

# **EURASIAN DEVELOPMENT BANK**

**Financial Statements**  
For the Year ended 31 December 2011

# 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 2011, and the statements of 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.





# EURASIAN DEVELOPMENT BANK

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011 (in thousands of US dollars)

	Note	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2009
Interest income	4	143,047	116,845	108,365
Interest expense	4	(74,994)	(70,941)	(44,432)
<b>Net interest income before provision for impairment losses on interest bearing assets</b>		<b>68,053</b>	<b>45,904</b>	<b>63,933</b>
Provision for impairment losses on interest bearing assets	5	848	(12,980)	(5,064)
<b>NET INTEREST INCOME</b>		<b>68,901</b>	<b>32,924</b>	<b>58,869</b>
Net gain on financial assets and liabilities at fair value through profit or loss	6	36,537	16,985	4,444
Net realised gain on financial assets available-for-sale		44	7,174	2,348
Net loss on transactions in foreign currencies	7	(40,034)	(12,728)	(124)
Fee and commission income		6,718	6,215	3,092
Fee and commission expense		(206)	(221)	(447)
Net loss on trading with debt securities issued		(565)	-	-
Other income		1,507	82	1,203
Other expenses		(324)	-	-
<b>Net non-interest income</b>		<b>3,677</b>	<b>17,507</b>	<b>10,516</b>
<b>Operating income</b>		<b>72,578</b>	<b>50,431</b>	<b>69,385</b>
Operating expenses	8	(48,103)	(34,618)	(29,596)
<b>NET PROFIT</b>		<b>24,475</b>	<b>15,813</b>	<b>39,789</b>
OTHER COMPREHENSIVE INCOME:				
Net unrealised (loss)/gain on revaluation of financial assets available-for-sale		(2,284)	5,962	64,372
Net realised gain on financial assets available-for-sale transferred to the profit and loss during the year		(44)	(7,174)	(2,348)
Net unrealised loss on hedging instruments		(5,744)	-	-
<b>OTHER COMPREHENSIVE (LOSS)/INCOME</b>		<b>(8,072)</b>	<b>(1,212)</b>	<b>62,024</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>16,403</b>	<b>14,601</b>	<b>101,813</b>

On behalf of the management of the Bank:

  
I.V. Finogenov  
Chairman of the Executive Board

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

10 February 2012  
Almaty, Kazakhstan

10 February 2012  
Almaty, Kazakhstan


The notes on pages 10-62 form an integral part of these financial statements.

# EURASIAN DEVELOPMENT BANK

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011 (in thousands of US dollars)


	Note	31 December 2011	31 December 2010	31 December 2009
<b>ASSETS</b>				
Cash and balances with national (central) banks of Member states of the Bank	9	102	222,389	94,872
Financial assets at fair value through profit or loss	10	5,918	910	40,933
Loans and advances to banks	12	731,215	521,894	590,321
Loans to customers	13	1,343,996	820,953	608,984
Financial assets available-for-sale	14	377,837	215,147	287,866
Investments held-to-maturity	15	302,980	697,088	843,753
Non-current assets held for sale	16	48,311	45,613	-
Property and equipment	17	17,841	22,112	21,146
Intangible assets		1,296	1,188	1,059
Other assets	18	8,187	5,299	6,524
<b>TOTAL ASSETS</b>		<b>2,837,683</b>	<b>2,552,593</b>	<b>2,495,458</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES:</b>				
Loans and deposits from banks	19	73,057	56,541	36,840
Financial liabilities at fair value through profit or loss	10	5,755	2,337	117
Hedging derivative financial instrument	11	18,614	-	-
Amounts due to Anti-crisis Fund		412	499	-
Debt securities issued	20	1,037,817	810,687	812,769
Other liabilities	21	22,028	19,032	11,836
<b>Total liabilities</b>		<b>1,157,683</b>	<b>889,096</b>	<b>861,562</b>
<b>EQUITY:</b>				
Share capital	22	1,515,700	1,515,600	1,500,600
Reserve fund	22	72,640	64,733	44,839
Hedging reserve		(5,744)	-	-
Revaluation reserve for financial assets available-for-sale		289	2,617	3,829
Retained earnings		97,115	80,547	84,628
<b>Total equity</b>		<b>1,680,000</b>	<b>1,663,497</b>	<b>1,633,896</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,837,683</b>	<b>2,552,593</b>	<b>2,495,458</b>

On behalf of the management of the Bank:

  
I.V. Finogenov  
Chairman of the Executive Board

10 February 2012  
Almaty, Kazakhstan



  
B.K. Mukhambetzhano"v  
Managing Director, Finance  
Member of the Executive Board

10 February 2012  
Almaty, Kazakhstan

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# EURASIAN DEVELOPMENT BANK

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

(in thousands of US dollars)

	Share capital	Reserve fund	Hedging reserve	Revaluation reserve/(deficit) for financial assets available-for-sale	Retained earnings	Total
<b>31 December 2008</b>	<b>1,500,000</b>	<b>24,569</b>	-	<b>(58,195)</b>	<b>65,109</b>	<b>1,531,483</b>
Other comprehensive income	-	-	-	62,024	-	62,024
Net profit	-	-	-	-	39,789	39,789
<b>Total comprehensive income</b>	-	-	-	<b>62,024</b>	<b>39,789</b>	<b>101,813</b>
Issue of ordinary share capital	600	-	-	-	-	600
Transfer to reserve fund	-	20,270	-	-	(20,270)	-
<b>31 December 2009</b>	<b>1,500,600</b>	<b>44,839</b>	-	<b>3,829</b>	<b>84,628</b>	<b>1,633,896</b>
Other comprehensive loss	-	-	-	(1,212)	-	(1,212)
Net profit	-	-	-	-	15,813	15,813
<b>Total comprehensive income</b>	-	-	-	<b>(1,212)</b>	<b>15,813</b>	<b>14,601</b>
Issue of ordinary share capital	15,000	-	-	-	-	15,000
Transfer to reserve fund	-	19,894	-	-	(19,894)	-
<b>31 December 2010</b>	<b>1,515,600</b>	<b>64,733</b>	-	<b>2,617</b>	<b>80,547</b>	<b>1,663,497</b>
Other comprehensive loss	-	-	(5,744)	(2,328)	-	(8,072)
Net profit	-	-	-	-	24,475	24,475
<b>Total comprehensive income</b>	-	-	<b>(5,744)</b>	<b>(2,328)</b>	<b>24,475</b>	<b>16,403</b>
Issue of ordinary share capital	100	-	-	-	-	100
Transfer to reserve fund	-	7,907	-	-	(7,907)	-
<b>31 December 2011</b>	<b>1,515,700</b>	<b>72,640</b>	<b>(5,744)</b>	<b>289</b>	<b>97,115</b>	<b>1,680,000</b>

On behalf of the management of the Bank:

  
I.V. Finogenov  
Chairman of the Executive Board

10 February 2012  
Almaty, Kazakhstan

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

10 February 2012  
Almaty, Kazakhstan

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# EURASIAN DEVELOPMENT BANK

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011 (in thousands of US dollars)

	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received on loans to customers	71,423	60,558	38,892
Interest received on loans and advances to banks	16,280	17,192	19,669
Interest and income received from financial assets and liabilities at fair value through profit or loss	36,560	17,076	6,820
Interest and income received on financial assets available-for-sale	12,935	22,498	22,719
Interest received on investments held-to-maturity	21,777	23,421	23,302
Interest paid on loans and deposits from banks	(1,554)	(1,066)	(25,412)
Interest paid on debt securities issued	(67,407)	(70,434)	(7,819)
Fees and commissions received	6,641	5,852	3,137
Fees and commissions paid	(207)	(273)	(483)
Other income received	3,120	39	1,203
Operating expenses paid	(39,877)	(30,262)	(28,572)
<b>Cash inflow from operating activities before changes in operating assets and liabilities</b>	<b>59,691</b>	<b>44,601</b>	<b>53,456</b>
<b>Changes in operating assets</b>			
Increase in loans to customers	(523,158)	(258,821)	(170,324)
(Increase)/decrease in loans and advances to banks	(119,097)	(2,517)	46,252
(Increase)/decrease in financial assets at fair value through profit or loss	(5,005)	43,571	(34,057)
(Increase)/decrease in other assets	(3,131)	451	(5,807)
<b>Changes in operating liabilities</b>			
Increase/(decrease) in deposits from banks	23,330	-	(114,729)
Increase in financial liabilities at fair value through profit or loss	3,418	(1,349)	(2,784)
Increase/(decrease) in amounts due to Anti-crisis Fund	(87)	499	-
Increase in other liabilities	2	-	248
<b>Cash flows used in operating activities</b>	<b>(564,037)</b>	<b>(173,565)</b>	<b>(227,745)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of financial assets available-for-sale	(441,556)	(136,769)	(71,367)
Proceeds from sale and redemption of financial assets available-for-sale	266,791	205,857	107,996
Purchase of investments held-to-maturity	(1,284,340)	(3,643,920)	(1,432,845)
Proceeds from redemption of investments held-to-maturity	1,675,600	3,787,955	1,165,400
Purchase of property, equipment and intangible assets	(1,676)	(2,016)	(2,911)
<b>Cash flows from/(used in) investing activities</b>	<b>214,819</b>	<b>211,107</b>	<b>(233,727)</b>

The notes on pages 10-62 form an integral part of these financial statements.

