# The Economic Cooperation Organization Trade and Development Bank

**Financial Statements**
**As at and For the Year Ended 31 December 2023**
**With Independent Auditors' Report Thereon**

Güney Bağımsız Denetim ve SMMM A.Ş.
Maslak Mah. Eski Büyükdere Cad.
Orjin Maslak İş Merkezi No: 27
Daire: 57 34485 Sarıyer
İstanbul - Türkiye

Tel: +90 212 315 3000
Fax: +90 212 230 8291
ey.com
Ticaret Sicil No : 479920
Mersis No: 0-4350-3032-6000017

**Report on the Audit of the Financial Statements**

To the Board of Governors of The Economic Cooperation Organization Trade Development Bank.

**Opinion**

We have audited the accompanying financial statements of The Economic Cooperation Organization Trade and Development Bank (the “Bank”), which comprise the statement of financial position as at 31 December 2023, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Turkey, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Other information**

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor’s report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

**Responsibilities of Management and Those Charged With Governance for the Financial Statements**

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

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

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

**Auditor's responsibilities for the audit of the financial statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. (The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Bank audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Tolga Özdemir.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Tolga Özdemir, SMMM
Partner

İstanbul, Türkiye
7 June 2024

**TABLE OF CONTENTS**

## THE ECONOMIC COOPERATION ORGANIZATION TRADE AND DEVELOPMENT BANK

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

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

| | **Notes** | **31 December 2023** | **31 December 2022** |
|---|---|---|---|
| **Assets** | | | |
| Due from banks | 13 | 105,409 | 89,023 |
| Loans and advances to banks | 14 | 120,266 | 148,475 |
| Loans and advances to customers | 15 | 199,887 | 162,002 |
| Investment securities | 16 | 61,371 | 65,750 |
| Derivative financial instruments | 12 | 595 | 854 |
| Tangible and intangible assets | 17 | 4,608 | 4,714 |
| Other assets | 18 | 150 | 31 |
| **Total assets** | | **492,286** | **470,849** |
| **Liabilities** | | | |
| Deposits from banks | 19 | 35,956 | 36,473 |
| Derivative financial instruments | 12 | 1,704 | 2,062 |
| Employee benefits | 20 | 3,425 | 3,413 |
| Other liabilities | 21 | 1,339 | 972 |
| **Total liabilities** | | **42,424** | **42,920** |
| **Equity** | | | |
| Share capital | 22.1 | 326,750 | 326,750 |
| Reserves | 22.2 | 101,161 | 85,683 |
| Retained earnings | | 21,951 | 15,496 |
| **Total equity** | | **449,862** | **427,929** |
| **Total liabilities and equity** | | **492,286** | **470,849** |

*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 2023

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

| | Notes | 31 December 2023 | 31 December 2022 |
|---|---|---|---|
| **Profit or Loss** | | | |
| Interest income | 23 | 27,246 | 16,063 |
| Interest expense | 23 | (1,695) | (715) |
| **Net interest income before impairment for credit risks** | | **25,551** | **15,348** |
| Impairment (loss)/gain for credit risks, net | 9.2.6 | 252 | (587) |
| **Net interest income after impairment for credit risks** | | **25,803** | **14,761** |
| Fee and commission income | 24 | 543 | 521 |
| Fee and commission expense | 24 | (10) | (8) |
| **Net fee and commission income** | | **533** | **513** |
| Net trading (loss)/income | | (406) | 1,810 |
| Other operating income | 26 | 1 | 1,646 |
| **Total operating income** | | **25,931** | **18,730** |
| Personnel expenses | 25 | (3,326) | (2,655) |
| Other administrative expenses | 25 | (501) | (321) |
| Depreciation and amortization | 17, 25 | (149) | (128) |
| Other operating expenses | 25 | (4) | (130) |
| **Total operating expenses** | | **(3,980)** | **(3,234)** |
| **Net profit for the period** | | **21,951** | **15,496** |
| **Other comprehensive income** | | | |
| **Items that are or may be reclassified subsequently to profit or loss** | | | |
| Re-measurement (loss)/gain on defined benefit plans | 20.3 | (18) | (15) |
| **Other comprehensive income** | | **(18)** | **(15)** |
| **Total comprehensive income** | | **21,933** | **15,481** |

*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 2023

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

| | Notes | Share Capital | Revaluation reserves | Other reserves | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2022** | | **326,750** | **(4)** | **76,648** | **9,054** | **412,448** |
| **Total comprehensive income** | | | | | | |
| Profit for the period | | - | - | - | 15,496 | 15,496 |
| **Other comprehensive income** | | | | | | |
| Re-measurement gain/(loss) on defined benefit plans | | - | (15) | - | - | (15) |
| **Total comprehensive income** | | **-** | **(15)** | **-** | **15,496** | **15,481** |
| **Transactions with members of the Bank** | | | | | | |
| **Contributions and distributions** | | | | | | |
| Increase in paid-in share capital | 22.1 | - | - | - | - | - |
| Appropriation of profit | | - | - | 9,054 | (9,054) | - |
| **Total contributions and distributions** | | **-** | **-** | **9,054** | **(9,054)** | **-** |
| **Balance at 31 December 2022** | | **326,750** | **(19)** | **85,702** | **15,496** | **427,929** |
| **Balance at 1 January 2023** | | **326,750** | **(19)** | **85,702** | **15,496** | **427,929** |
| **Total comprehensive income** | | | | | | |
| Profit for the period | | - | - | - | 21,951 | 21,951 |
| **Other comprehensive income** | | | | | | |
| Re-measurement gain/(loss) on defined benefit plans | 20.3 | - | (18) | - | - | (18) |
| **Total comprehensive income** | | **-** | **(18)** | **-** | **21,951** | **21,933** |
| **Transactions with members of the Bank** | | | | | | |
| **Contributions and distributions** | | | | | | |
| Increase in paid-in share capital | 22.1 | - | - | - | - | - |
| Appropriation of profit | | - | - | 15,496 | (15,496) | - |
| **Total contributions and distributions** | | **-** | **-** | **15,496** | **(15,496)** | **-** |
| **Balance at 31 December 2023** | | **326,750** | **(37)** | **101,198** | **21,951** | **449,862** |

*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 2023

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

| | Notes | 31 December 2023 | 31 December 2022 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net profit for the period | | 21,951 | 15,496 |
| **Adjustments for:** | | | |
| Depreciation and amortization | 17, 25 | 149 | 128 |
| Net impairment loss/(gain) on financial assets | 9.2.6 | (252) | 587 |
| Net impairment loss/(gain) on tangible assets | | - | (1,617) |
| Accrued interest and expenses | | (4,045) | (2,322) |
| Measurement of derivative financial instruments at fair value | 12 | (99) | 2,364 |
| Provision for employee benefit obligations | | 319 | 144 |
| Other non-cash items | | (355) | (4,840) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **17,668** | **9,940** |
| **Changes in:** | | | |
| Due from banks | | (15,027) | 57,992 |
| Loans and advances to banks | | 28,604 | (51,068) |
| Loans and advances to customers | | (34,711) | (20,171) |
| Other assets | | (161) | 74 |
| Employee benefits | | (605) | (108) |
| Deposits from banks | | (468) | (11,860) |
| Other liabilities | | 907 | 523 |
| **Net cash from/(used in) operating activities** | | **(3,793)** | **(14,678)** |
| **Cash flows from investing activities** | | | |
| Acquisition of investment securities | 16 | - | (11,168) |
| Proceeds from redemption/sale of investment securities | 16 | 4,410 | 8,963 |
| Acquisition of tangible and intangible assets | 17 | (46) | (202) |
| Proceeds from sale of tangible assets | 17 | - | 840 |
| **Net cash from/(used in) investing activities** | | **4,364** | **(1,567)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **571** | **(16,245)** |
| **Cash and cash equivalents at 1 January** | | **66,237** | **81,609** |
| **Effects of exchange-rate changes on cash and cash equivalents** | | **382** | **873** |
| **Cash and cash equivalents at the end of the period** | **11** | **67,190** | **66,237** |

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

# A. BASIS OF PREPARATION

## NOTE 1 – REPORTING ENTITY

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

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

The headquarters address of the Bank is "Cumhuriyet Mahallesi, Silahşör Caddesi, Yeniyol Sokak, No: 8, Kat: 14, 34380 Şişli, İstanbul, Türkiye".

As of 31 December 2023, the number of employees of the Bank is 31 (31 December 2022: 32).

## NOTE 2 – BASIS OF ACCOUNTING

These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ('IFRS'). On a proposal from the Management Committee, the Board of Directors adopted the financial statements for the year ended 31 December 2023 on 7 June 2024 and authorised their submission to the Board of Governors for approval.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4. Details of the Bank's accounting policies, including changes during the year, are included in Notes 6 and 7.

## NOTE 3 – FUNCTIONAL AND PRESENTATION CURRENCY

In accordance with Article 4 of the Agreement, the unit of account of the Bank is ECO Unit ('EU') that is equivalent to one Special Drawing Right ('SDR') of the International Monetary Fund ('IMF'). As per Article 11 of the Agreement, the Bank's foreign currency facilities shall be denominated and payable in the currencies of which the SDR is composed or in EU. Accordingly, the Bank's 'functional currency' is the SDR and all transactions are recorded in SDR. The Bank's 'presentation currency' is EU.

## NOTE 4 – USE OF JUDGEMENTS AND ESTIMATES

In preparing these financial statements, the Management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to estimates are recognised prospectively.

### 4.1. Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes.

- Note 7.5.2. – classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.
- Note 7.5.7. – impairment of financial instruments: assessment of whether credit risk on the financial asset has increased significantly since initial recognition, selection and approval of models used to measure expected credit losses ('ECL').

### 4.2. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities is included in the following notes.

- Note 7.16. – measurement of defined benefit obligations: key actuarial assumptions.
- Note 7.5.7. – impairment of financial instruments: determining inputs into the ECL measurement model.
- Note 10. – determination of the fair values of financial instruments with significant unobservable inputs.

# B. ACCOUNTING POLICIES

## NOTE 5 – BASIS OF MEASUREMENT

The financial statements have been prepared on a historical cost basis, except for the derivative financial instruments which are measured with fair value.

## NOTE 6 – CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the financial statements as at 31 December 2023 are consistent with those followed in the preparation of the financial statements of the prior period, except for the adoption of new standards effective as of 1 January 2023. Several amendments and interpretations apply for the first time in 2023, but do not have an impact on the financial statements of the Bank.

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

## NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bank consistently applied the following accounting policies to all periods presented in these financial statements.

### 7.1. Foreign currency

Foreign currency transactions are translated into the functional currency using the indicative exchange rates at the dates of the transactions announced by IMF and Central Banks.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency with the exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the period, and the amortised cost in the foreign currency translated with the exchange rate at the end of the period.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on the settlement of such transactions and translation are recognized in 'Net trading income' in the statement of profit or loss and other comprehensive income.

