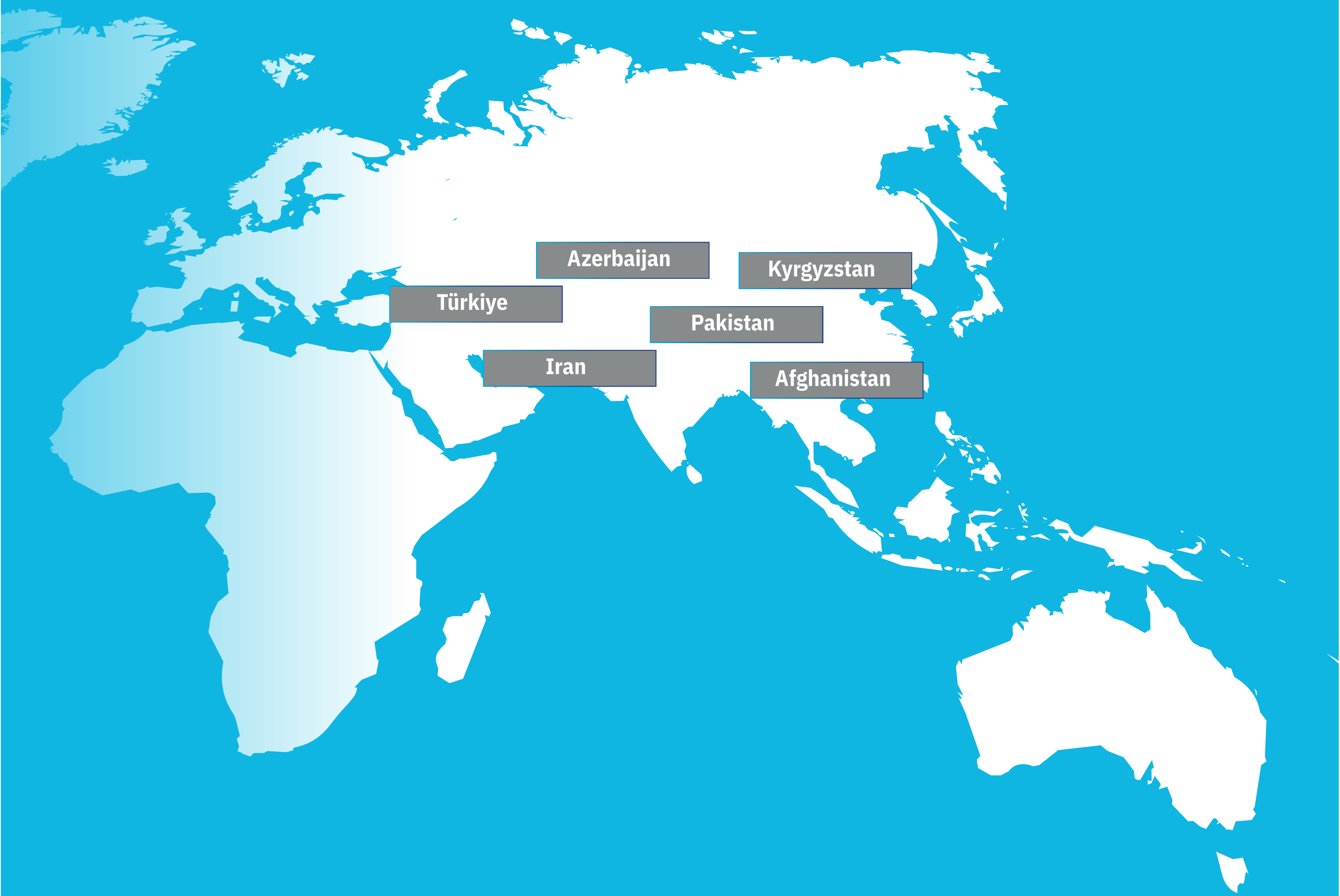
ANNUAL REPORT 2022

ECO Trade and Development Bank


Azerbaijan
Kyrgyzstan
Türkiye
Pakistan
Iran
Afghanistan

CONTENTS

MAIN FIELDS OF ACTIVITY

ENERGY

TRANSPORT

INDUSTRY

AGRICULTURE

MICRO FINANCE

BOARD OF GOVERNORS

As of 31 December 2022

Chairman, Board of Governors (Appointed 21 June 2022 for one year): Governor of the Republic of Azerbaijan

Islamic Republic of Afghanistan

Governor: Mr. 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

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 Iran

Governor: Dr. Mohsen Karimi, Vice Governor for International Relations, 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

Kyrgyz Republic

Governor: Mr. Daniyar Amangeldiev, Minister of Economy and Commerce of Kyrgyz Republic

Alternate Governor: Mr. Almaz Baketaev, Minister of Finance of Kyrgyz Republic

Islamic Republic of Pakistan

Governor: Mr. Jameel Ahmad, Governor, State Bank of Pakistan

Alternate Governor: Mr. Hamed Yaqoob Sheikh, Finance Secretary, Finance Division, Government of Pakistan

Republic of Türkiye

Governor: Mr. Murat Zaman, Deputy Minister of Treasury and Finance, Republic of Türkiye

Alternate Governor: Mr. Kerem Dönmez, Acting Director General for Foreign Economic Relations, Ministry of Treasury and Finance, Republic of Türkiye

BOARD OF DIRECTORS

As of 31 December 2022

Islamic Republic of Afghanistan

Director: Mr. Ahmad Jawad Sadad, 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

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 Iran

Director: Ms. Shiva Ravoshi, Director General, Foreign Exchange Liabilities and Operations, Central Bank of the Islamic Republic of Iran

Alternate Director: Mr. Ali Akbar Nasiri, Director, International Finance Department, Central Bank of the Islamic Republic of Iran

Kyrgyz Republic

Director: Mr. Kanat Abdrahmanov, Deputy Minister of Economy and Commerce of the Kyrgyz Republic

Islamic Republic of Pakistan

Director: Mr. Awais Manzur Sumra, Additional Finance Secretary (EF) Finance Division, Government of Pakistan

Alternate Director: Mr. Rana Muhammad Waqas Anwar, Deputy Secretary (EFP-I), Finance Division, Government of Pakistan

Republic of Türkiye

Director: Ms. Bengü Aytekin, Deputy General Director of Foreign Economic Relations, Ministry of Treasury and Finance of the Republic of Türkiye

MANAGEMENT COMMITTEE

As of 31 December 2022

MR. YALÇIN 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 2022

MR. AKIF BÜLENT BOYACIOĞLU
(Chairman of the AC) Vice Chairman of Board of Treasury Controllers,
Ministry of Treasury and Finance of Republic of Türkiye

MR. AAMIR NAZIR GONDAL
Joint Secretary External Finance, Ministry of Finance and Revenue,Government of Pakistan.

MR. HOSSEIN SEDGHI
Director General, Banking Supervision Department, 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 honour to submit for the kind attention of the esteemed Board of Governors, the Bank's Annual Report for 2022 as endorsed by the Board of Directors. The report covers the activities of the Bank including audited financial statements for 2022.

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

YALÇIN 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

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 located in Istanbul (Türkiye) and representative offices are in Karachi (Pakistan) and Tehran (Iran). The Bank is staffed with 32 employees from member states as end of December 2022.

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

- Financing development projects and intra-regional trade activities
- Supporting 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.

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 favourable repayment conditions. All transactions are development related and approved by the Board of Directors.

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 member 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
- Equity Investments
- Co-financing and Syndication
- Guarantees
- Soft Loans
- Technical & Advisory Services
- Soft Loan Financing

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
- Energy
- Trade
- Industry
- Infrastructure
- Finance
- Energy
- Tourism
- Transport and logistics
- Agriculture and food production

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 specialists to ensure compliance with all internal and external guidelines and requirements, thereby ensuring full compliance with Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) and Know-Your Customer (KYC) requirements. The overriding aim is to create and protect value for shareholders and other stakeholders through ethical, transparent and equitable business processes.

GOVERNANCE STRUCTURE

The Bank is committed to corporate governance at the highest level to ensure transparency, accountability and adequate checks and balances on the Bank's activities. As a multilateral development institution, the Bank is not subject to the supervisory authority of any national jurisdiction. The Articles of Agreement establishing the ETDB define the governance structure which is managed through well-defined responsibilities of its Board of Governors (BoGs), Board of Directors (BoDs) and Management Committee. Accordingly, the corporate governance principals and standards adopted by the BoGs have been developed with close reference to best practices adopted by 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, Code 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 mostly 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 International Monetary Fund (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 MDB's 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 2022, the 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:

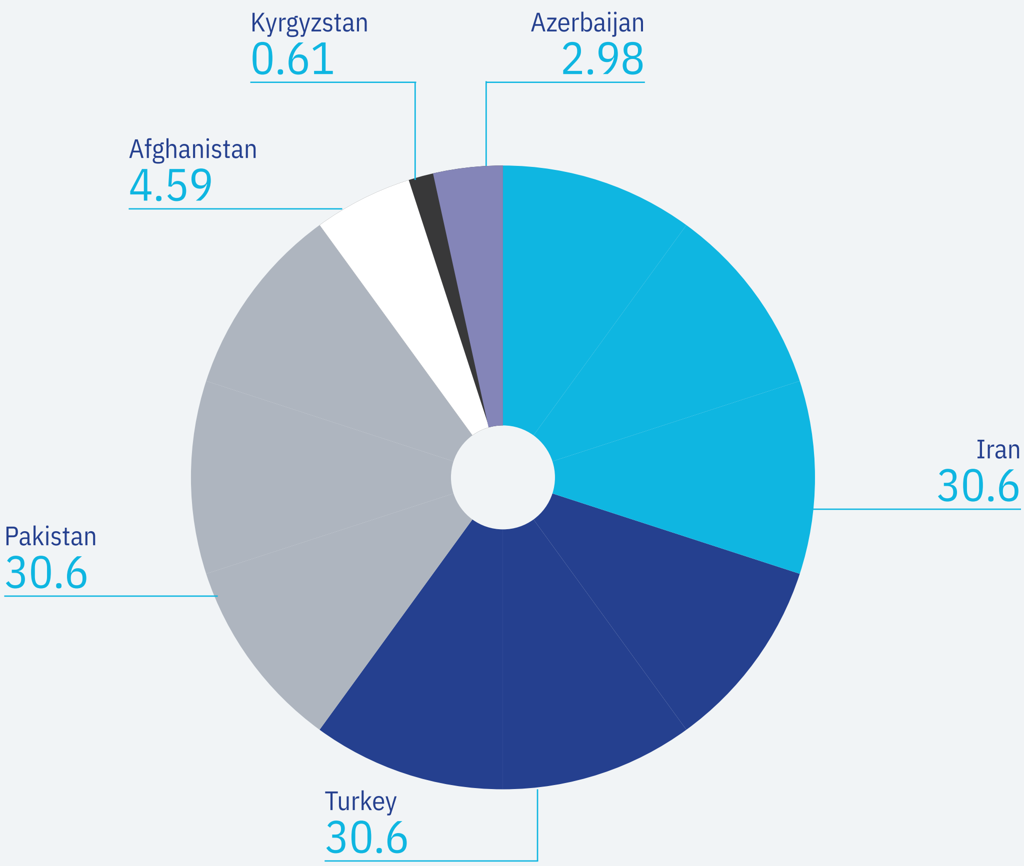
Table-1: Share capital structure of the Bank (SDR thousand)

	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 3.75 percent and amounted to SDR 427.929 million by the end of the 2022. Of this increase, SDR 15 million was originated from retained earnings for the year.

Figure 1: Shareholder Structure (percent)



Thousand SDR

Authorized Capital:	Callable Capital:	Paid-in Capital:
1,089,100	762,350	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 help the ETDB to strengthen its regional scope, enrich value proposition, reinforce diversity and enlarge the capital base to further expand its operations.

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 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

In 2022, the ETDB successfully responded to the existing challenges and to new ones that emerged during the year.

Just as the world began to erase the complex and disparate impacts of the global pandemic, prospects for sustainable global economic development remain to be fragile due to the geopolitical tensions, the lingering war in Ukraine, climate change, food and energy supply disruptions. Additionally, the economies have been employing swift and unprecedented measures to address the challenges emerged from stubborn inflation, rising interest rates, subdued investment and tighter global financial conditions.

As per the latest estimates, global GDP growth slowed down in 2022 registering growth of 3.4 percent compared to 6.3 percent in the previous year. The global economy is facing the risk of a prolonged period of subpar growth due to tight policy stances needed to bring down inflation, structural challenges including scarring from the pandemic, the ongoing war in Ukraine, and growing debt vulnerabilities. The global growth is projected to fall to 2.8 percent in 2023.

Under this complex and demanding global development landscape, the banking sector turmoil experienced in March 2023 in the U.S. and Europe raised concerns over the deficiencies in financial stability. Regulators took swift action to quash contagion risk and protect the markets and consumer confidence. However, these incidents were painful reminder for the authorities to address the instabilities in the banks' business models, supervisory and regulatory failures and poor risk management. Thus, financial sector stresses shall be contained in order avoid more serious and ingrained financial stability risks.

Overall, the prospect of high interest rates and quantitative tightening now poses massive challenge for inclusive global development. Many economies are likely to experience slower growth in incomes in 2023. The ECO region, similar to the global economy, witnessed slowdown in economic

> The long list of challenges, bring heavy responsibilities for ETDB in meeting the expectations. Therefore, we have been employing all necessary services to support our member states in managing the respective risks and ensuring sustainable growth.

activity with real GDP growth moderating to 4.9 percent in 2022 compared to 7.8 percent growth print achieved last year which reflected the worsening of supply chain bottleneck, high energy and food prices and tightening of financial conditions as most central bank across the region raised policy interest rates to curb inflationary pressures. Economic growth is projected to moderately slowdown across the region in 2023 as well. Lack of access to affordable finance and increase in risk premia would limit the ability of many governments to adequately invest in education, health, sustainable infrastructure and the energy transition, while threatening to push into debt default. Therefore, we need to be vigilant, especially in the face of synchronized and most aggressive interest rate hikes in decades that have sharply increased funding costs and vulnerabilities.

We need to adopt sound policies on multiple fronts. Pursuing deeper regional integration, exploiting the economies of scale, promoting complementarities, production of high-value goods and investing in human capital would further enhance competitiveness of our economies. At this point, strengthening positions in the international supply chain and facilitating the trade is important. We should make more use of the high potential offered by our geography to bring further prosperity and development to the members of this region. I'm very optimistic that our member states would employ necessary measures to become the new centers for sustainable economic growth.

The long list of challenges, bring heavy responsibilities for ETDB in meeting the expectations. Therefore, we have been employing all necessary services to support our member states in managing the respective risks and ensuring sustainable growth.

We have been dedicatedly working to support businesses and projects that contribute to the national priorities and promote competitiveness. We are providing financial assistance for enhancing trade, development of Micro and Small and Medium Enterprises and meeting the needs of the corporates and projects. We have successfully financed various development projects in wind power, solar energy, transport, health, education, food and agriculture infrastructure. Since the Bank started its operations in 2008, the total amount of loans disbursed to member countries reached to about USD 2.5 billion as end of December 2022. In other words, the Bank provided financial support about 5 times of its equity. Exclusively, about 65 percent of the disbursed funds were extended for trade finance, making our development impact more meaningful.

Meanwhile, we have been responsive to the emergency needs of our member states. We stand at an historic moment of inclusive international solidarity and turn our words of condolences and commitments into action with respect to challenges being faced by Türkiye and Pakistan due to devastating earthquakes and floods. Recently, in response to the climate-induced devastating floods in Pakistan, we have committed to provide EUR 50 million soft loan to support Pakistan in flood relief and rehabilitation efforts. Similarly, with regard to the devastating earthquakes in South-Eastern Türkiye in February 2023, we are proceeding on finalization of the respective soft loan support for rehabilitation and recovery efforts. We always stand in solidarity with our member states and provide immediate support in mitigating the impacts of such natural disasters.

Although we face some business challenges, we are committed to increase our capabilities. Our business continuity plan ensures safe and seamless continuation of our operations under the critical business conditions. We have been deploying full range of instruments and policy work to counteract the impact of these challenges. We have temporarily increased the maximum deviation rate of country credit exposure limits in order to mobilize our humble resources at optimum level. Our institutional development approach focused on improving risk management and internal control systems. The business processes and internal regulations have been reviewed and deficiencies are corrected appropriately. Meanwhile, Bank's information technology (IT) architecture is fit-for-purpose and leverages our operational development. We have been focused to be more flexible, agile and responsive. While maintaining solid liquidity and capital adequacy positions, we make utmost effort to maintain highest credit portfolio quality without any non-performing loan.

