The Economic Cooperation Organization
Trade and Development Bank

Financial Statements
As at and for the year ended 31 December 2015
With Independent Auditors' Report Thereon

3 May 2016

This report contains the "Independent Auditors' Report on Financial Statements" comprising 2 pages and; the "Financial statements and their explanatory notes" comprising 46 pages.

The Economic Cooperation Organization Trade and Development Bank

TABLE OF CONTENTS:

Akis Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
Kavacık Rüzgarlı Bahçe Mah. Kavak Sok.
No:29 Beykoz 34805 İstanbul
Tel +90 (216) 681 90 00
Fax +90 (216) 681 90 90
www.kpmg.com.tr

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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 2015, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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.

Auditors' Responsibility

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 about 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 our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider 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.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
A member of KPMG International Cooperative

Orhan Akova
Partner

3 May 2016
Istanbul, Turkey

THE ECONOMIC COOPERATION ORGANIZATION TRADE AND DEVELOPMENT BANK

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2015

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

	Notes	31 December 2015	31 December 2014
ASSETS			
Loans and advances to banks	7	317,471	336,998
Loans and advances to customers	8	109,939	85,290
Investment securities: Available-for-sale	9	28,388	26,676
Derivative financial instruments	6	285	34
Intangible assets	10	222	238
Property and equipment	11	9,809	9,945
Other assets	12	413	219
Total assets		**466,527**	**459,400**
LIABILITIES			
Deposits from banks	13	114,759	116,015
Derivative financial instruments	6	1,213	3,438
Retirement benefit obligations	14	2,017	1,899
Other liabilities	15	1,128	958
Total liabilities		**119,117**	**122,310**
EQUITY			
Share capital	16	310,870	306,510
Revaluation reserve			
- Reserve for available-for-sale investment securities		(82)	328
Other reserves		30,252	25,159
Retained earnings		6,370	5,093
Total equity		**347,410**	**337,090**
Total liabilities and equity		**466,527**	**459,400**

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

THE ECONOMIC COOPERATION ORGANIZATION TRADE AND DEVELOPMENT BANK

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

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

Profit or Loss	**Notes**	**31 December 2015**	**31 December 2014**
Interest income	17	10,899	10,981
Interest expense	17	(955)	(1,278)
Net interest income		**9,944**	**9,703**
Impairment (loss)/reversal on loans, net	7, 8, 19	405	107
Net interest income after loan impairment		**10,349**	**9,810**
Fee and commission income	18	448	500
Fee and commission expense	18	(5)	(4)
Net fee and commission income		**443**	**496**
Foreign exchange gain/(loss), net		(122)	(805)
Other operating income		84	-
Operating income		**10,754**	**9,501**
Personnel expenses	19	(3,504)	(3,382)
Other administrative expenses	19	(637)	(803)
Depreciation and amortization	10, 11, 19	(243)	(223)
Operating expenses		**(4,384)**	**(4,408)**
Net profit for the period		**6,370**	**5,093**
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss			
Net change in fair value of available for sale financial assets		(410)	883
Other comprehensive income		**(410)**	**883**
Total comprehensive income		**5,960**	**5,976**

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

THE ECONOMIC COOPERATION ORGANIZATION TRADE AND DEVELOPMENT BANK

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

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

	Share Capital	Reserve for available-for-sale investment securities	Other reserves	Retained earnings	Total
1 January 2014	**301,950**	**(555)**	**20,719**	**4,440**	**326,554**
Increase in paid-in share capital	4,560	-	-	-	4,560
Appropriation of profit	-	-	4,440	(4,440)	-
Fair value gains on available-for-sale financial assets	-	883	-	-	883
Net profit for the period	-	-	-	5,093	5,093
31 December 2014	**306,510**	**328**	**25,159**	**5,093**	**337,090**
1 January 2015	**306,510**	**328**	**25,159**	**5,093**	**337,090**
Increase in paid-in share capital	4,360	-	-	-	4,360
Appropriation of profit	-	-	5,093	(5,093)	-
Fair value losses on available-for-sale financial assets	-	(410)	-	-	(410)
Net profit for the period	-	-	-	6,370	6,370
31 December 2015	**310,870**	**(82)**	**30,252**	**6,370**	**347,410**

THE ECONOMIC COOPERATION ORGANIZATION TRADE AND DEVELOPMENT BANK

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

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

	Notes	31 December 2015	31 December 2014
Cash flows from operating activities:			
Net profit for the period		6,370	5,093
Adjustments for:			
Depreciation and amortization	10, 11, 19	243	223
Net impairment loss on loans and advances	7, 8	(405)	(107)
Accrued interest and expenses		636	(2,329)
Measurement of derivative financial instruments at fair value	6	(2,476)	3,231
Provision for retirement benefit obligations	14	329	321
Other non-cash items		1,393	1,542
Cash flows from operating activities before changes in operating assets and liabilities		**6,090**	**7,974**
Changes in operating assets and liabilities:			
Change in loans and advances to banks		(23,567)	18,833
Change in loans and advances to customers		(23,971)	3,765
Change in other assets		(194)	(3)
Change in retirement benefit obligations		(211)	220
Change in deposits from banks		(1,234)	(8,663)
Change in other liabilities		170	(13)
Net cash (used in)/from operating activities		**(42,917)**	**22,113**
Cash flows from/(used in) investing activities:			
Purchase of investment securities		(3,507)	(3,070)
Purchase of property and equipment	11	(37)	(18)
Purchase of intangible assets	10	(54)	(165)
Net cash (used in) investing activities		**(3,598)**	**(3,253)**
Cash flows from financing activities:			
Increase in paid-in share capital		4,360	4,560
Net cash from financing activities		**4,360**	**4,560**
Net (decrease)/increase in cash and cash equivalents		**(42,155)**	**23,420**
Effects of exchange-rate changes on cash and cash equivalents		(1,393)	(1,542)
Cash and cash equivalents at the beginning of the period		75,300	53,422
Cash and cash equivalents at the end of the period	**5**	**31,752**	**75,300**

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

NOTE 1 - GENERAL INFORMATION

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

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

The headquarters address of the Bank is "Bomonti Business Center, Cumhuriyet Mah. Silahşör Caddesi, Yeniyol Sk. No: 18 Kat: 14, 34380 Bomonti Şişli - Istanbul Turkey".

The Management Committee of the Bank decided to submit the financial information for the year ended 31 December 2015 to the Board of Directors on 3 May 2016.

As of 31 December 2015, the number of employees of the Bank is 38 (31 December 2014: 42).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of this financial information 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 standards and amendments

The Bank has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2015.

