THE ECONOMIC COOPERATION ORGANIZATION TRADE AND DEVELOPMENT BANK

FINANCIAL STATEMENTS TOGETHER WITH AUDITOR'S REPORT

31 DECEMBER 2010

pwc

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of The Economic Cooperation Organization Trade and Development Bank

1. We have audited the accompanying financial statements of The Economic Cooperation Organization Trade and Development Bank ("the Bank") which comprise the balance sheet as at 31 December 2010 and statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

   We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. *a member of* ***PricewaterhouseCoopers***
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Opinion

4. In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Başaran Nas Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
a member of
PricewaterhouseCoopers

Z. Alper Önder, SMMM

Istanbul, 4 April 2011

THE ECONOMIC COOPERATION ORGANIZATION TRADE AND DEVELOPMENT BANK

CONTENTS **PAGE**

THE ECONOMIC COOPERATION ORGANIZATION TRADE AND DEVELOPMENT BANK

BALANCE SHEET AT 31 DECEMBER 2010
(Amounts expressed in thousands of ECO Unit (“EU”) unless otherwise indicated.)

	Notes	31 December 2010	31 December 2009
ASSETS			
Loans and advances to banks	6	314,307	260,436
Loans and advances to customers	7	45,473	44,968
Intangible assets	8	46	25
Property and equipment	9	155	226
Other assets	10	145	140
Total assets		**360,126**	**305,795**
LIABILITIES			
Deposits from banks	11	98,286	90,464
Retirement benefit obligations	12	766	625
Other liabilities	13	497	507
Total liabilities		**99,549**	**91,596**
EQUITY			
Share capital	14	252,000	204,000
Reserves		10,199	6,335
(Accumulated loss) / Retained earnings		(1,622)	3,864
Total equity		**260,577**	**214,199**
Total liabilities and equity		**360,126**	**305,795**
Commitments and contingent liabilities	18		

The accompanying notes set out on pages 5 to 35 form an integral part of this financial statements.

THE ECONOMIC COOPERATION ORGANIZATION TRADE AND DEVELOPMENT BANK

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

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

	Notes	31 December 2010	31 December 2009
Interest income	15	7,844	7,587
Interest expense	15	(770)	(507)
Net interest income		**7,074**	**7,080**
Impairment reversals / (losses) on loans, net	6, 7, 17	90	(269)
Net interest income after loan impairment losses		**7,164**	**6,811**
Fee and commission income	16	223	222
Fee and commission expense	16	(7)	(7)
Net fee and commission income		**216**	**215**
Foreign exchange (losses)/gains, net		(5,389)	128
Operating income		**1,991**	**7,154**
Operating expenses:			
Personnel expenses	17	(2,959)	(2,748)
Operating lease expenses	17	(153)	(124)
Depreciation and amortization	8, 9, 17	(135)	(136)
Other expenses	17	(366)	(282)
Net (loss)/profit for the period		**(1,622)**	**3,864**
Other comprehensive income		**-**	**-**
Total comprehensive income		**(1,622)**	**3,864**

The accompanying notes set out on pages 5 to 35 form an integral part of this financial statements.

THE ECONOMIC COOPERATION ORGANIZATION TRADE AND DEVELOPMENT BANK

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

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

	Share Capital	Reserves	Retained earnings	Total
31 December 2008	**156,000**	**3,443**	**2,892**	**162,335**
Increase in paid-in share capital	48,000	-	-	48,000
Appropriation of profit	-	2,892	(2,892)	-
Total comprehensive income	-	-	3,864	3,864
31 December 2009	**204,000**	**6,335**	**3,864**	**214,199**
Increase in paid-in share capital	48,000	-	-	48,000
Appropriation of profit	-	3,864	(3,864)	-
Total comprehensive income	-	-	(1,622)	(1,622)
31 December 2010	**252,000**	**10,199**	**(1,622)**	**260,577**

The accompanying notes set out on pages 5 to 35 form an integral part of this financial statements.

THE ECONOMIC COOPERATION ORGANIZATION TRADE AND DEVELOPMENT BANK

CASH FLOWS STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

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

	Notes	31 December 2010	31 December 2009
Cash flows from operating activities:			
Net (loss)/profit for the period		(1,622)	3,864
Adjustments for:			
Depreciation and amortization	8, 9, 17	135	136
Net impairment loss on loans and advances	6, 7	(90)	269
Accrued interest and expenses		(1,044)	(1,056)
Provision for retirement benefit obligations		235	221
Other non-cash items		2,869	(276)
Cash flows from operating profits before changes in operating assets and liabilities		**483**	**3,158**
Changes in operating assets and liabilities:			
Change in loans and advances to banks		(94,412)	(112,628)
Change in loans and advances to customers		(358)	(44,814)
Change in other assets		(4)	(2)
Change in retirement benefit obligations		(94)	128
Change in deposits from banks		7,607	90,251
Change in other liabilities		(10)	149
Net cash used in operating activities		**(86,788)**	**(63,758)**
Cash flows from investing activities:			
Purchase of property and equipment	9	(53)	(31)
Purchase of intangible assets	8	(32)	(17)
Net cash used in investing activities		**(85)**	**(48)**
Cash flows from financing activities:			
Increase in paid-in share capital		48,000	48,000
Net cash from financing activities		**48,000**	**48,000**
Net decrease in cash and cash equivalents		**(38,873)**	**(15,806)**
Effects of exchange-rate changes on cash and cash equivalents		(2,870)	(276)
Cash and cash equivalents at the beginning of the period	5	91,421	106,951
Cash and cash equivalents at end of the period	**5**	**49,678**	**91,421**

The accompanying notes set out on pages 5 to 35 form an integral part of this financial statements.

NOTE 1 - GENERAL INFORMATION

The Economic Cooperation Organization Trade and Development Bank ("the Bank") was established by the three founding members of the Economic Cooperation Organization ("ECO"); the Islamic Republic of Iran, the Islamic Republic of Pakistan and the Republic of Turkey under the Articles of Agreement ("the Agreement"). The Articles of Agreement became effective on 3 August 2005 with the parliamentary approvals of all three member countries. The governments of the three member countries appointed all the members of the Board of Governors and Board of Directors in 2006. The Bank has started its credit operations by the fourth quarter of 2008.

