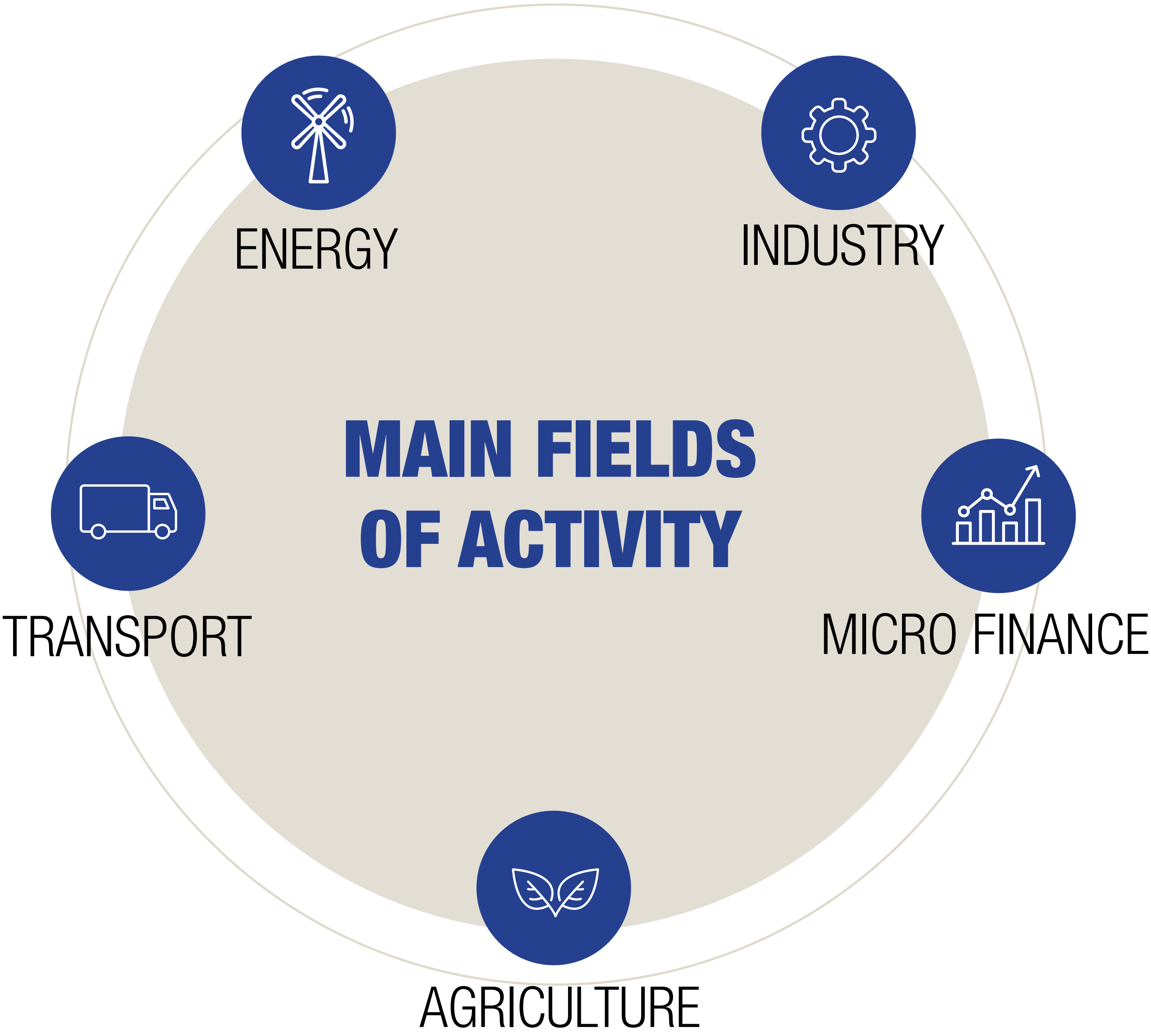
ECO Trade and Development Bank

ANNUAL REPORT 2023


Kyrgyzstan
Azerbaijan
Türkiye
Iran
Afghanistan
Pakistan

Contents


MAIN FIELDS
OF ACTIVITY
ENERGY
INDUSTRY
TRANSPORT
MICRO FINANCE
AGRICULTURE

LIST OF...

Board of Governors

As of 31 December 2023

Chairman, Board of Governors (Appointed 23 June 2023 for one year): Governor of the Islamic Republic of Iran

Islamic Republic of Afghanistan

Governor: Mr. Alhaj Hedayatullah Badri, Acting Governor, Central Bank of the Islamic Republic of Afghanistan

Alternate Governor: Mr. Noor Ahmad Agha, First Deputy Governor, Central Bank of the Islamic Republic of Afghanistan

Republic of Azerbaijan

Governor: Mr. Mikayil Jabbarov, Minister of Economy, Republic of Azerbaijan

Alternate Governor: Mr. Azer Bayramov, Deputy Minister of Finance, Republic of Azerbaijan

Islamic Republic of Iran

Governor: Dr. Mohsen Karimi, Vice Governor for International Relations, Central Bank of the Islamic Republic of Iran

Alternate Governor: Mr. Mostafa Movafagh, Central Bank of the Islamic Republic of Iran

Kyrgyz Republic

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

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

Islamic Republic of Pakistan

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

Alternate Governor: Mr. Imdad Ullah Bosal, Secretary, Finance Division, Government of Pakistan

Republic of Türkiye

Governor: Mr.Osman Çelik, Deputy Minister of Treasury and Finance, Republic of Türkiye

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

LIST OF...

Board of Directors

As of 31 December 2023

Islamic Republic of Afghanistan

Director: Mr. Ahmad Jawad Sadad, Director General, Monetary Policy Dept., Central Bank of the Islamic Republic of Afghanistan

Deputy Director: Mr. Abdullah Masood, Deputy Director General, Monetary Policy Dept., Central Bank of the Islamic Republic of Afghanistan

Republic of Azerbaijan

Director: Ms. Könül Aliyeva, Deputy Director, Department for Cooperation with International Organizations, Ministry of Economy of the Republic of Azerbaijan

Alternate Director: Mr. Famil Ismayilov, Deputy Head, International Relations Department, Ministry of Finance of the Republic of Azerbaijan

Islamic Republic of Iran

Director: Mr. Farshad Mohammadpour, Vice Governor for Banking Supervision Affairs, Central Bank of the Islamic Republic of Iran

Alternate Director: Mr. Arash Shahraeeni, Director of International Finance Department, Central Bank of the Islamic Republic of Iran

Kyrgyz Republic

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

Islamic Republic of Pakistan

Director: Ms. Nasheeta Mohsin, Additional Finance Secretary (EF) Finance Division, Government of Pakistan

Alternate Director: Mr. Nadeem Ahsan, Joint Secretary (EF-P) Finance Division, Government of Pakistan

Republic of Türkiye

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

LIST OF...

Management Committee

As of 31 December 2023

Dr. Mohammad Hashem Botshekan
President & Chairman of the Board of Directors

Mr. Ahmet Tutal
Vice President (Finance)

Mr. Sheryar Taj
Vice President (Credits)

Audit Committee

As of 31 December 2023

Mr. Aamir Nazir Gondal
(Chairman of the AC)
Joint Secretary External Finance,
Ministry of Finance and Revenue,
Government of Pakistan

Mr. Akif Bülent Boyacıoğlu
Vice Chairman of Board of
Treasury Controllers,
Ministry of Treasury and Finance of
Republic of Türkiye

Mr. Hossein Sedghi
Director General,
Banking Supervision Department,
Central Bank of I.R. of Iran

To the Board of Governors

H.E The Chairman,
Board of Governors of the
Economic Cooperation Organization (ECO) Trade and Development Bank

Dear Mr. Chairman,

In accordance with Article 26 (2) of the Agreement Establishing the ECO Trade and Development Bank and Section 10 of its By-Laws, I have the honour to submit for the kind attention of the esteemed Board of Governors, the Bank's Annual Report for 2023 as endorsed by the Board of Directors. The report covers the activities of the Bank including audited financial statements for 2023.

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

Dr. Mohammad Hashem Botshekan,
Chairman of the Board of Directors
President
ECO Trade and Development Bank

INTRODUCTION

VISION	To become the financial pillar of economic cooperation among ECO member states by fostering sustainable economic development and integration
MISSION	• Promote and facilitate private and public sector investment, cooperation, development and job creation in member states through joint programs • Foster the growth of intra-regional trade • Contribute to the economic and social development for the welfare of the people in member states • Promote good governance and environment consciousness in all efforts and projects
CORE VALUES	• Development orientation • Teamwork • Efficiency & Flexibility • Additionality • Transparency & Accountability • Effective Corporate Governance • Innovation • Sustainability

Establishment

The Economic Cooperation Organization (ECO) Trade and Development Bank (ETDB) was established by the decision of the Council of Ministers of ECO member states as a Multilateral Development Bank (MDB) for the purposes of initiating, promoting and providing financial facilities to expand intra-regional trade as well as accelerating economic development. The Bank is structured and operating under prudent policies, rules and regulations which are similarly adopted by other MDBs.

The Articles of Agreement establishing the Bank became effective on 3 August 2005, following the parliamentary approvals of the founding members of the Bank namely the Islamic Republic of Iran, the Islamic Republic of Pakistan and the Republic of Türkiye. The Articles of Agreement was registered at the United Nations (UN) under the number 44939 on 19 May 2008.

The Headquarters Agreement of the Bank was ratified by the Republic of Türkiye in July 2007 and the Bank started its credit operations as of December 2008. The Headquarter of the Bank is located in Istanbul (Türkiye) and representative offices are in Karachi (Pakistan) and Tehran (Iran). The Bank is staffed with 31 employees from member states as end of December 2023.

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

- Financing development projects and intra-regional trade activities
- Supporting private and public sector investments
- Cooperating with national and international financial institutions
- Mobilizing resources and providing other banking services as may be necessary for the advancement of its purposes

The role of the Bank is to promote sustainable growth in the ECO region. Within this framework, it is important for the Bank to further strengthen its niche in providing development finance and relevant services. The Bank continues to remain responsive to the needs through supporting development of priority projects and trade activities. Considering the development challenges of the region, the Bank gives utmost effort to play an important role in reducing the risk perceptions about the member states individually and about the region as a whole while bringing new impetus for the regional cooperation. Therefore, the financial products and services offered by the Bank are based on the strategy to emerge and grow as a strong financial partner in promoting economic growth among member states.

The products are tailored to specific financial requirements, including project, corporate and trade transactions, in order to afford the clients to benefit the most sophisticated financial techniques available in the financial markets. The Bank focuses on financing development programs and projects at reasonable costs with favourable repayment conditions. All transactions are development related and approved by the Board of Directors.

Loan tenors may vary up to 10 years (in exceptional cases may exceed 10 years). Overall, the Bank takes lending decisions solely on the merits of projects and its development effect to the member states. In some instances, these projects are of a regional character, benefiting several member countries and helping in their economic integration. Both public and private enterprises operating in the member states are benefitting from the resources of the Bank. The financial contribution of the Bank to a project can reach up to 50 percent of the project cost and in case of corporate and trade finance it may be extended up to 100 percent of the requirements provided that total amount of each loan shall not exceed internal operational limits of the Bank.

All operations are required to observe criteria set within the Negative List of Products Policy, anti-money laundering regulations as well as procurement and environmental policies of the Bank. The main products and services offered by the Bank inter-alia include;

- Project Finance
- Corporate Finance
- Trade Finance
- M-SMEs Finance
- Equity Investments
- Co-financing and Syndication
- Guarantees
- Soft Loans
- Technical & Advisory Services
- Soft Loan Financing

The primary target of the ETDB is The primary target of the ETDB is to finance programs and projects covering a wide range of socio-economic activities in line with national development plans. Based on its Business Plan and country specific partnership strategy documents, the Bank mainly focuses on following sectors:

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

Operational Principles

The Bank undertakes its activities within the framework of its Operation Cycle Policy and relevant principles adopted by the Board of Governors and Board of Directors. Accordingly all operations that the Bank would conduct must be technically, economically, financially, legally, and environmentally sound, in accord with its policies and represent an acceptable risk. Financial viability ensures that the Bank can continue to implement its mandate effectively without impairing its capital base.

In particular, the Bank observes in all its operations compliance to the maximum extent possible with the applicable rules and regulations regarding procurement of goods and services, national legislation of member states, and with the provisions of the international conventions, treaties and agreements that limit, restrict or prohibit use, proliferation, generation, or otherwise disfavor the financing of operations that facilitate dealing in goods and services that pose a threat to health and safety of humans, other species, or the environment in general.

To this end, the Bank maintains a Negative List of Products Policy (including the Environmental Exclusion List), which is regarded as restricted goods and services that stand excluded from financing in all its operations. Goods and services that have the potential of leaking into illegal use or, as a result of manufacturing, handling, storage or trade pose a threat to health and safety, security, or present an intrinsic risk for the environment are specifically excluded from Bank financing. The exclusion list inter alia include weaponry, ammunition, military goods, or goods that may be directly used for military purposes, tobacco, alcohol, narcotic drugs, psychotropic substances, wildlife products, radioactive materials, including radioactive waste, etc. Each and every transaction of the Bank is closely monitored by specialists to ensure compliance with all internal and external guidelines and requirements, thereby ensuring full compliance with Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) and Know-Your Customer (KYC) requirements. The overriding aim is to create and protect value for shareholders and other stakeholders through ethical, transparent and equitable business processes.

Governance Structure

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

In compliance with its Corporate Governance Policy, the Bank pays utmost attention to the transparency and accountability of its operations. It is fully committed to abide by the generic global corporate governance principles and models. The Bank's Corporate Governance Policy, Code of Conduct and Staff Regulations outline the principles and practices that would be followed in the operations of the Bank. The key component of effective governance is a clear definition and delineation of responsibilities among the Board of Governors, the Board of Directors and management, as well as targeted reporting with a view to ensure appropriate execution of separate responsibilities.

The Management Committee and essential business committees (e.g. Credit Committee, Asset and Liabilities Committee, etc.) of the Bank are fully functional to mitigate risks and sustain operational efficiency. The governance structure is supported by comprehensive internal and external auditing as well as appropriate financial and management information reporting. The Audit Committee of the Bank operates under a clearly defined mandate which spells out its responsibilities, scope, authority and procedure for reporting to the BoGs. The Committee serves in an advisory capacity to the BoGs and ensures that the Bank's assets are safeguarded, adequate internal controls are in place and that material risks are effectively managed.

The Bank presents financial statements in its Annual Report, prepared in accordance with the International Financial Reporting Standards (IFRS). Moreover, the Bank has in place a comprehensive Management Information System of reporting to the Board of Directors, in particular information referring to its operations, investments and financial results. In its reporting the Bank aims at providing appropriate information on risk and performance of its activities. Industry best practices guide the evolving reporting practice of the Bank.

The Board of Governors (BoGs)

All powers of the Bank are vested in the BoGs, which consists of one governor and one alternate governor appointed by each member country, who are mostly high dignitaries/senior officials (Ministers/Governors of Central Banks) of the member states. With the exception of powers specifically reserved to it under the Articles of Agreement of the Bank including increasing the Bank's capital, admitting new members, appointing the President of the Bank, appointing external auditors for the audit of its accounts, approval of the Bank's financial accounts, allocation of net profit, and interpretation and amendment of the Articles of Agreement, etc.; the BoGs has delegated its other powers to the Board of Directors, whose members are also appointed by each member state. The BoGs hold an annual meeting and such other meetings deemed necessary.

In compliance with its Corporate Governance Policy, the Bank pays utmost attention to the transparency and accountability of its operations.

The Board of Directors (BoDs)

The BoDs is composed of representatives of the member states and responsible for the direction of the Bank's general operations, exercising all powers delegated to it by the BoGs. The powers of the BoDs inter alia include the following:

i. take decisions concerning the business of the Bank and its operations in conformity with the general directions of BoGs;

ii. submit the accounts for each financial year for the approval of the BoGs at each annual meeting; and

iii. approve the budget of the Bank;

iv. propose to the BoGs any amendment to the Articles of Agreement

v. establish such branches, subsidiaries and representative offices as may be necessary or appropriate to conduct the business of the Bank

The Directors hold office for a term of three (3) years and may be reappointed. The BoDs are non-resident and meet as often as the business of the Bank may require but not less than six times a year.