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

| | | **31 December 2023** | **31 December 2022** |
|---|---|---|---|
| *1 EU (SDR) =* | United States Dollar | 1.3417 | 1.3308 |
| | Euro | 1.2172 | 1.2529 |
| | Chinese Yuan | 9.5843 | 9.2972 |
| | Japanese Yen | 190.3964 | 176.5359 |
| | British Pound | 1.0535 | 1.1028 |
| | Turkish Lira | 39.4960 | 24.8844 |

### 7.2. Interest

**Effective interest rate**

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

**NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired financial assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. For purchased or originated credit-impaired ('POCI') financial assets, a credit adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

**Amortised cost and gross carrying amount**

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

**Calculation of interest income and expense**

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

**Presentation**

Interest income and interest expense calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes only interest on financial assets and financial liabilities measured at amortised cost.

### 7.3. Leases

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

## NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 7.3.1. Bank acting as a lessee

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

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

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

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

Lease payments included in the measurement of the lease liability comprise the following:

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

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

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

The Bank presents right-of-use assets in 'Tangible and intangible assets' and lease liabilities in 'Other liabilities' in the statement of financial position.

## NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Short-term leases and leases of low-value assets**

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

#### 7.3.2. Bank acting as a lessor

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

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

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

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Rental income is included in 'Other operating income' and maintenance expenses are included in 'Other administrative expenses'.

### 7.4. Taxation

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

### 7.5. Financial assets and financial liabilities

#### 7.5.1. Recognition and initial measurement

The Bank initially recognizes 'Due from banks', 'Loans and advances to banks', 'Loans and advances to customers', and 'Deposits from banks' on the date on which they are originated. All other financial instruments such as 'Derivative financial instruments' and 'Investment securities' are recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to its acquisition or issue.

## NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 7.5.2. Classification

**Financial liabilities**

The Bank classifies its financial liabilities, other than loan commitments, as measured at amortised cost.

**Financial assets**

On initial recognition, a financial asset is classified as measured at:

- Fair value through profit or loss ('FVPL');
- Fair value through other comprehensive income ('FVOCI'); or
- Amortised cost.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI').

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

All other financial assets are classified as measured at FVPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

**Business model assessment**

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to the Management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether the Bank's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the key Management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed;

**NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank’s stated objective for managing the financial assets is achieved and how cash flows are realised.

The Bank’s assessment of the business model is not performed on the basis of scenarios that are not reasonably expected to occur, such as so-called ‘worst case’ or ‘stress case’ scenarios.

Financial assets that are managed and whose performance is evaluated on a fair value basis are measured at FVPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

**Assessment of whether contractual cash flows are solely payments of principal and interest**

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual flows are SPPI, the Bank considers contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank’s claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money.

The Bank assesses whether a loan secured by collateral of the borrower limit the Bank’s claim to cash flows of the underlying collateral or not (non-recourse loans). The Bank applies judgement in assessing whether the non-recourse loans meet the SPPI criterion. The Bank typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is a substantive operating entity or is a special-purpose entity;
- the Bank’s risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower’s assets; and
- whether the Bank will benefit from any upside from the underlying assets.

## NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Reclassifications**

The Bank reclassifies financial assets when and only when its business model for managing financial assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and did not occur during the period.

### 7.5.3. Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the derecognised asset) and the sum of (i) the consideration received and (ii) any cumulative gain or loss that had been recognized in other comprehensive income ('OCI') is recognized in profit or loss.

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

### 7.5.4. Modifications of financial assets

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

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

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

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

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

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

**NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

If the modification of a financial asset measured at amortised cost or FVOCI does not result in de-recognition of the financial asset then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

### 7.5.5. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

### 7.5.6. Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

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

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

**NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a financial liability with a demand feature (e.g. demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

### 7.5.7. Impairment

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

- Due from banks;
- Loans and advances to banks;
- Loans and advances to customers;
- Debt investment securities; and
- Loan commitments issued.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- financial instruments that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

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

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

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

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

**NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Significant increase in credit risk**

The Bank monitors whether a financial instrument has experienced a significant increase in credit risk or not, on ad-hoc and regular basis as explained below.

The Bank executes supervision and monitoring process individually for all of its loan exposures, at least once in a year. The aim of this practice is to follow implementation and identify problems and changed circumstances as early as possible so that appropriate action may be applied on a timely basis to achieve the operation's objectives and to protect the Bank's investment. Apart from individual supervision and monitoring, Risk Management Department ('RMD') of the Bank is responsible for preparation of regular risk asset reviews for the Bank's loan portfolio at least once annually.

In normal course of business, the credit lines made available for treasury operations of the Bank are reviewed during the annual limit renewals of counterparties. Additionally, RMD also assesses whether the credit risk of a treasury asset has increased significantly or not.

Finally, at each reporting date the Bank assesses whether the credit risk of any financial instrument has increased significantly since initial recognition or not.

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

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

There is a rebuttable presumption that the credit risk of a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. 30 days past due presumption can be rebutted if there is reasonable and supportable information, that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due.

**Definition of default**

The Bank may consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

**NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

There is a rebuttable presumption that default occurs when contractual payments are more than 90 days past due. 90 days past due presumption can be rebutted if there is reasonable and supportable information available that demonstrates that even financial asset is more than 90 days past due this does not represent a default.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

**Measurement of ECL**

ECL are probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

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

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

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

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

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

## NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basic parameters, assumptions and techniques used for calculating ECL

The Expected Credit Losses are the product of the probability of default ('PD'), the exposure at default ('EAD'), and loss given default ('LGD'), defined as follows:

Probability of default

The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation.

Usual practices for deriving PD values for credit exposures often focus on mapping mechanisms to bank-wide master scales or external ratings. However, the Bank's credit exposure is with an overall good quality of borrowers and composed of high-volume-low-number transactions.

As the Bank does not have sufficient default experience over years, zero or close to zero PD estimates would not reflect the Bank's prudent risk management practice. In order to overcome this issue, the Bank benefitted from the results of the low-default portfolio research which is widely recognized as the industry best practice.

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

Exposure at default

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

Loss given default

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, availability and quality of collateral. LGD is expressed as a percentage loss per unit of exposure at the time of default.

Taking into account the Bank's preferential treatment towards its member states and lower risk of lost in case of a default of a financial institution compared to a customer; the Bank calibrated different LGD estimates for sovereigns, financial institutions and other clients. Based on the type and coverage of collateral, LGD is adjusted in order to reflect probable loss in case of default.

## NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- Debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

### Restructured financial assets

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

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

### Credit-impaired financial assets

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

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

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

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

## NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Write-off**

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

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

### 7.6. Cash and cash equivalents

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

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

### 7.7. Derivatives

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

### 7.8. Due from banks

'Due from banks' in the statement of financial position are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method (Notes 13).

### 7.9. Loans and advances

'Loans and advances' in the statement of financial position are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method (Notes 14 and 15).

## NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 7.10. Investment securities

The 'Investment securities' in the statement of financial position are debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

### 7.11. Tangible and intangible assets

#### 7.11.1. Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment. Any gain and loss on disposal of an item of property and equipment is recognised within other operating income or other operating expenses in the statement of profit or loss and OCI.

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

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in profit or loss. The estimated useful lives of significant items of property and equipment are as follows:

| | **Useful lives** |
|---|---|
| Equipment | 4-5 years |
| Motor vehicles | 5 years |
| Furniture and fixture | 10 years |
| Buildings (Shell and core) | 50 years |
| Buildings (Interior fit-out) | 15 years |

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate (Note 17).

#### 7.11.2. Investment property

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

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

**NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Estimated useful lives of investment property are as follows:

| | **Useful lives** |
|---|---|
| Investment property (Shell and core) | 50 years |
| Investment property (Interior fit-out) | 15 years |

#### 7.11.3. Intangible assets

Intangible assets consist of computer software program and licenses. Intangible assets are measured at cost, less accumulated amortization and any accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Intangible assets are amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of intangible assets for the current and comparative periods is four to five years. Amortisation methods, useful lives and residual values are reviewed at each reporting period and adjusted if appropriate (Note 17).

### 7.12. Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the assets' recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or cash-generating units ('CGU'). A cash-generating unit is the smallest identifiable group of assets that generates cash inflows which are largely independent of the cash flows from other assets or group of assets.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised under other operating expenses in profit or loss. An impairment loss recognized in prior periods for an asset is reversed if the subsequent increase in the asset's recoverable amount is caused by a specific event since the last impairment loss was recognized. Such a reversal amount cannot be higher than the previously recognized impairment and is recognized as other operating income in profit or loss (Notes 25 and 26).

### 7.13. Deposits

Deposits from banks are the Bank's source of debt funding. Deposits are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

## NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 7.14. Provisions, commitments and contingencies

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

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

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

### 7.15. Loan commitments

'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions. The Bank has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument. The Bank has not issued loan commitments that are measured at FVPL. Liabilities arising from loan commitments are included within provisions.

### 7.16. Employee benefits

#### 7.16.1. Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as personnel expense in profit or loss. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. The Bank pays contributions to Turkish State Social Security Plan on a mandatory basis for the local employees who are not participant to the first pillar of the Bank's pension plan. The Bank has no further payment obligations once the contributions have been paid.

#### 7.16.2. Pension plan

The Bank operates a pension plan implemented beginning from 1 October 2008, which includes first pillar as hybrid plan that is comprised of a defined benefit plan and defined contribution plan, second and third pillars as defined contribution plans. The employees who are not subject to Turkish State Social Security Plan are enrolled in the first pillar whereas participation in the second pillar is at their will. All employees are eligible to participate in the third pillar where participation in the first and/or second pillar is not a pre-requisite.

**NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The requirements for the defined benefit part of the first pillar are attaining normal retirement age (which is 60 in accordance with the Pension Plan Policy of the Bank), participating in the second pillar and transferring at least the amount equal to 90% of the first pillar contributions from the second pillar account to the first pillar account. If these requirements are met then the (participant) employee shall be entitled to the following benefits:

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

The benefit provided will be as a lump sum for an employee not fulfilling the requirements described above. The lump sum payment is equal to the amount of the employee's standing balance in the pension plan. In the event of death before reaching normal retirement age, the benefit will be provided to employee's legal beneficiary as a lump sum payment equal to the balance of employee's account.

According to the Pension Plan Policy, an employee shall become entitled to a disability pension from the first pillar if the employee suffers a disability before attaining normal retirement age. If such a disability occurs the employee shall become entitled to disability pension in monthly amounts equals to 25% of the employee's last salary immediately before becoming disabled until the employee's normal retirement age. Nevertheless, the Bank shall continue its contribution for the first pillar for the disabled employee, until reaching normal retirement age on the basis of his/her last salary immediately before becoming disabled. After reaching the employee's normal retirement age the disability pension will cease and, upon the employee's choice it can be replaced by the pension benefits in accordance with the Pension Plan Policy. The time during which the disability pension has been paid will be included in the employee's service at the Bank when calculating the total pension benefits of the employee after reaching normal retirement age.