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

The mission of the Bank is to promote and facilitate private and public sector investment, cooperation, development and job creation in member states through joint programmes, 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 headquarters address of the Bank is "Meclis-i Mebusan Caddesi No: 13 Kat: 6 - 7, 34427 Salıpazarı Beyoğlu - Istanbul Turkey".

The Management Committee of the Bank decided to submit the financial statements as of and for the year ended 31 December 2010 to the Board of Directors on 4 April 2011.

As of 31 December 2010, the number of employees of the Bank is 41 (31 December 2009: 41).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of this financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Basis of preparation

These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"). IFRS comprise accounting standards issued by the International Accounting Standards Board ("IASB") and its predecessor body and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires 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 3.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Company:

- IFRS 3 (Revised), “Business combinations” effective on or after 1 July 2009
- IAS 27, “Consolidated and separate financial statements” effective on or after 1 July 2009
- IAS 28, “Investment in associates” effective on or after 1 July 2009
- IAS 31, “Interest in joint ventures” effective on or after 1 July 2009
- IFRIC 17, “Distribution of non-cash assets to owners” effective on or after 1 July 2009
- IFRIC 18, “Transfer of assets from customers” effective on or after 1 July 2009
- IFRIC 9, “Reassessment of embedded derivatives” effective as of 1 July 2009
- IFRIC 16, “Hedges of a net investment in a foreign operation” effective as of 1 July 2009
- IAS 1 (Amendment), “Presentation of financial statements” effective as of 1 January 2010
- IAS 36 (Amendment), “Impairment of assets” effective as of 1 January 2010
- IAS 38 (Amendment), “Intangible assets” effective as of 1 January 2010
- IFRS 2 (Amendments), “Share-based payment transactions” effective as of 1 January 2010
- IFRS 5 (amendment), “Non-current assets held for sale and discontinued operations” effective as of 1 January 2010

(c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted by the Company:

- IAS 32, “Financial instruments: Presentation” effective as of 1 February 2010
- IFRIC 19 “Extinguishing financial liabilities with equity instruments” effective as of 1 July 2010
- IAS 24 (Revised), “Related party disclosures” effective as of 1 January 2011
- IFRIC 14 (Amendment), “Prepayments of a minimum funding requirement” effective as of 1 January 2011
- IFRS 9, “Financial instruments” effective as of 1 January 2013

‘Improvements to IFRS’ were issued in May 2008. They contain numerous amendments to IFRS that the IASB considers non-urgent but necessary. ‘Improvements to IFRS’ comprise amendments that result in accounting changes for presentation recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The application of these new interpretations will not have a material impact on the Company's financial statements in the period of initial application.

(d) Foreign Currency Translation

Functional and presentation currency

In accordance with Article 4 of the Agreement the unit of account of the Bank is EU that is equivalent to one Special Drawing Right (“SDR”) of the International Monetary Fund (“IMF”).

In accordance with the Article 11 of the Agreement, the Bank’s “functional currency” is the SDR and all transactions are recorded in SDR. The Bank’s “presentation currency” is ECO Unit (“EU”).

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions as provided by the IMF. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

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

		31 December 2010	31 December 2009
1 EU (SDR) =	United States Dollar	1.5400	1.5619
	Euro	1.1597	1.0894
	Japanese Yen	125.4359	143.7970
	Pound Sterling	0.9978	0.9853
	Turkish Lira	2.3935	2.365

(e) Loans and advances

Loans and advances are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances are carried at amortized cost.

When impaired financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognized at its fair value (Notes 6 and 7).

(f) Financial instruments and impairment

Recognition

The Bank initially recognizes loans and advances and deposits from banks on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent measurement

Subsequent to initial recognition, financial assets designated at fair value through profit or loss are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured. If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arms’ length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis and option pricing models.

All non-trading financial liabilities, loans and receivables and held-to-maturity investment securities are measured at amortized cost less impairment losses. The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

Identification and measurement of impairment

At each balance sheet date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortized cost) with similar risk characteristics.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets’ original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognized through the unwinding of the discount.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Derivative Financial Instruments

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 example, 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.

(g) Property and equipment

All property and equipment are carried at cost less accumulated depreciation and permanent impairment if any. Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful life as follows:

	Useful lives
Machinery and equipment	4-5 years
Motor vehicles	5 years
Furniture and fixtures	5 years
Leasehold improvements	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and value in use.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account for the determination of net profit.

Expenses for the repair of property and equipment are charged against income. They are, however, capitalized if they result in an enlargement or substantial improvement of the respective assets.

Leasehold improvements comprise primarily the capitalized office floor refurbishment costs (Note 9).

(h) Intangible assets

Intangible assets consist of computer software program and licenses. Intangible assets are measured at cost, less accumulated amortization and impairment losses. Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets not exceeding period of five years (Note 8).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Leasing transactions

Assets acquired under finance lease agreements are capitalized at the inception of the lease at the fair value of the leased asset, which is the amount of cash consideration given for the leased asset. Lease payments are treated as comprising capital and interest elements; the capital element is treated as reducing the capitalized obligation under the lease and the interest element is charged to income. Depreciation on the leased asset is also charged to income on a straight-line basis over the useful life of the asset.

Other leases are operating leases and are recognized in the income statement in the period they incur.

(j) Impairment of assets

At each reporting date, the Bank evaluates whether there is any impairment indication on the asset. When an indication of impairment exists, the Bank estimates the recoverable values of such assets. Impairment exists if the carrying value of an asset or a cash generating unit is greater than its recoverable amount which is the higher of value in use or fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. An impairment loss is recognized immediately in the income statement. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or group of assets. An impairment loss recognized in prior periods for an asset is reversed if the subsequent increase in the asset's recoverable amount is caused by a specific event since the last impairment loss was recognized. Such a reversal amount cannot be higher than the previously recognized impairment and is recognized as income in the financial statements.

(k) Financial liabilities

Financial liabilities including deposits from banks are recognized initially at cost which represents their fair values. Subsequently, financial liabilities are stated at amortized cost, including transaction costs, and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the financial liability using the effective interest method (Note 11).

