well within the 2021 budget, reflecting the Bank's focus on budgetary discipline and effective cost controls.

In 2021, other operating expenses were SDR 1 thousand (2020: SDR 6 thousand). As a result, operating expenses decreased to SDR 3,316 thousand (2020: SDR 3,571 thousand).

(v) Net Income

Net profit of the Bank amounted to SDR 9,054 thousand in 2021 (2020: SDR 7,757 thousand). In 2021, the decline in total interest income continued due to the historically low levels of market interest rates. However, as a result of the decreased credit loss allowance requirement, net income increased 17 percent compared to previous year.

(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 Articles of Agreement, the Bank sets aside retained income until the reserves of the Bank reach 25 percent of the subscribed capital. As of 31 December 2021, reserves of the Bank amounted to SDR 76,644 thousands which is 7 percent of the subscribed capital.

Table 3: Financial results (2017-21)

SDR Thousand	2021	2020	2019	2018	2017
Assets	464,692	467,926	468,589	481,759	495,511
Liquid assets	221,025	211,552	286,945	183,029	183,455
Loan portfolio	238,265	250,791	176,400	287,355	301,428
Other assets	5,402	5,583	5,244	11,375	10,628
Liabilities	52,244	64,534	73,270	97,252	122,165
Borrowings	48,108	59,145	67,509	92,692	117,228
Other liabilities	4,136	5,389	5,761	4,560	4,937
Members' equity	412,448	403,392	395,319	384,507	373,346
Income	12,980	13,885	17,843	16,153	15,032
Interest and fees	11,605	13,433	15,390	14,988	13,983
Other income	1,375	452	2,453	1,165	1,049
Expenses	-3,926	-6,128	-9,752	-6,644	-5,261
Interest and fees	-486	-748	-842	-849	-924
Administrative	-3,315	-3,565	-3,773	-3,755	-4,337
Other expenses	-125	-1,815	-5,137	-2,040	-
Net profit	9,054	7,757	8,091	9,509	9,771

(vii) Provisioning

In line with IFRS 9 – Financial Instruments, the Bank established 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 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 2021, the Bank classified four of its loans as Stage 3 and all other financial assets in Stage 1. In 2021, as a result of the decrease in the volume of Stage 3 loans additional expected credit loss allowance requirement reduced to SDR 124 thousand.

(viii) Key financial indicators (2017- 2021)

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

The Bank's annual profit increased on a year-on-year basis after four years of continuous decline. Retained earnings have been added to members' equity together with the capital contributions of its new member countries. Consequently, return on equity increased to 2.2 per cent in 2021 from 1.9 per cent in 2020.

Strict budgetary discipline and effective cost control resulted in 24 percent decrease in general and administrative expenses from 2017 to 2021. Due to maturity of the short term money market deposits, leverage ratio decreased to 11.7 percent.

Table 4: Financial ratios (Percentage) 2017-21

	2021	2020	2019	2018	2017
Financial performance					
Return on members' equity	2.2	1.9	2.1	2.5	2.7
Return on average assets	1.9	1.7	1.7	1.9	2.0
Net interest margin		1.8	1.9	2.4	2.2
Interest income/average interest bearing assets	2.4	2.7	3.2	3.0	2.9
Efficiency					
General & Administrative expenses / revenues	28.6	26.5	24.7	25.1	31.0
Leverage					
Total debt / members' equity	11.7	14.7	17.1	24.1	31.4
Capital strength					
Outstanding loans/members' equity	57.8	62.2	44.6	74.7	80.7

BUSINESS ACTIVITIES

Since 2008, when the ECO Trade and Development Bank started its credit operations, the total loans disbursed to various operations amounted to SDR 1,543 million as end of 2021.

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 challenging situation in the member states in 2021 has continued with volatile markets coupled with the effects of the pandemic. Despite challenges in some member countries, ETDB pursued its operations in order to support growth and economic prosperity in the member states.

The funds available for Bank's lending operations have been offered at near-market terms. Loans are normally provided under sovereign or bank guarantee, although the Bank may accept an unsecured position where it is judged to be consistent with prudent risk perspective. The process of selecting projects and operations is based on the assessment of additionality and development effect. The financial structure of a project/transaction, financial strength of the sponsors, technology, collaterals, tenor, and sector are also taken into consideration for credit decision. 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 1,543 million as end of 2021.

Table 5: Loan disbursements during 2008-2021 as per country (SDR Million)

	Iran	Pakistan	Türkiye	Azerbaijan	Total
SME/M-SME Dev. Loans	34	43	204	2	283
Short term trade finance	64	111	478	4	657
Trade/Corporate finance	60	307	77	-	444
Project finance	64	38	57	-	159
Total	**222**	**499**	**816**	**6**	**1,543**

In line with its mission to foster the growth of intra-regional trade and sustainable economic development and integration, ETDB has developed two main facilities which are carried through partner banks and financial institutions based in member countries. The selection process of financial intermediaries participating to the following facilities is carried through appraisal and due diligence requirements set forth in the policies and guidelines of the Bank.

The Bank allocates limits to participating financial intermediaries according to their soundness and reliability as well as the sector disbursement targets. In coming years, the Bank aims to extend the network of financial intermediaries in member countries and develop products in order to be able to diversify its portfolio in terms of countries and customers.

(i) M-SMEs Development Finance Facility

One of the Bank's priorities is to support Micro and Small & Medium Enterprises (M-SMEs), which are critical for the economic and social development in the ECO region. They play a major role in creating jobs and generating income for low income people. 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. ETDB works to increase access of M-SMEs to financial services in the member countries by providing funding to banks and financial institutions focusing on Micro and SME financing.

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.

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 in this sector is supported as well. During 2008-2021, the Bank disbursed SDR 283 million M-SME facilities to the qualified customers in the member states.

In 2021, ETDB disbursed SDR 8 million more to M-SME enterprises which have been allocated for different industries. Based on the data provided by the partner financial institutions, SMEs which benefitted from these funds were mainly active in the manufacturing, energy, mining, agriculture and forestry, construction, textile, machinery & equipment sectors, thereby contributing to the economic development and job creation. In addition, it is considered that over 44,000 micro-entrepreneurs have benefitted from intermediated funds of the Bank. The top three sectors were agriculture (47 percent), enterprise (22 percent) and livestock (18 percent). The total outstanding loans under this facility stood at SDR 30.7 million as end of December 2021.

(ii) Trade Finance Facility

In order to provide financial facilities to expand intra-regional trade, ETDB provides short-term loans with a tenor of up to 2 years to selected banks and financial institutions 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 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 facility. During 2008-2021, total disbursed loans under trade finance facility to member countries amounted to SDR 657 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 and disbursed a USD 25 million project finance loan, in collaboration with Development and Investment Bank of Türkiye (TKYB), for the financing of the establishment of a wind power plant in Türkiye.

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 total loans disbursed under this facility were amounted to SDR 30 million during 2021. In terms of trade, the top sectors for import/export transactions were chemical & mineral materials and also textiles. Extending the network of financial intermediaries in the member countries to participate in the trade finance facility will be the main goal of the Bank in the coming years. The total outstanding loans under this facility stood at SDR 66.8 million as end of December 2021.

(iii) Corporate and Project Finance

The Bank directly 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 2008-2021 period including undisbursed commitments under corporate and project finance operations have been intensified and amounted to SDR 620 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 2021, the Corporate and Project Finance (CPF) has been active in initiating contacts with new clients for new transactions, staying in contact with other Multilateral Financial Institutions for co-financing opportunities and starting new connections with global business advisors regarding greenfield projects in the member states. Another important activity of CPF department was the monitoring of the existing projects in the portfolio of the Bank. The sectors which were looked into were infrastructure development, telecommunication, 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 year affected by the second wave of the coronavirus outbreak, the businesses in the member states had ups and downs during lockdown periods. Businesses started to rebound as the imposed measures loosened up in the second half of the year.

In collaboration with Development and Investment Bank of Türkiye (TKYB), the Bank concluded and disbursed a USD 25 million project finance loan to Ulu Yenilenebilir Enerji Üretim A.Ş for the financing of the establishment of a 120 MW-wind power plant located in Bursa province in Türkiye. The plant will be producing about 270 million kWh from wind power that will help lower the import of natural gas of the country.