The outstanding loan portfolio which reached to SDR 310 million as the end of 2022 increased by 30 percent compared to previous year. This is the highest level recorded in the history of the Bank. We don't aim to maximize earnings but earn a sufficient amount of return to maintain healthy financial ratios and safeguard Bank's capital base. The Bank posted a net profit of SDR 15,496 thousand in 2022, representing 71 percent increase compared to previous year. The total assets of the Bank amounted to SDR 471 million by the end of 2022.

Overall, the Bank is emerging with a solid foundation to be an important financial actor for development. Meanwhile, our dialogue with other Multilateral Development Banks and national financial institutions on developing strategic synergies for the benefit of the region has been intensified and culminated with several co-financing arrangements.

I would like to note that the Bank has positioned itself as a viable developmental finance institution. Amid the challenges in the member states, the Bank made best efforts to advance its strategic objectives during the Business Plan (2018-2022) period. The strength of our organizational capacity, balance sheet, risk management, organic growth, and expense management became a catalyst that drove our financial performance. The Bank managed to disburse USD 1 billion loans to various projects in the member states during 2018-22. Income levels above the business plan's targets were achieved. The total reserves and retained earnings of the Bank amounting to SDR 101.1 million by the end of 2022 increased by 88 percent compared to 2017 end year figure.

> Our business continuity plan ensures safe and seamless continuation of our operations under the critical business conditions.

I would like to underline that the Bank has sound institutional capacity and operational skills to maximize development contribution in the years ahead. During the new Business Plan (2023-2027) period, we aim to further enhance the Bank's capacity. Considering the substantial development needs of the member states still there are a lot more ground for the Bank to cover. At this point, three issues are critical in realizing this vision. First, it is essential to enhance the financial resources of the Bank through a capital increase. This would definitely empower the Bank to further expand its operations and relevance. Second, mobilizing resources to supplement the share capital is critical to support the financing needs in the region. Third, enlargement of its membership base has been a long desire of the Bank and remains to be a key priority. 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.

ETDB is positioned well for the future and contribute even more to the growth and development of the ECO region. In this respect, I am confident that ECO member states would continue to support the Bank in its efforts to be more efficient and effective. I would like to take this opportunity to express my deepest thanks and gratitude to the esteemed members of the Board of Governors and Board of Directors for their valuable guidance and tireless commitment towards strengthening the Bank and delivering results for the region. I would also like to thank my colleagues at the Bank for their hard work, persistence and continued dedication. We are committed to capitalize on our core strengths and support ECO member states in building more prosperous, inclusive, resilient, and sustainable future.

YALÇIN YÜKSEL
President

EXECUTIVE SUMMARY

The ETDB was established as a regional MDB and started its credit operations in December 2008. It has a clear mandate to foster socio-economic development and promote 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 headquarters located in Istanbul (Türkiye) and staffed with 32 employees from member states. It has an equity amounting to SDR 428 million as the end of 2022. 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 has established fundamental internal regulatory framework to improve its operations. 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. 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 2022, the Bank marked the fourteenth anniversary of the launch of its operations. The knowledge and experience built on internationally accepted practices are improving the capabilities of the Bank to fulfill its establishment mandate and maintain financial viability.

The global economy witnessed a significant economic rebound in 2021 as reflected by the broad economic recovery that took hold across various countries. The economic recovery was underpinned by successful rollout of vaccines, support provided in form of significant monetary and fiscal stimulus packages and favourable financial conditions. The growth momentum was disrupted in early 2022 with the outbreak of Russian-Ukraine war, lingering COVID-19 and cost-of-living crises due to sharp rise in inflation. As per the latest IMF estimates, global GDP growth slowed down in 2022 registering growth of 3.4 percent compared to 6.3 percent in the previous year.

ECO region, similar to the global economy, witnessed slowdown in economic activity with real GDP growth moderating to 4.9 percent in 2022 compared to 7.8 percent growth print achieved last year which reflected the worsening of supply chain bottlenecks, high energy and food prices and tightening of financial conditions as most central bank across the region raised policy interest rates to curb inflationary pressures.

ECO region's nominal GDP stood at USD 2.1 trillion in 2022 compared to USD 1.9 trillion recorded in the previous year registering a growth of 10.5 percent and was equivalent to 2.1 percent of the global output. In 2022 GDP (PPP-based) stood at USD 7.8 trillion compared to USD 6.9 trillion last year which translates to a growth print of 13 percent in nominal terms. In 2022 estimated GDP per capita (PPP-based) for the ECO region, stood at USD 16,054, compared to USD 14,535 last year which amounted to a growth rate of 10.4 percent.

GDP (PPP-based) stood at
USD 7.8 trillion *(2022)*

ECO region's nominal GDP stood at
USD 2.1 trillion *(2022)*

The adverse consequences from the current geopolitical conflict and elevated inflation are expected to complicate the sustainable development efforts of the member states. High interest rates due to central banks tighten policy measures, exerting pressure on emerging market and developing economies. Meanwhile, 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. In this respect, healthcare and life sciences, food, digitalization, artificial intelligence, automation, logistics, 3D design technologies, clean energy, etc. are expected to be at the front and centre 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 Bank started working on the new Business Plan (2023-2027) in order to design its operations for further enhancing its capacity.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 318 million by the end of 2022 remained slightly below the business plan target of SDR 326 million due to operational challenges in certain member states. The total assets of the Bank amounted to SDR 471 million by the end of 2022 and exceeded the business plan projections of SDR 459 million. The Bank has been able to continue attaining positive income levels which are above the business plan's target levels. The Bank maintains an intensive loan portfolio with high developmental impacts. 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 1,726 million as the end of December 2022. In line with its mandate to support trade transactions of member states, about 65 percent of the total disbursed funds were extended for financing trade, making the Bank's involvement in the region's trade more inclusive.

b. Good asset quality was maintained with a diversified portfolio in terms of sector and country. The outstanding loan portfolio increased by 30 percent compared to previous year and reached to SDR 310 million as the end of 2022.

c. During 2022, the Bank disbursed loans to various operations amounting to SDR 183 million which showed a 50 percent increase compared to previous year.

d. The average internal credit rating score assigned to the total outstanding loan portfolio of the Bank was improved and stood at 3.3 points by the end of 2022 (2021: 3.7 points) which represented a low risk level on a scale of 1 to 10. The Bank continued to incorporate strong financial, social and environmental safeguards while expanding its operations sustainably.

e. As of 31 December 2022, the Bank classified three of its loans as Stage 3 and all other financial assets in Stage 1. Sovereign guarantees are held as collaterals against project finance loans grouped under Stage 3 and delays in the repayments are expected to be resolved soon. The repayment problems 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.

f. With joining of Azerbaijan, Afghanistan and Kyrgyzstan, the membership base of the Bank was enlarged to include six ECO member states. Membership of other remaining four ECO countries, namely Kazakhstan, Tajikistan, Turkmenistan and Uzbekistan is pursued decisively.

g. 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 production, trade energy and construction sector thereby contributing to the economic development and job creation.

h. The total assets of the Bank amounted to SDR 471 million by the end of 2022 (2021: SDR 465 million).

i. Bank posted a net profit of SDR 15,496 thousand in 2022 (2021: SDR 9,054 thousand), representing 71 percent increase compared to previous year.

j. The total reserves and retained earnings of the Bank amounted to SDR 101.1 million by the end of 2022 representing an increase of 18 percent compared to 2021 end year figure.

k. The Return on Assets (RoA) was 3.3 percent and the Return on Equity (RoE) stood at 3.7 percent as the end of December 2022 which was comparatively higher than 2021 end year figures (2021-RoA: 1.9 percent, RoE: 2.2 percent).

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

m. 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.

n. The Bank continued to strengthen its IT infrastructure to leverage business by integrating all technological enhancements.

o. 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.

p. Strategic cooperation arrangements with relevant Multilateral Development Banks and national financial institutions have been pursued to enhance co-financing operations.

q. The Bank has successfully adapted necessary measures 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.

Despite the business 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. 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

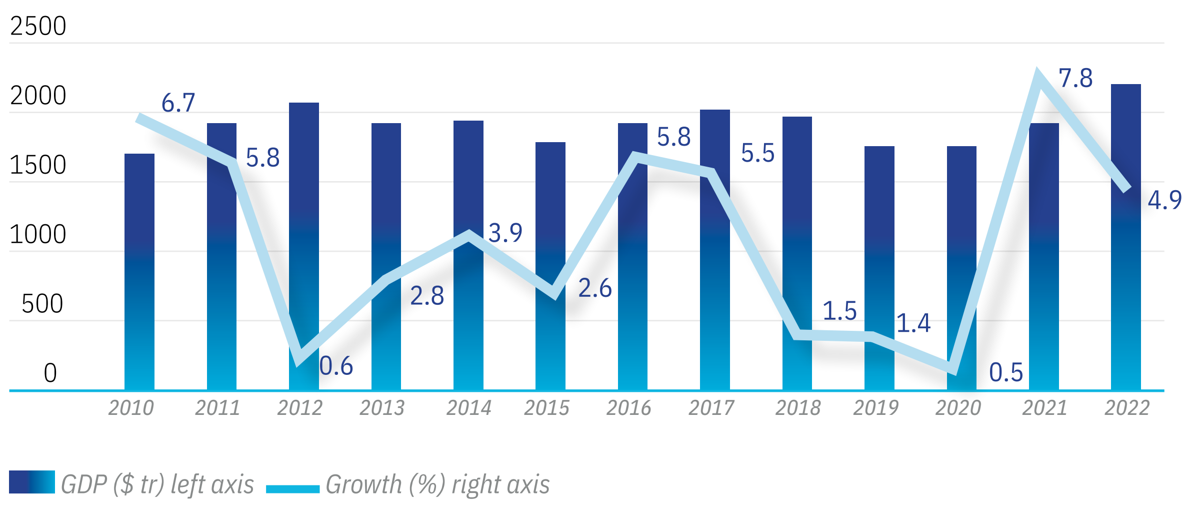
The global economy witnessed a significant economic rebound in 2021 as reflected by the broad economic recovery that took hold across various countries.

The economic recovery was underpinned by successful rollout of vaccines, support provided in form of significant monetary and fiscal stimulus packages and favourable financial conditions. The growth momentum was disrupted in early 2022 with the outbreak of Russian-Ukraine war, lingering COVID-19 and cost-of-living crises due to sharp rise in inflation. As per the latest IMF estimates, global GDP growth slowed down in 2022 registering growth of 3.4 percent compared to 6.3 percent in the previous year.

The pronounced deceleration in ECO 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.

ECO region, similar to the global economy, witnessed slowdown in economic activity with real GDP growth moderating to 4.9 percent in 2022 compared to 7.8 percent growth print achieved last year which reflected the worsening of supply chain bottlenecks, high energy and food prices and tightening of financial conditions as most central bank across the region raised policy interest rates to curb inflationary pressures (Figure 2).

Figure 2: ECO Region Growth Trend



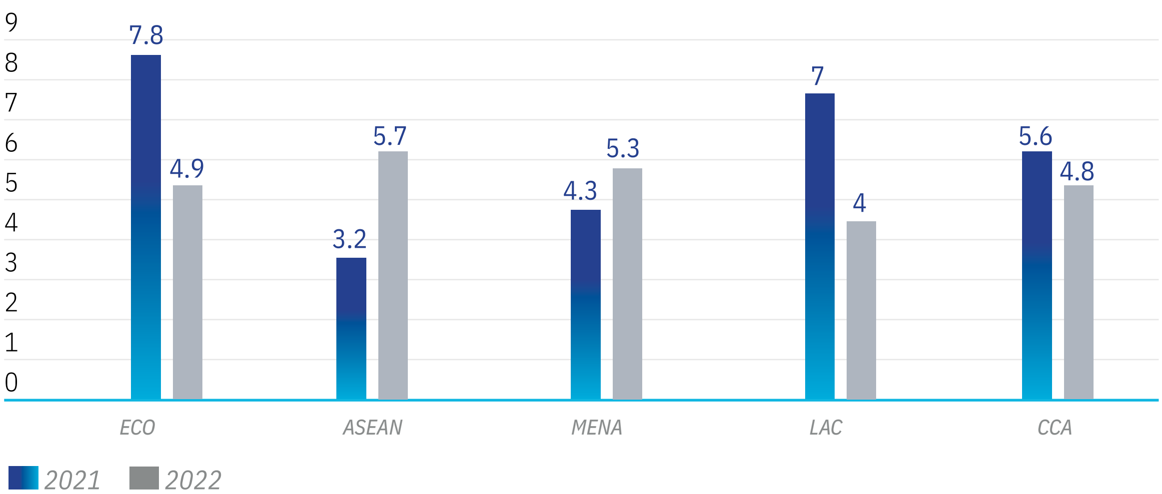
Increase in oil prices in 2022 due to tight supplies triggered by Russia-Ukraine war led to ECO region's natural resource-dependent economies to experience a rise in commodity exports which led to stabilizing of their external accounts. Central Asian economies traditionally rely significantly on remittance inflows to finance their current account balances and drive domestic consumption but onset of war led to reduced inflows and fall in aggregate consumption resulting in moderation in economic growth.

ECO region's nominal GDP stood at USD 2.1 trillion in 2022 compared to USD 1.9 trillion recorded in the previous year registering a growth of 10.5 percent and was equivalent to 2.1 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 2022 GDP (PPP-based) stood at USD 7.8 trillion compared to USD 6.9 trillion last year which translates to a growth print of 13 percent in nominal terms.

Living standard as measured by average nominal GDP per capita income metric stood at an estimated USD 4,343 for the ECO region in 2022, rising from USD 3,833 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 2022 estimated GDP per capita (PPP-based) for the ECO region, stood at USD 16,054, compared to USD 14,535 last year which amounted to a growth rate of 10.4 percent.

ECO region's comparison with other comparator regional blocks in regards to economic performance as measured by real GDP growth rate shows that it achieved better or comparable performance (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), CCC (Caucasus & Central Asian)*

In all counties in the region, except Tajikistan, average inflation rate reached double-digits

Developments in headline inflation varied across the ECO region with the region as a whole registering more than doubling of inflation to 45.7 percent in 2022 compared to 20 percent print last year (Table 2). In 2022 the prevailing inflationary pressure emanating from onset of COVID-19 were further aggravated by Russia-Ukraine war which resulted in worsening of supply chain bottlenecks, sharp rise in energy and food prices contributing to soaring inflation and tightening of financial conditions as central banks hiked rates in response to curb inflation.

In all counties in the region, except Tajikistan, average inflation rate reached double-digits. In Iran and Türkiye continued pressure on the currency led to the sharp depreciation which resulted in a sharp jump in inflation to 48.9 percent and 72.3 percent, respectively. In Türkiye inflationary pressures built up due to currency depreciation, food and energy inflation and supply chain disruptions. Inflation rose in Uzbekistan due to rise in energy prices, increase in wages and taxes. Similarly, inflation rose in Azerbaijan to 13.8 percent as prices rose due to supply chain disruptions and increase in commodity and energy prices.

In 2022 the regions governments' fiscal deficit fell in almost all ECO countries reflecting unwinding of pandemic related fiscal spending, economy recovery and a rise in inflation. Kazakhstan and Turkmenistan were the only member country whose budget balance turned to surplus from the deficit recorded last year. Most of other members saw a decline in deficits. The regional fiscal deficit to GDP ratio in 2022 fell to 2.7 percent compared to 4.1 percent last year primarily due to economic recovery, decline in government expenditure and rise in tax revenue due to inflation (Table 2).

The overall regional current account (CA) balance in 2022 switched to deficit of USD 19.1 billion from USD 0.9 billion surplus recorded last year and was equivalent to 0.9 percent of GDP compared to 0.05 percent last year (Table 2). Most member countries witnessed improvement in their CA deficits with the exception of Kyrgyz Republic, Pakistan and Türkiye which witnesses a significant deterioration in their external balances. Current account deficits across the region deteriorated due to trade disruption, fall in remittances, and contraction in global economic output. The reversal of region's CA to deficit in 2022 from surplus last year was primarily on account of Türkiye and Pakistan recording sharp increase in their current account deficits.

In the table listed below key economic indicators of the ECO region and member countries for 2022 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

In 2021 global economy was projected to return to normal economic activity over the next two years following the negative pandemic shock and the associated economic slowdown.

The general gross government debt to GDP ratios decreased moderately across the member countries. Gross government debt to GDP ratio fell due to a decrease in the fiscal expenditures and issuance of domestic debt due to unwinding of the pandemic related fiscal measures and rise in inflation. The total public debt of the region reached USD 796 billion which amounted to 37.7 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. 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.