(l) Taxation

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

(m) Employee benefits

i. 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 and second pillar as defined contribution plan. The expatriate employees are automatically enrolled in the first pillar whereas participation in the second pillar is at their will. The local employees can also opt for the Bank's pension plan voluntarily in lieu of Turkish State Social Security Plan.

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), participating in the second pillar and transferring at least the amount equal to 90% of the first pillar account balance excluding the investment returns 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:

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Immediate pension equal to the amount of 1% of the average net basic salary of the 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.

If an employee does not fulfill the requirements described above or in case of death before normal retirement age, the benefit will be provided to employee or his/her legal beneficiary as a lump sum equal to the balance of employee's account. Similarly in case of death of an employee already drawing pension, the full amount of the standing balance will be paid as a lump sum to employee's legal beneficiary.

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 Bank's Pension Plan Policy. Contribution rates to the pension plan are as follows:

Pension contributions	Employer %	Employee %
First pillar	12	-
Second pillar	up to 7 (*)	up to 7

(*) 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, the pension liability is calculated by using the "projected unit credit method" by an independent actuary annually. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees.

The pension liability is measured at the present value of the estimated future cash outflows using interest rates of government securities that have terms to maturity approximately the terms of the related liability. All actuarial gains and losses are recognized in income over the average remaining service lives of the employees (Note 12).

ii. Defined contribution plan

The Bank pays contributions to Turkish State Social Security Plan on a mandatory basis for the local employees who did not opt for the Bank's pension plan and pays contributions voluntarily to insurance plans (medical and life insurance) by third party organizations. Obligations for contributions to defined contribution plans are recognized as personnel expense in the income statement when they are due. The Bank has no further payment obligations once the contributions have been paid.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

iii. Reserve for employment termination benefits

Provision for employment termination benefits represents the present value of the estimated total provision of the future probable obligation of entities arising from the retirement of the employees calculated in accordance with the Turkish Labor Law. In accordance with existing social legislation and Turkish Labor Law in Turkey, entities are required to make lump-sum termination indemnities to each employee whose employment is terminated due to retirement or for reasons other than resignation or misconduct and who has completed at least one year of service. Provision is made for the present value of the defined benefit obligation calculated using the projected unit credit method.

However, because of being a multilateral development bank which shall be operative in different jurisdictions, the necessity of immunity from judicial proceedings has been recognized for the Bank by the Government of Turkey under the provision of the Article 4 of the Headquarters Agreement. Consequently, it is not possible for the Bank as well as the Bank's staff to submit a labor case to Turkish courts. The Bank enjoys the immunity from judicial proceedings in Turkey and consequently, the Bank and its staff members are unable to submit a labor case to Turkish law. Therefore these financial statements do not include any provision for employment termination benefit according to Turkish Labor Law.

iv. Annual leave pay liability

The Bank provides annual leave pay provision for the employees under its employee Benefit System Policy. Full-time professional staff members are entitled to an annual leave of fifteen workdays per year with service of less than and including ten years and twenty workdays per year with service after ten years and more. New professional staff members will be eligible for annual leave after six months of service (Note 13).

(n) 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 a 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 18).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Interest income and expense

Interest income and expense are recognized in the income statement for all instruments measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts (Note 15).

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(p) Fee and commission income and expense

Fees and commissions are generally recognized in the income statement on an accrual basis over the life of the transaction to which they refer or on a cash basis at the time the service is received/ the transaction is performed, whichever is more appropriate.

Other fees and commission income including commitment fees and management fees are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received (Note 16).

(q) Share capital and dividends

In accordance with Article 27 of the Agreement, the Board of Governors shall 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 (Note 14).

(r) Cash and cash equivalents

For the purposes of the statement of cash flows, 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 (Note 5).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Offsetting

Financial assets and liabilities are offset and the net amount is presented in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle liability simultaneously.

(t) Segment reporting

A reportable segment is a business segment or a geographical segment identified based on the foregoing definitions for which segment information is required to be disclosed. A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

The Bank has chosen business segments as the Bank's primary segment reporting format. The Bank manages its business through two business units: Banking and Treasury (Note 19).

(u) 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 (EPS) information in accordance with IAS 33 "Earnings Per Share".

(v) Comparatives

Comparative figures are reclassified, where necessary, to conform to change, in presentation of the 31 December 2010 financial statements.

NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. These disclosures supplement the commentary significant accounting policies (Note 2) and financial risk management (Note 4). Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

Impairment losses on loans and advances, The Bank reviews its loan portfolios to assess impairment on a continuous basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Fair value of assets and liabilities, A number of the Bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. Management has estimated that the fair value of certain financial instruments is not materially different than their carrying values due to their short term nature.

- The fair value of loans and advances is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.
- The fair value of deposits from banks is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

NOTE 4 - FINANCIAL RISK MANAGEMENT

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

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 monitor the same.

The financial policies of the Bank approved by the Bank's Board of Directors establish the guiding principles for sound financial management and provide the framework within which the Bank pursues its mandate.

The Board of Directors has established Asset and Liability Management Committee (ALCO) which 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 must take place.

Credit risk

Credit risk is the risk of financial loss to the Bank if counterparty fails to meet its contractual obligations as they fall due and arises principally from the Bank's lending and treasury activities.

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 using various information sources and applying qualitative and quantitative methodologies.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

The Credit Risk Management reviews lending operations and manages the main areas of risk which are inherent to the lending activities of the Bank 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 customers by following 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 internal compliance, 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 the operating environment, in a manner which ensures protection to the shareholder.

The Bank's maximum credit risk is the carrying amounts of each financial asset shown on the balance sheet.

The Bank's exposure to credit risk as at 31 December 2010 and 31 December 2009 are as follows:

	31 December 2010	**31 December 2009**
Loans and advances to banks	314,307	260,436
Loans and advances to customers	45,473	44,968
Total	**359,780**	**305,404**

There are no financial assets that are past due but not impaired at 31 December 2010. There are no collaterals held against such past due financial assets.

As of 31 December 2010 the Bank has no assets held for resale.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(i) Industry sectors:

The following table breaks down the main Banking credit exposures in their carrying amounts by the industry sector of the counterparty.

