The Economic Cooperation Organization
Trade and Development Bank

Financial Statements
As at and for the year ended 31 December 2016
With Independent Auditors' Report Thereon

11 April 2017

This report contains the "Independent Auditors' Report" comprising 3 pages and; the "Financial statements and their explanatory notes" comprising 46 pages.

The Economic Cooperation Organization Trade and Development Bank

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Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Economic Cooperation Organization Trade and Development Bank ("the Bank"), which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS 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.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

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

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

Orhan Akova
Partner

11 April 2017
İstanbul, Turkey

THE ECONOMIC COOPERATION ORGANIZATION TRADE AND DEVELOPMENT BANK

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016

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

	Notes	31 December 2016	31 December 2015
ASSETS			
Loans and advances to banks	7	337,111	317,471
Loans and advances to customers	8	110,742	109,939
Investment securities: Available-for-sale	9	16,248	28,388
Derivative financial instruments	6	238	285
Intangible assets	10	158	222
Property and equipment	11	9,639	9,809
Other assets	12	239	413
Total assets		**474,375**	**466,527**
LIABILITIES			
Deposits from banks	13	109,139	114,759
Derivative financial instruments	6	2,342	1,213
Retirement benefit obligations	14	2,682	2,017
Other liabilities	15	885	1,128
Total liabilities		**115,048**	**119,117**
EQUITY			
Share capital	16	315,150	310,870
Revaluation reserve			
- Reserve for available-for-sale investment securities		81	(82)
Other reserves		36,622	30,252
Retained earnings		7,474	6,370
Total equity		**359,327**	**347,410**
Total liabilities and equity		**474,375**	**466,527**

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 2016

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

Profit or Loss	**Notes**	**31 December 2016**	**31 December 2015**
Interest income	17	11,310	10,899
Interest expense	17	(742)	(955)
Net interest income		**10,568**	**9,944**
Impairment (loss)/reversal on loans, net	7, 8, 19	-	405
Net interest income after loan impairment		**10,568**	**10,349**
Fee and commission income	18	415	448
Fee and commission expense	18	(10)	(5)
Net fee and commission income		**405**	**443**
Foreign exchange gain/(loss), net		831	(122)
Other operating income		91	84
Operating income		**11,895**	**10,754**
Personnel expenses	19	(3,637)	(3,504)
Other administrative expenses	19	(551)	(637)
Depreciation and amortization	10, 11, 19	(233)	(243)
Operating expenses		**(4,421)**	**(4,384)**
Net profit for the period		**7,474**	**6,370**
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		163	(410)
Other comprehensive income		**163**	**(410)**
Total comprehensive income		**7,637**	**5,960**

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 2016

(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 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**
1 January 2016	**310,870**	**(82)**	**30,252**	**6,370**	**347,410**
Increase in paid-in share capital	4,280	-	-	-	4,280
Appropriation of profit	-	-	6,370	(6,370)	-
Fair value gains on available-for-sale financial assets	-	163	-	-	163
Net profit for the period	-	-	-	7,474	7,474
31 December 2016	**315,150**	**81**	**36,622**	**7,474**	**359,327**

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

THE ECONOMIC COOPERATION ORGANIZATION TRADE AND DEVELOPMENT BANK

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

	Notes	31 December 2016	31 December 2015
Cash flows from operating activities:			
Net profit for the period		7,474	6,370
Adjustments for:			
Depreciation and amortization	10, 11, 19	233	243
Net impairment loss on loans and advances	7, 8	-	(405)
Accrued interest and expenses		(368)	636
Measurement of derivative financial instruments at fair value	6	1,176	(2,476)
Provision for retirement benefit obligations	14	370	329
Other non-cash items		(389)	1,393
Cash flows from operating activities before changes in operating assets and liabilities		**8,496**	**6,090**
Changes in operating assets and liabilities:			
Change in loans and advances to banks		34,262	(23,567)
Change in loans and advances to customers		(262)	(23,971)
Change in other assets		175	(194)
Change in retirement benefit obligations		295	(211)
Change in deposits from banks		(5,613)	(1,234)
Change in other liabilities		(243)	170
Net cash from/(used in) operating activities		**37,110**	**(42,917)**
Cash flows from investing activities:			
Purchase of investment securities		(4,295)	(3,507)
Proceeds from sale of investment securities		16,363	-
Purchase of property and equipment	11	-	(37)
Purchase of intangible assets	10	-	(54)
Net cash from/(used in) investing activities		**12,068**	**(3,598)**
Cash flows from financing activities:			
Increase in paid-in share capital		4,280	4,360
Net cash from financing activities		**4,280**	**4,360**
Net increase/(decrease) in cash and cash equivalents		**53,458**	**(42,155)**
Effects of exchange-rate changes on cash and cash equivalents		389	(1,393)
Cash and cash equivalents at the beginning of the period		31,752	75,300
Cash and cash equivalents at the end of the period	**5**	**85,599**	**31,752**