The pension plan is funded by contributions from employees and by the Bank depending on the type of the plan and with respect to the provisions of the Pension Plan Policy. Contribution rates to the pension plan are as follows:

| **Pension contributions of basic salary** | **Bank %** | **Employee %** |
|---|---|---|
| First pillar | 12 | - |
| Second pillar (1) | up to 7 | up to 7 |
| Third pillar | - | up to 10 |

(1) The Bank contributes to the second pillar if and only if employee contributes but at the same matching rate up to 7%.

For the defined benefit part of the hybrid plan and disability pension, the pension liability is calculated by using the 'projected unit credit method'. Under this method, the cost of providing pensions is charged to the statement of profit or loss and OCI so as to spread the regular cost over the service lives of employees.

## NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Actuarial valuations for the pension plan have been performed by an independent actuarial firm in accordance with the methods and estimations determined in International Accounting Standard for Employee Benefits ('IAS 19'). The pension liability is measured at the present value of the estimated future cash outflows using interest rates of government securities that have terms to maturity approximately the terms of the related liability. All actuarial gains and losses are recognized in statement of profit or loss and OCI over the average remaining service lives of the employees. Accounting has been made according to appraisals in the actuarial report as of 31 December 2022 which includes the expected charge for 2023 (Note 20.1).

The Bank keeps; assets of the pension plan under its treasury investment portfolio and liabilities related to first, second and third pillars separately for each participant under employee benefits (Note 20.1). The Bank accrues interest on its liabilities to the pension plan which is calculated using the average return of the Bank's treasury investment portfolio and investments made on behalf of the pension plan (Note 23).

### 7.16.3. Short term employee benefits

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

The Bank provides annual leave pay provision for the employees. Full-time professional staff members are entitled to an annual leave of fifteen workdays per year with service of less than and including ten years and twenty workdays per year with service after ten years and more. New employees are eligible for annual leave after six months of service (Note 20.2).

### 7.16.4. Reserve for employee severance indemnity – Defined benefit plan

Provision for employee severance indemnity represents the present value of the estimated total provision of the future probable obligation arising from the retirement of the employees calculated in accordance with the Turkish Labour Law. In accordance with Labour Law in Türkiye, entities are required to make lump-sum termination indemnities to each employee whose employment is terminated due to retirement or for reasons other than resignation or misconduct and who has completed at least one year of service.

Provision is made for the present value of the defined benefit obligation calculated using the projected unit credit method. Actuarial gains/losses are recognized under other comprehensive income (Note 20.3).

### 7.17. Earnings per share

Since the Bank's shares are not traded in a public market and the Bank's financial statements are not filed or not in the process of filing with a securities commission or other regulatory organization for the purpose of issuing shares in a public market, the Bank is not required to disclose basic earnings per share information in accordance with IAS 33 Earnings Per Share.

## NOTE 7 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 7.18. Segment reporting

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

### 7.19. Comparatives

Comparative figures are reclassified, where necessary, to conform to change, in presentation of the 31 December 2023 financial statements.

## NOTE 8 – THE NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

The accounting policies adopted in preparation of the financial statements as of 31 December 2023 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2023 and thereafter. The effects of these standards and interpretations on the Bank's financial position and performance have been disclosed in the related paragraphs.

### 8.1. The new standards, amendments and interpretations which are effective as of 1 January 2023

**IFRS 17 - The new Standard for insurance contracts**

The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided.

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

**Amendments to IAS 8 - Definition of Accounting Estimates**

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

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

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

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

In February 2021, the Board issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. In the absence of a definition of the term 'significant' in IFRS, the Board decided to replace it with 'material' in the context of disclosing accounting policy information. 'Material' is a defined term in IFRS and is widely understood by the users of financial statements, according to the Board. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and the nature of them. Examples of circumstances in which an entity is likely to consider accounting policy information to be material have been added.

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

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

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

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

### Amendments to IAS 12 - International Tax Reform – Pillar Two Model Rules

In May 2023, the Board issued amendments to IAS 12, which introduce a mandatory exception in IAS 12 from recognizing and disclosing deferred tax assets and liabilities related to Pillar Two income taxes. The amendments clarify that IAS 12 applies to income taxes arising from tax laws enacted or substantively enacted to implement the Pillar Two Model Rules published by the Organization for Economic Cooperation and Development ('OECD'). The amendments also introduced targeted disclosure requirements for entities affected by the tax laws. The temporary exception from recognition and disclosure of information about deferred taxes and the requirement to disclose the application of the exception apply immediately and retrospectively upon issue of the amendments. However, certain disclosure requirements are effective in the annual reporting periods beginning on or after 1 January 2023.

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

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

**8.2. Standards issued but not yet effective and not early adopted**

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the financial statements are as follows. The Bank will make the necessary changes if not indicated otherwise, which will be affecting the financial statements and disclosures, when the new standards and interpretations become effective.

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

In December 2015, IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted.

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

**Amendments to IAS 1- Classification of Liabilities as Current and Non-Current Liabilities**

In January 2020 and October 2022, IASB issued amendments to IAS 1 to specify the requirements for classifying liabilities as current or non-current. According to the amendments made in October 2022 if an entity's right to defer settlement of a liability is subject to the entity complying with the required covenants at a date subsequent to the reporting period ('future covenants'), the entity has a right to defer settlement of the liability even if it does not comply with those covenants at the end of the reporting period. In addition, October 2022 amendments require an entity to provide disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months. This disclosure must include information about the covenants and the related liabilities. The amendments clarified that the classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting period. The amendments are effective for periods beginning on or after 1 January 2024. The amendments must be applied retrospectively in accordance with IAS 8. Early application is permitted. However, an entity that applies the 2020 amendments early is also required to apply the 2022 amendments, and vice versa.

Overall, the Bank expects no significant impact on its balance sheet and equity.

**Amendments to IAS 21 - Lack of exchangeability**

In August 2023, the Board issued amendments to IAS 21. The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. When an entity estimates a spot exchange rate because a currency is not exchangeable into another currency, it discloses information that enables users of its financial statements to understand how the currency not being exchangeable into the other currency affects, or is expected to affect, the entity's financial performance, financial position and cash flows. The amendments will be effective for annual reporting periods beginning on or after 1 January 2025. Early adoption is permitted but will need to be disclosed. When applying the amendments, an entity cannot restate comparative information.

Overall, the Bank expects no significant impact on its balance sheet and equity.

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

### Amendments to IAS 7 and IFRS 7 - Disclosures: Supplier Finance Arrangements

The amendments issued in May 2023 specify disclosure requirements to enhance the current requirements, which are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. Supplier finance arrangements are characterized by one or more finance providers offering to pay amounts which an entity owes its suppliers and the entity agreeing to pay according to the terms and conditions of the arrangements at the same date as, or a date later than, suppliers are paid. The amendments require an entity to provide information about terms and conditions of those arrangements, quantitative information on liabilities related to those arrangements as at the beginning and end of the reporting period and the type and effect of non-cash changes in the carrying amounts of those liabilities. In the context of quantitative liquidity risk disclosures required by IFRS 7, supplier finance arrangements are also included as an example of other factors that might be relevant to disclose. The amendments will be effective for annual reporting periods beginning on or after 1 January 2024. Early adoption is permitted but will need to be disclosed.

Overall, the Bank expects no significant impact on its balance sheet and equity.

### Amendments to IFRS 16 - Lease Liability in a Sale and Leaseback

In September 2022, the Board issued amendments to IFRS 16. The amendments specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognize any amount of the gain or loss that relates to the right of use it retains. In applying requirements of IFRS 16 under 'Subsequent measurement of the lease liability' heading after the commencement date in a sale and leaseback transaction, the seller lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee. The amendments do not prescribe specific measurement requirements for lease liabilities arising from a leaseback. The initial measurement of the lease liability arising from a leaseback may result in a seller-lessee determining 'lease payments' that are different from the general definition of lease payments in IFRS 16. The seller-lessee will need to develop and apply an accounting policy that results in information that is relevant and reliable in accordance with IAS 8. A seller-lessee applies the amendments to annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. A seller-lessee applies the amendments retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application of IFRS 16.

Overall, the Bank expects no significant impact on its balance sheet and equity.

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

**IFRS 18 – The new Standard for Presentation and Disclosure in Financial Statements**

In April 2024, IASB issued IFRS 18 which replaces IAS 1. IFRS 18 introduces new requirements on presentation within the statement of profit or loss, including specified totals and subtotals. IFRS 18 requires an entity to classify all income and expenses within its statement of profit or loss into one of five categories: operating; investing; financing; income taxes; and discontinued operations. It also requires disclosure of management-defined performance measures and includes new requirements for aggregation and disaggregation of financial information based on the identified 'roles' of the primary financial statements and the notes. In addition, there are consequential amendments to other accounting standards, such as IAS 7, IAS 8 and IAS 34. IFRS 18 and the related amendments are effective for reporting periods beginning on or after 1 January 2027, but earlier application is permitted. IFRS 18 will be applied retrospectively.

Overall, the Bank expects no significant impact on its balance sheet and equity.

## C. FINANCIAL RISK REVIEW AND FAIR VALUE

**NOTE 9 – FINANCIAL RISK REVIEW**

This section provides details of the Bank's exposure to risk and describes the methods used to manage those risks. The most important types of risk to which the Bank is exposed are credit risk, liquidity risk, market risk, and compliance and operational risk.

**9.1. Risk management framework**

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

By virtue of its mandate, the credit risk inherent in the Bank's ordinary operations is relatively high, due to the geographic concentration of its operational portfolio and the nature of the Bank's involvement in the projects it undertakes in conformity with the Agreement. The application of sound banking principles in the Bank's credit process seeks to ensure that these significant credit risks are properly identified and managed while other risks resulting from its ordinary operations should be mitigated to the extent possible. Since the Bank's ordinary operations are inherently relatively risky, the management of treasury activities is conservative. A comprehensive risk management framework for treasury activities, particularly addressing credit, liquidity, and market risk are established.

The Bank's risk management policies are established for the identification and assessment of the risks, which the Bank may be exposed to and also to set appropriate risk limit controls for monitoring the same. The Financial Policies of the Bank approved by the Board of Directors establish the guiding principles for sound financial management and provide the framework within which the Bank pursues its business objectives.

Audit Committee of the Bank is composed of three members from the different member countries, appointed by the Board of Governors. Audit Committee's purpose is to assist Board of Governors in fulfilling its oversight responsibilities.

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

## NOTE 9 – FINANCIAL RISK REVIEW (Continued)

The Board of Directors has established the Credit Committee which is responsible to guide the lending departments through the approval process from Concept Clearance to Final Review stages, in conformity with the Bank's Operations Cycle Policy. It considers all matters related to the lending operations of the Bank and expresses opinions with respect to the appropriateness of the due diligence and appraisal process.