	31 December 2010		31 December 2009	
	Outstanding Disbursement	**Undrawn Commitments**	**Outstanding Disbursement**	**Undrawn Commitments**
Financial institutions	**314,307**	**-**	**260,436**	**22,851**
Turkey (*)	277,843	-	216,099	-
Iran	21,351	-	12,298	16,449
Pakistan	11,513	-	12,795	6,402
Other	3,600	-	19,244	-
Oil and gas	**22,742**	**-**	**44,968**	**-**
Pakistan	22,742	-	32,285	-
Turkey	-	-	12,683	-
Iran	-	-	-	-
Municipal and environmental infrastructure	**22,731**	**14,565**	**-**	**-**
Turkey	22,731	-	-	-
Iran	-	14,565	-	-
Pakistan	-	-	-	-
Total	**359,780**	**14,565**	**305,404**	**22,851**

(*) The Money market placements with the banks in Turkey amount to EU 239,945 thousand (31 December 2009: EU 167,259 thousand).

(ii) Geographical sectors:

The following table breaks down geographical concentrations of the main Banking credit exposures.

	31 December 2010		31 December 2009	
	Outstanding Disbursement	**Undrawn Commitments**	**Outstanding Disbursement**	**Undrawn Commitments**
Turkey (*)	300,574	-	228,782	-
Pakistan	34,255	-	45,080	6,402
Iran	21,351	14,565	12,298	16,449
Other	3,600	-	19,244	-
Total	**359,780**	**14,565**	**305,404**	**22,851**

(*) The Money market placements with the banks in Turkey amount to EU 239,945 thousand (31 December 2009: EU 167,259 thousand).

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(iii) Segment analysis of credit risk exposures:

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

	31 December 2010	31 December 2009
Financial institutions-Bank placements	243,793	186,503
Financial institutions-SME Support Program	48,477	53,823
Large corporate	22,742	44,968
Project finance	22,731	-
Financial institutions-Short Term Trade Finance	22,037	20,110
Total	**359,780**	**305,404**

Liquidity risk

Liquidity risk is the risk that the Bank is unable to fund assets or to fulfill its financial obligations at a reasonable price as they become due. The management of the liquidity risk is concentrated on the timing of the cash in-flows and out-flows as well as in the adequacy of the available cash and liquidity securities. The Bank's commitment in maintaining strong liquidity position is established in policies that are approved by the Board of Directors.

According to the ALCO approved procedures at all times, the Bank must have at its disposal a liquidity pool large enough to finance new assets or refinance existing assets. The Bank's liquidity is maintained at a minimum of 12% of the total equity plus long term borrowing with remaining maturity greater than six month. The Bank's liquid assets are maintained in short term placements.

The following table presents the undiscounted cash flows payable by the Bank:

	31 December 2010				
	Up to 1 month	**1 to 3 Months**	**3 to 12 Months**	**Over 1 year**	**Total**
Monetary liabilities:					
Deposits from banks	24,841	17,298	56,567	-	98,706
Other liabilities	48	9	421	19	497
Total liabilities	**24,889**	**17,307**	**56,988**	**19**	**99,203**

	31 December 2009				
	Up to 1 month	**1 to 3 Months**	**3 to 12 Months**	**Over 1 year**	**Total**
Monetary liabilities:					
Deposits from banks	26,067	55,321	9,254	-	90,642
Other liabilities	19	17	470	1	507
Total Liabilities	**26,086**	**55,338**	**9,724**	**1**	**91,149**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Market risk

Market risk is the Bank's exposure to market variables such as interest rates, exchange rates and equity market prices. Since the Bank's ordinary operations are inherently relatively risky, a conservative and comprehensive risk management framework addressing market risk has been already established.

The Bank aims to match, wherever possible, the currencies, tenor and interest rate characteristics of its borrowing with those of its lending portfolios. When necessary, the Bank uses derivative instruments to reduce its exposure to exchange rate and interest rate risk.

(i) Foreign currency risk:

The Bank is exposed to currency risk through transactions (such as financing operations and borrowings) in foreign currencies. The main measurement currencies of its foreign exchange operations are Euro and US Dollar. As the functional currency of the Bank is SDR, the financial statements are affected by changes in the foreign exchange rates against SDR.

Considering the appetite of clients in the member countries only for US Dollar and Euro in loan operations, in parallel with the decision of Board of Directors the Bank did not place its assets in British Pound and Japanese Yen. Consequently, as a result of SDR being a basket of the four currencies the Bank has been carrying short positions in British Pound and Japanese Yen on the other hand long positions in US Dollar and Euro.

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 foreign exchange risk within the approved limits.

In order to monitor the foreign currency exposure in each currency, net foreign currency position figures are adjusted by the currency neutral position amounts for each currency based on the allocation of net SDR position by their weights in SDR as of balance sheet date.

As at 31 December 2010 and 2009 the foreign currency position of the Bank is as follows:

	31 December 2010	**31 December 2009**
Foreign currency assets	359,925	305,544
Foreign currency liabilities	(99,549)	(91,596)
Net foreign currency position	**260,376**	**213,948**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2010					
	US Dollar	Euro	Other (*)	Total Foreign Currency	SDR ("EU")	Total
Assets						
Loans and advances to banks	91,738	222,561	8	314,307	-	314,307
Loans and advances to customers	45,473	-	-	45,473	-	45,473
Derivative financial instruments	-	-	-	-	-	-
Property and equipment	-	-	-	-	46	46
Intangible assets	-	-	-	-	155	155
Other assets	98	36	11	145	-	145
Total assets	**137,309**	**222,597**	**19**	**359,925**	**201**	**360,126**
Liabilities						
Deposits from banks	-	98,286	-	98,286	-	98,286
Retirement benefit obligations	766	-	-	766	-	766
Other liabilities	101	29	367	497	-	497
Equity	-	-	-	-	260,577	260,577
Total liabilities	**867**	**98,315**	**367**	**99,549**	**260,577**	**360,126**
Net balance sheet position	**136,442**	**124,282**	**(348)**	**260,376**	**(260,376)**	**-**
Off-balance sheet derivative instruments net notional position	-	-	-	-	-	-
Net foreign currency position	**136,442**	**124,282**	**(348)**	**260,376**	**(260,376)**	**-**
Currency Neutral Position	**(106,733)**	**(91,953)**	**(61,690)**	**(260,376)**	**260,376**	**-**
FX Exposure in notional Ccy	**29,709**	**32,329**	**(62,038)**	**-**	**-**	**-**