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: 8 Kat: 14, 34380 Bomonti Şişli - Istanbul Turkey".

The Management Committee of the Bank decided to submit the financial statements for the year ended 31 December 2016 to the Board of Directors on 11April 2017.

As of 31 December 2016, the number of employees of the Bank is 39 (31 December 2015: 38).

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 2016.

- IFRS 14 Regulatory Deferral Accounts
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
- Clarification of acceptable methods of depreciation and amortisation (Amendments to IAS 16 and IAS 38)
- Equity Method in Separate Financial Statements (Amendments to IAS 27)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
- Investment Entities: Applying the consolidation exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
- Disclosure Initiative (Amendments to IAS 1)
- Annual Improvements to IFRS 5, IFRS 7, IAS 19 and IAS 34

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

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- Recognition of deferred tax assets for unrealized losses (Amendments to IAS 12)
- Disclosure initiative (Amendments to IAS 7)
- Classification and measurement of share-based payment transactions (Amendments to IFRS 2)

The application of these new standards is not expected have a material impact on the Bank's financial statements in the period of initial application, except for IFRS 9.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these financial statements, the significant judgments made by management in applying the Bank’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 December 2015.

(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 International Monetary Fund (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 2016	**31 December 2015**
1 EU (SDR) =	United States Dollar	1.3443	1.3857
	Euro	1.2753	1.2728
	Chinese Yuan	9.2910	N/A
	Japanese Yen	157.018	167.1160
	Pound Sterling	1.09278	0.9351
	Turkish Lira	4.73431	4.0497
	Iranian Rial	43,386.58	41,752.1000
	Pakistani Rupee	140.90342	145.3150

(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 comprehensive 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 comprehensive 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 on-going basis.

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

The best evidence of the fair value of a financial instrument 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 comprehensive 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 comprehensive 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 comprehensive 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 comprehensive 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 and third pillars 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. All employees are eligible to participate in the third pillar where participation in the first and/or second pillar is not a pre-requisite.

The requirements for the defined benefit part of the first pillar are attaining normal retirement age (which is 60 in accordance with the Pension Plan Policy), 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 of basic salary	**Employer %**	**Employee %**
First pillar	12	-
Second pillar	up to 7 (*)	up to 7
Third pillar	-	up to 10

(*) 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 comprehensive 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. Obligations for contributions to defined contribution plans are recognized as personnel expense in the statement of profit or loss and other comprehensive 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 comprehensive 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 comprehensive 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 2016 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 comprehensive 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, collective allowances were cancelled in 2015.

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 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
Loans and advances to banks	337,111	317,471
Loans and advances to customers(*)	110,742	109,939
Investment securities: Available-for-sale	16,248	28,388
Derivative financial instruments	238	285
Total	**464,339**	**456,083**

(*) Financial assets that are past due but not impaired amount to EU 4,665 thousand (31 December 2015: EU 1,010 thousand). Sovereign guarantees are held as collaterals against such past due project finance loans.