A trade loan of EUR 20 million to Vestel Elektronik Sanayi ve Ticaret A.Ş was approved and disbursed for the export activities of the company. The loan is a two year term corporate loan which will support the import, manufacturing and export cycle of Vestel Elektronik Sanayi ve Ticaret A.Ş which is a leading white and brown goods manufacturer and will contribute to the exports of Türkiye.

A 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. With this facility the overall direct support of our bank to GOP for meeting its oil/gas requirement for energy production since 2014 reached to USD 225 million in total.

BUSINESS ACTIVITIES

During the year, the disbursement, implementation and monitoring activities of concluded project finance deals continued.

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 preempt any signs of weakness. During the year, the disbursement, implementation and monitoring activities of concluded project finance deals continued. In this respect, the Bank continued its disbursements on the loan provided to the Istanbul Seismic Risk Mitigation and Emergency Preparedness Project for the reconstruction of public schools in Istanbul for earthquake measures.

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 amounted to SDR 157 million as end of December 2021.

The ECO Trade and Development Bank cooperates actively with other international development institutions in order to conduct co-financing arrangements in the common member states.

Table 6: Examples of Corporate and Project finance operations during 2008-2021

#	Name of Client	Operation	ETDB Loan Amount (USD)	Total project cost (USD)
1.	Istanbul Metropolitan Municipality / Türkiye	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	Mazandaran Power Transmission Project/Iran	Expansion and modernization of electric transmission and distribution infrastructure	24,300,000	40,000,000
10.	Harappa Solar (Pvt) Limited/ Pakistan	Solar Power Farm Project	8,221,350	24,618,000
11.	Government of Pakistan	Trade Finance Facility-Syndication	50,000,000	500,000,000
12.	Government of Türkiye	Istanbul Seismic Risk Mitigation and Emergency Preparedness (ISMEP) Project	48,664,000	-
13.	Government of Türkiye	Soft loan (COVID-19 Recovery)	18,249,000	-
14.	Vestel Elektronik San. ve Tic. A.Ş./ Türkiye	Corporate Finance -Trade Finance Facility	22,726,000	-
15.	Ulu Yenilenebilir Enerji Üretim A.Ş./ Türkiye	Wind Power Plant Project	25,000,000	-

TREASURY OPERATIONS

As end of 2021, the total treasury portfolio stood around SDR 221 million.

The major functions of ETDB Treasury include a) cash flow management; b) market and liquidity risk management.

a) Cash Flow Management

Regarding the cash flow management, Treasury 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 monitored daily and managed by the Treasury Department under the supervision of the Asset Liability Committee of the Bank (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.

(i) Currency Risk Management

As a multilateral 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.

(ii) 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.

(iii) 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 percent 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.

While maintaining the adequate liquidity cushion and managing the relevant risks, the treasury operations continued to make the best possible use of funds. 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.

As end of 2021, the total treasury portfolio stood around SDR 221 million. Treasury made interest income (money market + securities) of SDR 5.2 million and net swap income of SDR 1.06 million for the year 2021.

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 strategy of the Bank is to allocate a certain amount of its annual budget to technical assistance activities in order to co-finance and mobilize external grant sources from bilateral and multilateral donors.

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. 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

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.

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. The Compliance and Risk Management functions are responsible for policy formulation and review, assessment, monitoring and reporting. In addition, the independent audit function provides 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.

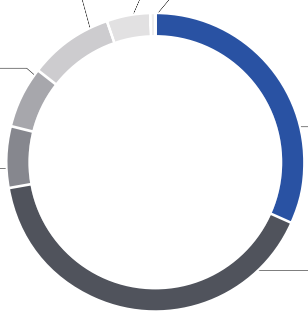
RMD also provides inputs on supervision and monitoring reports submitted by the business departments and updated the internal credit rating of obligors based on the latest financial data. This was done to highlight deterioration (if any) in the overall financial health of the borrower in terms of deterioration in the internal 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 2021 (2020; 3.8 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 decreased to SDR 31 million by the end of December 2021 which was SDR 39.9 million as end of 2020. Sovereign guarantees are held as collaterals against loans to customers that are classified under Stage 3. In 2021, as a result of the decrease in the volume of Stage 3 loans, the Bank lowered its expected credit loss allowance by SDR 510 thousand compared to previous year.

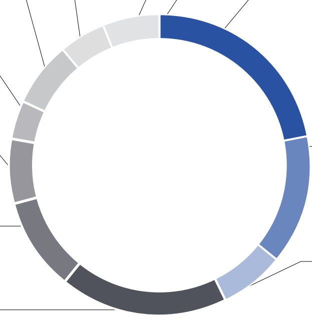
As of December 2021, the share of financial sector continued to have the largest share in ETDB loan portfolio and was realized as 41 percent which is a carbon copy of December 2020 but down significantly compared to 2019's 58 percent which is a sovereign risk and is of short-term nature. The second largest share in the sector distribution belongs to Energy which came with a share of 32 percent (39 percent in December 2020) and is up by 10pps 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 2021, there is no sector concentration risk within its CPF loan portfolio as more than half of this portfolio is of short-term nature and carries a sovereign risk.

Breakdown of outstanding loans by sectors-2021



ETDB loan portfolio also doesn't carry a sub-sector concentration risk as well as all the CPF portfolio is in compliance with relevant policy guidelines and thresholds.

Breakdown of outstanding loans by sub-sectors-2021



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 follows three separate functions with respect to credit operations: assessment of environmental factors, project procurement processes, and monitoring of implementation.

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. Based on department's procedural documents, these responsibilities include operations in both Corporate Project Finance (CPF) and Banking & Non-Banking Financial Institutions (BNFI) departments although the role in former is more pronounced. Each function has an objective which needs to be followed in order to assure proper planning and execution of operation activities described as operation implementation and is carried out in the best interest of the operation, client, and the bank.

The environment function assures that operations are implemented according to internationally recognized standards of environmental regulations and principles in order to promote environmental soundness and sustainable development in the bank's member countries. 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.

The objective of procurement function is to assure that funds allocated to operations are expended solely for the purpose of achieving operations' objectives in an efficient, economical, fair, and transparent manner. In this respect, the department 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.

The responsibilities of monitoring function of the department starts with inception of an operation in the bank and lasts until the repayments are made and operation is completed.

Throughout this period, the department 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. The data bases for financial transactions related to operations are updated daily and monthly exception and annual supervision reports are provided to the credit committee.

In addition, monitoring the timely presentation of financial documents required in the loan agreement by the clients is part of the responsibilities of monitoring function of the department.

The responsibilities of monitoring function of the department starts with inception of an operation in the bank and lasts until the operation is completed.

In the past year, PIMD continued its activities on the active operations. By end of 2021, Birjand Waste Water Treatment Plant with capacity of 250l/s of raw waste water for the population 140,000, the construction reached 87 percent physical progress with scheduled completion in March 2022. By mid-2021, ISMEP public schools reconstruction projects which include reinforcement and rebuilding of schools against earth quake in Istanbul concluded its tendering process for selection of contractors and disbursements to contractors began ending the year with 20 percent physical progress.

Also, Ulu Wind Power Plant project which will have a capacity of generating 120MW of electricity through operation of 29 turbines, the agreement was signed and disbursement was made so that by end of the year it had made 35 percent physical progress in total project. Vestel Trade Loan for imports of electronic parts and export finished household appliances was signed toward the end of 2021 and disbursement was made.

ITFC Syndicated Trade Loan of Government of Pakistan completed its repayment process and other projects which are already in operation such as Zorlu Wind Farm, Harappa Solar Power Plant, Soft Loan to Government of Türkiye for COVID-19 pandemic (in the grace period), Siazakh Irrigation Network, Shahriar Waste Water Treatment Plant, and Mazandaran Power Transmission projects continued with their repayments throughout the year.

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 2021, twelve (12) Credit Committee meetings (including one Voting without meeting) were convened to discuss various credit proposals and 37 decisions were approved. Afterwards, the accepted credit proposals are submitted for the final decision of the BoDs.

FINANCIAL CONTROL

Financial Control department involves in activities of monitoring all movement of funds both inflow and outflow through the Bank's accounts.

According to the organizational structure, Financial Control (FC) department involves in activities of monitoring all movement of funds both inflow and outflow through the Bank's accounts, acts as a support function to business departments for loan disbursement and administration and as a back-office support function for treasury department. Loan disbursements, repayment administration of facilities are carried based on the terms and conditions of the loan agreements. The department also performs payments of administrative expenses and personnel payments according to the Bank's policies and procedures. The payment processes are reviewed in order to ensure costs control, accurate payments and budget limitation.

