

EURASIAN DEVELOPMENT BANK

Financial Statements
For the Year ended 31 December 2015

EURASIAN DEVELOPMENT BANK

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Independent Auditors' Report

To the Members of the Council of Eurasian Development Bank

We have audited the accompanying financial statements of Eurasian Development Bank (the "Bank"), which comprise the statement of financial position as at 31 December 2015, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.





Ravshan Irmatov
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No MF-0000053 of 6 January 2012



Ashley Clarke
Audit Partner

KPMG Audit LLC

State Licence to conduct audit # 0000021 dated 6 December 2006 issued by the Ministry of Finance of the Republic of Kazakhstan



Assel Kharrova
General Director of KPMG Audit LLC
acting on the basis of the Charter

11 April 2016

EURASIAN DEVELOPMENT BANK

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

(in thousands of US dollars)

	Note	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Interest income	4	225,989	264,879	248,111
Interest expense	4	(133,093)	(167,938)	(157,503)
Net interest income before provision for impairment losses on interest bearing assets		92,896	96,941	90,608
Provision for impairment losses on interest bearing assets	5	(150,448)	(20,696)	(120,828)
NET INTEREST INCOME/(EXPENSE)		(57,552)	76,245	(30,220)
Provision for impairment losses on equity financial assets available-for-sale	14	(21,732)	(21,295)	-
Provision for impairment losses on other assets	18	(42,587)	-	-
Net loss on financial assets and liabilities at fair value through profit or loss	6	(18,033)	(7,896)	(7,019)
Net realised gain/(loss) on financial assets available-for-sale		1,543	64	(6)
Net gain on transactions in foreign currencies	7	37,224	12,486	1,063
Fee and commission income		5,329	5,622	10,226
Fee and commission expense		(225)	(238)	(256)
Net loss on trading with debt securities issued	20	(13,725)	(650)	(1,648)
Other income		643	481	417
Other expenses		-	(2)	(417)
Net non-interest (loss)/income		(51,563)	(11,428)	2,360
Net result from financial operations		(109,115)	64,817	(27,860)
Other operating expenses	8	(34,494)	(47,034)	(44,650)
NET (LOSS)/PROFIT		(143,609)	17,783	(72,510)

The notes on pages 11-68 form an integral part of these financial statements.


EURASIAN DEVELOPMENT BANK

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

(in thousands of US dollars)


	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
OTHER COMPREHENSIVE INCOME:			
Items that are or may be reclassified subsequently to profit or loss:			
Net unrealised gain/(loss) on revaluation of financial assets available-for-sale	6,215	(22,394)	(7,105)
Transfer of impairment losses on equity financial assets available-for-sale to profit or loss	-	10,415	-
Net realised (gain)/loss on financial assets available-for-sale transferred to profit or loss	(1,543)	(64)	6
Net unrealised gain on hedging instruments	-	371	2,686
Total items that are or may be reclassified subsequently to profit or loss	4,672	(11,672)	(4,413)
OTHER COMPREHENSIVE INCOME	4,672	(11,672)	(4,413)
TOTAL COMPREHENSIVE (LOSS)/INCOME	(138,937)	6,111	(76,923)

Approved on behalf of the management of the Bank:


D.V. Pankin
Chairman of the Executive Board

11 April 2016
Almaty, Kazakhstan




B.K. Mukhambetzhonov
Managing Director, Finance
Member of the Executive Board

11 April 2016
Almaty, Kazakhstan

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EURASIAN DEVELOPMENT BANK

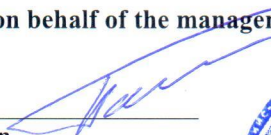
STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015


(in thousands of US dollars)

	Note	31 December 2015	31 December 2014	31 December 2013
ASSETS				
Cash and cash equivalents	9	281,984	296,652	274,958
Financial assets at fair value through profit or loss	10	-	1,821	5
Loans and advances to banks	12	67,842	249,980	406,893
Loans to customers	13	1,499,391	2,151,623	2,327,603
Financial assets available-for-sale	14	609,749	716,228	1,129,244
Investments held-to-maturity	15	402,714	437,271	403,786
Non-current assets held-for-sale	16	-	-	20,393
Property and equipment	17	12,513	13,311	14,161
Intangible assets		1,246	1,451	1,330
Other assets	18	5,195	47,161	15,285
TOTAL ASSETS		2,880,634	3,915,498	4,593,658
LIABILITIES AND EQUITY				
LIABILITIES:				
Loans from banks	19	161,351	187,923	127,035
Financial liabilities at fair value through profit or loss	10	5,137	3,471	781
Hedging derivative financial instrument	11	-	-	16,763
Debt securities issued	20	1,196,357	2,061,561	2,785,565
Other liabilities	21	18,456	24,273	31,355
Total liabilities		1,381,301	2,277,228	2,961,499
EQUITY:				
Share capital:				
Authorised share capital	22	7,000,000	7,000,000	1,515,700
Less callable share capital	22	(5,484,300)	(5,484,300)	-
Paid-in share capital		1,515,700	1,515,700	1,515,700
Reserve fund	22	90,872	90,872	90,872
Hedging reserve		-	-	(371)
Revaluation reserve for financial assets available-for-sale		226	(4,446)	7,597
Retained earnings		(107,465)	36,144	18,361
Total equity		1,499,333	1,638,270	1,632,159
TOTAL LIABILITIES AND EQUITY		2,880,634	3,915,498	4,593,658

Approved on behalf of the management of the Bank:


D.V. Pankin
 Chairman of the Executive Board




B.K. Mukhambetzhonov
 Managing Director, Finance
 Member of the Executive Board

11 April 2016
 Almaty, Kazakhstan

11 April 2016
 Almaty, Kazakhstan

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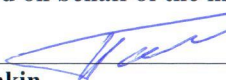
EURASIAN DEVELOPMENT BANK

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

(in thousands of US dollars)

	Share capital			Reserve fund	Hedging reserve	Revaluation reserve for financial assets available-for-sale	Retained earnings	Total
	Authorised	Callable	Paid-in					
1 January 2013	1,515,700	-	1,515,700	84,878	(3,057)	14,696	96,865	1,709,082
Net loss	-	-	-	-	-	-	(72,510)	(72,510)
Other comprehensive income	-	-	-	-	2,686	(7,099)	-	(4,413)
Total comprehensive (loss)	-	-	-	-	2,686	(7,099)	(72,510)	(76,923)
Transactions with owners, recorded directly in equity								
Transfer to reserve fund	-	-	-	5,994	-	-	(5,994)	-
31 December 2013	1,515,700	-	1,515,700	90,872	(371)	7,597	18,361	1,632,159
Net profit	-	-	-	-	-	-	17,783	17,783
Other comprehensive income	-	-	-	-	371	(12,043)	-	(11,672)
Total comprehensive income	-	-	-	-	371	(12,043)	17,783	6,111
Transactions with owners, recorded directly in equity								
Callable shares authorised	5,484,300	(5,484,300)	-	-	-	-	-	-
31 December 2014	7,000,000	(5,484,300)	1,515,700	90,872	-	(4,446)	36,144	1,638,270
Net loss	-	-	-	-	-	-	(143,609)	(143,609)
Other comprehensive income	-	-	-	-	-	4,672	-	4,672
Total comprehensive (loss)	-	-	-	-	-	4,672	(143,609)	(138,937)
31 December 2015	7,000,000	(5,484,300)	1,515,700	90,872	-	226	(107,465)	1,499,333


Approved on behalf of the management of the Bank:


D.V. Pankin
 Chairman of the Executive Board

11 April 2016
 Almaty, Kazakhstan

The notes on pages 11-68 form an integral part of these financial statements.




B.K. Mukhambetzhonov
 Managing Director, Finance
 Member of the Executive Board

11 April 2016
 Almaty, Kazakhstan

EURASIAN DEVELOPMENT BANK

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

(in thousands of US dollars)

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received on loans to customers	165,891	211,421	179,201
Interest received on loans and advances to banks	17,523	16,929	17,930
(Expense paid)/interest and income received from financial assets and liabilities at fair value through profit or loss	(14,546)	(7,022)	6,968
Interest and income received on financial assets available-for-sale	5,772	12,061	16,474
Interest received on investments held-to-maturity	19,225	20,063	19,114
Interest paid on loans from banks	(5,487)	(6,327)	(2,844)
Interest paid on debt securities issued	(132,516)	(157,217)	(129,598)
Fees and commissions received	4,563	4,665	9,034
Fees and commissions paid	(255)	(204)	(256)
Other income received	643	481	418
Other operating expenses paid	(37,702)	(37,593)	(45,511)
Cash inflow from operating activities before changes in operating assets and liabilities	23,111	57,257	70,930
Changes in operating assets			
Decrease/(increase) in loans to customers	268,780	(424,362)	(585,698)
Decrease/(increase) in loans and advances to banks	176,959	119,038	(104,498)
Decrease in other assets	433	2,023	95
Changes in operating liabilities			
Increase/(decrease) in other liabilities	8	(58)	72
Cash flows from/(used in) operating activities	469,291	(246,102)	(619,099)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of financial assets available-for-sale	(1,032,995)	(963,581)	(2,265,102)
Proceeds from sale and redemption of financial assets available-for-sale	1,121,139	1,353,592	1,977,770
Purchase of investments held-to-maturity	-	(103,332)	(204,798)
Proceeds from redemption of investments held-to-maturity	29,430	66,350	113,600
Purchase of property, equipment and intangible assets	(635)	(1,075)	(1,189)
Proceeds from sale of property, equipment and intangible assets	-	18	1,633
Cash flows from/(used in) investing activities	116,939	351,972	(378,086)

The notes on pages 11-68 form an integral part of these financial statements.


EURASIAN DEVELOPMENT BANK

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)


(in thousands of US dollars)

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of debt securities	-	363,326	1,393,166
Repayments of debt securities	(587,843)	(494,794)	(650,344)
Proceeds from loans from banks	18,804	72,112	90,291
Repayments of loans from banks	(27,677)	(12,749)	(2,076)
Cash flows (used in)/from financing activities	(596,716)	(72,105)	831,037
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(10,486)	33,765	(166,148)
CASH AND CASH EQUIVALENTS, at beginning of the year	296,652	274,958	434,936
Effect of changes in foreign exchange rate on cash and cash equivalents	(4,182)	(12,071)	6,170
CASH AND CASH EQUIVALENTS, at end of the year (Note 9)	281,984	296,652	274,958

Approved on behalf of the management of the Bank:


D.V. Pankin
Chairman of the Executive Board




B.K. Mukhambetzhonov
Managing Director, Finance
Member of the Executive Board

11 April 2016
Almaty, Kazakhstan

11 April 2016
Almaty, Kazakhstan

The notes on pages 11-68 form an integral part of these financial statements.

1 BACKGROUND

(a) Principal activities

Eurasian Development Bank (the “Bank”) is an international organisation, which was established in accordance with the Agreement Establishing Eurasian Development Bank, entered into between the Russian Federation and the Republic of Kazakhstan on 12 January 2006 (the “Agreement on Incorporation”). This Agreement on Incorporation became effective on 16 June 2006, upon fulfilment of domestic procedures necessary for it to become effective.

The Bank’s membership is open to new participants such that other states and international organisations may join the Agreement on Incorporation of the Bank. The strategic objective of the Bank is to promote the development of the market economy in its Member states, including their economic growth and the expansion of mutual trade and economic relations through investment activity. The Bank was established to assist Member states in integrating their economies and developing their infrastructure.

In December 2008, the Council of the Bank approved the accession of the Republic of Armenia, the Republic of Belarus and the Republic of Tajikistan to the Agreement on Incorporation. The Republic of Armenia, the Republic of Tajikistan and the Republic of Belarus have fulfilled their respective appropriate domestic procedures related to the ratification of the Agreement on Incorporation of the Bank, made their contributions to the share capital and became Member states of the Bank on 3 April 2009, on 22 June 2009 and 21 June 2010, respectively.

On 28 June 2011 the Council of the Bank approved the accession of the Kyrgyz Republic to the Agreement on Incorporation of the Bank. The Kyrgyz Republic has fulfilled its respective appropriate domestic procedures related to the ratification of the Agreement on Incorporation of the Bank, made its contribution to the share capital and became Member state of the Bank on 26 August 2011.

As at 31 December 2015, the following states were members of the Bank: the Russian Federation, the Republic of Kazakhstan, the Republic of Armenia, the Republic of Tajikistan, the Republic of Belarus and the Kyrgyz Republic.

The Bank's principal activities consist of lending and operations with securities and foreign currencies. One of the Bank’s primary functions is to provide financing for large infrastructure projects in the Member states, which it implements through the provision of loans and debt financing to private and public entities, investing in the equity of customers, participating in, or establishing, private equity funds, providing investment consulting, and providing other financial instruments. The Bank seeks to insure that all its projects are financially viable. The Bank does not finance social projects, such as construction of schools or hospitals.

The headquarters of the Bank is registered at: 220, Dostyk Avenue, Almaty, the Republic of Kazakhstan.

The total number of employees of the Bank as at 31 December 2015 was 246 (31 December 2014: 294; 31 December 2013: 293).

In accordance with Agreement on Incorporation, the Bank possesses immunity against any legal proceedings under jurisdiction of its Member states, except in cases which do not result from its execution of its powers. The property and the assets of the Bank possess the same immunities from search, requisition, arrest, confiscation, expropriation or any other form of withdrawal or alienation prior to final judgment in relation to the Bank. The Bank is exempted on the territory of the Member states from any taxes, levies, duties, income taxes and other payments, except for those that represent a payment for specific types of service.

1 BACKGROUND, CONTINUED

(a) Principal activities, continued

As at 31 December 2015, 2014 and 2013, shares of the Bank were owned as follows:

	%
The Russian Federation	65.97
The Republic of Kazakhstan	32.99
The Republic of Belarus	0.99
The Republic of Tajikistan	0.03
The Republic of Armenia	0.01
The Kyrgyz Republic	0.01
Total	100.00

These financial statements were authorised for issue on 11 April 2016 by the management of the Bank.

(b) Business environment

The Bank's operations are primarily located in the Member states. Consequently, the Bank is exposed to the economic and financial markets of the Member states that display characteristics of emerging markets. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Member states. In particular, current economic and political situation, including situation in Ukraine and introduction of sanctions against the Russian Federation by particular countries and introduction of responsive sanctions against particular countries by the Russian Federation creates risks for operations conducted by the Bank. The financial statements reflect management's assessment of the impact of the Member states' business environment on the operations and financial position of the Bank. The future business environment may differ from management's assessment.

2 BASIS OF PREPARATION

(a) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial assets available-for-sale, financial instruments at fair value through profit or loss and derivative financial instruments designated as hedging instruments are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Bank is the US dollar as it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The US dollar is also the presentation currency for the purposes of these financial statements.

The Bank considered the following factors in determining its functional currency: the Bank is an international organisation, share capital is formed in US dollars, funds from financing activities are generated mainly in US dollars, and the majority of the Bank's principal activities are conducted in US dollars.

Financial information presented in US dollars is rounded to the nearest thousand.

2 BASIS OF PREPARATION, CONTINUED

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is described in Note 13 “Loans to customers”, in Note 14 “Financial assets available-for-sale” and in Note 22 “Share capital”.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below are applied consistently to all periods presented in these financial statements, and are applied consistently by the Bank.

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Bank at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss; a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or qualifying cash flow hedges to the extent that the hedge is effective, which are recognised in other comprehensive income.