	31 December 2009					
	US Dollar	Euro	Other (*)	Total Foreign Currency	SDR ("EU")	Total
Assets						
Loans and advances to banks	65,729	189,202	5,505	260,436	-	260,436
Loans and advances to customers	44,968	-	-	44,968	-	44,968
Property and equipment	-	-	-	-	226	226
Intangible assets	-	-	-	-	25	25
Other assets	132	-	8	140	-	140
Total assets	**110,829**	**189,202**	**5,513**	**305,544**	**251**	**305,795**
Liabilities						
Deposits from banks	3,048	87,416	-	90,464	-	90,464
Retirement benefit obligations	625	-	-	625	-	625
Other liabilities	129	-	378	507	-	507
Equity	-	-	-	-	214,199	214,199
Total liabilities	**3,802**	**87,416**	**378**	**91,596**	**214,199**	**305,795**
Net balance sheet position	**107,027**	**101,786**	**5,135**	**213,948**	**(213,948)**	**-**
Off-balance sheet derivative instruments net notional position	-	-	-	-	-	-
Net foreign currency position	**107,027**	**101,786**	**5,135**	**213,948**	**(213,948)**	**-**
Currency Neutral Position	**(86,675)**	**(80,621)**	**(46,652)**	**(213,948)**	**213,948**	**-**
FX Exposure in notional Ccy	**20,352**	**21,165**	**(41,517)**	**-**	**-**	**-**

(*) The total foreign currency exposure in Japanese Yen, Pound Sterling and Turkish Lira EU 38,152 thousand, EU 23,538 thousand and EU348 thousand respectively (31 December 2009: EU 27,021, EU 14,131 and EU 365).

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (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.

A 1 percent weakening of the EU against the following currencies at 31 December 2010 and 2009 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 2010		31 December 2009	
	Profit or loss	**Equity (*)**	**Profit or loss**	**Equity (*)**
US Dollar	1,365	1,365	1,072	1,072
Euro	1,243	1,243	1,018	1,018
Pound	-	-	55	55
Japanese Yen	-	-	-	-
Turkish Lira	(3)	(3)	(4)	(4)
	2,605	**2,605**	**2,141**	**2,141**

(*) Includes the profit or loss effect.

(ii) Interest rate risk:

Interest rate risk is defined as "the potential variability in a Bank's net interest income and market value of equity due to changes in the level of market interest rates." The 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. The objective of the Bank's risk management operations is to avoid from risk/loss by probable market adverse changes in the interest rates of the currencies of the items on the both sides of the balance sheet including those on- and off- balance sheet.

The Bank interest rate risk sensitivity comprises of two elements. Firstly, there is a differential between the interest rate that bank earns on its assets and the cost of borrowing to fund these assets. For this, the Bank does, as closely as possible, match the interest periods, thus minimizing the interest rate risk. For any unmatched items, the Bank may apply derivatives to curb the risk. Secondly, there is the absolute rate earned on the Bank's assets that are funded by equity. The majority of these equity resources are currently invested in Bank's loan portfolio at floating rates; therefore, posing related earnings on these assets to some degree of fluctuation. The Bank needs to simultaneously evaluate the current value of both equity and equity-funded assets by periodical marking to market methodology. By existing policies, the Bank may manage such interest rate risks by applying appropriate derivatives.

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for the duration of the liquid portfolio. The goal of interest rate risk management is to reduce effect of interest rate change on its Net Interest Income (NII). ALCO is the monitoring body for compliance with these limits and is assisted by ALM unit in its weekly monitoring activities.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

The interest rate profile of the Bank's interest-bearing financial instrument was:

	31 December 2010					
	Up to 1 month	**1 to 3 Months**	**3 to 12 Months**	**Over 1 year**	**Non-interest bearing**	**Total**
Assets						
Loans and advances to banks	57,798	136,977	119,356	176	-	314,307
Loans and advances to customers	-	-	45,473	-	-	45,473
Derivative financial instruments	-	-	-	-	-	-
Intangible assets	-	-	-	-	46	46
Property and equipment	-	-	-	-	155	155
Other assets	-	-	-	-	145	145
Total assets	**57,798**	**136,977**	**164,829**	**176**	**346**	**360,126**
Liabilities						
Deposits from banks	24,837	17,254	56,195	-	-	98,286
Retirement benefit obligations	-	740	-	-	26	766
Other liabilities	-	-	-	-	497	497
Total liabilities	**24,837**	**17,994**	**56,195**	**-**	**523**	**99,549**
Net reprising gap	**32,961**	**118,983**	**108,634**	**176**	**(177)**	**260,577**

	31 December 2009					
	Up to 1 month	**1 to 3 Months**	**3 to 12 Months**	**Over 1 year**	**Non-interest bearing**	**Total**
Assets						
Loans and advances to banks	66,104	127,914	63,964	2,454	-	260,436
Loans and advances to customers	12,008	-	32,960	-	-	44,968
Intangible assets	-	-	-	-	25	25
Property and equipment	-	-	-	-	226	226
Other assets	93	19	28	-	-	140
Total assets	**78,205**	**127,933**	**96,952**	**2,454**	**251**	**305,795**
Liabilities						
Deposits from banks	26,064	55,194	9,206	-	-	90,464
Retirement benefit obligations	-	604	-	-	21	625
Other liabilities	19	17	470	1	-	507
Total liabilities	**26,083**	**55,815**	**9,676**	**1**	**21**	**91,596**
Net reprising gap	**52,122**	**72,118**	**87,276**	**2,453**	**230**	**214,199**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

The table below summarizes weighted average interest rates for financial instruments by major currencies outstanding at 31 December 2010 and 2009 based on yearly contractual rates.

	31 December 2010 (%)			31 December 2009 (%)		
	US Dollar	Euro	Pound	US Dollar	Euro	Pound
Assets						
Loans and advances to banks	2.53	2.59	-	2.37	2.70	2.00
Loans and advances to customers	2.01	-	-	2.48	-	-
Liabilities						
Deposits from banks	-	1.55	-	0.43	1.25	-

Operational risk

The most comprehensive meaning of operational risk is considered to be any risk which is not classified as a market and credit risk. In managing operational risk, increasing the skills of the staff, improving the job technology and job definitions, establishing the necessary internal controls and various insurances are employed as the main methods.