As of 31 December 2016, the Bank has no assets held for resale (31 December 2015: 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 2016		31 December 2015	
	Outstanding	Undrawn commitments	Outstanding	Undrawn commitments
Financial institutions	**349,794**	**7,841**	**337,108**	**9,428**
Turkey (*)	241,169	7,841	189,663	9,428
Iran (*)	48,022	-	59,551	-
Pakistan (*)	40,349	-	72,801	-
Azerbaijan	1,489	-	3,557	-
Other (*)	18,765	-	11,536	-
Sovereign, Municipal and Environmental infrastructure	**87,135**	**19,583**	**87,320**	**25,907**
Iran	39,423	19,583	30,601	25,907
Pakistan	34,656	-	39,859	-
Turkey	13,056	-	16,860	-
Power and energy	**9,829**	**-**	**10,714**	**-**
Pakistan	9,829	-	10,714	-
Manufacturing	**17,581**	**23,523**	**20,941**	**-**
Turkey	15,839	-	15,879	-
Pakistan	1,742	-	5,062	-
Iran	-	23,523	-	-
Total	**464,339**	**50,947**	**456,083**	**35,335**

(*) The money market placements with the banks in Turkey, Iran, Pakistan and other countries amount to EU 120,097 thousand, EU 41,150 thousand, 36 thousand and EU 18,765 thousand, respectively (31 December 2015: EU 92,274 thousand, EU 57,664 thousand, EU 30,046 thousand and EU 11,536 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 2016		31 December 2015	
	Outstanding	Undrawn commitments	Outstanding	Undrawn commitments
Turkey (*)	270,064	7,841	222,402	9,428
Iran (*)	87,445	43,106	90,152	25,907
Pakistan (*)	86,576	-	128,436	-
Azerbaijan	1,489	-	3,557	-
Other (*)	18,765	-	11,536	-
Total	**464,339**	**50,947**	**456,083**	**35,335**

(*) The money market placements with the banks in Turkey, Iran, Pakistan and other countries amount to EU 120,097 thousand, EU 41,150 thousand, EU 36 thousand and EU 18,765 thousand , respectively (31 December 2015: EU 92,274 thousand, EU 57,664 thousand, EU 30,046 thousand and EU 11,536 thousand , respectively).

(iii) Segment analysis of credit risk exposures:

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

	31 December 2016	31 December 2015
Financial institutions-Bank placements	180,048	192,256
Financial institutions-SME support program	80,824	87,081
Financial institutions-Trade finance	76,239	38,134
Project finance	68,511	68,522
Customers-Trade finance	42,231	41,417
Investment securities: Available for sale	16,248	28,388
Derivative financial instruments	238	285
Total	**464,339**	**456,083**

(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-
8	Sub-standard	Expected loss/ Impaired	7.60	CC
9	Doubtful	Expected loss/ Impaired	8.60	C
10	Non-performing	Expected loss/ Impaired	10.00	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 2016					
Risk rating category	**Neither past due nor impaired**	**Past due but not impaired(*)**	**Total**	**Portfolio provision for unidentified impairment**	**Total net of impairment**	**Total %**
2: Very strong	58,367	-	58,367	-	58,367	22%
3: Strong	87,438	-	87,438	-	87,438	33%
4: Good	31,215	-	31,215	-	31,215	11%
5: Fair	63,959	-	63,959	-	63,959	24%
7: Watchful	22,161	4,665	26,826	-	26,826	10%
At 31 December 2016	**263,140**	**4,665**	**267,805**	**-**	**267,805**	**100%**

	31 December 2015					
Risk rating category	**Neither past due nor impaired**	**Past due but not impaired(*)**	**Total**	**Portfolio provision for unidentified impairment**	**Total net of impairment**	**Total %**
2: Very strong	82,695	1,010	83,705	-	83,705	36%
3: Strong	86,957	-	86,957	-	86,957	37%
4: Good	43,243	-	43,243	-	43,243	18%
5: Fair	21,249	-	21,249	-	21,249	9%
At 31 December 2015	**234,144**	**1,010**	**235,154**	**-**	**235,154**	**100%**

(*) Financial assets that are past due but not impaired amount to EU 4,665 thousand (31 December 2015: EU 1,010 thousand). Sovereign guarantees are held as collaterals against such past due project finance loans.