Rates of exchange

The exchange rates used by the Bank in the preparation of the financial statements were as follows:

	31 December 2015	31 December 2014	31 December 2013
US dollar/1 Kazakhstan tenge (“KZT”)	0.0029360	0.0054840	0.0064821
US dollar/1 Russian rouble (“RUB”)	0.0137270	0.0164648	0.0304232
US dollar/1 British pound sterling (“GBP”)	1.4734000	1.5581000	1.6566000
US dollar/1 Euro (“EUR”)	1.0866000	1.2100000	1.3789000

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, balances (nostro accounts) held with other banks, and highly liquid financial assets 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 short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Loans and advances to banks

In the normal course of business, the Bank maintains advances, deposits for various periods of time with other banks and reverse repo transactions. Due from banks with fixed maturity terms are subsequently measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at amortised cost based on expected maturities. Amounts due from financial institutions are carried net of allowance for impairment losses, if any.

(d) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative that is a financial guarantee contract or a designated and effective hedging instruments) or,
- upon initial recognition, designated by the Bank as at fair value through profit or loss.

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of the at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(d) Financial instruments, continued

(i) *Classification, continued*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Investments held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition designates as at fair value through profit or loss
- the Bank designates as available-for-sale or,
- meet the definition of loans and receivables.

Financial assets available-for-sale are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, investments held-to-maturity or financial instruments at fair value through profit or loss.

(ii) *Recognition*

Financial assets and liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) *Measurement*

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method
- investments held-to-maturity which are measured at amortised cost using the effective interest method and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(d) Financial instruments, continued

(iv) *Amortised cost*

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(v) *Fair value measurement principles*

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

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

When there is no quoted price in an active market, 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 the factors that market participants would take into account in these circumstances.

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

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

(vi) *Gains and losses on subsequent measurement*

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss
- a gain or loss on a financial asset available-for-sale is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to a financial asset available-for-sale is recognised in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(d) Financial instruments, continued

(vii) *Derecognition*

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset 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 the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the consolidated statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Bank writes off assets deemed to be uncollectible.

(viii) *Repurchase and reverse repurchase agreements*

Securities sold under sale and repurchase (“repo”) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions within loans and deposits from banks. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts receivable under reverse repo transactions within loans and advances to banks. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the reverse repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(ix) *Derivative financial instruments*

Derivative financial instruments include swaps, forwards, futures and spot transactions.

According to the existing policy of the Bank, some derivative instruments qualify for hedge accounting.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(d) Financial instruments, continued

(ix) *Derivative financial instruments, continued*

The method of recognising the gain or loss on changes in the fair value of derivatives depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as either:

- Hedges of the fair value of recognised assets or liabilities or firm commitment (fair value hedge). A fair value hedge is a hedge of changes in the fair value of a recognised asset or liability, an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. The hedge instrument is measured at fair value with changes in fair value recognised in profit or loss;
- A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction, that could affect profit or loss. The hedging instrument is measured at fair value with the effective portion of changes in its fair value recognised as other comprehensive income in equity and the ineffective portion recognised in profit or loss.

Derivatives may be embedded in another contractual arrangement (a “host contract”). An embedded derivative is separated from the host contract and it is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

(x) *Offsetting*

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(e) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Bank’s accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

(f) Property and equipment

(i) *Owned assets*

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(f) **Property and equipment, continued**

(ii) **Depreciation**

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated annual depreciation rates are as follows:

Furniture and equipment	14.29-50.00%
Vehicles	25.00-50.00%
Office buildings	3.33%

(g) **Intangible assets**

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated annual amortisation rates are 14.29%-50.00%.

(h) **Impairment**

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Bank determines the amount of any impairment loss.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(i) **Financial assets carried at amortised cost**

Financial assets carried at amortised cost consist principally of loans and other receivables (“loans and receivables”). The Bank reviews its loans and receivables to assess impairment on a regular basis.

The Bank first assesses whether objective evidence of impairment exists individually for all loans and receivables. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(h) Impairment, continued

(i) *Financial assets carried at amortised cost, continued*

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) *Financial assets carried at cost*

Financial assets carried at cost include unquoted equity instruments included in financial assets available-for-sale that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in profit or loss and cannot be reversed.

(iii) *Financial assets available-for-sale*

Impairment losses on financial assets available-for-sale are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired debt security available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired equity security available-for-sale is recognised in other comprehensive income.

(iv) *Non financial assets*

Non financial assets are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are 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. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(h) Impairment, continued

(iv) Non financial assets, continued

An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Provisions and contingencies

Provisions are recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is probable.

(j) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments and letters of credit.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitments are included in other liabilities.

(k) Share capital

Share capital is recognised at cost.

(l) Taxation

The Bank, its income, property and other assets, and also its operations and transactions carried out in accordance with Agreement on Incorporation on the territory of Member states of the Bank, are exempted from any taxes, levies, duties and other payments, except for that which represent payment for certain types of services.

(m) Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in interest income and expense.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(m) Income and expense recognition, continued

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(n) Fiduciary assets

The Bank provides asset management services that result in the holding of assets on behalf of third parties. These assets and the income arising from them are not included in the Bank's financial statements as they are not assets of the Bank. Commissions received from such business are shown within operational income in profit or loss.

(o) Employee benefits

The Bank is exempt from payments of obligatory pension contributions to funds operating in the Member states of the Bank. The Bank provides non-state retirement benefits in accordance with internal regulative documents of the Bank. The retirement savings plans are similar to a defined contribution plan and are recorded as operating expenses in the statement of comprehensive income and as other liabilities in the statement of financial position of the Bank.

(p) Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing services within a particular economic environment (geographical segment), which is subject to specific risks and rewards. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten per cent or more of all the segments are reported separately. The segment operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. The Bank recognises geographical segments that are reported in these financial statements.

(q) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2015, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective. The Bank has not yet analysed the likely impact of these new standards on its financial position and performance.

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding the classification and measurement of financial liabilities was published in October 2010. The third phase of IFRS 9 was issued in November 2013 and relates to general hedge accounting. The standard was finalized and published in July 2014. The final phase relates to a new expected credit loss model for calculating impairment. The Bank recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the financial statements. The Bank has not analysed the impact of these changes yet. The Bank does not intend to adopt this standard early. The standard will be effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.
- Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2016. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

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4 NET INTEREST INCOME

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Interest income comprises:			
Interest income on financial assets measured at amortised cost	221,052	257,930	239,785
Interest income on financial assets available-for-sale	4,937	6,949	8,326
Total interest income	225,989	264,879	248,111
Interest income on financial assets measured at amortised cost comprises:			
Interest on loans to customers	190,823	223,759	204,519
Interest on investments held-to-maturity	14,106	16,003	16,342
Interest on loans and advances to banks	11,014	16,559	17,604
Interest on cash and cash equivalents	5,109	1,609	1,320
Total interest income on financial assets measured at amortised cost	221,052	257,930	239,785
Interest expense comprises:			
Interest expense on financial liabilities measured at amortised cost comprises:			
Interest on debt securities issued	(127,957)	(161,271)	(152,785)
Interest on loans from banks	(5,136)	(6,667)	(4,718)
Total interest expense on financial liabilities measured at amortised cost	(133,093)	(167,938)	(157,503)
Net interest income before provision for impairment losses on interest bearing financial assets	92,896	96,941	90,608

For the year ended 31 December 2015, interest income on financial assets includes a total of 45,873 thousand US dollars (2014: 25,869 thousand US dollars; 2013: 16,125 thousand US dollars) accrued on impaired loans from customers.

5 PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS

The movements in allowance for impairment losses on loans to customers were as follows:

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Beginning of the year	(41,924)	(142,238)	(30,816)
Net charge	(150,932)	(19,490)	(120,681)
Write-offs	43,534	119,345	9,256
Effect of foreign currency movements	16,627	459	3
End of the year	(132,695)	(41,924)	(142,238)

The movements in allowance for impairment losses on loans and advances to banks were as follows:

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Beginning of the year	(602)	(420)	(273)
Net recovery/(charge)	480	(182)	(147)
End of the year	(122)	(602)	(420)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2015*(in thousands of US dollars)***5 PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS, CONTINUED**

The movements in allowance for impairment losses on debt financial assets available-for-sale were as follows:

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Beginning of the year	(873)	-	-
Net recovery/(charge)	4	(1,024)	-
Write-offs	848	-	-
Effect of foreign currency movements	21	151	-
End of the year	-	(873)	-

6 NET LOSS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Net loss on derivative financial instruments in foreign currency	(18,033)	(7,896)	(7,084)
Net gain on debt securities	-	-	65
Total net loss on financial assets and liabilities at fair value through profit or loss	(18,033)	(7,896)	(7,019)

7 NET GAIN ON TRANSACTIONS IN FOREIGN CURRENCIES

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Dealing, net	24,643	562	(942)
Translation differences, net	12,581	11,924	2,005
Total net gain on transactions in foreign currencies	37,224	12,486	1,063

8 OTHER OPERATING EXPENSES

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Staff costs and other payments to employees	22,893	33,051	28,285
Premises expenses	2,217	2,825	3,594
Depreciation and amortisation	1,563	1,804	1,916
Professional services	1,404	936	1,313
Business development expenses	1,391	1,993	1,928
Business trip expenses	1,079	1,541	1,866
Maintenance of acquired systems and programs	976	885	933
Communication expenses	939	1,018	1,186
Security	788	937	1,191
Research and regional development expenses	259	268	745
Transportation expenses	249	380	434
Office, postal and printing expenses	148	169	168
Training	120	251	201
Other expenses	468	976	890
Total operating expenses	34,494	47,034	44,650

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9 CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	<u>31 December 2015</u>	<u>31 December 2014</u>	<u>31 December 2013</u>
Cash and balances with national (central) banks of Member states of the Bank	563	201,284	905
Correspondent accounts with other banks			
with credit ratings A and above	124,425	57,825	80,504
with credit ratings below A and not rated	1,326	1,928	1,621
Term deposits in other banks			
with credit ratings A and above	44,647	35,615	28,073
with credit ratings from BBB to BBB-	30,091	-	118,852
with credit ratings BB	80,932	-	45,003
Total cash and cash equivalents	<u>281,984</u>	<u>296,652</u>	<u>274,958</u>

As at 31 December 2015, no banks (31 December 2014: National Bank of the Republic of Kazakhstan; 31 December 2013: no banks) have balances that exceed 10% of equity. The gross value of these balances as at 31 December 2015 is nil (2014: 201,172 thousand US dollars; 2013: nil).

10 FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>31 December 2015</u>	<u>31 December 2014</u>	<u>31 December 2013</u>
Derivative financial instruments – assets	-	1,821	5
Derivative financial instruments – liabilities	(5,137)	(3,471)	(781)

	31 December 2015			31 December 2014			31 December 2013		
	Notional amount	Net fair value		Notional amount	Net fair value		Notional amount	Net fair value	
		Asset	Liability		Asset	Liability		Asset	Liability
Derivative financial instruments:									
Foreign currency contracts									
Swaps	191,629	-	(3,402)	99,258	1,439	(3,344)	158,572	5	(770)
Forwards	25,265	-	(1,735)	40,887	382	(127)	9,989	-	(11)
		-	(5,137)		1,821	(3,471)		5	(781)

The table above shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount (as a US dollar equivalent) of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Bank.

10 FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS, CONTINUED

Forwards

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

The Bank has credit exposure to the counterparties of forward contracts. Forward contracts are settled gross and are, therefore, considered to bear a liquidity risk and result in a market risk exposure.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

11 HEDGING DERIVATIVE FINANCIAL INSTRUMENT

(a) Bank's approach to derivative transactions

The Bank may enter into swap agreements for hedging purposes.

Swap agreements and similar transactions can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structures, swap agreements may increase or decrease the Bank's exposure to long- or short-term interest rates, foreign currency values, corporate borrowing rates, or other factors such as security prices or inflation rates. The value of the Bank's swap positions would increase or decrease depending on the changes in value of the underlying rates or currency values. Depending on how they are used, swap agreements may increase or decrease the overall volatility of Bank's investments.

The Bank's ability to realise profit from such transactions will depend on the ability of the financial institution with which it enters into the transaction to meet its obligations to the Bank. If a counterparty's creditworthiness declines, the value of the agreement would be likely to decline, potentially resulting in losses. If a default occurs by the other party to such a transaction, the Bank will have contractual remedies pursuant to the agreements related to the transaction, which may be limited by applicable law in the case of counterparty's insolvency.

(b) Significant foreign currency transactions

The entire amount of hedging derivative financial instrument as at 31 December 2013 comprised the fair value of a cross-currency interest rate swap agreement that the Bank entered into on 14 February 2011 to exchange RUB 5,000,000 thousand for USD 170,707 thousand and exchange back on 14 February 2014, the transaction closure date. The Bank paid interest of 3.55% p.a. and the counterparty paid interest of 7.70% p.a. semi-annually.

This swap agreement was designed as a cash flow hedge principally to minimise the exchange rate risk associated with the future cash outflows from RUB 5,000,000 thousand 7-year bonds (the "rouble bonds") due in February 2018, interest rate 7.7% p.a., net of discount (Note 20), used to finance loans to customers in US dollars.

The hedging relationship was discontinued in February 2014 following repayment of the hedged cash flows and expiration of the hedging instrument.

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12 LOANS AND ADVANCES TO BANKS

	31 December 2015	31 December 2014	31 December 2013
Loans to banks	61,661	200,798	223,878
Loans under reverse repurchase agreements	6,303	49,784	183,435
	67,964	250,582	407,313
Less country risk provisions	(122)	(602)	(420)
Total loans and advances to banks	67,842	249,980	406,893

As at 31 December 2015, loans and advances to banks include loans to three banks in the amount of 24,367 thousand US dollars (31 December 2014: loans to seven banks in the amount of 84,895 thousand US dollars; 31 December 2013: loans to four banks in the amount of 76,145 thousand US dollars), against which the Bank records country risk provisions in the amount of 122 thousand US dollars (31 December 2014: 602 thousand US dollars; 31 December 2013: 420 thousand US dollars).

As at 31 December 2015, loans and advances to banks include accrued interest income amounting to 500 thousand US dollars (31 December 2014: 2,533 thousand US dollars; 31 December 2013: 2,582 thousand US dollars).

As at 31 December 2015, 2014 and 2013 no loans and advances to banks were past due.

The fair value of assets pledged and carrying value of loans under reverse repurchase agreements as at 31 December 2015, 2014 and 2013 are as follows:

	31 December 2015		31 December 2014		31 December 2013	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Bonds issued by banks and other financial institutions	4,768	5,632	46,691	53,366	112,964	129,623
Bonds issued by non-financial organisations	1,535	1,803	3,093	3,669	70,471	81,881
	6,303	7,435	49,784	57,035	183,435	211,504

13 LOANS TO CUSTOMERS

	31 December 2015	31 December 2014	31 December 2013
Unimpaired loans to customers	1,318,086	1,969,945	2,213,284
Impaired loans to customers, including:			
- not overdue or overdue less than 90 days	246,373	116,291	132,049
- overdue more than 90 days	-	107,311	-
- defaulted loans	67,627	-	124,508
	1,632,086	2,193,547	2,469,841
Less allowance for impairment losses	(132,695)	(41,924)	(142,238)
Total loans to customers	1,499,391	2,151,623	2,327,603

As at 31 December 2013, the Bank had loans to two customers in default for a total gross amount of 124,508 thousand US dollars. These loans have defaulted due to deterioration of market conditions and as at 31 December 2013 the Bank created 100% allowance for impairment losses against them.