# EURASIAN DEVELOPMENT BANK

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

(in thousands of US dollars)

	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2009
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of share capital	100	15,000	600
Proceeds from issuance of debt securities	236,765	-	800,994
Proceeds from loans from banks	53,148	16,954	43,059
Repayments of loans from banks	(66,649)	-	(344,995)
<b>Cash flows from financing activities</b>	<b>223,364</b>	<b>31,954</b>	<b>499,658</b>
<b>NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS</b>			
<b>CASH AND CASH EQUIVALENTS, at beginning of the year</b>	<b>(125,854)</b>	<b>69,496</b>	<b>38,186</b>
Effect of changes in foreign exchange rate on cash and cash equivalents	495,341	438,948	400,110
	(7,804)	(13,103)	652
<b>CASH AND CASH EQUIVALENTS, at end of the year (Note 9)</b>	<b>361,683</b>	<b>495,341</b>	<b>438,948</b>

On behalf of the management of the Bank:

**I.V. Finogenov**  
Chairman of the Executive Board

10 February 2012  
Almaty, Kazakhstan



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

10 February 2012  
Almaty, Kazakhstan

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**EURASIAN DEVELOPMENT BANK**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR**  
**ENDED 31 DECEMBER 2011**  
*(in thousands of US dollars)*

## **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 2011, 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. The Bank finances large and medium investment projects that are medium-term and long-term in duration, including industrial and innovative programs of the Member states and interstate target programs. The Bank also provides financing for investment projects of inter regional significance, and lends to industrial companies of the Member states.

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 2011 was 274 (31 December 2010: 238; 31 December 2009: 195).

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 2011, 2010 and 2009, shares of the Bank were owned as follows:

	<b>31 December 2011, %</b>	<b>31 December 2010, %</b>	<b>31 December 2009, %</b>
The Russian Federation	65.97	65.98	66.64
The Republic of Kazakhstan	32.99	32.99	33.32
The Republic of Belarus	0.99	0.99	-
The Republic of Tajikistan	0.03	0.03	0.03
The Republic of Armenia	0.01	0.01	0.01
The Kyrgyz Republic	0.01	-	-
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

These financial statements were authorised for issue on 10 February 2012 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 which display characteristics of an emerging market. 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. The financial statements reflect management's assessment of the impact of the business environment in the Member states on the operations and the 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 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

### **(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 and 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 (“USD”) 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.

### **(d) Use of estimates and judgments**

The preparation of the 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, 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 the Note 13 “Loans to customers” and in Note 11 “Hedging derivative financial instrument”.

### **(e) Adoption of revised standards**

From 1 January 2011 the Bank has applied Revised IAS 24 *Related Party Disclosures* (2009) in disclosing transactions with related parties of the Bank. The new accounting policy has been applied prospectively. Related party transactions are disclosed in Note 25. Application of this standard did not have a significant impact on these financial statements.

From 1 January 2011, the Bank has prospectively applied limited amendments to IFRS 7 *Financial Instruments: Disclosures* issued as part of *Improvements to IFRSs 2010*. These amendments mainly relate to disclosures on collateral.

### 3 SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies are consistently applied in the preparation of the financial statements.

#### (a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at the exchange rate 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 foreign exchange rate ruling 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. 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 or qualifying cash flow hedges, which are recognised in other comprehensive income. 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.

#### Rates of exchange

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

	31 December 2011	31 December 2010	31 December 2009
US dollar/1 Kazakhstan tenge ("KZT")	0.0067499	0.0067856	0.0067404
US dollar/1 Russian rouble ("RUB")	0.0311305	0.0327472	0.0330642
US dollar/1 British pound sterling ("GBP")	1.5399500	1.5611500	1.5884996
US dollar/1 Euro ("EUR")	1.2941000	1.3383500	1.4345990

#### (b) Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with original maturities of less than 90 days, 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.

#### (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 repo transactions. Due from banks with a fixed maturity term 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 credit institutions are carried net of any allowance for impairment losses, if any.

### 3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### (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 financial instruments that are 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 loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of 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.

*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.

### 3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### (d) Financial instruments, continued

##### (i) Classification, continued

*Held-to-maturity investments* 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.

*Available-for-sale assets* are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments 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
- held-to-maturity investments 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 can not 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.

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.

### 3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(d) **Financial instruments, continued**

(iv) *Fair value measurement principles*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

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 quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

(v) *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 an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses) 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 an available-for-sale financial asset is recognised as earned in profit or loss calculated 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

##### (vi) *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 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.

##### (vii) *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 deposits and balances from banks or current accounts and deposits from customers, as appropriate. 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 or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the 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.

### **3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

#### **(d) Financial instruments, continued**

##### **(viii) 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.

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.

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**3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**(d) Financial instruments, continued**

**(ix) 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) Non-current assets held for sale**

A non-current asset is classified as held for sale if it is highly probable that the asset's carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification of an asset as held for sale.

Non-current assets held for sale are measured at the lower of carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognised in the statement of comprehensive income as loss from non-current assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognised to the extent of the cumulative impairment loss that was previously recognised in relation to that specific asset.

**(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.

**(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	14.30%-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 15.00%-50.00%.

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### **3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

#### **(h) 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. A loan or receivable 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 loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan 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 a loan or advance by the Bank on terms 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.

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. 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 judgement 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.

Loans and receivables are written off against the allowance for losses when deemed uncollectible. Such write offs are recorded after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the provision for impairment losses on loans to customers in the statement of comprehensive income in the period of recovery.

### 3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### (h) Impairment, continued

##### (ii) *Financial assets carried at cost*

Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value can not 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) *Available-for-sale assets*

Impairment losses on available-for-sale assets are recognised by transferring the cumulative loss that has been 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.

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.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security 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 available-for-sale equity security is recognised in other comprehensive income.

##### (iv) *Non financial assets*

Other 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. 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.

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### **3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

#### **(i) Provisions and contingencies**

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

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) 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.

#### **(l) Share capital**

Share capital is recognised at cost.

#### **(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 when the corresponding services provided.

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.

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### **3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**(n) Fiduciary assets**

The Bank provides custody and 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 the 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 either in providing services (business segment) or in providing services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. 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. Geographical segments of the Bank have been reported separately within these financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty. The Bank's primary format for reporting segment information is based on geography, which is the basis of the analysis provided internally to the chief operating decision maker.

**(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 2011, 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 will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012.

The Bank recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Bank's financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Bank does not intend to adopt this standard earlier.

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### 3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(q) New standards and interpretations not yet adopted, continued

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.
- Amendment to IFRS 7 *Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designed to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011.
- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.
- Various *Improvements to IFRSs* have been 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 2012. 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 2011	Year ended 31 December 2010	Year ended 31 December 2009
<b>Interest income comprises:</b>			
Interest income on financial assets measured at amortised cost	133,587	103,647	86,670
Interest income on financial assets at fair value through profit or loss	26	63	93
Interest income on financial assets available-for-sale	9,434	13,135	21,602
<b>Total interest income</b>	<b>143,047</b>	<b>116,845</b>	<b>108,365</b>
Interest income on financial assets measured at amortised cost comprises:			
Interest on loans to customers	96,884	65,566	45,684
Interest on investments classified as held to maturity	18,480	20,791	22,409
Interest on loans and advances to banks	18,223	17,290	18,577
Total interest income on financial assets measured at amortised cost	133,587	103,647	86,670
<b>Interest expense comprises:</b>			
Interest expense on financial liabilities measured at amortised cost			
Interest on debt securities issued	(73,402)	(69,086)	(23,491)
Interest on loans and deposits from banks	(1,592)	(1,855)	(20,941)
<b>Total interest expense on financial liabilities measured at amortised cost</b>	<b>(74,994)</b>	<b>(70,941)</b>	<b>(44,432)</b>
<b>Net interest income before provision for losses on interest bearing financial assets</b>	<b>68,053</b>	<b>45,904</b>	<b>63,933</b>

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 2011	Year ended 31 December 2010	Year ended 31 December 2009
<b>Beginning of the year</b>	(19,214)	(6,562)	(1,377)
Provision for impairment losses	(3,187)	(27,013)	(14,159)
Reversal of provision for impairment losses	4,272	14,093	9,095
Writing-off of provision for impairment losses	18,147	-	-
Effect of foreign currency movements	(18)	268	(121)
<b>End of the year</b>	<b>-</b>	<b>(19,214)</b>	<b>(6,562)</b>

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

	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2009
<b>Beginning of the year</b>	(60)	-	-
Provision for impairment losses	(384)	(60)	-
Reversal of provision for impairment losses	147	-	-
<b>End of the year</b>	<b>(297)</b>	<b>(60)</b>	<b>-</b>

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

	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2009
Net gain on financial assets held for trading	36,537	16,985	4,444
<b>Total net gain on financial assets and liabilities at fair value through profit or loss</b>	<b>36,537</b>	<b>16,985</b>	<b>4,444</b>
Net gain on financial assets held-for-trading comprises:			
Net gain on derivative financial instruments in foreign currency	36,366	16,587	4,498
Unrealised (loss)/gain on debt securities	(2)	219	49
Realised gain/(loss) on trading operations	173	179	(103)
<b>Total net gain on financial assets and liabilities at fair value through profit or loss</b>	<b>36,537</b>	<b>16,985</b>	<b>4,444</b>

## 7 NET LOSS ON TRANSACTIONS IN FOREIGN CURRENCIES

	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2009
Translation differences, net	(53,059)	(12,166)	156
Dealing, net	13,025	(562)	(280)
<b>Total net loss on transactions in foreign currencies</b>	<b>(40,034)</b>	<b>(12,728)</b>	<b>(124)</b>

## 8 OPERATING EXPENSES

	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2009
Staff costs and other payments to employees	27,668	19,017	17,021
Impairment of construction-in-progress and land	3,372	-	-
Premises expenses	2,849	2,458	2,682
Depreciation and amortisation	2,452	2,087	1,784
Business trip expenses	2,221	1,982	1,075
Professional services	1,898	1,531	1,326
Business development expenses	1,575	851	610
Maintenance of acquired systems and programs	988	835	793
Security	986	830	597
Communication expenses	952	866	674
Research and regional development expenses	755	2,287	1,754
Training	414	423	344
Transportation expenses	369	349	288
Office, postal and printing expenses	205	244	321
Provision for losses	269	-	-
Other expenses	1,130	858	327
<b>Total operating expenses</b>	<b>48,103</b>	<b>34,618</b>	<b>29,596</b>

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**9 CASH AND BALANCES WITH NATIONAL (CENTRAL) BANKS OF MEMBER STATES OF THE BANK**

	31 December 2011	31 December 2010	31 December 2009
Cash on hand	95	38	36
Balances with the National Bank of the Republic of Kazakhstan	7	222,351	94,836
<b>Total cash and balances with national (central) banks of Member states of the Bank</b>	<b>102</b>	<b>222,389</b>	<b>94,872</b>

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

	31 December 2011	31 December 2010	31 December 2009
Loans and advances to banks	361,581	272,952	344,076
Cash and balances with national (central) banks of Member states of the Bank	102	222,389	94,872
<b>Total cash and cash equivalents</b>	<b>361,683</b>	<b>495,341</b>	<b>438,948</b>

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

	31 December 2011	31 December 2010	31 December 2009
Financial assets held-for-trading:			
Derivative financial instruments	5,918	910	896
Debt securities	-	-	40,037
<b>Total financial assets held-for-trading</b>	<b>5,918</b>	<b>910</b>	<b>40,933</b>
<b>Total financial assets at fair value through profit or loss</b>	<b>5,918</b>	<b>910</b>	<b>40,933</b>

As at 31 December 2009, financial assets at fair value through profit or loss included accrued interest income on debt securities amounting to 65 thousand US dollars. There was no accrued interest income as at 31 December 2011 and 2010.