The total public debt of the region reached

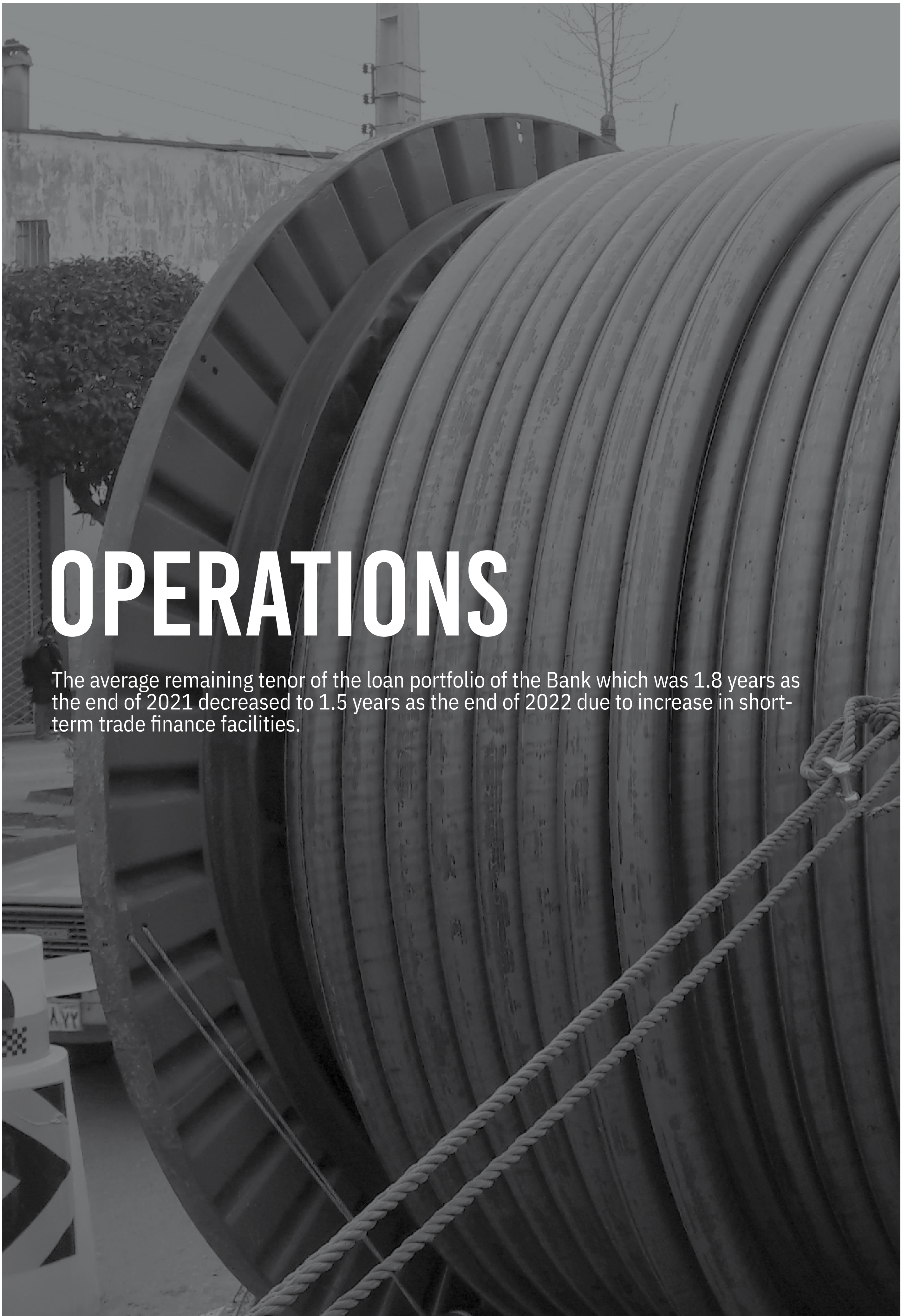
USD 796 billion

FUTURE OUTLOOK

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 eruption of Russia-Ukraine war Ukraine in early 2022 derailed the nascent global economic recovery that started to take hold in the latter part of 2021. IMF in its latest projections foresees global GDP growth to fall to 2.8 percent in 2023 from 3.4 percent last year. The moderation in growth is primarily due to lingering effects of three years of COVID-19, ongoing disruption due to Russia-Ukraine war, recent financial sector turmoil and tighter financial conditions.

Similarly, ECO region is projected to face multiple headwinds from ongoing Russia-Ukraine war, higher food and energy prices and debt distress due to higher interest rates as depreciation of their respective currencies. As a consequence economic growth is projected to moderately slowdown 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 war.



OPERATIONS

The average remaining tenor of the loan portfolio of the Bank which was 1.8 years as the end of 2021 decreased to 1.5 years as the end of 2022 due to increase in short-term trade finance facilities.

BUSINESS STRATEGY AND BALANCE SHEET ITEMS

The Bank firmly continued its operations towards fulfilling its mandate to support sustainable development of member countries.

During 2022, the Bank disbursed loans amounting to SDR 183 million which showed a 50 percent increase compared to previous year. In terms of operations, the Bank provided short to medium-term financing, targeting real sector projects and also continued to offer credit lines for financing M-SMEs and trade activities through financial intermediaries. 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. The Bank sustained a consolidated and manageable loan portfolio quality. 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 1,726 million as the end of December 2022.

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. The average remaining tenor of the loan portfolio of the Bank which was 1.8 years as the end of 2021 decreased to 1.5 years as the end of 2022 due to increase in short-term trade finance facilities. The Bank applies viable interest rates, with margins and fees, applicable to projects in the Bank's efforts to remain competitive in the market.

ETDB is exposed to risk arising from transition out of 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 adopted necessary measures for transition to 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 2022, 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 partner 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 achieved promising results in attaining most of its targets based on its funding capacity, which is mainly composed of equity (paid-in capital and retained earnings) and short-term borrowings. The Bank is working on the new Business Plan (2023-2027) in order to design its operations for further enhancing its capacity.

Special attention has been given to projects that are vulnerable to challenges and appropriate remedial measures and turn around strategies have been implemented promptly.

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 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 were sustained by the Bank;

- 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,
- Exploring credit market conditions and investment opportunities 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 budgetary discipline and effective cost controls,
- 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 AML/CFT and KYC requirements.

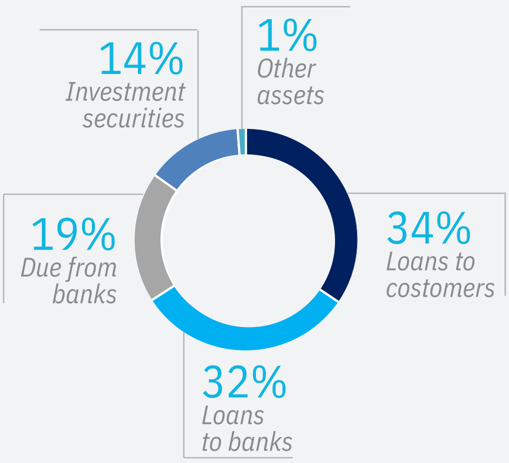
The economic activities in the member states during the year have been mainly focused on advancing economic development and mitigating the external risks including inflationary pressures, supply chain bottlenecks and tightening of global financial conditions. In addition, due to certain operational challenges, the Bank achieved promising performance regarding its operational targets projected in the business plan. The outstanding loan portfolio including undisbursed commitments which reached to SDR 318 million by the end of 2022 remained slightly below the business plan target of SDR 326 million. Average internal credit rating score assigned to the total outstanding loan portfolio of the Bank was 3.3 points by the end of 2022 (2021: 3.7 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 to SDR 459 million as the end of 2022. Exceeding this projection, the realized total assets of the Bank amounted to SDR 471 million by the end of 2022.

The Bank has been able to continue attaining positive income levels. The net income which was SDR 15.5 million by the end of 2022 remained above the business plan's target level of SDR 7.2 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.

(i) BALANCE SHEET

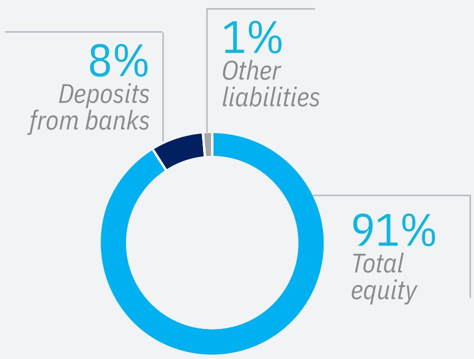
By the end of 2022, the Bank's total assets were SDR 470,849 thousand (2021: SDR 464,692K). Due from banks amount to SDR 89,023 thousands representing 19 percent of total balance sheet size (2021: SDR 161,895K). Loans to customers and loans to banks amount to SDR 162,002 thousands and SDR 148,475 thousands, respectively (2021: SDR 140,780K and SDR 97,485K).

Figure 4: Composition of Assets
(31 December 2022)



The Bank's reserves and retained earnings reached SDR 101,179 thousands by the end of 2022 (2021: SDR 85,698K). ETDB's financial strength is supported by the level of members' equity. As of 31 December 2022, 91 percent (2021: 89 percent) of the Bank's assets were funded with the members' equity which amount to SDR 427,929 thousands (2021: SDR 412,448K). Majority of the liabilities were composed of money market transactions which amount to SDR 36,473 thousands (2021: SDR 48,108K).

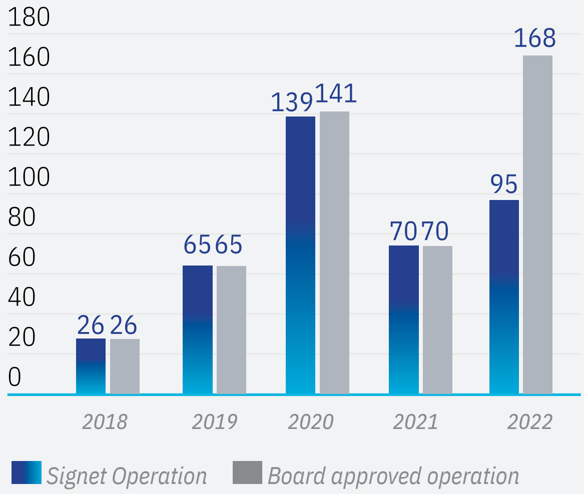
Figure 5: Composition of Liabilities & Equity
(31 December 2022)



(ii) LOAN PORTFOLIO

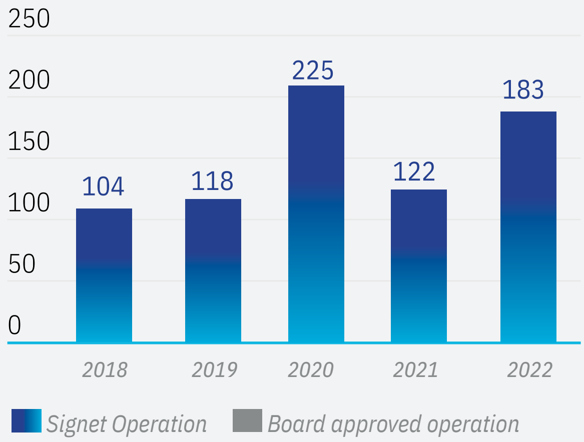
The Bank initiated loan operations in December 2008 and total approved operations (SME finance operations to financial intermediaries, trade/corporate and project finance operations to customers) amounted to SDR 2,037 million (2021: SDR 1,869 m) and among them signed operations amounted to SDR 1,074 million (2021: SDR 979m) at the end of 2022.

Figure 6: Signed operations vs. Board approvals 2018-22 (SDR million)



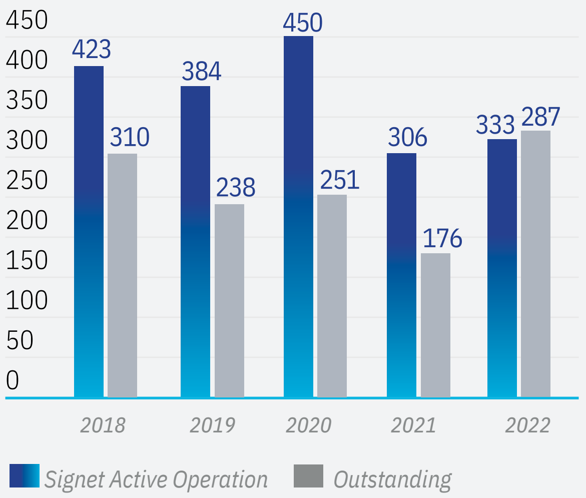
Total disbursements to these operations by the end of 2022 stood at SDR 989 million and additionally SDR 737 million of short term trade finance loans were disbursed to banks in member countries. As of 31 December 2022, total disbursed loans reached to SDR 1,726 million.

Figure 7: Annual loan disbursements 2018-22 (SDR million)



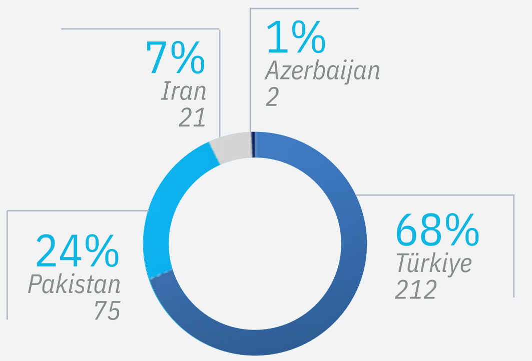
The outstanding loan portfolio of the Bank is SDR 310,477 thousand as of 31 December 2022 vis-à-vis SDR 238,265 thousand as of 31 December 2021. Funds committed but not yet disbursed stood at SDR 7,981 thousand as of 31 December 2022.

Figure 8: Portfolio development 2018-22 (SDR million)



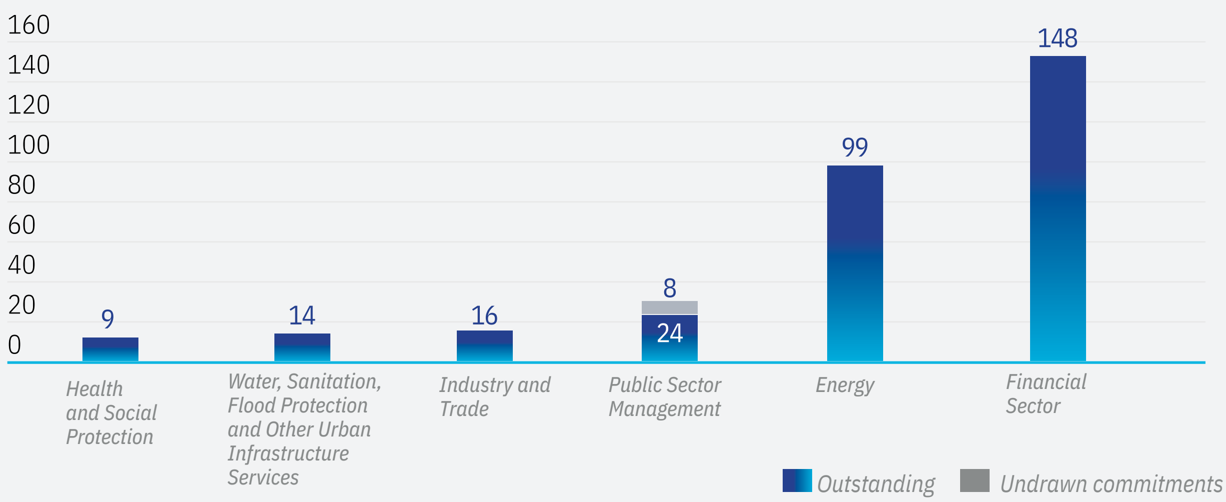
The allocation of outstanding loan portfolio among member countries as of 31 December 2022 was as follows:

Figure 9: Outstanding loans by country
31 December 2022 (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, health, industry and agriculture is given special attention. The Bank also aims to increase 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 industry sectors as of 31 December 2022 was as follows

Figure 10: Loans by sectors 31 December 2022 (SDR million)



The Bank pursues its operational mandate with strict budgetary discipline, ensuring that its limited resources are utilized efficiently.

(iii) REVENUES

Maintaining financial viability is important for the Bank 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 this objective, 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/trade and provide necessary impetus for poverty alleviation, development of human resource, capital and technology for advancement in the region, the Bank does not intend to maximize profits in the course of its activities, but seeks at least to recover its operating costs and the cost of capital employed.