As at 31 December 2015, the Bank has loans to three customers in default for a total gross amount of 67,627 thousand US dollars. One of the defaulted loans in the amount of 13,301 thousand US dollars (31 December 2014: 10,913 thousand US dollars; 31 December 2013: 49,979 thousand US dollars) was overdue for more than 360 days as at 31 December 2015 and is fully provisioned.

13 LOANS TO CUSTOMERS, CONTINUED

Two other defaulted customers are companies that invested funds into one industrial project that severely deteriorated due to changes in market conditions. The outstanding balance of these loans is 54,326 thousand US dollars (31 December 2014: 61,083 thousand US dollars; 31 December 2013: 117,691 thousand US dollars) and the allowance for impairment losses is 34,816 thousand US dollars (31 December 2014 and 2013: nil). The Bank has started legal procedures against all defaulted borrowers.

Also, as at 31 December 2015, the Bank has seven customers (31 December 2014 and 2013: two customers) with outstanding impaired loans for a total gross amount of 246,373 thousand US dollars (31 December 2014: 116,291 thousand US dollars; 31 December 2013: 132,049 thousand US dollars) with related allowance for impairment losses of 84,408 thousand US dollars (31 December 2014: 12,380 thousand US dollars; 31 December 2013: 17,730 thousand US dollars).

These impaired loans include a loan of 60,333 thousand US dollars to a company operating in the machinery industry in the Republic of Belarus. During the 2015, given the significant decline in sales of this borrower, the Bank recognised an impairment allowance of 48,585 thousand US dollars against this loan.

As at 31 December 2014, the Bank has three customers with outstanding impaired loans overdue more than 90 days for a total gross amount of 107,311 thousand US dollars. The Bank has accrued allowance for impairment in amount of 28,444 thousand US dollars against these loans.

On 15 February 2015, the contractual terms of a loan with a net book value of 40,394 thousand US dollars were modified by decreasing the interest rate and amending the repayment schedule with the provision of a grace period for principal repayment until 2017. As a result of this, the Bank has derecognised the loan and recognised a restructured loan as a new financial instrument with a fair value of 19,722 thousand US dollars, estimated by discounting the new contractual cash flows using an estimated market interest rate of 23.2%.

The Bank estimates loan impairment for its loans to customers based on an analysis of the future cash flows and collateral realisation approach. Management makes the following key assumptions:

- a discount up to 70% to the originally appraised value if the property pledged is sold;
- a delay up to 36 months in obtaining proceeds from the foreclosure of collateral;
- for impaired loans dependent on the realisation of a business plan, a decrease of market price on customers products up to 30% due to changes in market conditions and a decrease in production plans up to 70% due to changes in market conditions.

As at 31 December 2015, 2014 and 2013 no collective provision was recognised in respect of other loans to customers as all possible risks have been considered in individual impairment assessments.

The table below summarises the amount of loans secured by type of collateral, rather than the fair value of the collateral itself:

	31 December 2015	31 December 2014	31 December 2013
Loans collateralised by guarantees			
-governments of the Member-state of the Bank	253,425	261,405	156,106
-state entities	349,773	341,057	254,475
-financial and commercial organisations	254,162	244,707	257,462
Loans collateralised by real estate, equipment and inventories	750,422	1,093,949	1,536,358
Loans collateralised by future cash inflows from clients' contracts	24,304	50,662	62,181
	1,632,086	2,193,547	2,469,841
Less allowance for impairment losses	(132,695)	(41,924)	(142,238)
Total loans to customers	1,499,391	2,151,623	2,327,603

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13 LOANS TO CUSTOMERS, CONTINUED

Loans to customers with a net carrying amount of 857,360 thousand US dollars (31 December 2014: 847,169 thousand US dollars; 31 December 2013: 668,043 thousand US dollars), which are neither past due nor impaired, are collateralised by guarantees.

For loans to customers collateralised by real estate, equipment and inventories with a net carrying amount of 436,403 thousand US dollars (31 December 2014: 1,071,015 thousand US dollars; 31 December 2013: 1,483,060 thousand US dollars), which are neither past due nor impaired, the fair value of collateral was estimated either at the inception of the loan or at a subsequent date. For impaired loans with net carrying value of 181,449 thousand US dollars (31 December 2014: 182,777 thousand US dollars; 31 December 2013: 114,319 thousand US dollars), the fair value of collateral equals to 158,185 thousand US dollars (31 December 2014: 155,247 thousand US dollars, 31 December 2013: 114,132 thousand US dollars).

As at 31 December 2015, 2014 and 2013, none of the loans collateralised by the future cash inflows from clients were impaired.

The recoverability of the above loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, but the Bank considers the current value of the collateral as one of the factors that reduces the needed amount of allowances for impairment losses.

The table below presents the economical sector breakdown of the loans:

	31 December 2015	31 December 2014	31 December 2013
Energy	349,690	592,577	722,733
Transport	360,399	390,569	333,492
Machinery	252,662	436,346	499,902
Mining and metallurgy	306,944	300,855	286,230
Chemical industry	150,403	179,863	288,542
Infrastructure	78,102	81,485	72,208
Agriculture	34,828	88,728	110,113
Other	99,058	123,124	156,621
	1,632,086	2,193,547	2,469,841
Less allowance for impairment losses	(132,695)	(41,924)	(142,238)
Total loans to customers	1,499,391	2,151,623	2,327,603

As at 31 December 2015, the maximum credit risk exposure on loans to customers amounts to 1,499,391 thousand US dollars (31 December 2014: 2,151,623 thousand US dollars; 31 December 2013: 2,327,603 thousand US dollars).

As at 31 December 2015, the maximum credit risk exposure on loan commitments extended by the Bank to its borrowers amounts to 490,739 thousand US dollars (31 December 2014: 677,081 thousand US dollars; 31 December 2013: 1,092,645 thousand US dollars) (Note 24).

As at 31 December 2015, loans to customers included accrued interest income amounting to 65,339 thousand US dollars (31 December 2014: 56,104 thousand US dollars; 31 December 2013: 61,758 thousand US dollars).

Concentration of loans to customers

As at 31 December 2015, the Bank has one customer (31 December 2014: two customers; 31 December 2013: three customers), whose balance exceeds 10% of total equity. The value of this balance as at 31 December 2015 is 214,017 thousand US dollars (31 December 2014: the values of each loan was 239,800 thousand US dollars and 196,718 thousand US dollars, respectively; 31 December 2013: 327,399 thousand US dollars, 273,209 thousand US dollars and 236,535 thousand US dollars, respectively).

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14 FINANCIAL ASSETS AVAILABLE-FOR-SALE

	<u>31 December 2015</u>	<u>31 December 2014</u>	<u>31 December 2013</u>
Debt instruments in Treasury portfolio	589,068	673,964	1,056,900
Debt instruments in Investment portfolio	415	1,632	1,850
Equity instruments in Investment portfolio	20,266	41,505	70,494
	609,749	717,101	1,129,244
Less allowance for impairment losses	-	(873)	-
Total financial assets available-for-sale	609,749	716,228	1,129,244

	<u>31 December 2015</u>		<u>31 December 2014</u>		<u>31 December 2013</u>	
	<u>Nominal interest rate</u>	<u>Fair value</u>	<u>Nominal interest rate</u>	<u>Fair value</u>	<u>Nominal interest rate</u>	<u>Fair value</u>
Debt instruments in Treasury portfolio						
US Treasuries	0.63%	419,465	0.50 - 1.00%	589,439	0.25%	923,852
Eurobonds of the Republic of Kazakhstan	3.88 - 5.13%	80,086	-	-	-	-
Bonds issued by non-financial organisations	6.13 - 9.25%	63,933	4.30 - 5.09%	7,460	5.09 - 8.13%	25,044
Eurobonds of the Russian Federation	3.50 - 4.88%	18,442	7.50%	22,996	7.50%	24,587
Bonds issued by banks and financial institutions of the Russian Federation	4.22 - 6.88%	7,142	1.75 - 6.88%	54,069	1.99 - 9.00%	83,417
		589,068		673,964		1,056,900
Debt instruments in Investment portfolio						
Bonds issued by non-financial organisations	8.50%	415	8.50%	1,632	8.50%	1,850
Less allowance for impairment losses		-		(873)		-
		415		759		1,850

As at 31 December 2014, debt instruments in investment portfolio (one issuer) were impaired with overdue more than 90 days. The issuer was under legal procedures of economic rehabilitation. In the first quarter of 2015 a debt rehabilitation agreement between that issuer and its creditors (including the Bank) came into force. As a result of this deal the Bank has written-off an amount equal to 848 thousand US dollars.

As at 31 December 2015, debt instruments available-for-sale include accrued interest income amounting to 1,861 thousand US dollars (31 December 2014: 1,326 thousand US dollars; 31 December 2013: 2,471 thousand US dollars).

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14 FINANCIAL ASSETS AVAILABLE-FOR-SALE, CONTINUED

	31 December 2015		31 December 2014		31 December 2013	
	Ownership interest	Fair value	Ownership interest	Fair value	Ownership interest	Fair value
Equity instruments in Investment portfolio						
Investments into private equity fund "Macquarie Russia and CIS Infrastructure Fund"	15.87%	20,266	15.87%	41,505	15.87%	70,494

In 2010 the Bank committed to invest 100,000 thousand US dollars into private equity fund "Macquarie Russia and CIS Infrastructure Fund" which is focused on infrastructure investment in Russia and other CIS countries to support the economic development in the region. The Bank's committed investment represents 15.87% of total capital committed to the fund by its participants.

During the years ended 31 December 2015 and 2014 the fair value of the equity investment significantly declined due to depreciation of the Russian rouble in which the major part of revenues is generated by the Fund's underlying projects.

An impairment loss of 21,732 thousand US dollars was recognised during the year ended 31 December 2015 as the result of the decrease of the fair value of the equity investment.

The difference of 21,295 thousand US dollars between the acquisition cost and the fair value of the investment as at 31 December 2014 was recognised in profit or loss for the period as impairment loss. 10,880 thousand US dollars of this amount was directly recognised in profit or loss and 10,415 thousand US dollars was reclassified from equity.

As at 31 December 2015, 2014 and 2013, the fair value of the Bank's investments in the fund was estimated using a valuation technique based on discounted cash flows, where the discount rate for future cash flows comprised of the risk-free interest rate applicable in the country where the asset is located and risk premium reflecting the uncertainty associated with the cash flows.

The uninvested balance of the commitment is presented in Note 24.

15 INVESTMENTS HELD-TO-MATURITY

	31 December 2015		31 December 2014		31 December 2013	
	Nominal interest rate	Amount	Nominal interest Rate	Amount	Nominal interest rate	Amount
Debt securities						
Eurobonds of the Russian Federation	3.25 - 7.50%	228,501	3.25 - 7.50%	247,856	3.25 - 7.50%	266,619
US Treasuries	0.88%	100,247	0.88%	100,147	-	-
Bonds issued by non-financial organisations	3.15 - 5.74%	53,638	3.15 - 5.74%	68,692	3.15 - 5.74%	67,731
Bonds issued by banks and financial institutions of the Russian Federation	4.95 - 5.38%	20,328	4.95 - 5.38%	20,576	4.95 - 6.25%	69,436
Total investments held-to-maturity		<u>402,714</u>		<u>437,271</u>		<u>403,786</u>

As at 31 December 2015, investments held-to-maturity include accrued interest income amounting to 4,605 thousand US dollars (31 December 2014: 4,951 thousand US dollars; 31 December 2013: 4,798 thousand US dollars).

As at 31 December 2015, 2014 and 2013, no investments held-to-maturity are past due or impaired.

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16 NON-CURRENT ASSETS HELD-FOR-SALE

	31 December 2015	31 December 2014	31 December 2013
Non-current assets held-for-sale	-	-	20,393

Non-current assets held-for-sale represented collateral that the Bank has taken over as a new owner as a result of a customer's inability to pay out his debt. It consists of property and equipment that the Bank intends to sell in the near future. During 2014 the Bank leased out the non-current assets held for sale and included accounts receivable under the lease agreement in Loans to customers at its fair value of 20,393 thousand US dollars at the lease inception date.

17 PROPERTY AND EQUIPMENT

	Land	Office buildings	Vehicles	Furniture and equipment	Construction- in-progress	Total
<i>At historical cost</i>						
1 January 2013	1,231	13,743	1,692	5,417	3,987	26,070
Additions	-	-	199	518	-	717
Disposals	(999)	-	(176)	(112)	(3,987)	(5,274)
31 December 2013	232	13,743	1,715	5,823	-	21,513
Additions	-	-	-	503	-	503
Disposals	-	-	(17)	(94)	-	(111)
31 December 2014	232	13,743	1,698	6,232	-	21,905
Additions	-	-	-	334	-	334
Disposals	-	-	(145)	(306)	-	(451)
31 December 2015	232	13,743	1,553	6,260	-	21,788
<i>Accumulated depreciation and impairment losses</i>						
1 January 2013	147	1,259	1,434	3,491	3,225	9,556
Charge for the year	-	457	131	868	-	1,456
Disposals	(147)	-	(176)	(112)	(3,225)	(3,660)
31 December 2013	-	1,716	1,389	4,247	-	7,352
Charge for the year	-	458	133	762	-	1,353
Disposals	-	-	(17)	(94)	-	(111)
31 December 2014	-	2,174	1,505	4,915	-	8,594
Charge for the year	-	457	102	573	-	1,132
Disposals	-	-	(145)	(306)	-	(451)
31 December 2015	-	2,631	1,462	5,182	-	9,275
<i>Net book value</i>						
31 December 2015	232	11,112	91	1,078	-	12,513
31 December 2014	232	11,569	193	1,317	-	13,311
31 December 2013	232	12,027	326	1,576	-	14,161

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18 OTHER ASSETS

	<u>31 December 2015</u>	<u>31 December 2014</u>	<u>31 December 2013</u>
Other financial assets recorded as loans and receivables:			
Accrued commission income and other receivables	3,046	2,302	2,843
Prepayments	203	220	2,014
	<u>3,249</u>	<u>2,522</u>	<u>4,857</u>
Other non-financial assets:			
Assets received as consideration for loans to customers	42,587	42,587	7,694
Prepaid expenses	1,408	1,340	1,967
Value added tax reimbursable	84	172	167
Capital expenditure debtors	81	5	156
Other debtors	802	1,337	1,399
	<u>44,962</u>	<u>45,441</u>	<u>11,383</u>
Less allowance for impairment losses	(43,016)	(802)	(955)
	<u>1,946</u>	<u>44,639</u>	<u>10,428</u>
Total other assets	<u><u>5,195</u></u>	<u><u>47,161</u></u>	<u><u>15,285</u></u>

As at 31 December 2015, other assets include certain assets received as consideration for loans to customers, which the Bank has taken over as a new owner as a result of an agreement between the borrower and the Bank. They consist of grain certificates that the Bank has received during 2014 in the amount equivalent to 42,587 thousand US dollars. During 2015, due to failure to access, unload and sell the grain, the Bank assessed that it was unlikely to be able to realise any future economic benefit from the grain. It therefore decided to provide for impairment of this asset in full and recognised a “provision for impairment losses on other assets” of 42,587 thousand US dollars in profit or loss.

19 LOANS FROM BANKS

	<u>31 December 2015</u>	<u>31 December 2014</u>	<u>31 December 2013</u>
Loans from banks	161,351	187,923	127,035

As at 31 December 2015, loans from banks included accrued interest payable amounting to 528 thousand US dollars (31 December 2014: 1,131 thousand US dollars; 31 December 2013: 1,453 thousand US dollars).

Maturities of amounts of Loans from banks are included in Note 28 under liquidity risk.