	31 December 2011		31 December 2010		31 December 2009	
	Nominal interest rate	Amount	Nominal interest rate	Amount	Nominal interest rate	Amount
<b>Debt securities:</b>						
US Treasury notes	-	-	-	-	1.0%	40,037
<b>Total debt securities</b>		-		-		<b>40,037</b>

	31 December 2011			31 December 2010			31 December 2009		
	Notional amount	Net fair value Asset	Liability	Notional amount	Net fair value Asset	Liability	Notional amount	Net fair value Asset	Liability
<b>Derivative financial instruments:</b>									
<b>Foreign currency contracts</b>									
Swaps	527,041	5,909	(5,656)	231,461	-	(2,307)	252,571	896	(117)
Forwards	54,644	9	(99)	151,891	910	(30)	-	-	-
	<b>5,918</b>	<b>(5,755)</b>		<b>910</b>	<b>(2,337)</b>		<b>896</b>	<b>(117)</b>	

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.

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(in thousands of US dollars)

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

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.

### 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 their 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 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 a counterparty's insolvency.

### (b) Significant foreign currency transactions

The entire amount of hedging derivative financial instrument as at 31 December 2011 comprises 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 pays an interest of 3.55% p.a. and the counterparty pays an interest of 7.70% p.a. semi-annually.

This swap agreement was designed as 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.

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**11 HEDGING DERIVATIVE FINANCIAL INSTRUMENT, CONTINUED**

**(b) Significant foreign currency transactions, continued**

Interest rate on these bonds for the period from February 2014 to February 2018 is to be set at the discretion of the Bank at the end of the preceding interest period and holders of these bonds have a put option exercisable on 14 February 2014 at par. This combination provides the Bank with an option to extend the remaining term to maturity of these bonds from February 2014 to February 2018 by adjusting interest rate to approximate current market rate at the time of extension. The length of the swap agreement was chosen as three years to match the date of the expected buy-back of the bonds.

The designated hedged risk is the forward exchange rate risk and, therefore, the changes in fair value of the swap are recorded initially in the hedging reserve to the extent the hedge is effective. During the year ended 31 December 2011 a spot element of the foreign currency swaps has been recognised in profit or loss in the amount of 15,123 thousand US dollars. For cash flow hedging relationship, the initial and ongoing prospective effectiveness is assessed by comparing movements in the fair value of a hypothetical derivative with movements in the fair value of the hedging cross-currency interest rate swap (the “hypothetical derivative method”). Prospective effectiveness is measured on a cumulative basis i.e. over the entire life of the hedge relationship. The hypothetical derivative method assumes there will be one forecasted cash outflow based on the date of expected buy-back offering of the RUB denominated bonds to be paid on the date of maturity of the hedging instruments. Retrospective effectiveness is assessed by comparing the movements in the fair value of the cash flows of hypothetical derivative and actual movements in the fair value of the cross-currency interest rate swap over the life to date of the hedging relationship.

During the year ended 31 December 2011 management revised the assumptions used to value the foreign currency swap following the changes in underlying market conditions. In determining the fair value of the swaps management assumed the following rates appropriate for the Bank: 6.35% in RUB and 0.72% in USD.

**12 LOANS AND ADVANCES TO BANKS**

	<b>31 December 2011</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
Loans to banks	238,515	116,112	69,830
Correspondent accounts with other banks	210,605	212,932	210,723
Term deposits in other banks	157,597	58,455	132,488
Loans under reverse repurchase agreements	123,859	132,867	175,989
Correspondent accounts with other banks on broker operations	936	1,588	1,291
	<u>731,512</u>	<u>521,954</u>	<u>590,321</u>
Less country risk provisions	(297)	(60)	-
<b>Total loans and advances to banks</b>	<b><u>731,215</u></b>	<b><u>521,894</u></b>	<b><u>590,321</u></b>

As at 31 December 2011, the Bank had receivables amounting to 238,471 thousand US dollars from one bank of a Member state (31 December 2010: 211,805 thousand US dollars from one bank; 31 December 2009: 205,038 thousand US dollars from one bank). All these amounts individually exceeded 10% of the Bank’s equity as at 31 December 2011, 2010 and 2009, respectively.

As at 31 December 2011, loans and advances to banks included five loans in the amount of 50,907 thousand US dollars (31 December 2010: one loan in the amount of 3,000 thousand US dollars; 31 December 2009: nil), against which the Bank recorded a country risk provisions in the amount of 297 thousand US dollars (31 December 2010: 60 thousand US dollars; 31 December 2009: nil).

As at 31 December 2011, loans and advances to banks included accrued interest income amounting to 2,274 thousand US dollars (31 December 2010: 899 thousand US dollars; 31 December 2009: 840 thousand US dollars).

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**12 LOANS AND ADVANCES TO BANKS, CONTINUED**

As at 31 December 2011, 31 December 2010 and 31 December 2009 none of loans and advances to banks were past due.

Fair value of assets pledged and carrying value of loans under reverse repurchase agreements as at 31 December 2011, 31 December 2010 and 31 December 2009 are presented as follows:

	31 December 2011		31 December 2010		31 December 2009	
	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 financial institutions of the Russian Federation	79,893	92,112	84,067	89,273	75,990	90,428
Bonds issued by non-financial organisations	43,966	51,710	48,800	54,711	54,212	66,314
Eurobonds of the Russian Federation	-	-	-	-	45,787	53,047
	<b>123,859</b>	<b>143,822</b>	<b>132,867</b>	<b>143,984</b>	<b>175,989</b>	<b>209,789</b>

**13 LOANS TO CUSTOMERS**

	31 December 2011	31 December 2010	31 December 2009
Loans to customers	1,343,996	840,167	615,546
Less allowance for impairment losses	-	(19,214)	(6,562)
<b>Total loans to customers</b>	<b>1,343,996</b>	<b>820,953</b>	<b>608,984</b>

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

	31 December 2011	31 December 2010	31 December 2009
Loans collateralised by guarantees	661,869	322,798	370,209
Loans collateralised by real estate, equipment and inventories	657,179	491,950	203,863
Loans collateralised by future cash inflows	24,948	25,419	41,474
	1,343,996	840,167	615,546
Less allowance for impairment losses	-	(19,214)	(6,562)
<b>Total loans to customers</b>	<b>1,343,996</b>	<b>820,953</b>	<b>608,984</b>

Loans to customers with a net carrying amount of 661,869 thousand US dollars (31 December 2010: 322,798 thousand US dollars; 31 December 2009: 370,209 thousand US dollars), which are neither past due nor impaired, are collateralised by guarantees issued by governments of the Member-state of the Bank, state entities, financial and commercial organisations and individuals.

For loans to customers with a net carrying amount of 657,179 thousand US dollars (31 December 2010: 491,950 thousand US dollars; 31 December 2009: 203,863 thousand US dollars), which are neither past due nor impaired, the fair value of collateral was estimated either at the inception of the collateral or at a subsequent date.

The recoverability of the above loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

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13 LOANS TO CUSTOMERS, CONTINUED

	31 December 2011	31 December 2010	31 December 2009
<b>Analysis by sector:</b>			
Transport and communication	564,205	306,386	210,646
Agriculture	232,171	160,160	134,641
Chemical industry	231,280	81,290	21,087
Energy	81,682	67,647	71,955
Mining and metallurgy	81,401	77,254	41,641
Infrastructure	2,219	-	-
Other processing	151,038	147,430	135,576
	1,343,996	840,167	615,546
Less allowance for losses	-	(19,214)	(6,562)
<b>Total loans to customers</b>	<b>1,343,996</b>	<b>820,953</b>	<b>608,984</b>

Certain balances in the analysis by sector in the above table have been reclassified between categories as at 31 December 2009, in order to conform to the classification of the balances as at 31 December 2010, which Management of the Bank believes is more appropriate and more accurately represents strategy of the Bank. The Bank has reclassified amounts previously included as “Machinery construction” as at 31 December 2009 and included them as at 31 December 2011 and 2010 as “Transport and communication”.

As at 31 December 2011, the maximum credit risk exposure on loans to customers amounts to 1,343,996 thousand US dollars (31 December 2010: 820,953 thousand US dollars; 31 December 2009: 608,984 thousand US dollars). As at 31 December 2011, the maximum credit risk exposure on loan commitments extended by the Bank to its borrowers amounts to 1,059,241 thousand US dollars (31 December 2010: 1,044,878 thousand US dollars; 31 December 2009: 569,725 thousand US dollars) (Note 24).