The President

The legal representative and Chief Executive Officer of the Bank is the President. The President is appointed by the BoGs for a four (4) year term and also serves as the Chairman of the BoDs. The President is responsible for management of the business of the Bank in accordance with the Bank's rules and regulations and in line with the directives of the BoGs and the BoDs.

Capital Structure

The unit of account of the Bank is ECO Unit (EU). Each EU is equivalent to one Special Drawing Right (SDR) of the International Monetary Fund (IMF). The initial authorized capital of the Bank was SDR 1 billion and paid-in capital was SDR 300 million, which was equally paid-in by Türkiye, Pakistan and Iran. The membership and capital base of the Bank was expanded as the other ECO member states joined the Bank. In this respect, the Islamic Republic of Afghanistan with paid-in capital contribution of SDR 15 million, the Republic of Azerbaijan with SDR 9.75 million paid-in capital contribution and the Kyrgyz Republic with paid-in capital contribution of SDR 2 million became the new members of the Bank. Accordingly, the authorized capital of the Bank increased to SDR 1,089,100 thousand and the size of the paid-in capital amounted to SDR 326,750 thousand. The remaining four ECO member states namely Kazakhstan, Tajikistan, Uzbekistan and Turkmenistan are also expected to become the member of the Bank soon.

As common feature of the MDB's capital structure, the ETDB has a share of its capital that is callable; an unconditional and full- faith obligation of each member country to provide additional capital whenever required. Out of the said authorized capital SDR 762,350 thousand may become payable, upon a unanimous decision of the Board of Governors. Upon completion of the subscriptions by the new members, Türkiye, Iran and Pakistan continued to be largest shareholders of the Bank with 30.60 percent stake each, followed by Afghanistan with 4.59 percent, Azerbaijan with 2.98 percent and Kyrgyzstan with 0.61 percent. As of 31 December 2023, the share capital structure of the Bank showing the number of shares, the amount subscribed by each member, including their respective callable and payable as well as the amount paid-in is as follows:

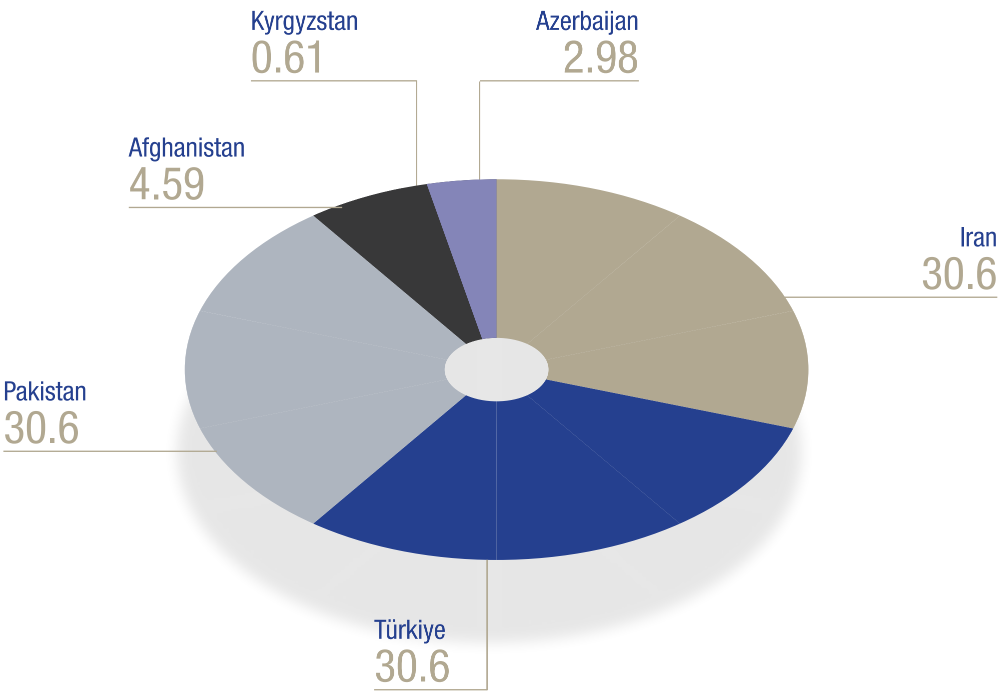
Table-1: Share capital structure of the Bank (SDR thousand)

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

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

Compared to previous year, the Bank's total equity grew by 5.1 percent and amounted to SDR 449,862 thousand by the end of the 2023. Of this increase, SDR 21,951 thousand was originated from retained earnings for the year.

Figure 1: Shareholder structure (percent)



Thousand SDR

Authorized Capital:	Callable Capital:	Paid-in Capital:
1,089,100	762,350	326,750

According to the "Articles of Agreement" establishing the Bank, the membership is open to all ECO member states. The current membership structure of the ETDB increased to six members namely Türkiye, Iran, Pakistan, Afghanistan, Azerbaijan and Kyrgyzstan covering majority of the ECO member states. The prospect is to have all ECO member states as the member of the Bank and benefit from its activities. Accession of new members would help the ETDB to strengthen its regional scope, enrich value proposition, reinforce diversity and enlarge the capital base to further expand its operations.

The Bank is committed to efficient use of its current resources with an aim at optimizing the allocation of funds to different asset classes in the member states without neglecting its purpose and objectives. The Bank has improved prospects for dynamic growth of its operations in further contributing to the sustainable development of the member states in the coming years.

PRESIDENT'S MESSAGE

Since the Bank started its operations in 2008, the total amount of loans disbursed to member countries reached to SDR 1.9 billion as end of December 2023.

The year 2023 represented a stage of significant political, social and economic challenges. Global economic activity was surprisingly resilient despite lingering geopolitical tensions, climate change, sustainable development needs, surge in inflation, followed by a globally synchronized monetary policy tightening. As per the latest estimates, the global growth of 3.2 percent in 2023 remained below the 3.5 percent growth registered in previous year. The global growth is projected to continue at the same pace in 2024 and 2025.

Under this complex and demanding global development landscape, the ECO region, similar to the global economy, witnessed slowdown in economic activity with real GDP growth moderating to 3.7 percent in 2023 compared to 5 percent growth print achieved last year. It reflected the lingering effects of pandemic era supply chain bottleneck, high energy and food prices and tightening of financial conditions as most central bank across the region raised policy interest rates to curb inflationary pressures. At the point it is imperative to note that ECO countries should boost long-term growth by implementing well-designed, cost-effective policies that promote innovation and efficiency.

Amid a challenging landscape, ETDB continued to solidify its operations to support sustainable and inclusive growth in the member states. Since the Bank started its operations in 2008, the total amount of loans disbursed to member countries reached to SDR 1.9 billion as end of December 2023. The Bank has successfully financed various development projects in wind power, solar energy, transport, health, education, food and agriculture infrastructure. Financial assistance provided for enhancing trade, development of Micro and Small and Medium Enterprises bearing meaningful positive results. Meanwhile, the Bank was responsive to the emergency needs of our member states for providing soft loans due to devastating earthquakes and floods. Nevertheless, there is so much to do, as we look forward to support accelerated growth and development in the member states.

The Bank is putting efforts to expand and strengthen its operational capability with a view to pursue the targets and goals set out in its Business Plan (2023–27). Within this framework, as the new President of the Bank, I would focus on enhancing operational effectiveness, including risk management, liquidity, capital adequacy, portfolio management, transparency and good governance.

In this respect, the Bank would continue to build up a diversified loan portfolio in terms of sector and country while giving more attention to member countries' specific development needs. Due emphasis would be given to the projects that augment employment generation, innovation, productivity, use of new technology and development efforts of member states. Support would be provided for development of public-private initiatives that would contribute towards improving exports and competitiveness of respective

Overall, the Bank is emerging with a solid foundation to be a globally respected financial institution and a reliable partner in the world of global development finance.

economies. Meanwhile, promoting complementarities and giving preference to procurement from member economies would be encouraged.

With the mandate to mobilize resources for supporting the sustainable development of the member states, it is critical for the Bank to access global capital markets and to secure cheaper long-term financing. We need to deploy a series of financial innovations through wider use of guarantees, financing schemes, addressing FX issues through currency swaps and hedging instruments, greater use of local currency financing and supporting the development of private sector initiatives. Notably, it is essential to enhance the financial resources of the Bank through a capital increase as well. This would definitely empower the Bank to further expand its operations and relevance. The membership enlargement would remain a key institutional priority. Accession of remaining ECO countries namely Kazakhstan, Tajikistan, Uzbekistan and Turkmenistan would help the Bank to focus activities over the entire region. Meanwhile, improving our dialogue with other Multilateral Development Banks and national financial institutions need to be intensified with concluding co-financing arrangements.

Overall, the Bank is emerging with a solid foundation to be a globally respected financial institution and a reliable partner in the world of global development finance. It is time to reach greater scale by being bold, bigger and better. The outstanding loan portfolio which reached to SDR 320 million as the end of 2023 is the highest level recorded in the history of the Bank. The Bank posted a net profit of SDR 21,951 thousand in 2023, representing 42 percent increase compared to previous year. The total reserves and retained earnings of the Bank amounted to SDR 123 million by the end of 2023. The Bank has been putting special attention to utilize its humble resources at optimum level and achieved promising results. In view of a viable funding scenario, the Bank is expected to expand its operations in the coming years.

On a final note, I would like to underline that while the coming period present immense opportunities for the ETDB, however the challenges are not underestimated. It is important to chart smart and innovative financial solutions for augmenting the financing resources and support member countries in their agendas for sustainable and inclusive development. As I have recently taken over the Office of President of the Bank, I shall build on the solid foundation laid by my predecessors and steer this institution to greater heights of prosperity. Taking this opportunity, I would like express my sincere gratitude to the esteemed members of the Board of Governors and Board of Directors for their continued support. I also thank my colleagues at the Bank for their ceaseless dedication and work to ensure ever-expansion of Bank’s performance and operations.

Dr. Mohammad Hashem Botshekan
President

EXECUTIVE SUMMARY

The Bank is conducting its operations according to internationally accepted financial rules and prudent operational policies/procedures which are closely aligned with the practices of other MDBs.

The ETDB was established as a regional MDB and started its credit operations in December 2008. It has a clear mandate to foster socio-economic development and promote intra-regional trade among ECO member states. The vision of the Bank is to become the financial pillar of economic cooperation among the member states. The Bank's headquarters located in Istanbul (Türkiye) and staffed with 31 employees from member states. It has an equity amounting to SDR 450 million as the end of 2023. The Bank is conducting its operations according to internationally accepted financial rules and prudent operational policies/procedures which are closely aligned with the practices of other MDBs.

The representative offices of the Bank in Tehran (Iran) and Karachi (Pakistan) have the role to identify and coordinate the operations of the Bank in the respective member states. The Bank has been able to build an efficient organizational structure and has established fundamental internal regulatory framework to improve its operations. The Bank is committed to corporate governance at the highest level to ensure transparency, accountability and adequate checks and balances on the Bank's activities. Although the Bank is endowed with a modest capital, its business model and targets remain realistic. The Bank provides sustainable medium and long-term financing to customers in both the private and public sectors on competitive market terms to complement commercial lending. The financial products and services of the Bank include corporate and sovereign loans, loans to municipalities, and loans to public-private partnerships, loan programs supporting development of Micro, Small and Medium Size Enterprises (M-SMEs) and trade transactions, investments in project and structure finance in the member countries. In December 2023, the Bank marked the fifteenth anniversary of the launch of its operations. The knowledge and experience built on internationally accepted practices are improving the capabilities of the Bank to fulfill its establishment mandate and maintain financial viability.

The global GDP growth slowed down in 2023 registering growth of 3.2% compared to 3.5% in the previous year as per the latest IMF estimates. The reason for lacklustre growth stems from high borrowing costs, withdrawal of fiscal support, lingering effects of pandemic, Russian invasion of Ukraine, and lower productivity. Global growth is projected to stand at 3.2% in 2024 & 2025, which is low by historical standards with global growth averaging 3.6% for 2000-2021 period.

The ECO region witnessed an economic rebound in 2021 underpinned by low base effect, strong demand, easing of supply bottlenecks and lockdowns with respective economies moving on the path to pre-pandemic growth trajectory. ECO region, similar to the global economy, witnessed slowdown in economic activity with real GDP growth moderating to 3.7% in 2023 compared to 5% growth print achieved last year, which reflected the lingering effects of pandemic era supply chain bottleneck, high energy and food prices and tightening of financial conditions as most central bank across the region raised policy interest rates to curb inflationary pressures.

ECO region's nominal GDP stood at USD 2.4 trillion in 2023 compared to USD 2.1 trillion recorded in the previous year, registering a growth of 14.2%. The nominal GDP was equivalent to 2.3% of the global output. A better gauge of the region's output trends is captured by observing GDP measured in terms of purchasing power parity (PPP). GDP (PPP-based) in 2023 stood at USD 8.4 trillion compared to USD 7.8 trillion last

year which translates to a growth print of 7.7 percent in nominal terms. Estimated GDP per capita (PPP-based) for the ECO region in 2023 stood at USD 17,024, compared to USD 15,166 last year which amounted to a growth rate of 12.2 percent.

The adverse consequences of current geopolitical conflicts and elevated inflation are expected to complicate the sustainable development efforts of the member states. High interest rates due to central banks tighten policy measures, exerting pressure on emerging market and developing economies. In consideration of the global market developments and specific country conditions, the Bank's 4th five-year business plan (2023-27) was approved by the Board of Governors in June 2023. The new Plan charts ETDB's way forward to become more effective institution based on results. Based on the increased resource scenarios, the Bank would continue to capitalize on new opportunities to support financing needs of the public and private entities. The updated Country Partnership Strategy (CPS) documents which were approved by the Board of Directors in October 2023 remain to be the primary analytical and planning guideline that enables the Bank to present and evaluate specific investment opportunities in the member states.

Overall, the outstanding loan portfolio of the Bank which reached to SDR 320 million by the end of 2023 exceeded the business plan target of SDR 283 million. According to the base case funding scenario of the business plan, the total assets of the Bank were projected to amount to SDR 481 million as the end of 2023. Exceeding this projection, the realized total assets of the Bank amounted to SDR 492 million by the end of 2023.

The Bank has been able to continue attaining positive income levels and maintains an intensive loan portfolio with high developmental impact results. In line with the current business plan and country strategy reports, the main achievements of the Bank are summarized as below;

a. Since 2008, when the Bank started its credit operations, the total loans disbursed to various operations in the member states amounted to SDR 1,911 million as the end of December 2023. In line with its mandate to support trade transactions of member states, about 70 percent of the total disbursed funds were extended for financing trade, making the Bank's involvement in the region's trade more inclusive.

b. Good asset quality was maintained with a diversified portfolio in terms of sectors. The weighted average internal credit rating score assigned to the total outstanding loan portfolio was 2.8 points further improved by the end of 2023 (2022; 3.3 points) which represented a sound risk level on a scale of 1 to 10. The Bank continued to incorporate strong financial, social and environmental safeguards while expanding its operations sustainably. The outstanding loan portfolio reached to SDR 320 million as the end of 2023.

c. During 2023, the Bank disbursed loans to various operations amounting to SDR 185 million which was slightly higher than the level of previous year.

d. The Micro and Small & Medium Size Enterprises support program and trade finance facility continue to deliver positive developmental results. The SMEs which benefitted from these funds were mainly active in agriculture, food, manufacturing and textile sectors thereby contributing to the economic development and job creation.

e. The Bank provided immediate support in mitigating the impacts of such natural disasters such as floods and earthquake in respective member states aligning with its mission of fostering sustainable economic development and social progress.

f. As of 31 December 2023, the Bank classified two of its loans as Stage 3, with all other financial assets categorized under Stage 1. Sovereign guarantees are held as collaterals against project finance loans grouped under Stage 3 and delays in the repayments are expected to be resolved soon. The repayment problems in these public sector loans are not directly linked to deterioration in client's financials but technical issues related to delay in resource allocations from national budget.