- Amendments to IAS19 Defined Benefit Plans: Employee Contributions
- Annual Improvements to 2010-2012 Cycle – IFRS2, IFRS3, IFRS8, IFRS13, IAS16, IAS24 and IAS38
- Annual Improvements to 2011-2013 Cycle – IFRS1, IFRS3, IFRS13, IAS40

(c) New and revised IFRSs in issue but not yet effective

- IFRS 9 Financial Instruments
- IFRS14 Regulatory Deferral Accounts
- Amendments to IFRS11 Accounting for Acquisition of Interests in Joint Operations
- Amendments to IAS16 and IAS38 Clarification of Acceptable Methods of Depreciation and Amortisation
- IFRS15 Revenue from Contracts with Customers
- Amendments to IAS27 Equity Method in Separate Financial Statements
- Amendments to IFRS10 and IAS28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Annual Improvements to 2012-2014 Cycle - IFRS5, IFRS7, IAS19, IAS34
- Amendments to IAS1 Disclosure Initiative
- Amendments to IFRS10, IFRS12 and IAS28 Investment Entities: Applying the Consolidation Exception
- IAS9 Leases

A number of the above new or amended standards permit early adoption, which the Bank has not adopted to do. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 9, IFRS 15 and the Amendments to IAS 1. The remaining new or amended standards above are not expected to have a significant impact on the Bank's financial statements.

IFRS 9 Financial Instruments (2014)

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from TAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Bank is in the process of assessing the impact of the standard on financial position or performance of the Bank.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Foreign currency translation

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").

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").

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 statement of profit or loss and other comprehensive income .

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

		31 December 2015	**31 December 2014**
1 EU (SDR) =	United States Dollar	1.3857	1.4488
	Euro	1.2728	1.1913
	Japanese Yen	167.1160	174.7330
	Pound Sterling	0.9351	0.9282
	Turkish Lira	4.0497	3.3712
	Iranian Rial	41,752.1000	39,317.6000
	Pakistani Rupee	145.3150	145.5450

(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 7 and 8).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments and impairment

Recognition

The Bank initially recognizes financial assets and financial liabilities on the date that they are originated.

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.

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or exchange rates, are classified as available-for-sale.

Available-for-sale investment securities are initially recognised at fair value, which is the cash consideration including any transaction costs.

Financial liabilities including deposits from banks are recognized initially at cost which represents their fair values.

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.

Subsequent measurement

Subsequent to initial recognition, financial assets designated at fair value through profit or loss are measured at fair value, except 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.

The interest calculated using effective interest method is recognized in the statement of profit or loss and other compherensive income and the gains and losses being the difference between the amortized cost and the fair value of the Available-for-sale investment securities are recognised under the equity, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent measurement (Continued)

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.

Deposits from banks are stated at amortized cost, including transaction costs, and any difference between net proceeds and the redemption value is recognized in the statement of profit or loss and other compherensive income over the period of the financial liability using the effective interest method (Note 13).

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 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 ongoing 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 at 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 at 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 that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at 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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Identification and measurement of impairment

At each reporting 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 differential 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 the 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.

If an available-for-sale investment security is determined to be impaired, the cumulative gain or loss previously recognised under the equity is recognised in the statement of profit or loss and other compherensive income.

(g) 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 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 6).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property and equipment

Property and equipment excluding construction in progress 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	5-10 years
Buildings (Shell and core)	50 years
Buildings (Interior fit-out)	15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting 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 (Note 11).

(i) 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 statement of profit or loss and other compherensive income on a straight-line basis over the estimated useful lives of intangible assets not exceeding period of five years (Note 10).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) 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 statement of profit or loss and other compherensive income in the period they incur.

(k) Impairment of non-financial 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 statement of profit or loss and other compherensive income. 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. 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.

(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, Banking and Insurance Transactions Tax ("BITT"), be it of a local or governmental nature.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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:

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

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

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 statement of profit or loss and other compherensive income 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 14).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ii. Other defined contribution plans

The Bank pays contributions to Turkish State Social Security Plan on a mandatory basis for the local employees who do not opt for the Bank’s pension plan. The Bank also 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 statement of profit or loss and other compherensive income when they are due. The Bank has no further payment obligations once the contributions have been paid.

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 security legislation and 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 is operative in different jurisdictions, the necessity of immunity from judicial proceedings has been recognized for the Bank by the Government of Turkey under the provision of the Article 4 of the Headquarters Agreement. Therefore, 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 15).

(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 20).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Interest income and expense

Interest income and expense are recognized in the statement of profit or loss and other compherensive income 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 17).

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 statement of profit or loss and other compherensive income 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.

Fees and commission income including commitment fees and front-end 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.

Fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received (Note 18).

(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 16).

(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 statement of financial position 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

Operational segment is distinguishable section of the Bank that has different characteristics from other operational segments per earning and conducts the presentation of service group, associated bank products or a unique product.

(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 2015 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:

Impairment losses on loans and advances: The Bank reviews its loan portfolio to assess impairment on a continuous basis. In determining whether an impairment loss should be recorded in the statement of profit or loss and other compherensive income, 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 group of loans before the decrease can be identified with an individual loan in that group. 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.

Having a loan portfolio of all significant loans reviewed regularly and no non-performing loan history general provisions were cancelled in 2015. The reversal from impairment allowances in 2015 amounted to EU 405 thousand.

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 reporting 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 reporting date.
- The fair value of derivative financial instruments is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

NOTE 4 - FINANCIAL RISK MANAGEMENT

The Bank is committed to actively identify and manage all risks inherent in its activities in order to achieve its mandate 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 monitoring 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 business objectives.

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 ALM decision-making must take place.

The Board of Directors has established Credit Committee (CC) which is responsible to guide the Operation Teams 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 financing operations of the Bank and expresses opinions with respect to the appropriateness of the due diligence and appraisal process.

Credit risk

Credit risk is the probability of a financial loss to the Bank in case 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 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 customers 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, 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.

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

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

The Bank's exposure to credit risk as at 31 December 2015 and 31 December 2014 are as follows:

	31 December 2015	31 December 2014
Loans and advances to banks	317,471	336,998
Loans and advances to customers	109,939	85,290
Investment securities: Available-for-sale	28,388	26,676
Derivative financial instruments	285	34
Total	**456,083**	**448,998**

Financial assets that are past due less than 30 days but not impaired amount to EU 1,010 thousand (31 December 2014: None). Sovereign guarantees are held as collaterals against such past due project finance loans.