In addition, daily reconciliation of "Nostro" accounts, management of share capital contributions from the member states, control of cash flow of the Bank and opening required "Nostro" accounts in various currencies held with correspondent banks are among the responsibilities of the department. Management of Nostro accounts is carried delicately in order to reduce the settlement risks/ costs and facilitate the operations of the Bank. Accordingly, the department executes all accounting entries in compliance with international financial reporting standards (IFRS) in the SAP system.

Necessary support is provided to other departments for presentation of financial reports, preparation of policies, rules, procedures and appropriate technical details whenever required, providing audit confirmation for the Bank's clients as well as the correspondent banks.

INFORMATION TECHNOLOGY (IT) SERVICES

In order to increase efficiency of business workflows and reduce physical storage needs, the Bank has initiated the Digital Archiving Project and established a Digital Archive Working Group.

The Information Technology (IT) Department developed and maintained an 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 also provided a helpdesk function for assistance to all ETDB staff with use of MS Office Professional and other related software and hardware. Besides the software support, this helpdesk support additionally covered connection problems, password reset, file services, printer services, internet services, email services, telephony services, online virtual meeting platforms and remote office access for all staff members, etc.

During 2021, 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 pandemic. 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 area of SAP Banking Application Project through customization of "SAP System" for the delivery of new business requirements & functions, realization of change requests for enhancement of the existing functionalities, trouble-shooting of general or end-user problems encountered in the use of SAP, revision security system parameters in line with recommendations of the external auditor and performance tuning via SAP Operating System (BASIS) support.

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 and established a Digital Archive Working Group (DAWG) for this purpose. Within the scope of this project all physical documents are scanned and converted into PDF format by departments and transferred to secured drivers with read-only access, as they will serve as official documents of the Bank. In this respect, the Procedure for the "Management of Official Records and Archives" of the Bank has been revised to cover details of the Digital Archive process, including document disposal.

Based on the new requirements, IT Department has improved and updated the functionalities of the proprietary application (SEA) for managing attendance of the staff members.

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 according to the business needs and processes.

INTERNAL AUDIT FUNCTION

The Internal Audit Department 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.

The Internal Audit Department (IAD) was established following the approval of the Organizational Structure Policy approved by the Board of Directors in 2007. In line with its defined roles and responsibilities, 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 work processes of the various units in the Bank in order to ensure that they are being carried out efficiently and effectively in adherence to policies, procedures, guidelines and the Credit Operation Manual (COM) of the Bank.

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

During the 2021-2022 audit year, IAD in line with the Bank's goals & objectives and in adherence to the internal audit plan carried out the following activities:

Prepared and 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 to ensure compliance with business objectives and also to ensure that risks identified are managed within each internal audit assignment. Based on the outcome of the field work and testing of the control points, IAD prepared audit reports providing details of the audit activities and where necessary made recommendations to mitigate the same. Additionally, IAD followed up on the adequacy of the actions taken on recommendations made in the previous audit reports so as to ensure that effective remedial actions were taken on the audit findings and advised the Management and Audit Committee accordingly.

During the audit year 2021-22, IAD carried out audit of the following units in the Bank and prepared audit reports.

- Financial Reporting & Budget (FRB);
- Asset Management (FRB, ASD, IT);
- Post Evaluation Activities (OCE);
- Business Continuity Process (IT, HRD, ASD);
- Follow up on previous audit reports.

Based on the outcome of the field work and testing of internal control points, IAD identified gaps (if any) in the existing control environment and in the overall risk management and made recommendations to enhance them.

Future plans and audit activities will be based on the Risk Based Internal Audit (RBIA) Plan which IAD prepares after discussing it with the Management Committee (MC) and with the Audit Committee and which is prepared every year prior to the BOG meeting. On approval of RBIA Plan, IAD will develop audit programs and identify the internal control points of the units planned to be audited during the year. Additionally, IAD will also follow up on the status of previous audit findings and report the same to the MC.

COMPLIANCE FUNCTION

The Bank has established necessary internal controls based on 'four eyes principle' and proper segregation of duties within the Bank's departments.

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 2021, there was no 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 Disciplinary Committee and 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 2021 audit, the Bank's auditor is 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. During the 15th ECO Summit, which was held in Turkmenistan on November 28, 2021, while recognizing the growing interest of ECO member states in joining the Bank, emphasized the need to strengthen the Bank's role in supporting and financing ECO projects and programs, including establishing cooperative ties with international development partners. Membership of remaining ECO member states 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, 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 5th ECO Ministerial Meeting on Finance and Economy in May 2021 and the 37th session of the Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Cooperation (COMCEC) in November 2021.

Beside, joining the 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 continues to be 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, the Bank aims adoption of best international standards and practices 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.

ETDB is adhered to the principle of selecting the best candidate for the job, with preference to the citizens of the member states. At the end of 2021, ETDB had a total of 34 employees (2020-year end: 37) from member states including 3 members of the Management and 23 professional 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

In 2021, administration of compensations and benefits has been done in-house. In 2021, Benefit System Policy of the Bank has been reviewed and amendments were made in order to encourage staff members to enroll their children for studying in ECO member countries and rationalize certain benefits.

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 2021, with the changing working environment due to pandemic conditions employees were motivated to attend virtual seminars, conferences and training programs. Accordingly training needs analysis conducted by the department heads and division heads in order to match individual skills and needs for professional competency with the work requirements.

ETDB 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.

In 2021, amendments related to cash award payment and step increase were approved by the BoDs in "Guidelines for Performance Appraisal System". The Bank regularly reviews its HR policies in order to support the achievement of the institutional goals and ensure compliance of its HR procedures with the legal requirements and international best practices.

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 which is approved by the BoGs. The Business Plan is comprised of the strategic, operational and financial plans of the Bank. It 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 Articles of 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 2021, annual budget and resource allocation process were executed in parallel with preparation of 2022 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 20th Annual Meeting of the Board of Governors was held virtually on 24 June 2021. At the meeting, the Board members reviewed the performance of the Bank and approved the 2020 Financial Statements annexed to the 2020 External Audit Report. The Board also designated the Governor of the Islamic Republic of Afghanistan as the Chairman for one year term starting from 24 June 2021.

BOARD OF DIRECTORS MEETINGS

As a responsible body for the overall guidance of the Bank's operations, the Board of Directors held 6 meetings during the year of 2021. 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, 6 urgent decisions were also taken via "voting without meeting" procedure in line with the requirements of the Bank during 2021. 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.

THE ECONOMIC COOPERATION ORGANIZATION TRADE AND DEVELOPMENT BANK

Financial Statements as at and for the year ended 31 December 2021
With Independent Auditors' Report Thereon

THE ECONOMIC COOPERATION ORGANIZATION TRADE AND DEVELOPMENT BANK

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Building a better working world

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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 2021, 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 2021, 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 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.

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
Partner

İstanbul, Turkey
18 April 2022

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

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

	Notes	31 December 2021	31 December 2020
ASSETS			
Due from banks	13	161,895	174,713
Loans and advances to banks	14	97,485	102,120
Loans and advances to customers	15	140,780	148,671
Investment securities	16	59,130	36,839
Derivative financial instruments	12	1,229	809
Property and equipment	17	3,017	3,061
Investment property	18	974	999
Intangible assets	19	2	4
Other assets	20	180	710
Total assets		**464,692**	**467,926**
LIABILITIES			
Deposits from banks	21	48,108	59,145
Derivative financial instruments	12	73	930
Employee benefits	22	3,128	3,508
Other liabilities	23	935	951
Total liabilities		**52,244**	**64,534**
EQUITY			
Share capital	24	326,750	326,750
Reserves	24	76,644	68,885
Retained earnings		9,054	7,757
Total equity		**412,448**	**403,392**
Total liabilities and equity		**464,692**	**467,926**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

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

Profit or Loss	Notes	31 December 2021	31 December 2020
Interest income	25	10,928	12,523
Interest expense	25	(482)	(742)
Net interest income before impairment for credit risks		**10,446**	**11,781**
Impairment (loss)/gain for credit risks, net	9.2.6	(124)	(1,809)
Net interest income after impairment for credit risks		**10,322**	**9,972**
Fee and commission income	26	677	910
Fee and commission expense	26	(4)	(6)
Net fee and commission income		**673**	**904**
Net trading income		1,306	450
Other operating income		69	2
Total operating income		**12,370**	**11,328**
Personnel expenses	27	(2,954)	(3,171)
Other administrative expenses	27	(233)	(263)
Depreciation and amortization	17, 18, 19, 27	(128)	(131)
Other operating expenses	27	(1)	(6)
Total operating expenses		**(3,316)**	**(3,571)**
Net profit for the period		**9,054**	**7,757**
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss			
Re-measurement (loss)/gain on defined benefit plans	22.3	2	(4)
Other comprehensive income		**2**	**(4)**
Total comprehensive income		**9,056**	**7,753**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