As at 31 December 2011, the Bank had no impaired or past due loans. No collective provision was recognised in respect of other loans to customers as all possible risks have been considered in individual impairment test. Change in estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by minus three percent, the impairment allowance on loans to customers as at 31 December 2011 would be 40,320 thousand US dollars lower (31 December 2010: 24,629 thousand US dollars; 31 December 2009: 18,270 thousand US dollars).

As at 31 December 2010, the Bank had a single impaired and past due loan outstanding for which the borrower was unable to repay the debt due to the deterioration of market conditions. The Bank has taken possession of collateral, which has been recorded as assets held for sale (see Note 16), and during 2011 has written off this loan in the amount of 18,147 thousand US dollars (outstanding amount as at 31 December 2010: 22,789 thousand US dollars). As at 31 December 2010, the entire amount of allowance for impairment loss of 19,214 thousand US dollars was recorded against this debt and the Bank was in the process of taking possession of additional collateral. As at 31 December 2010 this loan was past due by more than 90 days and less than 360 days.

As at 31 December 2009, loans to customers included loans in the amount of 211,342 thousand US dollars against which the Bank recorded an allowance for impairment losses of 6,562 thousand US dollars due to some delays in implementation of production plans and deterioration of market conditions. As at 31 December 2009, these loans had various types of collateral with a fair value of 118,765 thousand US dollars. During 2010, these loans were fully performing and the Bank reversed the entire amount of allowance previously recognised in respect of these loans. As at 31 December 2009 no loans to customers were past due.

As at 31 December 2011, loans to customers included accrued interest income amounting to 25,572 thousand US dollars (31 December 2010: 1,939 thousand US dollars; 31 December 2009: 13,155 thousand US dollars).

**Concentration of loans to customers**

As at 31 December 2011 the Bank has one customer (31 December 2010: one customer; 31 December 2009: nil), whose balances exceeded 10% of total equity. The gross value of these balances as at 31 December 2011 and 31 December 2010 are 291,446 thousand US dollars and 175,668 thousand US dollars, respectively.



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**15 INVESTMENTS HELD-TO-MATURITY**

	31 December 2011		31 December 2010		31 December 2009	
	Nominal interest rate	Amount	Nominal interest rate	Amount	Nominal interest rate	Amount
Eurobonds of the Russian Federation	7.50%	245,628	7.50%	264,016	7.50%	278,019
Bonds issued by non-financial organisations	9.63%	36,328	9.63%	37,330	9.63%	31,076
Bonds issued by banks and financial institutions of the Russian Federation	6.61%	21,024	6.61%	20,800	6.61-6.88%	34,732
Bonds issued by Governments of foreign countries	-	-	-	374,942	-	499,926
<b>Total investments held-to-maturity</b>		<b>302,980</b>		<b>697,088</b>		<b>843,753</b>

As at 31 December 2011, investments held to maturity included accrued interest income amounting to 5,384 thousand US dollars (31 December 2010: 5,633 thousand US dollars; 31 December 2009: 5,784 thousand US dollars).

As at 31 December 2011, 2010 and 2009 none of investments held-to-maturity were past due or impaired.

**16 NON-CURRENT ASSETS HELD FOR SALE**

	31 December 2011	31 December 2010	31 December 2009
Non-current assets held for sale	48,311	45,613	-
<b>Total non-current assets held for sale</b>	<b>48,311</b>	<b>45,613</b>	<b>-</b>

Non-current assets held for sale represent collateral that the Bank has taken over as a new owner as the result of a customer's inability to pay out his debt (Note 13). It consists of property and equipment that the Bank intends to sell in the near future. Management has determined that there was no significant change in the fair value less costs to sell of the assets held for sale from 31 December 2010 to 31 December 2011.

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**17 PROPERTY AND EQUIPMENT**

	<u>Land</u>	<u>Office buildings</u>	<u>Vehicles</u>	<u>Furniture and equipment</u>	<u>Construction- in-progress</u>	<u>Total</u>
<b>At historical cost</b>						
31 December 2008	1,231	-	1,165	1,694	14,720	18,810
Additions	-	-	148	1,198	2,801	4,147
Disposals	-	-	-	(4)	-	(4)
31 December 2009	1,231	-	1,313	2,888	17,521	22,953
Transfer from construction-in- progress	-	13,606	-	802	(14,408)	-
Additions	-	133	123	1,498	880	2,634
Disposals	-	-	-	(475)	-	(475)
31 December 2010	1,231	13,739	1,436	4,713	3,993	25,112
Additions	-	4	175	758	-	937
Disposals	-	-	-	(424)	-	(424)
<b>31 December 2011</b>	<b>1,231</b>	<b>13,743</b>	<b>1,611</b>	<b>5,047</b>	<b>3,993</b>	<b>25,625</b>
<b>Accumulated depreciation and impairment losses</b>						
31 December 2008	-	-	404	561	-	965
Charge for the year	-	-	335	511	-	846
Disposals	-	-	-	(4)	-	(4)
31 December 2009	-	-	739	1,068	-	1,807
Charge for the year	-	349	339	980	-	1,668
Disposals	-	-	-	(475)	-	(475)
31 December 2010	-	349	1,078	1,573	-	3,000
Charge for the year	-	458	211	1,167	-	1,836
Impairment losses	147	-	-	-	3,225	3,372
Disposals	-	-	-	(424)	-	(424)
<b>31 December 2011</b>	<b>147</b>	<b>807</b>	<b>1,289</b>	<b>2,316</b>	<b>3,225</b>	<b>7,784</b>
<b>Net book value</b>						
<b>As at 31 December 2011</b>	<b>1,084</b>	<b>12,936</b>	<b>322</b>	<b>2,731</b>	<b>768</b>	<b>17,841</b>
As at 31 December 2010	1,231	13,390	358	3,140	3,993	22,112
As at 31 December 2009	1,231	-	574	1,820	17,521	21,146

In March 2010 an office building for the headquarters of the Bank in Almaty, Kazakhstan, became fully operational and its cost was transferred from construction-in-progress into office buildings and furniture and equipment categories.

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**18 OTHER ASSETS**

	<u>31 December 2011</u>	<u>31 December 2010</u>	<u>31 December 2009</u>
<b>Other financial assets recorded as loans and receivables:</b>			
Prepayments to private equity fund "Macquarie Renaissance Infrastructure Fund"	2,334	-	-
Accrued commission income and other receivables	<u>1,285</u>	<u>1,354</u>	<u>1,900</u>
	3,619	1,354	1,900
<b>Other non-financial assets:</b>			
Prepaid expenses	3,871	3,058	1,613
Prepaid amounts on construction works	314	366	1,547
Value added tax reimbursable	240	190	301
Other debtors	<u>143</u>	<u>331</u>	<u>1,163</u>
<b>Total other assets</b>	<b><u>8,187</u></b>	<b><u>5,299</u></b>	<b><u>6,524</u></b>

**19 LOANS AND DEPOSITS FROM BANKS**

	<u>31 December 2011</u>	<u>31 December 2010</u>	<u>31 December 2009</u>
Loans from banks	49,681	56,541	36,840
Short-term deposit from bank	<u>23,376</u>	<u>-</u>	<u>-</u>
<b>Total loans and deposits from banks</b>	<b><u>73,057</u></b>	<b><u>56,541</u></b>	<b><u>36,840</u></b>

Loans from banks are subject to certain financial covenants under the terms of the loan agreements. During the years ended 31 December 2011, 2010 and 2009 the Bank was in compliance with all such covenants.

As at 31 December 2011, loans and deposits from banks included accrued interest expense amounting to 251 thousand US dollars (31 December 2010: 412 thousand US dollars; 31 December 2009: 162 thousand US dollars).

Maturities of amounts of loans and deposits from banks are included in Note 28 under liquidity risk.

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20 DEBT SECURITIES ISSUED

	<u>31 December 2011</u>	<u>31 December 2010</u>	<u>31 December 2009</u>
USD denominated 5-year Eurobonds due in September 2014, interest rate 7.375%, net of discount	508,244	507,853	507,921
RUB denominated 7-year bonds (“the Rouble Bonds”) due in February 2018, interest rate 7.7%, net of discount	159,398	-	-
RUB denominated 7-year bonds (“the Rouble Bonds”) due in October 2016, interest rate 7.5%, net of discount	153,927	165,814	167,250
KZT denominated 5-year Eurobonds due in April 2014, interest rate indexed to the consumer price index of Kazakhstan, with the rate fixed at 9.7% from 29 October 2011 until 28 April 2012, net of discount	136,579	137,020	137,598
EUR denominated 1-year euro-commercial papers due in May 2012, interest rate 0%, net of discount	41,003	-	-
USD denominated 1-year euro-commercial papers due in November 2012, interest rate 0%, net of discount	38,666	-	-
<b>Total debt securities issued</b>	<b><u>1,037,817</u></b>	<b><u>810,687</u></b>	<b><u>812,769</u></b>

On 28 April 2009, the Bank issued its debut Eurobonds denominated in Tenge on the special trading platform of the Regional Financial Centre of Almaty city as part of its Euro Medium Term Note Programme (“EMTN Programme”) for a total of 20.0 billion Tenge with maturity date on 28 April 2014. The Eurobonds bear an interest rate which is indexed to the consumer price index of Kazakhstan, with the rate fixed at 9.7% per annum from 29 October 2011 until 28 April 2012.

On 29 September 2009, the Bank issued its debut 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 29 September 2014. The Eurobonds bear an interest rate fixed at 7.375% per annum.

On 3 November 2009, the Bank issued Rouble Bonds listed on the Moscow Interbank Currency Exchange for a total amount of 5.0 billion Russian roubles with maturity date on 25 October 2016. In accordance with the terms of the issuance, the Rouble Bonds bear an interest rate fixed at 10.50% per annum until 1 November 2011 and after 1 November 2011 the Bank unilaterally determined the new interest rate at 7.5% per annum.

On 15 February 2011, the Bank issued Rouble Bonds 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 7.7% per annum until 11 February 2014 and after 11 February 2014 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.