Capital risk management

The Bank is not subject to any regulatory requirements concerning the level of capital it must maintain, however the Agreement sets out how the statutory annual net profit for the year shall be allocated. 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.

In accordance with Article 27 of the Agreement, the Board of Governors shall 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.

Fair value of assets and liabilities

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, should one exist.

The Bank has estimated fair values of financial instruments by using available market information and appropriate valuation methodologies which include credit risk as well. However, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Bank can realize in a current market exchange.

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:

Monetary assets

The fair values of balances denominated in other than presentation currency, which are translated at year-end exchange rates, are considered to approximate carrying values.

The fair values of certain assets carried at cost, including cash and other assets amounts are considered to approximate their respective carrying values due to their short-term nature and negligible credit losses.

The fair values of loans and advances are determined by discounting contractual cash flows with current market interest rate.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Monetary liabilities

The fair values of deposits from banks are determined by discounting contractual cash flows with current market interest rate.

As of 31 December 2010, the carrying amounts and fair values of financial instruments are as follows (Note 3):

	31 December 2010		31 December 2009	
	Fair value	**Carrying value**	**Fair value**	**Carrying value**
Financial assets:				
Loans and advances to banks	314,243	314,307	260,431	260,436
Loans and advances to customers	45,559	45,473	44,976	44,968
Derivative financial instruments	-	-	-	-
Other assets	145	145	140	140
Financial liabilities:				
Deposits from banks	98,291	98,286	90,466	90,464
Other liabilities	497	497	507	507

Since the Bank does not have any financial assets carried at fair value, no additional disclosure of fair value measurements by level of fair value hierarchy has been presented.

NOTE 5 - CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition:

	31 December 2010	**31 December 2009**
Loans and advances to banks-demand	249	167
Loans and advances to banks-time (with original maturity less than three months)	49,429	91,254
	49,678	**91,421**

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

NOTE 6 - LOANS AND ADVANCES TO BANKS

As of 31 December 2010 and 2009, loans and advances to banks are as follows:

	31 December 2010	31 December 2009
Nostro/ demand deposits	249	167
Money market placements (with original maturity less than three months)	49,429	91,254
Included in cash and cash equivalents	**49,678**	**91,421**
Other loans and advances to banks, gross	264,769	169,162
Less: collective allowance for impairment	(140)	(147)
Loans and advances to banks, net	**314,307**	**260,436**

	31 December 2010	31 December 2009
Current	282,998	217,405
Non-current	31,309	43,031

The Bank has started its credit operations by the fourth quarter of 2008. As of 31 December 2010 other loans and advances to banks balance includes loans granted to Small Medium Enterprise Support Program ("SME") and Short Term Trade Finance Program ("STTF"). The total loan amount for each SME and STTF Loans equals EU 48,574 thousand and EU 22,081 thousand, respectively. The remaining EU 194,114 thousand of the loans and advances to banks balance represents the placements with other banks with original maturity greater than three months.

The Bank has no impaired loans in the loans and advances to banks portfolio. Collective allowance for impairment losses considered adequate to cover the residual inherent risk of loss present in the lending relationship presently performing in accordance with agreement made with the borrower and with the Bank's credit risk policy.

Movement in the collective allowance for loan losses for banks is as follows:

	31 December 2010	31 December2009
Balance at 1 January	147	6
Increase in impairment allowances	4	141
Cancellation of impairment allowances	(11)	-
At period end	**140**	**147**

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

NOTE 7 - LOANS AND ADVANCES TO CUSTOMERS

As of 31 December 2010 and 31 December 2009, loans and advances to customers are as follows:

	31 December 2010	31 December 2009
Corporate entities:		
Large corporate customers	22,742	45,096
Project finance	22,776	-
Loans and advances to customers, gross	45,518	45,096
Less: collective allowance for impairment	(45)	(128)
Loans and advances to customers, net	**45,473**	**44,968**

	31 December 2010	31 December 2009
Current	22,742	44,968
Non-current	22,731	-

The Bank has Corporate Loans ("CL") in the loans and advances to customers balances that are granted to large corporate customers mainly operate in oil and gas industry.

The Bank has no impaired loans in the loans and advances to customers portfolio. Collective allowance for impairment losses considered adequate to cover the residual inherent risk of loss present in the lending relationship presently performing in accordance with agreement made with the borrower and with the Bank's credit risk policy.

Movement in the collective allowance for loan losses for customers is as follows:

	2010	2009
Balance at 1 January	128	-
Increase in impairment allowances	45	128
Cancellation of impairment allowances	(128)	-
At period end	**45**	**128**

The Bank has collaterals taken against the loans and advances to customers balances. Collaterals mainly include the guarantees given by Governments of Member Countries. The total amount of loans and advances that are collateralized by guarantees amount to EU 40,962 thousand (31 December 2009: EU32,285).

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

NOTE 8 - INTANGIBLE ASSETS

	31 December 2010	31 December 2009
Cost	72	40
Accumulated amortization	(26)	(15)
Net book value	**46**	**25**

Movements of other intangible assets were as follows:

31 December 2010	**Software**
Net book value at 1 January 2010	**25**
Amortization charge	(11)
Additions	32
Net book amount at 31 December 2010	**46**

31 December 2009	
Net book value at 1 January 2009	**17**
Amortization charge	(9)
Additions	17
Net book value at 31 December 2009	**25**

NOTE 9 - PROPERTY AND EQUIPMENT

	31 December 2010	31 December 2009
Cost	557	504
Accumulated depreciation	(402)	(278)
Net book value	**155**	**226**

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

NOTE 9 - PROPERTY AND EQUIPMENT (Continued)

	Machinery and equipment	Motor vehicles	Furniture and fixtures	Leasehold improvements	Total
31 December 2010:					
Net book value					
1 January 2010	**103**	**55**	**33**	**35**	**226**
Addition	6	37	4	6	53
Depreciation charge	(47)	(25)	(15)	(37)	(124)
31 December 2010	**62**	**67**	**22**	**4**	**155**
31 December 2009:					
Net book value					
1 January 2009	**117**	**77**	**42**	**86**	**322**
Addition	26	-	5	-	31
Depreciation charge	(40)	(22)	(14)	(51)	(127)
31 December 2009	**103**	**55**	**33**	**35**	**226**

As of 31 December 2010, property and equipment excluding the motor vehicles were insured against fire, theft and damage to the extent of EU 403 thousand (TL 964 thousand). Motor vehicles are insured against accident to the extent of their acquisition cost.