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 2016						
	Carrying Amount	**Up to 1 month**	**1 to 3 Months**	**3 to 12 Months**	**1 to 5 years**	**Over 5 years**	**Total**
Liabilities by type							
Non-derivative liabilities							
Deposits from banks	109,139	(15,997)	(59,210)	(34,328)	-	-	(109,535)
Undrawn loan commitments	-	(50,947)	-	-	-	-	(50,947)
- Banks	-	(7,841)	-	-	-	-	(7,841)
- Customers	-	(43,106)	-	-	-	-	(43,106)
Total	**109,139**	**(66,944)**	**(59,210)**	**(34,328)**	**-**	**-**	**(160,482)**
Derivative liabilities							
Trading FX derivatives	2,342						
- Outflow	-	(24,963)	(45,795)	-	-	-	(70,758)
- Inflow	-	23,706	44,772	-	-	-	68,478
Total	**2,342**	**(1,257)**	**(1,023)**	**-**	**-**	**-**	**(2,280)**
Assets by type							
Non-derivative assets							
Loans and advances to banks	337,111	64,600	110,517	25,642	138,788	8,721	348,268
Loans and advances to customers	110,742	6,107	26,835	24,090	48,347	10,578	115,957
Investment securities	16,248	-	-	6,849	10,622	-	17,471
Total	**464,101**	**70,707**	**137,352**	**56,581**	**197,757**	**19,299**	**481,696**
Derivative assets							
Trading FX derivatives	238						
- Outflow	-	(8,294)	(11,096)	-	-	-	(19,390)
- Inflow	-	8,392	11,273	-	-	-	19,665
Total	**238**	**98**	**177**	**-**	**-**	**-**	**275**
Net liquidity gap		**2,604**	**77,296**	**22,253**	**197,757**	**19,299**	**319,209**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

	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**
Liabilities by type							
Non-derivative liabilities							
Deposits from banks	114,759	(31,723)	(83,143)	-	-	-	(114,866)
Undrawn 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)**
Assets 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**

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, Chinese Yuan, 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 Chinese Yuan, British Pound and Japanese Yen.

By policies in place, the Bank monitors the current status of its assets and liabilities in contrast to SDR in order to ensure that it takes foreign exchange risk within the approved limits. For each currency, 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.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

As at 31 December 2016 and 31 December 2015 the foreign currency position of the Bank is as follows:

	31 December 2016					
	US Dollar	**Euro**	**Other (*)**	**Total foreign currency**	**SDR ("EU")**	**Total**
Assets						
Loans and advances to banks	143,940	193,156	15	337,111	-	337,111
Loans and advances to customers	55,480	55,262	-	110,742	-	110,742
Investment securities	14,645	1,603	-	16,248	-	16,248
Derivative financial instruments	-	-	-	-	238	238
Intangible assets	-	-	-	-	158	158
Property and equipment	-	-	-	-	9,639	9,639
Other assets	37	156	46	239	-	239
Total assets	**214,102**	**250,177**	**61**	**464,340**	**10,035**	**474,375**
Liabilities and Equity						
Deposits from banks	-	109,139	-	109,139	-	109,139
Derivative financial instruments	-	-	-	-	2,342	2,342
Retirement benefit obligations	2,682	-	-	2,682	-	2,682
Other liabilities	410	462	13	885	-	885
Equity	-	-	-	-	359,327	359,327
Total liabilities and Equity	**3,092**	**109,601**	**13**	**112,706**	**361,669**	**474,375**
Net balance sheet position	**211,010**	**140,576**	**48**	**351,634**	**(351,634)**	**-**
Off-balance sheet derivative instruments net notional position	(56,835)	(33,313)	88,143	(2,005)	-	(2,005)
Net foreign currency position	**154,175**	**107,263**	**88,191**	**349,629**	**(351,634)**	**(2,005)**
Currency Neutral Position	**(152,388)**	**(106,637)**	**(92,609)**	**(351,634)**	**351,634**	**-**
FX Exposure in notional Ccy (*)	**1,787**	**626**	**(4,418)**	**(2,005)**	**-**	**(2,005)**

(*) The total foreign currency exposure in Japanese Yen, Chinese Yuan, Pound Sterling, Turkish Lira, Pakistani Rupee and Iranian Rial are EU (2,202) thousand, EU (1,149) thousand, EU (1,108) thousand, EU 31 thousand, EU 6 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 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)

Sensitivity analysis

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

The currency value of the SDR is determined by summing the values in US Dollars, with market exchange rates, of the US Dollar, Euro, Japanese Yen, Pound Sterling and the Chinese Yuan. Foreign currency sensitivity is calculated based on 10 percent appreciation/depreciation of the US Dollar against other SDR basket currencies. As at 31 December 2016 and 31 December 2015, this would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	31 December 2016		**31 December 2015**	
	Appreciation	**Depreciation**	**Appreciation**	**Depreciation**
US Dollar	8,972	(8,560)	8,910	(8,250)
Euro	(4,924)	4,377	(5,705)	5,078
Chinese Yuan	(1,518)	1,742	-	-
Pound	(1,264)	1,033	(1,937)	1,691
Japanese Yen	(959)	1,176	(913)	1,306
Total	**307**	**(232)**	**355**	**(175)**