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

Exceeding projection, the realized total assets of the Bank amounted to SDR 492 million by the end of 2023.

h. The total assets of the Bank amounted to SDR 492 million by the end of 2023 (2022: SDR 470 million).

i. The Bank posted a net profit of SDR 21,951 thousand in 2023 (2022: SDR 15,496 thousand), representing 42 percent increase compared to previous year.

j. The total reserves and retained earnings of the Bank amounted to SDR 123.1 million by the end of 2023 representing an increase of 22 percent compared to 2022 end year figure.

k. The Return on Assets (RoA) was 4.6 percent and the Return on Equity (RoE) stood at 5 percent as the end of December 2023 which was comparatively higher than 2022 end year figures (2022-RoA: 3.3 percent, RoE: 3.7 percent).

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

m. The Bank has made significant progress in focusing its activities on enhancing risk management measures and improving its internal credit rating system and compliance procedures. The Risk Management Manuals adopted by the Bank further detailed the risk management procedures.

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

o. The Bank continued to prepare regular supervision/monitoring reports to mitigate various risks in the specific operations and sustain the robust status of the loan portfolio.

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

q. The Bank has successfully adapted necessary measures regarding transition to alternative reference rates in its loan pricing policy.

r. Internal regulatory policy documents and regulations have been reviewed and necessary updates and arrangements have been made accordingly.

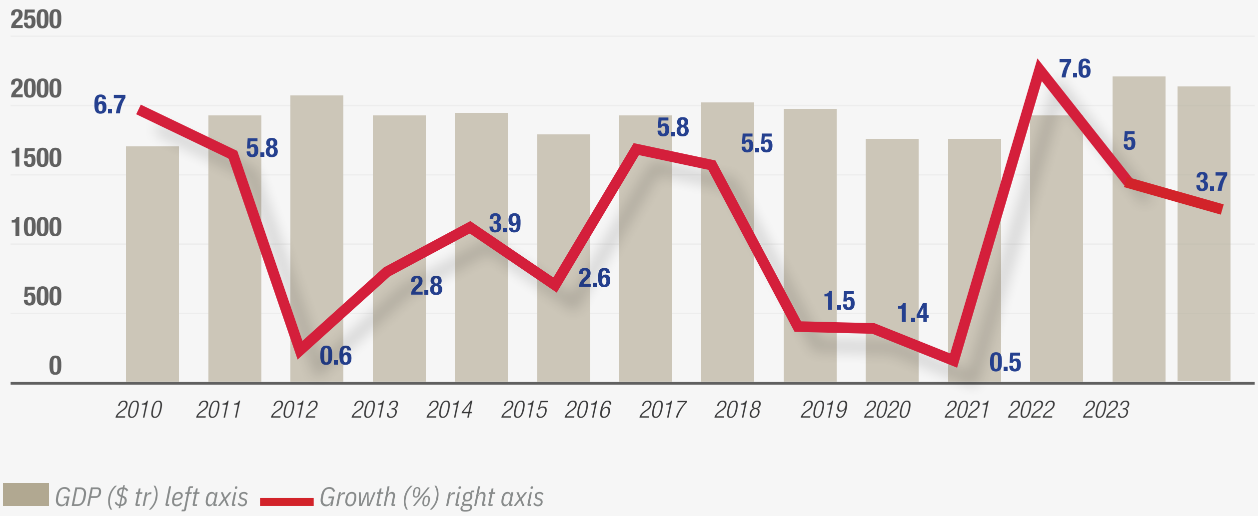
Despite the business challenges, the Bank was able to keep its operations running as smooth as possible through adoption of appropriate strategies. With a comprehensive risk management framework encompassing all stages of operation cycle, the Bank remains poised to enhance its operations.

ECONOMIC OVERVIEW

As per the latest IMF estimates, global GDP growth slowed down in 2023 registering growth of 3.2% compared to 3.5% in the previous year. The reason for lackluster growth stems from high borrowing costs, withdrawal of fiscal support, lingering effects of pandemic, Russian invasion of Ukraine, and lower productivity. Global growth is projected to stand at 3.2% in 2024 & 2025, which is low by historical standards with global growth averaging 3.6% for 2000-2021 period.

The pronounced deceleration in ECO region-wide growth observed in the last few years somewhat moderated in 2017 with economic momentum started to gain a solid footing across the region, but starting in 2018 and continuing into the 2020 region's economic growth slowed markedly. ECO region witnessed an economic rebound in 2021 underpinned by low base effect, strong demand, easing of supply bottlenecks and lockdowns with respective economies moving on the path to pre-pandemic growth trajectory. ECO region, similar to the global economy, witnessed slowdown in economic activity with real GDP growth moderating to 3.7% in 2023 compared to 5% growth print achieved last year, which reflected the lingering effects of pandemic era supply chain bottleneck, high energy and food prices and tightening of financial conditions as most central bank across the region raised policy interest rates to curb inflationary pressures (Figure 2).

Figure 2: ECO Region Growth Trend



Most of the Central Asian economies posted strong economic growth in 2023 which reflected their resilience in the face of negative supply shock emanating from Russia-Ukraine war. Growth was underpinned by partial improvement in remittances from Russia, migrant inflows, tourism and strong domestic demand. Azerbaijan was the exception with growth slowing down due to declining crude production and anemic growth in non-energy sector.

Pakistan's economy contracted by 0.2% in 2023 primarily due to severe floods which hit in second half of the year which adversely impacted consumption, investment and production due to disruption witnessed in agriculture and manufacturing sector. Internal and external imbalances also weighed down on growth. Economic growth in Türkiye moderated to 4.5% in 2023 compared to 5.5% last year primarily due to negative supply shock arising from massive earthquake that hit in the first half of the year which significantly disrupted agriculture and manufacturing sector.

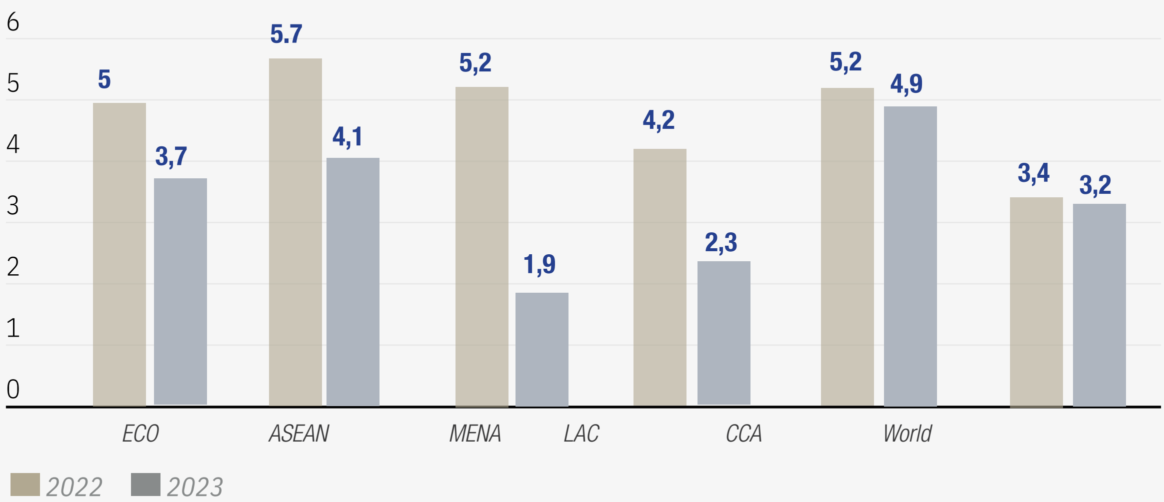
Iranian economy exhibited resilience despite economic sanctions posting a growth of 4.7% in 2023 from 3.8% last year. Growth was underpinned by oil sector and manufacturing and services sector.

ECO region's nominal GDP stood at $2.4 trillion in 2023 compared to $2.1 trillion recorded in the previous year, registering a growth of 14.2%. The nominal GDP was equivalent to 2.3% of the global output. A better gauge of the region's output trends is captured by observing GDP measured in terms of purchasing power parity (PPP). GDP (PPP-based) in 2023 stood at $8.4 trillion compared to $7.8 trillion last year which translates to a growth print of 7.7% in nominal terms.

Living standard as measured by average nominal GDP per capita income metric stood at an estimated $4,823 for the ECO region in 2023 rising from $4,091 recorded last year. A more nuanced approach is to look at GDP per capita measured on PPP-basis to grasp a better appreciation of the change in living standards in the region. Estimated GDP per capita (PPP-based) for the ECO region in 2023 stood at $17,024, compared to $15,166 last year which amounted to a growth rate of 12.2%.

ECO region's comparison with other comparator regional blocks in regards to economic performance as measured by real GDP growth rate shows that it achieved better or comparable performance (Figure 3).

Figure 3: **Real GDP Growth Rates of Selected Regions***



*Source: IMF * MENA (Middle East & North Africa), ASEAN (Association of Southeast Asian Nations), LAC (Latin American Countries), CCC (Caucasus & Central Asian)*

ECO region's nominal GDP stood at $2.4 trillion in 2023 compared to $2.1 trillion recorded in the previous year, registering a growth of 14.2%. The nominal GDP was equivalent to 2.3% of the global output.

Developments in headline inflation varied across the ECO region with the region as a whole registering moderation in inflation which fell to 39.2% in 2023 compared to 45% print last year (Table 2). In 2023, the persistence in inflationary pressure emanating from lingering effects of Covid were further aggravated by Russia-Ukraine war which resulted in worsening of supply chain bottlenecks, sharp rise in energy and food prices and contributed to soaring inflation and tightening of financial conditions as central banks hiked rates in response to curb inflation.

Inflation in all countries in the region, except Pakistan, witnessed a decline. In Iran and Türkiye inflation while declining, showed persistence as depreciation of currency, rise in oil price and high interest rate led inflation to stand at elevated level of 41.5% and 53.8%, respectively. Inflation more than doubled in Pakistan due to rise in energy and food prices, hike in taxes and adjustments in utility tariffs. The negative supply shock from the floods that hit Pakistan in the second half of 2023 disrupted agriculture production and had knock-on effects on manufacturing capacity which added to inflationary pressures.

Fiscal deficit rose in most of ECO countries in 2023 reflecting increased government spending, weak economic growth and a rise in interest rates. Kazakhstan was the only member country whose budget balance turned to deficit from the surplus recorded last year. Most of other members saw rise in deficits with Türkiye, in particular, posting a significant escalation which saw deficit budget deficit as percentage of GDP rising from 1.1% to 5.5%, primarily due to rehabilitation and reconstruction costs associated with earthquake that stuck Türkiye in February. The regional fiscal deficit to GDP ratio in 2023 escalated to 4.3% compared to 2.1% last year (Table 2).

The overall regional current account (CA) balance in 2023 expanded to a deficit of $36.5 billion from $20 billion recorded last year and was equivalent to 1.5% of GDP compared to 0.9% last year (Table 2). A few member countries witnessed improvement in their CA deficits, especially Pakistan, which saw its external deficit contracting significantly to 0.6% of GDP from 4.6%. Tajikistan and Kazakhstan both witnessed reversal of CA balance from surplus to deficit mainly due to lower oil prices. Azerbaijan recorded a significant shrinkage in its CA surplus due to volatility in commodity prices. Current account deficits across the region deteriorated due to trade disruptions, fall in remittances, strong domestic demand and contraction in global economic output.

In the table listed below key economic indicators of the ECO region and member countries for 2023 are presented.

The general gross government debt to GDP ratio decreased moderately across the countries in the region. Gross government debt to GDP ratio fell due to a decrease in the fiscal expenditures and reduction in domestic debt issuance due to unwinding of the pandemic related fiscal measures and rise in interest rates. The total public debt of the region reached $814 billion which amounted to 34.4% of the regional output which is on the lower side when compared to comparator regional blocs.

ECO member countries' currencies exhibited moderate volatility compared to last year. Türkiye witnessed pressure on its currency with lira depreciating against the US dollar due to the deteriorating external imbalances and high inflation. Similarly, Pakistan's currency displayed volatility as rupee came under pressure due to deteriorating external balances and high external debt.

The total public debt of the region reached

USD 814 billion

Table-2: Key economic indicators by ECO region and member countries-2021

	Real GDP Growth (percent)	Inflation (percent), average consumer	Central Gov. Budget Balance/GDP (percent)	Current Account Balance/GDP (percent)
Afghanistan	NA	NA	NA	NA
Azerbaijan	1.1	8.2	1.6	9.9
Iran	4.7	41.5	-2.3	4.4
Kazakhstan	4	8	-4.1	-2.9
Kyrgyzstan	5.1	14.6	-1.5	-3.7
Pakistan	-0.2	29.2	-7.7	-0.6
Tajikistan	8.2	3.6	-1.0	-0.7
Türkiye	4.5	53.6	-5.5	-4.1
Turkmenistan	1.9	-1.7	1.3	4.7
Uzbekistan	5.9	9.9	-4.9	-4.9
ECO	3.7	39.2	-4.3	-1.5

Source: National Statistical Offices, IMF & ETDB staff estimates.

Future Outlook

In 2021, global economy was projected to return to normal economic activity over the next two years following the negative pandemic shock and the associated economic slowdown. Similarly, ECO region after a sharp rebound observed in 2021 was expected to return to pre-pandemic growth trajectory with employment and inflation converging to historical norms. The eruption of Russia-Ukraine war Ukraine in early 2022 derailed the nascent global economic recovery that started to take hold in the latter part of 2021. ECO region, similar to the global economy, witnessed slowdown in economic activity with real GDP growth moderating to 3.7% in 2023 compared to 5% growth print achieved last year.

IMF in its latest projections foresees global GDP growth to be 3.2% both in 2023 and 2024. The moderation in growth is primarily due to lingering effects of pandemic, high interest rates, ongoing disruption due to Russia-Ukraine war, and tighter financial conditions. Downside risks to projection relate to price spikes due to geopolitical tensions flaring up which can adversely affect global growth. On the upside risk front, looser fiscal policy can raise global economic activity.

Similarly, ECO region is projected to face multiple headwinds from ongoing Russia-Ukraine war, geopolitical tensions, higher food and energy prices and debt distress due to higher interest rates and weakening of respective currencies. As a consequence, economic growth is projected to moderately slowdown across the region and the respective economies. Inflation is expected to remain elevated for some time due lingering supply chain bottlenecks and the ongoing food, energy and commodity disruptions brought on by the war.

OPERATIONS

BUSINESS STRATEGY AND BALANCE SHEET ITEMS

The operations of the Bank continued towards fulfilling its mandate to support sustainable development of member countries. The Bank has been putting special attention to utilize the humble resources of the Bank at optimum level.

During 2023, the total loans disbursed by the Bank amounted to SDR 185 million which was slightly higher than the level of previous year. The Bank is focused on supporting investments in health, education, food, energy and agriculture infrastructures. Enhancing credit lines via financial institutions to address the needs of the micro, small and medium sized enterprises, providing finance for trade transactions with particular attention given to raw materials, intermediary goods, health related items, agriculture and food products. Moreover, the Bank has been responsive to the emergency needs of the member states. In response to earthquakes and floods, respective emergency soft loan supports were extended to the member states for rehabilitation and recovery efforts.
In view of the development priorities of the member states, effectiveness, financial viability and accountability have been main pillars of the Bank's operational strategy. Overall, since 2008 when the Bank started its operations, the total amount of loans disbursed to various operations in the member states amounted to SDR 1,911 million as the end of December 2023.

The Bank's 4th five-year business plan (2023-27) was approved by the Board of Governors in June 2023.
The new Business Plan charts ETDB's way forward to become more effective institution based on results. Based on the increased resource scenarios, the Bank would continue to capitalize on new opportunities to support financing needs of the public and private entities. The business model, impact measurement frameworks and project execution capacity provides important advantages for ETDB in pursuing its development mandates with enhanced resources. Marketing efforts and direct visits to potential customers would be continued to identify new opportunities and enhance the Bank's loan book.