On 20 May 2011 the Bank placed its euro-commercial papers for 32,000 thousand Euros due on 18 May 2012. On 18 November 2011 the Bank placed its euro-commercial papers for 40,000 thousand US dollars due on 16 November 2012. These euro-commercial papers are part of the Bank’s Euro-Commercial Paper Programme (“ECP Programme”) for the total amount of 3.5 billion US dollars registered on 16 July 2010.

As at 31 December 2011, debt securities issued included accrued interest expense amounting to 18,057 thousand US dollars (31 December 2010: 14,029 thousand US dollars; 31 December 2009: 15,672 thousand US dollars).

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**21 OTHER LIABILITIES**

	<u>31 December 2011</u>	<u>31 December 2010</u>	<u>31 December 2009</u>
<b>Other financial liabilities:</b>			
Deferred income	8,657	8,037	3,002
Retirement savings plan	6,633	4,747	3,134
Short-term payments to employees	5,721	4,293	4,690
Accrued expenses	732	1,909	257
	<u>21,743</u>	<u>18,986</u>	<u>11,083</u>
<b>Other non-financial liabilities:</b>			
Accrued administrative expenses	285	-	183
Other	-	46	570
	<u>-</u>	<u>46</u>	<u>570</u>
<b>Total other liabilities</b>	<b><u>22,028</u></b>	<b><u>19,032</u></b>	<b><u>11,836</u></b>

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 two savings plans: obligatory plan and optional plan. The obligatory plan covers all employees while the optional plan is at the discretion of each employee. The obligatory plan is 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 plan is jointly financed by the Bank and each employee participating in the plan in equal parts.

**22 SHARE CAPITAL**

As at 31 December 2011, the authorised share capital consists of 1,515,700 common shares (31 December 2010 and 31 December 2009: 1,515,600 common shares) with a nominal value of 1,000 US dollars each. One paid-in share represents one voting right.

As at 31 December 2011, shares issued and outstanding consisted of 1,515,700 shares (31 December 2010: 1,515,600 shares; 31 December 2009: 1,500,600 shares).

At 31 December 2011 the Bank's share capital comprised the following:

	<u>Share capital issued</u>	<u>Share capital authorised and not issued</u>	<u>Share capital authorised</u>
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
<b>Total share capital</b>	<b><u>1,515,700</u></b>	<b><u>-</u></b>	<b><u>1,515,700</u></b>

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**22 SHARE CAPITAL, CONTINUED**

At 31 December 2010 the Bank's share capital comprised the following:

	<u>Share capital issued</u>	<u>Share capital authorised and not issued</u>	<u>Share capital authorised</u>
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
<b>Total share capital</b>	<b><u>1,515,600</u></b>	<b>-</b>	<b><u>1,515,600</u></b>

As at 31 December 2009 the Bank's share capital comprised the following:

	<u>Share capital issued</u>	<u>Share capital authorised and not issued</u>	<u>Share capital authorised</u>
The Russian Federation	1,000,000	-	1,000,000
The Republic of Kazakhstan	500,000	-	500,000
The Republic of Tajikistan	500	-	500
The Republic of Armenia	100	-	100
The Republic of Belarus	-	15,000	15,000
<b>Total share capital</b>	<b><u>1,500,600</u></b>	<b><u>15,000</u></b>	<b><u>1,515,600</u></b>

The below table provides a reconciliation of the number of shares outstanding as at 31 December 2011, 2010 and 2009:

	<u>Number of shares issued, quantity</u>	<u>Issued share capital, thousands US dollars</u>
<b>31 December 2009</b>	<b>1,500,600</b>	<b>1,500,600</b>
Issue of ordinary share capital	15,000	15,000
<b>31 December 2010</b>	<b>1,515,600</b>	<b>1,515,600</b>
Issue of ordinary share capital	100	100
<b>31 December 2011</b>	<b><u>1,515,700</u></b>	<b><u>1,515,700</u></b>

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 2011, 2010 and 31 December 2009:

	<u>31 December 2011</u>	<u>31 December 2010</u>	<u>31 December 2009</u>
Beginning of the year	64,733	44,839	24,569
Transfer from retained earnings	7,907	19,894	20,270
<b>End of the year</b>	<b><u>72,640</u></b>	<b><u>64,733</u></b>	<b><u>44,839</u></b>

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**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 and contractual covenants, 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 2011, 2010 and 2009, the Bank was in compliance with its internal policy requirements.

The capital structure of the Bank consists of equity attributable to equity holders, 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 2011, 2010 and 2009, the nominal or contractual amounts were:

	<b>31 December 2011 Nominal Amount</b>	<b>31 December 2010 Nominal Amount</b>	<b>31 December 2009 Nominal amount</b>
Commitments on loans and unused credit lines	1,059,241	1,044,878	569,725
Commitments to join private equity funds	68,870	100,000	-
Letters of credit issued	-	194	-
<b>Total contingent liabilities and credit commitments</b>	<b>1,128,111</b>	<b>1,145,072</b>	<b>569,725</b>

On 21 December 2010, the Bank agreed to invest 100,000 thousand US dollars in the Macquarie Renaissance Infrastructure Fund which is included in commitments to join private equity funds in the table above. This commitment was partially disbursed during the year ended 31 December 2011 (Note 14).

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## 24 COMMITMENTS AND CONTINGENCIES, CONTINUED

### Capital commitments

As at 31 December 2011 and 2010, the Bank had no capital commitments (31 December 2009: 484 thousand US dollars). All capital commitments of the Bank were short-term in nature.

### Fiduciary activities

The Bank provides trust services to the Anti-crisis Fund (the "Fund"), whereby it holds and manages assets or invests funds received in various financial instruments as a Manager of Fund. The Bank may be liable for losses or actions aimed at appropriation of the Fund's assets until such funds or securities are not returned to the Fund due to gross negligence or wilful misconduct by the Bank only. Trust assets are not assets of the Bank and are not recognised in the statement of financial position. The Bank is not exposed to any credit risk relating to such placements. In the judgment of management, as at 31 December 2011 the maximum potential financial risk on securities and due from banks accepted by the Bank on behalf of the Fund does not exceed 249,793 thousand US dollars (31 December 2010: 281,637 thousand US dollars; 31 December 2009: nil). These amounts represent clients' funds under the management of the Bank as at respective dates.

### 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 directors and other members of key management included in staff costs and other payments to employees (including accommodation cost of employees) (Note 8) was as follows:

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**25 TRANSACTIONS WITH RELATED PARTIES, CONTINUED**

**(a) Transactions with the key management, continued**

	Year ended 31 December 2011		Year ended 31 December 2010		Year ended 31 December 2009	
	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
<b>Key management personnel compensation, short-term employee benefits:</b>						
Staff costs and other payments to employees	8,262	26,201	5,741	17,723	3,853	15,841
Accommodation costs of employees	382	1,467	295	1,294	303	1,180
<b>Key management personnel compensation</b>	<b>8,644</b>	<b>27,668</b>	<b>6,036</b>	<b>19,017</b>	<b>4,156</b>	<b>17,021</b>

The outstanding balances as at 31 December 201, 2010 and 2009 for transactions with the members of the Executive Board are as follows:

	31 December 2011	31 December 2010	31 December 2009
<b>Statement of financial position</b>			
Other liabilities	4,012	3,068	1,017

**(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 Anti-crisis Fund.

The outstanding balances and the related average interest rates as at 31 December 2011, 2010 and 2009 and related profit or loss amounts of transactions for the years ended 31 December 2011, 2010 and 2009 with other related parties are as follows.

	31 December 2011		31 December 2010		31 December 2009	
	Other related parties	Average interest rate, %	Other related parties	Average interest rate, %	Other related parties	Average interest rate, %
<b>Statement of financial position</b>						
<b>ASSETS</b>						
Cash and balances with national (central) banks of Member states of the Bank	46	-	222,351	0.98%	94,836	0.83%
Loans and advances to banks	288,516	0.13%	211,844	0.05%	251,735	7.43%
Loans to customers	134,123	5.51%	141,706	5.57%	140,686	5.57%
Financial assets available-for-sale	59,764	6.75%	87,395	6.86%	99,341	7.45%
Investments held-to-maturity	266,652	7.43%	322,145	7.69%	329,694	7.64%
<b>LIABILITIES</b>						
Amounts due to Anti-crisis Fund	412	-	499	-	-	-
<b>Guarantees received</b>	100,987	-	114,973	-	122,476	-
<b>Commitments</b>	489,866	-	475,106	-	201,327	-
<b>Profit/(loss)</b>						
Interest income	26,354		32,077		37,482	
Net loss on transactions in foreign currencies	(7,873)		(14,319)		(7,736)	
Fee and commission income	310		182		170	
Other income	1,446		-		-	

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**26 SEGMENT REPORTING**

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

Segment information for the main geographical segments of the Bank is set out below.