As of 31 December 2015, the Bank has no assets held for resale (31 December 2014: None).

(i) *Industry sectors:*

The following table breaks down the Bank's credit risk exposure by the industry sector and geographical location of the counterparty.

	31 December 2015		31 December 2014	
	Outstanding	Undrawn commitments	Outstanding	Undrawn commitments
Financial institutions	**337,108**	**9,428**	**363,708**	**6,902**
Turkey (*)	189,663	9,428	240,734	-
Pakistan (*)	72,801	-	61,284	6,902
Iran (*)	59,551	-	48,542	-
Azerbaijan	3,557	-	2,067	-
Other (*)	11,536	-	11,081	-
Sovereign, Municipal and Environmental infrastructure	**87,320**	**25,907**	**66,089**	**24,189**
Pakistan	39,859	-	26,686	-
Iran	30,601	25,907	19,297	24,189
Turkey	16,860	-	20,106	-
Power and energy	**10,714**	**-**	**11,220**	**15,530**
Pakistan	10,714	-	11,220	15,530
Manufacturing	**20,941**	**-**	**7,981**	**-**
Turkey	15,879	-	-	-
Pakistan	5,062	-	7,981	-
Total	**456,083**	**35,335**	**448,998**	**46,621**

(*) The money market placements with the banks in Turkey, Iran, Pakistan and other countries amount to EU 92,274 thousand, EU 57,664 thousand, EU 30,046 thousand and EU 11,536 thousand respectively (31 December 2014: EU 155,482 thousand, EU 45,278 thousand, 30,876 and EU 11,079 thousand respectively).

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(ii) Geographical sectors:

The following table breaks down geographical concentrations of the Bank's credit risk exposure.

	31 December 2015		31 December 2014	
	Outstanding	**Undrawn commitments**	**Outstanding**	**Undrawn commitments**
Turkey (*)	222,402	9,428	260,840	-
Pakistan (*)	128,436	-	107,171	22,432
Iran (*)	90,152	25,907	67,839	24,189
Azerbaijan	3,557	-	2,067	-
Other (*)	11,536	-	11,081	-
Total	**456,083**	**35,335**	**448,998**	**46,621**

(*) The money market placements with the banks in Turkey, Iran, Pakistan and other countries amount to EU 92,274 thousand, EU 57,664 thousand, EU 30,046 thousand and EU 11,536 thousand respectively (31 December 2014: EU 155,482 thousand, EU 45,278 thousand, 30,876 and EU 11,079 thousand respectively).

(iii) Segment analysis of credit risk exposures:

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

	31 December 2015	31 December 2014
Financial institutions-Bank placements	192,256	243,465
Financial institutions-SME support program	87,081	76,277
Project finance	68,522	64,571
Customers-Trade finance	41,417	20,719
Financial institutions-Trade finance	38,134	17,256
Investment securities: Available for sale	28,388	26,676
Derivative financial instruments	285	34
Total	**456,083**	**448,998**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(iv) ETDB internal ratings

The Bank assigns its internal risk rating to all counterparties including borrowers and sovereigns in the Banking and Treasury portfolios and reflects the credit worthiness of counterparties. ETDB 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 write off.

The table below shows the Bank's internal risk rating from 1 (lowest risk) to 10 (highest risk) and how this maps to the external ratings of Standard & Poor's (S&P).

ETDB risk Rating category	Broader category	ETDB definition	ETDB risk rating	External rating equivalent
1	Standard	Excellent	1.00	AAA
			1.60	AA+
			2.00	AA
2	Standard	Very strong	2.40	AA-
			2.60	A+
			3.00	A
3	Standard	Strong	3.40	A-
			3.60	BBB+
			4.00	BBB
4	Standard	Good	4.40	BBB-
			4.60	BB+
			5.00	BB
5	Standard	Fair	5.40	BB-
			5.60	B+
			6.00	B
6	Standard	Weak	6.40	B-
			6.60	CCC+
			7.00	CCC
7	Watchful	Special attention	7.40	CCC-
			7.60	
		Expected loss/	8.00	
8	Sub-standard	Impaired	8.40	D
			8.60	
		Expected loss/	9.00	
9	Doubtful	Impaired	9.40	D
			9.60	
		Expected loss/	10.00	
10	Non-performing	Impaired	10.40	D

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(iv) ETDB internal ratings (Continued)

The following table is an analysis of the banking portfolio (loans and advances excluding the money market placements) and the associated impairment provisions for each of the Bank's internal risk rating category.

	31 December 2015				
Risk rating category	**Neither past due nor impaired**	**Total%**	**Portfolio provision for unidentified impairment(*)**	**Total net of impairment**	**impairment provisions %**
2: Very strong	83,705	36%	-	83,705	0.00%
3: Strong	86,957	37%	-	86,957	0.00%
4: Good	43,243	18%	-	43,243	0.00%
5: Fair	21,249	9%	-	21,249	0.00%
At 31 December 2015	**235,154**	**100%**	**-**	**235,154**	

(*)Having a loan portfolio of all significant loans reviewed regularly and no non-performing loan history general provisions were cancelled in 2015. The reversal from impairment allowances in 2015 amounted to EU 405 thousand.

	31 December 2014				
Risk rating category	**Neither past due nor impaired**	**Total%**	**Portfolio provision for unidentified impairment**	**Total net of impairment**	**impairment provisions %**
2: Very strong	93,293	52%	(146)	93,147	0.16%
3: Strong	14,413	8%	(29)	14,384	0.20%
4: Good	57,052	32%	(113)	56,939	0.20%
5: Fair	2,706	2%	(5)	2,701	0.20%
6: Weak	433	0%	(1)	432	0.20%
7: Special Attention	11,331	6%	(111)	11,220	0.98%
At 31 December 2014	**179,228**	**100%**	**(405)**	**178,823**	

Liquidity risk

Liquidity risk is the probability that the Bank is unable to fund assets or to fulfill its financial obligations on time and/or completely and/or at a reasonable price. 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 and the due strategic decisions by ALCO.