(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 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	22.3	-	(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	24.1	320	-	-	-	320
Appropriation of profit		-	-	8,091	(8,091)	-
Total contributions and distributions		**320**	**-**	**8,091**	**(8,091)**	**320**
Balance at 31 December 2020	**24**	**326,750**	**(6)**	**68,891**	**7,757**	**403,392**
Balance at 1 January 2021		**326,750**	**(6)**	**68,891**	**7,757**	**403,392**
Total comprehensive income						
Profit for the period		-	-	-	9,054	9,054
Other comprehensive income						
Re-measurement gain/(loss) on defined benefit plans	22.3	-	2	-	-	2
Total comprehensive income		**-**	**2**	**-**	**9,054**	**9,056**
Transactions with members of the Bank						
Contributions and distributions						
Increase in paid-in share capital	24.1	-	-	-	-	-
Appropriation of profit		-	-	7,757	(7,757)	-
Total contributions and distributions		**-**	**-**	**7,757**	**(7,757)**	**-**
Balance at 31 December 2021	**24**	**326,750**	**(4)**	**76,648**	**9,054**	**412,448**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

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

	Notes	31 December 2021	31 December 2020
Cash flows from operating activities			
Net profit for the period		9,054	7,757
Adjustments for:			
Depreciation and amortization	17, 18, 19, 27	128	131
Net impairment loss/(gain) on financial assets	9.2.6	124	1,809
Accrued interest and expenses		147	(343)
Measurement of derivative financial instruments at fair value	12	(1,277)	392
Provision for employee benefit obligations		282	345
Other non-cash items		(297)	(936)
Cash flows from operating activities before changes in operating assets and liabilities		**8,161**	**9,155**
Changes in:			
Due from banks		21,791	10,972
Loans and advances to banks		4,668	(24,824)
Loans and advances to customers		7,219	(51,179)
Other assets		457	(544)
Employee benefits		(840)	(100)
Deposits from banks		(10,998)	(8,354)
Other liabilities		599	(331)
Net cash from/(used in) operating activities		**31,057**	**(65,205)**
Cash flows from investing activities			
Acquisition of investment securities	16	(34,606)	(18,936)
Proceeds from redemption/sale of investment securities	16	14,261	4,115
Acquisition of tangible assets	17, 18, 31	(57)	(7)
Net cash from/(used in) investing activities		**(20,402)**	**(14,828)**
Cash flows from financing activities			
Increase in paid-in share capital	24.1	-	320
Net cash from/(used in) financing activities		**-**	**320**
Net increase/(decrease) in cash and cash equivalents		**10,655**	**(79,713)**
Cash and cash equivalents at 1 January		72,236	151,842
Effects of exchange-rate changes on cash and cash equivalents		(1,282)	107
Cash and cash equivalents at 31 December	**11**	**81,609**	**72,236**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(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 2021, the number of employees of the Bank is 34 (31 December 2020: 37).

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 2021 on 18 April 2022 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 2021

(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 to the carrying amounts of assets and liabilities is included in the following notes.

- Note 7.18. – 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(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 2021 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 2021. Several amendments and interpretations apply for the first time in 2021, 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 2021	31 December 2020
1 EU (SDR) =	United States Dollar	1.3996	1.4403
	Euro	1.2375	1.1838
	Chinese Yuan	8.9159	9.4120
	Japanese Yen	159.8471	149.2553
	British Pound	1.0418	1.0732
	Turkish Lira	18.6550	10.6859
	Iranian Rial	344,068.000	367,931.0000
	Pakistani Rupee	246.9855	230.7311

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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7.3. Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

7.3.1. Bank acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of office premises the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analysing the borrowing cost over a similar term in the respective country.

Lease payments included in the measurement of the lease liability comprise the following:
- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

7.3.2. Bank acting as a lessor

At inception or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Bank acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

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.

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

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.

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.

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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.

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.

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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.

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.

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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.

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.

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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.

7.5.7. Impairment

The Bank recognises loss allowances for expected credit losses on the following financial instruments that are not measured at FVPL:

- due from banks;
- 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.

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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.

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.

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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.

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).

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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).

7.8. Due from banks

'Due from banks' 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).

7.9. 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 14 and 15).

7.10. Investment securities

The 'investment securities' in the statement of financial position are 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.

7.11. 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 operating 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.

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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:

	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 17).

7.12. 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 18).

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

7.13. 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 19).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

7.14. 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.

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.

7.15. 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.

7.16. 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 28).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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7.17. 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.

7.18. Employee benefits

7.18.1. 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 are not participant to the first pillar of the Bank's pension plan. The Bank has no further payment obligations once the contributions have been paid.

7.18.2. 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 employees who are not subject to Turkish State Social Security 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's 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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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.

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 as of 31 December 2019 and projections for the year 2021 in the related report (Note 22.1).

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 22.1). 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 and investments made on behalf of the pension plan (Note 25).

7.18.3. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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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 22.2).

7.18.4. 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.

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 22.3).

7.19. 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.

7.20. 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 29).

7.21. Comparatives

Comparative figures are reclassified, where necessary, to conform to change, in presentation of the 31 December 2021 financial statements.

NOTE 8 – THE NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

The accounting policies adopted in preparation of the financial statements as at 31 December 2021 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 2021 and thereafter. The effects of these standards and interpretations on the Bank's financial position and performance have been disclosed in the related paragraphs.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

8.1. The new standards, amendments and interpretations which are effective as at 1 January 2021

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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

Amendments to IFRS 16 - Covid-19-Related Rent Concessions and Covid-19-Related Rent Concessions beyond 30 June 2021

In May 2020, the IASB amended IFRS 16 to provide relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic (2020 amendment). The 2020 amendment does not apply to lessors. In March 2021, the Board amended IFRS 16 to extend the availability of the practical expedient by one year (2021 amendment). The practical expedient in the 2021 amendment applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 31 December 2022, provided the other conditions for applying the practical expedient are met. The amendment applies to annual reporting periods beginning on or after 1 April 2021.

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.

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

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 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 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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

Amendments to IAS 8 - Definition of Accounting Estimates

In February 2021, the Board issued amendments to IAS 8, in which it introduces a new definition of 'accounting estimates'. The amendments issued to IAS 8 are effective for annual periods beginning on or after 1 January 2023. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors. The previous definition of a change in accounting estimate specified that changes in accounting estimates may result from new information or new developments. Therefore, such changes are not corrections of errors. This aspect of the definition was retained by the Board. The amendments apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of the effective date. Earlier application is permitted.

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

Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies

In February 2021, the Board issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments issued to IAS 1 are effective for annual periods beginning on or after 1 January 2023. In the absence of a definition of the term 'significant' in IFRS, the Board decided to replace it with 'material' in the context of disclosing accounting policy information. 'Material' is a defined term in IFRS and is widely understood by the users of financial statements, according to the Board.

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In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and the nature of them. Examples of circumstances in which an entity is likely to consider accounting policy information to be material have been added.

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

Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments issued to IAS 12 are effective for annual periods beginning on or after 1 January 2023. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability. The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for all deductible and taxable temporary differences associated with leases and decommissioning obligations should be recognized.

The amendments are not applicable for the Bank and will not have an impact on the 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 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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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.

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 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.

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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 risk and sector risk.

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 2021 are as follows:

	31 December 2021	31 December 2020
Due from banks	161,895	174,713
Loans and advances to customers	140,780	148,671
Loans and advances to banks	97,485	102,120
Investment securities	59,130	36,839
Derivative financial instruments	1,229	809
Total	**460,519**	**463,152**

As of 31 December 2021, the Bank has no assets held for resale (31 December 2020: None).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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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 2021	31 December 2020
Treasury portfolio		
Due from banks	161,895	174,713
Investment securities	59,130	36,839
Derivative financial instruments	1,229	809
Total treasury portfolio	**222,254**	**212,361**
Loan portfolio		
Customers-Trade/Corporate finance	71,380	94,053
Project finance	69,400	54,618
Financial institutions-Trade finance	66,788	61,267
Financial institutions-SME support program	30,697	40,853
Total loan portfolio	**238,265**	**250,791**
Total	**460,519**	**463,152**

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.