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

Interest income from lending activities increased to SDR 8,318 thousands in 2022 from SDR 5,688 thousands in 2021. In 2022, interest income of SDR 7,745 thousands (2021: SDR 5,240K) were generated from treasury activities, such as money market placements and security investments. The Bank booked additional SDR 587 thousands of loss allowance for the credit risks in 2022 (2021: SDR 124K). Due to the increase in the appraised value of the Bank's headquarters premises, other operating income realized at SDR 1,646 thousands. As a result, total operating income for the year 2022 was SDR 18,730 thousands, indicating 51 percent increase compared to SDR 12,370 thousands in 2021.

Due to the increase in the appraised value of the Bank's headquarters SDR
18,730
thousands *(2022)*

(iv) EXPENSES

Interest expense for the year increased to SDR 715 thousands in 2022 from SDR 482 thousands in 2021, mainly due to the increase in market interest rates. General and administrative expenses decreased to SDR 3,104 thousands in 2022 from SDR 3,315 thousands in 2021.

Personnel expenses include salaries, benefits, contributions made on behalf of the employees and staff development expenses amounted to SDR 2,655 thousands (2021: SDR 2,954K).

Other administrative costs which include travel, office occupancy, third party fees, maintenance costs, etc. increased from SDR 233 thousands in 2021 to SDR 321 thousands in 2022. Overall, general and administrative expenses were well within the 2022 budget targets, reflecting the Bank's focus on budgetary discipline and effective cost controls.

In 2022, other operating expenses were SDR 130 thousands (2021: SDR 1K). As a result, total operating expenses decreased to SDR 3,234 thousands (2021: SDR 3,316K).

(v) NET INCOME

The Bank posted a net profit of SDR 15,496 thousands, representing 71 percent increase compared to SDR 9,054 thousands in 2021.

As of 31 December 2022, reserves of the Bank amounted to SDR 85,683 thousands which is 8 percent of the subscribed capital.

(vi) RESERVES

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

As per the Establishing Agreement, the Bank sets aside retained income until the reserves of the Bank reach 25 percent of the subscribed capital. As of 31 December 2022, reserves of the Bank amounted to SDR 85,683 thousands which is 8 percent of the subscribed capital. Table 3 below provides summary of the financial results of the Bank during 2018-2022.

Table-3: Financial results (2018-22)

Thousands of SDR	2022	2021	2020	2019	2018
Assets	470,849	464,692	467,926	468,589	481,759
Treasury investments	154,773	221,025	211,552	286,945	183,029
Loan portfolio	310,477	238,265	250,791	176,400	287,355
Other assets	5,599	5,402	5,583	5,244	11,375
Liabilities	42,920	52,244	64,534	73,270	97,252
Borrowings	36,473	48,108	59,145	67,509	92,692
Other liabilities	6,447	4,136	5,389	5,761	4,560
Members' equity	427,929	412,448	403,392	395,319	384,507
Income	20,040	12,980	13,885	17,843	16,153
Interest and fees	16,584	11,605	13,433	15,390	14,988
Other income	3,456	1,375	452	2,453	1,165
Expenses	-4,544	-3,926	-6,128	-9,752	-6,644
Interest and fees	-723	-486	-748	-842	-849
Administrative	-3,104	-3,315	-3,565	-3,773	-3,755
Other expenses	-717	-125	-1,815	-5,137	-2,040
Net profit	**15,496**	**9,054**	**7,757**	**8,091**	**9,509**

(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 recognised for such financial assets.

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

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

As of 31 December 2022, the Bank classified three of its loans as Stage 3 and all other financial assets in Stage 1. In 2022, as a result of the 30 percent increase in the total outstanding loans additional expected credit loss allowance requirement was SDR 587 thousands (2021:SDR 124K).

(viii) KEY FINANCIAL INDICATORS (2018- 2022)

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.

In 2022, the Bank's annual profit increased by 71 percent compared to 2021 and amounted to SDR 15.5 million. Consequently, RoE increased to 3.7 percent in 2022 from 2.2 percent in 2021. Strict budgetary discipline and effective cost control resulted in 6 percent and 17 percent decreases in general and administrative expenses compared to 2021 and 2018, respectively. Due to decreased interbank borrowing leverage ratio declined to 8.5 percent in 2022.

Table-4: Financial ratios (Percentage) 2018-22

Financial performance	2022	2021	2020	2019	2018
Return on members' equity	3.7	2.2	1.9	2.1	2.5
Return on assets	3.3	1.9	1.7	1.7	1.9
Interest income / interest bearing assets	3.5	2.4	2.7	3.2	3.0
Net interest margin	2.3	1.8	1.9	2.4	2.2
Efficiency					
Gen. & Administrative expenses / revenues	18.7	28.6	26.5	24.7	25.1
Leverage					
Total debt / members' equity	**8.5**	**11.7**	**14.7**	**17.1**	**24.1**

BUSINESS ACTIVITIES

Despite challenges in some member countries, ETDB pursued its operations in order to support growth and economic prosperity in the member states.

As a development finance 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. 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 favorable 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 of 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 1,726 million as the end of 2022.

Table-4: Loan disbursements during 2008-2022 as per country (Millions of SDR)

	Iran	Pakistan	Türkiye	Azerbaijan	Total
SME/M-SME Dev. Loans	34	43	231	2	310
Short term trade finance	64	111	557	6	738
Trade/Corporate finance	60	375	77	-	512
Project finance	64	38	64	-	166
Total	**222**	**567**	**929**	**8**	**1,726**

One of the Bank's priorities is to support M-SMEs, which are critical for the economic and social development in the ECO region.

Since the establishment of the Bank, finance facilities over SDR 1 billion have been invested through financial intermediaries for developing intra-regional trade and accelerating economic development in the ECO region. In line with its mission to foster the growth of intra-regional trade and sustainable economic development, through a sound network of financial intermediaries, ETDB reaches out to the final beneficiaries in the M-SME segment and in trade finance. The financial intermediaries are selected commercial and investment banks, micro and SME finance institutions and leasing companies in the member countries. The selection process of financial intermediaries 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. ETDB offers both conventional as well as Islamic banking models under these product lines. 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) MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT FACILITY (M-SMES)

One of the Bank's priorities is to support 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 in order to provide the M-SMEs with enhanced access to financial services.

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 as specified by ETDB.

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.

Moreover, through loans provided to micro-finance institutions, the Bank supports the micro-entrepreneurs with access to bank loans which are difficult to get for this lower income segment. 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 encouraged. During 2008-2022, the Bank disbursed SDR 310 million M-SME facilities to the qualified customers in the member states.

In 2022, ETDB disbursed SDR 27 million more to M-SME enterprises which have been allocated for different industries. The total outstanding loans under this facility stood at SDR 47.3 million as the end of December 2022. As the end of 2022, under the SME loan agreements that were outstanding, 406 SMEs have been granted with sub-loans i.e. loans allocated to SMEs by ETDB's financial intermediaries. Average sub-loan has been SDR 115 thousand, while average sub-loan tenor has been two years. Average numbers of staff in the SMEs which have been granted with sub-loans (final beneficiaries) have been 34. The final beneficiaries have been mostly in production (22 percent), trade (18 percent), energy (14 percent) and construction (14 percent) sectors.

(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 can apply to benefit from this facility. During 2008-2022, total disbursed loans under trade finance facility through financial intermediaries to member countries amounted to SDR 738 million.

- **Export Finance Facility;** provide exporters with the advance financing to produce the goods to be exported. It may also provide the buyers with deferred payment terms in order to increase the competitive advantage of the exporters.
- **Import Finance Facility;** provides finance facilities for the importation of capital and intermediary goods that would enhance the competitive advantage of the production in the ECO region and thus, would lead to increased export volumes, intra-regional trade and job creation. It may also cover the importation of goods in order to secure the basic humanitarian needs such as food and health related items.

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 amounted to SDR 80 million during 2022.

The total outstanding amount of short term trade finance facilities that ETDB has extended through financial intermediaries was SDR 101.1 million by the end of December 2022. With this amount, 110 trade finance transactions have been funded through financial intermediaries. Average amount of trade transactions funded with ETDB loans has been SDR 1.2 million, while average tenor stood at 19 months. Traded goods composition included metallurgy (25 percent), food and agriculture (16 percent), machinery (15 percent) and textile (14 percent) sectors. 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 loans disbursed under this facility amounted to SDR
80 million *(2022)*

(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 2008-2022 period including undisbursed commitments under corporate and project finance operations have been intensified and amounted to SDR 686 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 continued and progressed in expanding its footprint and visibility in the developmental corporate, project and trade financing activities in the member states and also continued to provide support to its members in their efforts to overcome the urgent economic, financials and public health pressures during times of natural disasters, pandemics etc. through offering customized solutions in line with its overall objectives of fostering sustainable economic development and social progress.

In 2022, the Corporate and Project Finance (CPF) has been initiating contacts with new clients for new transactions, staying in contact with other multilateral financial institutions for co-financing opportunities to enable to leverage its resources and maximize its impact in the member states. Another important task of CPF department was the monitoring of the existing projects in the portfolio of the Bank. Guided by the general business strategy of the Bank, the sectors which were looked into were infrastructure, transportation, renewable energy and trade financing and agriculture. 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.

Within 2022, loan agreements of USD 40 million and EUR 50 million were 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 these facilities the overall direct support of the Bank to Government of Pakistan for meeting its oil/gas requirement for energy production since 2014 reached to an approximate of USD 315 million in total.

A loan of EUR 50 million in the form of a soft loan has been approved by the Board of Directors in favor of the Government of Pakistan through its Economic Affairs Division for the expansion of Health & Nutrition Conditional Cash Program (CCT) under Benazir Nashonuma Program which is a part of Benazir Income Support Program (BISP) in the flood affected districts of the country. This facility is under legal documentation stage and disbursement of funds will be processed accordingly.

Another trade finance loan of USD 3 million was approved by the Board of Directors in Türkiye for the financing of exports of pulses, grain products and oil seeds manufacturing/trading company which is under legal documentation stage. The proposed transaction will contribute to the exports of Türkiye and help earn valuable foreign exchange in the form of export proceeds.

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, Islamic Republic of Afghanistan and Kyrgyz Republic and is in contact with the relevant offices and businesses as well as other multilateral organizations which are already active in these member states.

Overall, the total outstanding loans under corporate and project finance operations including undisbursed commitments amounted to SDR 170 million as end of December 2022.

Table-6: Examples of Corporate and Project finance operations during 2008-2022

#	Name of Client	Operation	ETDB Loan Amount (USD)
1.	Istanbul Metropolitan Municipality /Türkiye	Procurement of subway vehicles for Metro Line Project	35,000,000
2.	Tehran Province Water and Wastewater Company / Iran	Shahriar Water and Waste Water System Project	21,900,000
3.	Regional Water Authority of Iran (KRWA)/ Iran	Siazakh Irrigation Project	20,500,000
4	South Khorassan Waste Water Company / Iran	Birjand Waste Water Treatment Project	27,220,000
5.	Government of Pakistan	Trade Finance Facility	40,000,000
6.	Zorlu Energy Pakistan Limited/ Pakistan	Wind Power Farm Project	20,000,000
7.	DG Khan Cement Company Limited (DGKCC) / Pakistan	Waste heat recovery plant and refused derive fuel facilities Project	20,950,000
8.	Soft Loan to Government of Pakistan	Facility for supporting reconstruction and rehabilitation efforts following massive floods	10,000,000
9	Mazandaran Power Transmission Project/Iran	Expansion and modernization of electric transmission and distribution infrastructure	24,300,000
10.	Harappa Solar (Pvt) Limited/Pakistan	Solar Power Farm Project	8,221,350
11.	Government of Pakistan	Trade Finance Facility-Syndication	50,000,000
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
16.	Government of Pakistan	Trade Finance Facility	93,110,000

TREASURY OPERATIONS

The main responsibilities of the ETDB Treasury include a) cash flow management; b) market and liquidity risk management.

a) CASH FLOW MANAGEMENT:

Treasury Department is in charge of managing the Bank's cash flow. The Department engages in borrowings and placements through money market and capital market transactions and ensures effective management of the Bank's short-term funds.

b) MARKET AND LIQUIDITY RISK MANAGEMENT

The market risks namely currency and interest rate risks The market risks namely currency and interest rate risks and the liquidity risk are daily monitored and managed by the Treasury Department under the supervision of the Asset Liability Committee of the Bank (ALCO). The Treasury Department acts as the secretary of the ALCO.

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

i) Currency Risk Management

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

(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 2022, the total treasury assets stood around SDR 155 million. Treasury achieved net interest income (money market + securities) of SDR 7.7 million and net swap income of SDR 1.5 million for the year 2022.

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, counterparty and interest rate risk limits set by relevant committees and/or procedures.

TECHNICAL ASSISTANCE AND ADVISORY SERVICES

The Bank aims to assist member states in formulating and coordinating development strategies and plans; improving institutional capacities; undertaking sector and policy oriented studies; and improving knowledge about development, regional cooperation, and integration issues. The 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 is ready to consider the technical assistance requests and build-up its expertise and resources for providing more technical assistance services in the coming years.

RISK MANAGEMENT

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 focus 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 and 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 and 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) and 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 is 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, the borrowers' ability and vulnerability to absorb financial shocks without incurring losses is calculated. The stress test results also acts as an Early Warning Signal for the Bank to take a proactive action if necessary.

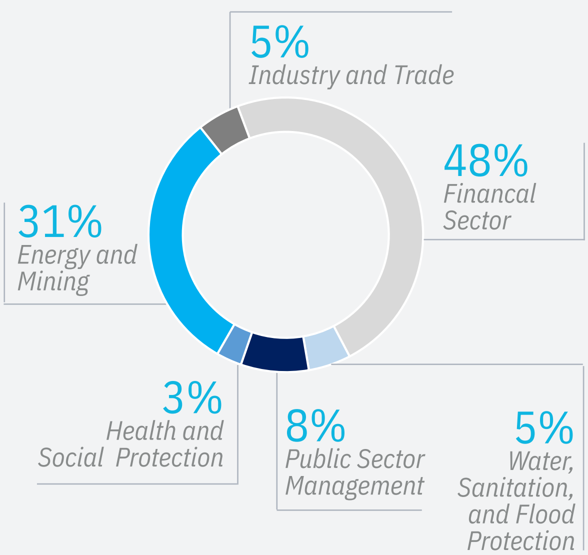
Apart from supervision and monitoring reports, RMD prepares Risk Asset Review reports to ascertain the concentration, tenor, rating of the Bank's portfolio. On an aggregate level, the Bank's credit quality was maintained at a strong level. The weighted average internal credit rating score assigned to the total outstanding loan portfolio was 3.3 points by the end of 2022 (2021; 3.7 points) which represented a low risk level on a scale of 1 to 10.

Moreover in the domain of risk management, a good part of risk management relies on data and the availability and quality of such data has been historically a focal point. In this context RMD in collaboration with other departments started design, development and implementation of a corporate governance system using the modern and latest IT technologies of .NET platform (C# programming language) combined with Structured Query Language (SQL). The centralized data platform include all aspect of ETDB credit operations data including but not limited to information about ETDB active and past clients, BOD credit decisions, past and current loan agreements and their related terms and conditions, all the financial statements of clients used for necessary analysis. For upcoming years, the Bank plan to expand the system and develop the analytics modules for credit and portfolio analysis purposes.

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 22.7 million by the end of December 2022 which was SDR 31 million as end of 2021. Sovereign guarantees are held as collaterals against loans to customers that are classified under Stage 3. In 2022, as a result of the decrease in the volume of Stage 3 loans, the Bank lowered its expected credit loss allowance for Stage 3 by SDR 396 thousand compared to previous year.

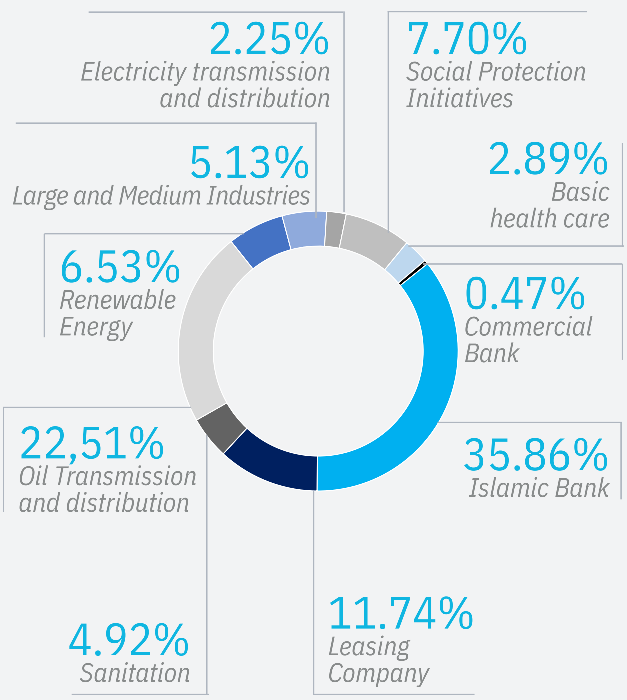
As of December 2022, the share of financial sector continued to have the largest share in ETDB loan portfolio and was realized as 48 percent which is up from December 2021 at 41 percent. The second largest share in the sector distribution belongs to energy which had a share of 31 percent (32 percent in December 2021). 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 2022, 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.