	<b>Russia</b>	<b>Kazakhstan</b>	<b>Other countries</b>	<b>As at and for the year ended 31 December 2011 Total</b>
Interest income	89,825	35,196	18,026	143,047
Interest expense	(28,440)	(12,583)	(33,971)	(74,994)
Provisions for impairment losses on loans to customers	-	(3,187)	(384)	(3,571)
Reversal of provisions for impairment losses on loans to customers	-	4,272	147	4,419
Gain/(loss) on financial assets and liabilities at fair value through profit or loss	8,851	(1,067)	28,753	36,537
Realised gain/(loss) on financial assets available-for-sale	36	(69)	77	44
Gain/(loss) on transactions in foreign currencies	(22,981)	3,627	(20,680)	(40,034)
Fee and commission income	4,346	1,378	994	6,718
Fee and commission expense	(73)	(3)	(130)	(206)
Net loss on trading with issued securities	(565)	-	-	(565)
Other income	1,451	32	24	1,507
Other expenses	-	(324)	-	(324)
<b>External operating income/(loss)</b>	<b>52,450</b>	<b>27,272</b>	<b>(7,144)</b>	<b>72,578</b>
Cash and balances with national (central) banks of Member states of the Bank	31	71	-	102
Financial assets at fair value through profit or loss	1,904	-	4,014	5,918
Loans and advances to banks	406,937	70,030	254,248	731,215
Loans to customers	700,046	425,680	218,270	1,343,996
Financial assets available-for-sale	177,839	-	199,998	377,837
Investments held-to-maturity	302,980	-	-	302,980
Non-current assets held for sale	-	48,311	-	48,311
Property, equipment and intangible assets	734	18,252	151	19,137
Other assets	5,304	2,833	50	8,187
<b>Total assets</b>	<b>1,595,775</b>	<b>565,177</b>	<b>676,731</b>	<b>2,837,683</b>
<b>Total liabilities</b>	<b>316,731</b>	<b>154,700</b>	<b>686,252</b>	<b>1,157,683</b>
Capital expenditure	154	1,476	31	1,661
Depreciation and amortisation	479	1,880	93	2,452

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26 SEGMENT REPORTING, CONTINUED

	<u>Russia</u>	<u>Kazakhstan</u>	<u>Other countries</u>	<u>As at and for the year ended 31 December 2010 Total</u>
Interest income	70,163	41,016	5,666	116,845
Interest expense	(17,440)	(14,276)	(39,225)	(70,941)
Provisions for losses on loans to customers	(1,508)	(25,505)	(60)	(27,073)
Reversal of provisions for losses on loans to customers	7,163	6,930	-	14,093
Gain/(loss) on financial assets and liabilities at fair value through profit or loss	16,526	(173)	632	16,985
Realised gain on financial assets available-for-sale	6,860	314	-	7,174
Gain/(loss) on transactions in foreign currencies	(1,360)	761	(12,129)	(12,728)
Fee and commission income	5,190	938	87	6,215
Fee and commission expense	(59)	(34)	(128)	(221)
Other income	-	82	-	82
<b>External operating income/(loss)</b>	<b>85,535</b>	<b>10,053</b>	<b>(45,157)</b>	<b>50,431</b>
Cash and balances with national (central) banks of Member-states of the Bank	-	222,389	-	222,389
Financial assets at fair value through profit or loss	-	-	910	910
Loans and advances to banks	279,163	70,320	172,411	521,894
Loans to customers	479,924	317,500	23,529	820,953
Financial assets available-for-sale	209,844	5,303	-	215,147
Investments held-to-maturity	322,146	-	374,942	697,088
Non-current assets held for sale	-	45,613	-	45,613
Property, equipment and intangible assets	1,059	22,028	213	23,300
Other assets	3,635	1,211	453	5,299
<b>Total assets</b>	<b>1,295,771</b>	<b>684,364</b>	<b>572,458</b>	<b>2,552,593</b>
<b>Total liabilities</b>	<b>172,611</b>	<b>151,128</b>	<b>565,357</b>	<b>889,096</b>
Capital expenditure	154	2,828	200	3,182
Depreciation and amortisation	350	1,705	32	2,087

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**26 SEGMENT REPORTING, CONTINUED**

	<u>Russia</u>	<u>Kazakhstan</u>	<u>Other countries</u>	<u>As at and for the year ended 31 December 2009 Total</u>
Interest income	51,598	44,588	12,179	108,365
Interest expense	(7,997)	(11,729)	(24,706)	(44,432)
Provisions for losses on loans to customers	(8,694)	(5,465)	-	(14,159)
Reversal of provisions for losses on loans to customers	3,554	5,541	-	9,095
Gain/(loss) on financial assets and liabilities at fair value through profit or loss	412	3,760	272	4,444
Realised gain/(loss) on financial assets available-for-sale	3,466	(1,245)	127	2,348
Gain/(loss) on transactions in foreign currencies	987	(2,589)	1,478	(124)
Fee and commission income	1,669	1,337	86	3,092
Fee and commission expense	(358)	(69)	(20)	(447)
Other income	830	373	-	1,203
<b>External operating income/(loss)</b>	<b><u>45,467</u></b>	<b><u>34,502</u></b>	<b><u>(10,584)</u></b>	<b><u>69,385</u></b>
Cash and balances with national (central) banks of Member-states of the Bank	-	94,872	-	94,872
Financial assets at fair value through profit or loss	873	-	40,060	40,933
Loans and advances to banks	357,218	70,050	163,053	590,321
Loans to customers	251,585	357,399	-	608,984
Financial assets available-for-sale	201,359	10,666	75,841	287,866
Investments held-to-maturity	343,827	-	499,926	843,753
Property, equipment and intangible assets	1,277	20,883	45	22,205
Other assets	2,922	1,962	1,640	6,524
<b>Total assets</b>	<b><u>1,159,061</u></b>	<b><u>555,832</u></b>	<b><u>780,565</u></b>	<b><u>2,495,458</u></b>
<b>Total liabilities</b>	<b><u>170,289</u></b>	<b><u>146,160</u></b>	<b><u>545,113</u></b>	<b><u>861,562</u></b>
Capital expenditure	773	3,998	46	4,817
Depreciation and amortisation	243	1,540	1	1,784

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 2011, interest income on one loan to a customer (2010 and 2009: no loans) individually exceed 10% of total revenue and amount to 24,002 thousand US dollars (2010 and 2009: nil). For the year ended 31 December 2011, interest income on financial assets held-to-maturity and available-for sale of one issuer (2010 and 2009: one issuer) individually exceed 10% of total revenue and amount to 14,372 thousand US dollars (2010: 17,274 thousand US dollars; 2009: 21,777 thousand US dollars).

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**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) (iv). 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.

The fair value of financial assets and liabilities approximates the carrying amount in the statement of financial position of the Bank, except for investments held-to-maturity and debt securities issued:

	31 December 2011		31 December 2010		31 December 2009	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Investments held-to-maturity	302,980	310,386	697,088	710,688	843,753	848,142
Debt securities issued	1,037,817	1,068,593	810,687	885,287	812,769	864,815

**(b) Valuation of financial instruments**

Financial instruments recognised at fair value are broken down for disclosure purposes into a three level fair value hierarchy based on the observability of inputs as follows:

- Quoted prices in an active market (Level 1) – Valuations based on quoted prices in active markets that the Bank has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to these financial instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuations of these products do not entail a significant amount of judgment.
- Valuation techniques using observable inputs (Level 2) – Valuations based on inputs for which all significant inputs are observable, either directly or indirectly and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active.
- Valuation techniques incorporating information other than observable market data (Level 3) – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

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.

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**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 Bank’s valuation approach and fair value hierarchy categorisation for certain significant classes of financial instruments recognised at fair value are as follows:

	31 December 2011			31 December 2010			31 December 2009		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	-	5,918	-	-	910	-	40,037	896	-
Financial assets available-for-sale	317,611	-	60,226	180,427	-	34,720	253,146	-	34,720
Financial liabilities at fair value through profit or loss	-	5,755	-	-	2,337	-	-	117	-
Hedging derivative financial instrument	-	18,614	-	-	-	-	-	-	-

As at 31 December 2011, 2010 and 2009, the Bank does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market observable inputs.

The following table shows a reconciliation for the year ended 31 December 2011 for fair value measurements in Level 3 of the fair value hierarchy:

	Level 3		
	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2009
<b>Financial assets available for sale</b>			
<b>Equity investments</b>			
Balance at beginning of the year	34,720	34,720	34,720
Purchases	25,506	-	-
Balance at end of the year	<b>60,226</b>	<b>34,720</b>	<b>34,720</b>

Bank uses different methodologies to value the assets at Level 3 like a “Book Value to Equity multiplier”, “Discounted Cash Flow”. Under any scenario the above estimates are sensitive to the changes in the market parameters and future expectations and may result in change of the carrying amount of the investments by 10 or more percent.

## 28 RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Bank's business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk.

The Bank recognises that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives. The risk management framework involves the Council of the Bank, the Executive Board of the Bank, the Department of Risk Management, the Credit Committee of the Bank, ALMC, and different departments and staff in the Bank's daily operations. Through the risk management framework, the Bank manages the following risks:

### (a) 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 and the Credit Committee of the Bank. These groups manage credit risk primarily through the issuance of loans only within set limits.

The Council of the Bank determines the credit credentials of the Executive Board of the Bank and delegates accordingly. 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 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 Investment Department and Risk Management Department monitor 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.

## 28 RISK MANAGEMENT POLICIES, CONTINUED

### (a) Credit risk, continued

#### (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. 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.

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. 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:

- risk sharing due to co-participation with other financial institutions;
- 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) *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.

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**28 RISK MANAGEMENT POLICIES, CONTINUED**

(a) Credit risk, continued

(ii) Maximum exposure, continued

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

	31 December 2011	31 December 2010	31 December 2009
Cash and balances with national (central) banks of Member states of the Bank	102	222,389	94,872
Financial assets at fair value through profit or loss	5,918	910	40,933
Loans and advances to banks	731,215	521,894	590,321
Loans to customers	1,343,996	820,953	608,984
Financial assets available-for-sale	317,611	180,427	253,146
Investments held-to-maturity	302,980	697,088	843,753
Other financial assets	3,619	1,354	1,900

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.