The Bank sustained a consolidated and manageable loan portfolio quality. The portfolio credit risk of ETDB is strong and reflects the prudent risk approach of the Bank. The weighted average internal credit rating score assigned to the total outstanding loan portfolio was further improved to 2.8 points by the end of 2023 (2022; 3.3 points) which represented a sound risk level on a scale of 1 to 10.

The Bank provides a range of short-to-long term loan products to private and public sector entities. Average tenure of the loan portfolio is monitored closely in order to ensure a constant flow of new operations in the coming years.
The average remaining tenor of the loan portfolio of the Bank which was 1.5 years as the end of 2022 increased to 2 years as the end of 2023 due to increase in long-term project finance facilities. The Bank applies a viable interest rate, with margins and fees, applicable to credit facilities to remain competitive in the market.

In view of the global transformation with regard to phasing out of LIBOR and transition to alternative reference rates, the Bank has successfully adopted necessary measures for transition to alternative reference rates. Loans are normally provided under sovereign or bank guarantee, although the Bank may accept an unsecured position where this is judged to be consistent with sound banking principles.

BUSINESS STRATEGY AND BALANCE SHEET ITEMS

The current members of ETDB include six ECO members namely Türkiye, Iran, Pakistan, Afghanistan, Azerbaijan and Kyrgyzstan covering majority of the ECO member states. According to "Articles of Agreement" establishing the Bank, the membership is open to all ECO member states. During 2023, in cooperation with the ECO Secretariat, the Bank continued to communicate with the remaining four ECO member states namely Kazakhstan, Tajikistan, Turkmenistan and Uzbekistan to encourage them to join the Bank and benefit from its services. Accession of new members would not only increase the resources of the Bank but would also allow the Bank to further expand its operations and influence in the region.

As the business and geographical operational scope is expected to expand with joining of new members, the Bank is intensifying its efforts on enhancing risk management perspective. The Bank devotes necessary resources to manage credit, market, and operational risks. The importance of well-functioning risk management system has been clearly demonstrated during the financial turbulence of the last few years. The Bank maintained its current well-diversified portfolio across member states and sectors so as to mitigate concentration risk. The internal rating model of the Bank has been recently supplemented with sensitivity analysis practices. Overall, the Bank ensures prudent risk management principles and business processes to maintain a decent loan book size and risk profile.

The Bank has also focused to increase co-financing agreements with partner financial institutions to mobilize additional resources to prospective projects in the member states. The Bank has been conducting its operations with sound corporate governance and operational policies to ensure responsibility, transparency and accountability. All operations are required to observe criteria set within the Negative List of Products Policy, anti-money laundering regulations as well as Environmental Policy.

OPERATIONS

BUSINESS STRATEGY AND BALANCE SHEET ITEMS

Building on the experiences of past years, the current country partnership strategy reports covering 2023-24 period had been approved by the Board of Directors in October 2023. The reports assess the operations in each member states and discuss potential investment requirements and mark necessity of further enhancing operational dialogue with the public and private sector representatives. The Bank has successfully launched its credit operations in Azerbaijan and making preparations to capitalize on other investment avenues. The Bank is also putting efforts to launch its operations in Afghanistan and Kyrgyzstan as well.

The supervision and monitoring practices continued in order to enhance compliance and enabled the Bank to understand and proactively resolve the issues affecting Bank-financed projects. Special attention has been given to projects that are vulnerable to challenges and appropriate remedial measures and turn around strategies have been implemented promptly. In line with the current revised business plan and country strategy reports, the following main business means were sustained by the Bank;

- Maintaining a diversified loan portfolio,
- Effective management of the loan disbursement and repayment operations,
- Obtaining a favourable external credit rating,
- Maintaining a robust project pipeline in close cooperation with the partners,
- Raising medium and long-term external financing at reasonable cost,
- Increase emphasis on supporting medium sized companies and second-tier high growth potential firms,
- Identifying new products to further support economic and trade activities in member countries,
- Increasing the membership base,
- Enhancing co-financing arrangements with relevant partners,
- Strengthening the enterprise-wide risk management perspective,
- Improving policy and procedural documents of the Bank in order to secure a robust operational and regulatory framework,
- Maintaining an efficient IT infrastructure to ensure reliable and efficient functioning of business processes,
- Enhancing the human resources and technical capabilities on need basis,
- Adhering to prudent banking practices notably in view of new developments in the field of Anti-Money Laundering and Combating the Financing of Terrorism (AML-CFT) and KYC requirements.

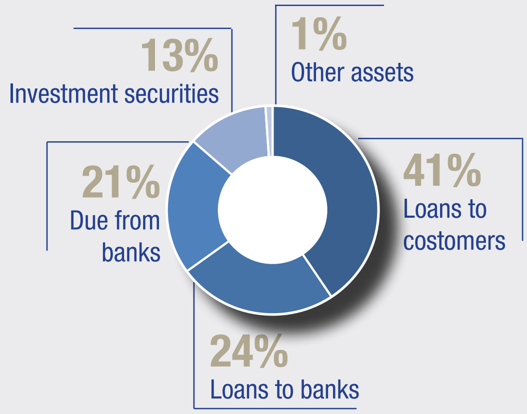
The economic activities in the member states during the year have been mainly focused on advancing economic development and mitigating the external risks including inflationary pressures, supply chain bottlenecks and tightening of global financial conditions. In addition, due to certain operational challenges, the Bank achieved promising performance regarding its operational targets projected in the business plan. The outstanding loan portfolio of the Bank which reached to SDR 320 million by the end of 2023 exceeded the business plan target of SDR 283 million. According to the base case funding scenario of the business plan, the total assets of the Bank were projected to amount to SDR 481 million as the end of 2023. Exceeding this projection, the realized total assets of the Bank amounted to SDR 492 million by the end of 2023.

The Bank has been able to continue attaining positive income levels. The net income which was SDR 21,951 thousand by the end of 2023 remained at the level of the business plan's target. Meanwhile, lending activities are expected to progress in the coming period through approval of series of operations and projects in the pipeline. Eventually, these would increase the Bank's outstanding loan levels to the permissible limits envisaged in the capital utilization framework.

Balance Sheet

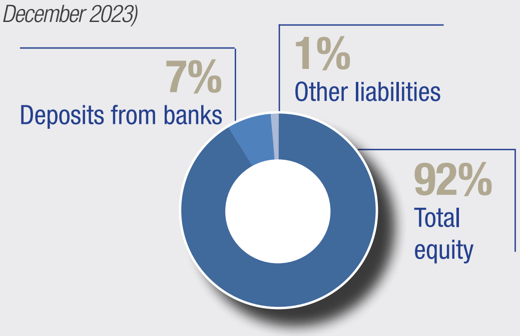
As of 31 December 2023, the Bank's total assets amounted to SDR 492,286 thousand, reflecting a growth from SDR 470,849 thousand in 2022. Notably, due from banks accounted for SDR 105,409 thousand, representing 21% of the total balance sheet size, an increase from SDR 89,023 thousand in 2022. Loans to customers and loans to banks stood at SDR 120,266 thousand and SDR 199,887 thousand, respectively, compared to SDR 162,002 thousand and SDR 148,475 thousand in 2022.

Figure 4: Composition of Assets
(31 December 2023)



The Bank's financial strength was further supported by the growth of reserves and retained earnings, reaching SDR 123,112 thousand by the end of 2023, compared to SDR 101,179 thousand in 2022. Furthermore, members' equity totalled SDR 449,862 thousand as of 31 December 2023, up from SDR 427,929 thousand in 2022. Notably, the Bank's financial stability is underlined by the robust level of members' equity, constituting 92% of total assets as of 31 December 2023, consistent with the preceding year. The majority of liabilities comprised money market deposits, amounting to SDR 35,956 thousand, marginally lower than SDR 36,473 thousand in 2022.

Figure 5: Composition of Liabilities & Equity
(31 December 2023)



Loan Portfolio

The Bank commenced its loan operations in December 2008, and since then, the total approved operations, including SME finance operations to financial intermediaries, trade/corporate, and project finance operations to customers, amounted to SDR 2,153 million in the current reporting period, compared to SDR 2,037 million in 2022. Among these approved operations, signed agreements accounted for SDR 1,208 million in the current reporting period, as opposed to SDR 1,074 million in 2022.

Figure 6: Signed operations vs. Board approvals 2019-23 *(SDR million)*

By the end of 2023, total disbursements to these operations amounted to SDR 1,132 million. Additionally, SDR 779 million of short-term trade finance loans were disbursed to banks in member countries. As of 31 December 2023, the total disbursed loans reached SDR 1,911 million.

Figure 7: Annual loan disbursements 2019-23
(SDR million)

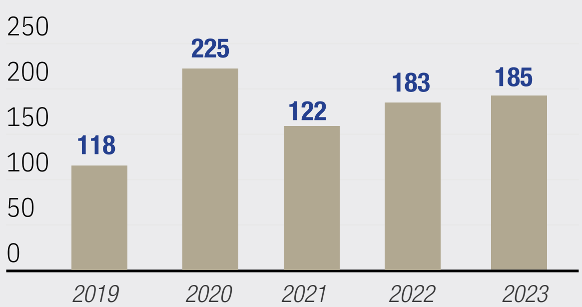


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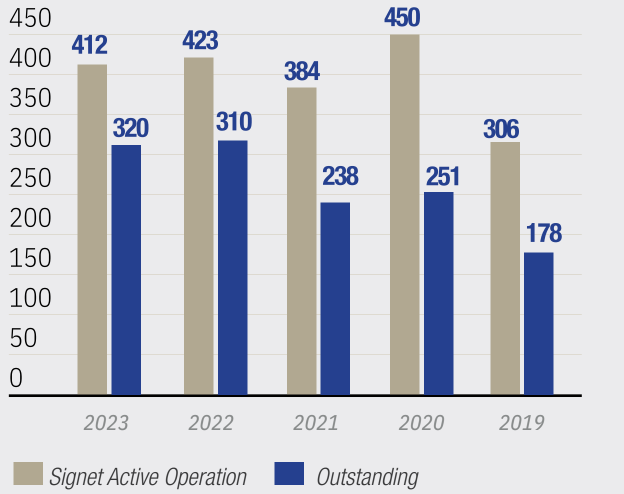
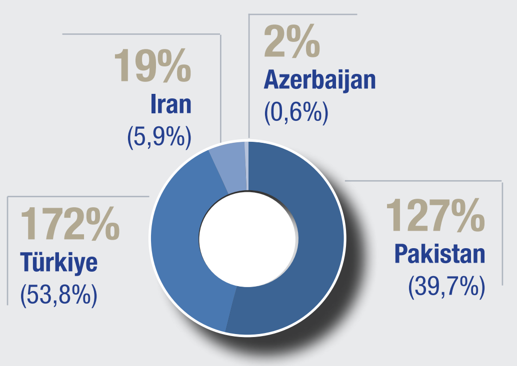
Figure 8: **Portfolio development 2019-23**
(SDR million)



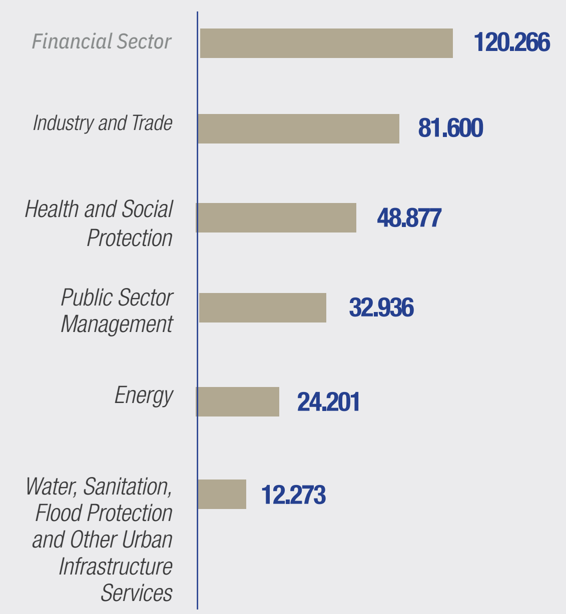
The allocation of outstanding loan portfolio among member countries as of 31 December 2023 was as follows:

Figure 9: **Outstanding loans by country 31 December 2023** *(SDR million, percentage)*



In addition, the Bank attempts to diversify its operations across different sectors. In this context, diversification of operations towards finance, energy, trade, infrastructure, health, industry and agriculture is given special attention. The Bank also aims to increase the share of medium sized projects and private sector operations in its portfolio. The concentration of operations in finance sector emanates from the twin objectives of the Bank to support development of local financial institutions and enhance operations in financing trade and development of M-SMEs. The Bank has been able to facilitate public-private cooperation schemes in realization of several infrastructure projects. Operations in manufacturing sector supported the major industrial conglomerates in the member states to adopt new technologies and upgrade their production and export capacities. The breakdown of the Bank's loan portfolio by industry sectors as of 31 December 2023 was as follows:

Figure 10: **Outstanding Loans by sectors-31 December 2023** *(SDR Thousand)*



Revenues

Maintaining financial viability is important for the Bank to implement its mandate effectively without impairing its capital base. It also enables the Bank to move towards enhancing its operations confidently. To support this objective, the Bank is guided primarily by market practice in managing its day-to-day affairs and applies a conservative risk/return oriented approach to treasury operations. As the Bank's main purpose is to promote economic activity/trade and provide necessary impetus for poverty alleviation, development of human resource, capital and technology for advancement in the region, the Bank does not intend to maximize profits in the course of its activities, but seeks at least to recover its operating costs and the cost of capital employed.

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

Total operating income for 2023 reached SDR 25,931 thousands

Interest income from lending activities surged to SDR 18,698 thousand in 2023 from SDR 8,318 thousand in 2022. Additionally, interest income of SDR 8,548 thousand (2022: SDR 7,745K) was generated from treasury activities such as money market placements and security investments. The Bank also recorded a gain of SDR 252 thousand from the reversal of expected credit loss allowances in 2023, contrasting with a loss of SDR 587 thousand in 2022. Consequently, total operating income for 2023 reached SDR 25,931 thousand, marking a notable 38 percent increase from SDR 18,730 thousand in 2022.

Expenses

Interest expenses for the year rose to SDR 1,695 thousand in 2023 from SDR 715 thousand in 2022, primarily due to higher market interest rates. General and administrative expenses increased to SDR 3,976 thousand in 2023 from SDR U 3,104 thousand in 2022, mainly attributable to one-off expenses. Personnel expenses, including salaries, benefits, contributions, and staff development expenses, amounted to SDR 3,326 thousand (2022: SDR 2,655K). Other administrative costs, encompassing travel, office occupancy, third-party fees, and maintenance costs, rose from SDR 321 thousand in 2022 to SDR 501 thousand in 2023. Overall, general and administrative expenses remained within the 2023 budget, underlining the Bank's commitment to budgetary discipline and effective cost controls. Furthermore, other operating expenses amounted to SDR 4 thousand in 2023 (2022: SDR 130K), resulting in total operating expenses of SDR 3,980 thousand (2022: SDR 3,234K).

General and administrative expenses remained within the 2023 budget, underlining the Bank's commitment to budgetary discipline and effective cost controls.

Net Income

The Bank reported a net profit of SDR 21,951 thousand in 2023, reflecting a significant 42 percent increase from SDR 15,496 thousand in 2022.

Reserves

Reserves denote the accumulation of capital generated internally through the retention of earnings. In accordance with the Bank's financial policies, reserves serve as the ultimate safeguard for the Bank's share capital against impairment, arising from credit losses exceeding provisions, or losses attributable to market, operational, and compliance risks.

Pursuant to the Articles of Agreement, the Bank allocates retained income until the reserves attain 25% of the subscribed capital. However, as of 31 December 2023, the Bank's reserves amount to SDR 101,161 thousand, constituting 9 percent of the subscribed capital. Table 3 below provides summary of the financial results of the Bank during 2019-2023.