Figure 12: Breakdown of outstanding loans by sectors-2022



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.

Figure 13: Breakdown of outstanding loans by sub-sectors-2022



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

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 related to operations: assessment of environmental factors, project procurement processes, and monitoring of implementation. Each function has an objective to assure proper planning and execution of operation activities and serve in to the best interest of the operation, client, and the Bank.

Project implementation and monitoring focuses on administration operations, including registering and recording the progress of an operation in the operations database which is regularly updated in cooperation with the operations team on a timely basis. The department makes recommendations during the initial phase on issues related to the conduct of the operation and monitoring, including relevant agreements and the development of key indicators for monitoring and reporting purposes. During 2022, the department succeeded in further monitoring the implementation of operations and updating the database of credit operations to include disbursement and repayment transactions of operations.

Moreover, a physical archive of operations containing documents, resolutions, and agreements related to the operation was created and kept up to date. The Bank continued to prepare regular supervision and monitoring reports for various projects in order to monitor compliance with covenants and other major conditions of the loan agreement. In addition, regular exception reports have been prepared to document non-compliance with loan agreements. In this respect, business proposals relating to various stages of operation cycle are reviewed by the relevant department and necessary inputs including collateral arrangement are proposed to safeguard the interest of the Bank. In addition, as part of overall function of monitoring of operations, attention was paid to the disbursements and reimbursements of funds while operations' securities were checked and updated.

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

The objective of procurement function is to assure that funds allocated to operations are expended solely for the purpose of achieving operations' objectives in an efficient, economical, fair, and transparent manner. In this respect, the Bank has oversight role in procurement planning and processes performed by the clients to procure goods, works, and services through competitive means as well as procurement contract administration. The Bank's Procurement Policy applies to all contracts funded in whole or in part by bank loans to both public and private clients. The Bank's authority in this regard is mandated by the Lending Agreement that 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. The Credit Committee, as per the financial policies of the Bank, is the relevant body to discuss the credit related issues. The PIMD as the secretary of the Credit Committee is responsible for the meeting arrangements and documentation. In 2022, eleven (11) Credit Committee meetings were convened to discuss various credit proposals. Afterwards, the accepted credit proposals are submitted for the final decision of the BoDs.

FINANCIAL CONTROL

The department 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.

According to the Organizational Structure Policy, the 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 units, namely Banking and Non-Banking Financial Institutions (BNFI) and Corporate and Project Financing (CPF) for loan disbursement and administration and as a back-office support function for Treasury Department. Loan disbursements and administrations include disbursement and repayment of facilities which are conducted according to the terms and conditions of the respective 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, calculates, considers and arranges for the settlement of the due share capital contributions from the member states, controls the cash-flow of the Bank based on data information of the Bank, follows for the opening of required "Nostro" accounts in various currencies held with correspondent banks. 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 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

IT Department maintained an array of financial business systems including SAP, Refinitiv Reuters, SWIFT and financial portal on Intranet with SQL Daatabase support. IT Department also provided a helpdesk function for assistance to all staff members with their use of MS Office Professional and other related software as well as the printers/photocopiers. 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.

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.

During 2022, the Bank continued to improve its technological infrastructure mainly in following areas as detailed below:

(i) SAP Banking Application Project

- Customization “SAP System” for the delivery of new business requirements and 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 external auditor.
- Performance tuning via SAP Operating System (BASIS) support.

(iii) Inventory Control System

IT Department developed a new application for inventory control of the Bank’s asset in order to replace the existing application which became obsolete as no more support is provided on the market. By developing a new inventory application, IT Department enabled Asset Disposal Committee to carry out counting and automatic checking against the SAP Inventory Module (AA). In this respect, some manual check processes are automated with less human intervention.

(ii) Digital Archiving Project

Under the Digital Archive Working Group (“DAWG”) which has been established at the Bank, the following have been delivered within the scope of this project:

- All physical documents are scanned and converted into PDF format by departments,
- All the PDF documents are archived in temporary storage area until DAWG control process is conducted.
- All the scanned documents are controlled by the DAWG members against page count, content check and digital filenames by using various checklists and sampling methods,
- The scanned documents reviewed by DAWG members are transferred to permanent storage area with read-only access, as they will serve as official documents of the Bank,
- Management of Official Records and Archives” has been revised to cover details of the Digital Archive process of the Bank, including document disposal.

(iv) SWIFT Alliance Lite2 Migration:

The Bank successfully adopted SWIFT Alliance Lite2 as the new product to be used at the Bank.

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. The Bank is working on establishment of an Electronic Document Management System which is aimed to deliver a paperless working environment while enabling efficient workflows. In addition, the Bank is making necessary investment for implementing a specialized software solution for budgeting and planning activities.

INTERNAL AUDIT FUNCTION

The Internal Audit Department (IAD) was established following the approval of the Organizational Structure Policy of the Bank 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.

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 on improving and enhancing the existing control environment.

Internal auditing is an independent, objective assurance and consulting activity designed to add value to improve the Bank's operations.

During the audit year 2022-2023, IAD in line with the Bank's goals and 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, guidelines and the COM of the Bank.

To this end, IAD reviewed the adequacy of risk and internal control processes to ensure compliance with business objectives and 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 (AC) accordingly.

Additionally, IAD held regular meetings both online and face-to-face with the AC members throughout the year to discuss the audit reports and IAD's audit findings and recommendations made in the reports.

During the audit year 2022-23, IAD carried out audit of the following units in the Bank and subsequently prepared audit reports.

- Audit of Corporate and Project Finance (CPF's) department's credit appraisal process;
- Audit of Risk Management Department (RMD);
- Audit of Banking and Non-Banking Financial Institution (BNFI) department's credit appraisal process;
- Audit of External Relations and Board Meeting (ERBM) department; and
- Follow up on previous internal 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.

IAD's future plans and audit activities depends on the Risk Based Internal Audit (RBIA) Plan which is prepared annually. The plan is discussed with the Management and with the Audit Committee (AC) members prior to its finalization. On approval of the 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.

COMPLIANCE FUNCTION

The fight against fraud, corruption and money laundering is central to the Bank's mission. The Bank has established policies, procedures and systems of internal control and on the issues related to corporate ethics, managing conflicts of interest, combating money-laundering and financing terrorism, preventing corruptive and fraudulent activities by both counterparties and the Bank's personnel. The Management of the Bank is committed to deal with Bank's compliance and operational risk in a decisive, timely and controlled manner. 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.

While integrating into the overall risk management framework, 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. 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.

With regard to legal risks, the Office of the General Council (OGC) provides support to the departments in their transactions with third parties. The OGC reviews the credit operations and assesses critical legal issues for the best protection of the Bank's interests. The PCD and OGC departments collaborate with other relevant departments in order to amend the texts of the internal regulatory documents and present them to the approving authorities. During the year, several policies and procedures were updated and it was ensured that they were harmonized with the regulatory framework of the Bank.

ETDB does not provide services such as opening account for legal or natural persons. The Bank's operations are limited to the financing of development projects and promoting trade among member states. Hence the Bank is not involved in retail and commercial banking activities such as offering savings account services, personal loans, executing payments on behalf of customers, etc. and therefore the typical AML, sanctions and CTF requirements are fulfilled according to the internationally accepted policies/procedures adopted by the Bank.

The PCD assists the Bank in managing the compliance risk, and also provides consulting in the areas of AML, KYC, and CTF activities, helping Bank's departments to smoothly run their activities and responsibilities. The PCD assists adoption of check-list and workflows by the departments in order to streamline their responsibilities and compliance requirements. The Bank uses national company registers, official state databases, open sources and publicly available information, specific compliance databases, sanctions screening tools and newsletters to compile with required information to the maximum extent and to increase the probability of identification of risks inherent in its operations.

The Bank attaches close attention to staff discipline and prevention of conflicts of interest. The Corporate Governance Policy, Code of Conduct and Staff Regulations of ETDB established the basic corporate values and the rules of conduct based on high professional, integrity and ethical standards. Every year, the staff members are required to submit confidential statement with the attesting that he/she has no financial or business interest not complying with these rules. The PCD is advising and supporting the Bank regarding application and understanding of the provisions of the Code of Conduct.

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

Under the instruction of the President, PCD leads investigations on prohibited practices and misconduct in the Bank. During 2022, there was no major compliance 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 were informed to the Board of Directors. Also, no incidents of fraud or corruption or involvement of the Bank in such activities were identified. 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. All kinds of grievances about the Bank's services and products can be directed to the Bank through the mail addresses provided on its website and each case is dealt timely and appropriately.

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.

The PCD provided support in adoption of standards applicable for processes with regard to security controls and re-attesting compliance against these controls which are carried constantly by the Bank to comply with the latest standards of the industry for the SWIFT operating environment. In the year 2022, PCD remained actively engaged as observer in the activities of the relevant Committees in the Bank such as Management Committee, ALCO, Credit Committee and other relevant ad-hoc working groups and provided recommendations on the Bank's regulations and rules, procedures, policies, and decision-making processes. With regard to Bank's internal purchasing processes, PCD is represented in the Purchasing Review Committee and assisted the procurement activities through ensuring transparency and competition while mitigating fraud and corruption risks.

The PCD supported the London Interbank Offered Rate (LIBOR) Transition Working Group established in the Bank to conduct comprehensive impact analysis of LIBOR transition in different working streams, such as lending, funding, legal, information technology, client outreaching and accounting etc. In this respect, ETDB closely monitored market development and proactively engaged with relevant partners for a smooth and successful transition from LIBOR. The Bank is also collaborating with other multilateral development banks and major financial market players to track industry developments and adopted best practices. The Bank ensured introduction of, or amendments to, fallback clauses into the current USD LIBOR-linked loan agreements. The adoption of Secured Overnight Financing Rate (SOFR)-based loan product, also demonstrated the Bank's smooth transition from the LIBOR.

EXTERNAL AUDITORS

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

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 2022 audit, the Bank's auditors are Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi, "a member of Ernst & Young Global Limited".

The external auditors provide a signed auditor's opinion on the truth and fairness of the Bank's financial statements. Appointment or discharge of the external auditors is recommended and their performance is reviewed by the Audit Committee.

At the conclusion of their annual audit, if material weaknesses and or significant deficiencies in internal controls are discovered in audit, external auditors issue a management letter for the Management of the Bank. The management letter sets out the External Auditor's observations and recommendations for strengthening the control environment and Management's responses, and it is reviewed in detail and discussed with the Audit Committee. Based on the opinion of the external auditor, the financial statements of the Bank for 2022 which is prepared in accordance with IFRS present fairly, in all material respects, the financial position of the Bank and no key audit matters were identified.

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 New Membership Principles adopted by the Bank provides the necessary guidelines 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. The President of the Bank and the ECO Secretary General held a bilateral meeting on May 22, 2022 in Tehran and discussed the ways and means to encourage the remaining four ECO member states to join the ETDB and financing regional projects. The 26th meeting of the ECO-Council of Ministers (COM) held in Tashkent, Republic of Uzbekistan on January 24, 2023 also emphasized on the enhanced role of the Bank in ECO projects and for expansion of membership of the Bank in response to growing demand for economic change in the ECO region.

Expanding the membership across ECO countries and responding to differentiated development contexts with effective development finance services and products will remain a priority for the Bank. As the Bank's membership expands, the Bank will further find opportunities for the promotion of projects leading to regional integration and augmented intra-regional trade. In view of ongoing negotiations and further engagements with potential new members by the Bank and the ECO Secretariat, ETDB expects that its membership will continue to grow confidently.

INTERNATIONAL RELATIONS

The Bank continued actively to improve its institutional relations with the member states, international institutions and the business communities.

In May 2022, an ETDB delegation led by the President, Mr. Yalçın Yüksel, visited Iran to discuss plans for sustainable development and regional cooperation. The delegation met with the Secretary General of ECO, Ambassador Khusrav Noziri, and discussed ETDB's activities and projects. The parties discussed ways to encourage the remaining four ECO member states to join the ETDB. The President also visited the Central Bank of Iran (CBI) and held a bilateral meeting with Mr. Afshin Khani, Deputy Governor of the CBI. He also paid a courtesy visit to Mr. Mohsen Bakhtiar, Deputy Minister of Energy, and discussed projects to improve wastewater management, irrigation and electrification systems in Iran.

ETDB delegation led by the President, Mr. Yalçın Yüksel, also visited Pakistan in November 2022 and held a series of high level meetings with senior officials of the Ministry of Finance and Ministry of Economic Affairs. They met with Mr. Hamed Yaqoob Sheikh, Secretary Finance and discussed ETDB's active support to Pakistan, ETDB's cooperation and support to Pakistan was appreciated by the Secretary Finance. The ETDB delegation also met with Dr. Kazim Niaz, Secretary of the Ministry of Economic Affairs of Pakistan. They expressed their condolences on the devastation caused by the recent floods and assured ETDB's full support in the rehabilitation efforts. The meeting concluded with a note to expedite the procedural formalities for concluding a concessional soft loan facility.

During his November 2022 visit to Istanbul, Pakistan's Prime Minister, H.E. Mr. Mian Muhammad Shehbaz Sharif, met with Mr. Yalçın Yüksel, President of the ETDB. Mr. Yüksel highlighted ETDB's active support to Pakistan, including a financing program to support flood rehabilitation efforts. The Prime Minister appreciated ETDB's focus on regional cooperation and integration of development initiatives, and stressed the importance of improving regional connectivity and trade flows among ECO member countries. The meeting was attended by several Federal Ministers and the Foreign Secretary of Pakistan, as well as the ETDB Vice Presidents, among others.

To enhance mutual understanding and cooperation with international organizations, the Bank participated in the 38th Ministerial Session of the Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Cooperation (COMCEC) in November 2022.

In order to create and maintain a favorable climate of public opinion, the Bank continued its close cooperation, in particular with business organizations operating in the ECO region. Effective relations with the media were maintained through press releases on the Bank's activities. The Bank's website continues to be an effective tool for raising awareness of the Bank's role and operations in the member countries and around the world.

HUMAN RESOURCES

Efficient and optimal management of human resources functions has been always a top priority for the Bank in order to achieve its strategic targets.

The human resources management in the Bank has been structured on essential fundamentals which are; fair and transparent recruitment process, a competitive remuneration system, performance appraisal policy, and offering learning opportunities to its employees. Accordingly, the Bank strives for recruiting high-caliber people, retaining its staff members, and adopting international standards and best practices with respect to human resources.

The Bank has been making necessary reforms to maintain human resources processes in line with the best practices and regulations, staffing and recruitment, handling compensations and benefits, training and development, and performance appraisal. In this respect, Pension Plan Policy, Benefit System Procedure, and Work and Leave Procedure of the Bank have been reviewed and amendments were made appropriately. The Bank is committed to sustain strong and effective human resources policies in order to support the achievement of the institutional goals and ensure compliance of its human resources procedures with the legal requirements and international best practices.

The Bank recruits the best available people who are capable of fulfilling the Bank's goals and objectives in the most effective and efficient manner. In doing so, the Bank gives preference to hiring staff from member countries while adhering to the principle of selecting the best candidate for the job. By the end of 2022, the Bank had a total of 32 employees from member countries including 3 members of the Management, 21 professional staff, 3 personal staff, and 5 general service staff.

Compensation and benefits constitute the very basic pillar of human resources management, where the Bank regularly reviews the Benefit System Policy. The Bank 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.

The Bank adopts a performance management system in order to improve the performances of the Bank and the employees. The appraisal process provides consistent and fair means of appraising performance, and it is also a step in assessing future potential of the personnel. In this way, employees are assisted in planning their own career development. The Bank is regularly reviewing its performance management system in order to ensure consistency, better functioning of the appraisal process, and assessment of future potential of the employees.

The Bank views professional development of its employees as a necessary condition for fulfilment of its mandate and achievement of institutional goals. In this respect, training is vital for aligning the employees with their respective job descriptions, maintaining the level of professionalism and skills, as well as enhancement of the employees' productivity. 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.