The Board of Directors has established Asset and Liability Management Committee ('ALCO') which is responsible for setting strategic direction in market risk management and transfer pricing. ALCO establishes specific numerical limits, targets, and guidelines within which tactical and operational asset and liability management decision-making must take place.

### 9.2. Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from due from banks, loans and advances, investment securities and derivatives. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure – e.g. individual obligor default risk, country risk and sector risk.

#### 9.2.1. Management of credit risk

The Bank's primary exposures to credit risk arise through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of these assets on the statement of financial position. In view of the Bank's philosophy of prudent lending, the function of credit risk management is 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 in order to ensure that decisions are made in line with the Bank's strategy and that loan applications are prudently reviewed. Lending decisions are made to clients by following the guidelines laid down in various policies and through coordination with other business units to ensure that the loans are made in line with the Bank's overall risk appetite and strategy. All credit applications are evaluated by the Credit Committee which in case of approval elevates the same to the Board of Directors for final approval. In addition to compliance function, the Bank's Management also provides oversight and direction to the activities of risk management to ensure that the Bank's risk profile is in line with its strategy and operating environment, in a manner which ensures protection to the shareholders.

#### 9.2.2. Exposure to credit risk

The following table shows the exposure to credit risk:

| | 31 December 2023 | 31 December 2022 |
|---|---:|---:|
| Loans and advances to customers | 199,887 | 162,002 |
| Loans and advances to banks | 120,266 | 148,475 |
| Due from banks | 105,409 | 89,023 |
| Investment securities | 61,371 | 65,750 |
| Derivative financial instruments | 595 | 854 |
| **Total** | **487,528** | **466,104** |

As of 31 December 2023, the Bank has no assets held for resale (31 December 2022: None).

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

## NOTE 9 – FINANCIAL RISK REVIEW (Continued)

### 9.2.3. Segment analysis of credit risk exposures

The following table shows the segment distribution of credit risk exposures.

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| **Treasury portfolio** | | |
| Due from banks | 105,409 | 89,023 |
| Investment securities | 61,371 | 65,750 |
| Derivative financial instruments | 595 | 854 |
| **Total treasury portfolio** | **167,375** | **155,627** |
| **Loan portfolio** | | |
| Project finance | 112,122 | 66,111 |
| Customers-Trade/Corporate finance | 87,765 | 95,891 |
| Financial institutions-Trade finance | 71,557 | 101,181 |
| Financial institutions-SME support program | 48,709 | 47,294 |
| **Total loan portfolio** | **320,153** | **310,477** |
| **Total** | **487,528** | **466,104** |

### 9.2.4. Credit quality analysis

The Bank uses internal credit risk grading that reflects its assessment of the probability of default of individual counterparties. The Bank assigns its internal risk rating to all counterparties including borrowers and sovereigns in the loan and treasury portfolios and reflects the credit worthiness of counterparties. The Bank's internal risk rating depicts the credit worthiness of borrowers on a scale of 1 to 10 with a score of 1 denoting the lowest expectation of default while a score of 10 denotes non-performing. The table below shows the Bank's internal risk ratings, definitions and respective categories.

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

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

## NOTE 9 – FINANCIAL RISK REVIEW (Continued)

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

| | 31 December 2023 | | | | 31 December 2022 |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Total** |
| **Due from banks** | | | | | |
| 2: Very strong | 20,782 | - | - | 20,782 | - |
| 3: Strong | 15,026 | - | - | 15,026 | 33,340 |
| 4: Good | 60,674 | - | - | 60,674 | 17,242 |
| 5: Fair | 10,192 | - | - | 10,192 | 39,485 |
| | 106,674 | - | - | 106,674 | 90,067 |
| Loss allowance | (1,265) | - | - | (1,265) | (1,044) |
| **Carrying amount** | **105,409** | **-** | **-** | **105,409** | **89,023** |
| **Loans and advances to banks at amortised cost** | | | | | |
| 2: Very strong | 4,134 | - | - | 4,134 | - |
| 3: Strong | 9,590 | - | - | 9,590 | 45,108 |
| 4: Good | 106,449 | - | - | 106,449 | 79,364 |
| 5: Fair | 1,596 | - | - | 1,596 | 24,171 |
| 6: Weak | - | - | - | - | 1,571 |
| | 121,769 | - | - | 121,769 | 150,214 |
| Loss allowance | (1,503) | - | - | (1,503) | (1,739) |
| **Carrying amount** | **120,266** | **-** | **-** | **120,266** | **148,475** |
| **Loans and advances to customers at amortised cost** | | | | | |
| 1: Excellent | 163,527 | - | - | 163,527 | 104,057 |
| 4: Good | 3,066 | - | - | 3,066 | 20,708 |
| 6: Weak | 14,308 | - | - | 14,308 | 16,685 |
| 10: Non-performing | - | - | 20,938 | 20,938 | 22,726 |
| | 180,901 | - | 20,938 | 201,839 | 164,176 |
| Loss allowance | (457) | - | (1,495) | (1,952) | (2,174) |
| **Carrying amount** | **180,444** | **-** | **19,443** | **199,887** | **162,002** |
| **Debt investment securities at amortised cost** | | | | | |
| 1: Excellent | 11,797 | - | - | 11,797 | 11,621 |
| 3: Strong | 50,206 | - | - | 50,206 | 18,742 |
| 4: Good | - | - | - | - | 34,497 |
| 5: Fair | - | - | - | - | 1,538 |
| | 62,003 | - | - | 62,003 | 66,398 |
| Loss allowance | (632) | - | - | (632) | (648) |
| **Carrying amount** | **61,371** | **-** | **-** | **61,371** | **65,750** |

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

## NOTE 9 – FINANCIAL RISK REVIEW (Continued)

The following table shows the overdue status of loans and advances to banks and loans and advances to customers in Stages 1, 2 and 3.

| | 31 December 2023 | | | | 31 December 2022 |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Total** |
| **Loans and advances to banks at amortised cost** | | | | | |
| Current | 121,769 | - | - | 121,769 | 150,214 |
| Overdue ≤30 days | - | - | - | - | - |
| Overdue <60 days | - | - | - | - | - |
| Overdue ≤90 days | - | - | - | - | - |
| Overdue > 90 days | - | - | - | - | - |
| **Total** | **121,769** | **-** | **-** | **121,769** | **150,214** |
| **Loans and advances to customers at amortised cost** | | | | | |
| Current | 180,901 | - | - | 180,901 | 141,450 |
| Overdue ≤30 days | - | - | - | - | - |
| Overdue <60 days | - | - | - | - | - |
| Overdue ≤90 days | - | - | - | - | - |
| Overdue > 90 days | - | - | 20,938 | 20,938 | 22,726 |
| **Total** | **180,901** | **-** | **20,938** | **201,839** | **164,176** |

### 9.2.5. Collateral held and other credit enhancements

**Loans and advances to customers**

The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. The Bank may take collateral in the form of a sovereign guarantee issued by a member state, bank guarantee, first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because of the Bank's focus on corporate customers' creditworthiness, the Bank routinely monitors the collateral held against loans to customers where applicable. Valuation of the collateral is updated when the loan is put on a watch list and the loan is monitored more closely. For credit-impaired loans, the Bank obtains appraisals of collateral because it provides input into determining the management credit risk actions.

Sovereign guarantees are held as collateral against loans to customers that are classified under Stage 3.

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

## NOTE 9 – FINANCIAL RISK REVIEW (Continued)

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

| | 31 December 2023 | | 31 December 2022 | |
|---|---|---|---|---|
| | **Customers-Trade/Corporate finance** | **Project finance** | **Customers-Trade/Corporate finance** | **Project finance** |
| Sovereign loans | 100% | 67% | 83% | 36% |
| Sovereign guarantee | - | 18% | - | 33% |
| Stand by letter of credit | - | 15% | - | 30% |
| Corporate guarantee | - | - | 17% | - |
| Charge on fixed assets | - | - | - | 1% |
| **Total** | **100%** | **100%** | **100%** | **100%** |

### 9.2.6. Amounts arising from ECL

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

**Due from banks:**

| | 31 December 2023 | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Balance at 1 January | 1,044 | - | - | 1,044 |
| Transfer to Stage 1 | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - |
| Net remasurement of loss allowance | - | - | - | - |
| New financial assets originated | 1,265 | - | - | 1,265 |
| Financial assets that have been derecognised | (1,044) | - | - | (1,044) |
| **Balance at period end** | **1,265** | **-** | **-** | **1,265** |

| | 31 December 2022 | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Balance at 1 January | 1,366 | - | - | 1,366 |
| Transfer to Stage 1 | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - |
| Net remasurement of loss allowance | - | - | - | - |
| New financial assets originated | 1,044 | - | - | 1,044 |
| Financial assets that have been derecognised | (1,366) | - | - | (1,366) |
| **Balance at period end** | **1,044** | **-** | **-** | **1,044** |

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

## NOTE 9 – FINANCIAL RISK REVIEW (Continued)

**Loans and advances to banks at amortised cost:**

| | 31 December 2023 | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Balance at 1 January | 1,739 | - | - | 1,739 |
| Transfer to Stage 1 | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - |
| Net remasurement of loss allowance | (80) | - | - | (80) |
| New financial assets originated | 684 | - | - | 684 |
| Financial assets that have been derecognised | (840) | - | - | (840) |
| **Balance at period end** | **1,503** | **-** | **-** | **1,503** |

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

**Loans and advances to customers at amortised cost:**

| | 31 December 2023 | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Balance at 1 January | 633 | - | 1,541 | 2,174 |
| Transfer to Stage 1 | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - |
| Net remasurement of loss allowance | 42 | - | (31) | 11 |
| New financial assets originated | 87 | - | - | 87 |
| Financial assets that have been derecognised | (305) | - | (15) | (320) |
| **Balance at period end** | **457** | **-** | **1,495** | **1,952** |

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

## NOTE 9 – FINANCIAL RISK REVIEW (Continued)

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

**Investment securities at amortised cost:**

| | 31 December 2023 | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Balance at 1 January | 648 | - | - | 648 |
| Transfer to Stage 1 | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - |
| Net remasurement of loss allowance | 37 | - | - | 37 |
| New financial assets originated | - | - | - | - |
| Financial assets that have been derecognised | (52) | - | - | (52) |
| Foreign exchange movements | (1) | - | - | (1) |
| **Balance at period end** | **632** | **-** | **-** | **632** |