Table-3: Financial results (2019-23)

Thousands of SDR	2023	2022	2021	2020	2019
Assets	492,286	470,849	464,692	467,926	468,589
Treasury investments	166,780	154,773	221,025	211,552	286,945
Loan portfolio	320,153	310,477	238,265	250,791	176,400
Other assets	5,353	5,599	5,402	5,583	5,244
Liabilities	42,424	42,920	52,244	64,534	73,270
Borrowings	35,956	36,473	48,108	59,145	67,509
Other liabilities	6,468	6,447	4,136	5,389	5,761
Members' equity	449,862	427,929	412,448	403,392	395,319
Income	28,042	20,040	12,980	13,885	17,843
Interest and fees	27,789	16,584	11,605	13,433	15,390
Other income	253	3,456	1,375	452	2,453
Expenses	-6,091	-4,544	-3,926	-6,128	-9,752
Interest and fees	-1,705	-723	-486	-748	-842
Administrative	-3,976	-3,104	-3,315	-3,565	-3,773
Other expenses	-410	-717	-125	-1,815	-5,137
Net profit	21,951	15,496	9,054	7,757	8,091

As of 31 December 2023, the Bank's reserves amount to SDR 101,161 thousand, constituting 9 percent of the subscribed capital.

Provisioning

In compliance with IFRS 9 – Financial Instruments, the Bank established a three-stage impairment model based on the change in credit quality subsequent to initial recognition.

Stage 1
Includes financial assets not having significant increase in their credit risk from initial recognition till the reporting date or financial assets having low credit risk at the reporting date. 12-month expected credit losses are recognised for such financial assets.

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

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

As of 31 December 2023, the Bank classified two of its loans as Stage 3, with all other financial assets categorized under Stage 1. In 2023, SDR 252 thousand of expected credit loss allowance was reversed attributed particularly to the decrease in the overall risk of the loan portfolio (2022: SDR 587K loss).

Key financial indicators (2018- 2022)

The Bank's performance over the past five years is reflected in key financial indicators, influenced by the expansion of the banking portfolio, management's commitment to cost consciousness, and enhancements in revenue streams. The Bank's strategic focus on fulfilling its mandate efficiently enables optimal capital utilization, while rigorous monitoring ensures that credit, liquidity, and market risks remain within approved limits.

Annual profit surged by 42 percent compared to 2022, reaching SDR 22 million in 2023. This significant improvement propelled the return on equity to 5 percent in 2023, up from 3.7 percent in 2022.

The Bank's adherence to strict budgetary discipline and effective cost control measures contributed to a further reduction in the general and administrative expenses to revenues ratio. This ratio decreased to 14.3 percent in 2023, compared to 18.7 percent in 2022. The continuous decrease in the leverage ratio, down to 8 percent in 2023, was primarily influenced by the maturity of deposits from banks.

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

Financial performance	2023	2022	2021	2020	2019
Return on members' equity	5.0	3.7	2.2	1.9	2.1
Return on assets	4.6	3.3	1.9	1.7	1.7
Interest income / interest bearing assets	5.7	3.5	2.4	2.7	3.2
Net interest margin	1.8	2.3	1.8	1.9	2.4
Efficiency					
Gen. & Administrative expenses / revenues	14.3	18.7	28.6	26.5	24.7
Leverage					
Total debt / members' equity	8.0	8.5	11.7	14.7	17.1

BUSINESS ACTIVITIES

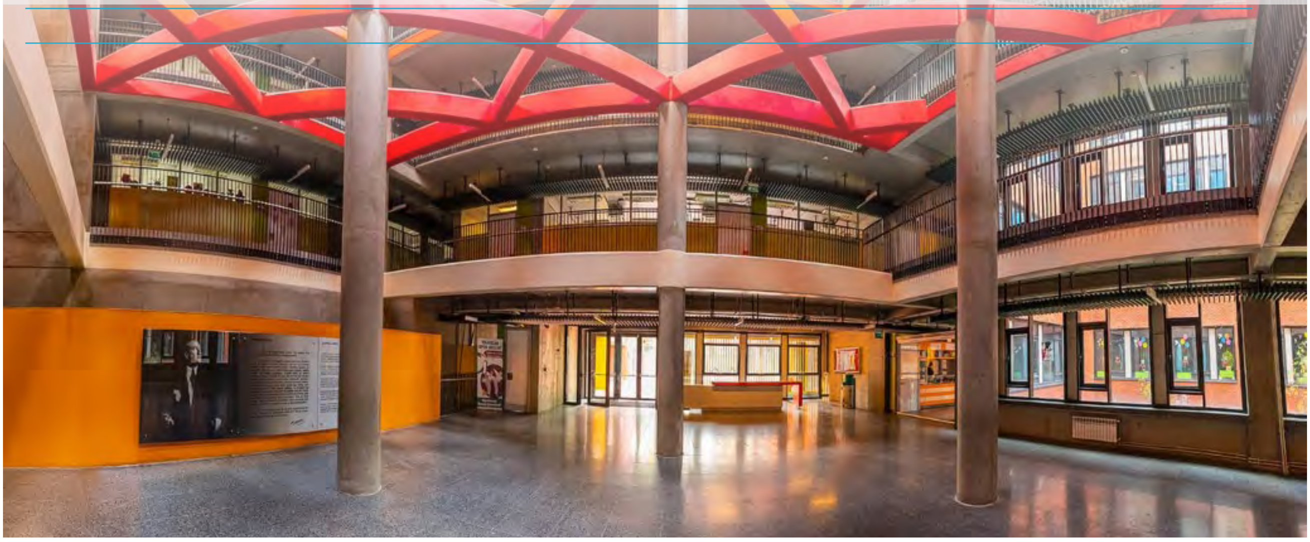
Since 2008, when the Bank started its credit operations, the total loans disbursed to various operations amounted to SDR 1,911 million as the end of 2023.

As a development finance institution, the Bank follows a dynamic business model focused on enhancement of regional trade, development of M-SMEs, meeting the financing and technical assistance needs of corporates and projects in the member countries. Despite challenges in some member countries, ETDB pursued its operations in order to support growth and economic prosperity in the member states.

The funds available for Bank's lending operations have been offered at favorable terms. Loans are normally provided under sovereign or bank guarantee, although the Bank may accept an unsecured position where it is judged to be consistent with prudent risk perspective. The process of selecting projects and operations is based on the assessment of additionality and development effect. The financial structure of a project/transaction, financial strength of the sponsors, technology, collaterals, tenor, and sector are also taken into consideration for credit decision. Development impact, in particular, tends to preclude a preferential factor in allocation of funds towards projects and operations with the optimum risk/return ratio. Since 2008, when the Bank started its credit operations, the total loans disbursed to various operations amounted to SDR 1,911 million as the end of 2023.

Table 5: **Loan disbursements during 2008-2023 as per country** *(Millions of SDR)*

	Iran	Pakistan	Türkiye	Azerbaijan	Total
SME/M-SME Dev. Loans	34	43	247	2	326
Short term trade finance	64	111	597	7	779
Trade/Corporate finance	60	454	77	-	591
Project finance	64	78	73	-	215
Total	**222**	**686**	**994**	**9**	**1,911**



OPERATIONS

BUSINESS ACTIVITIES

Since the establishment of the Bank, finance facilities over SDR 1.1 billion have been invested through financial intermediaries for developing intra-regional trade and accelerating economic development in the ECO region. In line with its mission to foster the growth of intra-regional trade and sustainable economic development, through a sound network of financial intermediaries, ETDB reaches out to the final beneficiaries in the M-SME segment and in trade finance. The financial intermediaries are selected commercial and investment banks, micro and SME finance institutions and leasing companies in the member countries. The selection process of financial intermediaries is carried through appraisal and due diligence requirements set forth in the policies and guidelines of the Bank. The Bank allocates limits to participating financial intermediaries according to their soundness and reliability as well as the sector disbursement targets. ETDB offers both conventional as well as Islamic banking models under these product lines. In coming years, the Bank aims to extend the network of financial intermediaries in member countries and develop products in order to be able to diversify its portfolio in terms of countries and customers.

Bank and Non-Bank Financial Institutions Operations

ETDB offers development finance and trade finance facilities to selected financial intermediaries in member countries. Financial intermediaries assist the Bank in servicing specific market segments more efficiently or effectively. These specific market segments are “M-SME Finance” and “Trade Finance”. Product line diagram for loans through financial intermediaries is as follows:

M-SME Development Loans (Medium-Long Term)

SME Loans
- Senior Conventional SME Loans
- Subordinated SME Loans
- Islamic SME Facilities

Microfinance Loans

Equity Investments

Trade Finance Loans (Medium-Short Term)

Export Finance Loans
- Pre-Export Loans
- Supplier Credit
- Export Finance Guarantee

Import Finance Loans
- Buyer Credit
- Import Finance Guarantee

Short Term Trade Finance Program

Since inception of the Bank, 32 FIs have been provided funding under the above-mentioned facilities in the total cumulative amount of USD 1.6 billion loans to FIs.

M-SME Development Loans

SME Loans: SMEs are seen as the most important driver of economic growth and play a significant role in employment creation. One of the priorities of ETDB is to support M-SMEs which are critical for the economic and social development in the ECO Region. They play a major role in creating jobs, alleviate poverty and enhancing the income distribution pattern. However, their development is constrained by limited access to finance. Medium term SME finance facilities aim to increase the access of M-SMEs to financial services.

Medium term M-SME Development Loan is developed to encourage intermediary banks and leasing companies to expand their M-SME financing operations in the member states. ETDB allocates the M-SME loans to its financial intermediaries to be on-lent to their micro or SME customers. In line with ETDB's commitment to improve the access of SMEs to the financial services, BNFI department has been offering SME finance facilities through its financial intermediaries since 2009.

As of year-end 2023, SME development loan portfolio has been to USD 64 million and 211 SMEs benefitted from ETDB loans throughout 2023. Final beneficiaries have been SMEs in agriculture, food, manufacturing and textile sectors. Going forward, ETDB will emphasize green finance for SME lending.

Green finance is the financing of investments that provide environmental benefits in the broader context of environmentally sustainable development. The environmental consciousness is more developed in the corporate segment than it is in the SME segment. Therefore, ETDB will emphasize green finance for SME lending in order to develop environmental conscious growth in the SME segment.

Microfinance Loans: Population in the lowest income segments does not have bank accounts and cannot get loans, making it hard to start or grow a business. This creates a negative impact for the economy. Microfinance supports the lowest income segment in launching, developing or maintaining a revenue generating economic activity.

ETDB pays specific attention to people who are facing difficulties entering or re-entering to the labor market, who are threatened by social exclusion, or who are otherwise in a disadvantaged position in the conventional credit market. In this regard, BNFI launched its microfinance facilities in 2013. Going forward, women-led micro businesses will be a new point of focus as a microfinance sub-segment for ETDB.

Societal and cultural barriers impede the access to finance for women-led and managed micro businesses. While getting access to financial services has been a problem for micro companies in general, it is disproportionately impacting women. To address this significant market gap, ETDB would co-operate with local organizations to help women-owned businesses.

Structure of the M-SME Development Loans:

M-SME loans are offered to financial intermediaries both in conventional as well as Islamic finance structures.

The tenor of the M-SME loans range between 2-5 years, except for the subordinated (tier II) M-SME loans whose tenor may go up to 10 years.

Financial intermediaries can use M-SME Development Loans to fund the «Investment» or «Working Capital» needs of their clients that are domiciled in the territory of ETDB member states and that fall under the definition of micro and SME company definition as shown below:

Client Category	Headcount	Annual Turnover
Micro	<50	<EUR 50.000
SME	51-250	EUR 51.000 - EUR 15.000.000

In order to provide access to longer tenor financing to the M-SMEs, the minimum tenor that the financial intermediary provides to the M-SMEs is required to be longer than 6 months.

M-SMEs' operations and sector shouldn't be among the negative list of products and sectors and M-SMEs shall comply with the environmental policy of ETDB.

After receiving the loan, financial intermediary allocates the loan to its customers without getting consent of ETDB as long as the end-borrowers comply with the eligibility criteria as defined above. The risk of end-beneficiaries (M-SMEs) is taken by the financial intermediary.

Financial intermediaries periodically report to ETDB about their financial standing and about the sub-loan portfolio to M-SMEs.

All commercial banks, leasing companies and microfinance banks that are located in ETDB Member Countries can apply to ETDB to be an intermediary bank for the M-SME Development Loan.

Upon finalization of credit review, establishment of a credit limit and signing of the relevant loan agreement; financing will be available for the intermediary bank for their use.

M-SMEs should apply not to ETDB but to one of the intermediary banks or financing institutions. For M-SMEs, the requirements for application may vary according to the respective intermediary institution.

Trade Finance Loans

ETDB focuses on two main targets in trade finance area:

a) Improving trade relations between ECO member countries

b) Enabling the continued flow of trade credit at times when imports may be critical and the member country's exports can generate much-needed foreign exchange.

In this context, ETDB offers trade finance facilities through selected financial intermediaries.

Export Finance Facilities are developed to provide financing to exporters of ECO member countries to produce manufactured goods, commodities and agricultural products for exportation.

Import Finance Facilities are developed to finance importation of capital equipment (machinery and relevant spare parts), raw material and intermediary goods in order to enhance productivity and thus to contribute to the economic development of the member countries.

ETDB allocates trade finance loans to its financial intermediaries to be on-lent to their customers as exporters or importers.

Total trade finance portfolio of BNFI amounted to USD 94 million as of year-end 2023.

Final beneficiaries have been corporates in member countries mostly in textile, iron &steel and food sectors.

Structure of the trade Finance Loans:

Financial intermediaries can use trade finance facilities for the below mentioned types of transactions:

(i) exports from any of the ETDB Member Countries to any country,

(ii) imports to any of the ETDB Member Countries from any of the ECO Member Countries, or

(iii) imports of capital equipment, raw material and intermediary goods to any of the ETDB Member Countries from any country provided the financed items preferably enhance competitive advantage or greater exports, intra-regional trade and job creation. ETDB finances up to 85% of the value of any transaction under this category- except for the importation of health sector products that can be financed up to 100% of the invoice amount.

Trade finance loans may cover both pre-shipment and/or the post-shipment periods of a trade transaction. The facility can only be allocated by the financial intermediary to the exporters/importers which comply with ETDB's Negative List of Products.

All commercial banks located in ECO Bank Member Countries can apply to ETDB to be an intermediary bank for ETDB trade finance facilities. The tenor of loans for trade finance to financial intermediaries is between 6 months and 2 years.

Corporate and Project Finance

In 2023, the Corporate and Project Finance (CPF) embarked on a proactive approach, initiating engagements with potential new clients to foster fresh transactions. Concurrently, it maintained connections with other Multilateral Financial Institutions to explore co-financing avenues, aiming to amplify its resources and extend its influence within the Member States. Oversight of ongoing projects within the bank's portfolio also fell under the purview of the CPF Department.

Aligned with Bank’s overarching General Business Strategy, CPF concentrated its focus on key sectors such as infrastructure, transportation, renewable energy, trade financing, and manufacturing. Marketing endeavors targeted both public and private sector entities, presenting loan offerings either independently or in collaborative ventures with other MDBs and Financial Institutions, aimed at bolstering financing opportunities for Member States and their private enterprises.

Within the year, significant milestones were achieved, including the signing of loan agreements totaling USD 40 million and EUR 60 million with the Ministry of Finance, Government of Pakistan. These agreements facilitated the financing of oil/gas imports, augmenting the member country's energy sector. Consequently, bank's direct support to the Government of Pakistan for oil/gas requirements soared to approximately USD 412 million since 2014.

Additionally, a EUR 50 million soft loan agreement was inked with Pakistan's Economic Affairs Division to expand the Health & Nutrition Conditional Cash Program under the Benazir Nashonuma Program, aiding flood-affected districts. Board approval was secured for a EUR 30 million soft loan to support Türkiye post the February 2023 Earthquake Disasters.

Throughout 2023, CPF diligently pursued new initiatives in Member States, identifying opportunities such as railway/highway renovations in Azerbaijan and steel/iron manufacturing and export in Pakistan, aligning with the bank's strategic objectives.