(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 is as follows:

	31 December 2016					
	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	82,357	142,774	111,980	-	-	337,111
Loans and advances to customers	9,829	46,973	53,940	-	-	110,742
Investment securities	-	-	6,332	9,916	-	16,248
Derivative financial instruments	-	-	-	-	238	238
Intangible assets	-	-	-	-	158	158
Property and equipment	-	-	-	-	9,639	9,639
Other assets	-	-	-	-	239	239
Total assets	**92,186**	**189,747**	**172,252**	**9,916**	**10,274**	**474,375**
Liabilities						
Deposits from banks	15,993	59,159	33,987	-	-	109,139
Derivative financial instruments	-	-	-	-	2,342	2,342
Retirement benefit obligations	-	2,574	-	-	108	2,682
Other liabilities	-	-	-	-	885	885
Total liabilities	**15,993**	**61,733**	**33,987**	**-**	**3,335**	**115,048**
Net repricing gap	**76,193**	**128,014**	**138,265**	**9,916**	**6,939**	**359,327**

	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**

(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 +0.10% 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 2016		31 December 2015	
	Applied shock	**Profit or loss**	**Equity (*)**	**Profit or loss**	**Equity (*)**
US Dollar	- 0.10%	(46)	(25)	(47)	(17)
US Dollar	+ 0.10%	46	26	47	19
Euro	- 0.10%	(49)	(45)	(22)	(17)
Euro	+ 0.10%	49	45	22	17
Total (for negative shocks)		**(95)**	**(70)**	**(69)**	**(34)**
Total (for positive shocks)		**95**	**71**	**69**	**36**

(*) Includes the profit or loss effect.

Operational risk

The Bank defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk but excludes strategic and reputational risk. 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.

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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. In this respect, the Bank follows sound standards as benchmarks for risk management and capital framework.

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

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 2016 and 31 December 2015, the carrying amounts and fair values of financial instruments are as follows:

	31 December 2016		31 December 2015	
	Fair value	**Carrying value**	**Fair value**	**Carrying value**
Financial assets:				
Loans and advances to banks	337,205	337,111	317,284	317,471
Loans and advances to customers	111,348	110,742	113,751	109,939
Investment securities	16,248	16,248	28,388	28,388
Derivative financial instruments	238	238	285	285
Total financial assets	**465,039**	**464,339**	**459,708**	**456,083**
Financial liabilities:				
Deposits from banks	109,184	109,139	114,762	114,759
Derivative financial instruments	2,342	2,342	1,213	1,213
Total financial liabilities	**111,526**	**111,481**	**115,975**	**115,972**

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 2016	Level 1	Level 2(*)	Level 3	Total
Investment Securities: Available-for-sale	16,248	-	-	16,248
Financial assets held for trading				
- Derivatives	-	238	-	238
Total assets	**16,248**	**238**	**-**	**16,486**
Financial liabilities at fair value through profit and loss				
- Derivatives	-	2,342	-	2,342
Total liabilities	**-**	**2,342**	**-**	**2,342**

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**

(*)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 2016	31 December 2015
Loans and advances to banks-demand (Note 7)	518	736
Loans and advances to banks-time		
(with original maturity less than three months) (Note 7)	85,081	31,016
Total	**85,599**	**31,752**

(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 2016		
	Contract / notional amount	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Currency swaps	2,005	238	2,342
Total derivatives assets held for trading	**2,005**	**238**	**2,342**

	31 December 2015		
	Contract / notional amount	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Currency swaps	153,035	285	1,213
Total derivatives assets held for trading	**153,035**	**285**	**1,213**

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

NOTE 7 - LOANS AND ADVANCES TO BANKS

As of 31 December 2016 and 31 December 2015, loans and advances to banks are as follows:

	31 December 2016	31 December 2015
Nostro/demand deposits	518	736
Money market placements		
(With original maturity less than three months)	85,081	31,016
Included in cash and cash equivalents	**85,599**	**31,752**
Other loans and advances to banks, gross	251,512	285,719
Less: allowance for impairment	-	-
Loans and advances to banks, net	**337,111**	**317,471**

	31 December 2016	31 December 2015
Current	241,674	266,357
Non-current	95,437	51,114

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

	31 December 2016	31 December 2015
Money market placements	179,530	191,520
SME support program	80,824	87,081
Trade finance	76,239	38,134
Nostro/demand deposits	518	736
Loans and advances to banks, net	**337,111**	**317,471**

The Bank has no impaired loans in the loans and advances to banks portfolio (31 December 2015: None). Collective allowance for impairment losses were cancelled in 2015.

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

	31 December 2016	31 December 2015
Balance at 1 January	-	186
Reversal of impairment allowances (*)	-	(186)
At period end	**-**	**-**

(*) Having a loan portfolio of all significant loans reviewed regularly and no non-performing loan history collective provisions were cancelled in 2015.

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

NOTE 8 - LOANS AND ADVANCES TO CUSTOMERS

As of 31 December 2016 and 31 December 2015, loans and advances to customers are as follows:

	31 December 2016	31 December 2015
Project finance(*)	68,511	68,522
Trade finance	42,231	41,417
Loans and advances to customers, gross	110,742	109,939
Less: allowance for impairment	-	-
Loans and advances to customers, net	**110,742**	**109,939**

(*) Financial assets that are past due but not impaired amount to EU 4,665 thousand (31 December 2015: EU 1,010 thousand). Sovereign guarantees are held as collaterals against such past due project finance loans.

	31 December 2016	31 December 2015
Current	60,680	15,138
Non-current	50,062	94,801

As of 31 December 2016 loans and advances to customers include loans to governments of member states amounting to EU 30,498 thousand (31 December 2015: EU 30,822 thousand).

The Bank has no impaired loans in the loans and advances to customers portfolio (31 December 2015: None). Collective allowance for impairment losses were cancelled in 2015.

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

	31 December 2016	31 December 2015
Balance at 1 January	-	219
Reversal of impairment allowances(*)	-	(219)
At period end	**-**	**-**

(*)Having a loan portfolio of all significant loans reviewed regularly and no non-performing loan history collective provisions were cancelled in 2015.

The Bank has collaterals taken against the loans and advances to customers balances. Collaterals include the guarantees given by Governments of Member Countries (excluding loans to government institutions of member states) and pledged items. The total amount of loans and advances that are collateralized by guarantees of member countries amount to EU 51,913 thousand and pledged items amount to EU 11,297 thousand (31 December 2015: EU 46,382 thousand, EU 15,506 thousand respectively).

NOTE 9 - INVESTMENT SECURITIES

	31 December 2016	31 December 2015
Debt securities - at fair value:		
Eurobonds	16,248	28,388
Total available-for-sale securities	**16,248**	**28,388**

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 are used.

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

NOTE 10 - INTANGIBLE ASSETS

	31 December 2016	31 December 2015
Cost	444	468
Accumulated amortization	(286)	(246)
Net book value	**158**	**222**

Movements of intangible assets were as follows:

	31 December 2016	31 December 2015
Net book value at 1 January	222	238
Amortization charge	(64)	(70)
Disposal	(24)	(6)
Depreciation of disposals	24	6
Additions	-	54
Net book value at period end	**158**	**222**

NOTE 11 - PROPERTY AND EQUIPMENT

	31 December 2016	31 December 2015
Cost	10,429	10,482
Accumulated depreciation	(790)	(673)
Net book value	**9,639**	**9,809**

	Machinery and equipment	Motor vehicles	Furniture and fixtures	Buildings	Total
31 December 2016					
Net book value					
at 1 January 2016	**91**	**36**	**10**	**9,672**	**9,809**
Addition	-	-	-	-	-
Disposal	(34)	-	(19)	-	(53)
Depreciation of disposals	34	-	18	-	52
Depreciation charge	(48)	(18)	(1)	(102)	(169)
Net book value at period end	**43**	**18**	**8**	**9,570**	**9,639**
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**

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

NOTE 11 - PROPERTY AND EQUIPMENT (Continued)

As of 31 December 2016, property and equipment excluding the motor vehicles were insured against fire, theft and damage to the extent of EU 2,407 thousand. Motor vehicles are insured against accident to the extent of their acquisition cost.