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

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The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 7.5.7.

	31 December 2021				31 December 2020
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Due from banks					
3: Strong	48,260	-	-	48,260	704
4: Good	45,488	-	-	45,488	133,787
5: Fair	69,513	-	-	69,513	41,561
	163,261	-	-	163,261	176,052
Loss allowance	(1,366)	-	-	(1,366)	(1,339)
Carrying amount	**161,895**	**-**	**-**	**161,895**	**174,713**
Loans and advances to banks at amortised cost					
3: Strong	47,767	-	-	47,767	2,785
4: Good	34,831	-	-	34,831	82,777
5: Fair	14,271	-	-	14,271	13,685
6: Weak	1,452	-	-	1,452	3,657
	98,321	-	-	98,321	102,904
Loss allowance	(836)	-	-	(836)	(784)
Carrying amount	**97,485**	**-**	**-**	**97,485**	**102,120**
Loans and advances to customers at amortised cost					
1: Excellent	71,528	-	-	71,528	99,344
3: Strong	18,636	-	-	18,636	3,853
4: Good	4,020	-	-	4,020	8,101
6: Weak	17,864	-	-	17,864	-
10: Non-performing	-	-	31,112	31,112	39,907
	112,048	-	31,112	143,160	151,205
Loss allowance	(444)	-	(1,936)	(2,380)	(2,534)
Carrying amount	**111,604**	**-**	**29,176**	**140,780**	**148,671**
Debt investment securities at amortised cost					
1: Excellent	8,801	-	-	8,801	-
3: Strong	25,625	-	-	25,625	5,212
4: Good	23,729	-	-	23,729	20,098
5: Fair	1,411	-	-	1,411	11,814
	59,566	-	-	59,566	37,124
Loss allowance	(436)	-	-	(436)	(285)
Carrying amount	**59,130**	**-**	**-**	**59,130**	**36,839**

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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 2021				31 December 2020
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Loans and advances to banks at amortised cost					
Current	98,321	-	-	98,321	102,904
Overdue ≤30 days	-	-	-	-	-
Overdue <60 days	-	-	-	-	-
Overdue ≤90 days	-	-	-	-	-
Overdue > 90 days	-	-	-	-	-
Total	**98,321**	**-**	**-**	**98,321**	**102,904**
Loans and advances to customers at amortised cost					
Current	106,171	-	-	106,171	106,868
Overdue ≤30 days	5,877	-	-	5,877	4,430
Overdue <60 days	-	-	-	-	-
Overdue ≤90 days	-	-	-	-	20,051
Overdue > 90 days	-	-	31,112	31,112	19,856
Total	**112,048**	**-**	**31,112**	**143,160**	**151,205**

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 corporate guarantees, 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.

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

	31 December 2021		31 December 2020	
	Customers- Trade/ Corporate finance	Project finance	Customers- Trade/ Corporate finance	Project finance
Sovereign loans	77%	23%	96%	16%
Sovereign guarantee	-	43%	-	69%
Letter of credit from an FI	-	31%	4%	8%
Charge on fixed assets	-	3%	-	7%
Total	**77%**	**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
- Inflation
- Exchange rate
- Interest rate
- Unemployment rate
- External rating
- Credit default swap rate

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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.
- 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.

Due from banks:

	31 December 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January	1,339	-	-	1,339
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remasurement of loss allowance	-	-	-	-
New financial assets originated	1,366	-	-	1,366
Financial assets that have been derecognised	(1,331)	-	-	(1,331)
Foreign exchange movements	(8)	-	-	(8)
Balance at 31 December	**1,366**	**-**	**-**	**1,366**

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	31 December 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January	1,763	-	-	1,763
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remasurement of loss allowance	-	-	-	-
New financial assets originated	1,303	-	-	1,303
Financial assets that have been derecognised	(1,763)	-	-	(1,763)
Foreign exchange movements	36	-	-	36
Balance at 31 December	**1,339**	**-**	**-**	**1,339**

Loans and advances to banks at amortised cost:

	31 December 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January	784	-	-	784
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remasurement of loss allowance	(31)	-	-	(31)
New financial assets originated	323	-	-	323
Financial assets that have been derecognised	(230)	-	-	(230)
Foreign exchange movements	(10)	-	-	(10)
Balance at 31 December	**836**	**-**	**-**	**836**

	31 December 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January	542	-	-	542
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remasurement of loss allowance	(73)	-	-	(73)
New financial assets originated	632	-	-	632
Financial assets that have been derecognised	(330)	-	-	(330)
Foreign exchange movements	13	-	-	13
Balance at 31 December	**784**	**-**	**-**	**784**

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Loans and advances to customers at amortised cost:

	31 December 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	88	-	2,446	2,534
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remasurement of loss allowance	(22)	-	(476)	(498)
New financial assets originated	412	-	-	412
Financial assets that have been derecognised	(35)	-	-	(35)
Foreign exchange movements	1	-	(34)	(33)
Balance at 31 December	**444**	**-**	**1,936**	**2,380**

	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 31 December	**88**	**-**	**2,446**	**2,534**

[1] Includes cash and non-cash balance.

Investment securities at amortised cost:

	31 December 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	285	-	-	285
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remasurement of loss allowance	25	-	-	25
New financial assets originated	233	-	-	233
Financial assets that have been derecognised	(110)	-	-	(110)
Foreign exchange movements	3	-	-	3
Balance at 31 December	**436**	**-**	**-**	**436**

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	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 31 December	**285**	**-**	**-**	**285**

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 geographic location:

	31 December 2021		31 December 2020	
	Outstanding	Undrawn commitments	Outstanding	Undrawn commitments
Turkey				
Treasury portfolio	204,147	-	201,070	-
Loan portfolio	157,944	16,162	118,733	25,341
	362,091	**16,162**	**319,803**	**25,341**
Pakistan				
Treasury portfolio	799	-	73	-
Loan portfolio	49,706	-	90,932	15,100
	50,505	**-**	**91,005**	**15,100**
Iran				
Treasury portfolio	12	-	19	-
Loan portfolio	29,176	-	41,126	-
	29,188	**-**	**41,145**	**-**
Azerbaijan				
Loan portfolio	1,439	-	-	-
	1,439	**-**	**-**	**-**
Other				
Treasury portfolio	17,296	-	11,199	-
	17,296	**-**	**11,199**	**-**
Total treasury portfolio	222,254	-	212,361	-
Total loan portfolio	238,265	16,162	250,791	40,441
Total	**460,519**	**16,162**	**463,152**	**40,441**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

Concentration by sector:

	31 December 2021		31 December 2020	
	Outstanding	Undrawn commitments	Outstanding	Undrawn commitments
Financial sector				
Due from banks	161,895	-	174,713	-
Financial institutions-Trade finance	66,788	-	61,267	-
Financial institutions-SME SP	30,697	-	40,853	-
Investment securities	50,333	-	36,839	-
Derivative financial instruments	1,229	-	809	-
	310,942	**-**	**314,481**	**-**
Energy				
Customers-Trade/Corporate finance	43,270	-	77,722	15,100
Project finance	32,131	-	19,807	-
	75,401	**-**	**97,529**	**15,100**
Public sector management				
Project finance	16,130	16,162	8,902	25,341
Investment securities	8,797	-	-	-
	24,927	**16,162**	**8,902**	**25,341**
Water, Sanitation, Flood Protection and other Urban Infrastructure Services				
Project finance	20,440	-	23,715	-
	20,440	**-**	**23,715**	**-**
Industry and Trade				
Customers-Trade/Corporate finance	16,013	-	3,665	-
	16,013	**-**	**3,665**	**-**
Health and Social Protection				
Customers-Trade/Corporate finance	12,097	-	12,666	-
	12,097	**-**	**12,666**	**-**
Agriculture, natural resources and rural development				
Project finance	699	-	2,194	-
	699	**-**	**2,194**	**-**
Total	**460,519**	**16,162**	**463,152**	**40,441**

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.

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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.

The Bank's approach to managing liquidity is to 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.

Daily 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 2021	31 December 2020
At period end	533%	268%
Average for the period	1995%	697%
Maximum for the period	25987%	27384%
Minimum for the period	207%	139%

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.