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 minus total property and equipment and intangible assets plus long term borrowing with remaining time to maturity greater than six months. The Bank's liquid assets are maintained in short term placements.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

The table below analyses the cash flows of the Bank's financial liabilities and financial assets, putting them into relevant maturity groupings based on the remaining period as of reporting date to contractual maturity date:

	31 December 2015						
	Carrying Amount	**Up to 1 month**	**1 to 3 Months**	**3 to 12 Months**	**1 to 5 years**	**Over 5 years**	**Total**
Liability by type							
Non-derivative liabilities							
Deposits from banks	114,759	(31,723)	(83,143)	-	-	-	(114,866)
Unrecognized loan commitments	-	(35,335)	-	-	-	-	(35,335)
- Banks	-	(9,428)	-	-	-	-	(9,428)
- Customers	-	(25,907)	-	-	-	-	(25,907)
Total	**114,759**	**(67,058)**	**(83,143)**	**-**	**-**	**-**	**(150,201)**
Derivative liabilities							
Trading FX derivatives	1,213	-	-	-	-	-	-
- Outflow	-	(20,141)	(41,423)	-	-	-	(61,564)
- Inflow	-	19,545	40,796	-	-	-	60,341
Total	**1,213**	**(596)**	**(627)**	**-**	**-**	**-**	**(1,223)**
Asset by type							
Non-derivative assets							
Loans and advances to banks	317,471	78,522	144,048	46,247	42,188	17,463	328,468
Loans and advances to customers	109,939	848	625	15,629	88,180	9,890	115,172
Investment securities	28,388	-	13,933	1,804	14,447	-	30,184
Total	**455,798**	**79,370**	**158,606**	**63,680**	**144,815**	**27,353**	**473,824**
Derivative assets							
Trading FX derivatives	285	-	-	-	-	-	-
- Outflow	-	(3,561)	(11,872)	-	-	-	(15,433)
- Inflow	-	3,653	12,042	-	-	-	15,695
Total	**285**	**92**	**170**	**-**	**-**	**-**	**262**
Net liquidity gap		**11,808**	**75,006**	**63,680**	**144,815**	**27,353**	**322,662**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

	31 December 2014						
	Carrying Amount	**Up to 1 month**	**1 to 3 Months**	**3 to 12 Months**	**1 to 5 years**	**Over 5 years**	**Total**
Liability by type							
Non-derivative liabilities							
Deposits from banks	116,015	(28,157)	(87,996)	-	-	-	(116,153)
Unrecognized loan commitments	-	(46,621)	-	-	-	-	(46,621)
- Banks	-	(6,902)	-	-	-	-	(6,902)
- Customers	-	(39,719)	-	-	-	-	(39,719)
Total	**116,015**	**(74,778)**	**(87,996)**	**-**	**-**	**-**	**(162,774)**
Derivative liabilities							
Trading FX derivatives	3,438	-	-	-	-	-	-
- Outflow	-	(33,591)	(65,166)	-	-	-	(98,757)
- Inflow	-	31,657	63,659	-	-	-	95,316
Total	**3,438**	**(1,934)**	**(1,507)**	**-**	**-**	**-**	**(3,441)**
Asset by type							
Non-derivative assets							
Loans and advances to banks	336,998	64,902	174,275	41,206	50,458	17,666	348,507
Loans and advances to customers	85,290	805	-	31,335	46,757	12,047	90,944
Investment securities	26,676	-	-	537	29,073	-	29,610
Total	**448,964**	**65,707**	**174,275**	**73,078**	**126,288**	**29,713**	**469,061**
Derivative assets							
Trading FX derivatives	34	-	-	-	-	-	-
- Outflow	-	(3,817)	(5,399)	(3,806)	-	-	(13,022)
- Inflow	-	3,808	5,431	(3,817)	-	-	13,056
Total	**34**	**(9)**	**32**	**11**	**-**	**-**	**34**
Net liquidity gap		**(11,014)**	**84,804**	**73,089**	**126,288**	**29,713**	**302,880**

(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 and exchange rates as well as bond 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 with market-standard matching practices.

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 appropriate derivative instruments to manage 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 SDR basket currencies namely; Euro, US Dollar, British Pound and Japanese Yen. 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 and treasury operations the Bank mostly invests in these two currencies. The currency swap and forward transaction are mostly held to provide more liquidity in US Dollar and Euro against 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 foreign exchange risk within the approved limits. ALCO has set a limit of ±0.5% of the equity for currency open positions resulted from continuous market movements and/or current cash flow, in order to prevent from repetitive FX transactions which bring unnecessary cost and operational risk. Treasury department is duly responsible to monitor, report to ALCO and regularize any breach of the aforesaid limit.

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 reporting date.

As at 31 December 2015 and 31 December 2014 the foreign currency position of the Bank is as follows:

	31 December 2015	**31 December 2014**
Foreign currency assets	456,211	449,183
Foreign currency liabilities	(117,822)	(118,872)
Net balance sheet foreign currency position	**338,389**	**330,311**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2015					
	US Dollar	**Euro**	**Other (*)**	**Total foreign currency**	**SDR ("EU")**	**Total**
Assets						
Loans and advances to banks	136,038	181,419	14	317,471	-	317,471
Loans and advances to customers	63,459	46,480	-	109,939	-	109,939
Investment securities	26,783	1,605	-	28,388	-	28,388
Derivative financial instruments	-	-	-	-	285	285
Intangible assets	-	-	-	-	222	222
Property and equipment	-	-	-	-	9,809	9,809
Other assets	52	290	71	413	-	413
Total assets	**226,332**	**229,794**	**85**	**456,211**	**10,316**	**466,527**
Liabilities and Equity						
Deposits from banks	-	114,759	-	114,759	-	114,759
Derivative financial instruments	-	-	-	-	1,213	1,213
Retirement benefit obligations	2,017	-	-	2,017	-	2,017
Other liabilities	661	373	94	1,128	-	1,128
Equity	(78)	(4)	-	(82)	347,492	347,410
Total liabilities and Equity	**2,600**	**115,128**	**94**	**117,822**	**348,705**	**466,527**
Net balance sheet position	**223,732**	**114,666**	**(9)**	**338,389**	**(338,389)**	**-**
Off-balance sheet derivative Instruments net notional position	(60,318)	(1,635)	60,991	(962)	-	(962)
Net foreign currency position	**163,414**	**113,031**	**60,982**	**337,427**	**(338,389)**	**(962)**
Currency Neutral Position	**(161,214)**	**(112,488)**	**(64,687)**	**(338,389)**	**338,389**	**-**
FX Exposure in notional Ccy (*)	**2,200**	**543**	**(3,705)**	**(962)**	**-**	**(962)**