At 31 December 2016, there is no impairment provision on property and equipment (31 December 2015: None).

NOTE 12 - OTHER ASSETS

	31 December 2016	**31 December 2015**
Receivables from clients (*)	162	295
Pre-paid expenses	57	68
Tax refunds	15	39
Other	5	11
Total	**239**	**413**

(*) 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 2016 the Bank has fee receivables and over-due interest receivables amounting to EU 156 thousand and EU 6 thousand respectively according to the signed loan agreements (31 December 2015: EU 172 thousand fee receivables and EU 123 thousand over-due interest).

NOTE 13 - DEPOSITS FROM BANKS

	31 December 2016	**31 December 2015**
Deposits from banks in member countries	109,139	114,759
Total deposits from banks	**109,139**	**114,759**
Current	109,139	114,759
Non-current	-	-

Deposits from banks in the amount of EUR 139,083 thousand have original maturity of up to twelve months and weighted average interest rate of 0.67 % (31 December 2015: EUR 145,955 thousand with 0.70%).

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

NOTE 14 - RETIREMENT BENEFIT OBLIGATIONS

As of 31 December 2016 and 31 December 2015 retirement benefit obligations are as follows:

	31 December 2016	31 December 2015
Pension plan liabilities	2,595	1,946
Actuarial (gain)/losses	87	71
Total	**2,682**	**2,017**

Pension plan liabilities

According to the Pension Plan Policy of the Bank, 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.

As at 31December 2016 pension plan liabilities amounting to EU 2,595 thousand comprised of EU 1,120 thousand (31 December 2015: EU 858 thousand) for the Bank's contributions to the first pillar that is the sum of 12% of each employee's basic salary; of EU 1,163 thousand (31 December 2015: EU 901 thousand) for the second pillar contributions of the Bank and employees ; of EU 25 thousand (31 December 2015: None) for the third pillar contributions of the employees; and of EU 287 thousand (31 December 2015: EU 187 thousand) for the investment returns regarding the first, second and third 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 87 thousand disability pension liability as at 31 December 2016.

Movements for the retirement benefit obligations are as follows:

	31 December 2016	31 December 2015
1 January	**2,017**	**1,899**
Increase during the year	627	573
Benefits paid	(57)	(539)
Actuarial (gain)/losses for the period	14	(4)
Foreign exchange movements	81	88
At period end	**2,682**	**2,017**

(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 2016
1 January	**71**
Current service cost	17
Interest cost	4
Amortization of Unrecognized Actuarial Loss / (Gain)	(7)
Foreign exchange movements	2
At period end	**87**

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

	31 December 2016 (%)	31 December 2015 (%)
Discount rate	4.7	5.0
Price inflation	2.3	2.4
Pay increase	3.8	3.9

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 2016	31 December 2015
Male	21.48	21.48
Female	24.40	24.40

The sensitivity analysis of defined benefit obligation of excess liabilities as of 31 December 2016 is as follows:

Assumption change	Pension excluding in-service disability	Salary continuation
Discount rate +1%	(19.3%)	(8.9%)
Discount rate -1%	25.6%	10.2%

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

NOTE 15 - OTHER LIABILITIES

As at 31 December 2016 and 31 December 2015 other liabilities are as follows:

	31 December 2016	31 December 2015
Unearned income (*)	765	843
Short-term employee benefits (**)	100	90
Payables to personnel	20	125
Other	-	70
Total	**885**	**1,128**

(*) As of 31 December 2016 the Bank deferred the income amounting to EU 765 thousand (31 December 2015: EU 843 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 2016, the subscribed capital is EU 1,089,100 thousand (31 December 2015: EU 1,089,100 thousand) comprising 10,891 shares. The paid-in capital of EU 315,150 thousand (31 December 2015: EU 310,870 thousand) is reflected at its cost.

Out of the said subscribed capital EU 762,350 thousand may become callable (2015: EU 762,350 thousand), upon a unanimous decision of the Board of Governors, by the member countries in such manner and on such terms as deemed fit by the Board of Governors.