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20 DEBT SECURITIES ISSUED

				31 December 2015	31 December 2014	31 December 2013
Debt securities issued and denominated in USD						
<u>Issue series</u>	<u>Put option date</u>	<u>Due date</u>	<u>Interest rate, %</u>			
Series 03	-	Sep 2022	4.767	311,186	505,101	504,904
Series 05	-	Sep 2020	5.000	277,625	475,496	470,089
Series 02	-	Sep 2014	7.375	-	-	122,677
Total debt securities issued and denominated in USD				588,811	980,597	1,097,670
Debt securities issued and denominated in RUB						
<u>Issue series</u>	<u>Put option date</u>	<u>Due date</u>	<u>Interest rate, %</u>			
Series 06 and 07	Sep 2016	Sep 2020	7.850	139,806	167,613	309,564
Series 04, Eurobond	-	Oct 2017	8.000	69,879	83,783	154,746
Series 02	Mar 2016	Feb 2019	15.500	69,490	82,836	152,962
Series 09	May 2016	May 2021	9.650	69,107	82,852	-
Series 04	-	Feb 2018	8.100	7,281	8,726	156,155
Series 01	Feb 2017	Jan 2019	8.000	4,596	5,510	153,811
Series 08	Oct 2016	Oct 2020	8.000	837	83,499	154,207
Series 05	-	Jul 2020	7.700	-	85,006	157,001
Series 03	-	Oct 2016	7.250	-	22,330	41,065
Total debt securities issued and denominated in RUB				360,996	622,155	1,279,511
Debt securities issued and denominated in KZT						
<u>Issue series</u>	<u>Put option date</u>	<u>Due date</u>	<u>Interest rate, %</u>			
Series 02	-	Apr 2018	6.000	96,473	180,133	212,845
Series 03	-	Aug 2019	7.200	60,233	112,539	-
Series 04	-	Sep 2019	7.200	59,879	111,880	-
Series 01	-	Dec 2017	6.250	29,965	54,257	64,110
Series 01, Eurobond	-	Apr 2014	8.000	-	-	131,429
Total debt securities issued and denominated in KZT				246,550	458,809	408,384
Total debt securities issued				1,196,357	2,061,561	2,785,565

On 20 September 2012, the Bank issued international Eurobonds on the London Stock Exchange as part of its EMTN Programme for a total amount of 500,000 thousand US dollars with maturity date on 20 September 2022 (series 03). The Eurobonds bear an interest rate fixed at 4.767% per annum. During the second half of 2015 the Bank partially repurchased bonds with a nominal amount of 192,161 thousand US dollars resulting in a net gain of 3,026 thousand US dollars. Eurobonds with the nominal value of 307,839 thousand US dollars remain in circulation.

On 26 September 2013, the Bank issued international Eurobonds on the London Stock Exchange as part of its EMTN Programme for a total amount of 500,000 thousand US dollars with maturity date on 26 September 2020 (series 05). The Eurobonds bear an interest rate fixed at 5.000% per annum. During the second half of 2015 the Bank partially repurchased bonds with a nominal amount of 211,989 thousand US dollars resulting in a net loss of 16,413 thousand US dollars. Eurobonds with the nominal value of 288,011 thousand US dollars remain in circulation.

On 2 October 2013, the Bank issued rouble bonds listed on the Moscow Interbank Currency Exchange for a total amount of 10.0 billion Russian roubles (series 06 and 07) with maturity date on 23 September 2020. In accordance with the terms of the issuance, the rouble bonds bear an interest rate fixed at 7.85% per annum until 28 September 2016 and after 28 September 2016 the interest rate will be determined by the Bank unilaterally. The bondholders are entitled to demand the redemption of the rouble bonds in three years after their issuance (the put option date).

20 DEBT SECURITIES ISSUED, CONTINUED

On 5 October 2012, the Bank issued rouble bonds (series 04) listed on the London Stock Exchange for a total amount of 5.0 billion Russian roubles with maturity date on 5 October 2017. The Eurobonds bear an interest rate fixed at 8.00% per annum.

On 1 March 2012, the Bank issued rouble bonds (series 02) listed on the Moscow Interbank Currency Exchange for a total amount of 5.0 billion Russian roubles with maturity date on 21 February 2019. In accordance with the terms of the issuance, the rouble bonds bear an interest rate fixed at 8.50% per annum until 26 February 2015. After 26 February 2015 the Bank determined the new interest rate at 15.50% per annum until 1 March 2016 and as a result of put option exercise, the nominal value of bonds in circulation amounts to 4.98 billion Russian roubles at 31 December 2015. After 1 March 2016 the interest rate will be determined by the Bank unilaterally. The bondholders are entitled to demand the redemption of the rouble bonds on the put option date.

On 2 June 2014, the Bank issued rouble Bonds (series 09) listed on the Moscow Interbank Currency Exchange for a total amount of 5.0 billion Russian roubles with maturity date on 24 May 2021. In accordance with the terms of the issuance, the rouble bonds bear an interest rate fixed at 9.65% per annum until 30 May 2016 and after 30 May 2016 the interest rate will be determined by the Bank unilaterally. The bondholders are entitled to demand the redemption of the rouble bonds in two years after their issuance (the put option date).

On 5 February 2011, the Bank issued rouble bonds (series 04) listed on the Moscow Interbank Currency Exchange for a total amount of 5.0 billion Russian roubles with maturity date on 6 February 2018. In accordance with the terms of the issuance, the rouble Bonds bear an interest rate fixed at 7.70% per annum valid until 11 February 2014. After 11 February 2014 the Bank determined new interest rate at 8.10% per annum, and as a result of put option exercise, the nominal value of bonds in circulation amounts to 515 million Russian roubles at 31 December 2015.

On 6 February 2012, the Bank issued rouble bonds (series 01) listed on the Moscow Interbank Currency Exchange for a total amount of 5.0 billion Russian roubles with maturity date on 28 January 2019. In accordance with the terms of the issuance, the rouble bonds bear an interest rate fixed at 8.50% per annum until 3 February 2014. After 3 February 2014 the Bank determined the new interest rate at 8.00% per annum valid until 01 February 2017, and as a result of put option exercise, the nominal value of bonds in circulation amounts to 331 million Russian roubles at 31 December 2015.

On 16 October 2013, the Bank issued rouble bonds (series 08) listed on the Moscow Interbank Currency Exchange for a total amount of 5.0 billion Russian roubles with maturity date on 7 October 2020. In accordance with the terms of the issuance, the rouble bonds bear an interest rate fixed at 7.65% per annum until 14 October 2015. After 14 October 2015 the Bank determined the new interest rate at 8.00% per annum valid until 5 October 2016, and as a result of put option exercise, the nominal value of bonds in circulation amounts to 60 million Russian roubles at 31 December 2015.

Rouble bonds (series 05 and 03) were redeemed at their respective put option dates of 22 July 2015 and 29 October 2015.

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20 DEBT SECURITIES ISSUED, CONTINUED

On 25 April 2013, the Bank issued tenge bonds listed on the Kazakhstan Stock Exchange for a total amount of 15.0 billion tenge with maturity date on 25 April 2018 (series 02 tranche 1). In accordance with the terms of the issuance, the tenge bonds bear an interest rate fixed at 6.00% per annum. On 3 October 2013, the Bank made an additional issue of tenge bonds for the total amount of 16.6 billion tenge (series 02 tranche 2).

On 18 August 2014, the Bank issued tenge bonds listed on the Kazakhstan Stock Exchange for a total amount of 20.0 billion tenge with maturity date on 18 August 2019 (series 03). In accordance with the terms of the issuance, the tenge bonds bear an interest rate fixed at 7.20% per annum.

On 18 September 2014, the Bank issued tenge bonds listed on the Kazakhstan Stock Exchange for a total amount of 20.0 billion tenge with maturity date on 18 September 2019 (series 04). In accordance with the terms of the issuance, the tenge bonds bear an interest rate fixed at 7.20% per annum.

On 28 December 2012, the Bank issued tenge bonds listed on the Kazakhstan Stock Exchange for a total amount of 9.9 billion tenge with maturity date on 28 December 2017 (series 01). In accordance with the terms of the issuance, the tenge bonds bear an interest rate fixed at 6.25% per annum.

As at 31 December 2015, debt securities issued included accrued interest payable amounting to 21,181 thousand US dollars (31 December 2014: 36,200 thousand US dollars; 31 December 2013: 50,138 thousand US dollars).

21 OTHER LIABILITIES

	<u>31 December 2015</u>	<u>31 December 2014</u>	<u>31 December 2013</u>
Other financial liabilities:			
Retirement savings plan	10,864	12,398	10,769
Short-term payments to employees	4,300	8,119	785
Prepayments for loans	2,866	2,939	15,761
Accrued expenses	11	82	2,429
	18,041	23,538	29,744
Other non-financial liabilities:			
Accrued administrative expenses	375	711	1,173
Other	40	24	438
	415	735	1,611
Total other liabilities	18,456	24,273	31,355

The Bank has developed a retirement savings plan aimed at providing savings that are transferred to employees at the date of retirement or employment termination whichever is earlier. The program was developed as an equivalent to pension plans which are stipulated by legislation of Member states of the Bank. The retirement savings plan consists of three savings plans: obligatory plan and two optional plans. The obligatory plan covers all employees while the optional plans are at the discretion of each employee. The obligatory plan is fully paid by the Bank. A contribution is provided by the Bank on a monthly basis for each member of the plan, and the amount is stipulated by the Bank's internal regulation. The optional plans are jointly financed by the Bank and each employee participating in the respective plan.

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22 SHARE CAPITAL

	31 December 2015 and 2014		
	Authorised share capital	Callable share capital	Paid-in share capital
The Russian Federation	4,617,993	(3,617,993)	1,000,000
The Republic of Kazakhstan	2,309,271	(1,809,271)	500,000
The Republic of Belarus	69,295	(54,295)	15,000
The Republic of Tajikistan	2,145	(1,645)	500
The Republic of Armenia	648	(548)	100
The Kyrgyz Republic	648	(548)	100
	7,000,000	(5,484,300)	1,515,700

	31 December 2013		
	Authorised share capital	Callable share capital	Paid-in share capital
The Russian Federation	1,000,000	-	1,000,000
The Republic of Kazakhstan	500,000	-	500,000
The Republic of Belarus	15,000	-	15,000
The Republic of Tajikistan	500	-	500
The Republic of Armenia	100	-	100
The Kyrgyz Republic	100	-	100
	1,515,700	-	1,515,700

As at 31 December 2015 and 2014, the authorised share capital consists of 7,000,000 common shares (31 December 2013: 1,515,700 common shares) with a nominal value of 1,000 US dollars each. One paid-in share represents one voting right.

On 2 July 2014, the Council of the Bank approved the increase of authorised share capital of the Bank up to 7,000,000 thousand US dollars via issue of 5,484,300 shares, payable on call, with the nominal value of 1,000 US dollars each. In accordance with the terms and conditions for subscription to additional shares, in case of the lack of monetary resources to perform its commitments and obligations, the Bank has the right to request payment of capital, payable on call, after initiating an extraordinary meeting of the Council of the Bank.

The Bank has established a reserve fund that represents a segregation of a portion of its retained earnings. The Council of the Bank determines annually the amount of the prior year's profit to be transferred to this fund. The Council of the Bank has restricted any distributions to participants until the reserve reaches fifteen percent of the total share capital. After that happens any such distributions could be made to participants proportionately based upon the number of the shares.

The below table provides a reconciliation of the reserve fund as at 31 December 2015, 2014 and 2013:

	31 December 2015	31 December 2014	31 December 2013
Beginning of the year	90,872	90,872	84,878
Transfer from retained earnings	-	-	5,994
End of the year	90,872	90,872	90,872

There was no transfer from retained earnings to reserve fund in 2015 and 2014.

23 CAPITAL RISK MANAGEMENT

The Bank manages its capital to ensure that the Bank will be able to continue as a going concern while improving its performance through the optimisation of debt and equity.

The objective of the Bank's share capital is to cover potential losses from its operations. In accordance with the Bank's internal policies, the equity should exceed 16% of the sum of credit, market and operational risks, estimated as per the Basle II Standardised approach. As at 31 December 2015, 2014 and 2013, the Bank was in compliance with its internal policy requirements.

The capital structure of the Bank consists of equity attributable to Member-states, comprising share capital, reserves and retained earnings as disclosed in the statements of changes in equity.

The Assets and Liabilities Management Committee ("ALMC") reviews the capital structure on a monthly basis. As a part of this review, the ALMC considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the ALMC the Executive Board of the Bank makes decisions over the issue of new debt or the redemption of existing debt. Changes in the share capital of the Bank are approved by the Council of the Bank.

24 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

The Bank's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments. The Bank plans to fund these commitments primarily with debt securities issued.

The Bank's uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

As at 31 December 2015, 2014 and 2013, the nominal or contractual amounts are:

	31 December 2015	31 December 2014	31 December 2013
	Nominal amount	Nominal amount	Nominal amount
Commitments on loans and unused credit lines	490,739	677,081	1,092,645
Commitments to join private equity funds	17,635	31,150	31,543
Guarantees and letters of credit issued	5,275	48,373	24,358
Total contingent liabilities and credit commitments	513,649	756,604	1,148,546

On 21 December 2010, the Bank agreed to invest 100,000 thousand US dollars in the Macquarie Russia and CIS Infrastructure Fund which is included in commitments to join private equity funds in the table above. This commitment was partially disbursed up to 31 December 2015 (Note 14).

Capital commitments

As at 31 December 2015, 2014 and 2013, the Bank had no capital commitments.

Fiduciary activities

The Bank provides trust services to Eurasian Fund for Stabilisation and Development (formerly "Anti-crisis Fund of the Eurasian Economic Community") (the "Fund"), whereby it holds and manages assets or invests funds received in various financial instruments as a Manager of Fund.

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24 COMMITMENTS AND CONTINGENCIES, CONTINUED

Insurance

The insurance industry in Member states is in a developing state and many forms of insurance protection are not yet generally available. The Bank does not have full insurance coverage of the risks that may arise for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to the Bank's operations. The Bank bears a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints, however in accordance with the Agreement on Incorporation the Bank possesses immunity against any legal proceedings in the territories of the Member states, except in cases which do not result from its execution of its powers. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial conditions of the results of future operations of the Bank.

25 TRANSACTIONS WITH RELATED PARTIES

Related parties and transactions with related parties are assessed in accordance with IAS 24 "Related Party Disclosures". As discussed in Note 1, the Bank's operations include the financing of projects within its Member states, which include projects undertaken by governmental entities. Accordingly, the Bank enters into numerous transactions with related parties as a result of its ownership by the Member states.

(a) Transactions with key management

The remuneration of key management personnel included in staff costs and other payments to employees (including accommodation cost of employees) (Note 8) was as follows:

	Year ended 31 December 2015		Year ended 31 December 2014		Year ended 31 December 2013	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Staff costs and other payments to employees, excluding accommodation costs	3,056	20,990	4,674	31,526	4,197	26,075
Accommodation costs of employees	315	1,903	306	1,525	357	2,210
Key management personnel compensation	3,371	22,893	4,980	33,051	4,554	28,285

The outstanding balances as at 31 December 2015, 2014 and 2013 for transactions with the key management personnel are as follows:

Statement of Financial Position	31 December 2015	31 December 2014	31 December 2013
Other liabilities	1,541	3,554	2,298

(b) Transactions with other related parties

According to IAS 24 "Related Party Disclosures" other related parties of the Bank comprise the Russian Federation and the Republic of Kazakhstan, national companies and other organisations controlled by these Member states, and the Eurasian Fund for Stabilisation and Development.