(*) The total foreign currency exposure in Pound Sterling, Japanese Yen, Turkish Lira and Pakistani Rupee are EU (2,154) thousand, EU (1,534) thousand, EU (21) thousand and EU 4 thousand respectively.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2014					
	US Dollar	**Euro**	**Other (*)**	**Total foreign currency**	**SDR ("EU")**	**Total**
Assets						
Loans and advances to banks	162,343	174,642	13	336,998	-	336,998
Loans and advances to customers	65,991	19,299	-	85,290	-	85,290
Investment securities	25,813	863	-	26,676	-	26,676
Derivative financial instruments	-	-	-	-	34	34
Intangible assets	-	-	-	-	238	238
Property and equipment	-	-	-	-	9,945	9,945
Other assets	81	87	51	219	-	219
Total assets	**254,228**	**194,891**	**64**	**449,183**	**10,217**	**459,400**
Liabilities and Equity						
Deposits from banks	414	115,601	-	116,015	-	116,015
Derivative financial instruments	-	-	-	-	3,438	3,438
Retirement benefit obligations	1,899	-	-	1,899	-	1,899
Other liabilities	753	166	39	958	-	958
Equity	-	-	-	-	337,090	337,090
Total liabilities and Equity	**3,066**	**115,767**	**39**	**118,872**	**340,528**	**459,400**
Net balance sheet position	**251,162**	**79,124**	**25**	**330,311**	**(330,311)**	**-**
Off-balance sheet derivative Instruments net notional position	(102,374)	38,706	60,259	(3,409)	-	(3,409)
Net foreign currency position	**148,788**	**117,830**	**60,284**	**326,902**	**(330,311)**	**(3,409)**
Currency Neutral Position	**(150,650)**	**(117,226)**	**(62,435)**	**(330,311)**	**330,311**	**-**
FX Exposure in notional Ccy (*)	**(1,862)**	**604**	**(2,151)**	**(3,409)**	**-**	**(3,409)**

(*) The total foreign currency exposure in Japanese Yen, Pound Sterling and Turkish Lira are EU (927) thousand, EU (1,241) thousand, EU 17 thousand respectively.

(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 10 percent appreciation/depreciation of the US Dollar against Euro, Pound Sterling and Japanese Yen at 31 December 2015 and 31 December 2014 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 2015		31 December 2014	
	Appreciation	**Depreciation**	**Appreciation**	**Depreciation**
US Dollar	8,910	(8,250)	8,460	(7,788)
Euro	(5,705)	5,078	(5,619)	5,145
Pound	(1,937)	1,691	(1,871)	1,625
Japanese Yen	(913)	1,306	(626)	1,421
Total	**355**	**(175)**	**344**	**403**

(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 statement of financial position as well as off-balance sheet.

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 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.

(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 instruments was:

	31 December 2015					
	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	87,123	175,895	54,453	-	-	317,471
Loans and advances to customers	10,714	41,417	57,808	-	-	109,939
Investment securities	200	13,708	1,111	13,369	-	28,388
Derivative financial instruments	-	-	-	-	285	285
Intangible assets	-	-	-	-	222	222
Property and equipment	-	-	-	-	9,809	9,809
Other assets	-	-	-	-	413	413
Total assets	**98,037**	**231,020**	**113,372**	**13,369**	**10,729**	**466,527**
Liabilities						
Deposits from banks	31,714	83,045	-	-	-	114,759
Derivative financial instruments	-	-	-	-	1,213	1,213
Retirement benefit obligations	-	1,925	-	-	92	2,017
Other liabilities	-	-	-	-	1,128	1,128
Total liabilities	**31,714**	**84,970**	**-**	**-**	**2,433**	**119,117**
Net repricing gap	**66,323**	**146,050**	**113,372**	**13,369**	**8,296**	**347,410**

	31 December 2014					
	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	78,708	179,126	79,164	-	-	336,998
Loans and advances to customers	11,220	-	74,070	-	-	85,290
Investment securities	7	386	1,000	25,283	-	26,676
Derivative financial instruments	-	-	-	-	34	34
Intangible assets	-	-	-	-	238	238
Property and equipment	-	-	-	-	9,945	9,945
Other assets	-	-	-	-	219	219
Total assets	**89,935**	**179,512**	**154,234**	**25,283**	**10,436**	**459,400**
Liabilities						
Deposits from banks	28,147	79,320	8,548	-	-	116,015
Derivative financial instruments	-	-	-	-	3,438	3,438
Retirement benefit obligations	-	1,825	-	-	74	1,899
Other liabilities	-	2	-	-	956	958
Total liabilities	**28,147**	**81,147**	**8,548**	**-**	**4,468**	**122,310**
Net repricing gap	**61,788**	**98,365**	**145,686**	**25,283**	**5,968**	**337,090**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Sensitivity analysis

Taking into account the historically low levels of the base interest rates (i.e. LIBOR, EURIBOR, etc.), for the assessment of the interest rate sensitivity of the Bank -0.10% and +0.50% shift in the market interest rates were applied to the statement of financial position items which are subject to calculation.

As of reporting date 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. The table below analyses the effects of -0.10% and +0.10% shift in interest rates on profit or loss and equity at the reporting.

		31 December 2015		31 December 2014	
	Applied shock	**Profit or loss**	**Equity (*)**	**Profit or loss**	**Equity (*)**
US Dollar	- 0.10%	(47)	(17)	(43)	8
US Dollar	+ 0.10%	47	19	43	(8)
Euro	- 0.10%	(22)	(17)	(12)	(8)
Euro	+ 0.10%	22	17	12	8
Total (for negative shocks)		**(69)**	**(34)**	**(55)**	**-**
Total (for positive shocks)		**69**	**36**	**55**	**-**

(*) Includes the profit or loss effect.

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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. Appropriate measures are taken 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 manage and coordinate 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 Bank 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.

Capital risk 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.

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.

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 the sum of original spread and the respective base interest rate as of the reporting date.

(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 the sum of original spread and the respective base interest rate as of the reporting date.

As of 31 December 2015 and 31 December 2014, the carrying amounts and fair values of financial instruments are as follows:

	31 December 2015		31 December 2014	
	Fair value	**Carrying value**	**Fair value**	**Carrying value**
Financial assets:				
Loans and advances to banks	317,284	317,471	336,953	336,998
Loans and advances to customers	113,751	109,939	85,362	85,290
Investment securities	28,388	28,388	26,676	26,676
Derivative financial instruments	285	285	34	34
Total financial assets	**459,708**	**456,013**	**449,025**	**448,998**
Financial liabilities:				
Deposits from banks	114,762	114,759	116,015	116,015
Derivative financial instruments	1,213	1,213	3,438	3,438
Total financial liabilities	**115,975**	**115,972**	**119,453**	**119,453**

Fair value hierarchy

IFRS 7 requires classification of line items measured at fair value presented in the financial statements according to the defined levels. These levels depend on the observability of data used during fair value calculation; Classification for fair value is generated as followed below:

Level 1: Assets or liabilities; with prices recorded (unadjusted) in active markets for similar instruments.