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

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

## NOTE 9 – FINANCIAL RISK REVIEW (Continued)

### 9.2.7. Concentration of credit risks

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

**Concentration by sector:**

| | 31 December 2023 | | 31 December 2022 | |
|---|---|---|---|---|
| | Outstanding | Undrawn commitments | Outstanding | Undrawn commitments |
| **Financial sector** | | | | |
| Due from banks | 105,409 | - | 89,023 | - |
| Financial institutions-Trade finance | 71,557 | - | 101,181 | - |
| Investment securities | 49,582 | - | 54,138 | - |
| Financial institutions-SME SP | 48,709 | - | 47,294 | - |
| Derivative financial instruments | 595 | - | 854 | - |
| | **275,852** | **-** | **292,490** | **-** |
| **Industry and Trade** | | | | |
| Customers-Trade/Corporate finance | 81,600 | - | 15,863 | - |
| | **81,600** | **-** | **15,863** | **-** |
| **Health and Social Protection** | | | | |
| Project finance | 42,712 | - | - | - |
| Customers-Trade/Corporate finance | 6,165 | - | 8,979 | - |
| | **48,877** | **-** | **8,979** | **-** |
| **Public sector management** | | | | |
| Project finance | 32,936 | - | 23,958 | 7,981 |
| Investment securities | 11,789 | - | 11,612 | - |
| | **44,725** | **-** | **35,570** | **7,981** |
| **Energy** | | | | |
| Customers-Trade/Corporate finance | - | - | 71,049 | - |
| Project finance | 24,201 | - | 27,959 | - |
| | **24,201** | **-** | **99,008** | **-** |
| **Water, Sanitation, Flood Protection and other Urban Infrastructure Services** | | | | |
| Project finance | 12,273 | - | 14,194 | - |
| | **12,273** | **-** | **14,194** | **-** |
| **Total** | **487,528** | **-** | **466,104** | **7,981** |

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

**NOTE 9 – FINANCIAL RISK REVIEW (Continued)**

**Concentration by geographic location:**

| | 31 December 2023 | | 31 December 2022 | |
|---|---|---|---|---|
| | Outstanding | Undrawn commitments | Outstanding | Undrawn commitments |
| **Türkiye** | | | | |
| Treasury portfolio | 152,454 | - | 140,933 | - |
| Loan portfolio | 171,763 | - | 212,108 | 7,981 |
| | **324,217** | **-** | **353,041** | **7,981** |
| **Pakistan** | | | | |
| Treasury portfolio | 2,306 | - | 2,174 | - |
| Loan portfolio | 127,371 | - | 75,630 | - |
| | **129,677** | **-** | **77,804** | **-** |
| **Iran** | | | | |
| Treasury portfolio | 9 | - | 6 | - |
| Loan portfolio | 19,442 | - | 21,186 | - |
| | **19,451** | **-** | **21,192** | **-** |
| **Azerbaijan** | | | | |
| Loan portfolio | 1,577 | - | 1,553 | - |
| | **1,577** | **-** | **1,553** | **-** |
| **Other** | | | | |
| Treasury portfolio | 12,606 | - | 12,514 | - |
| | **12,606** | **-** | **12,514** | **-** |
| Total treasury portfolio | 167,375 | - | 155,627 | - |
| Total loan portfolio | 320,153 | - | 310,477 | 7,981 |
| **Total** | **487,528** | **-** | **466,104** | **7,981** |

### 9.3. Liquidity risk

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

#### 9.3.1. Management of liquidity risk

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

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

**NOTE 9 – FINANCIAL RISK REVIEW (Continued)**

The Bank’s approach to managing liquidity risk is to have sufficient amount of liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank’s reputation. The key elements of the Bank’s liquidity strategy are as follows:

- Carrying a portfolio of highly liquid assets, diversified by currency and maturity;
- Minimizing maturity mismatches; and
- Stress testing of the Bank’s liquidity position against various exposures.

Treasury Department receives information from other business units regarding the liquidity profile of their financial assets and details of other projected cash flows arising from projected future business. Treasury Department then maintains a portfolio of short-term liquid assets, largely made up of money market placements, to ensure that sufficient liquidity is maintained.

Daily liquidity stress testing is conducted under stress testing scenarios covering both normal and more severe market conditions. The scenarios are developed taking into account payment defaults on assets.

### 9.3.2. Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to net cash requirements (including projected loan disbursements). Ratios are maintained at a minimum of;

- 100% for the next 1 month,
- 100% for the next 3 months, and
- 75% for the next 12 months.

Details of the reported ratio of liquid assets to net cash requirements for the next 12 months at the reporting date and during the reporting period were as follows.

| | **31 December 2023** | **31 December 2022** |
|---|---|---|
| At period end | 112% | 2106% |
| Average for the period | 738% | 616% |
| Maximum for the period | 3311% | 3311% |
| Minimum for the period | 112% | 177% |

ALCO monitors the Bank’s liquidity on a weekly basis.

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

## NOTE 9 – FINANCIAL RISK REVIEW (Continued)

### 9.3.3. Maturity analysis for financial liabilities and financial assets

The amounts in the following tables have been compiled as follows.

| Type of financial instrument | Basis on which amounts are compiled |
|---|---|
| Non-derivative financial liabilities and financial assets | Undiscounted cash flows, which include estimated interest payments |
| Undrawn loan commitments | Earliest possible contractual maturity. |
| Derivative financial liabilities and Derivative financial assets | Contractual undiscounted cash flows. The amounts shown are the gross nominal inflows and outflows for derivatives that have simultaneous gross settlement (e.g. forward exchange contracts and currency swaps). |

The following table shows the remaining contractual maturities of the Bank's financial liabilities and financial assets.

| | 31 December 2023 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying Amount | Gross Nominal inflow/ (outflow) | Less Than 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | More than 5 years |
| **Financial liability by type** | | | | | | | |
| *Non-derivative liabilities* | | | | | | | |
| Deposits from banks | 35,956 | (36,157) | (18,861) | (17,296) | - | - | - |
| Unrecognized loan commitments | | - | - | - | - | - | - |
| - Banks | | - | - | - | - | - | - |
| - Customers | | - | - | - | - | - | - |
| **Total** | **35,956** | **(36,157)** | **(18,861)** | **(17,296)** | **-** | **-** | **-** |
| *Derivative liabilities* | | | | | | | |
| Trading FX derivatives | 1,704 | | | | | | |
| - Outflow | | (102,298) | (24,932) | (77,366) | - | - | - |
| - Inflow | | 100,535 | 24,088 | 76,447 | - | - | - |
| **Total** | **1,704** | **(1,763)** | **(844)** | **(919)** | **-** | **-** | **-** |
| **Financial asset by type** | | | | | | | |
| *Non-derivative assets* | | | | | | | |
| Due from banks | 105,409 | 107,779 | 51,572 | 46,122 | 10,085 | - | - |
| Loans and advances to banks | 120,266 | 132,196 | 18,526 | - | 76,356 | 37,314 | - |
| Loans and advances to customers | 199,887 | 232,264 | 2,382 | 34,308 | 72,651 | 72,126 | 50,797 |
| Investment securities | 61,371 | 69,976 | 3,425 | 3,786 | 7,830 | 54,935 | - |
| **Total** | **486,933** | **542,215** | **75,905** | **84,216** | **166,922** | **164,375** | **50,797** |
| *Derivative assets* | | | | | | | |
| Trading FX derivatives | 595 | | | | | | |
| - Outflow | | (54,767) | (15,553) | (39,214) | - | - | - |
| - Inflow | | 55,354 | 15,583 | 39,771 | - | - | - |
| **Total** | **595** | **587** | **30** | **557** | **-** | **-** | **-** |

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

## NOTE 9 – FINANCIAL RISK REVIEW (Continued)

| | 31 December 2022 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Carrying Amount** | **Gross Nominal inflow/ (outflow)** | **Less Than 1 month** | **1 to 3 months** | **3 to 12 Months** | **1 to 5 years** | **More than 5 years** |
| **Financial liability by type** | | | | | | | |
| *Non-derivative liabilities* | | | | | | | |
| Deposits from banks | 36,473 | (37,080) | (12,305) | - | (24,775) | - | - |
| Undrawn loan commitments | - | (7,981) | (7,981) | - | - | - | - |
| - Banks | - | - | - | - | - | - | - |
| - Customers | - | (7981) | (7,981) | - | - | - | - |
| **Total** | **36,473** | **(45,061)** | **(20,286)** | **-** | **(24,775)** | **-** | **-** |
| *Derivative liabilities* | | | | | | | |
| Trading FX derivatives | 2,062 | | | | | | |
| - Outflow | | (94,320) | (10,278) | (75,362) | (8,680) | - | - |
| - Inflow | | 92,452 | 9,803 | 74,045 | 8,604 | - | - |
| **Total** | **2,062** | **(1,868)** | **(475)** | **(1,317)** | **(76)** | **-** | **-** |
| **Financial asset by type** | | | | | | | |
| *Non-derivative assets* | | | | | | | |
| Due from banks | 89,023 | 90,378 | 70,419 | 19,959 | - | - | - |
| Loans and advances to banks | 148,475 | 158,628 | 1,802 | 12,379 | 77,760 | 66,687 | - |
| Loans and advances to customers | 162,002 | 181,590 | 1,107 | 32,612 | 74,227 | 48,819 | 24,825 |
| Investment securities | 65,750 | 78,923 | 3,988 | 684 | 3,706 | 70,545 | - |
| **Total** | **465,250** | **509,519** | **77,316** | **65,634** | **155,693** | **186,051** | **24,825** |
| *Derivative assets* | | | | | | | |
| Trading FX derivatives | 854 | | | | | | |
| - Outflow | | (39,926) | (8,344) | (18,084) | (13,498) | - | - |
| - Inflow | | 40,632 | 8,528 | 18,329 | 13,775 | - | - |
| **Total** | **854** | **706** | **184** | **245** | **277** | **-** | **-** |

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

## NOTE 9 – FINANCIAL RISK REVIEW (Continued)

The following table shows the carrying amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled less than 12 months after the reporting date.

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| **Financial assets** | | |
| Due from banks | 105,409 | 89,023 |
| Loans and advances to banks | 87,818 | 85,302 |
| Loans and advances to customers | 100,952 | 100,819 |
| Investment securities | 9,115 | 5,201 |
| **Total** | **303,294** | **280,345** |
| **Financial liabilities** | | |
| Deposits from banks | 35,956 | 36,473 |
| **Total** | **35,956** | **36,473** |

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

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| **Financial assets** | | |
| Loans and advances to banks | 32,448 | 63,173 |
| Loans and advances to customers | 98,935 | 61,183 |
| Investment securities | 52,256 | 60,549 |
| **Total** | **183,639** | **184,905** |

### 9.3.4. Liquidity reserves

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

| | 31 December 2023 | | 31 December 2022 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Demand deposits | 2,394 | 2,394 | 399 | 399 |
| Money market placements | 103,015 | 103,005 | 88,624 | 88,614 |
| Investment securities | 61,371 | 61,037 | 65,750 | 62,350 |
| **Total** | **166,780** | **166,436** | **154,773** | **151,363** |

As of 31 December 2023, the Bank does not have any financial asset recognised in the statement of financial position that had been pledged as collateral for liabilities (31 December 2022: None).

## NOTE 9 – FINANCIAL RISK REVIEW (Continued)

### 9.4. Market risk

Market risk is defined as the risk that changes in market prices will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Bank's sustainability while optimising the return on risk. Since the Bank's ordinary operations are inherently relatively risky, a conservative and comprehensive risk management framework addressing market risk has been established.