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

	AAA	AA	A	BBB	<BBB-	Not rated	31 December 2011 Total
Cash and balances with national (central) banks of Member states of the Bank	-	-	-	102	-	-	102
Financial assets at fair value through profit or loss	-	3,463	550	4	1,901	-	5,918
Loans and advances to banks	-	29,401	97	340,798	295,782	65,137	731,215
Loans to customers	-	-	-	-	87,302	1,256,694	1,343,996
Financial assets available-for-sale	-	199,998	-	67,476	50,137	-	317,611
Investments held-to-maturity	-	-	-	302,980	-	-	302,980
Other financial assets	-	-	-	-	-	3,619	3,619

	AAA	AA	A	BBB	<BBB-	Not rated	31 December 2010 Total
Cash and balances with national (central) banks of Member states of the Bank	-	-	-	222,389	-	-	222,389
Financial assets at fair value through profit or loss	-	798	112	-	-	-	910
Loans and advances to banks	-	7,112	21	291,390	190,960	32,411	521,894
Loans to customers	-	-	-	-	-	820,953	820,953
Financial assets available-for-sale	-	-	-	94,128	86,299	-	180,427
Investments held-to-maturity	374,942	-	-	322,146	-	-	697,088
Other financial assets	-	-	-	-	-	1,354	1,354

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**28 RISK MANAGEMENT POLICIES, CONTINUED**

(a) Credit risk, continued

(ii) Maximum exposure, continued

	AAA	AA	A	BBB	<BBB-	Not rated	31 December 2009 Total
Cash and balances with national (central) banks of Member states of the Bank	-	-	-	94,872	-	-	94,872
Financial assets at fair value through profit or loss	40,037	-	23	-	873	-	40,933
Loans and advances to banks	-	37,904	4	251,767	300,638	8	590,321
Loans to customers	-	-	-	-	-	608,984	608,984
Financial assets available-for-sale	-	-	1,390	182,354	69,402	-	253,146
Investments held-to-maturity	499,926	-	-	343,827	-	-	843,753
Other financial assets	-	-	-	-	-	1,900	1,900

As at 31 December 2011, the Bank had outstanding loans to 22 customers (31 December 2010: 16; 31 December 2009: 13) and 13 banks (31 December 2010: 6; 31 December 2009: 1). 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. Each loan is regularly reviewed by the Bank’s Credit Committee.

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 (standard loans)* are expected to possess minimal credit risk. Interest and principal are repaid in full and in a timely fashion. The financial condition of the borrower is assessed as stable and there is no indication of any external or internal factors to suggest that the financial condition of the borrower has deteriorated. In case there are negative indicators, the Bank has confidence that the borrower will be able to cope with such difficulties. The borrower is considered as having the ability to repay the loan in accordance with its terms and conditions. In those cases, security provided for the loan must cover at least 100 per cent of the outstanding amount.

Loans classified to the *2nd category (standard, under observation)* are expected to possess moderate credit risk. The financial condition of the borrower is stable, though there is evidence of a deterioration in the financial condition of the borrower, including a decrease in income or a loss of market share. The borrower may delay loan repayments or the interest but only in single cases and not more than for 5 days.

Loans classified to the *3rd category (substandard)* are expected to possess significant credit risk. There may be evidences of deterioration in the financial condition of the borrower, including considerable decrease in income or a loss of market share. Due to difficulties the borrower may repay the loan and the interest with several delays.

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**28 RISK MANAGEMENT POLICIES, CONTINUED**

**(a) Credit risk, continued**

**(ii) Maximum exposure, continued**

Loans classified to the *4th category (doubtful)* 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 the interest in full. Due to severe deterioration of financial health the borrower may repay the loan and interest with several long delays.

Loans classified to the *5th category (loss)* are considered to have the highest credit risk, full loan repayment is improbable. The borrower has considerable repayments' delays more than 30 days. The deterioration in the financial condition of the borrower has reached a critical level, including significant operating losses, a loss of market position and negative equity. It is evident that the borrower cannot repay the loan and the interest in full and the collateral value is negligible.

	<b>31 December 2011</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
Standard loans	1,092,897	817,378	404,204
Loans classified to 2nd category	145,544	-	211,342
Loans classified to 3rd category	103,869	-	-
Loans classified to 4th category	1,686	-	-
Loans classified to 5th category	-	22,789	-
	<u>1,343,996</u>	<u>840,167</u>	<u>615,546</u>
Less – Allowance for losses	-	(19,214)	(6,562)
<b>Loans to customers</b>	<b><u>1,343,996</u></b>	<b><u>820,953</u></b>	<b><u>608,984</u></b>

As at 31 December 2011, no loans were classified as 5th category loans (31 December 2010: one; 31 December 2009: nil); one loan was classified as 4th category loan (31 December 2010 and 2009: nil); one loan was classified as 3rd category loan (31 December 2010 and 2009: nil) and three loans were classified as 2nd category loans (31 December 2010: nil; 31 December 2009: four).

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 are sufficient to permit repayment of all principal and interest amounts, based on the loan's original contractual interest rate, the loan is not considered to be impaired. 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.

**(b) Liquidity risk**

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

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**28 RISK MANAGEMENT POLICIES, CONTINUED**

**(b) Liquidity risk, continued**

The ALMC manages this risk through analysis of asset and liability maturity and performance of money market transactions by the treasury department of the Bank to maintain current liquidity and optimise cash flows. The risk management department of the Bank monitors liquidity indicators and payment list, conducts gap-analysis and stress-tests.

An analysis of the liquidity and interest rate risks is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Bank.

	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	Maturity undefined	31 December 2011 Total
<b>FINANCIAL ASSETS:</b>								
Loans and advances to banks	2.50%	490,780	-	82,548	147,646	-	7,130	728,104
Loans to customers	9.02%	-	-	99,658	373,115	871,223	-	1,343,996
Financial assets available-for-sale	3.05%	-	207,710	24,534	37,631	47,736	-	317,611
Investments held-to-maturity	7.70%	-	-	21,024	36,328	245,628	-	302,980
Total interest bearing financial assets		490,780	207,710	227,764	594,720	1,164,587	7,130	2,692,691
Cash and balances with the national (central) banks of the Member states of the Bank	-	102	-	-	-	-	-	102
Financial assets at fair value through profit or loss	-	2,669	545	2,704	-	-	-	5,918
Loans and advances to banks	-	3,111	-	-	-	-	-	3,111
Financial assets available-for-sale	-	-	-	-	-	25,506	34,720	60,226
Other financial assets	-	83	-	3,536	-	-	-	3,619
Total financial assets		496,745	208,255	234,004	594,720	1,190,093	41,850	2,765,667
<b>FINANCIAL LIABILITIES:</b>								
Loans and deposits from banks	1.91%	-	23,276	29,903	-	19,878	-	73,057
Debt securities issued	7.14%	-	-	79,668	798,751	159,398	-	1,037,817
Total interest bearing financial liabilities		-	23,276	109,571	798,751	179,276	-	1,110,874
Financial liabilities at fair value through profit or loss	-	83	23	5,649	-	-	-	5,755
Hedging derivative financial instrument	-	-	-	-	18,614	-	-	18,614
Amounts due to Anti-crisis Fund	-	412	-	-	-	-	-	412
Other financial liabilities	-	558	5,895	8,657	6,633	-	-	21,743
Total financial liabilities		1,053	29,194	123,877	823,998	179,276	-	1,157,398
Liquidity gap		495,692	179,061	110,127	(229,278)	1,010,817	41,850	
Interest sensitivity gap		490,780	184,434	118,193	(204,031)	985,311	7,130	
Cumulative interest sensitivity gap		490,780	675,214	793,407	589,376	1,574,687	1,581,817	
Cumulative interest sensitivity gap as a percentage of total assets		17.75%	24.41%	28.69%	21.31%	56.94%	57.19%	

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**28 RISK MANAGEMENT POLICIES, CONTINUED**

**(b) 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	Maturity undefined	31 December 2010 Total
<b>FINANCIAL ASSETS:</b>								
Cash and balances with the national (central) banks of the Member states of the Bank	1.00%	220,608	-	-	-	-	-	220,608
Loans and advances to banks	3.01%	403,642	-	3,746	112,306	-	-	519,694
Loans to customers	9.30%	-	-	1,939	300,338	515,101	-	817,378
Financial assets available-for-sale	8.01%	8,797	5,997	44,537	70,474	50,622	-	180,427
Investments held-to- maturity	3.44%	224,980	149,962	5,677	56,816	259,653	-	697,088
Total interest bearing financial assets		858,027	155,959	55,899	539,934	825,376	-	2,435,195
Cash and balances with the national (central) banks of the Member states of the Bank		1,781	-	-	-	-	-	1,781
Financial assets at fair value through profit or loss		910	-	-	-	-	-	910
Loans and advances to banks		2,200	-	-	-	-	-	2,200
Loans to customers		-	-	3,575	-	-	-	3,575
Financial assets available-for-sale		-	-	-	-	-	34,720	34,720
Other financial assets		79	-	1,275	-	-	-	1,354
Total financial assets		862,997	155,959	60,749	539,934	825,376	34,720	2,479,735
<b>FINANCIAL LIABILITIES:</b>								
Loans and deposits from banks	2.77%	-	-	33,697	-	22,844	-	56,541
Debt securities issued	8.01%	-	-	14,029	633,622	163,036	-	810,687
Total interest bearing financial liabilities		-	-	47,726	633,622	185,880	-	867,228
Financial liabilities at fair value through profit or loss		2,337	-	-	-	-	-	2,337
Amounts due to Anti- crisis Fund		499	-	-	-	-	-	499
Other financial liabilities		1,913	3,842	8,484	4,747	-	-	18,986
Total financial liabilities		4,749	3,842	56,210	638,369	185,880	-	889,050
Liquidity gap		858,248	152,117	4,539	(98,435)	639,496	34,720	
Interest sensitivity gap		858,027	155,959	8,173	(93,688)	639,496	-	
Cumulative interest sensitivity gap		858,027	1,013,986	1,022,159	928,471	1,567,967	1,567,967	
Cumulative interest sensitivity gap as a percentage of total assets		34.60%	40.89%	41.22%	37.44%	63.23%	63.23%	

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**28 RISK MANAGEMENT POLICIES, CONTINUED**