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25 TRANSACTIONS WITH RELATED PARTIES, CONTINUED

(b) Transactions with other related parties, continued

The outstanding balances and the related average interest rates as at 31 December 2015, 2014 and 2013 and related profit or loss amounts of transactions for the years ended 31 December 2015, 2014 and 2013 with other related parties are as follows:

	31 December 2015		31 December 2014		31 December 2013	
	Other related parties	Average interest rate, %	Other related parties	Average interest rate, %	Other related parties	Average interest rate, %
Statement of financial position						
ASSETS						
Cash and cash equivalents						
USD	180	-	200,182	-	40,084	0.90%
RUB	211	-	36	-	79,039	6.68%
KZT	294	-	1,198	-	729	-
Other currencies	39	-	125	-	107	-
Loans and advances to banks						
USD	29,205	5.80%	47,023	5.64%	60,144	4.87%
RUB	-	-	3,955	12.23%	-	-
KZT	1,648	10.18%	24,654	8.34%	17,823	7.43%
Other currencies	-	-	13,454	4.68%	28,946	4.53%
Loans to customers						
USD	275,187	9.35%	373,761	8.48%	372,854	7.59%
RUB	144,391	12.51%	137,572	12.53%	244,477	10.90%
KZT	187,295	9.25%	336,461	8.87%	228,583	9.08%
Financial assets available-for-sale						
USD	141,040	5.38%	84,524	4.60%	133,047	6.37%
Investments held-to-maturity						
USD	302,468	5.55%	337,124	5.99%	394,005	5.65%
Other assets						
USD	2,998	-	2,199	-	1,651	-
RUB	8	-	27	-	82	-
KZT	-	-	1	-	26	-
LIABILITIES						
Debt securities issued						
RUB	123,091	11.08%	341,792	8.15%	851,248	7.83%
KZT	242,961	6.65%	452,175	6.62%	269,448	5.88%
Other liabilities						
USD	1,738	-	1,801	-	7,322	-
RUB	97	-	329	-	836	-
KZT	-	-	161	-	2,699	-
Guarantees received						
USD	191,157	-	203,410	-	423,949	-
KZT	141,535	-	304,899	-	-	-
Commitments						
USD	250,035	-	242,613	-	277,109	-
RUB	19,492	-	98,789	-	167,328	-
KZT	157	-	33,501	-	171,471	-
Statement of profit or loss						
Interest income	95,889		104,214		77,655	
Interest expense	(52,192)		(65,478)		(59,279)	
Net (charge)/recovery of provisions for impairment losses	(206)		(113)		(178)	
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	387		(6,440)		-	
Net realised gain/(loss) on financial assets available-for-sale	423		(202)		33	
Net gain on transactions in foreign currencies	44,579		157,045		68,793	
Fee and commission income	4,484		4,640		5,652	
Other income	95		54		48	

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26 SEGMENT REPORTING

The Bank operates in the Russian Federation, the Republic of Kazakhstan, Belarus and other countries. In presenting geographical information the allocation of revenue is based on the geographical location of customers and assets.

Segment performance – geographic

Segment information for the geographical segments of the Bank as at and for the year ended 31 December 2015 is set out below:

	<u>Russia</u>	<u>Kazakhstan</u>	<u>Belarus</u>	<u>Other Member states</u>	<u>Non-member states</u>	<u>Total</u>
Interest income	108,144	73,061	36,117	5,891	2,776	225,989
Interest expense	(51,248)	(25,519)	-	-	(56,326)	(133,093)
(Provision)/recovery for impairment losses on interest bearing assets	(59,457)	(43,105)	(48,073)	187	-	(150,448)
Provision for impairment losses on equity financial assets available-for-sale	(6,431)	-	-	-	-	(6,431)
Provision for impairment losses on other assets	-	(42,587)	-	-	-	(42,587)
Net loss on financial assets and liabilities at fair value through profit or loss	(1,171)	(2,562)	-	-	(14,300)	(18,033)
Net realised gain on financial assets available- for-sale	423	-	-	-	1,120	1,543
Net gain/(loss) on transactions in foreign currencies	23,627	24,074	(16)	(22)	(10,439)	37,224
Fee and commission income	4,478	652	172	27	-	5,329
Fee and commission expense	(47)	(38)	-	-	(140)	(225)
Net loss on trading with debt securities issued	(337)	-	-	-	(13,388)	(13,725)
Other income	212	177	193	54	7	643
Net result from financial operations	18,193	(15,847)	(11,607)	6,137	(90,690)	(93,814)
Cash and cash equivalents	82,211	498	40	72	199,163	281,984
Loans and advances to banks	1,016	1,648	24,245	34,629	6,304	67,842
Loans to customers	559,830	607,404	319,114	13,043	-	1,499,391
Financial assets available- for-sale	109,783	80,501	-	-	419,465	609,749
Investments held-to- maturity	302,467	-	-	-	100,247	402,714
Property, equipment and intangible assets	446	13,252	3	58	-	13,759
Other assets	4,244	422	42	25	462	5,195
Total assets	1,059,997	703,725	343,444	47,827	725,641	2,880,634
Total liabilities	361,357	263,709	916	6	755,313	1,381,301
Contingent liabilities and credit commitments	143,980	221,554	148,115	-	-	513,649
Capital expenditure	223	316	-	27	-	566
Depreciation and amortisation	231	1,287	8	37	-	1,563

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26 SEGMENT REPORTING, CONTINUED**Segment performance – geographic, continued**

Segment information for the geographical segments of the Bank as at and for the year ended 31 December 2014 is set out below:

	Russia	Kazakhstan	Belarus	Other Member states	Non-member states	Total
Interest income	147,127	80,966	30,053	5,514	1,219	264,879
Interest expense	(77,862)	(22,704)	-	-	(67,372)	(167,938)
Provision for impairment losses on interest bearing assets	741	(20,400)	(404)	(633)	-	(20,696)
Provision for impairment losses on equity financial assets available-for-sale	(21,295)	-	-	-	-	(21,295)
Net loss on financial assets and liabilities at fair value through profit or loss	(357)	(3,095)	-	-	(4,444)	(7,896)
Net realised (loss)/gain on financial assets available-for-sale	(203)	-	-	-	267	64
Net gain/(loss) on transactions in foreign currencies	12,231	15,326	(4)	(22)	(15,045)	12,486
Fee and commission income	4,754	832	11	25	-	5,622
Fee and commission expense	(75)	(37)	-	-	(126)	(238)
Net loss on trading with debt securities issued	(650)	-	-	-	-	(650)
Other income	25	402	51	3	-	481
Other expenses	-	(2)	-	-	-	(2)
Net result from financial operations	64,436	51,288	29,707	4,887	(85,501)	64,817
Cash and cash equivalents	1,687	201,413	31	76	93,445	296,652
Financial assets at fair value through profit or loss	-	-	-	-	1,821	1,821
Loans and advances to banks	91,495	24,654	74,528	59,303	-	249,980
Loans to customers	860,376	845,619	406,011	39,617	-	2,151,623
Financial assets available-for-sale	126,030	759	-	-	589,439	716,228
Investments held-to-maturity	337,124	-	-	-	100,147	437,271
Property, equipment and intangible assets	462	14,216	11	73	-	14,762
Other assets	3,101	43,537	104	107	312	47,161
Total assets	1,420,275	1,130,198	480,685	99,176	785,164	3,915,498
Total liabilities	622,763	481,768	341	198	1,172,158	2,277,228
Contingent liabilities and credit commitments	243,117	383,348	120,116	10,023	-	756,604
Capital expenditure	186	885	-	4	-	1,075
Depreciation and amortisation	241	1,494	19	50	-	1,804

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26 SEGMENT REPORTING, CONTINUED

Segment performance – geographic, continued

Segment information for the geographical segments of the Bank as at and for the year ended 31 December 2013 is set out below:

	<u>Russia</u>	<u>Kazakhstan</u>	<u>Belarus</u>	<u>Other Member states</u>	<u>Non-member states</u>	<u>Total</u>
Interest income	138,374	79,046	15,083	7,445	8,163	248,111
Interest expense	(78,099)	(20,570)	-	-	(58,834)	(157,503)
Provision for impairment losses on interest bearing assets	(80,223)	(17,158)	(178)	(23,269)	-	(120,828)
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	(10,813)	1,224	-	-	2,570	(7,019)
Net realised (loss)/gain on financial assets available-for-sale	87	(441)	-	-	348	(6)
Net gain/(loss) on transactions in foreign currencies	(12,697)	(264)	(5)	(2)	14,031	1,063
Fee and commission income	6,010	326	3,858	32	-	10,226
Fee and commission expense	(130)	(47)	-	-	(79)	(256)
Net loss on trading with debt securities issued	(1,648)	-	-	-	-	(1,648)
Other income	36	367	1	-	13	417
Other expenses	-	(416)	-	-	(1)	(417)
Net result from financial operations	<u>(39,103)</u>	<u>42,067</u>	<u>18,759</u>	<u>(15,794)</u>	<u>(33,789)</u>	<u>(27,860)</u>
Cash and cash equivalents	120,551	45,822	10	32	108,543	274,958
Financial assets at fair value through profit or loss	-	-	-	-	5	5
Loans and advances to banks	55,868	30,896	74,224	62,470	183,435	406,893
Loans to customers	1,243,969	889,093	184,700	9,841	-	2,327,603
Financial assets available-for-sale	203,542	1,850	-	-	923,852	1,129,244
Investments held-to-maturity	403,786	-	-	-	-	403,786
Non-current assets held-for-sale	-	20,393	-	-	-	20,393
Property, equipment and intangible assets	516	14,841	32	102	-	15,491
Other assets	5,497	1,136	497	7,767	388	15,285
Total assets	<u>2,033,729</u>	<u>1,004,031</u>	<u>259,463</u>	<u>80,212</u>	<u>1,216,223</u>	<u>4,593,658</u>
Total liabilities	<u>1,282,680</u>	<u>434,905</u>	<u>424</u>	<u>33</u>	<u>1,243,457</u>	<u>2,961,499</u>
Contingent liabilities and credit commitments	<u>379,220</u>	<u>481,605</u>	<u>231,115</u>	<u>25,063</u>	<u>31,543</u>	<u>1,148,546</u>
Capital expenditure	<u>224</u>	<u>682</u>	<u>102</u>	<u>326</u>	<u>-</u>	<u>1,334</u>
Depreciation and amortisation	<u>288</u>	<u>1,539</u>	<u>25</u>	<u>64</u>	<u>-</u>	<u>1,916</u>

26 SEGMENT REPORTING, CONTINUED

Segment performance – geographic, continued

External operating income, assets, liabilities and capital expenditure have generally been allocated based on the domicile of the counterparty. Tangible assets (cash on hand, premises and equipment) have been allocated based on the country in which they are physically held.

For the year ended 31 December 2015, there were no loans to customers with interest income exceeding 10% of total interest income. For the year ended 31 December 2014, interest income on loans to two customers (2013: two customers) individually exceeds 10% of total income and amounts to 33,131 and 26,823 thousand US dollars, respectively (2013: 30,985 thousand US dollars and 26,364 thousand US dollars, respectively).

27 FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Determining fair values

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Bank could realise in a market exchange from the sale of its full holdings of a particular instrument.

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(d) (v). For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(b) Valuation of financial instruments

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes 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 similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data 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 where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair value using valuation techniques.

Valuation techniques include net present value and discounted cash flow models and comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices and foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting in an arm's length transaction.

27 FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED**(b) Valuation of financial instruments, continued**

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. 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.

Instruments involving significant unobservable inputs are presented by certain securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

The table below analyses financial instruments measured at fair value at 31 December 2015, 2014 and 2013, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>As at 31 December 2015 Total</u>
Financial assets available-for-sale				
- Debt instruments	589,068	-	415	589,483
- Equity instruments	-	-	20,266	20,266
Financial liabilities at fair value through profit or loss	-	(5,137)	-	(5,137)
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>As at 31 December 2014 Total</u>
Financial assets at fair value through profit or loss	-	1,821	-	1,821
Financial assets available-for-sale				
- Debt instruments	673,964	-	759	674,723
- Equity instruments	-	-	41,505	41,505
Financial liabilities at fair value through profit or loss	-	(3,471)	-	(3,471)
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>As at 31 December 2013 Total</u>
Financial assets at fair value through profit or loss	-	5	-	5
Financial assets available-for-sale				
- Debt instruments	1,056,900	-	1,850	1,058,750
- Equity securities	-	-	70,494	70,494
Financial liabilities at fair value through profit or loss	-	(781)	-	(781)
Hedging derivative financial instrument	-	(16,763)	-	(16,763)

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27 FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

(b) Valuation of financial instruments, continued

The following table shows reconciliation for the years ended 31 December 2015, 2014 and 2013 for fair value measurements in Level 3 of the fair value hierarchy:

	Level 3		
	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013
Financial assets available-for-sale			
Balance at beginning of the year	42,264	72,344	75,277
Impairment loss	(21,728)	(22,319)	-
Revaluation	145	(7,761)	(2,933)
Balance at end of the year	20,681	42,264	72,344

Bank uses different methodologies to value the assets at Level 3 such as a “book value to equity multiplier or discounted cash flow” approach. Under any scenario the above estimates are sensitive to changes in the market parameters and future expectations and may result in a change of the carrying amount of the investments by 10 or more percent within a one year horizon.

The table below analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2015, 2014 and 2013. The Bank believes that carrying value of loans to customers and loans and advances to banks represents their fair value. The Bank is a development financial organisation and, thus, most of the loans are unique and interest rates are specific for each project and less sensitive to the market fluctuations.

	Level 1	Level 2	Level 3	As at 31 December 2015	
				Total fair value	Total carrying amount
Financial assets					
Cash and cash equivalents	-	281,984	-	281,984	281,984
Loans and advances to banks	-	67,842	-	67,842	67,842
Loans to customers	-	1,317,942	181,449	1,499,391	1,499,391
Investments held-to-maturity	417,936	-	-	417,936	402,714
Other financial assets	-	3,249	-	3,249	3,249
Financial liabilities					
Loans from banks	-	161,351	-	161,351	161,351
Debt securities issued	1,194,030	-	-	1,194,030	1,196,357
Other financial liabilities	-	18,041	-	18,041	18,041
	Level 1	Level 2	Level 3	As at 31 December 2014	
				Total fair value	Total carrying amount
Financial assets					
Cash and cash equivalents	-	296,652	-	296,652	296,652
Loans and advances to banks	-	249,980	-	249,980	249,980
Loans to customers	-	1,968,846	182,777	2,151,623	2,151,623
Investments held-to-maturity	416,382	-	-	416,382	437,271
Other financial assets	-	2,522	-	2,522	2,522
Financial liabilities					
Loans from banks	-	187,923	-	187,923	187,923
Debt securities issued	1,937,683	-	-	1,937,683	2,061,561
Other financial liabilities	-	23,538	-	23,538	23,538

27 FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED**(b) Valuation of financial instruments, continued**

	As at 31 December 2013				
	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
Financial assets					
Cash and cash equivalents	-	274,958	-	274,958	274,958
Loans and advances to banks	-	406,893	-	406,893	406,893
Loans to customers	-	2,213,284	114,319	2,327,603	2,327,603
Investments held-to-maturity	416,878	-	-	416,878	403,786
Other financial assets	-	4,857	-	4,857	4,857
Financial liabilities					
Loans from banks	-	127,035	-	127,035	127,035
Debt securities issued	2,826,645	-	-	2,826,645	2,785,565
Other financial liabilities	-	29,744	-	29,744	29,744

28 RISK MANAGEMENT POLICIES**(a) Risk management organisational structure**

The Bank's operations are subject to a variety of risks, many of which are beyond its control, including risks relating to changes in equity or commodity prices, interest rates, foreign exchange rates, declines in liquidity and deterioration in the credit quality of its loan and treasury portfolios. The Bank monitors and manages the maturities of its loans, its interest rate and exchange rate exposures, its liquidity position and the credit quality of each individual loan and equity investment proposal it might receive in order to minimise the effects of changes in them relative to the Bank's profitability and liquidity position.