Level 2: Assets or liabilities; that are excluded in the Level 1 of recorded prices directly observable in active markets.

Level 3: Assets and liabilities; where no observable market data can be used for valuation.

There are not any significant transfers between Level 1 and Level 2 of the fair value hierarchy.

According to these classification principles stated, the Bank's classification of financial assets and liabilities carried at their fair value are as follows:

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Assets and liabilities measured at fair value

31 December 2015	Level 1	Level 2(*)	Level 3	Total
Investment Securities: Available-for-sale	28,388	-	-	28,388
Financial assets held for trading				
- Derivatives	-	285	-	285
Total assets	**28,388**	**285**	**-**	**28,673**
Financial liabilities at fair value through profit and loss				
- Derivatives	-	1,213	-	1,213
Total liabilities	**-**	**1,213**	**-**	**1,213**

31 December 2014	Level 1	Level 2(*)	Level 3	Total
Investment Securities: Available-for-sale	26,676	-	-	26,676
Financial assets held for trading				
- Derivatives	-	34	-	34
Total assets	**26,676**	**34**	**-**	**26,710**
Financial liabilities at fair value through profit and loss				
- Derivatives	-	3,438	-	3,438
Total liabilities	**-**	**3,438**	**-**	**3,438**

(*)Benchmark interest rates and yield curves are used for calculating the fair values of forward positions.

NOTE 5 - CASH AND CASH EQUIVALENTS

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

	31 December 2015	31 December 2014
Loans and advances to banks-demand (Note 7)	736	749
Loans and advances to banks-time		
(with original maturity less than three months) (Note 7)	31,016	74,551
Total	**31,752**	**75,300**

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

NOTE 6 - DERIVATIVE FINANCIAL INSTRUMENTS

The Bank utilizes the following derivative instruments:

"Currency forwards" represent commitments to purchase or sell foreign and domestic currency, including undelivered spot transactions.

"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 ongoing 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 favorable (assets) or unfavorable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms.

31 December 2015

	Contract / notional amount	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Currency swaps	153,035	285	1,213
Total derivative assets held for trading	**153,035**	**285**	**1,213**

31 December 2014

	Contract / notional amount	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Currency swaps	220,151	34	3,438
Total derivative assets held for trading	**220,151**	**34**	**3,438**

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

NOTE 7 - LOANS AND ADVANCES TO BANKS

As of 31 December 2015 and 31 December 2014, loans and advances to banks are as follows:

	31 December 2015	31 December 2014
Nostro/demand deposits	736	749
Money market placements		
(With original maturity less than three months)	31,016	74,551
Included in cash and cash equivalents	**31,752**	**75,300**
Other loans and advances to banks, gross	285,719	261,884
Less: collective allowance for impairment	-	(186)
Loans and advances to banks, net	**317,471**	**336,998**

	31 December 2015	31 December 2014
Current	266,357	277,830
Non-current	51,114	59,168

The following table breaks down loans and advances to banks by product type:

	31 December 2015	31 December 2014
Money market placements	191,520	242,716
SME support program	87,081	76,277
Trade finance	38,134	17,256
Nostro/demand deposits	736	749
Loans and advances to banks, net	**317,471**	**336,998**

The Bank has no impaired loans in the loans and advances to banks portfolio (31 December 2014: None). Collective allowance for impairment losses are cancelled in the current year.

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

	31 December 2015	31 December 2014
Balance at 1 January	186	194
Increase in impairment allowances	-	10
Reversal of impairment allowances (*)	(186)	(18)
At period end	**-**	**186**

(*) Having a loan portfolio of all significant loans reviewed regularly and no non-performing loan history general provisions were cancelled in 2015. The reversal from impairment allowances in 2015 amounted to EU 186 thousand.

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

NOTE 8 - LOANS AND ADVANCES TO CUSTOMERS

As of 31 December 2015 and 31 December 2014, loans and advances to customers are as follows:

	31 December 2015	31 December 2014
Project finance	68,522	64,790
Trade finance	41,417	20,719
Loans and advances to customers, gross	109,939	85,509
Less: collective allowance for impairment	-	(219)
Loans and advances to customers, net	**109,939**	**85,290**

	31 December 2015	31 December 2014
Non-current	94,801	54,658
Current	15,138	30,632

As of 31 December 2015 and 31 December 2014 loans and advances to customers include sovereign loans amounting to EU 30,822 thousand (2014: EU 26,685 thousand)

The Bank has no impaired loans in the loans and advances to customers portfolio (31 December 2014: None). Collective allowance for impairment losses are cancelled in the current year.

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

	31 December 2015	31 December 2014
Balance at 1 January	219	318
Increase in impairment allowances	-	-
Reversal of impairment allowances(*)	(219)	(99)
At period end	**-**	**219**

(*)Having a loan portfolio of all significant loans reviewed regularly and no non-performing loan history general provisions were cancelled in 2015. The reversal from impairment allowances in 2015 amounted to EU 219 thousand.

The Bank has collaterals taken against the loans and advances to customers balances. Collaterals include the guarantees given by Governments of Member Countries (excluding sovereign loans) and pledged items. The total amount of loans and advances that are collateralized by guarantees of member countries amount to EU 46,382 thousand and pledged items amount to EU 15,506 thousand (31 December 2014: EU 43,826 thousand, EU 19,312 thousand respectively).

NOTE 9 - INVESTMENT SECURITIES

	31 December 2015	31 December 2014
Debt securities - at fair value:		
Eurobonds	28,388	26,676
Total available-for-sale securities	**28,388**	**26,676**

Available-for-sale investment securities are measured at their fair value. In assessing the fair value of the available-for-sale securities, bid prices quoted as of the reporting date is used.