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9.3.3. Maturity analysis for financial liabilities and financial assets

The amounts in the following tables 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 remaining contractual maturities of the Bank's financial liabilities and financial assets.

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	31 December 2021						
	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	48,108	(48,131)	(26,488)	(21,643)	-	-	-
Undrawn loan commitments	-	(16,162)	(16,162)	-	-	-	-
- Banks	-	-	-	-	-	-	-
- Customers	-	(16,162)	(16,162)	-	-	-	-
Total	**48,108**	**(64,293)**	**(42,650)**	**(21,643)**	**-**	**-**	**-**
Derivative liabilities							
Trading FX derivatives	73						
- Outflow		(19,652)	-	(14,625)	(5,027)	-	-
- Inflow		19,671	-	14,672	4,999	-	-
Total	**73**	**19**	**-**	**47**	**(28)**	**-**	**-**
Financial asset by type							
Non-derivative assets							
Due from banks	161,895	163,750	66,200	60,490	37,060	-	-
Loans and advances to banks	97,485	100,605	10,888	18,116	30,661	40,940	-
Loans and advances to customers	140,780	151,675	16,100	30,396	18,769	62,893	23,517
Investment securities	59,130	71,790	799	396	10,558	60,037	-
Total	**459,290**	**487,820**	**93,987**	**109,398**	**97,048**	**163,870**	**23,517**
Derivative assets							
Trading FX derivatives	1,229						
- Outflow		(91,706)	(25,440)	(56,530)	(9,736)	-	-
- Inflow		93,098	26,151	57,108	9,839	-	-
Total	**1,229**	**1,392**	**711**	**578**	**103**	**-**	**-**

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

	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							
Due from banks	174,713	176,966	67,300	81,035	28,631	-	-
Loans and advances to banks	102,120	106,146	1,254	267	40,387	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**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

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 2021	31 December 2020
Financial assets		
Due from banks	161,895	174,713
Loans and advances to banks	57,622	39,445
Loans and advances to customers	60,500	95,758
Investment securities	12,715	11,768
Total	**292,732**	**321,684**
Financial liabilities		
Deposits from banks	48,108	59,145
Total	**48,108**	**59,145**

The following table sets out the carrying amounts of non-derivative financial assets expected to be recovered or settled more than 12 months after the reporting date (Financial liabilities: None).

	31 December 2021	31 December 2020
Financial assets		
Loans and advances to banks	39,863	62,675
Loans and advances to customers	80,280	52,913
Investment securities	46,415	25,071
Total	**166,558**	**140,659**

9.3.4. Liquidity reserves

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

	31 December 2021		31 December 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Demand deposits	3,330	3,330	382	382
Money market placements	158,565	158,555	174,331	175,689
Investment securities	59,130	57,180	36,839	38,011
Total	**221,025**	**219,065**	**211,552**	**214,082**

As of 31 December 2021, 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 2020: None).

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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 weekly basis.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

As at 31 December 2021 and 31 December 2020 the foreign currency position of the Bank is as follows:

	31 December 2021					
	US Dollar	Euro	Other	Total foreign currency	SDR ('EU')	Total
Assets						
Due from banks	44,902	116,987	6	161,895	-	161,895
Loans and advances to banks	1,440	96,045	-	97,485	-	97,485
Loans and advances to customers	67,365	73,415	-	140,780	-	140,780
Investment securities	59,130	-	-	59,130	-	59,130
Derivative financial instruments	-	-	-	-	1,229	1,229
Property and equipment	-	-	-	-	3,017	3,017
Investment property	-	-	-	-	974	974
Intangible assets	-	-	-	-	2	2
Other assets	100	62	18	180	-	180
Total assets	**172,937**	**286,509**	**24**	**459,470**	**5,222**	**464,692**
Liabilities and Equity						
Deposits from banks	-	48,108	-	48,108	-	48,108
Derivative financial instruments	-	-	-	-	73	73
Employee benefits	3,114	-	14	3,128	-	3,128
Other liabilities	448	452	35	935	-	935
Equity	-	-	(4)	(4)	412,452	412,448
Total liabilities and Equity	**3,562**	**48,560**	**45**	**52,167**	**412,525**	**464,692**
Net balance sheet position	**169,375**	**237,949**	**(21)**	**407,303**	**(407,303)**	**-**
Off-balance sheet derivative instruments net notional position[(1)]	258	(108,763)	109,916	1,411	-	1,411
Net foreign currency position	**169,633**	**129,186**	**109,895**	**408,714**	**(407,303)**	**1,411**
Currency neutral position	**(169,564)**	**(127,312)**	**(110,427)**	**(407,303)**	**407,303**	**-**
FX exposure in notional Ccy[(2)]	**69**	**1,874**	**(532)**	**1,411**	**-**	**1,411**

[(1)] Off-balance sheet derivative instruments net notional position in Chinese Yuan, British Pound and Japanese Yen are EU 45,982 thousand, EU 33,871 thousand and EU 30,063 thousand, respectively.
[(2)] The total foreign currency exposure in Chinese Yuan, Japanese Yen, British Pound, Pakistani Rupee and Turkish Lira are EU (507) thousand, EU (266) thousand, EU 265 thousand, EU (17) thousand and EU (7) thousand, respectively.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

	31 December 2020					
	US Dollar	Euro	Other	Total foreign currency	SDR ('EU')	Total
Assets						
Due from banks	59,625	115,078	10	174,713	-	174,713
Loans and advances to banks	4,493	97,627	-	102,120	-	102,120
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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

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 2021		31 December 2020	
	Appreciation	**Depreciation**	**Appreciation**	**Depreciation**
US Dollar	9,507	(10,325)	9,311	(10,099)
Euro	(5,015)	5,782	(4,831)	5,780
Chinese Yuan	(1,866)	1,944	(1,600)	1,893
British Pound	(1,353)	1,474	(1,242)	1,345
Japanese Yen	(1,220)	1,283	(1,159)	1,379
Total	**53**	**158**	**479**	**298**

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. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

As at 31 December 2021 and 31 December 2020 the interest rate gap position of the Bank is as follows:

	31 December 2021					
	Up to 1 month	1 to 3 months	3 to 12 months	Over 1 year	Non-interest bearing	Carrying amount
Assets						
Due from banks	65,638	59,877	36,380	-	-	161,895
Loans and advances to banks	10,782	29,843	56,860	-	-	97,485
Loans and advances to customers	17,625	40,816	82,339	-	-	140,780
Investment securities	809	238	8,349	49,734	-	59,130
Derivative financial instruments	-	-	-	-	1,229	1,229
Property and equipment	-	-	-	-	3,017	3,017
Investment property	-	-	-	-	974	974
Intangible assets	-	-	-	-	2	2
Other assets	-	-	-	-	180	180
Total assets	**94,854**	**130,774**	**183,928**	**49,734**	**5,402**	**464,692**
Liabilities						
Deposits from banks	26,484	21,624	-	-	-	48,108
Derivative financial instruments	-	-	-	-	73	73
Employee benefits	-	2,853	-	-	275	3,128
Other liabilities	-	-	-	-	935	935
Total liabilities	**26,484**	**24,477**	**-**	**-**	**1,283**	**52,244**
Net repricing gap	**68,370**	**106,297**	**183,928**	**49,734**	**4,119**	**412,448**

	31 December 2020					
	Up to 1 month	1 to 3 months	3 to 12 months	Over 1 year	Non-interest bearing	Carrying amount
Assets						
Due from banks	66,725	80,141	27,847	-	-	174,713
Loans and advances to banks	3,629	23,958	74,533	-	-	102,120
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**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(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 2021		31 December 2020	
	Applied shock	Profit or loss	Equity [1]	Profit or loss	Equity [1]
US Dollar	- 0.25%	(69)	(69)	(106)	(106)
US Dollar	+ 0.25%	69	69	106	106
Euro	- 0.25%	(11)	(11)	(29)	(29)
Euro	+ 0.25%	11	11	29	29
Total (for negative shocks)		**(80)**	**(80)**	**(135)**	**(135)**
Total (for positive shocks)		**80**	**80**	**135**	**135**

[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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

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 due from banks 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 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 2021