At 31 December 2010, there is no impairment provision on property and equipment (31 December 2009: None).

NOTE 10 - OTHER ASSETS

	31 December 2010	31 December 2009
Fee and commission receivables (*)	68	29
Personnel advances	30	80
Representative office advances	27	14
Other advances	9	-
Private consumption tax refund	5	4
Value added taxes ("VAT") refund	4	2
Other tax refunds	2	1
Social security premium receivables (**)	-	10
	145	**140**

(*) According to the loan agreements made with the Bank's customers, the Bank receives up-front fees, cancellation fees, commissions over the undrawn commitments of its loan customers and the expenses related with its loan operations. As of 31 December 2010 the Bank has cancellation fee, up-front fees receivables and expenses related with its loan operations amounting to EU 32 thousand, EU 29 thousand and EU 7 thousand respectively according to the signed loan agreements.

(**) Local employees of the Bank, who retrospectively joined to the Bank's pension plan, which was implemented beginning from 1 October 2008 and effective from 1 January 2007, are supposed to pay back their social security employer premiums that were paid to the Turkish Social Security Institution by the Bank.

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

NOTE 11 - DEPOSITS FROM BANKS

	31 December 2010	31 December 2009
Deposits from banks in member countries	98,286	90,464
Total deposits from banks	**98,286**	**90,464**
Current	98,286	90,464
Non-current	-	-

Deposits from banks in the amount of EUR 113,729 thousand has original maturity of up to six months and weighted average interest rate of 1.55% (31 December 2009: EUR 95,000 and 1.25% - USD 4,760 and 0.43%).

NOTE 12 - RETIREMENT BENEFIT OBLIGATIONS

As of 31 December 2010 and 31 December 2009 retirement benefit obligations are as follows:

	31 December 2010	31 December 2009
Pension plan liabilities	740	604
Actuarial gain/losses	26	21
Total	**766**	**625**

Pension plan liabilities

According to the Pension Plan Policy of the Bank, which was approved on 7 April 2008 and was implemented beginning from 1 October 2008 the Bank's liability is limited up to the 19% of each employee's basic salary which is the sum of first and second pillar contribution rates. The Pension Plan is retrospectively effective from 1 January 2007.

As at 31 December 2010 pension plan liabilities amounting to EU740 thousand comprised of EU329 thousand for the Bank's contributions to the first pillar that is the sum of 12% of each employee's basic salary from the pension plan's effectiveness day; and of EU378 thousand for the second pillar contributions of the Bank and employees that were started to be contributed from 1 October 2008; and of EU33 thousand for the investment returns regarding the first and second pillar contributions paid by the Bank and the employees.

According to the Pension Plan Policy of the Bank, 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 pension benefits in monthly amounts equals to 25% of the employee's last salary immediately before becoming disabled until the employee's normal retirement age. After 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 normal retirement age.

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

NOTE 12 - RETIREMENT BENEFIT OBLIGATIONS (Continued)

In this framework, actuarial valuation of the disability pension liability of the Bank has been performed by an independent advisory firm. Actuarial valuations have been performed in accordance with the methods and estimations determined in "International Accounting Standard for Employee Rights" ("IAS 19"). As a result of this valuation, the Bank has accounted EU 26 thousand disability pension liability as at 31 December 2010.

Movements for the retirement benefit obligations are as follows:

	31 December 2010	31 December 2009
1 January	**625**	**276**
Increase during the year	136	339
Actuarial (gain) / losses for the period	5	10
Total	**766**	**625**

The movement in the defined benefit obligation (disability pension liability) over the year is as follows:

	31 December 2010
1 January	**21**
Current service cost	11
Interest cost	1
Amortization of unrecognized actuarial loss / (gain)	(7)
Total	**26**

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

	2010 (%)	2009 (%)
Discount rate	4.8	5.5
Price inflation	2.5	2.0
Pay increase	4.0	3.5

Mortality rate

EVK00 standard mortality rates for males and females are used for pre and after retirement mortality.

The average life expectancy in years of a pensioner retiring at age 60 for both men and women on the balance sheet date are as follows:

	2010	2009
Male	21.48	21.48
Female	24.40	24.40

The sensitivity analysis of defined benefit obligation of excess liabilities as of 31 December 2010 is as follows:

Assumption change	% change in Disability Pension Liability
Discount rate +1%	(10.8%)
Discount rate -1%	12.7%

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

NOTE 13 - OTHER LIABILITIES

As at 31 December 2010 and 31 December 2009 other liabilities are as follows:

	31 December 2010	31 December 2009
Accrual for income tax of employees (*)	357	363
Unearned income (**)	65	64
Provision for unused vacation (***)	35	66
Other	40	14
Total	**497**	**507**

(*) According to the Article 12 of Headquarters Agreement, the Bank is immune from any obligation for the payment, withholding or collection of any tax. Due to this Article; the local personnel who are not exempted from income taxation declare their own tax statements in respect of salaries and emoluments paid to them by the Bank and the declared tax amount is paid by the Bank as per the Benefit System Policy. Declared income tax amounts as of each year end are paid in two equal installments on 31 March and 31 July of each consecutive financial year.

(**) As of 31 December 2010 the Bank deferred the income amounting to EU 65 thousand from front-end commissions due to commitment periods specified in the loan agreements made with credit institutions.

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

NOTE 14 - SHARE CAPITAL AND SHARE PREMIUM

In accordance with Article 4 of the Agreement, the authorized capital of the Bank shall be EU1,000,000 thousand divided into 10,000 shares each having a par value of EU100 thousand. Out of the said authorized capital EU700,000 thousand may become payable, upon an 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. All capital contributions by members shall be made in currencies of SDR basket. The authorized capital or the subscribed portion of it may be increased by the vote of the Board of Governors. Each founding member shall subscribe to such increase on equal basis subject to the provisions of Article 3 of the Agreement.