The bank's steadfast commitment to expanding its presence and impact in corporate, project, and trade financing activities within Member States persisted in 2023. Moreover, it provided tailored support to mitigate economic, financial, and public health challenges arising from natural disasters and pandemics, aligning with its mission of fostering sustainable economic development and social progress.

The bank's contributions included financing 170.8 MW of wind power and 18 MW of solar power across Member States, alongside substantial support for oil/gas imports in Pakistan, totaling USD 542.9 million. Risk and portfolio management received special attention, with the CPF team ensuring rigorous supervision and monitoring of completed operations to preempt vulnerabilities.

Country-specific performance analysis revealed ongoing support in Pakistan, with approved facilities totaling USD 165.9 million, primarily in solar power energy, oil/gas imports, and disaster relief. In Iran, the bank continued its focus on wastewater management and electricity distribution, with approved facilities of EUR 43.765 million. In Türkiye, a total loan amount of USD 99.8 million was approved, with disbursements directed towards seismic risk mitigation projects in Istanbul.

Furthermore, CPF remained actively engaged in exploring opportunities in Azerbaijan, Afghanistan, and Kyrgyz Republic, fostering connections with local stakeholders and collaborating with other Multilateral Organizations active in these regions.

Overall, the total outstanding loans under corporate and project finance operations amounted to SDR 199.8 million as end of December 2023.

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

#	Name of Client	Operation	ETDB Loan Amount (USD)
1.	Istanbul Metropolitan Municipality / Türkiye	Procurement of subway vehicles for Metro Line Project	USD 35,000,000
2.	Tehran Province Water and Wastewater Company / Iran	Shahriar Water and Waste Water System Project	EUR 18,000,000
3.	Regional Water Authority of Iran (KRWA)/ Iran	Siazakh Irrigation Project	EUR 16,890,000
4	South Khorassan Waste Water Company / Iran	Birjand Waste Water Treatment Project	EUR 23,765,000
5.	Government of Pakistan	Trade Finance Facility	USD 40,000,000
6.	Zorlu Energy Pakistan Limited/ Pakistan	Wind Power Farm Project	USD 18,254,305
7.	DG Khan Cement Company Limited (DGKCC) / Pakistan	Waste heat recovery plant and refused derive fuel facilities Project	USD 20,985,000
8.	Government of Pakistan	Soft loan (Supporting reconstruction and rehabilitation efforts following massive floods)	USD 10,000,000
9	Mazandaran Power Transmission Project/Iran	Expansion and modernization of electric transmission and distribution infrastructure	EUR 20,000,000
10.	Harappa Solar (Pvt) Limited/Pakistan	Solar Power Farm Project	USD 8,221,319
11.	Government of Pakistan	Trade Finance Facility-Syndication	USD 50,000,000
12.	Government of Türkiye	Istanbul Seismic Risk Mitigation and Emergency Preparedness (ISMEP) Project	EUR 40,000,000
13.	Government of Türkiye	Soft loan (COVID-19 Recovery)	EUR 15,000,000
14.	Vestel Elektronik San. ve Tic. A.Ş./ Türkiye	Corporate Finance -Trade Finance Facility	EUR 20,000,000
15.	Ulu Yenilenebilir Enerji Üretim A.Ş./ Türkiye	Wind Power Plant Project	USD 25,000,000
16.	Government of Pakistan	Trade Finance Facility	EUR 50,000,000
17.	Government of Pakistan	Soft loan (Support flood-affected districts)	EUR 50,000,000
18.	Government of Türkiye	Soft loan (Support earthquake recovery)	EUR 30,000,000
19.	Government of Pakistan	Trade Finance Facility	EUR 60,000,000

TREASURY OPERATIONS

ETDB Treasury has two functions:
a) cash flow management; b) market and liquidity risk management

a) Cash Flow Management:

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

b) Market and Liquidity Risk Management:

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

ALCO sets the market and liquidity risk limits and defines the guidelines for managing these risks.

The Bank's market risk and liquidity risk policies are more conservative as compared to the general banking practices.

Currency Risk Management:

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

Interest Rate Risk Management:

Rather than using derivative off balance sheet hedging instruments; the interest rate risk is managed on balance sheet by matching the maturity structure of the assets and liabilities in terms of tenor and currency.

Liquidity Risk Management:

The Bank follows highly conservative liquidity risk policy by keeping its liquidity coverage ratio (liquid assets to net cash requirement ratio) at 100% at all times. This ratio is monitored daily for the cash flow management. Additionally, ALCO defines and monitors the liquidity level limit as a percentage of the liquid assets to selected balance sheet items. Also, stress test scenarios are applied to keep the liquidity coverage ratio at adequate levels .

While achieving the three major functions stated above, TD has performed 221 operations (deals) in the total turnover of USD 1.9 billion during 2023:

USD 1,154 million in Money Market and Capital market,

USD 733 million
in FX swaps,

USD 31 million
in FX.

As of 31.12.2023, Treasury assets stood around SDR
162 million
(USD 215 million).

Treasury made the net interest income (Net money market + securities) of SDR 7.95 million (USD 10.57 million) and net swap cost of SDR 0.4 million (USD 0.5 million) for the year 2023. Going forward, Treasury Department aims to operate in lock step with the evolving market conditions and manage the Bank's liquidity with the optimal return while adhering to liquidity, FX and interest rate risk limits set by relevant committees and/or procedures.

TECHNICAL ASSISTANCE AND ADVISORY SERVICES

Technical assistance (TA) services have been identified as an important element of the Bank's operational strategy.

The Bank aims to assist member states in formulating and coordinating development strategies and plans; improving institutional capacities; undertaking sector and policy oriented studies; and improving knowledge about development, regional cooperation, and integration issues. The technical assistance (TA) services have been determined as a key tool in meeting this objective and important element of the Bank's operational strategy. Overall, in view of its modest capital base, since 2009, the Bank is allocating a certain amount to technical assistance activities within its annual budget. The strategy of the Bank is to use this limited amount in order to co-finance and mobilize external grant sources from bilateral and multilateral donors.

In this respect, the Bank has provided financial support to the initiatives of the ECO Secretariat such as implementation of project on monitoring the conditions regarding international road transport of goods across the region and organizing several workshops which had aimed to enhance the intra-regional trade.

The Bank extended a technical assistance financing for preparation and publication of the ECO Economic Journal by the Economic Scientific Research Institute (ESRI) of the Ministry of Economy of Azerbaijan in 2023. The Economic Journal stands as one of the flagship publications of the ECO, renowned for delivering a wealth of insightful and in-depth analyses. Each issue presents a comprehensive analytical overview, covering a spectrum of topics including socio-economic development trends, regional integration and the economic potential of the ECO countries. The journal's scope extends to a range of economic themes, such as trade, investment, industry, energy, transport, infrastructure development, technological advancements and financial cooperation. It symbolizes collective goal to seek innovative solutions, foster idea exchange and promote economic reforms for inclusive growth. The Bank also approved the request of technical assistance of the ECO Secretariat for organizing a regional 'Workshop on Border Crossing Facilitation and Best Practices' in collaboration with the Ministry of Trade of the Republic of Türkiye and International Road Transport Union (IRU) in 2024. The Workshop is aims to provide a platform for participants from ECO countries to share experience and best practices in border crossing facilities.

Overall, in cooperation with potential partners, the Bank is ready to consider the technical assistance requests and build-up its expertise and resources for providing more technical assistance services in the coming years.

RISK MANAGEMENT

The function of risk management has become a critical fulcrum of the Bank's long term vision and success.

In pursuit of its developmental mandate, the Bank continued to strengthen its Enterprise-wide Risk Management (ERM) approach and avoid strictly practices which are detrimental to its financial position and institutional reputation. The Bank's ERM approach comprises the Board and senior management providing an active risk oversight role. The Compliance and Risk Management functions are responsible for policy formulation and review, assessment, monitoring and reporting. In addition, the independent audit function provides an objective review of the status of the risk management practices.

In view of the Bank's philosophy of prudent lending, the function of risk management has become a critical fulcrum of the Bank's long term vision and success. The Bank pays particular attention to managing credit risks in the course of its core activities, market risks in its treasury activities along with compliance and operational risks.

In line with the Bank's policies and procedures, the Risk Management Department (RMD) is responsible for evaluating and appraising credit proposals from a risk perspective, setting up an appropriate risk rating system, formulating and monitoring the assignment of provisions, and periodically reviewing the portfolio of the Bank and classifying them.

In this respect, in order to obtain a single credit score that captures the overall financial standing of the borrower in terms of its financial strength and overall market position in the industry, RMD calculates the internal credit rating of borrowers based on quantitative & qualitative data. The internal credit rating on borrowers is calculated using the credit rating model developed by RMD.

The relevant parameters are divided into separate categories and respective weights are assigned. The model then assigns scores to each category based on a scale from one to ten and then finally calculates an overall credit score on the borrower. In order to safeguard the interest of the Bank, financial covenants & other conditions are proposed to ensure that where credit risk is not adequately mitigated, the same was off-set by including covenants in the loan agreement. The outcome of the credit risk analysis is presented in the form of Concept Assessment and Specific Risk Assessment reports which formed an integral part of the Concept Clearance Document (CCD) & Final Review Document (FRD) submitted for the consideration of the Credit Committee (CC) and the BoDs. Before providing a risk assessment to any proposal, RMD also checks compliance with country and operation limits in order to avoid breach in the approved policies and guidelines of the Bank and to ensure that credit lines approved are within the defined operational limits.

RMD also provides inputs on supervision and monitoring reports submitted by the business departments and updated the internal credit rating of obligors based on the latest financial data. This was done to highlight deterioration (if any) in the overall financial health of the borrower in terms of deterioration in the internal credit rating and also to act as an Early Warning Signal. Furthermore, by applying sensitivity analysis to key financial data on the stress test model developed by RMD, the borrowers' ability and vulnerability to absorb financial shocks without incurring losses are calculated. The stress test result also acts as an Early Warning Signal for the Bank to take a proactive action if necessary.

Apart from supervision and monitoring reports, RMD prepares Risk Asset Review reports to ascertain the concentration, tenor, rating of the Bank's portfolio. On an aggregate level, the Bank's credit quality was maintained at a strong level. The weighted average internal credit rating score assigned to the total outstanding loan portfolio was 2.8 points further improved by the end of 2023 (2022; 3.3 points) which represented a sound risk level on a scale of 1 to 10.

Moreover in the domain of Risk Management, A good part of risk management relies on data and the availability and quality of such data has been historically a focal point. In this context RMD and FAD departments in 2020 started Designing, development and implementation of a corporate governance system using the modern and latest IT technologies of .NET platform (C# programming language) combined with Structured Query Language (SQL). The platform is open-source where it can be amended and customized based on the user's requirement easily with minimum cost to the organization.

In this platform with a help of a user-friendly Desktop User Interface, ETDB's users access to a logically designed fully relational data base. The mentioned relational data centre targeted to transform all scattered and isolated operational data and documents in one single centralized relational data platform. The centralized data platform include all aspect of ETDB credit operations data including but not limited to information about ETDB active and past clients, BOD credit decisions, past and current loan agreements and their related terms and conditions, all the financial statements of clients used for FAD and RMD analysis, ETDB's Disbursements, Investment and lending operations. For upcoming years, RMD and FAD plan to expand the system and develop the Analytics modules for credit analysis and portfolio analysis purposes.

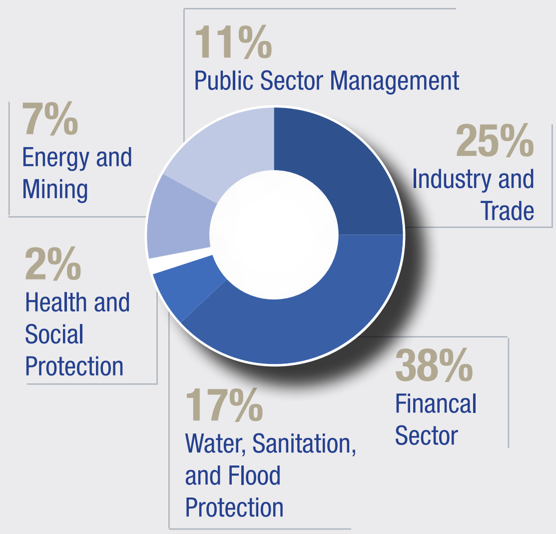
The Bank's portfolio is categorized

Apart from supervision and monitoring reports, RMD prepares Risk Asset Review reports to ascertain the concentration, tenor, rating of the Bank's portfolio.

into three stages as per the IFRS 9 regulations. Depending on the number of days of delays in repayment or a significant increase the credit risk of a client, the Bank changes the status of its exposures between these categories and assigns calculated provisions. Accordingly, total volume of Stage 3 loans decreased to SDR 20.9 million by the end of December 2023 which was SDR 22.7 million as end of 2022. Sovereign guarantees are held as collaterals against loans to customers that are classified under Stage 3. In 2023, as a result of the decrease in the volume of Stage 3 loans, the Bank lowered its expected credit loss allowance for stage III by SDR 45 thousand compared to previous year.

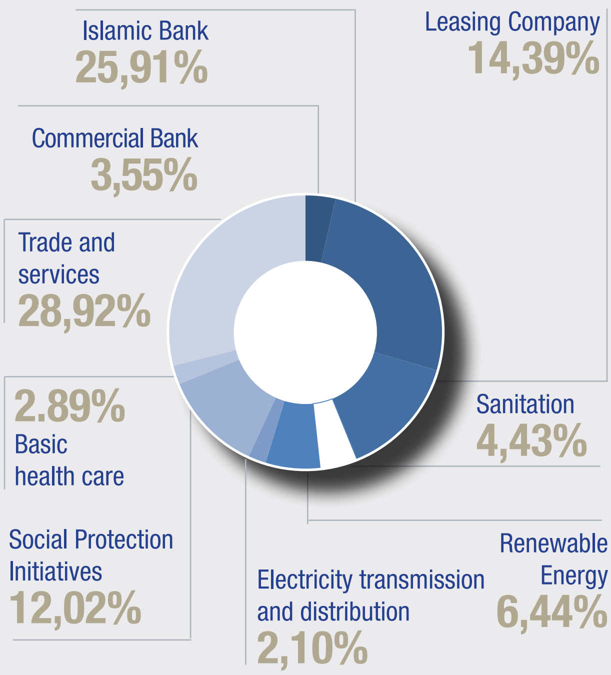
As of December 2023, the share of financial sector continued to have the largest share in ETDB loan portfolio and was realized as 38 percent which is down from December 2022 at 48 percent. The second largest share in the sector distribution belongs to Industry and Trade which came with a share of 25 percent. The concentration of operations in financial sector emanates from the twin objectives of the Bank to support development of local financial institutions and enhance operations in financing trade and development of SMEs. As of December 2023, there is no sector concentration risk within its CPF loan portfolio as more than half of this portfolio is of short-term nature and carries a sovereign risk.

Figure 12: Breakdown of outstanding loans by sectors-2023



ETDB loan portfolio also doesn’t carry a sub-sector concentration risk as well as all the CPF portfolio is in compliance with relevant policy guidelines and thresholds.

Figure 13: Breakdown of outstanding loans by sub-sectors-2023



PROJECT IMPLEMENTATION AND MONITORING

The Bank's Project Implementation and Monitoring activities are followed by three separate functions related to operations: Environment, Procurement, and Implementation Monitoring of projects.

The combination role of Project implementation and monitoring is to provide effective measures to improve the results.

Project implementation and monitoring focuses on administration operations, including registering and recording the progress of an operation in the operations database which regular updates by the operations team on a timely basis. The department makes recommendations during the initial phase on issues related to the conduct of the operation and monitoring, including relevant agreements and the development of key indicators for monitoring and reporting purposes. During 2023, the department succeeded in further monitoring the implementation of operations and updating the database of credit operations to include disbursement and repayment transactions of operations.