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

As of 31 December 2021 and 31 December 2020, 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 2021				
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial assets not measured at fair value					
Due from banks	-	-	161,886	161,886	161,895
Loans and advances to banks	-	-	97,555	97,555	97,485
Loans and advances to customers	-	-	141,010	141,010	140,780
Investment securities	57,180	-	-	57,180	59,130
Financial assets measured at fair value					
Derivative financial instruments	-	1,229	-	1,229	1,229
Total financial assets	**57,180**	**1,229**	**400,451**	**458,860**	**460,519**
Financial liabilities not measured at fair value					
Deposits from banks	-	-	48,108	48,108	48,108
Financial liabilities measured at fair value					
Derivative financial instruments	-	73	-	73	73
Total financial liabilities	**-**	**73**	**48,109**	**48,182**	**48,181**

	31 December 2020				
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial assets not measured at fair value					
Due from banks	-	-	176,071	176,071	174,713
Loans and advances to banks	-	-	102,197	102,197	102,120
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**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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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 2021 and 31 December 2020, included in the accompanying statement of cash flows are as follows:

	31 December 2021	31 December 2020
Due from banks-demand	3,330	382
Due from banks-time (gross)		
(with original maturity less than three months)	78,877	71,854
Interest accrual	76	156
Less: ECL/Impairment losses	(674)	(553)
Total	**81,609**	**72,236**

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 2021		31 December 2020	
	Assets	Liabilities	Assets	Liabilities
Derivatives held for trading:				
Currency swaps	1,229	(73)	809	(930)
Total	**1,229**	**(73)**	**809**	**(930)**

The notional amounts of derivative transactions are explained in detail in Note 28.1.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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NOTE 13 – DUE FROM BANKS

As of 31 December 2021 and 31 December 2020, due from banks at amortised cost are as follows:

	31 December 2021	31 December 2020
Demand deposits	3,330	382
Money market placements	159,931	175,670
Due from banks, gross	163,261	176,052
Less: ECL/Impairment losses	(1,366)	(1,339)
Due from banks at amortised cost, net	**161,895**	**174,713**

NOTE 14 – LOANS AND ADVANCES TO BANKS

As of 31 December 2021 and 31 December 2020, loans and advances to banks at amortised cost are as follows:

	31 December 2021	31 December 2020
Trade finance	67,360	61,737
SME support program	30,961	41,167
Loans and advances to banks, gross	98,321	102,904
Less: ECL/Impairment losses	(836)	(784)
Loans and advances to banks at amortised cost, net	**97,485**	**102,120**

NOTE 15 – LOANS AND ADVANCES TO CUSTOMERS

As of 31 December 2021 and 31 December 2020, loans and advances to customers at amortised cost are as follows:

	31 December 2021	31 December 2020
Trade/Corporate finance	71,589	94,098
Project finance	71,571	57,107
Loans and advances to customers, gross	143,160	151,205
Less: ECL/Impairment losses	(2,380)	(2,534)
Loans and advances to customers at amortised cost, net	**140,780**	**148,671**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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NOTE 16 – INVESTMENT SECURITIES

As of 31 December 2021 and 31 December 2020, investment securities are as follows:

	31 December 2021	31 December 2020
Debt investment securities measured at amortised cost:		
Bonds issued by financial institutions	51,483	37,124
Government bonds	8,083	-
Total debt investment securities measured at amortised cost	59,566	37,124
Less: ECL/Impairment losses	(436)	(285)
Investment securities, net	**59,130**	**36,839**

Movements in the investment securities are as follows:

	31 December 2021	31 December 2020
Balance at 1 January	36,839	21,850
Purchases during the year	34,606	18,936
Disposals through sales and redemption	(14,261)	(4,115)
ECL provision	(148)	(129)
Income accruals and rediscount	1,059	305
Foreign exchange movements	1,035	(8)
Balance at 31 December	**59,130**	**36,839**

NOTE 17 – PROPERTY AND EQUIPMENT

As of 31 December 2021 and 31 December 2020, property and equipment are as follows:

	31 December 2021	31 December 2020
Cost	8,038	7,994
Less: Accumulated depreciation	(1,157)	(1,069)
Less: Accumulated impairment loss	(3,864)	(3,864)
Net book value	**3,017**	**3,061**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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Movements in property and equipment are as follows:

	Land and buildings	Furniture fixture and equipment	Motor vehicles	Total
31 December 2021				
Net book value at 1 January	3,040	21	-	3,061
Addition	35	5	17	57
Transfer	-	-	-	-
Depreciation charge	(87)	(11)	(3)	(101)
Net book value at 31 December	**2,988**	**15**	**14**	**3,017**
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 31 December	**3,040**	**21**	**-**	**3,061**

As of 31 December 2021, property and equipment excluding the motor vehicles were insured against fire, theft and damage to the extent of EU 1,114 thousand. Motor vehicles are insured against accident to the extent of their acquisition cost.

At 31 December 2021, total impairment losses regarding the headquarters building of the Bank amount to EU 5,124 thousand (31 December 2020: EU 5,124 thousand) out of which EU 3,864 thousand (31 December 2020: EU 3,864 thousand) is related to the property classified under property and equipment.

At 31 December 2021, there were no capitalised borrowing costs related to the acquisition of property and equipment (31 December 2020: None).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

NOTE 18 – INVESTMENT PROPERTY

As of 31 December 2021 and 31 December 2020, investment properties are as follows:

	31 December 2021	31 December 2020
Cost	2,437	2,437
Less: Accumulated depreciation	(203)	(178)
Less: Accumulated impairment loss	(1,260)	(1,260)
Net book value	**974**	**999**

Movements in the investment properties are as follows:

	31 December 2021	31 December 2020
Net book value at 1 January	999	770
Transfer	-	254
Impairment loss	-	-
Depreciation charge	(25)	(25)
Net book value at 31 December	**974**	**999**

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 2020: None). Direct operating expenses for investment property that did not generate rental income amount to EU 12 thousand (31 December 2020: EU 14 thousand). There were no direct operating expenses for investment property that generated rental income (31 December 2020: None).

At 31 December 2021, fair value of the investment property amount to EU 974 thousand (31 December 2020: EU 999 thousand). At 31 December 2021, total impairment losses regarding the investment property amount to EU 1,260 thousand (31 December 2020: EU 1,260 thousand).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

NOTE 19 – INTANGIBLE ASSETS

As of 31 December 2021 and 31 December 2020, intangible assets are as follows:

	31 December 2021	31 December 2020
Cost	453	453
Less: Accumulated amortization	(451)	(449)
Net book value	**2**	**4**

Movements in the intangible assets are as follows:

	31 December 2021	31 December 2020
Net book value at 1 January	4	24
Amortization charge	(2)	(20)
Net book value at 31 December	**2**	**4**

NOTE 20 – OTHER ASSETS

As of 31 December 2021 and 31 December 2020, other assets are as follows:

	31 December 2021	31 December 2020
Receivables from clients (1)	155	638
Pre-paid expenses	12	22
Other	13	50
Total	**180**	**710**

(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 2021, the Bank has interest receivables and fee receivables amounting to EU 94 thousand (31 December 2020: EU 327 thousand) and EU 61 thousand (31 December 2020: EU 311 thousand), respectively.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

E. LIABILITIES AND EQUITY

NOTE 21 – DEPOSITS FROM BANKS

As of 31 December 2021 and 31 December 2020, deposits from banks are as follows:

	31 December 2021	31 December 2020
Money market deposits	48,108	59,145
Total	**48,108**	**59,145**

NOTE 22 – EMPLOYEE BENEFITS

As of 31 December 2021 and 31 December 2020, employee benefits are as follows:

	31 December 2021	31 December 2020
Pension plan liabilities	2,990	3,376
Annual leave pay liability	124	114
Reserve for employee severance indemnity	14	18
Total	**3,128**	**3,508**

22.1. Pension plan liabilities

As of 31 December 2021 and 31 December 2020, pension plan liabilities are as follows:

	31 December 2021	31 December 2020
First pillar	1,004	1,192
Second pillar	1,010	1,195
Third pillar	221	185
Investment returns	644	715
Actuarial (gain)/loss	111	89
Total	**2,990**	**3,376**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

Movements in the pension plan liabilities are as follows:

	31 December 2021	31 December 2020
Balance at 1 January	3,376	2,922
Increase during the year	637	728
Benefits paid	(1,137)	(157)
Actuarial (gain)/loss	19	20
Foreign exchange movements	95	(137)
Balance at 31 December	**2,990**	**3,376**