PLANNING AND BUDGETING

> The Bank pursues its operational mandate with strict budgetary discipline, ensuring that its limited resources are utilized efficiently.

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

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

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

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

Bank has an integrated accounting, budgeting, and reporting system which enabled efficient and effective implementation of financial and management reporting. Execution of the Annual Budget is monitored on an on-going basis and the results are reported to the senior Management and BoDs on a regular basis. The monthly portfolio position reports and outstanding receivables from business partners are prepared and reported to the management of the Bank. 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. In the meantime, the Bank is making necessary investment for implementing a specialized software solution for budgeting, planning, forecasting, scenario planning and reporting activities.

BOARD OF GOVERNORS MEETINGS

Due to the ongoing precautionary measures in relation to the COVID-19 pandemic and its health risks, the 21st Annual Meeting of the Board of Governors was held virtually on 21 June 2022. In this meeting, the Secretary General of ECO, Ambassador Khusrav Noziri, made a statement and highlighted the contribution of the ETDB to the development and socio-economic prosperity of the ECO region. He referred to the declaration of the 15th ECO Summit, held in Ashgabat wherein the leaders of ECO entrusted the Secretariat and the Bank to play a more proactive role in supporting and financing ECO projects and programs. Ambassador Khusrav Noziri also underlined that ECO Vision 2025 has set the target of doubling intra-regional trade and increase contribution of the ECO to global trade and emphasized that the implementation of Economic Cooperation Organization Trade Agreement (ECOTA) can play an important role in promoting intraregional trade. The Secretary General also shared the details of prominent ECO projects in the fields of Trade, Energy and Tourism where ECO and ETDB can cooperate and declared that ECO Secretariat is making all its efforts so that the remaining four ECO Member States namely Kazakhstan, Tajikistan, Turkmenistan and Uzbekistan join the Bank at the earliest convenience. At the meeting, the members of the Board of Governors reviewed the performance of the Bank and approved the 2021 Annual Report and Financial Statements annexed to the Audit Report. The Board also appointed the Governor of the Republic of Azerbaijan as Chairman for a one-year term starting on 21 June 2022.

At the meeting, the members of the Board of Governors reviewed the performance of the Bank and approved the 2021 Annual Report and Financial Statements annexed to the Audit Report.

BOARD OF DIRECTORS MEETINGS

As the body responsible for the overall direction of the Bank's operations, the Board of Directors held six meetings in 2022, including two virtual meetings via video conference and four face-to-face meetings.

In addition to the Board meetings, 13 urgent decisions were taken by "voting without meeting" procedure, in line with the Bank's requirements. In these meetings and decisions, the Board dealt with a wide range of policy, financial and administrative matters, including amendments to policies, setting of margins for loan pricing, credit limits for trade, SME and M-SME financing facilities, treasury investments and guarantees for various financial institutions operating in member countries. In line with the Bank's policies, the Board also approved terms and conditions of financial facilities to support economic development in the region.

THE ECONOMIC COOPERATION ORGANIZATION TRADE AND DEVELOPMENT BANK

FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2022 WITH INDEPENDENT AUDITORS' REPORT THEREON

TABLE OF CONTENTS

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Building a better working world

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 2022, 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 2022, 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 Türkiye, 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.

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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.
- 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, Türkiye
22 May 2023

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

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

	Notes	31 December 2022	31 December 2021
ASSETS			
Due from banks	13	89,023	161,895
Loans and advances to banks	14	148,475	97,485
Loans and advances to customers	15	162,002	140,780
Investment securities	16	65,750	59,130
Derivative financial instruments	12	854	1,229
Tangible and intangible assets	17	4,714	3,993
Other assets	18	31	180
Total assets		**470,849**	**464,692**
LIABILITIES			
Deposits from banks	19	36,473	48,108
Derivative financial instruments	12	2,062	73
Employee benefits	20	3,413	3,128
Other liabilities	21	972	935
Total liabilities		**42,920**	**52,244**
EQUITY			
Share capital	22.1	326,750	326,750
Reserves	22.2	85,683	76,644
Retained earnings		15,496	9,054
Total equity		**427,929**	**412,448**
Total liabilities and equity		**470,849**	**464,692**

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

STATEMENT OF PROFIT OR LOST AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

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

	Notes	31 December 2022	31 December 2021
Profit or Loss			
Interest income	23	16,063	10,928
Interest expense	23	(715)	(482)
Net interest income before impairment for credit risks		**15,348**	**10,446**
Impairment (loss)/gain for credit risks, net	9.2.6	(587)	(124)
Net interest income after impairment for credit risks		**14,761**	**10,322**
Fee and commission income	24	521	677
Fee and commission expense	24	(8)	(4)
Net fee and commission income		**513**	**673**
Net trading income		1,810	1,306
Other operating income	26	1,646	69
Total operating income		**18,730**	**12,370**
Personnel expenses	25	(2,655)	(2,954)
Other administrative expenses	25	(321)	(233)
Depreciation and amortization	17, 25	(128)	(128)
Other operating expenses	25	(130)	(1)
Total operating expenses		**(3,234)**	**(3,316)**
Net profit for the period		**15,496**	**9,054**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Re-measurement (loss)/gain on defined benefit plans	20.3	(15)	2
Other comprehensive income		**(15)**	**2**
Total comprehensive income		**15,481**	**9,056**

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

(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 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	20.3	-	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	22.1	-	-	-	-	-
Appropriation of profit		-	-	7,757	(7,757)	-
Total contributions and distributions		**-**	**-**	**7,757**	**(7,757)**	**-**
Balance at 31 December 2021	22	**326,750**	**(4)**	**76,648**	**9,054**	**412,448**
Balance at 1 January 2022		**326,750**	**(4)**	**76,648**	**9,054**	**412,448**
Total comprehensive income						
Profit for the period		-	-	-	15,496	15,496
Other comprehensive income						
Re-measurement gain/(loss) on defined benefit plans	20.3	-	(15)	-	-	(15)
Total comprehensive income		**-**	**(15)**	**-**	**15,496**	**15,481**
Transactions with members of the Bank						
Contributions and distributions						
Increase in paid-in share capital	22.1	-	-	-	-	-
Appropriation of profit		-	-	9,054	(9,054)	-
Total contributions and distributions		**-**	**-**	**9,054**	**(9,054)**	**-**
Balance at 31 December 2022	22	**326,750**	**(19)**	**85,702**	**15,496**	**427,929**

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

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

	Notes	31 December 2022	31 December 2021
Cash flows from operating activities			
Net profit for the period		15,496	9,054
Adjustments for:			
Depreciation and amortization	17, 25	128	128
Net impairment loss/(gain) on financial assets	9.2.6	587	124
Net impairment loss/(gain) on tangible assets		(1,617)	-
Accrued interest and expenses		(2,322)	147
Measurement of derivative financial instruments at fair value	12	2,364	(1,277)
Provision for employee benefit obligations		144	282
Other non-cash items		(4,840)	(297)
Cash flows from operating activities before changes in operating assets and liabilities		**9,940**	**8,161**
Changes in:			
Due from banks		57,992	21,791
Loans and advances to banks		(51,068)	4,668
Loans and advances to customers		(20,171)	7,219
Other assets		74	457
Employee benefits		(108)	(840)
Deposits from banks		(11,860)	(10,998)
Other liabilities		523	599
Net cash from/(used in) operating activities		**(14,678)**	**31,057**
Cash flows from investing activities			
Acquisition of investment securities	16	(11,168)	(34,606)
Proceeds from redemption/sale of investment securities	16	8,963	14,261
Acquisition of tangible and intangible assets	17	(202)	(57)
Proceeds from sale of tangible assets	17	840	-
Net cash from/(used in) investing activities		**(1,567)**	**(20,402)**
Cash flows from financing activities			
Increase in paid-in share capital	22.1	-	-
Net cash from/(used in) financing activities		**-**	**-**
Net increase/(decrease) in cash and cash equivalents		**(16,245)**	**10,655**
Cash and cash equivalents at 1 January		**81,609**	**72,236**
Effects of exchange-rate changes on cash and cash equivalents		**873**	**(1,282)**
Cash and cash equivalents at 31 December	11	**66,237**	**81,609**

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

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 Türkiye are defined in the Headquarters Agreement between the Bank and the Government of the Republic of Türkiye (‘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 Türkiye 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 Mahallesi Silahşör Caddesi, Yeniyol Sokak, No: 8, Kat: 14, 34380 Bomonti, Şişli, İstanbul, Türkiye”.

As of 31 December 2022, the number of employees of the Bank is 32 (31 December 2021: 34).

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 2022 on 22 May 2023 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.

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 7.16. – measurement of defined benefit obligations: key actuarial assumptions.
- Note 7.5.7. – 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.

NOTE 6 – CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the financial statements as at 31 December 2022 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 2022. Several amendments and interpretations apply for the first time in 2022, but do not have an impact on the financial statements of the Bank.

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

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.

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

		31 December 2022	31 December 2021
1 EU (SDR) =	United States Dollar	1.3308	1.3996
	Euro	1.2529	1.2375
	Chinese Yuan	9.2972	8.9159
	Japanese Yen	176.5359	159.8471
	British Pound	1.1028	1.0418
	Turkish Lira	24.8844	18.6550
	Iranian Rial	375,876.0000	344,068.0000
	Pakistani Rupee	301.7014	246.9855

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.

NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 other comprehensive income includes only interest on financial assets and financial liabilities measured at amortised cost.

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.

NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 'Tangible and intangible assets' and lease liabilities in 'Other liabilities' in the statement of financial position.

NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the entire 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

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

7.5. Financial assets and financial liabilities

7.5.1. Recognition and initial measurement

The Bank initially recognizes 'Due from banks', 'Loans and advances to banks', 'Loans and advances to customers', and 'Deposits from banks' 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.

NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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;

NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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.

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.

NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 did not occur 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 other comprehensive income ('OCI') is recognized in profit or loss.

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

7.5.4. Modifications of financial assets

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

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs.

Any fees received as part of the modification are accounted for as follows:

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

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms.

If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the de-recognition criteria are not usually met in such cases.

NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

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

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

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

NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 once 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.

When making the assessment, the Bank compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

In order to determine whether there has been a significant increase in the credit risk since origination, and hence transition to Stage 2, a combination of quantitative and qualitative risk metrics are used. All counterparties with a significant downgrade in ICR score since origination, all financial assets for which the contractual payments are overdue between 31 and 90 days inclusive, as well as all loans counterparties on the 'watch list' are transferred to Stage 2.

There is a rebuttable presumption that the credit risk of 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.

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.

NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Measurement of ECL

ECL are 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.

For the purposes of calculating ECL, financial instruments are classified in three stages as follows:

Stage 1; includes performing exposures for which there has been no significant increase in credit risk since initial recognition. Stage 1 also includes exposures for which credit risk has been improved and the exposure has been reclassified from Stages 2 or Stage 3. In this stage, expected credit losses are recognized based on the probability of default within the next 12 months. At the reporting date, if the financial instrument has either low credit risk or the credit risk has not increased significantly since initial recognition, it is classified under Stage 1.

Stage 2; includes performing exposures for which there has been a significant increase in credit risk since initial recognition. Stage 2 also includes exposures for which the credit risk has improved, and the exposure has been reclassified from Stage 3. Lifetime expected credit losses are recognized for the financial instruments under Stage 2. The financial instruments which meet at least one of the criteria below fall under Stage 2:

- ICR score equal or above 6.5;
- 2-notch downgrade in ICR score;
- Overdue by more than 30 days; and
- Evidence of weakening which is subjective and is conducted on a case by case basis.

Stage 3; includes non-performing / credit-impaired exposures. Lifetime expected credit losses are recognized for the financial instruments under Stage 3. Non-performing operations are regarded as an expected loss. All operations overdue by more than 90 days are in this category.

NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic parameters, assumptions and techniques used for calculating ECL

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:

Probability of default

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.

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 assigns credit rating to each financial instrument at inception based on the internal scorecard methodologies for financial institutions, corporates, project finance and leasing sector. All borrowers are subject to annual credit review through supervision process. The ICR score of the borrower is the primary input to the PD which is calculated based on a statistical model and is not affected from collaterals held. Considering the Bank's portfolio to be of kind of zero default portfolio, 'Pluto and Tasche Methodology' is used to calculate the PDs currently with 3 slices.

Exposure at default

EAD represents the sum of expected portion of the undrawn commitment that will be drawn down and the carrying amount of the financial instrument over the next 12 months as at reporting date, in fact total value that Bank is exposed to at the time of a borrower's default.

Loss given default

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.

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.

NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Restructured financial assets

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

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

Credit-impaired financial assets

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

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

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

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

NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Write-off

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

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

7.6. Cash and cash equivalents

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

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

7.7. Derivatives

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

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).

NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Tangible and intangible assets

7.11.1. Property and equipment

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 other operating expenses in the statement of profit or loss and OCI.

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

Depreciation 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).

7.11.2. Investment property

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

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

NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

7.11.3. 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 17).

7.12. 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 under other operating expenses 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 other operating income in profit or loss (Notes 25 and 26).

7.13. 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.

NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7.14. Provisions, commitments and contingencies

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

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

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

7.15. 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 not issued loan commitments that are measured at FVPL. Liabilities arising from loan commitments are included within provisions.

7.16. Employee benefits

7.16.1. 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.

7.16.2. 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.

NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 (1)	up to 7	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.

NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 statement of profit or loss and OCI over the average remaining service lives of the employees. Accounting has been made according to appraisals in the actuarial report as of 31 December 2022 (Note 20.1).

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 20.1). 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 23).

7.16.3. Short term employee benefits

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

The Bank provides annual leave pay provision for the employees. 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 employees are eligible for annual leave after six months of service (Note 20.2).

7.16.4. 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 Türkiye, 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 20.3).

7.17. 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.

NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7.18. Segment reporting

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

7.19. Comparatives

Comparative figures are reclassified, where necessary, to conform to change, in presentation of the 31 December 2022 financial statements.

NOTE 8 – THE NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

The accounting policies adopted in preparation of the financial statements as of 31 December 2022 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 2022 and thereafter. The effects of these standards and interpretations on the Bank's financial position and performance have been disclosed in the related paragraphs.

8.1. The new standards, amendments and interpretations which are effective as of 1 January 2022

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 must be applied prospectively.

The amendments did not have a significant 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 amendments prohibit 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 must be applied retrospectively 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.

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

NOTE 8 – THE NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

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 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 prospectively 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).

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

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.

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.

NOTE 8 – THE NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

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

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, 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.

NOTE 8 – THE NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

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. 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.

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 of the Bank 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.

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

NOTE 9 – FINANCIAL RISK REVIEW (Continued)

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 due from banks, 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 of 31 December 2022 and 31 December 2021 are as follows:

	31 December 2022	31 December 2021
Loans and advances to customers	162,002	140,780
Loans and advances to banks	148,475	97,485
Due from banks	89,023	161,895
Investment securities	65,750	59,130
Derivative financial instruments	854	1,229
Total	**466,104**	**460,519**

As of 31 December 2022, the Bank has no assets held for resale (31 December 2021: None).