#### 9.4.1. Currency risk

Currency risk is defined as the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Bank's risk management policies do not allow holding of significant foreign currency positions.

The main measurement currencies of the Bank's operations are SDR basket currencies namely; Euro, US Dollar, Chinese Yuan, British Pound and Japanese Yen. As the functional currency of the Bank is SDR, the financial statements are affected by currency exchange rate fluctuations against SDR.

Considering the appetite of clients in the member countries only for US Dollar and Euro in loan and treasury operations, the Bank mostly invests in these two currencies. To provide liquidity in US Dollar and Euro, currency swap and forward transactions are held against Chinese Yuan, British Pound and Japanese Yen.

By policies in place, the Bank monitors the current status of its assets and liabilities in contrast to SDR in order to ensure that it takes currency risk within the approved limits. For each currency, ALCO set a limit of ±1.0% of the equity for currency open positions. Treasury department is duly responsible to constantly monitor, to regularize any breach of the aforesaid limit and to report to ALCO on a weekly basis.

In order to monitor the foreign currency exposures, net foreign currency position figures are adjusted by the currency neutral position amounts for Euro, US Dollar, Chinese Yuan, British Pound and Japanese Yen which is calculated based on their respective weights in SDR basket as of reporting date.

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

## NOTE 9 – FINANCIAL RISK REVIEW (Continued)

The following table shows the foreign currency position of the Bank:

| | 31 December 2023 | | | | | |
|---|---|---|---|---|---|---|
| | US Dollar | Euro | Other | Total foreign currency | SDR ('EU') | Total |
| **Assets** | | | | | | |
| Due from banks | 43,253 | 62,149 | 7 | 105,409 | - | 105,409 |
| Loans and advances to banks | 1,577 | 118,689 | - | 120,266 | - | 120,266 |
| Loans and advances to customers | 47,617 | 152,270 | - | 199,887 | - | 199,887 |
| Investment securities | 61,371 | - | - | 61,371 | - | 61,371 |
| Derivative financial instruments | - | - | - | - | 595 | 595 |
| Tangible and intangible assets | - | - | - | - | 4,608 | 4,608 |
| Other assets | 35 | - | 115 | 150 | - | 150 |
| **Total assets** | **153,853** | **333,108** | **122** | **487,083** | **5,203** | **492,286** |
| **Liabilities and Equity** | | | | | | |
| Deposits from banks | - | 35,956 | - | 35,956 | - | 35,956 |
| Derivative financial instruments | - | - | - | - | 1,704 | 1,704 |
| Employee benefits | 3,277 | - | 148 | 3,425 | - | 3,425 |
| Other liabilities | 730 | 572 | 37 | 1,339 | - | 1,339 |
| Equity | - | - | (37) | (37) | 449,899 | 449,862 |
| **Total liabilities and Equity** | **4,007** | **36,528** | **148** | **40,683** | **451,603** | **492,286** |
| **Net balance sheet position** | **149,846** | **296,580** | **(26)** | **446,400** | **(446,400)** | **-** |
| Off-balance sheet derivative instruments net notional position(1) | 41,459 | (156,839) | 114,204 | (1,176) | - | (1,176) |
| **Net foreign currency position** | **191,305** | **139,741** | **114,178** | **445,224** | **(446,400)** | **(1,176)** |
| **Currency neutral position** | **(192,332)** | **(137,074)** | **(116,994)** | **(446,400)** | **446,400** | **-** |
| **FX exposure in notional Ccy(2)** | **(1,027)** | **2,667** | **(2,816)** | **(1,176)** | **-** | **(1,176)** |

(1) Off-balance sheet derivative instruments net notional position in Chinese Yuan, British Pound and Japanese Yen are EU 49,009 thousand, EU 35,395 thousand and EU 29,800 thousand, respectively.

(2) The total foreign currency exposure in Chinese Yuan, Japanese Yen, British Pound, and Turkish Lira are EU (2,186) thousand, EU (1,736) thousand, EU 1,134 thousand and EU (28) thousand, respectively.

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

## NOTE 9 – FINANCIAL RISK REVIEW (Continued)

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

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

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

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

**NOTE 9 – FINANCIAL RISK REVIEW (Continued)**

**Sensitivity analysis**

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

The currency value of the SDR is determined by summing the US Dollar equivalents of pre-determined amounts of the US Dollar, Euro, Japanese Yen, British Pound and the Chinese Yuan, with market exchange rates. Therefore, any change in the US Dollar parity of the other currencies affect SDR parities of all the basket currencies. In this respect, foreign currency sensitivity is calculated based on appreciation/depreciation of the US Dollar against other SDR basket currencies with 10 percent. This would have increased/ (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

| | 31 December 2023 | | 31 December 2022 | |
|---|---|---|---|---|
| | **Appreciation** | **Depreciation** | **Appreciation** | **Depreciation** |
| US Dollar | 10,437 | (11,370) | 9,995 | (10,905) |
| Euro | (5,638) | 6,445 | (5,459) | 5,744 |
| Chinese Yuan | (2,014) | 2,203 | (2,103) | 2,084 |
| British Pound | (1,535) | 1,518 | (1,294) | 1,412 |
| Japanese Yen | (1,346) | 1,213 | (1,300) | 1,386 |
| **Total** | **(96)** | **9** | **(161)** | **(279)** |

**9.4.2. Interest rate risk**

Interest rate risk is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Bank is exposed to the interest rate risk to the extent that interest-earning assets and interest-bearing liabilities mature or re-price at different time periods or in different amounts. Interest rate risk is managed principally through monitoring interest rate gaps. The goal of interest rate risk management is to reduce effect of interest rate change on its Net Interest Income ('NII').

ALCO is the monitoring body for the interest rate risk and is assisted by Treasury Department in its periodical monitoring activities which is reviewed and discussed by ALCO during its monthly meetings and, if necessary, emergency ALCO Meetings which could be held at very short notice.

The interest rate repricing gap table analyses the full-term structure of interest rate mismatches within the Bank's balance sheet based on either (i) the next repricing date or the maturity date if floating rate or (ii) the maturity date if fixed rate.

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

## NOTE 9 – FINANCIAL RISK REVIEW (Continued)

The following table shows the interest rate gap position of the Bank:

| | 31 December 2023 | | | | | |
|---|---|---|---|---|---|---|
| | **Up to 1 month** | **1 to 3 months** | **3 to 12 months** | **Over 1 year** | **Non-interest bearing** | **Carrying amount** |
| **Assets** | | | | | | |
| Due from banks | 50,825 | 44,927 | 9,657 | - | | 105,409 |
| Loans and advances to banks | 18,256 | - | 102,010 | - | | 120,266 |
| Loans and advances to customers | 3,059 | 80,466 | 116,362 | - | | 199,887 |
| Investment securities | 3,341 | 3,534 | 6,029 | 48,467 | - | 61,371 |
| Derivative financial assets | | | | | 595 | 595 |
| Tangible and intangible assets | | | | | 4,608 | 4,608 |
| Other assets | - | - | - | - | 150 | 150 |
| **Total assets** | **75,481** | **128,927** | **234,058** | **48,467** | **5,353** | **492,286** |
| **Liabilities** | | | | | | |
| Deposits from banks | 18,814 | 17,142 | - | - | | 35,956 |
| Derivative financial liabilities | | | | | 1,704 | 1,704 |
| Employee benefits | - | 3,107 | - | - | 318 | 3,425 |
| Other liabilities | - | - | - | - | 1,339 | 1,339 |
| Total Liabilities (B) | 18,814 | 20,249 | - | - | 3,361 | 42,424 |
| **Net repricing gap** | **56,667** | **108,678** | **234,058** | **48,467** | **1,992** | **449,862** |

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

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

## NOTE 9 – FINANCIAL RISK REVIEW (Continued)

### Sensitivity analysis

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and financial liabilities to various interest rate scenarios. For the assessment of the interest rate sensitivity of the Bank ±0.25% shift in the market interest rates were applied to the statement of financial position items which are subject to calculation.

As of reporting date, 0.25% shock is applied for US Dollar and Euro for the assessment of the changes in the fair value of balance sheet items which are subject to calculation. It is assumed that the interest rates are shifted. Hence, the calculated figures do not reflect the effect on current profit or loss and equity if the interest rates during the period would have been different.

| | | 31 December 2023 | | 31 December 2022 | |
|---|---|---|---|---|---|
| | **Applied shock** | **Profit or loss** | **Equity (1)** | **Profit or loss** | **Equity (1)** |
| US Dollar | - 0.25% | (53) | (53) | (43) | (43) |
| US Dollar | + 0.25% | 53 | 53 | 43 | 43 |
| Euro | - 0.25% | (226) | (226) | (166) | (166) |
| Euro | + 0.25% | 226 | 226 | 166 | 166 |
| **Total (for negative shocks)** | | **(279)** | **(279)** | **(209)** | **(209)** |
| **Total (for positive shocks)** | | **279** | **279** | **209** | **209** |

(1) Includes the profit or loss effect.

### 9.5. Compliance and Operational risk

Compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss or loss to reputation that the Bank may suffer. Usually, this is the result of failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to banking activities. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. The definition includes legal risk but excludes strategic and reputational risk.

The Management Committee of the Bank is responsible for the effective management of the Bank's compliance risk in care of the Bank's Policy and Compliance Department ('PCD') and operational risk under comprehensive risk management perspective. The PCD assists the Management Committee in effectively supervising and managing the compliance risk that the Bank can face. To this end, PCD identifies, assesses, and advises on; reviews and reports accordingly on the Bank's potential compliance risks.

Appropriate measures are taken by the Bank to achieve a high level of operational risk awareness and to enhance the operational risk management. The Bank adopts market best practices and methods to monitor and manage its operational risks. Key processes for the management of operational risk include, amongst others; establishing the necessary internal controls such as the 'four eyes principle' and proper segregation of duties within the Bank's departments; the purchase of corporate and property insurance policies to confront potential losses which may occur as a result of various events and natural disasters; and the approval process of new products to identify and assess the operational risk related to each new product, activity, process and system.

## NOTE 9 – FINANCIAL RISK REVIEW (Continued)

### 9.6. Capital management

As a multilateral financial institution, the Bank is not subject to regulatory capital requirements. However, the Bank preserves an actively managed capital to prudently cover risks in its activities. In this respect, the Bank follows sound standards as benchmarks for risk management and capital framework. As per Article 7 of the Agreement, the total amount of equity investment of the Bank shall not exceed 20 percent of the paid-in capital of the Bank.

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

## NOTE 10 – FAIR VALUES OF FINANCIAL INSTRUMENTS

### Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign currency exchange rates.

**NOTE 10 – FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)**

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognised valuation models to determine the fair value of common and simple financial instruments, such as currency swaps, that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt securities and simple derivatives. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Bank uses proprietary valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and may be derived from market prices or rates or estimated based assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in determination of fair value. Management judgement and estimation are usually required for the selection of appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of the counterparty default and prepayments, determination of expected volatilities and correlations and selection of appropriate discount rates.