To manage risks the Bank uses (i) the Council, (ii) the Executive Board, (iii) the Assets and Liabilities Management Committee ("ALMC"), (iv) the Credit Committee, (v) the Credit and risk management department, which together are responsible for devising and implementing the Bank's risk management policies, including financial, credit and market risks. The basic credit policy of the Bank is set out in, and governed by, the Charter, also the Bank has adopted a regulation concerning its future investment activities (the "Investment Regulations"), a key policy and strategic document of the Bank, which allows it to manage its credit risks. Other internal guidelines to manage risks are contained in the internal guidelines regulation.

(i) The Council

The Council participates in the risk management of the Bank by:

- determining the strategy of the Bank and its lending policy
- considering and approving the Bank's investment projects in accordance with the Investment regulations
- setting the financial ratios.

(ii) The Executive Board

The Executive Board is responsible for the overall supervision of risk management of the Bank, including:

- establishing the Bank's priority lines of business and implementing an optimum level of diversification of its business
- setting the maximum size of capital at risk and an acceptable level of risk associated with the possibility of loss of capital
- implementing the Bank's strategy and ensuring that the level of risks that are deemed to be acceptable comply with the Bank's strategy
- approving risk management techniques, guidelines and other underlying procedures for managing risk developed by the credit and risk management department and
- approving loans and investment projects within established limits.

28 RISK MANAGEMENT POLICIES, CONTINUED

(a) Risk management organisational structure, continued

(iii) *Assets and Liabilities Management Committee*

The overall asset and liability position of the Bank is monitored and managed by the ALMC, which is a permanent collective body reporting to the Executive Board. The ALMC monitors and manages the Bank's liquidity position, maturity gaps, interest income and expense and the condition of the international financial markets. The ALMC is responsible for setting the Bank's lending rates in U.S. dollars and other currencies, establishing the range of margins to be charged to counterparties on treasury activities. The ALMC has regular meetings no less often than monthly.

(iv) *Credit Committee*

The Credit Committee monitors and manages overall risk concentration by reference to borrower and industry exposure and critically reviews each individual loan and equity investment proposal made by the project units involved in corporate lending activity (the "Project Units"). The Credit Committee has responsibility for minimising insofar as practicable the credit risk presented by each individual loan and equity investment proposal and the overall portfolio risk by carrying out an analysis of each individual proposal and the overall investment portfolio of the Bank. It is a permanent collective body reporting to the Executive Board.

(v) *Credit and risk management department*

The credit and risk management department is responsible for proposing risk management policies for approval by the Executive Board. In addition, the credit and risk management department monitors the implementation of the Bank's risk management techniques, policies and guidelines and is also responsible for:

- analysing the credit risk of each individual lending and equity investment proposal on real sector projects with financial institutions and making recommendations to the Credit Committee based on the documentation produced by the Project Units
- monitoring each individual loan and equity investment
- producing analytical information and performing qualitative and quantitative assessments of the risks to collective bodies of the Bank.

(v) *Assets and liabilities management division*

Assets and liabilities management division is responsible for the evaluation and monitoring of interest rate, currency, market risk and liquidity risk, as well as for improving methodologies for assessing and managing these types of risks. To this end, the following activities are carried out by the Assets and liabilities management division:

- conducting gap analysis of the Bank's balance sheet structure in terms of liquidity risk and interest rate risk, preparing management reports and recommendations;
- conducting scenario analysis and stress testing of the Bank's risk positions;
- preparing management reports on the level of market risk of the treasury portfolio.

(b) Credit risk

The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Management of credit risk is performed by the Council, the Executive Board, ALMC and the Credit Committee of the Bank. These groups manage credit risk primarily through the issuance of loans only within set limits.

28 RISK MANAGEMENT POLICIES, CONTINUED

(b) Credit risk, continued

The Council of the Bank determines the credentials of the Executive Board of the Bank. The Bank's Executive Board has the right to approve projects on a group of associated borrowers with a maximum exposure of 100 million US dollars. In cases where the credit exposure exceeds the limit, the Council of the Bank is responsible for the approval of the project. ALMC sets limits by determining maximum credit exposure on individual financial counterparties (including banks and brokers). In accordance with the internal limits the maximum credit exposure on a single borrower or a group of associated borrowers cannot be more than 25 per cent of the Bank's equity.

For the purpose of effective credit risk management, employees of relevant departments of the Bank are included in the Credit Committee and participate in the process of considering loan applications. Based on the presentation and preliminary decision of the Credit Committee, either the Executive Board or the Council of the Bank within the limits of their powers, reviews and approves investment projects and makes decisions on any changes and addenda to the existing loan agreements

The functions of the Credit Committee include establishing control over the level of credit risk. The credit and risk management department monitors the level of credit risk via analysis of counterparties financial reports, performance and market data and inform the Credit Committee if negative trends are found.

(i) Credit risk in the investment project financing

The Bank sets investment project financing as its core activity. Hence, credit risk management is the major and integral part of activities of the Bank and the major risk that the Bank is exposed to.

The Bank estimates that the major components of credit risk in investment project finance are:

- project risks
- financial risks
- market and industry risks
- operational risks
- country or sovereign risks
- collateral risks, and
- legal, social, ecological risks.

The process of credit risk management in investment project finance consists of identification of potential risks, analysis of the risks, management and control of revealed risks.

During the identification phase the Bank reveals all components of credit risk associated with a particular project.

A further analysis of identified risks is performed to determine the possible consequences of risks when they occur. At this stage the Bank prepares a sensitivity analysis for each project. The main sensitivity analysis performed by the Bank are interest rate sensitivity analysis, currency sensitivity analysis, inflation sensitivity analysis, commodity price change sensitivity analysis, and an analysis of the effect of a change in major production costs of borrowers. The Bank also performs an analysis of each industry where borrowers operate to identify if there could be any risks due to current or possible negative market trends. The Bank prepares a risk matrix for each project where all major types of risks associated with a project are summarised and the magnitude of risks is assessed. Based on identified risks the Bank evaluates financial condition of borrowers and their debt servicing abilities.

Risk identification and control is aimed at minimising the credit risks of the Bank while providing necessary rate of return. The Bank developed and implemented the following action plan to protect its financial assets from impairment:

28 RISK MANAGEMENT POLICIES, CONTINUED

(b) Credit risk, continued

(i) Credit risk in the investment project financing, continued

- risk sharing due to co-participation with other financial institutions and project founders
- proposals of economical hedging strategies
- optimisation of financing structure
- optimisation of collateral structure, and
- monitoring of industry trends and the project realisation to anticipate potential future problems.

(ii) Credit risk in the treasury portfolio

In order to form the treasury portfolio, the Bank has restrictions to invest its available funds, including borrowed funds and its equity capital, in securities of issuers having a long-term credit rating not less than BB-, BB- or Ba3 or the equivalent assigned by Fitch, Standard & Poor's or Moody's, respectively, or under unconditional guarantees of the respective issuers. By decision of the Management Board the Bank may invest available funds in sovereign securities issued by the Member States with long-term credit rating of not less than B-, B3 or B- assigned by Fitch, Standard & Poor's or Moody's, respectively.

The treasury portfolio may include only securities for which organised accredited market quotations exist on or prior to the date of purchase. This requirement does not apply to securities purchased upon initial placement by way of auction, subscription or any other method of public placement, government and municipal securities of the Member States or administrative units thereof, debt securities of issuers founded under the laws of the Member States having a long-term credit rating of not less than BBB-, BBB-, or Baa3 assigned by Fitch, Standard & Poor's or Moody's, respectively, or debt securities of issuers having a long-term credit rating not less than AA-, AA- or Aa3 or the equivalent assigned by Fitch, Standard & Poor's or Moody's, respectively, provided that the terms of issue and circulation of such securities permit circulation on the secondary market.

For the purposes of management and formation of the treasury portfolio, the Bank may not hold securities of any issuer that represents more than 25% of the Bank's equity capital. The above restriction does not apply to (i) government securities of the Member States having a long-term credit rating of not less than BBB-, BBB or Baa3 or the equivalent assigned by Fitch, Standard & Poor's or Moody's, respectively; (ii) government securities of other countries having a long-term credit rating not less than AA-, AA- or Aa3 or the equivalent assigned by Fitch, Standard & Poor's or Moody's, respectively; and (iii) securities issued by international financial organisations having a long-term credit rating not less than AA-, AA- or Aa3 or the equivalent assigned by Fitch, Standard and Poor's or Moody's, respectively.

If available funds are placed in a financial institution, such financial institution must have a long-term credit rating not less than B, B or B2 or the equivalent assigned by Fitch, Standard & Poor's or Moody's, respectively. If funds are being placed with a financial institution subsidiary, it is not necessary for the financial institution subsidiary to have a credit rating provided that the parent financial institution has a credit rating not less than A, A or A2 or the equivalent assigned by Fitch, Standard & Poor's or Moody's, respectively.

(iii) Assets allocation in portfolios

The Bank separates its assets into two portfolios which are the investment portfolio and the treasury portfolio. The purpose of this separation is to provide management of the Bank with the information about the portfolios' assets structure as these portfolios pursue different aims of the Bank and are managed differently. For each of the portfolios the Executive Board of the Bank reviews internal management reports on at least a monthly basis. The following summary describes the operations in each of the portfolios:

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28 RISK MANAGEMENT POLICIES, CONTINUED

(b) Credit risk, continued

(iii) Assets allocation in portfolios, continued

- Assets in the treasury portfolio are intended to protect the share capital of the Bank from the influence of risk factors, and also to maintain a sufficient level of liquidity. Assets in treasury portfolio are managed in accordance with the Investment declaration, the Market and treasury risks management rules and internal guidelines regulation, which set forth strategy, structure and principles for the treasury portfolio. These assets are managed by the Treasury department, overviewed and controlled by the Assets and Liabilities Management Committee. The credit and risk management department supervises compliance with investment limits. Assets and liabilities management division monitors currency, interest rate and liquidity risks of the treasury portfolio on a daily basis.
- Assets in the investment portfolio pursue the strategic objectives of the Bank of development of the market economy and integration in its Member states. These assets must conform with the Investment regulations, which set out the main principles that guide the Bank when considering investment projects. Origination and acquisition of these assets must be approved by the Credit Committee, the Executive Board and, in certain cases, the Council of the Bank.

Performance is measured based on structure and quality of assets in respective portfolios as included in the internal management reports.

Information regarding each portfolio is included below:

	Current investment portfolio	Treasury Portfolio	Unallocated*	31 December 2015 Total
Cash and cash equivalents	-	281,984	-	281,984
Loans and advances to banks	61,421	6,303	118	67,842
Loans to customers	1,604,210	-	(104,819)	1,499,391
Financial assets available-for-sale	21,135	589,068	(454)	609,749
Investments held-to-maturity	-	402,714	-	402,714
Property, equipment and intangible assets	-	-	13,759	13,759
Other assets	-	-	5,195	5,195
Total assets	1,686,766	1,280,069	(86,201)	2,880,634
Total liabilities	-	5,137	1,376,164	1,381,301
Contingent liabilities and credit commitments	513,649	-	-	513,649
Total current investment portfolio	2,200,415			

*According to the internal policies, the Bank allocates balance of current investment portfolio based on the nominal values, excluding allowances for impairment losses, accrued interest and unamortised premiums and discounts.

	Current investment portfolio	Treasury Portfolio	Unallocated*	31 December 2014 Total
Cash and cash equivalents	-	296,652	-	296,652
Financial assets at fair value through profit or loss	-	1,821	-	1,821
Loans and advances to banks	198,995	49,784	1,201	249,980
Loans to customers	2,157,972	-	(6,349)	2,151,623
Financial assets available-for-sale	43,059	673,964	(795)	716,228
Investments held-to-maturity	-	437,271	-	437,271
Property, equipment and intangible assets	-	-	14,762	14,762
Other assets	-	-	47,161	47,161
Total assets	2,400,026	1,459,492	55,980	3,915,498
Total liabilities	-	3,471	2,273,757	2,277,228
Contingent liabilities and credit commitments	756,604	-	-	756,604
Total current investment portfolio	3,156,630			

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28 RISK MANAGEMENT POLICIES, CONTINUED

(b) Credit risk, continued

(iii) Assets allocation in portfolios, continued

	Current investment portfolio	Treasury portfolio	Unallocated	31 December 2013 Total
Cash and cash equivalents	-	274,958	-	274,958
Financial assets at fair value through profit or loss	-	5	-	5
Loans and advances to banks	222,077	183,435	1,381	406,893
Loans to customers	2,403,503	-	(75,900)	2,327,603
Financial assets available-for-sale	72,429	1,056,899	(84)	1,129,244
Investments held-to-maturity	-	403,786	-	403,786
Non-current assets held-for-sale	35,499	-	(15,106)	20,393
Property, equipment and intangible assets	-	-	15,491	15,491
Other assets	-	-	15,285	15,285
Total assets	2,733,508	1,919,083	(58,933)	4,593,658
Total liabilities	-	781	2,960,718	2,961,499
Contingent liabilities and credit commitments	1,148,546	-	-	1,148,546
Total current investment portfolio	3,882,054			

(iv) Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Bank’s statement of financial position, or
- are subject to an enforceable master arrangements or similar agreements that cover similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative agreements and global master repurchase agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below unless they are offset in the statement of financial position.

The Bank’s derivative transactions that are not transacted on the exchange are entered into under International Derivative Swaps and Dealers Association (“ISDA”) Master Agreement. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount being payable by one party to the other. In the event of an early termination due to a termination event and/or, an event of default, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement transactions.

The Bank’s similar financial instruments are covered by global master repurchase agreements with netting terms similar to those of ISDA Master Agreements.

The above ISDA and similar master arrangements do not meet the offsetting criteria in the statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties. In addition, the Bank and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

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28 RISK MANAGEMENT POLICIES, CONTINUED

(b) Credit risk, continued

(iv) Offsetting financial assets and financial liabilities, continued

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2015:

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position Financial instruments/collateral received	Net amount
Loans under reverse repurchase agreements	6,303	-	6,303	(6,303)	-
Total financial assets	6,303	-	6,303	(6,303)	-
Derivatives liabilities	(5,137)	-	(5,137)	5,137	-
Total financial liabilities	(5,137)	-	(5,137)	5,137	-

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2014:

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position Financial instruments/collateral received	Net amount
Derivative assets	1,821	-	1,821	(1,821)	-
Loans under reverse repurchase agreements	49,784	-	49,784	(49,784)	-
Total financial assets	51,605	-	51,605	(51,605)	-
Derivatives liabilities	(3,471)	-	(3,471)	1,821	(1,650)
Total financial liabilities	(3,471)	-	(3,471)	1,821	(1,650)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR
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28 RISK MANAGEMENT POLICIES, CONTINUED**(b) Credit risk, continued****(iv) Offsetting financial assets and financial liabilities, continued**

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2013:

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position Financial instruments/collateral received	Net amount
Derivative assets	5	-	5	(5)	-
Loans under reverse repurchase agreements	183,435	-	183,435	(183,435)	-
Total financial assets	183,440	-	183,440	(183,440)	-
Derivatives liabilities	(781)	-	(781)	5	(776)
Total financial liabilities	(781)	-	(781)	5	(776)

(v) Maximum exposure

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position and unrecognised contractual commitments. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk at the reporting date is as follows.