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

The Credit Committee, as per the financial policies of the Bank, is the relevant body to discuss the credit related issues. The PIMD has the role of the Credit Committee's Secretary. In 2023, seven Credit Committee meetings with 29 Resolution of Decisions were convened to discuss various credit proposals. Afterwards, the accepted credit proposals are submitted for the final decision of the BoDs. The environment function assures that operations are implemented according to internationally recognized standards of environmental regulations and principles in order to promote environmental soundness and sustainable development in the bank's member countries. The objective is to ensure that the operations do not add to existing pollution and favour the use of cleaner technologies and renewable resources, waste reduction, and resource recovery and recycling practices. This is reflected in the Bank's selection of projects to finance in wind and solar energies, irrigation, and wastewater treatment which are all classified as categories of projects in climate change prevention classification of United Nations under Climate Finance. Transactions involving goods mentioned in the ETDB's Negative List of Goods (including the Bank's Environmental Exclusion List) are excluded from financing.

The objective of procurement function is to assure that funds allocated to operations are expended solely for the purpose of achieving operations' objectives in an efficient, economical, fair, and transparent manner. In this respect, the Bank has oversight role in procurement planning and processes performed by the clients to procure goods, works, and services through competitive means as well as procurement contract administration. The Bank's procurement policy applies to all contracts funded in whole or in part by bank loans to both public and private clients. The Bank's authority in this regard is mandated by the Lending Agreement that governs the roles and responsibilities of clients and the Bank.

FINANCIAL CONTROL

Because of the nature of its role and responsibilities, works in close collaboration with the various departments in the Bank as a support function.

According to the Organizational Structure, Financial Control Department involve activities monitoring all movement of funds both inflow and outflow through the Bank's accounts, acts as a support function to business units, namely Banking & Non-Banking Financial Institutions and Corporate & Project Financing for loan disbursement and administration and as a back-office support function for Treasury Department. The department also performs payments of administrative expenses and personnel payments according to the Bank's policies and procedures, daily reconciliation of "Nostro" accounts, calculates, considers and arranges for the settlement of the due share capital contributions from the member states, controls the cash-flow of the Bank based on data information of the Bank, follows for the opening of required "Nostro" accounts in various currencies held with correspondent banks. The payment processes are reviewed to ensure cost control, accurate payments and budget limits. The department executes all accounting entries in compliance with international financial reporting standards (IFRS) in the SAP System.

Because of the nature of its role and responsibilities, works in close collaboration with the various departments in the Bank as a support function. Supports other departments for the presentation of financial reports in a timely and accurate manner, provides input for policies, rules, procedures and appropriate technical details whenever required, providing audit confirmation for the Bank's clients as well as the correspondent banks. While monitoring/reviewing operations at various stages, the department provides input/comments at various stages of operations, and for various documents such as the Term Sheets and Loan Agreements.

Loan disbursements and administrations include disbursement and repayment of facilities related to Corporate & Project Financing as well as the Banking & Non-Banking Financial Institutions' operations for project, corporate, SME and trade finance operations and providing repayment schedules based on the terms and conditions of the Loan Agreements. The department has been putting efforts for arranging the necessary steps to open Nostro accounts in various currencies in order to reduce the settlement risks/ costs and facilitate the operations of the Bank in the member state countries.

INFORMATION TECHNOLOGY (IT) SERVICES

The Bank aimed to embed technology into all its activities. In this respect, having a reliable and functional banking application has been critical for the Bank.

Successful implementation of the SAP has been providing a reliable platform for business operations of the Bank. The Bank's IT strategy lays emphasis on building capacity to better support its activities and provide improved services to users, while also avoiding costs arising from using expensive SAP consultancy services.

The SAP definitely contributed to the performance of the Bank on many factors, which would lead to support in the overall rating of the Bank. The SAP reporting solution, namely, "SAP Business Warehouse (BW) was successfully installed. This solution provided a flexible reporting platform for the users. The new and additional reports requested by the management could be easily composed and prepared in SAP BW system. The Bank strengthened its data governance practices to enable more systematic analytics and faster identification of risks. The Bank focused to increase efficiency, productivity, delivery standards, information security and user experience by streamlining transactions and information flow throughout the project lifecycle and decision-making processes.

Moreover, apart from SAP System, the following items have been secured on the IT infrastructure of the Bank

IT Disaster Recovery Project

The Bank has successfully renewed corporate agreement and moved its Disaster Recovery Systems to a new Disaster Recovery ("DR") site outside İstanbul without any interruption to on-going business of the Bank. The Bank successfully utilized "Veeam Backup & Replication Technologies" and succeeded to replicate corporate legacy data residing on mission-critical systems on the existing Istanbul VMware virtualization platform (DC, File Server, Exchange, SharePoint, SAP, etc.) to the ISP's DR site located in Ankara on daily basis.

Data Security & Protection

New version security application was deployed in order to increase security level for protecting the Bank's Corporate Legacy data in line with the best IT industry practices. Also, all staff computers were securely protected against viruses and malwares by the new version of the software by regular scanning with the antivirus database updated on daily basis.

Electronic Document Management System ("EDMS")

The EDMS software (Seneka) has been installed for effective management of digital information and records at the Bank. End user trainings have been completed and EDMS end-user applications were installed on their desktops. This project has been providing the framework for corporate memory of the Bank by preserving evidence of the Bank's activities through records, containing adequate and proper documentation of the organization.

It also provides following benefits for the Bank:

(i) Allowing a proper scrutiny and audit of the Bank's operations by the appropriate authorities.

(ii) Establishing effective management controls over the creation, maintenance and use of records and archives in the conduct of business.

(iii) Establishing safeguards against the removal or loss of records by adopting a new disposal process.

(iv) Reducing the office space requirement for physical archiving of documents.

(v) Contributing to paperless working environment.

(vi) 7/24 instant access to archive documents electronically based on the access rights granted.

(vii) Replicating digital archives to Disaster Recovery Site.

(viii) Searching scanned documents electronically.

Migrating to ISO20022 on SWIFT Alliance Lite2 Platform

The transformation of SWIFT ISO20022 standard MT messages to MX messages provided several benefits to the Bank operating in the global financial landscape. Firstly, it facilitated interoperability and standardization, enabling seamless communication and data exchange between diverse systems and entities, thereby reducing integration complexities and operational costs. Secondly, the adoption of MX messages enhanced data richness and efficiency, providing more comprehensive and structured information for improved analytics, reporting, and regulatory compliance. Moreover, the transition to MX messages enabled the Bank to leverage modern technologies and frameworks, fostering innovation and agility in its financial processes and services. Overall, the transformation from MT to MX messages represented a pivotal step towards modernization, enhancing communication, data integrity, and competitiveness within the global financial ecosystem.

Implementation of Asset Counting Application on SAP

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

Hardware Replacements for Server and Data Storage Units

The Bank replaced the existing Servers and Data Storage Units by the end of April 2023 as they were older than 9 years (doubling their own amortization period).

Upgrade of VMware Virtualization Environment

The existing hypervisor for VMware Virtualization environment was upgraded in order to benefit from the new features including fault-tolerance for the virtual servers used in ETDB IT Environment.

Improvement of Karachi Representative Office Connectivity

Upgraded the existing internet capacity of Pakistan Representative Office to establish VPN connection to the ETDB Headquarter via 20Mpbs bandwidth.

Deployment of the Financial Planning and Analysis ("FP&A") Application

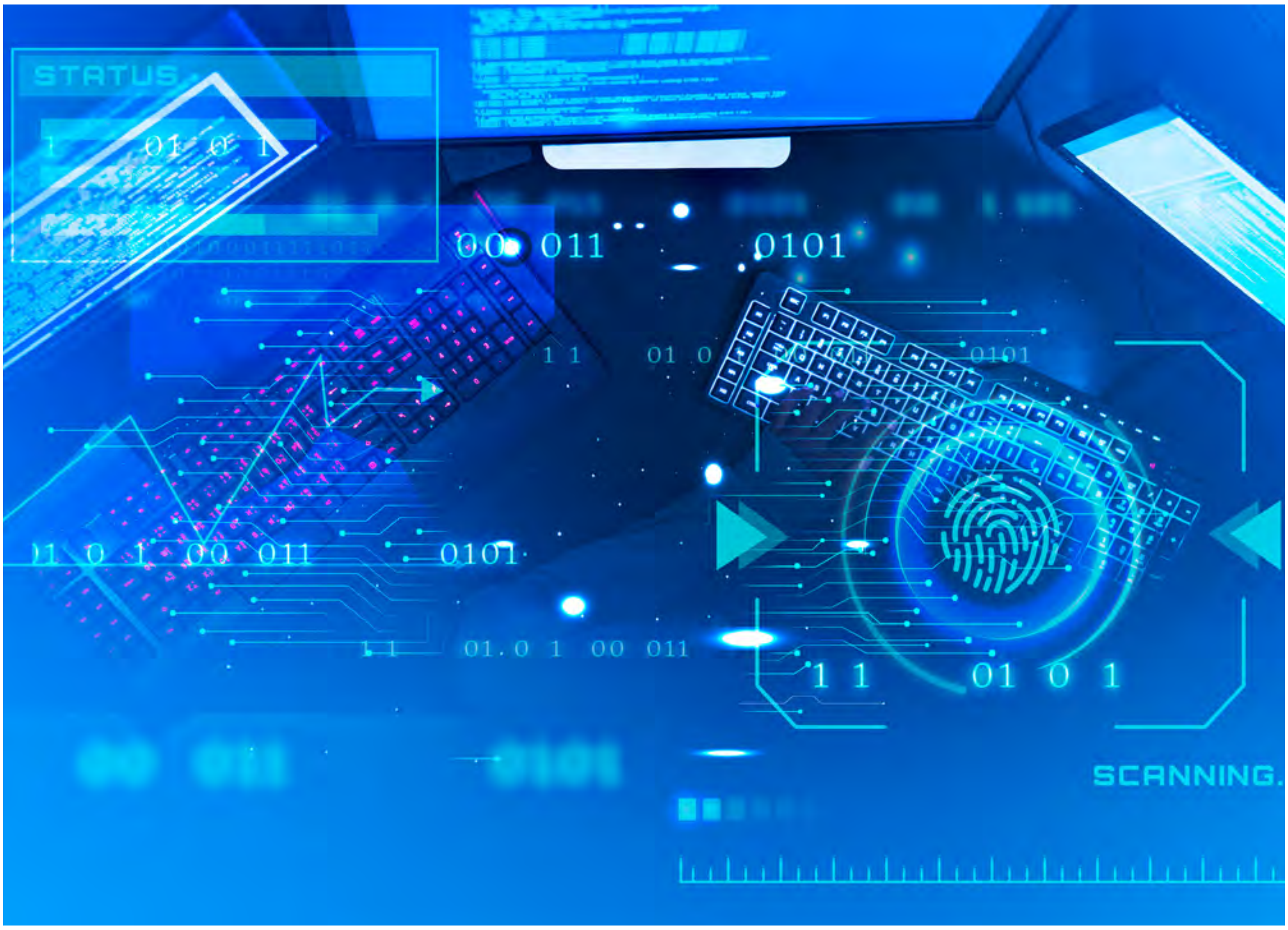
The Bank deployed FP&A" application which is designed to streamline financial processes and enhance decision-making for the Bank. Leveraging advanced analytics and intuitive interfaces, the new software would enable FRB Department to create detailed budgets, forecast future financial scenarios, and analyze variances with ease. Its robust features include customizable templates, collaborative tools for team collaboration, and integration with various data sources for real-time insights. With this application, the Bank can gain a deeper understanding of its financial performance, optimize resource allocation, and drive strategic initiatives towards success.

The Bank maintains an internal network of desktop workstations, laptops, digital office equipment, networking equipment, operating systems and servers in conjunction with the its business requirements. The IT services maintain an array of financial business systems including SAP, Refinitiv Reuters, SWIFT and financial portal on Intranet with SQL Database support. IT Department also provided a helpdesk function for assistance to all staff members with their use of MS Office Professional and other related software as well as the printers/photocopiers. Besides the software support, this helpdesk support additionally covered connection problems, password reset, file services, printer services, internet services, email services, telephony services, online virtual meeting platforms and remote office access for all staff members, etc.

IT Department provided network services for the connectivity of all ETDB technical devices, managed servers & storage units to centrally store and maintained all data including applications; ensured protection of all corporate legacy data through firewall & security software, maintained data backups and off-site data replication through radio link technology.

The Bank maintains an internal network of desktop workstations, laptops, digital office equipment, networking equipment, operating systems and servers in conjunction with the its business requirements.

INFORMATION TECHNOLOGY (IT) SERVICES



On a daily basis, IT Department supervised the 3rd party technical services delivered to the Bank such as PABX, Internet, Radio-link, ETDB web-site, Disaster Recovery ISP services, Reuters (Refinitiv), SWIFT, etc. in line with the agreements made with the 3rd party companies.

Going forward, while managing costs, the Bank will continue with the IT infrastructure maintenance and enhancement activities in order to leverage the Bank's business by integrating all technological enhancements according to the business needs and processes.

The Bank plans to improve its technological infrastructure in order to leverage the Bank's business by integrating all technological enhancements mainly in three areas: Investment for the existing IT Infrastructure, Automation of Business Systems and SAP Banking Application.

INTERNAL AUDIT FUNCTION

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

The Internal Audit Department (IAD) was established following the approval of the Organizational Structure Policy of the Bank approved by the Board of Directors in 2007. In line with its defined roles and responsibilities, IAD undertakes audit activities in accordance with the Global Internal Audit Standards of the Institute of Internal Auditors and in adherence to the Internal Audit Charter of the Bank.

Roles, responsibilities and objective of IAD include ensuring that Bank's operations are conducted according to the highest professional standards by providing an independent, objective assurance activity and advising Management on best industry practices. Through a risk-based approach, IAD assists the Management to accomplish its objectives by evaluating and improving the effectiveness of risk management, internal control and corporate governance in the Bank. To this end, IAD periodically reviews the control environment and work processes of the various units in the Bank in order to ensure that they are being carried out efficiently and effectively in adherence to policies, procedures, guidelines and the Credit Operation Manual (COM) of the Bank. Additionally, on Management's request, IAD provides consultancy and advisory service by advising and providing recommendations on improving and enhancing the existing control environment in the Bank.

In line with the Bank's goals & objectives and in adherence to the internal audit plan, IAD during the audit year 2023-2024, carried out the following audit activities:-

Prepared and implemented a Risk Based Internal Audit (RBIA) plan and executed timely delivery of audited assignments to ensure that processes and activities are being carried out in adherence to the approved policies, procedures, guidelines and the COM of the Bank and in line with the Global Internal Audit Standards issued by the Institute of Internal Auditors.

To this end, IAD reviewed the adequacy of risk and internal control processes to ensure compliance with business objectives and to ensure that risks identified are managed within each internal audit assignment. Based on the outcome of the field work and testing of the control points, IAD prepared audit reports providing details of the audit activities and where necessary made recommendations to mitigate the same. Additionally, IAD followed up on the adequacy of the actions taken on recommendations made in the previous audit reports to ensure that effective remedial actions were taken on the audit findings and advised the Management and Audit Committee (AC) accordingly. Additionally, IAD held regular meetings with the AC members throughout the year to discuss the audit reports and IAD's audit findings and recommendations made therein.

During the 2023-24 audit year, IAD carried out audit of the following units in the Bank and accordingly prepared the internal audit reports.

- Audit of Information Technology (IT) Department's operations.
- Audit of Policy and Compliance Department (PCD).
- Audit of Human Resources department (HRD).
- Audit of Administrative Services Department (ASD).
- Follow up on previous audit reports.

Based on the outcome of the field work and testing of internal control points, IAD identified gaps (if any) in the existing control environment and in the overall risk management and made recommendations to enhance the same.

IAD's future plans and audit activities depends on the Risk Based Internal Audit (RBIA) plan which is prepared annually. The plan is discussed with the Management and with the Audit Committee (AC) members prior to its finalization. On approval of the RBIA plan, IAD will develop audit programs and identify the internal control points of the units planned to be audited during the year.

COMPLIANCE FUNCTION

The Bank takes all reasonable and practical steps to safeguard its reputation.