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

	31 December 2021	31 December 2020
Balance at 1 January	89	72
Current service cost	16	18
Interest cost	3	2
Actuarial (gain)/loss	-	-
Foreign exchange movements	3	(3)
Balance at 31 December	**111**	**89**

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

	31 December 2021 (%)	31 December 2020 (%)
Discount rate	3.5	3.5
Price inflation	2.3	2.3
Pay increase	3.5	3.5

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 2021	31 December 2020
Male	21.48	21.48
Female	24.40	24.40

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

The sensitivity analysis of defined benefit obligation of excess liabilities as of 31 December 2021 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%

22.2. 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 in the annual leave pay liability are as follows:

	31 December 2021	31 December 2020
Balance at 1 January	114	90
Provision for the period, (net)	10	24
Balance at 31 December	**124**	**114**

22.3. 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 2021	31 December 2020
Discount rate (%)	3.92	3.74
Turnover rate to estimate the probability of retirement (%)	100.00	100.00

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

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 8,285 (31 December 2020: TL 7,117) 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 2021	31 December 2020
Balance at 1 January	18	15
Current service cost	1	1
Interest cost	2	2
Actuarial (gain)/loss	1	4
Foreign exchange movements	(8)	(4)
Balance at period end	**14**	**18**

NOTE 23 – OTHER LIABILITIES

As at 31 December 2021 and 31 December 2020, other liabilities are as follows:

	31 December 2021	31 December 2020
Unearned income [(1)]	626	921
Payables	21	27
Lease liabilities	18	-
Other [(2)]	270	3
Total	**935**	**951**

[(1)] The Bank defers the income from front-end commissions during the tenor specified in the loan agreements.
[(2)] Transitory liabilities amount to EU 261 thousand (31 December 2020: None).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

NOTE 24 – EQUITY

24.1. Share capital

As of 31 December 2021 and 31 December 2020, issued share capitals are as follows:

	31 December 2021	31 December 2020
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)
Paid-in share capital	**326,750**	**326,750**

There is no share capital paid-in during 2021 (2020: EU 320 thousand paid by Kyrgyz Republic).

As at 31 December 2021, 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 2020: 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 2020: EU 326,750 thousand) is reflected at its cost.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

24.2. Reserves

As of 31 December 2021 and 31 December 2020, reserves are as follows:

	31 December 2021	31 December 2020
General reserves	76,648	68,891
Actuarial reserves	(4)	(6)
Total	**76,644**	**68,885**

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.

F. PERFORMANCE FOR THE PERIOD

NOTE 25 – NET INTEREST INCOME

	31 December 2021	31 December 2020
Interest income		
Due from banks	2,591	2,817
Loans and advances to banks	2,315	3,335
Loans and advances to customers	3,373	3,829
Investment securities at amortised cost	2,649	2,542
Total interest income	**10,928**	**12,523**
Interest expense		
Deposits from banks	(299)	(514)
Pension plan liabilities [1]	(182)	(228)
Other	(1)	-
Total interest expense	**(482)**	**(742)**
Net interest income	**10,446**	**11,781**

[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 7.18.2).

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

NOTE 26 – NET FEE AND COMMISSION INCOME

	31 December 2021	31 December 2020
Fee and commission income		
Front-end fees from customers	557	465
Front-end fees from banks	58	408
Commitment fees from customers	62	37
Total fee and commission income	**677**	**910**
Fee and commission expense	**(4)**	**(6)**
Net fee and commission income	**673**	**904**

NOTE 27 – OPERATING EXPENSES

	31 December 2021	31 December 2020
Personnel expenses		
Salaries and benefits	2,527	2,705
Contributions to defined contribution/benefit plans [1]	365	397
Other contributions [2]	52	63
Other personnel expenses	10	6
Total personnel expenses	**2,954**	**3,171**
Other administrative expenses		
Operational subscriptions expenses	71	74
Office occupancy expenses [3]	65	90
Consultant and third party fees	31	30
Equipment, maintenance and support	20	26
Communication expenses	7	8
Travel and accommodation expenses	4	5
Other	35	30
Total other administrative expenses	**233**	**263**
Depreciation and amortization	**128**	**131**
Other operating expenses	**1**	**6**
Total operating expenses	**3,316**	**3,571**

(1) Contributions are comprised of the contributions made by the Bank on behalf of the employees for the Bank's Pension Plan (Note 7.18.2) and Turkish State Social Security Plan (Note 7.18.1).
(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 12 EU thousand (31 December 2020: 14 EU thousand). There were no direct operating expenses for investment property that generated rental income (31 December 2020: None).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

G. OTHER INFORMATION

NOTE 28 – 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.

28.1. Commitments under derivative instruments

As of 31 December 2021 and 31 December 2020, breakdown of notional amounts of derivative transactions are as follows:

	31 December 2021					
	US Dollar	Euro	Chinese Yuan	British Pound	Japanese Yen	Total
Derivatives held for trading						
Currency swaps	2,501	-	46,158	33,871	30,063	112,593
Currency forwards	176	-	-	-	-	176
Total purchases	**2,677**	**-**	**46,158**	**33,871**	**30,063**	**112,769**
Derivatives held for trading						
Currency swaps	(2,419)	(108,763)	-	-	-	(111,182)
Currency forwards	-	-	(176)	-	-	(176)
Total sales	**(2,419)**	**(108,763)**	**(176)**	**-**	**-**	**(111,358)**
Off-balance sheet net notional position	**258**	**(108,763)**	**45,982**	**33,871**	**30,063**	**1,411**

	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**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

28.2. Credit related and other commitments

As of 31 December 2021 and 31 December 2020, breakdown of commitments related to loan agreements and other commitments are as follows:

	31 December 2021	31 December 2020
Credit limit commitments [1]	16,162	40,441
Other commitments	5	8
Total	**16,167**	**40,449**

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

NOTE 29 – 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.

31 December 2021	Banking	Treasury	Total
Interest income	5,688	5,240	10,928
Fee and commission income	677	-	677
Total segment revenues	**6,365**	**5,240**	**11,605**
Interest expense	(149)	(333)	(482)
Fee and commission expense	(1)	(3)	(4)
Net trading income/(loss)	-	1,306	1,306
Other operating income	46	23	69
Operating expenses	(2,437)	(879)	(3,316)
Segment income before impairment	**3,824**	**5,354**	**9,128**
Net impairment (loss)/reversal	58	(182)	(124)
Net income for the period	**3,882**	**5,172**	**9,054**
Segment assets	**241,047**	**223,645**	**464,692**
Segment liabilities	**8,704**	**43,540**	**52,244**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(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**

NOTE 30 – 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 593 thousand as at 31 December 2021 (31 December 2020: EU 487 thousand). This comprises salary and employee benefits of EU 516 thousand (31 December 2020: EU 428 thousand) and contributions made by the Bank on behalf of the management personnel of EU 77 thousand (31 December 2020: EU 59 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

NOTE 31 – LEASES

The Bank leases two office premises for its representative offices in Iran and Pakistan. The leases typically run for a period of 1-3 years and do not contain extension options exercisable by the Bank. Information about leases for which the Bank is a lessee is presented below.

Right-of-use assets

Right-of-use assets relate to leased office premises that are presented within property and equipment (see Note 17). Movements in right-of-use assets are as follows:

	31 December 2021
Net book value at 1 January	-
Addition	35
Depreciation charge	(11)
Net book value at 31 December	**24**

Lease liabilities

Lease liabilities relate to leased office premises that are presented within property and equipment (see Note 17). Movements in the lease liabilities are as follows:

	31 December 2021
Net book value at 1 January	-
Addition	35
Accretion of interest	1
Payments	(16)
Foreign exchange movements	(2)
Net book value at 31 December	**18**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

Amounts recognised in profit or loss

	31 December 2021
Interest on lease liabilities	1
Expenses relating to short-term leases	1

Amounts recognised in statement of cash flows

	31 December 2021
Total cash outflow for leases	(16)

NOTE 32 – SUBSEQUENT EVENTS

The Bank disposed all of its investment properties presented in Note 18 by sale on 18 March 2022.

The tension between Russia and Ukraine since January 2022 has turned into a crisis and an armed conflict as of the date of the report. The Bank does not carry out any activities in these two countries that are subject to the crisis. Considering the geographies in which the Bank operates, no direct impact is expected on Bank operations. However, as of the date of this report, it is not possible to reasonably estimate the effects of the global developments and their potential impact on the global and regional economy, on the Bank's operations because of the uncertainty about how the crisis will evolve.

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