As of 31 December 2010, the subscribed capital is EU300,000 thousand (31 December 2009: EU300,000 thousand) comprising 3,000 shares. The paid-in capital of EU 252,000 thousand (31 December 2009: EU204,000 thousand) is reflected at its cost. The remaining total amount of subscribed capital which is equivalent to EU 48,000 thousand (31 December 2009: EU96,000 thousand) should be paid in 2011.

The issued share capitals as of 31 December 2010 and 2009 are as follows:

	31 December 2010	31 December 2009
Authorized share capital	1,000,000	1,000,000
Less: unallocated share capital	700,000	700,000
Subscribed share capital	**300,000**	**300,000**
Less: shares called but not yet due	(48,000)	(96,000)
Paid-in share capital	**252,000**	**204,000**

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

NOTE 14 - SHARE CAPITAL AND SHARE PREMIUM (Continued)

As at 31 December 2010 and 2009 share capital structure of the Bank is as follows:

		31 December 2010		31 December 2009	Voting Power
	Shares	**Subscribed**	**Paid-in**	**Paid-in**	**(%)**
The Republic of Turkey	1,000	100,000	84,000	68,000	33.33
The Islamic Republic of Iran	1,000	100,000	84,000	68,000	33.33
The Islamic Republic of Pakistan	1,000	100,000	84,000	68,000	33.33
Total	**3,000**	**300,000**	**252,000**	**204,000**	**100.00**

NOTE 15 - NET INTEREST INCOME

	31 December 2010	31 December 2009
Interest income on:		
Loans and advances:		
- to financial institutions	7,072	6,750
- to customers	772	837
Total interest income	**7,844**	**7,587**
Interest expense on:		
Deposits from banks	(748)	(492)
Pension plan liabilities	(22)	(15)
Total interest expense	**(770)**	**(507)**
Net interest income	**7,074**	**7,080**

NOTE 16 - NET FEE AND COMMISSION INCOME

	31 December 2010	31 December 2009
Fee and commission income on loans	207	215
Other	16	7
Total fee and commission income	**223**	**222**
Commissions paid to banks	(7)	(7)
Total fee and commission expense	**(7)**	**(7)**
Net fee and commission income	**216**	**215**

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

NOTE 17 - OPERATING EXPENSES

	31 December 2010	31 December 2009
Salaries and benefits	2,145	1,940
Income tax on emoluments	370	363
Pension plan expenses	235	231
Annual leave pay provision	-	40
Contribution expenses (*)	47	44
Social security contribution expenses	89	67
Travel and accommodation expenses	70	56
Other	3	7
Total personnel expenses	**2,959**	**2,748**
Operating lease expenses (**)	153	124
Depreciation and amortization (Notes 8 and 9)	135	136
Net impairment (gain) / loss on financial assets	(90)	269
	3,157	**3,277**
Subscription and membership expenses	80	71
Consultant and third party fees	79	51
Communication expenses	41	35
BoG and BoD meetings expenses	31	29
Other expenses	135	96
Other operating expenses	**366**	**282**
Total operating expenses	**3,523**	**3,559**

(*) Contribution expenses are comprised of life insurance and medical insurance contributions made by the Bank on behalf of the employees.

(**) The Bank has entered into operating lease agreement for headquarters building in Istanbul and Representative Offices in Iran and Pakistan.

NOTE 18 - 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 including:

	31 December 2010	31 December 2009
Credit limit commitments	14,565	22,851
Other commitments	8	9
	14,573	**22,860**

As at 31 December 2010 the Bank has credit limit commitments amounting to EU 14,565 thousand to the customers due to Project finance loan agreements.

Other commitments comprised of rent guarantees of the Bank for the expatriate staff members.

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

NOTE 19 - 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 and trade finance. Treasury activities include raising debt finance, investing surplus liquidity, managing the Bank's foreign exchange and interest rate risk.

31 December 2010	**Banking**	**Treasury**	**Total**
Interest income	2,484	5,360	7,844
Fee and commission income	223	-	223
Total Segment Revenues	**2,707**	**5,360**	**8,067**
Interest expense	(21)	(749)	(770)
Fee and commission expense	-	(7)	(7)
Foreign exchange (losses)/gain and other	-	(5,389)	(5,389)
Administrative expenses	(2,557)	(921)	(3,478)
Depreciation and amortization	(90)	(45)	(135)
Segment income before impairment	**39**	**(1,751)**	**(1,712)**
Net impairment loss	90	-	90
Net income / (loss) for the period	**129**	**(1,751)**	**(1,622)**
Segment assets	**116,385**	**243,741**	**360,126**
Segment liabilities	**1,003**	**98,546**	**99,549**

31 December 2009	**Banking**	**Treasury**	**Total**
Interest income	1,931	5,656	7,587
Fee and commission income	222	-	222
Total Segment Revenues	**2,153**	**5,656**	**7,809**
Interest expense	(15)	(492)	(507)
Fee and commission expense	-	(7)	(7)
Foreign exchange gain/ (losses) and other	-	128	128
Administrative expenses	(2,316)	(838)	(3,154)
Depreciation and amortization	(90)	(46)	(136)
Segment income before impairment	**(268)**	**4,401**	**4,133**
Net impairment loss	(269)	-	(269)
Net income for the year	**(537)**	**4,401**	**3,864**
Segment assets	**119,273**	**186,522**	**305,795**
Segment liabilities	**839**	**90,757**	**91,596**

NOTE 20 - POST BALANCE SHEET EVENTS

The Board of Governors of the Bank resolved in its meeting on 25 February 2011 that the subscribed portion of the initial authorized capital of the Bank has been increased to EU 1,000,000 thousand by the current members of the Bank having equal number of shares.

The Islamic Republic of Afghanistan presented a Letter of Intent to the Bank on 5 January 2011 in order to become a member to the Bank. Considering this letter of the said ECO member state, the Board of Governors of the Bank resolved in its meeting on 25 February 2011 that the Islamic Republic of Afghanistan may become a new member of the Bank with EU 15,000 thousand paid-in share capital.

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