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

NOTE 9 – FINANCIAL RISK REVIEW (Continued)

9.2.3. Segment analysis of credit risk exposures

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

	31 December 2022	31 December 2021
Treasury portfolio		
Due from banks	89,023	161,895
Investment securities	65,750	59,130
Derivative financial instruments	854	1,229
Total treasury portfolio	**155,627**	**222,254**
Loan portfolio		
Financial institutions-Trade finance	101,181	66,788
Customers-Trade/Corporate finance	95,891	71,380
Project finance	66,111	69,400
Financial institutions-SME support program	47,294	30,697
Total loan portfolio	**310,477**	**238,265**
Total	**466,104**	**460,519**

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	Watch	Weak	5.41 to 6.50
7	Sub-standard	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

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

NOTE 9 – FINANCIAL RISK REVIEW (Continued)

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 2022				31 December 2021
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Due from banks					
3: Strong	33,340	-	-	33,340	48,260
4: Good	17,242	-	-	17,242	45,488
5: Fair	39,485	-	-	39,485	69,513
	90,067	-	-	90,067	163,261
Loss allowance	(1,044)	-	-	(1,044)	(1,366)
Carrying amount	**89,023**	**-**	**-**	**89,023**	**161,895**
Loans and advances to banks at amortised cost					
3: Strong	45,108	-	-	45,108	47,767
4: Good	79,364	-	-	79,364	34,831
5: Fair	24,171	-	-	24,171	14,271
6: Weak	1,571	-	-	1,571	1,452
	150,214	-	-	150,214	98,321
Loss allowance	(1,739)	-	-	(1,739)	(836)
Carrying amount	**148,475**	**-**	**-**	**148,475**	**97,485**
Loans and advances to customers at amortised cost					
1: Excellent	104,057	-	-	104,057	71,528
3: Strong	-	-	-	-	18,636
4: Good	20,708	-	-	20,708	4,020
6: Weak	16,685	-	-	16,685	17,864
10: Non-performing	-	-	22,726	22,726	31,112
	141,450	-	22,726	164,176	143,160
Loss allowance	(633)	-	(1,541)	(2,174)	(2,380)
Carrying amount	**140,817**	**-**	**21,185**	**162,002**	**140,780**
Debt investment securities at amortised cost					
1: Excellent	11,621	-	-	11,621	8,801
3: Strong	18,742	-	-	18,742	25,625
4: Good	34,497	-	-	34,497	23,729
5: Fair	1,538	-	-	1,538	1,411
	66,398	-	-	66,398	59,566
Loss allowance	(648)	-	-	(648)	(436)
Carrying amount	**65,750**	**-**	**-**	**65,750**	**59,130**

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

NOTE 9 – FINANCIAL RISK REVIEW (Continued)

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 2022				31 December 2021
	Stage 1	Stage 2	Stage 3	Total	Total
Loans and advances to banks at amortised cost					
Current	150,214	-	-	150,214	98,321
Overdue ≤30 days	-	-	-	-	-
Overdue <60 days	-	-	-	-	-
Overdue ≤90 days	-	-	-	-	-
Overdue > 90 days	-	-	-	-	-
Total	**150,214**	**-**	**-**	**150,214**	**98,321**
Loans and advances to customers at amortised cost					
Current	141,450	-	-	141,450	106,171
Overdue ≤30 days	-	-	-	-	5,877
Overdue <60 days	-	-	-	-	-
Overdue ≤90 days	-	-	-	-	-
Overdue > 90 days	-	-	22,726	22,726	31,112
Total	**141,450**	**-**	**22,726**	**164,176**	**143,160**

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 collateral against loans to customers that are classified under Stage 3.

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

NOTE 9 – FINANCIAL RISK REVIEW (Continued)

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

	31 December 2022		31 December 2021	
	Customers-Trade/Corporate finance	Project finance	Customers-Trade/Corporate finance	Project finance
Sovereign loans	83%	36%	77%	23%
Sovereign guarantee	-	33%	-	43%
Letter of credit from an FI	-	30%	-	31%
Corporate guarantee	17%	-	23%	-
Charge on fixed assets	-	1%	-	3%
Total	**100%**	**100%**	**100%**	**100%**

9.2.6. Amounts arising from ECL

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 2022			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	1,366	-	-	1,366
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remasurement of loss allowance	-	-	-	-
New financial assets originated	1,044	-	-	1,044
Financial assets that have been derecognised	(1,366)	-	-	(1,366)
Foreign exchange movements	-	-	-	-
Balance at period end	**1,044**	**-**	**-**	**1,044**

	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 period end	**1,366**	**-**	**-**	**1,366**

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

NOTE 9 – FINANCIAL RISK REVIEW (Continued)

Loans and advances to banks at amortised cost:

	31 December 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January	836	-	-	836
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remasurement of loss allowance	34	-	-	34
New financial assets originated	1,278	-	-	1,278
Financial assets that have been derecognised	(409)	-	-	(409)
Foreign exchange movements	-	-	-	-
Balance at period end	**1,739**	**-**	**-**	**1,739**

	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 period end	**836**	**-**	**-**	**836**

Loans and advances to customers at amortised cost:

	31 December 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January	444	-	1,936	2,380
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remasurement of loss allowance	164	-	(352)	(188)
New financial assets originated	48	-	-	48
Financial assets that have been derecognised	(23)	-	(43)	(66)
Foreign exchange movements	-	-	-	-
Balance at period end	**633**	**-**	**1,541**	**2,174**

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

NOTE 9 – FINANCIAL RISK REVIEW (Continued)

	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 period end	**444**	**-**	**1,936**	**2,380**

Investment securities at amortised cost:

	31 December 2022			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	436	-	-	436
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remasurement of loss allowance	251	-	-	251
New financial assets originated	32	-	-	32
Financial assets that have been derecognised	(71)	-	-	(71)
Foreign exchange movements	-	-	-	-
Balance at period end	**648**	**-**	**-**	**648**

	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 period end	**436**	**-**	**-**	**436**

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

NOTE 9 – FINANCIAL RISK REVIEW (Continued)

9.2.7. Concentration of credit risks

The Bank monitors concentration of credit risk by geographic location and by sector. Analyses of concentrations of credit risk by geographic location and sector are shown below.

Concentration by sector:

	31 December 2022		31 December 2021	
	Outstanding	Undrawn commitments	Outstanding	Undrawn commitments
Financial sector				
Financial institutions-Trade finance	101,181	-	66,788	-
Due from banks	89,023	-	161,895	-
Investment securities	54,138	-	50,333	-
Financial institutions-SME SP	47,294	-	30,697	-
Derivative financial instruments	854	-	1,229	-
	292,490	**-**	**310,942**	**-**
Energy				
Customers-Trade/Corporate finance	71,049	-	43,270	-
Project finance	27,959	-	32,131	-
	99,008	**-**	**75,401**	**-**
Public sector management				
Project finance	23,958	7,981	16,130	16,162
Investment securities	11,612	-	8,797	-
	35,570	**7,981**	**24,927**	**16,162**
Industry and Trade				
Customers-Trade/Corporate finance	15,863	-	16,013	-
	15,863	**-**	**16,013**	**-**
Water, Sanitation, Flood Protection and other Urban Infrastructure Services				
Project finance	14,194	-	20,440	-
	14,194	**-**	**20,440**	**-**
Health and Social Protection				
Customers-Trade/Corporate finance	8,979	-	12,097	-
	8,979	**-**	**12,097**	**-**
Agriculture, natural resources and rural development				
Project finance	-	-	699	-
	-	**-**	**699**	**-**
Total	**466,104**	**7,981**	**460,519**	**16,162**

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

NOTE 9 – FINANCIAL RISK REVIEW (Continued)

Concentration by geographic location:

	31 December 2022		31 December 2021	
	Outstanding	Undrawn commitments	Outstanding	Undrawn commitments
Türkiye				
Treasury portfolio	140,933	-	204,147	-
Loan portfolio	212,108	7,981	157,944	16,162
	353,041	**7,981**	**362,091**	**16,162**
Pakistan				
Treasury portfolio	2,174	-	799	-
Loan portfolio	75,630	-	49,706	-
	77,804	**-**	**50,505**	**-**
Iran				
Treasury portfolio	6	-	12	-
Loan portfolio	21,186	-	29,176	-
	21,192	**-**	**29,188**	**-**
Azerbaijan				
Loan portfolio	1,553	-	1,439	-
	1,553	**-**	**1,439**	**-**
Other				
Treasury portfolio	12,514	-	17,296	-
	12,514	**-**	**17,296**	**-**
Total treasury portfolio	155,627	-	222,254	-
Total loan portfolio	310,477	7,981	238,265	16,162
Total	**466,104**	**7,981**	**460,519**	**16,162**

9.3. Liquidity risk

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

9.3.1. Management of liquidity risk

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

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

NOTE 9 – FINANCIAL RISK REVIEW (Continued)

The Bank's approach to managing liquidity risk is to have sufficient amount of 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 2022	31 December 2021
At period end	2106%	533%
Average for the period	616%	1995%
Maximum for the period	3311%	25987%
Minimum for the period	177%	207%

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.

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

NOTE 9 – FINANCIAL RISK REVIEW (Continued)

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.

	31 December 2022						
	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	36,473	(37,080)	(12,305)	-	(24,775)	-	-
Unrecognized loan commitments	-	(7,981)	(7,981)	-	-	-	-
- Banks	-	-	-	-	-	-	-
- Customers	-	(7981)	(7,981)	-	-	-	-
Total	**36,473**	**(45,061)**	**(20,286)**	**-**	**(24,775)**	**-**	**-**
Derivative liabilities							
Trading FX derivatives	2,062						
- Outflow		(94,320)	(10,278)	(75,362)	(8,680)	-	-
- Inflow		92,452	9,803	74,045	8,604	-	-
Total	**2,062**	**(1,868)**	**(475)**	**(1,317)**	**(76)**	**-**	**-**
Financial asset by type							
Non-derivative assets							
Due from banks	89,023	90,378	70,419	19,959	-	-	-
Loans and advances to banks	148,475	158,628	1,802	12,379	77,760	66,687	-
Loans and advances to customers	162,002	181,590	1,107	32,612	74,227	48,819	24,825
Investment securities	65,750	78,923	3,988	684	3,706	70,545	-
Total	**465,250**	**509,519**	**77,316**	**65,634**	**155,693**	**186,051**	**24,825**
Derivative assets							
Trading FX derivatives	854						
- Outflow		(39,926)	(8,344)	(18,084)	(13,498)	-	-
- Inflow		40,632	8,528	18,329	13,775	-	-
Total	**854**	**706**	**184**	**245**	**277**	**-**	**-**

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

NOTE 9 – FINANCIAL RISK REVIEW (Continued)

	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**	**-**	**-**

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

NOTE 9 – FINANCIAL RISK REVIEW (Continued)

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 2022	31 December 2021
Financial assets		
Due from banks	89,023	161,895
Loans and advances to banks	85,302	57,622
Loans and advances to customers	100,819	60,500
Investment securities	5,201	12,715
Total	**280,345**	**292,732**
Financial liabilities		
Deposits from banks	36,473	48,108
Total	**36,473**	**48,108**

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 2022	31 December 2021
Financial assets		
Loans and advances to banks	63,173	39,863
Loans and advances to customers	61,183	80,280
Investment securities	60,549	46,415
Total	**184,905**	**166,558**

9.3.4. Liquidity reserves

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

	31 December 2022		31 December 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Demand deposits	399	399	3,330	3,330
Money market placements	88,624	88,614	158,565	158,555
Investment securities	65,750	62,350	59,130	57,180
Total	**154,773**	**151,363**	**221,025**	**219,065**

As of 31 December 2022, 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 2021: None).

NOTE 9 – FINANCIAL RISK REVIEW (Continued)

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. To provide liquidity in US Dollar and Euro, currency swap and forward transactions are held 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.

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

NOTE 9 – FINANCIAL RISK REVIEW (Continued)

As of 31 December 2022 and 31 December 2021 the foreign currency position of the Bank is as follows:

	31 December 2022					
	US Dollar	Euro	Other	Total foreign currency	SDR ('EU')	Total
Assets						
Due from banks	46,527	42,482	14	89,023	-	89,023
Loans and advances to banks	1,553	146,922	-	148,475	-	148,475
Loans and advances to customers	51,610	110,392	-	162,002	-	162,002
Investment securities	65,750	-	-	65,750	-	65,750
Derivative financial instruments	-	-	-	-	854	854
Tangible and intangible assets	-	-	-	-	4,714	4,714
Other assets	6	1	24	31	-	31
Total assets	**165,446**	**299,797**	**38**	**465,281**	**5,568**	**470,849**
Liabilities and Equity						
Deposits from banks	-	36,473	-	36,473	-	36,473
Derivative financial instruments	-	-	-	-	2,062	2,062
Employee benefits	3,382	-	31	3,413	-	3,413
Other liabilities	468	437	67	972	-	972
Equity	-	-	(19)	(19)	427,948	427,929
Total liabilities and Equity	**3,850**	**36,910**	**79**	**40,839**	**430,010**	**470,849**
Net balance sheet position	**161,596**	**262,887**	**(41)**	**424,442**	**(424,442)**	**-**
Off-balance sheet derivative instruments net notional position(1)	22,790	(134,029)	110,077	(1,162)	-	(1,162)
Net foreign currency position	**184,386**	**128,858**	**110,036**	**423,280**	**(424,442)**	**(1,162)**
Currency neutral position	**(184,286)**	**(126,561)**	**(113,595)**	**(424,442)**	**424,442**	**-**
FX exposure in notional Ccy(2)	**100**	**2,297**	**(3,559)**	**(1,162)**	**-**	**(1,162)**

(1) Off-balance sheet derivative instruments net notional position in Chinese Yuan, British Pound and Japanese Yen are EU 48,125 thousand, EU 31,092 thousand and EU 30,860 thousand, respectively.

(2) The total foreign currency exposure in Chinese Yuan, Japanese Yen, Turkish Lira, British Pound, Pakistani Rupee and Iranian Rial are EU (2,035) thousand, EU (1,466) thousand, EU (36) thousand, EU (15) thousand, EU (8) thousand and EU 1 thousand, respectively.

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

NOTE 9 – FINANCIAL RISK REVIEW (Continued)

	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
Tangible and intangible assets	-	-	-	-	3,993	3,993
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.

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

NOTE 9 – FINANCIAL RISK REVIEW (Continued)

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 2022		31 December 2021	
	Appreciation	**Depreciation**	**Appreciation**	**Depreciation**
US Dollar	9,995	(10,905)	9,507	(10,325)
Euro	(5,459)	5,744	(5,015)	5,782
Chinese Yuan	(2,103)	2,084	(1,866)	1,944
British Pound	(1,294)	1,412	(1,353)	1,474
Japanese Yen	(1,300)	1,386	(1,220)	1,283
Total	**(161)**	**(279)**	**53**	**158**

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.

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

NOTE 9 – FINANCIAL RISK REVIEW (Continued)

As of 31 December 2022 and 31 December 2021 the interest rate gap position of the Bank is as follows:

	31 December 2022					
	Up to 1 month	1 to 3 months	3 to 12 months	Over 1 year	Non-interest bearing	Carrying amount
Assets						
Due from banks	69,487	19,536	-	-	-	89,023
Loans and advances to banks	17,575	23,872	107,028	-	-	148,475
Loans and advances to customers	4,825	37,633	119,544	-	-	162,002
Investment securities	3,883	429	1,537	59,901	-	65,750
Derivative financial instruments	-	-	-	-	854	854
Tangible and intangible assets	-	-	-	-	4,714	4,714
Other assets	-	-	-	-	31	31
Total assets	**95,770**	**81,470**	**228,109**	**59,901**	**5,599**	**470,849**
Liabilities						
Deposits from banks	12,286	-	24,187	-	-	36,473
Derivative financial instruments	-	-	-	-	2,062	2,062
Employee benefits	-	3,208	-	-	205	3,413
Other liabilities	-	-	-	-	972	972
Total liabilities	**12,286**	**3,208**	**24,187**	**-**	**3,239**	**42,920**
Net repricing gap	**83,484**	**78,262**	**203,922**	**59,901**	**2,360**	**427,929**

	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
Tangible and intangible assets	-	-	-	-	3,993	3,993
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**

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

NOTE 9 – FINANCIAL RISK REVIEW (Continued)

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, 0.25% 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 2022		31 December 2021	
	Applied shock	**Profit or loss**	**Equity (1)**	**Profit or loss**	**Equity (1)**
US Dollar	- 0.25%	(43)	(43)	(69)	(69)
US Dollar	+ 0.25%	43	43	69	69
Euro	- 0.25%	(166)	(166)	(11)	(11)
Euro	+ 0.25%	166	166	11	11
Total (for negative shocks)		**(209)**	**(209)**	**(80)**	**(80)**
Total (for positive shocks)		**209**	**209**	**80**	**80**

(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.

NOTE 9 – FINANCIAL RISK REVIEW (Continued)

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.

NOTE 10 – FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

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 benchmark 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 benchmark 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.