	31 December 2015	31 December 2014	31 December 2013
Cash and cash equivalents	281,984	296,652	274,958
Financial assets at fair value through profit or loss	-	1,821	5
Loans and advances to banks	67,842	249,980	406,893
Loans to customers	1,499,391	2,151,623	2,327,603
Financial assets available-for-sale	589,483	674,723	1,058,750
Investments held-to-maturity	402,714	437,271	403,786
Other financial assets	3,249	2,522	4,857

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 24.

Financial assets are graded according to the current credit rating issued by an internationally regarded agency. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB-. Financial assets which have ratings lower than BBB- are classed as speculative grade.

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28 RISK MANAGEMENT POLICIES, CONTINUED**(b) Credit risk, continued****(v) Maximum exposure, continued**

The following table details the credit ratings of financial assets held by the Bank:

	AA	A	BBB	<BBB-	Not rated	31 December 2015 Total
Cash and cash equivalents	376	168,434	30,711	82,362	101	281,984
Loans and advances to banks	-	-	-	6,303	61,539	67,842
Loans to customers	-	-	-	-	1,499,391	1,499,391
Financial assets available-for-sale	419,465	-	153,476	16,127	415	589,483
Investments held-to-maturity	100,247	-	-	302,467	-	402,714
Other financial assets	-	-	-	-	3,249	3,249

	AA	A	BBB	<BBB-	Not rated	31 December 2014 Total
Cash and cash equivalents	24,936	68,504	201,510	1,595	107	296,652
Financial assets at fair value through profit or loss	-	1,821	-	-	-	1,821
Loans and advances to banks	-	-	40,172	9,612	200,196	249,980
Loans to customers	-	-	-	-	2,151,623	2,151,623
Financial assets available-for-sale	589,439	-	84,525	-	759	674,723
Investments held-to-maturity	100,147	-	337,124	-	-	437,271
Other financial assets	-	-	-	-	2,522	2,522

	AA	A	BBB	<BBB-	Not rated	31 December 2013 Total
Cash and cash equivalents	25,187	83,390	119,958	46,381	42	274,958
Financial assets at fair value through profit or loss	5	-	-	-	-	5
Loans and advances to banks	-	-	67,069	116,366	223,458	406,893
Loans to customers	-	-	-	-	2,327,603	2,327,603
Financial assets available-for-sale	923,852	-	133,048	-	1,850	1,058,750
Investments held-to-maturity	-	-	394,005	9,781	-	403,786
Other financial assets	-	-	-	-	4,857	4,857

As at 31 December 2015, the Bank had outstanding loans to 41 customers (31 December 2014: 46; 31 December 2013: 36) and 9 financial institutions (31 December 2014: 19; 31 December 2013: 16). The loans are made with intention to develop the economies of the Member states. Most of the borrowers are not rated by international rating agencies, however, the Bank is able to perform specific monitoring of each individual loan. Loans are regularly reviewed by the Bank's Credit Committee.

28 RISK MANAGEMENT POLICIES, CONTINUED

(b) Credit risk, continued

(v) *Maximum exposure, continued*

Loans to customers are classified based on internal assessments and other analytical procedures. The Bank classifies loans according to their risk and the exposure that they potentially present to the Bank. At present, the Bank uses classifications as follows:

Loans classified to the *1st category (high-quality loans)* are expected to possess minimal credit risk. Interest and principal are repaid in full and in a timely manner. The financial condition of the borrower or its guarantor is assessed as steady and there is no indication of any external or internal factors to suggest that the financial condition of the borrower has deteriorated or may deteriorate. In case there are negative indicators, the Bank has confidence that the borrower or its guarantor will be able to cope with such temporary difficulties. The borrower or its guarantor is considered as having the ability to repay the loan in accordance with its terms and conditions. Security provided for the loan covers 100 per cent of the outstanding amount. This category also includes loans with stable financial condition of the borrower but with highly-liquid security.

Loans classified to the *2nd category (good-quality loans)* are expected to possess moderate credit risk. Interest and principal are repaid in full and in a timely manner. Short delays (up to 5 working days) are possible due to technical reasons only. The financial condition of the borrower is stable, though there might be evidence of an insignificant deterioration in the financial condition of the borrower or its guarantor, including a decrease in income or negative changes in the respective industry but with no negative effect on borrower's paying capacity. The borrower or its guarantor is considered as having the ability to repay the loan in accordance with its terms and conditions. This category also includes loans with satisfactory financial condition of the borrower but with highly-liquid security.

Loans classified to the *3rd category (loans of satisfactory quality)* are expected to possess average credit risk. The financial condition of the borrower is satisfactory. Borrower possesses satisfactory level of profitability and good paying capacity, but there might be evidences of temporary deterioration in the financial condition of the borrower, including decrease in income, loss of market share or identified other external/internal factors, which may deteriorate its financial condition. Due to temporary difficulties the borrower may repay the loan and/or the interest with short delays (up to 30 days). There is a chance that terms and conditions of a loan may be revised. This category also includes loans with stable financial condition of the borrower but when security does not cover 100 per cent of the outstanding amount.

Loans classified to the *4th category (under observation)* are expected to bear high credit risk. There is evidence of a more severe deterioration in the financial condition of the borrower, the current financial condition of the borrower can be considered unstable and raises concerns as to the ability of the borrower to improve its current financial performance, thus casting doubt on the borrower's ability to repay the loan and/or the interest in full. Due to severe deterioration of financial health the borrower may repay the loan and interest with long delays (more than 90 days). At the same time, there is an opportunity for loan restructuring given tolerable market perspectives.

Loans classified to the *5th category (loss)* are considered to have the highest credit risk, low probability of full loan repayment. The borrower has considerable repayments' delays more than 90 days. The deterioration in the financial condition of the borrower has reached a critical level, including significant operating losses, loss of market position and negative equity. There is no certainty that condition may improve. It is evident that the borrower cannot repay the loan and the interest in full and the collateral value is insufficient. There is a high probability of default.

28 RISK MANAGEMENT POLICIES, CONTINUED

(b) Credit risk, continued

(v) Maximum exposure, continued

	31 December 2015	31 December 2014	31 December 2013
Loans classified to from 1 st to 3rd category	1,250,644	1,915,746	2,289,357
Loans classified to 4th category	289,545	240,507	55,976
Loans classified to 5th category	91,897	37,294	124,508
	1,632,086	2,193,547	2,469,841
Less – Allowance for losses	(132,695)	(41,924)	(142,238)
Loans to customers	1,499,391	2,151,623	2,327,603

As at 31 December 2015 loans to four customers were classified as 5th category loans (31 December 2014: one; 31 December 2013: two); loans to thirteen customers were classified as 4th category loans (31 December 2014: seven; 31 December 2013: two); remaining were classified as 3rd or higher category loans.

The above analysis is based on loan classification principles used for internal risk management purposes. Management also employs some of the criteria used therein to assess whether there is potential evidence of impairment of loans for IFRS reporting purposes. Following identification of such evidence the Bank performs an analysis of estimated future cash flows of the loan concerned. If these estimated cash flows, based on the loan's original contractual interest rate, or net value of collateral are sufficient to permit repayment of all principal and interest amounts, the loan is not considered to be impaired. Otherwise the Bank accrues relevant provisions. Note 13 presents significant estimates and assumptions made by management in the estimation of the impairment allowance for loans to customers.

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Bank is concentrated within the Russian Federation and the Republic of Kazakhstan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are not breached.

(c) Liquidity risk

Liquidity risk refers to the risk of the availability of sufficient funds to meet debt repayments and other financial commitments associated with financial instruments as they actually fall due.

Liquidity risk arises in the general funding of the Bank's investment activities and in the management of positions. This risk involves both the risk of unexpected increases in the cost of funding the portfolio of assets at appropriate maturities and rates and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

The Bank maintains liquid assets in amount sufficient to ensure that cash can quickly be made available to honor all of its obligations, even under adverse conditions. The ALMC is primarily responsible for the management of liquidity risk and the liquidity profile of the Bank.

28 RISK MANAGEMENT POLICIES, CONTINUED

(c) Liquidity risk, continued

The Bank's principal source of liquidity is its treasury portfolio. The size of the treasury portfolio must be maintained over the limit which is set semi-annually by the Executive board of the Bank and should not be less than 65% of the Bank's commitments under its investment activities less issued guarantees and bilateral commitments, plus the annual cost of financial debt (minimal amount of liquid funds in treasury portfolio).

The ALMC manages this risk through analysis of asset and liability maturity. The assets and liabilities management division of the Bank monitors liquidity indicators and conducts gap.

An analysis of the liquidity risk, based on the final dates of repayment of financial assets and liabilities, is presented in the following table.

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2015 Total
FINANCIAL ASSETS:							
Cash and cash equivalents	0.70%	155,670	-	-	-	-	155,670
Loans and advances to banks	6.50%	7,910	384	18,108	41,440	-	67,842
Loans to customers	10.20%	9,526	115,758	128,189	847,451	398,467	1,499,391
Financial assets available-for-sale	1.81%	-	149,970	262,014	76,702	100,797	589,483
Investments held-to-maturity	4.38%	-	7,800	27,896	283,319	83,699	402,714
Total interest bearing financial assets		173,106	273,912	436,207	1,248,912	582,963	2,715,100
Cash and cash equivalents		126,314	-	-	-	-	126,314
Financial assets available-for-sale		-	-	-	20,266	-	20,266
Other financial assets		2,990	-	259	-	-	3,249
Total financial assets		302,410	273,912	436,466	1,269,178	582,963	2,864,929
FINANCIAL LIABILITIES:							
Loans and deposits from banks	2.46%	-	-	24,216	1,097	136,038	161,351
Debt securities issued	7.00%	-	69,490	209,750	605,931	311,186	1,196,357
Total interest bearing financial liabilities		-	69,490	233,966	607,028	447,224	1,357,708
Financial liabilities at fair value through profit or loss		5,137	-	-	-	-	5,137
Other financial liabilities		-	11	7,166	10,864	-	18,041
Total financial liabilities		5,137	69,501	241,132	617,892	447,224	1,380,886
Liquidity gap		297,273	204,411	195,334	651,286	135,739	

28 RISK MANAGEMENT POLICIES, CONTINUED

(c) Liquidity risk, continued

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2014 Total
FINANCIAL ASSETS:							
Cash and cash equivalents	0.01%	65,438	-	-	-	-	65,438
Loans and advances to banks	6.34%	50,794	2,503	47,338	145,655	3,690	249,980
Loans to customers	9.24%	37,471	113,030	475,042	889,926	636,154	2,151,623
Financial assets available-for-sale	0.74%	-	79,586	425,825	145,556	23,756	674,723
Investments held-to-maturity	4.75%	438	14,993	30,179	337,883	53,778	437,271
Total interest bearing financial assets		154,141	210,112	978,384	1,519,020	717,378	3,579,035
Cash and cash equivalents		231,214	-	-	-	-	231,214
Financial assets at fair value through profit or loss		1,821	-	-	-	-	1,821
Financial assets available-for-sale		-	-	-	41,505	-	41,505
Other financial assets		2,166	-	356	-	-	2,522
Total financial assets		389,342	210,112	978,740	1,560,525	717,378	3,856,097
FINANCIAL LIABILITIES:							
Loans and deposits from banks	2.71%	956	2,502	6,022	45,401	133,042	187,923
Debt securities issued	6.22%	-	82,836	168,505	829,623	980,597	2,061,561
Total interest bearing financial liabilities		956	85,338	174,527	875,024	1,113,639	2,249,484
Financial liabilities at fair value through profit or loss		3,471	-	-	-	-	3,471
Other financial liabilities		58	25	11,057	12,398	-	23,538
Total financial liabilities		4,485	85,363	185,584	887,422	1,113,639	2,276,493
Liquidity gap		384,857	124,749	793,156	673,103	(396,261)	

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28 RISK MANAGEMENT POLICIES, CONTINUED

(c) Liquidity risk, continued

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2013 Total
FINANCIAL ASSETS:							
Cash and cash equivalents	2.28%	244,317	-	-	-	-	244,317
Loans and advances to banks	3.99%	183,435	9,324	2,607	211,527	-	406,893
Loans to customers	9.31%	11,678	41,212	326,790	1,104,095	843,828	2,327,603
Financial assets available-for-sale	0.95%	15,933	224,978	632,487	121,572	63,780	1,058,750
Investments held-to-maturity	5.59%	-	-	50,240	144,517	209,029	403,786
Total interest bearing financial assets		455,363	275,514	1,012,124	1,581,711	1,116,637	4,441,349
Cash and cash equivalents		30,641	-	-	-	-	30,641
Financial assets at fair value through profit or loss		5	-	-	-	-	5
Financial assets available-for-sale		-	-	-	-	70,494	70,494
Other financial assets		1,599	-	3,258	-	-	4,857
Total financial assets		487,608	275,514	1,015,382	1,581,711	1,187,131	4,547,346
FINANCIAL LIABILITIES:							
Loans and deposits from banks	4.34%	-	-	-	84,311	42,724	127,035
Debt securities issued	6.62%	-	309,966	254,106	1,246,500	974,993	2,785,565
Total interest bearing financial liabilities		-	309,966	254,106	1,330,811	1,017,717	2,912,600
Financial liabilities at fair value through profit or loss		781	-	-	-	-	781
Hedging derivative financial instrument		-	16,763	-	-	-	16,763
Other financial liabilities		2,526	306	16,143	10,769	-	29,744
Total financial liabilities		3,307	327,035	270,249	1,341,580	1,017,717	2,959,888
Liquidity gap		484,301	(51,521)	745,133	240,131	169,414	

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28 RISK MANAGEMENT POLICIES, CONTINUED

(c) Liquidity risk, continued

A further analysis of the liquidity and interest rate risks is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded in the statement of financial position as the presentation below includes a maturity analysis for financial assets and liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognised in the statement of financial position under the effective interest rate method.