The following methods and assumptions were used to estimate the fair value of the financial instruments for which it is practicable to estimate fair value:

- The fair values of demand deposits denominated in other than presentation currency, which are translated at period-end exchange rates, are considered to approximate carrying values.
- The fair value of derivative financial instruments is estimated as the present value of future cash flows, using benchmark interest rates and yield curves.
- The fair values of due from banks are determined by discounting contractual cash flows with the sum of original spread and the respective benchmark interest rate as of the reporting date.
- The fair values of loans and advances are determined by discounting contractual cash flows with the sum of original spread and the respective benchmark interest rate as of the reporting date.
- The fair value of investment securities is estimated using the bid prices quoted as of the reporting date.
- The fair values of deposits from banks are determined by discounting contractual cash flows with the sum of original spread and the respective benchmark interest rate as of the reporting date.

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

## NOTE 10 – FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The following table shows the carrying amounts and fair values of financial instruments by the level in the fair value hierarchy into which each fair value measurement is categorised:

| | 31 December 2023 | | | | |
|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total fair values** | **Total carrying amount** |
| **Financial assets not measured at fair value** | | | | | |
| Due from banks | - | - | 105,399 | 105,399 | 105,409 |
| Loans and advances to banks | - | - | 120,416 | 120,416 | 120,266 |
| Loans and advances to customers | - | - | 199,965 | 199,965 | 199,887 |
| Investment securities | 61,037 | - | - | 61,037 | 61,371 |
| **Financial assets measured at fair value** | | | | | |
| Derivative financial instruments | - | 595 | - | 595 | 595 |
| **Total financial assets** | **61,037** | **595** | **425,780** | **487,412** | **487,528** |
| **Financial liabilities not measured at fair value** | | | | | |
| Deposits from banks | - | - | 35,958 | 35,958 | 35,956 |
| **Financial liabilities measured at fair value** | | | | | |
| Derivative financial instruments | - | 1,704 | - | 1,704 | 1,704 |
| **Total financial liabilities** | **-** | **1,704** | **35,958** | **37,662** | **37,660** |

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

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

# D. ASSETS

## NOTE 11 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and balances with banks repayable on demand and money market placements with original maturities of less than three months. The following table shows the cash and cash equivalents included in the accompanying statement of cash flows:

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Due from banks-demand | 2,394 | 399 |
| Due from banks-time (gross) | | |
| (with original maturity less than three months) | 65,257 | 66,350 |
| Interest accrual | 341 | 264 |
| Less: Allowance for ECL | (802) | (776) |
| **Total** | **67,190** | **66,237** |

## NOTE 12 – DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments mainly consist of foreign currency swaps and foreign currency forward contracts.

Foreign currency forwards represent commitments to purchase or sell currency, including undelivered spot transactions.

Foreign currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economical exchange of currencies or interest rates. Currency swaps involve the exchange of the principal as well. The bank risks are represented by the potential cost of replacing the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an on-going basis with reference to the current fair value and the liquidity of the market. To control the level of risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms.

| | 31 December 2023 | | 31 December 2022 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| **Derivatives held for trading:** | | | | |
| Currency swaps | 594 | (1,704) | 854 | (2,062) |
| Currency forwards | 1 | - | - | - |
| **Total** | **595** | **(1,704)** | **854** | **(2,062)** |

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

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

## NOTE 13 – DUE FROM BANKS

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Demand deposits | 2,394 | 399 |
| Money market placements | 104,280 | 89,668 |
| Due from banks, gross | 106,674 | 90,067 |
| Less: Allowance for ECL | (1,265) | (1,044) |
| **Due from banks at amortised cost, net** | **105,409** | **89,023** |

## NOTE 14 – LOANS AND ADVANCES TO BANKS

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Trade finance | 72,448 | 102,366 |
| SME support program | 49,321 | 47,848 |
| Loans and advances to banks, gross | 121,769 | 150,214 |
| Less: Allowance for ECL | (1,503) | (1,739) |
| **Loans and advances to banks at amortised cost, net** | **120,266** | **148,475** |

## NOTE 15 – LOANS AND ADVANCES TO CUSTOMERS

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Project finance | 114,012 | 67,981 |
| Trade/Corporate finance | 87,827 | 96,195 |
| Loans and advances to customers, gross | 201,839 | 164,176 |
| Less: Allowance for ECL | (1,952) | (2,174) |
| **Loans and advances to customers at amortised cost, net** | **199,887** | **162,002** |

## NOTE 16 – INVESTMENT SECURITIES

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Bonds issued by financial institutions | 50,205 | 54,997 |
| Government bonds | 11,798 | 11,401 |
| Debt investment securities, gross | 62,003 | 66,398 |
| Less: Allowance for ECL | (632) | (648) |
| **Debt investment securities at amortised cost, net** | **61,371** | **65,750** |

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

## NOTE 16 – INVESTMENT SECURITIES (Continued)

Movements in the investment securities are as follows:

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Balance at 1 January | 65,750 | 59,130 |
| Purchases during the year | - | 11,168 |
| Disposals through sales and redemption | (4,410) | (8,963) |
| ECL provision | 16 | (212) |
| Income accruals and rediscount | 519 | 926 |
| Foreign exchange movements | (504) | 3,701 |
| **Balance at period end** | **61,371** | **65,750** |

## NOTE 17 – TANGIBLE AND INTANGIBLE ASSETS

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Cost | 8,627 | 8,597 |
| Less: Accumulated depreciation | (1,772) | (1,636) |
| Less: Accumulated impairment loss | (2,247) | (2,247) |
| **Net book value** | **4,608** | **4,714** |

Movements in tangible and intangible assets are as follows:

| | Land and Buildings(1) | Motor vehicles | Furniture, fixture and equipment | Intangible assets | Investment property | Total |
|---|---|---|---|---|---|---|
| **31 December 2023** | | | | | | |
| Net book value at 1 January | 4,520 | 119 | 74 | 1 | - | 4,714 |
| Additions | 8 | - | 29 | 9 | - | 46 |
| Disposals | (6) | - | (9) | - | - | (15) |
| Accumulated depreciation and impairment of disposals | 6 | - | 6 | - | - | 12 |
| Reversal of impairment | - | - | - | - | - | - |
| Depreciation and amortization | (94) | (29) | (24) | (2) | - | (149) |
| **Net book value at period end** | **4,434** | **90** | **76** | **8** | **-** | **4,608** |
| **31 December 2022** | | | | | | |
| Net book value at 1 January | 2,988 | 14 | 15 | 2 | 974 | 3,993 |
| Additions | 8 | 127 | 67 | - | - | 202 |
| Disposals | - | (88) | (9) | - | (2,437) | (2,534) |
| Accumulated depreciation and impairment of disposals | - | 88 | 9 | - | 1,467 | 1,564 |
| Reversal of impairment | 1,617 | - | - | - | - | 1,617 |
| Depreciation and amortization | (93) | (22) | (8) | (1) | (4) | (128) |
| **Net book value at period end** | **4,520** | **119** | **74** | **1** | **-** | **4,714** |

(1) Land and buildings includes the asset usage rights of the real estates rented under the IFRS 16. As of 31 December 2023, net book value of asset usage rights is EU 6 thousand (31 December 2022: EU 15 thousand).

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

## NOTE 17 – TANGIBLE AND INTANGIBLE ASSETS (Continued)

### Property and equipment

As of 31 December 2023, property and equipment excluding the motor vehicles were insured against fire, theft and damage to the extent of EU 841 thousand. Motor vehicles are insured against accident to the extent of their acquisition cost.

As of 31 December 2023, total impairment losses regarding the headquarters building of the Bank amount to EU 2,247 thousand (31 December 2022: EU 2,247 thousand).

As of 31 December 2023, there were no capitalised borrowing costs related to the acquisition of property and equipment (31 December 2022: None).

The Bank leases real estates for its representative offices in Iran and Pakistan. The leases typically run for a period of 1-3 years and do not contain extension options exercisable by the Bank. Movements in right-of-use assets are as follows:

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Net book value at 1 January | 15 | 24 |
| Addition | 8 | 8 |
| Depreciation charge | (17) | (17) |
| **Net book value at period end** | **6** | **15** |

### Investment property

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

In the current period, rental income from investment property has not been recognised in other operating income (31 December 2022: None). There were no direct operating expenses for investment property that did not generate rental income (31 December 2022: EU 3 thousand). There were no direct operating expenses for investment property that generated rental income (31 December 2022: None).

## NOTE 18 – OTHER ASSETS

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Vendor down payments | 93 | 6 |
| Pre-paid expenses | 41 | 14 |
| Personnel advances | 11 | - |
| Other | 5 | 11 |
| **Total** | **150** | **31** |

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

# E. LIABILITIES AND EQUITY

## NOTE 19 – DEPOSITS FROM BANKS

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Money market deposits | 35,956 | 36,473 |
| **Total** | **35,956** | **36,473** |

## NOTE 20 – EMPLOYEE BENEFITS

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Pension plan liabilities | 3,191 | 3,281 |
| Reserve for employee severance indemnity | 148 | 31 |
| Annual leave pay liability | 86 | 101 |
| **Total** | **3,425** | **3,413** |

### 20.1. Pension plan liabilities

The following table shows the pension plan liabilities:

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| First pillar | 1,211 | 1,091 |
| Second pillar | 891 | 1,130 |
| Third pillar | 216 | 232 |
| Investment returns | 816 | 782 |
| Actuarial (gain)/loss | 57 | 46 |
| **Total** | **3,191** | **3,281** |

Movements in the pension plan liabilities are as follows:

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Balance at 1 January | 3,281 | 2,990 |
| Increase during the year | 904 | 629 |
| Benefits paid | (986) | (432) |
| Actuarial (gain)/loss | 11 | (70) |
| Foreign exchange movements | (19) | 164 |
| **Balance at period end** | **3,191** | **3,281** |

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

**NOTE 20 – EMPLOYEE BENEFITS (Continued)**

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

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Balance at 1 January | 46 | 111 |
| Current service cost | 9 | 12 |
| Interest cost | 2 | 4 |
| Actuarial (gain)/loss | - | (87) |
| Foreign exchange movements | - | 6 |
| **Balance at period end** | **57** | **46** |

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

| | 31 December 2023 (%) | 31 December 2022 (%) |
|---|---|---|
| Discount rate | 5.26 | 5.26 |
| Price inflation | 2.30 | 2.30 |
| Pay increase | 3.50 | 3.50 |

Mortality rate:

EVK00 standard mortality rates for males and females are used for pre and after retirement mortality. The average life expectancy in years of a pensioner after retiring at age 60 for both men and women on the reporting date are as follows:

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Male | 19.90 | 19.90 |
| Female | 22.50 | 22.50 |

The sensitivity analysis of defined benefit obligation of excess liabilities as of 31 December 2023 is as follows:

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

### 20.2. Annual leave pay liability

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

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Balance at 1 January | 101 | 124 |
| Provision for the period, (net) | (15) | (23) |
| **Balance at period end** | **86** | **101** |

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

## NOTE 20 – EMPLOYEE BENEFITS (Continued)

### 20.3. Reserve for employee severance indemnity

The reserve has been calculated by estimating the present value of the future probable obligation of the Bank. IAS 19 requires actuarial valuation methods to be developed to estimate the entity's obligation for such benefits. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Discount rate (%) | 3.00 | 1.57 |
| Turnover rate to estimate the probability of retirement (%) | 95.22 | 100.00 |

The principal actuarial assumption is that the current maximum liability will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the maximum liability is revised semi-annually, the lower of maximum amount of TL 23,490 (31 December 2022: TL 15,371) and gross monthly income of the staff member has been taken into consideration in calculating the reserve for employee termination benefits.