As an international financial institution investing in enterprises and financial institutions in member countries, the ETDB is committed to promote high ethical standards, integrity, and corporate governance standards both within the Bank and in its investments. The Bank promotes its counterparty's adherence to good business practices by gathering information, where appropriate, on ownership structure, governance, business processes, adoption of international accounting standards, anti-money laundering and counter financing of terrorism procedures within the Know-Your Customer (KYC) procedures. All operations of the Bank are subject to appropriate level of due diligence including legal, environmental, social, procurement and development impact assessments, ensuring compliance with the Bank's mandate, internal rules and policies.

The Management of the Bank ensures that its integrity standards are complied with and integrity risks are identified and managed in a timely manner. In this respect, the Policy and Compliance Department (PCD) in line with the Compliance Charter adopted by the Board of Directors has been assisting the Management of the Bank in identifying and assessing potential compliance and conflict of interest issues.

While integrating into the overall risk management framework, the Bank defines the compliance risk as the risk of legal or regulatory sanctions, material financial loss or loss to reputation that the Bank may suffer as a result of its failure to comply with regulations, policies and procedures adopted by the Bank and relevant international standards of best/good practices. The operational risk is specifically defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk but excludes strategic and reputational risk.

With regard to legal risks, the Office of the General Council (OGC) provides support to the departments in their transactions with counterparties. The OGC reviews the credit operations and assesses critical legal issues for the best protection of the Bank's interests. The PCD and OGC departments collaborate with other relevant departments in order to develop and update the internal regulatory documents and present them to the approving authorities. During the year, several policies and procedures particularly related to Human resource management and risk management were updated/developed in order to ensure that they meet the best standards and harmonized with the regulatory framework. The Bank has also taken important steps in deployment of a financial planning and analysis application for streamlining of budget planning and management processes.

ETDB does not provide services such as opening account for legal or natural persons. The Bank's operations are limited to the financing of development projects and promoting trade among member states. The Bank is not involved in retail and commercial banking activities such as offering savings account services, personal loans, credit/debit cards, checks, money orders, demand drafts, executing payments on behalf of customers, etc. Therefore, typical AML, ABC, sanctions and CTF requirements are fulfilled according to the internationally accepted policies/procedures. The Bank's Anti-Fraud, Corruption, Money-Laundering Policy has been approved by the Board of Directors and applies to all activities of the Bank.

The Bank has developed due diligence procedures and guidelines which reflect its experience and practice in addressing integrity issues. The Bank assesses the potential risk associated with a particular client or counterparty while providing clear guidance as to what is not acceptable. The procedures rely on a risk based approach whereby higher risks are subjected to increased levels of scrutiny and control. The Bank requires its business department staff members to properly identify client related integrity concerns given their proximity to, and familiarity with, potential clients, the regulatory environment, and the country and sector specific information relevant for each operation. As the second line of defense, the relevant supporting departments provide independent advice to the business team on the assessment of integrity and reputational risks.

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

The Bank attaches close attention to staff discipline and prevention of conflicts of interest. The Code of Conduct of the ETDB articulates the values, duties, obligations and ethical standards. Moreover, the Corporate Governance Policy and Staff Regulations of ETDB established the basic corporate values and the rules of conduct based on high professional, integrity and ethical standards. Every year, the staff members are required to submit confidential statement with the attesting that he/she has no financial or business interest not complying with these rules. Allegations of fraud, corruption and other prohibited practices in the Bank's projects and allegations of staff failure to meet the Bank's rules and standards are investigated in order to comply with the standards established in the Bank's policies. The Disciplinary Rules and Procedure of the Bank set out the types of act or omission that may be considered to be misconduct and the procedures to be followed when investigating and, where appropriate, penalizing misconduct and unethical behavior.

The Bank, as an international financial organization, is accountable to its stakeholders and in its activities calls for very high standards of integrity, transparency and accountability. All kinds of grievances about the Bank's services and products can be directed to the Bank through the mail addresses provided on its website and each case is dealt timely and appropriately. Under the instruction of the President, PCD leads investigations on prohibited practices

and misconduct in the Bank. In 2023, there was no incident of investigation event conducted by the Bank.

In 2023, the ETDB conducted 12 loan transactions with 8 clients (two public sector operations-sovereign exposures and 6 financial sector operations-Financial intuition clients) and disbursed SDR 185 million loans. All of the loan operations are conducted with clients that the Bank had an existing business relationship. The transaction related to public sector included disbursement of funds under an existing loan commitment and other public sector disbursements were related to new loans provided for flood recovery and import of energy related raw materials. The disbursement to one FI was extended for SMEs finance operations and disbursements to other FIs were related to trade finance facility. These facilities are extended to the financial intermediaries for financing transactions which comply with ETDB's Negative List of Products and SMEs definition. The Bank has not received any complaints of prohibited practices from its operations in 2023. Regular monitoring and supervision of the loan portfolio provides opportunity for the Bank to assess the operational risk profiles and material exposures to losses. The New Product Approval Policy of the Bank defines the framework for dealing comprehensively and systematically with issues related to the introduction of new products.

The Bank has a low tolerance for material losses arising from operational risk exposures. Appropriate mitigation and control measures are put in place to mitigate the operational risk. The Bank has established necessary internal controls based on 'four eyes principle' and proper segregation of duties within the Bank's departments. Therefore, audit and compliance processes, however, does not relieve departmental heads and their staff of their responsibility for the maintenance and improvement of departmental controls with regard to compliance and operational risks in their respective areas. The head of division/ departments as the first line of defense are responsible for controls and risks and for action to correct deficiencies in systems of control. The corporate and property insurance policies and business continuity arrangements ensures the Bank to confront potential losses which may occur as a result of various events and natural disasters.

The PCD provided support in adoption of standards applicable for processes with regard to security controls and re-attesting compliance against these controls which are carried constantly by the Bank to comply with the latest standards of the industry for the SWIFT operating environment and with regard to RMA relationships.
In the year 2023, PCD remained actively engaged as observer in the activities of the relevant Committees in the Bank such as Management Committee, ALCO, Credit Committee and other relevant ad-hoc working groups and provided recommendations on the Bank's regulations and rules, procedures, policies, and decision-making processes. With regard to Bank's internal purchasing processes, PCD is represented in the Purchasing Review Committee and assisted the procurement activities through ensuring transparency and competition while mitigating fraud and corruption risks. The Management of the Bank reports and consults with the Board of Directors (BoDs) on management of any compliance and operational risk matters.

The Bank has a low tolerance for material losses arising from operational risk exposures. Appropriate mitigation and control measures are put in place to mitigate the operational risk.

EXTERNAL AUDITORS

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

Upon the recommendations of the Board of Directors and approval of the Board of Governors, qualified external auditors of international repute registered in a member country are appointed to audit the affairs of the Bank and to report to the Board of Directors. In relation to the 2023 audit, the Bank's auditors are Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi, "a member of Ernst & Young Global Limited".

The external auditors provide a signed auditor's opinion on the truth and fairness of the Bank's financial statements. Appointment or discharge of the external auditors is recommended and their performance is reviewed by the Audit Committee of the ETDB. Based on the opinion of the external auditor, the financial statements of the Bank for 2023 which is prepared in accordance with IFRS present fairly, in all material respects, the financial position of the Bank and no key audit matters were identified.

MEMBERSHIP TO THE BANK

The Bank is keen to have all ECO member states as the member of the Bank and benefit from its activities.

According to "Articles of Agreement" establishing the Bank, the membership is open to all ECO member states. The Bank is keen to have all ECO member states as the member of the Bank and benefit from its activities. The New Membership Principles adopted by the Bank provides the necessary guidelines to effectively facilitate accession of new members. Accordingly, in cooperation with the ECO Secretariat, the Bank continued to pursue a comprehensive program to encourage other ECO member states to become a member. Consequently, Afghanistan, Azerbaijan and Kyrgyzstan joined the Bank and present membership base of the Bank has been enlarged to include majority of the ECO member states.

The other four ECO member states namely Kazakhstan, Tajikistan, Turkmenistan and Uzbekistan are also expected to join the Bank soon.

The Bank is closely following-up the membership enlargement engagements in coordination with the ECO Secretariat. The Bank and the ECO Secretariat is working in close contact to explore the ways and means to encourage the remaining four ECO member states to join the ETDB and financing regional projects. The 26th meeting of the ECO-Council of Ministers (COM) held in Tashkent, Republic of Uzbekistan on January 24, 2023 also emphasized on the enhanced role of the Bank in ECO projects and for expansion of membership of the Bank in response to growing demand for economic change in the ECO region. The ECO Secretary General attended the 22nd Annual Meeting of the Board of Governors of the Bank held on June 23, 2023 in Istanbul, where he underlined the efforts of the ECO with regard to expanding membership of the bank.

During the ECO Regional Planning Council (RPC) meeting held on 22-25 January 2024, in Tehran, Islamic Republic of Iran, the Bank had the opportunity to reinvite the other ECO countries to join the Bank.

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

INTERNATIONAL RELATIONS

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

In this respect, the Bank has maintained a close liaison with the ECO Secretariat. In order to enhance the existing cooperation and mutual understanding, the Bank participated in the 26th Meeting of the ECO Council of Ministers (COM) held on 22 January 2023, in Tashkent, Uzbekistan. Also the Bank's Vice-President (Finance) participated in the First Meeting of the High-Level Working Group on the "Tajikistan-Uzbekistan-Turkmenistan-Iran-Türkiye" (TUTIT) Multimodal Corridor, co-organized by the Republic of Tajikistan and the ECO Secretariat, on 21 September 2023 in Dushanbe, Tajiksistan.

To enhance mutual understanding and cooperation with international organizations, the Bank participated in the 47th Annual Meeting of the Islamic Development Bank (IsDB) Group that was held from 10 to 13 May 2023 in Jeddah, Saudi Arabia; the 8th 2023 Annual Meeting of the Asian Infrastructure Investment Bank which was held from 25 to 26 September 2023 in Sharm El Sheikh, Egypt; and in the Annual Meetings of IMF and WBG which were held in Marrakech, Morocco, in October 2023.

In October 2023, an ETDB delegation led by the President, Mr. Yalçın Yüksel, visited Azerbaijan to discuss plans for sustainable development and regional cooperation. During, their visit, the ETDB delegation had the privilege of meeting with senior government officials from the Ministry of Economy of the Republic of Azerbaijan, led by Mr. Elnur Aliyev, First Deputy Minister of Economy. The discussions focused on different ways to work together, showing both parties' dedication to boosting economic growth and development in Azerbaijan with particular attention on supporting international transport corridors, renewable energy resources, infrastructure, joint investment funds and public-private partnership projects.

In December 2024, the Bank's delegation consisting of the new management team headed by the President, Dr. Mohammad Hashem Botshekan visited Ankara and met with senior government officials led by the Deputy Minister of Treasury and Finance of the Republic of Türkiye, Mr.Osman Çelik. In this meeting the parties discussed plans for the future expansion of the Bank's capital and activities.

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

HUMAN RESOURCES

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

Therefore, the Bank strives for recruiting high-calibre people, retaining its staff members, and adopting international standards and best practices with respect to human resources.

The human resources management has been structured on four essential fundamentals which are; fair and transparent recruitment process, a competitive remuneration system, performance appraisal policy, and offering learning opportunities to its employees.

The main roles of Human Resources Department are maintaining human resources processes in line with the best practices and regulations, staffing and recruitment, handling compensations and benefits, training and development, and performance appraisal. In 2023, Staff Regulations, Recruitment and Appointment Policy, Termination Policy, and Guidelines for Performance Appraisal System have been reviewed and amendments were made. In 2024, the Bank will continue to review its human resources policies in order to support the achievement of the institutional goals and ensure compliance of its human resources procedures with the legal requirements and international best practices.

The Bank recruits the best available people who are capable of fulfilling the Bank's goals and objectives in the most effective and efficient manner. In doing so, the Bank gives preference to hiring staff from member countries while adhering to the principle of selecting the best candidate for the job. By the end of 2023, the Bank had a total of 31 employees from 3 member countries including 3 members of the Management, 19 professional staff, 3 personal staff, and 6 general service staff.

Compensation and benefits constitute the very basic pillar of human resources management, where the Bank regularly reviews the Benefit System Policy. The Bank offers a competitive compensation and benefit scheme including comprehensive medical and life insurance plans, and relocation allowance and ongoing assistances to employees who moved to take up a post. The Bank operates a pension plan comprised of; first pillar which is a fully funded defined benefit scheme, second pillar which is a matched defined contribution scheme and third pillar which is a fully staff funded scheme.

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

In 2023, performance management system was reviewed in order to ensure consistency, better functioning of the appraisal process, and assessment of future potential of the employees.

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

Looking ahead, the Human Resources Department remains committed to driving excellence and innovation by focusing on following issues (i) enhancing training programs to address evolving skill requirements and promote career advancement opportunities, (ii) introducing performance metrics and specific targets (iii) launching initiatives to enhance employee engagement and satisfaction, such as team-building activities, (iv) staying abreast of changes in labour laws and regulations to ensure ongoing compliance and mitigating legal risks. By pursuing these objectives, Human Resources Department aim to further elevate the human resources function as a strategic partner in driving organizational success and fostering a culture of excellence.

PLANNING AND BUDGETING

The Bank's planning and budgeting process is carried out within the directives of BoDs approved policies and based on the medium-term strategy defined in the Business Plan approved by the BoGs.

The Business Plan which is comprised of the strategic, operational and financial plans of the Bank, is further detailed at country level in the respective country partnership strategy reports, and is implemented through annual budgets. The annual budget document is approved by the BoDs and includes short-term strategies, operational targets, work programs and related financial reports.

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

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

ETDB's corporate governance structure is supported by appropriate financial and management information reporting.

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

Bank has an integrated accounting, budgeting, and reporting system which enabled efficient and effective implementation of financial and management reporting. Execution of the Annual Budget is monitored on an on-going basis and the results are reported to the Senior Management and BoDs on a regular basis. The Bank maintains a Management Information System to support its internal structure by providing detailed financial and management information. Analyses relating to operations, revenues and cost effectiveness continued to be conducted. This data is utilized for decision-making, performance reporting, monitoring and internal control purposes. Moreover, key monitoring tools are developed and effective performance measurement control mechanism has been established.

The Financial Reporting and Budget Department (FRB) holds responsibility for the financial and management information reporting of the Bank, as well as the preparation and execution of annual budgets. In 2023, the annual budget and resource allocation process ran concurrently with the preparation of the 2024 annual budget. Throughout this period, the Bank's performance was consistently monitored and reported to the Senior Management and Board of Directors.

The Board of Directors approved the implementation of a corporate financial planning and analysis solution, marking a significant leap towards modernization and efficiency. Following meticulous tendering and procurement procedures, the implementation of the purchased software commenced in 2023. The solution is scheduled to go live in the first quarter of 2024. Subsequently, the FRB intends to conduct budgeting, planning, forecasting, scenario versioning, and reporting activities utilizing the implemented solution. Dashboards and reports will be generated to analyse operations, revenues, costs, and monitor Key Performance Indicators (KPIs).

BOARD OF GOVERNORS MEETINGS

The 22nd Annual Meeting of the Board of Governors was held on 23 June 2023 in Istanbul. At the meeting, the Board of Governors reviewed the performance of the Bank and approved the 2022 Annual Report and Financial Statements annexed to the Audit Report. The Board also appointed the Governor of the Islamic Republic of Iran as the Chairman of the Board for a one-year term.

The special guest of the meeting was the Secretary General of the Economic Cooperation Organization, Ambassador Khusrav Noziri, who addressed the meeting and emphasized the valued relationship between ECO and the ETDB. In his speech, Ambassador Noziri highlighted the need for further investment and cooperation in priority sectors such as trade, transport, energy, environment, and ICT, and emphasized on the need for promoting intra-regional trade and enhancing regional connectivity.

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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

Building a better working world

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Report on the Audit of the Financial Statements

To the Board of Governors of The Economic Cooperation Organization Trade and 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 Türkiye, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

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

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

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

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

Pages

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	-	-	(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.