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	31 December 2015 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	282,015	-	-	-	-	282,015
Loans and advances to banks	7,958	785	21,607	45,501	-	75,851
Loans to customers	15,428	135,988	230,444	1,200,729	611,047	2,193,636
Financial assets available- for-sale	1,396	150,306	269,511	85,960	120,806	627,979
Investments held-to-maturity	440	14,408	37,456	316,229	81,803	450,336
Other financial assets	2,990	-	259	-	-	3,249
Total financial assets	310,227	301,487	559,277	1,648,419	813,656	3,633,066
FINANCIAL LIABILITIES:						
Loans from banks	-	2,415	44,100	80,339	44,770	171,624
Financial liabilities at fair value through profit or loss	5,137	-	-	-	-	5,137
Debt securities issued	-	95,801	247,666	768,586	337,188	1,449,241
Other financial liabilities	-	11	7,166	10,864	-	18,041
Total financial liabilities	5,137	98,227	298,932	859,789	381,958	1,644,043
Net position	305,090	203,260	260,345	788,630	431,698	1,989,023
Commitments	513,649	-	-	-	-	513,649

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28 RISK MANAGEMENT POLICIES, CONTINUED**(c) Liquidity risk, continued**

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	31 December 2014 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	296,652	-	-	-	-	296,652
Financial assets at fair value through profit or loss	1,821	-	-	-	-	1,821
Loans and advances to banks	61,478	18,063	90,584	101,399	651	272,175
Loans to customers	38,499	156,680	491,954	1,369,296	813,480	2,869,909
Financial assets available-for-sale	503	81,559	429,926	163,341	14,561	689,890
Investments held-to-maturity	438	14,993	33,232	341,580	108,745	498,988
Other financial assets	2,166	-	356	-	-	2,522
Total financial assets	401,557	271,295	1,046,052	1,975,616	937,437	4,631,957
FINANCIAL LIABILITIES:						
Loans from banks	1,184	5,193	14,500	122,339	58,291	201,507
Financial liabilities at fair value through profit or loss	3,471	-	-	-	-	3,471
Debt securities issued	-	131,463	262,453	1,113,358	1,096,505	2,603,779
Other financial liabilities	58	25	11,057	12,398	-	23,538
Total financial liabilities	4,713	136,681	288,010	1,248,095	1,154,796	2,832,295
Net position	396,844	134,614	758,042	727,521	(217,359)	1,799,662
Commitments	756,604	-	-	-	-	756,604
	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	31 December 2013 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	275,107	-	-	-	-	275,107
Financial assets at fair value through profit or loss	5	-	-	-	-	5
Loans and advances to banks	198,438	44,205	73,077	92,241	-	407,961
Loans to customers	5,787	32,642	342,087	1,920,965	1,138,276	3,439,757
Financial assets available-for-sale	16,792	226,825	636,256	133,193	154,613	1,167,679
Investments held-to-maturity	-	7,902	62,922	205,782	346,239	622,845
Other financial assets	1,599	-	3,258	-	-	4,857
Total financial assets	497,728	311,574	1,117,600	2,352,181	1,639,128	5,918,211
FINANCIAL LIABILITIES:						
Loans from banks	231	2,099	3,155	95,818	46,128	147,431
Financial liabilities at fair value through profit or loss	781	-	-	-	-	781
Hedging derivative financial instrument	-	16,763	-	-	-	16,763
Debt securities issued	5,856	363,825	351,661	1,605,477	1,145,340	3,472,159
Other financial liabilities	2,908	306	15,761	10,769	-	29,744
Total financial liabilities	9,776	382,993	370,577	1,712,064	1,191,468	3,666,878
Net position	487,952	(71,419)	747,023	640,117	447,660	2,251,333
Commitments	1,148,546	-	-	-	-	1,148,546

28 RISK MANAGEMENT POLICIES, CONTINUED**(c) Liquidity risk, continued**

The Bank plans to manage its net negative maturity position through the issuance of debt securities and attraction of other borrowed funds. Also assets from available-for-sale portfolio are eligible to be sold if required for liquidity purposes. Most of the commitments have a number of requirements before been issued. Also in some cases the Bank has an option to withdraw or delay issue of loan.

(d) Market risk

Market risk covers interest rate risk, currency and pricing risks. In order to measure price and currency risks the Bank uses value-at-risk (VAR) methodology. In order to measure interest rate risk the Bank assesses its sensitivity to changes in interest rates. The Bank uses a system of limits to manage these risks.

Interest rate sensitivity

Interest rate risk refers to the risk of fluctuations in the fair value of financial instruments due to changes in market interest rates.

The ALMC of the Bank manages interest rate risk through the management of interest-sensitive asset and liability positions of the Bank, and controls risk from changes in market interest rates through setting limits on the maximum amount of interest rate risk accepted by the Bank. The Bank's assets and liability management division together with the treasury department monitors interest rate risk, estimates sensitivity of the Bank in relation to changes in interest rates and the influence of changes in interest rates on the net profit of the Bank.

The following table details the Bank's sensitivity to a 3% increase and decrease in the interest rates in 2015, 2014 and 2013. This is the sensitivity rate used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates. The sensitivity analysis includes only outstanding financial assets and liabilities with variable interest rates.

An analysis of sensitivity of net profit and equity to changes in interest rates (repricing risk) based on a simplified scenario of a 300 basis point (bp) symmetrical fall or rise in all yield curves and positions of variable interest rate assets and liabilities existing as at 31 December 2015, 2014 and 2013 is as follows:

	As at 31 December 2015		As at 31 December 2014		As at 31 December 2013	
	Interest rate +3%	Interest rate -3%	Interest rate +3%	Interest rate -3%	Interest rate +3%	Interest rate -3%
Financial assets:						
Loans and advances to banks	1,770	(1,770)	3,067	(3,067)	2,063	(2,063)
Loans to customers	14,518	(14,518)	17,577	(17,577)	11,640	(11,640)
Financial liabilities:						
Loans from banks	(4,167)	2,338	(4,821)	3,109	(1,869)	1,512
Net impact on net profit and equity	12,121	(13,950)	15,823	(17,535)	11,834	(12,191)

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28 RISK MANAGEMENT POLICIES, CONTINUED**(d) Market risk, continued***Interest rate sensitivity, continued*

An analysis of sensitivity of equity as a result of changes in the financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2015, 2014 and 2013, and a simplified scenario of a 300 bp symmetrical fall or rise in all yield curves is as follows:

	As at 31 December 2015		As at 31 December 2014		As at 31 December 2013	
	Interest rate +3%	Interest rate -3%	Interest rate +3%	Interest rate -3%	Interest rate +3%	Interest rate -3%
Financial assets available-for-sale	(31,286)	35,381	(25,608)	28,964	(29,027)	39,263
Net impact on equity	(31,286)	35,381	(25,608)	28,964	(29,027)	39,263

(e) Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The treasury department together with the assets and liabilities management division manages currency risk through the management of the quantities held in open currency positions, which enables the Bank to minimise losses from significant fluctuations of exchange rates of foreign currencies. The credit and risk management department monitors the currency risk limits set by the Executive Board of the Bank.

The maximum amount of any currency position of the Bank may not exceed 10% of the Bank's equity capital in any one currency or 20% of the Bank's equity capital in all currencies.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	US dollars	Kazakhstan tenge	Russian rouble	Euro	Other currencies	31 December 2015 Total
Financial assets:						
Cash and cash equivalents	216,335	325	1,084	64,110	130	281,984
Loans and advances to banks	65,178	1,648	1,016	-	-	67,842
Loans to customers	774,565	217,139	319,480	188,207	-	1,499,391
Financial assets available-for-sale	589,068	415	-	-	-	589,483
Investments held-to-maturity	402,714	-	-	-	-	402,714
Other financial assets	3,039	22	51	137	-	3,249
Total financial assets	2,050,899	219,549	321,631	252,454	130	2,844,663
Financial liabilities:						
Loans from banks	11,511	-	22,331	127,509	-	161,351
Financial liabilities at fair value through profit or loss	5,137	-	-	-	-	5,137
Debt securities issued	588,811	246,550	360,996	-	-	1,196,357
Other financial liabilities	17,777	74	140	49	1	18,041
Total financial liabilities	623,236	246,624	383,467	127,558	1	1,380,886
OPEN BALANCE SHEET POSITION	1,427,663	(27,075)	(61,836)	124,896	129	

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28 RISK MANAGEMENT POLICIES, CONTINUED

(e) Currency risk, continued

	US dollars	Kazakhstan tenge	Russian rouble	Euro	Other currencies	31 December 2014 Total
Financial assets:						
Cash and cash equivalents	291,036	1,200	1,340	2,923	153	296,652
Financial assets at fair value through profit or loss	1,821	-	-	-	-	1,821
Loans and advances to banks	166,206	24,654	45,666	13,454	-	249,980
Loans to customers	1,001,423	381,784	582,257	186,159	-	2,151,623
Financial assets available-for-sale	673,964	759	-	-	-	674,723
Investments held-to-maturity	437,271	-	-	-	-	437,271
Other financial assets	2,286	9	162	65	-	2,522
Total financial assets	2,574,007	408,406	629,425	202,601	153	3,814,592
Financial liabilities:						
Loans from banks	38,148	-	26,714	123,061	-	187,923
Financial liabilities at fair value through profit or loss	3,471	-	-	-	-	3,471
Debt securities issued	980,597	458,809	622,155	-	-	2,061,561
Other financial liabilities	22,716	245	365	210	2	23,538
Total financial liabilities	1,044,932	459,054	649,234	123,271	2	2,276,493
OPEN BALANCE SHEET POSITION	1,529,075	(50,648)	(19,809)	79,330	151	

	US dollars	Kazakhstan tenge	Russian rouble	Euro	Other currencies	31 December 2013 Total
Financial assets:						
Cash and cash equivalents	190,672	729	80,323	3,093	141	274,958
Financial assets at fair value through profit or loss	5	-	-	-	-	5
Loans and advances to banks	303,354	18,543	55,868	29,128	-	406,893
Loans to customers	954,524	282,217	1,038,717	52,145	-	2,327,603
Financial assets available-for-sale	1,056,900	1,850	-	-	-	1,058,750
Investments held-to-maturity	403,786	-	-	-	-	403,786
Other financial assets	3,907	25	464	370	91	4,857
Total financial assets	2,913,148	303,364	1,175,372	84,736	232	4,476,852
Financial liabilities:						
Loans from banks	50,690	-	49,308	27,037	-	127,035
Financial liabilities at fair value through profit or loss	781	-	-	-	-	781
Hedging derivative financial instrument	16,763	-	-	-	-	16,763
Debt securities issued	1,097,670	408,384	1,279,511	-	-	2,785,565
Other financial liabilities	23,105	4,714	840	1,085	-	29,744
Total financial liabilities	1,189,009	413,098	1,329,659	28,122	-	2,959,888
OPEN BALANCE SHEET POSITION	1,724,139	(109,734)	(154,287)	56,614	232	

28 RISK MANAGEMENT POLICIES, CONTINUED

(e) Currency risk, continued

(i) Derivative financial instruments and spot contracts

Transactions are undertaken in derivative financial instruments (“derivatives”), which include cross currency swaps, and forwards. Derivatives are contracts or agreements whose value is derived from one or more underlying indices or asset values inherent in the contract or agreement, which require no or little initial net investment and are settled at a future date.

Derivatives may be used for full or partial hedging, reducing the effect of market risks or open positions, subject to the restrictions imposed by the Investment Declaration. The Bank may open short positions only for the purposes of hedging or risk-reducing transactions.

Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk by types of derivative financial instruments and spot contracts:

	US dollars	Kazakhstan tenge	Russian rouble	Euro	Other currencies	31 December 2015 Total
Accounts payable on spot and derivative contracts	(97,000)	-	-	(125,031)	-	(222,031)
Accounts receivable on spot and derivative contracts	122,795	25,265	68,834	-	-	216,894
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	25,795	25,265	68,834	(125,031)	-	(5,137)
TOTAL OPEN POSITION	1,401,868	(1,810)	6,998	(135)	129	

	US dollars	Kazakhstan tenge	Russian rouble	Euro	Other currencies	31 December 2014 Total
Accounts payable on spot and derivative contracts	(62,100)	-	(1,032)	(78,663)	-	(141,795)
Accounts receivable on spot and derivative contracts	81,102	39,887	19,156	-	-	140,145
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	19,002	39,887	18,124	(78,663)	-	(1,650)
TOTAL OPEN POSITION	1,548,077	(10,761)	(1,685)	667	151	

	US dollars	Kazakhstan tenge	Russian rouble	Euro	Other currencies	31 December 2013 Total
Accounts payable on spot and derivative contracts	(284,063)	(1,795)	-	(56,542)	-	(342,400)
Accounts receivable on spot and derivative contracts	57,884	110,677	156,300	-	-	324,861
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	(226,179)	108,882	156,300	(56,542)	-	(17,539)
TOTAL OPEN POSITION	1,497,960	(852)	2,013	73	232	

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28 RISK MANAGEMENT POLICIES, CONTINUED**(e) Currency risk, continued****(ii) Currency risk sensitivity**

The following table details the Bank's sensitivity to a 15% increase and decrease in the US Dollar/Russian rouble and US Dollar/Kazakhstan tenge exchange rates as at 31 December 2015, 2014 and 2013, respectively and a 10% increase and decrease in the US Dollar/Euro exchange rate. These sensitivity rates used when reporting foreign currency risk internally to key management personnel and represent management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for respective changes in currency rates as at 31 December 2015, 2014 and 2013.

Impact on net profit based on asset values as at 31 December 2015, 2014 and 2013:

	As at 31 December 2015		As at 31 December 2014		As at 31 December 2013	
	USD/RUB +15%	USD/RUB -15%	USD/RUB +15%	USD/RUB -15%	USD/RUB +15%	USD/RUB -15%
Impact on net profit	(1,050)	1,050	253	(253)	326	(326)

	As at 31 December 2015		As at 31 December 2014		As at 31 December 2013	
	USD/KZT +15%	USD/KZT -15%	USD/KZT +15%	USD/KZT -15%	USD/KZT +15%	USD/KZT -15%
Impact on net profit	272	(272)	1,614	(1,614)	128	(128)

	As at 31 December 2015		As at 31 December 2014		As at 31 December 2013	
	USD/EUR +10%	USD/EUR -10%	USD/EUR +10%	USD/EUR -10%	USD/EUR +10%	USD/EUR -10%
Impact on net profit	14	(14)	(67)	67	(7)	7

Impact on equity based on asset values as at 31 December 2015, 2014 and 2013:

	As at 31 December 2015		As at 31 December 2014		As at 31 December 2013	
	USD/RUB +15%	USD/RUB -15%	USD/RUB +15%	USD/RUB -15%	USD/RUB +15%	USD/RUB -15%
Impact on equity	(1,050)	1,050	253	(253)	326	(326)

	As at 31 December 2015		As at 31 December 2014		As at 31 December 2013	
	USD/KZT +15%	USD/KZT -15%	USD/KZT +15%	USD/KZT -15%	USD/KZT +15%	USD/KZT -15%
Impact on equity	272	(272)	1,614	(1,614)	128	(128)

	As at 31 December 2015		As at 31 December 2014		As at 31 December 2013	
	USD/EUR +10%	USD/EUR -10%	USD/EUR +10%	USD/EUR -10%	USD/EUR +10%	USD/EUR -10%
Impact on equity	14	(14)	(67)	67	(7)	7

28 RISK MANAGEMENT POLICIES, CONTINUED

(e) Currency risk, continued

(ii) Currency risk sensitivity, continued

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

(f) Financial ratios

In December 2011 the Council of the Bank has set financial ratios which are reviewed semi-annually and came into effect since 1 January 2012:

	31 December 2015	31 December 2014	31 December 2013
Minimum amount of liquid assets in Treasury portfolio			
- required amount in thousands US dollars	837,301	976,648	1,494,219
- <i>actual amount</i>	1,280,069	1,457,671	1,919,078
Financial leverage ratio			
- should be less or equal to 300% of the Bank's equity*	300.00%	300.00%	200.00%
- <i>actual ratio</i>	90.15%	137.12%	177.11%
Maximum principal amount of the Bank's borrowings			
- allowed amount in thousands of US Dollars	2,734,000	3,312,000	3,432,000
- <i>actual amount of the Bank's borrowings</i>	1,351,601	2,246,391	2,903,443

* After introduction of callable share capital on 2 July 2014, the Council of the Bank has increased this limit from 200% to 300%.

The ALMC regularly monitors compliance of the Bank with the financial ratios set by the Council of the Bank.

29 Events after the reporting period

These financial statements were previously approved by the Management of the Bank on 8 February 2016 and were subsequently reissued on 11 April 2016. This is due to the fact that in March 2016 the Bank received information from its investee which revealed that the fair value of the Bank's equity instrument included in financial assets available-for-sale at 31 December 2015 was substantially lower relative to the acquisition cost. As a result of this updated information, the Bank recognised additional impairment losses in the amount of 15,301 thousand US dollars (Note 14) to reflect the investment's fair value at 31 December 2015.

Management do not consider that this change is material in the context of the overall financial statements but have updated the valuation of the investment in order to reflect this more reliable estimate of fair value.