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

NOTE 10 - INTANGIBLE ASSETS

	31 December 2015	31 December 2014
Cost	468	420
Accumulated amortization	(246)	(182)
Net book value	**222**	**238**

Movements of other intangible assets were as follows:

	31 December 2015	31 December 2014
Net book value at 1 January	238	122
Amortization charge	(70)	(49)
Disposal	(6)	-
Depreciation of Disposals	6	-
Additions	54	165
Net book value at period end	**222**	**238**

NOTE 11 - PROPERTY AND EQUIPMENT

	31 December 2015	31 December 2014
Cost	10,482	10,470
Accumulated depreciation	(673)	(525)
Net book value	**9,809**	**9,945**

	Machinery and equipment	Motor vehicles	Furniture and fixtures	Buildings	Total
31 December 2015					
Net book value					
at 1 January 2015	103	57	11	9,774	9,945
Addition	37	-	-	-	37
Disposal	(25)	-	-	-	(25)
Depreciation of Disposals	25	-	-	-	25
Depreciation charge	(49)	(21)	(1)	(102)	(173)
Net book value at period end	**91**	**36**	**10**	**9,672**	**9,809**
31 December 2014					
Net book value					
at 1 January 2014	142	82	2	9,875	10,101
Addition	8	-	10	-	18
Disposal	-	-	-	-	-
Depreciation of Disposals	-	-	-	-	-
Depreciation charge	(47)	(25)	(1)	(101)	(174)
Net book value at period end	**103**	**57**	**11**	**9,774**	**9,945**

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

NOTE 11 - PROPERTY AND EQUIPMENT (Continued)

As of 31 December 2015, property and equipment excluding the motor vehicles were insured against fire, theft and damage to the extent of EU 4,050 thousand. Motor vehicles are insured against accident to the extent of their acquisition cost.

At 31 December 2015, there is no impairment provision on property and equipment (31 December 2014: None).

NOTE 12 - OTHER ASSETS

	31 December 2015	31 December 2014
Receivables from clients (*)	295	162
Pre-paid expenses	68	20
Tax refunds	39	34
Other	11	3
Total	**413**	**219**

(*) According to the loan agreements made with the Bank's clients, the Bank receives over-due interest, front-end fees and commitment fees over the undrawn commitments to its loan customers and the expenses related with its loan operations. As of 31 December 2015 the Bank has fee receivables and over-due interest receivables amounting to EU 172 thousand and EU 123 thousand respectively according to the signed loan agreements (31 December 2014: EU 95 thousand fee receivables and EU 68 thousand over-due interest).

NOTE 13 - DEPOSITS FROM BANKS

	31 December 2015	31 December 2014
Deposits from banks in member countries	114,759	116,015
Total deposits from banks	**114,759**	**116,015**
Current	114,759	116,015
Non-current	-	-

Deposits from banks in the amount of EUR 145,955 thousand have original maturity of up to three months and weighted average interest rate of 0.70 % (31 December 2014: EUR 137,815 thousand and USD 600 thousand with 0.85% and 0.65% respectively).

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

NOTE 14 - RETIREMENT BENEFIT OBLIGATIONS

As of 31 December 2015 and 31 December 2014 retirement benefit obligations are as follows:

	31 December 2015	31 December 2014
Pension plan liabilities	1,946	1,827
Actuarial (gain)/losses	71	72
Total	**2,017**	**1,899**

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 2015 pension plan liabilities amounting to EU 1,946 thousand comprised of EU 858 thousand (31 December 2014: EU 815 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 EU 901 thousand (31 December 2014: EU 867 thousand) for the second pillar contributions of the Bank and employees that were started to be contributed from 1 October 2008; and of EU 187 thousand (31 December 2014: EU 145 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 contribution in monthly amounts equals to 25% of the employee's last salary immediately before becoming disabled until the employee's normal retirement age. 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.

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 Benefits" ("IAS 19"). As a result of this valuation, the Bank has accounted EU 71 thousand disability pension liability as at 31 December 2015.

Movements for the retirement benefit obligations are as follows:

	31 December 2015	31 December 2014
1 January	**1,899**	**1,358**
Increase during the year	573	538
Benefits paid	(539)	(13)
Actuarial (gain)/losses for the period	(4)	16
Foreign exchange movements	88	-
At period end	**2,017**	**1,899**

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

NOTE 14 - RETIREMENT BENEFIT OBLIGATIONS (Continued)

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

	31 December 2015
1 January	**72**
Current service cost	19
Interest cost	3
Amortization of Unrecognized Actuarial Loss / (Gain)	(26)
Foreign exchange movements	3
At period end	**71**

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

	31 December 2015 (%)	**31 December 2014 (%)**
Discount rate	5.0	4.7
Price inflation	2.4	2.0
Pay increase	3.9	1.5

Mortality rate

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

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

	31 December 2015	**31 December 2014**
Male	21.48	21.48
Female	24.40	24.40

The sensitivity analysis of defined benefit obligation of excess liabilities as of 31 December 2015 is as follows:

Assumption change	**Pension excluding in-service disability**	**Salary continuation**
Discount rate +1%	(20.0%)	(9.2%)
Discount rate -1%	26.6%	10.6%

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

NOTE 15 - OTHER LIABILITIES

As at 31 December 2015 and 31 December 2014 other liabilities are as follows:

	31 December 2015	31 December 2014
Unearned income (*)	843	786
Payables to personnel	125	-
Short-term employee benefits (**)	90	122
Other	70	50
Total	**1,128**	**958**

(*) As of 31 December 2015 the Bank deferred the income amounting to EU 843 thousand (31 December 2014: EU 786 thousand) from front-end commissions during the tenor specified in the loan agreements made with financial institutions and customers.

(**) 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 16 - SHARE CAPITAL AND SHARE PREMIUM

In accordance with Article 4 of the Agreement, the initial authorized capital of the Bank is EU 1,000,000 thousand divided into 10,000 shares each having a par value of EU 100 thousand. The Board of Governors of the Bank increased the authorized capital of the Bank to EU 1,089,100 thousand for subscription by the Islamic Republic of Afghanistan, the Republic of Azerbaijan and Kyrgyz Republic with EU 50,000 thousand, EU 32,500 thousand and EU 6,600 thousand respectively.

The Republic of Azerbaijan, the Islamic Republic of Afghanistan and The Kyrgyz Republic declared the acceptance of the Articles of Agreement to become members of the Bank on 15 February 2013, 15 March 2014 and 26 August 2015 respectively.

As of 31 December 2015, the subscribed capital is EU 1,089,100 thousand (31 December 2014: EU 1,082,500 thousand) comprising 10,891 shares. The paid-in capital of EU 310,870 thousand (31 December 2014: EU 306,510 thousand) is reflected at its cost.

Out of the said subscribed capital EU 762,350 thousand may become callable (2014: EU 757,750 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.