Movements in the reserve for employment termination benefits are as follows:

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Balance at 1 January | 31 | 14 |
| Current service cost | 129 | 2 |
| Benefits paid | (24) | - |
| Interest cost | 5 | 2 |
| Actuarial (gain)/loss | 18 | 15 |
| Foreign exchange movements | (11) | (2) |
| **Balance at period end** | **148** | **31** |

## NOTE 21 – OTHER LIABILITIES

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Unearned income (1) | 686 | 570 |
| Payables | 136 | 130 |
| Lease liabilities | - | 8 |
| Provisions (2) | 252 | - |
| Other (3) | 265 | 264 |
| | **1,339** | **972** |

(1) The Bank defers the income from front-end commissions during the tenor specified in the loan agreements.
(2) The provision relates to the on-going labour law related cases.
(3) Transitory liabilities amount to EU 261 thousand (31 December 2022: EU 259 thousand).

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

## NOTE 21 – OTHER LIABILITIES (Continued)

### Lease liabilities

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

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Net book value at 1 January | 8 | 18 |
| Addition | 8 | 8 |
| Payments | (14) | (17) |
| Foreign exchange movements | (2) | (1) |
| **Net book value at period end** | **-** | **8** |

## NOTE 22 – EQUITY

### 22.1. Share capital

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Authorized share capital | 1,089,100 | 1,089,100 |
| Less: unallocated share capital | - | - |
| **Subscribed share capital** | **1,089,100** | **1,089,100** |
| Less: callable share capital | (762,350) | (762,350) |
| **Paid-in share capital** | **326,750** | **326,750** |

There is no share capital paid-in during the period (2022: None).

The following table shows the number of shares, the amount subscribed by each member, including their respective callable and payable as well as the amount paid-in:

| | Shares | Subscribed | Callable | Payable | Paid-in |
|---|---|---|---|---|---|
| Islamic Republic of Iran (1) | 3,333 | 333,333 | 233,333 | - | 100,000 |
| Islamic Republic of Pakistan (1) | 3,333 | 333,333 | 233,333 | - | 100,000 |
| Republic of Türkiye (1) | 3,333 | 333,333 | 233,333 | - | 100,000 |
| Islamic Republic of Afghanistan | 500 | 50,000 | 35,000 | - | 15,000 |
| Republic of Azerbaijan | 325 | 32,500 | 22,750 | - | 9,750 |
| Kyrgyz Republic | 66 | 6,600 | 4,600 | - | 2,000 |
| | **10,891** | **1,089,100** | **762,350** | **-** | **326,750** |

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

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

**NOTE 22 – EQUITY (Continued)**

Out of the subscribed capital, EU 762,350 thousand may become payable (31 December 2022: EU 762,350 thousand), upon a unanimous decision of the Board of Governors, by the member countries in such manner and on such terms as deemed fit by the Board of Governors. The paid-in capital of EU 326,750 thousand (31 December 2022: EU 326,750 thousand) is reflected at its cost.

**22.2. Reserves**

| | 31 December 2023 | 31 December 2022 |
|---|---:|---:|
| General reserves | 101,198 | 85,702 |
| Actuarial reserves | (37) | (19) |
| **Total** | **101,161** | **85,683** |

In accordance with Article 27 of the Agreement, the Board of Governors determine annually what part of the net income of the Bank from ordinary capital operations shall be allocated to reserves, provided that no part of the net income of the Bank shall be distributed to members by way of profit until the general reserves of the Bank shall have attained the level of 25% of the subscribed capital.

## F. PERFORMANCE FOR THE PERIOD

**NOTE 23 – NET INTEREST INCOME**

| | 31 December 2023 | 31 December 2022 |
|---|---:|---:|
| **Interest income** | | |
| Due from banks | 4,097 | 2,737 |
| Loans and advances to banks | 7,610 | 3,290 |
| Loans and advances to customers | 11,088 | 5,028 |
| Investment securities at amortised cost | 4,451 | 5,008 |
| **Total interest income** | **27,246** | **16,063** |
| **Interest expense** | | |
| Deposits from banks | (1,433) | (495) |
| Pension plan liabilities (1) | (262) | (219) |
| Other | - | (1) |
| **Total interest expense** | **(1,695)** | **(715)** |
| **Net interest income** | **25,551** | **15,348** |

(1) The Bank keeps the assets of the pension plan under its treasury investment portfolio and accrues interest on the liabilities to the pension plan (Note 7.16.2).

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

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

## NOTE 24 – NET FEE AND COMMISSION INCOME

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| **Fee and commission income** | | |
| Front-end fees from customers | 494 | 451 |
| Front-end fees from banks | 46 | 35 |
| Commitment fees from customers | 3 | 35 |
| **Total fee and commission income** | **543** | **521** |
| **Fee and commission expense** | **(10)** | **(8)** |
| **Net fee and commission income** | **533** | **513** |

## NOTE 25 – OPERATING EXPENSES

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| **Personnel expenses** | | |
| Salaries and benefits | 2,854 | 2,358 |
| Contributions to defined contribution/benefit plans (1) | 397 | 251 |
| Other contributions (2) | 71 | 43 |
| Staff development expenses | 4 | - |
| Other personnel expenses | - | 3 |
| **Total personnel expenses** | **3,326** | **2,655** |
| **Other administrative expenses** | | |
| Consultant and third-party fees | 157 | 38 |
| Travel and accommodation expenses | 116 | 67 |
| Office occupancy expenses (3) | 75 | 61 |
| Operational subscriptions expenses | 51 | 85 |
| Representation expenses | 32 | 11 |
| Equipment, maintenance and support | 18 | 16 |
| Other | 52 | 43 |
| **Total other administrative expenses** | **501** | **321** |
| **Depreciation and amortization** | **149** | **128** |
| **Other operating expenses (4)** | **4** | **130** |
| **Total operating expenses** | **3,980** | **3,234** |

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

(2) Other contributions are comprised of life insurance and medical insurance contributions made by the Bank on behalf of the employees, as well as income tax on emoluments.

(3) There were no direct operating expenses for investment property that did not generate rental income (31 December 2022: EU 3 thousand). There were no direct operating expenses for investment property that generated rental income (31 December 2022: None).

(4) Other operating expenses are comprised of losses from the disposal of assets amounting to EU 3 thousand (31 December 2022: EU 130 thousand) and write-off of receivables amounting to EU 1 thousand (31 December 2022: None).

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

### NOTE 26 – OTHER OPERATING INCOME

| | **31 December 2023** | **31 December 2022** |
|---|---:|---:|
| Reversal of impairment loss [(1)] | - | 1,617 |
| Gain from sale of tangible assets | - | 29 |
| Other | 1 | - |
| **Total other operating income** | **1** | **1,646** |

(1) The Bank reversed impairment losses regarding the headquarters building of the Bank (31 December 2022: EU 1,617 thousand)

## G. OTHER INFORMATION

### NOTE 27 – COMMITMENTS AND CONTINGENT LIABILITIES

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

#### 27.1. Commitments under derivative instruments

The following table shows a breakdown of notional amounts of derivative transactions:

| | **31 December 2023** | | | | | |
|---|---:|---:|---:|---:|---:|---:|
| | **US Dollar** | **Euro** | **Chinese Yuan** | **British Pound** | **Japanese Yen** | **Total** |
| **Derivatives held for trading** | | | | | | |
| Currency swaps | 41,232 | - | 49,235 | 35,395 | 29,800 | 155,662 |
| Currency forwards | 227 | - | - | - | - | 227 |
| **Total purchases** | **41,459** | **-** | **49,235** | **35,395** | **29,800** | **155,889** |
| **Derivatives held for trading** | | | | | | |
| Currency swaps | - | (156,839) | - | - | - | (156,839) |
| Currency forwards | -<br>(226) | - | (226) | - | - | |
| **Total sales** | **-** | **(156,839)** | **(226)** | **-** | **-** | **(157,065)** |
| **Off-balance sheet net notional position** | **41,459** | **(156,839)** | **49,009** | **35,395** | **29,800** | **(1,176)** |

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

## NOTE 27 – COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

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

### 27.2. Credit related and other commitments

The following table shows a breakdown of commitments related to loan agreements and other commitments:

| | **31 December 2023** | **31 December 2022** |
|---|---|---|
| Credit limit commitments | - | 7,981 |
| Other commitments | 15 | 14 |
| **Total** | **15** | **7,995** |

## NOTE 28 – SEGMENT ANALYSIS

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

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

## NOTE 28 – SEGMENT ANALYSIS (Continued)

The following table shows an analysis of the income statement, total assets and liabilities:

| **31 December 2023** | **Banking** | **Treasury** | **Total** |
|---|---|---|---|
| Interest income | 18,698 | 8,548 | 27,246 |
| Fee and commission income | 543 | - | 543 |
| **Total segment revenues** | **19,241** | **8,548** | **27,789** |
| Interest expense | (600) | (1,095) | (1,695) |
| Fee and commission expense | (6) | (4) | (10) |
| Net trading income/(loss) | - | (406) | (406) |
| Other operating income | 1 | - | 1 |
| Operating expenses | (2,889) | (1,091) | (3,980) |
| **Segment income before impairment** | **15,747** | **5,952** | **21,699** |
| Net impairment (loss)/reversal | 458 | (206) | 252 |
| **Net income for the period** | **16,205** | **5,746** | **21,951** |
| **Segment assets** | **323,325** | **168,961** | **492,286** |
| **Segment liabilities** | **893** | **41,531** | **42,424** |

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

## NOTE 29 – RELATED PARTY TRANSACTIONS

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

The salaries and other benefits paid to key management personnel amount to EU 743 thousand (31 December 2022: EU 590 thousand). This comprises salary and employee benefits of EU 657 thousand (31 December 2022: EU 510 thousand) and contributions made by the Bank on behalf of the management personnel of EU 86 thousand (31 December 2022: EU 80 thousand). Key management personnel do not receive post-employment benefits like termination benefits, any share-based payments or other long-term benefits, except lump sum pension payment.

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

## NOTE 30 – SUBSEQUENT EVENTS

None.

---------------------------------------------------------------