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

NOTE 10 – FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

As of 31 December 2022 and 31 December 2021, 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 2022				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets not measured at fair value					
Due from banks	-	-	89,012	89,012	89,023
Loans and advances to banks	-	-	147,788	147,788	148,475
Loans and advances to customers	-	-	161,560	161,560	162,002
Investment securities	62,350	-	-	62,350	65,750
Financial assets measured at fair value					
Derivative financial instruments	-	854	-	854	854
Total financial assets	**62,350**	**854**	**398,360**	**461,564**	**466,104**
Financial liabilities not measured at fair value					
Deposits from banks	-	-	36,247	36,247	36,473
Financial liabilities measured at fair value					
Derivative financial instruments	-	2,062	-	2,062	2,062
Total financial liabilities	**-**	**2,062**	**36,247**	**38,309**	**38,535**

	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**	**48,108**	**48,181**	**48,181**

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

D. ASSETS

NOTE 11 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and balances with banks repayable on demand and money market placements with original maturities of less than three months. Cash and cash equivalents as of 31 December 2022 and 31 December 2021, included in the accompanying statement of cash flows are as follows:

	31 December 2022	31 December 2021
Due from banks-demand	399	3,330
Due from banks-time (gross)		
(with original maturity less than three months)	66,350	78,877
Interest accrual	264	76
Less: ECL/Impairment losses	(776)	(674)
Total	**66,237**	**81,609**

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 2022		31 December 2021	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Derivatives held for trading:				
Currency swaps	854	(2,062)	1,229	(73)
Total	**854**	**(2,062)**	**1,229**	**(73)**

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

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

NOTE 13 – DUE FROM BANKS

As of 31 December 2022 and 31 December 2021, due from banks at amortised cost are as follows:

	31 December 2022	31 December 2021
Demand deposits	399	3,330
Money market placements	89,668	159,931
Due from banks, gross	90,067	163,261
Less: ECL/Impairment losses	(1,044)	(1,366)
Due from banks at amortised cost, net	**89,023**	**161,895**

NOTE 14 – LOANS AND ADVANCES TO BANKS

As of 31 December 2022 and 31 December 2021, loans and advances to banks at amortised cost are as follows:

	31 December 2022	31 December 2021
Trade finance	102,366	67,360
SME support program	47,848	30,961
Loans and advances to banks, gross	150,214	98,321
Less: ECL/Impairment losses	(1,739)	(836)
Loans and advances to banks at amortised cost, net	**148,475**	**97,485**

NOTE 15 – LOANS AND ADVANCES TO CUSTOMERS

As of 31 December 2022 and 31 December 2021, loans and advances to customers at amortised cost are as follows:

	31 December 2022	31 December 2021
Trade/Corporate finance	96,195	71,589
Project finance	67,981	71,571
Loans and advances to customers, gross	164,176	143,160
Less: ECL/Impairment losses	(2,174)	(2,380)
Loans and advances to customers at amortised cost, net	**162,002**	**140,780**

NOTE 16 – INVESTMENT SECURITIES

As of 31 December 2022 and 31 December 2021, investment securities are as follows:

	31 December 2022	31 December 2021
Debt investment securities measured at amortised cost:		
Bonds issued by financial institutions	54,997	51,483
Government bonds	11,401	8,083
Total debt investment securities measured at amortised cost	66,398	59,566
Less: ECL/Impairment losses	(648)	(436)
Investment securities, net	**65,750**	**59,130**

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

NOTE 16 – INVESTMENT SECURITIES (Continued)

Movements in the investment securities are as follows:

	31 December 2022	31 December 2021
Balance at 1 January	59,130	36,839
Purchases during the year	11,168	34,606
Disposals through sales and redemption	(8,963)	(14,261)
ECL provision	(212)	(148)
Income accruals and rediscount	926	1,059
Foreign exchange movements	3,701	1,035
Balance at period end	**65,750**	**59,130**

NOTE 17 – TANGIBLE AND INTANGIBLE ASSETS

As of 31 December 2022 and 31 December 2021, tangible and intangible assets are as follows:

	31 December 2022	31 December 2021
Cost	8,597	10,928
Less: Accumulated depreciation	(1,636)	(1,811)
Less: Accumulated impairment loss	(2,247)	(5,124)
Net book value	**4,714**	**3,993**

Movements in tangible and intangible assets are as follows:

	Land and Buildings[1]	Motor vehicles	Furniture, fixture and equipment	Intangible assets	Investment property	Total
31 December 2022						
Net book value at 1 January	2,988	14	15	2	974	3,993
Additions	8	127	67	-	-	202
Disposals	-	(88)	(9)	-	(2,437)	(2,534)
Accumulated depreciation and impairment of disposals	-	88	9	-	1,467	1,564
Reversal of impairment	1,617	-	-	-	-	1,617
Depreciation and amortization	(93)	(22)	(8)	(1)	(4)	(128)
Net book value at period end	**4,520**	**119**	**74**	**1**	**-**	**4,714**
31 December 2021						
Net book value at 1 January	3,040	-	21	4	999	4,064
Additions	35	17	5	-	-	57
Depreciation and amortization	(87)	(3)	(11)	(2)	(25)	(128)
Net book value at period end	**2,988**	**14**	**15**	**2**	**974**	**3,993**

(1) Land and buildings includes the asset usage rights of the real estates rented under the IFRS 16. As of 31 December 2022, net book value of asset usage rights is EU 15 thousand (31 December 2021: EU 24 thousand).

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

NOTE 17 – TANGIBLE AND INTANGIBLE ASSETS (Continued)

Property and equipment

As of 31 December 2022, property and equipment excluding the motor vehicles were insured against fire, theft and damage to the extent of EU 792 thousand. Motor vehicles are insured against accident to the extent of their acquisition cost.

As of 31 December 2022, total impairment losses regarding the headquarters building of the Bank amount to EU 2,247 thousand (31 December 2021: EU 3,864 thousand).

As of 31 December 2022, there were no capitalised borrowing costs related to the acquisition of property and equipment (31 December 2021: None).

The Bank leases real estates 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. Movements in right-of-use assets are as follows:

	31 December 2022	31 December 2021
Net book value at 1 January	24	-
Addition	8	35
Depreciation charge	(17)	(11)
Net book value at period end	**15**	**24**

Investment property

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

As of 31 December 2021, investment property comprised 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 2021: None). Direct operating expenses for investment property that did not generate rental income amount to EU 3 thousand (31 December 2021: EU 12 thousand). There were no direct operating expenses for investment property that generated rental income (31 December 2021: None).

NOTE 18 – OTHER ASSETS

As of 31 December 2022 and 31 December 2021, other assets are as follows:

	31 December 2022	31 December 2021
Pre-paid expenses	14	12
Vendor down payments	6	3
Receivables from clients [(1)]	1	155
Other	10	10
Total	**31**	**180**

(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 2022, the Bank has EU 1 thousand fee receivables (31 December 2021: EU 61 thousand fee and EU 94 thousand interest receivables).

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

E. LIABILITIES AND EQUITY

NOTE 19 – DEPOSITS FROM BANKS

As of 31 December 2022 and 31 December 2021, deposits from banks are as follows:

	31 December 2022	31 December 2021
Money market deposits	36,473	48,108
Total	**36,473**	**48,108**

NOTE 20 – EMPLOYEE BENEFITS

As of 31 December 2022 and 31 December 2021, employee benefits are as follows:

	31 December 2022	31 December 2021
Pension plan liabilities	3,281	2,990
Annual leave pay liability	101	124
Reserve for employee severance indemnity	31	14
Total	**3,413**	**3,128**

20.1. Pension plan liabilities

As of 31 December 2022 and 31 December 2021, pension plan liabilities are as follows:

	31 December 2022	31 December 2021
First pillar	1,091	1,004
Second pillar	1,130	1,010
Third pillar	232	221
Investment returns	782	644
Actuarial (gain)/loss	46	111
Total	**3,281**	**2,990**

Movements in the pension plan liabilities are as follows:

	31 December 2022	31 December 2021
Balance at 1 January	2,990	3,376
Increase during the year	629	637
Benefits paid	(432)	(1,137)
Actuarial (gain)/loss	(70)	19
Foreign exchange movements	164	95
Balance at period end	**3,281**	**2,990**

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

NOTE 20 – EMPLOYEE BENEFITS (Continued)

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

	31 December 2022	31 December 2021
Balance at 1 January	111	89
Current service cost	12	16
Interest cost	4	3
Actuarial (gain)/loss	(87)	-
Foreign exchange movements	6	3
Balance at period end	**46**	**111**

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

	31 December 2022 (%)	31 December 2021 (%)
Discount rate	5.26	3.50
Price inflation	2.30	2.30
Pay increase	3.50	3.50

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 2022	31 December 2021
Male	19.90	21.48
Female	22.50	24.40

The sensitivity analysis of defined benefit obligation of excess liabilities as of 31 December 2022 is as follows:

Assumption change	Pension excluding in-service disability	Salary continuation
Discount rate +1%	(14.7%)	(6.6%)
Discount rate -1%	18.4%	7.3%

20.2. Annual leave pay liability

The Bank's liability is the sum of the monetary values of each employee's annual leave entitlement which is calculated based on the monthly basic salaries. Movement in the annual leave pay liability is as follows:

	31 December 2022	31 December 2021
Balance at 1 January	124	114
Provision for the period, (net)	(23)	10
Balance at period end	**101**	**124**

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

NOTE 20 – EMPLOYEE BENEFITS (Continued)

20.3. 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 2022	31 December 2021
Discount rate (%)	1.57	3.92
Turnover rate to estimate the probability of retirement (%)	100.00	100.00

The principal actuarial assumption is that the current maximum liability will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the maximum liability is revised semi-annually, the lower of maximum amount of TL 15,371 (31 December 2021: TL 8,285) 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 Türkiye 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 2022	31 December 2021
Balance at 1 January	14	18
Current service cost	2	1
Interest cost	2	2
Actuarial (gain)/loss	15	(2)
Foreign exchange movements	(2)	(5)
Balance at period end	**31**	**14**

NOTE 21 – OTHER LIABILITIES

As of 31 December 2022 and 31 December 2021, other liabilities are as follows:

	31 December 2022	31 December 2021
Unearned income (1)	570	626
Payables	130	21
Lease liabilities	8	18
Other (2)	264	270
Total	**972**	**935**

(1) The Bank defers the income from front-end commissions during the tenor specified in the loan agreements.
(2) Transitory liabilities amount to EU 259 thousand (31 December 2021: EU 261 thousand).

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

NOTE 21 – OTHER LIABILITIES (Continued)

Lease liabilities

Lease liabilities relate to the leased real estates that are presented within tangible and intangible assets (see Note 17). Movement in the lease liabilities is as follows:

	31 December 2022	31 December 2021
Net book value at 1 January	18	-
Addition	8	35
Accretion of interest	-	1
Payments	(17)	(16)
Foreign exchange movements	(1)	(2)
Net book value at period end	**8**	**18**

NOTE 22 – EQUITY

22.1. Share capital

As of 31 December 2022 and 31 December 2021, issued share capitals are as follows:

	31 December 2022	31 December 2021
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 2022 (2021: None).

As of 31 December 2022, 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 Türkiye (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.

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

NOTE 22 – EQUITY (Continued)

Out of the subscribed capital, EU 762,350 thousand may become payable (31 December 2021: 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 2021: EU 326,750 thousand) is reflected at its cost.

22.2. Reserves

As of 31 December 2022 and 31 December 2021, reserves are as follows:

	31 December 2022	31 December 2021
General reserves	85,702	76,648
Actuarial reserves	(19)	(4)
Total	**85,683**	**76,644**

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 23 – NET INTEREST INCOME

	31 December 2022	31 December 2021
Interest income		
Due from banks	2,737	2,591
Loans and advances to banks	3,290	2,315
Loans and advances to customers	5,028	3,373
Investment securities at amortised cost	5,008	2,649
Total interest income	**16,063**	**10,928**
Interest expense		
Deposits from banks	(495)	(299)
Pension plan liabilities (1)	(219)	(182)
Other	(1)	(1)
Total interest expense	**(715)**	**(482)**
Net interest income	**15,348**	**10,446**

(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 7.16.2).

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

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

NOTE 24 – NET FEE AND COMMISSION INCOME

	31 December 2022	31 December 2021
Fee and commission income		
Front-end fees from customers	451	557
Commitment fees from customers	35	62
Front-end fees from banks	35	58
Total fee and commission income	**521**	**677**
Fee and commission expense	**(8)**	**(4)**
Net fee and commission income	**513**	**673**

NOTE 25 – OPERATING EXPENSES

	31 December 2022	31 December 2021
Personnel expenses		
Salaries and benefits	2,358	2,527
Contributions to defined contribution/benefit plans (1)	251	365
Other contributions (2)	43	52
Other personnel expenses	3	10
Total personnel expenses	**2,655**	**2,954**
Other administrative expenses		
Operational subscriptions expenses	85	71
Office occupancy expenses (3)	61	65
Consultant and third party fees	38	31
Travel and accommodation expenses	67	4
Equipment, maintenance and support	16	20
Other	54	42
Total other administrative expenses	**321**	**233**
Depreciation and amortization	**128**	**128**
Other operating expenses (4)	**130**	**1**
Total operating expenses	**3,234**	**3,316**

(1) Contributions are comprised of the contributions made by the Bank on behalf of the employees for the Bank's Pension Plan (Note 7.16.2) and Turkish State Social Security Plan (Note 7.16.1).

(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 EU 3 thousand (31 December 2021: EU 12 thousand). There were no direct operating expenses for investment property that generated rental income (31 December 2021: None).

(4) Other operating expenses are comprised of losses from the disposal of assets amounting to EU 130 thousand (31 December 2021: None) and write-off of receivables (31 December 2021: EU 1 thousand)

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

NOTE 26 – OTHER OPERATING INCOME

	31 December 2022	31 December 2021
Gain from sale of tangible assets	29	7
Reversal of impairment loss [(1)]	1,617	-
Other	-	62
Total other operating income	**1,646**	**69**

(1) The Bank reversed EU 1,617 thousand of the impairment losses regarding the headquarters building of the Bank (31 December 2021: None).

G. OTHER INFORMATION

NOTE 27 – COMMITMENTS AND CONTINGENT LIABILITIES

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

27.1. Commitments under derivative instruments

As of 31 December 2022 and 31 December 2021, breakdown of notional amounts of derivative transactions are as follows:

	31 December 2022					
	US Dollar	Euro	Chinese Yuan	British Pound	Japanese Yen	Total
Derivatives held for trading						
Currency swaps	22,572	-	48,342	31,092	30,860	132,866
Currency forwards	218	-	-	-	-	218
Total purchases	**22,790**	**-**	**48,342**	**31,092**	**30,860**	**133,084**
Derivatives held for trading						
Currency swaps	-	(134,029)	-	-	-	(134,029)
Currency forwards	-	-	(217)	-	-	(217)
Total sales	**-**	**(134,029)**	**(217)**	**-**	**-**	**(134,246)**
Off-balance sheet net notional position	**22,790**	**(134,029)**	**48,125**	**31,092**	**30,860**	**(1,162)**

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

NOTE 27 – COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

	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**

27.2. Credit related and other commitments

As of 31 December 2022 and 31 December 2021, breakdown of commitments related to loan agreements and other commitments are as follows:

	31 December 2022	31 December 2021
Credit limit commitments (1)	7,981	16,162
Other commitments	14	5
Total	**7,995**	**16,167**

(1) The Bank has disbursement commitments as per the signed loan agreements.

NOTE 28 – SEGMENT ANALYSIS

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

NOTE 28 – SEGMENT ANALYSIS (Continued)

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

31 December 2022	Banking	Treasury	Total
Interest income	8,318	7,745	16,063
Fee and commission income	521	-	521
Total segment revenues	**8,839**	**7,745**	**16,584**
Interest expense	(245)	(470)	(715)
Fee and commission expense	(3)	(5)	(8)
Net trading income/(loss)	-	1,810	1,810
Other operating income	1,097	549	1,646
Operating expenses	(2,361)	(873)	(3,234)
Segment income before impairment	**7,327**	**8,756**	**16,083**
Net impairment (loss)/reversal	(697)	110	(587)
Net income for the period	**6,630**	**8,866**	**15,496**
Segment assets	**313,640**	**157,209**	**470,849**
Segment liabilities	**24,593**	**18,327**	**42,920**

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**	**9,178**
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**

NOTE 29 – RELATED PARTY TRANSACTIONS

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

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

The salaries and other benefits paid to key management personnel amount to EU 590 thousand (31 December 2021: EU 593 thousand). This comprises salary and employee benefits of EU 510 thousand (31 December 2021: EU 516 thousand) and contributions made by the Bank on behalf of the management personnel of EU 80 thousand (31 December 2021: EU 77 thousand). Key management personnel do not receive post-employment benefits like termination benefits, any share-based payments or other long term benefits, except lump sum pension payment.

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

NOTE 30 – SUBSEQUENT EVENTS

The regulation dismantling the retirement age requirement in Türkiye for employees who started their working life before 8 September 1999 was published in the Official Gazette on 3 March 2023. Accordingly, the employees who have completed the number of premium days and social insurance period are entitled to retirement. The regulation is expected to have an impact on the timing and probability of settlement of severance payments. The regulation is not expected to have a significant impact on the Bank's financial position and financial performance.

An earthquake occurred in the south-eastern part of Türkiye that affected many of cities, killing and injuring thousands of people. The disaster is not expected to have a significant impact on the Bank's financial position and financial performance.

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