(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 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
Authorized share capital	1,089,100	1,089,100
Less: unallocated share capital	-	-
Subscribed share capital	**1,089,100**	**1,089,100**
Less: callable share capital	(762,350)	(762,350)
Less: shares called but not yet due	(11,600)	(15,880)
Paid-in share capital	**315,150**	**310,870**

As at 31 December 2016 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	7,200	7,800
Republic of Azerbaijan	325	32,500	22,750	3,120	6,630
Kyrgyz Republic	66	6,600	4,600	1,280	720
Total	**10,891**	**1,089,100**	**762,350**	**11,600**	**315,150**

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

NOTE 17 - NET INTEREST INCOME

	31 December 2016	31 December 2015
Interest income on:		
Loans and advances:		
- to financial institutions	7,404	7,077
money market placements	*2,925*	*3,253*
other loans and advances	*4,479*	*3,824*
- to customers	3,086	2,455
Investment securities	820	1,367
Total interest income	**11,310**	**10,899**
Interest expense on:		
Deposits from banks	(650)	(884)
Pension plan liabilities	(92)	(71)
Total interest expense	**(742)**	**(955)**
Net interest income	**10,568**	**9,944**

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

NOTE 18 - NET FEE AND COMMISSION INCOME

	31 December 2016	31 December 2015
Fee and commission income on loans	415	448
Total fee and commission income	**415**	**448**
Commissions paid to banks	(10)	(5)
Total fee and commission expense	**(10)**	**(5)**
Net fee and commission income	**405**	**443**

NOTE 19 - OPERATING EXPENSES

	31 December 2016	31 December 2015
Salaries and benefits	3,015	2,946
Contributions (*)	554	509
Relocation expenses	66	35
Staff development	2	14
Total personnel expenses	**3,637**	**3,504**
Office occupancy expenses	133	139
Consultant and third party fees	100	114
Travel and accommodation expenses	92	139
Operational subscriptions expenses	79	79
Equipment, maintenance and support	69	65
Communication expenses	30	35
Representation expenses	6	29
Other	42	37
Other administrative expenses	**551**	**637**
Depreciation and amortization (Notes 10 and 11)	233	243
Total operating expenses	**4,421**	**4,384**

(*) 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 2016	31 December 2015
Credit limit commitments	50,947	35,335
Other commitments	8	7
Total	**50,955**	**35,342**

As at 31 December 2016 the Bank has credit limit commitments to the customers due to project finance and SME support program amounting EU 43,106 thousand and EU 7,841 thousand, respectively (31 December 2015: EU 25,907 thousand and EU 9,428 thousand, respectively).

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 2016	**Banking**	**Treasury**	**Total**
Interest income	7,565	3,745	11,310
Fee and commission income	415	-	415
Total segment revenues	**7,980**	**3,745**	**11,725**
Interest expense	(76)	(666)	(742)
Fee and commission expense	-	(10)	(10)
Foreign exchange losses, net	-	922	922
Operating expenses	(3,335)	(1,086)	(4,421)
Segment income before impairment	**4,569**	**2,905**	**7,474**
Net impairment reversal	-	-	-
Net income for the period	**4,569**	**2,905**	**7,474**
Segment assets	**274,496**	**199,879**	**474,375**
Segment liabilities	**34,307**	**80,741**	**115,048**

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

NOTE 21 - SEGMENT ANALYSIS (Continued)

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**

NOTE 22 - RELATED PARTY TRANSACTIONS

The Bank has the following related parties:

Key management personnel

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.

The salaries and other benefits paid to key management personnel amount to EU 600 thousand as of 31 December 2016 (31 Dec 2015: EU 535 thousand). This comprises salary and employee benefits of EU 518 thousand (31 Dec 2015: EU 464 thousand) and contributions made by the Bank on behalf of the management personnel of EU 82 thousand (31 Dec 2015: EU 71 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 –EVENTS AFTER THE REPORTING PERIOD

The Bank has collected EU 3,340 thousand of the past due receivables of EU 4,665 thousand. Sovereign guarantees are held as collaterals against the remaining EU 1,325 thousand past due project finance loans.

The Bank decided to terminate the contract regarding administrative office work and take over six employees of the sub-contractor company into its payroll effective from 1 February 2017 with all retrospective legal and contractual rights for the term they provide service to the Bank under Turkish Labor Law.