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

NOTE 16 - SHARE CAPITAL AND SHARE PREMIUM (Continued)

The issued share capitals as of 31 December 2015 and 31 December 2014 are as follows:

	31 December 2015	31 December 2014
Authorized share capital	1,089,100	1,089,100
Less: unallocated share capital	-	(6,600)
Subscribed share capital	**1,089,100**	**1,082,500**
Less: callable share capital	(762,350)	(757,750)
Less: shares called but not yet due	(15,880)	(18,240)
Paid-in share capital	**310,870**	**306,510**

As at 31 December 2015 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	3,333	333,333	233,333	-	100,000
Islamic Republic of Pakistan	3,333	333,333	233,333	-	100,000
Republic of Turkey	3,333	333,333	233,333	-	100,000
Islamic Republic of Afghanistan	500	50,000	35,000	9,600	5,400
Republic of Azerbaijan	325	32,500	22,750	4,680	5,070
Kyrgyz Republic	66	6,600	4,600	1,600	400
Total	**10,891**	**1,089,100**	**762,350**	**15,880**	**310,870**

NOTE 17 - NET INTEREST INCOME

	31 December 2015	31 December 2014
Interest income on:		
Loans and advances:		
- to financial institutions	7,077	7,399
money market placements	*3,253*	*4,211*
other loans and advances	*3,824*	*3,188*
- to customers	2,455	2,508
Investment securities	1,367	1,074
Total interest income	**10,899**	**10,981**
Interest expense on:		
Deposits from banks	(884)	(1,235)
Pension plan liabilities	(71)	(43)
Total interest expense	**(955)**	**(1,278)**
Net interest income	**9,944**	**9,703**

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

NOTE 18 - NET FEE AND COMMISSION INCOME

	31 December 2015	31 December 2014
Fee and commission income on loans	448	500
Total fee and commission income	**448**	**500**
Commissions paid to banks	(5)	(4)
Total fee and commission expense	**(5)**	**(4)**
Net fee and commission income	**443**	**496**

NOTE 19 - OPERATING EXPENSES

	31 December 2015	31 December 2014
Salaries and benefits	2,946	2,834
Contributions (*)	509	514
Relocation expenses	35	12
Staff development	14	22
Total personnel expenses	**3,504**	**3,382**
Travel and accommodation expenses	139	166
Office occupancy expenses	139	209
Consultant and third party fees	114	181
Operational subscriptions expenses	79	88
Equipment, maintenance and support	65	52
Representation expenses	29	25
Communication expenses	35	42
Other	37	40
Other administrative expenses	**637**	**803**
Depreciation and amortization (Notes 10 and 11)	243	223
Total operating expenses	**4,384**	**4,408**

(*) Contributions are comprised of staff retirement plan, life insurance and medical insurance contributions made by the Bank on behalf of the employees.

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

NOTE 20 - 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 2015	31 December 2014
Credit limit commitments	35,335	46,621
Other commitments	7	7
Total	**35,342**	**46,628**

As at 31 December 2015 the Bank has credit limit commitments to the customers and financial institutions due to project finance and SME support program amounting EU 25,907 and EU 9,428 thousand respectively (31 December 2014: EU 39,719 thousand and EU 6,902).

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

NOTE 21 - 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 market risk.

31 December 2015	Banking	Treasury	Total
Interest income	6,279	4,620	10,899
Fee and commission income	448	-	448
Total segment revenues	**6,727**	**4,620**	**11,347**
Interest expense	(73)	(882)	(955)
Fee and commission expense	-	(5)	(5)
Foreign exchange losses, net	-	(38)	(38)
Operating expenses	(3,306)	(1,078)	(4,384)
Segment income before impairment	**3,348**	**2,617**	**5,965**
Net impairment reversal	405	-	405
Net income for the period	**3,753**	**2,617**	**6,370**
Segment assets	**242,117**	**224,410**	**466,527**
Segment liabilities	**13,939**	**105,178**	**119,117**

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

NOTE 21 - SEGMENT ANALYSIS (Continued)

31 December 2014	Banking	Treasury	Total
Interest income	5,696	5,285	10,981
Fee and commission income	500	-	500
Total segment revenues	**6,196**	**5,285**	**11,481**
Interest expense	-	(1,278)	(1,278)
Fee and commission expense	-	(4)	(4)
Foreign exchange losses, net	-	(805)	(805)
Operating expenses	(3,210)	(1,198)	(4,408)
Segment income before impairment	**2,986**	**2,000**	**4,986**
Net impairment reversal	107	-	107
Net income for the period	**3,093**	**2,000**	**5,093**
Segment assets	**185,758**	**273,642**	**459,400**
Segment liabilities	**639**	**121,671**	**122,310**

NOTE 22 - RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Each of the three founding members holds 30.6 percent of the share and voting power totally 91.8 percent. As per Article 19 of the Agreement all matters before the Boards of Governors and Directors are decided by a majority not less than 85 percent of the voting power. Therefore, Islamic Republic of Iran, Islamic Republic of Pakistan and Republic of Turkey have joint control. Other three members of the Bank, Republic of Azerbaijan, Islamic Republic of Afghanistan and Kyrgyz Republic are represented in the Board of Directors so they have significant influence.

A number of transactions were entered into with related parties in the normal course of business.

(i) Balances with related parties:

	31 December 2015		31 December 2014	
	Total	Share in Total %	Total	Share in Total %
Loans and advances to customers, net	30,822	28	26,686	31
Investment Securities: Available-for-sale	9,037	32	8,321	31
Total assets	**39,859**	**9**	**35,007**	**8**

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

NOTE 22 - RELATED PARTY TRANSACTIONS (Continued)

(ii) Transactions with related parties:

	31 December 2015		31 December 2014	
	Total	**Share in Total %**	**Total**	**Share in Total %**
Interest income on:				
- Loans and advances to customers	644	26	352	14
- Investment securities	725	53	533	50
Fee and commission income	85	19	56	11
Total interest and fee income	**1,454**	**13**	**941**	**8**

Balances with related parties are comprised of the Eurobonds issued by the Government of Pakistan with face value of USD 12,241 thousands, project finance of USD 7,333 thousands made to the Government of Pakistan in order to finance its "Watan Card" project, cards which have been issued to provide compensation to households affected by the devastating 2010 summer floods and USD 35,000 thousand made to the Government of Pakistan in order to finance its oil import.

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 a salary, covered by medical and life insurance, participate in the Bank's pension plan and are eligible to receive other short term benefits. All amounts are paid in USD.

The salaries and other benefits paid to key management personnel amount to EU 535 thousand as of 31 December 2015 (31 December 2014: EU 549 thousand). This comprises salary and employee benefits of EU 464 thousand (31 December 2014: EU 474 thousand) and contributions made by the Bank on behalf of the management personnel of EU 71 thousand (31 December 2014: EU 75 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 23 – SUBSEQUENT EVENTS

None.