**(b) 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	Maturity undefined	31 December 2009 Total
<b>FINANCIAL ASSETS:</b>								
Cash and balances with the national (central) banks of the Member states of the Bank	0.84%	94,379	-	-	-	-	-	94,379
Financial assets at fair value through profit or loss	1.00%	40,037	-	-	-	-	-	40,037
Loans and advances to banks	3.11%	473,825	46,666	69,830	-	-	-	590,321
Loans to customers	9.53%	-	-	-	175,660	433,324	-	608,984
Financial assets available-for-sale	7.77%	5,608	-	2,103	64,995	180,440	-	253,146
Investments held-to- maturity	2.89%	249,976	249,950	14,132	51,676	278,019	-	843,753
Total interest bearing financial assets		863,825	296,616	86,065	292,331	891,783	-	2,430,620
Cash and balances with the national (central) banks of the Member states of the Bank		493	-	-	-	-	-	493
Financial assets available-for-sale		-	-	-	-	-	34,720	34,720
Financial assets at fair value through profit or loss		896	-	-	-	-	-	896
Other financial assets		328	-	1,572	-	-	-	1,900
Total financial assets		865,542	296,616	87,637	292,331	891,783	34,720	2,468,629
<b>FINANCIAL LIABILITIES:</b>								
Loans and deposits from banks	2.82%	-	-	-	35,267	1,573	-	36,840
Debt securities issued	9.31%	-	-	-	645,519	167,250	-	812,769
Total interest bearing financial liabilities		-	-	-	680,786	168,823	-	849,609
Financial liabilities at fair value through profit or loss		117	-	-	-	-	-	117
Other financial liabilities		257	4,690	3,002	3,134	-	-	11,083
Total financial liabilities		374	4,690	3,002	683,920	168,823	-	860,809
Liquidity gap		865,168	291,926	84,635	(391,589)	722,960	34,720	
Interest sensitivity gap		863,825	296,616	86,065	(388,455)	722,960	-	
Cumulative interest sensitivity gap		863,825	1,160,441	1,246,506	858,051	1,581,011	1,581,011	
Cumulative interest sensitivity gap as a percentage of total assets		34.99%	47.01%	50.49%	34.76%	64.04%	64.04%	

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**28 RISK MANAGEMENT POLICIES, CONTINUED****(b) 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	Maturity undefined	31 December 2011 Total
<b>FINANCIAL ASSETS:</b>							
Cash and balances with national (central) banks of the Member states of the Bank	102	-	-	-	-	-	102
Financial assets at fair value through profit or loss	2,669	545	2,704	-	-	-	5,918
Loans and advances to banks	494,232	1,002	94,413	161,026	-	7,130	757,803
Loans to customers	6,689	16,760	196,572	762,829	997,521	-	1,980,371
Financial assets available-for-sale	726	207,729	31,612	57,249	79,456	34,720	411,492
Investments held-to-maturity	-	9,778	32,165	100,766	436,914	-	579,623
Other financial assets	83	-	3,536	-	-	-	3,619
<b>Total financial assets</b>	<b>504,501</b>	<b>235,814</b>	<b>361,002</b>	<b>1,081,870</b>	<b>1,513,891</b>	<b>41,850</b>	<b>3,738,928</b>
<b>FINANCIAL LIABILITIES:</b>							
Loans and deposits from banks	-	23,615	30,870	1,880	21,677	-	78,042
Financial liabilities at fair value through profit or loss	83	23	5,649	-	-	-	5,755
Hedging derivative financial instrument	-	-	-	18,614	-	-	18,614
Amounts due to Anti-crisis Fund	412	-	-	-	-	-	412
Debt securities issued	-	5,990	149,074	964,441	168,794	-	1,288,299
Other financial liabilities	558	5,895	8,657	6,633	-	-	21,743
Commitments	23,838	-	227,285	876,988	-	-	1,128,111
<b>Total financial liabilities</b>	<b>24,891</b>	<b>35,523</b>	<b>421,535</b>	<b>1,868,556</b>	<b>190,471</b>	<b>-</b>	<b>2,540,976</b>
<b>Net position</b>	<b>479,610</b>	<b>200,291</b>	<b>(60,533)</b>	<b>(786,686)</b>	<b>1,323,420</b>	<b>41,850</b>	<b>1,197,952</b>
	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2010 Total
<b>FINANCIAL ASSETS:</b>							
Cash and balances with national (central) banks of the Member states of the Bank	222,504	-	-	-	-	-	222,504
Financial assets at fair value through profit or loss	910	-	-	-	-	-	910
Loans and advances to banks	406,114	-	25,626	114,950	-	-	546,690
Loans to customers	-	-	98,196	453,153	738,213	-	1,289,562
Financial assets available-for-sale	8,816	6,026	55,076	91,506	61,379	34,720	257,523
Investments held-to-maturity	225,000	150,000	27,789	378,445	481,347	-	1,262,581
Other financial assets	79	-	1,275	-	-	-	1,354
<b>Total financial assets</b>	<b>863,423</b>	<b>156,026</b>	<b>207,962</b>	<b>1,038,054</b>	<b>1,280,939</b>	<b>34,720</b>	<b>3,581,124</b>
<b>FINANCIAL LIABILITIES:</b>							
Loans and deposits from banks	-	-	34,559	2,451	27,747	-	64,757
Financial liabilities at fair value through profit or loss	2,337	-	-	-	-	-	2,337
Amounts due to Anti-crisis Fund	499	-	-	-	-	-	499
Debt securities issued	-	-	64,924	830,979	177,810	-	1,073,713
Other financial liabilities	1,913	3,842	8,484	4,747	-	-	18,986
Commitments	556	36,068	275,532	832,916	-	-	1,145,072
<b>Total financial liabilities</b>	<b>5,305</b>	<b>39,910</b>	<b>383,499</b>	<b>1,671,093</b>	<b>205,557</b>	<b>-</b>	<b>2,305,364</b>
<b>Net position</b>	<b>858,118</b>	<b>116,116</b>	<b>(175,537)</b>	<b>(633,039)</b>	<b>1,075,382</b>	<b>34,720</b>	<b>1,275,760</b>

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

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2009 Total
<b>FINANCIAL ASSETS:</b>							
Cash and balances with national (central) banks of the Member states of the Bank	94,916	-	-	-	-	-	94,916
Financial assets at fair value through profit or loss	40,933	-	-	-	-	-	40,933
Loans and advances to banks	474,636	46,666	-	93,039	-	-	614,341
Loans to customers	-	-	-	215,293	729,210	-	944,503
Financial assets available-for-sale	5,609	-	2,147	74,923	356,814	34,720	474,213
Investments held-to-maturity	250,000	250,000	14,362	62,585	620,099	-	1,197,046
Other financial assets	328	-	1,572	-	-	-	1,900
<b>Total financial assets</b>	<b>866,422</b>	<b>296,666</b>	<b>18,081</b>	<b>445,840</b>	<b>1,706,123</b>	<b>34,720</b>	<b>3,367,852</b>
<b>FINANCIAL LIABILITIES:</b>							
Loans and deposits from banks	-	-	-	37,363	1,984	-	39,347
Debt securities issued	-	-	-	910,101	286,417	-	1,196,518
Financial liabilities at fair value through profit or loss	117	-	-	-	-	-	117
Other financial liabilities	257	4,690	3,002	3,134	-	-	11,083
Commitments	-	-	-	-	569,725	-	569,725
<b>Total financial liabilities</b>	<b>374</b>	<b>4,690</b>	<b>3,002</b>	<b>950,598</b>	<b>858,126</b>	<b>-</b>	<b>1,816,790</b>
<b>Net position</b>	<b>866,048</b>	<b>291,976</b>	<b>15,079</b>	<b>(504,758)</b>	<b>847,997</b>	<b>34,720</b>	<b>1,551,062</b>

The Bank plans to manage its liquidity gap for the period of 1 to 5 years through the issuance of debt securities and attraction of other borrowed funds.

**(c) Market risk**

Market risk covers interest rate risk, currency risk and other pricing risks to which the Bank is exposed. In order to measure its risks the Bank uses the following financial modelling techniques: duration, modified duration and dollar value of 1 basis point.

***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 ensures the positive margin and expected profitability from changes in market interest rates with set limits on the maximum amount of interest rate risk accepted by the Bank. The Bank's risk management 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 2011, 2010 and 2009. Management of the Bank believe that given the current economic conditions in Russia and Kazakhstan that a 3% increase/decrease is a realistic movement in the interest rates. 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.

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**28 RISK MANAGEMENT POLICIES, CONTINUED**

*Interest rate sensitivity, continued*

Impact on net profit based on asset values as at 31 December 2011, 2010 and 2009:

	As at 31 December 2011		As at 31 December 2010		As at 31 December 2009	
	Interest rate +3%	Interest rate -3%	Interest rate +3%	Interest rate -3%	Interest rate +3%	Interest rate -3%
<b>Financial assets:</b>						
Financial assets at fair value through profit or loss	-	-	-	-	(2,089)	2,273
Loans and advances to banks	4,042	(4,028)	2,100	(2,100)	2,100	(2,100)
Loans to customers	12,056	(12,056)	6,637	(6,637)	5,780	(5,780)
<b>Financial liabilities:</b>						
Loans and deposits from banks	(1,492)	991	(1,689)	1,526	(9,708)	9,708
Debt securities issued	(4,041)	4,041	(4,071)	4,071	-	-
<b>Net impact on net profit</b>	<b>10,565</b>	<b>(11,052)</b>	<b>2,977</b>	<b>(3,140)</b>	<b>(3,917)</b>	<b>4,101</b>

Impact on equity based on asset values as at 31 December 2011, 2010 and 2009:

	As at 31 December 2011		As at 31 December 2010		As at 31 December 2009	
	Interest rate +3%	Interest rate -3%	Interest rate +3%	Interest rate -3%	Interest rate +3%	Interest rate -3%
<b>Financial assets:</b>						
Financial assets at fair value through profit or loss	-	-	-	-	(2,089)	2,273
Loans and advances to banks	4,042	(4,028)	2,100	(2,100)	2,100	(2,100)
Loans to customers	12,056	(12,056)	6,637	(6,637)	5,780	(5,780)
Financial assets available-for-sale	(8,974)	10,370	(11,790)	13,846	(60,343)	97,936
<b>Financial liabilities:</b>						
Loans and deposits from banks	(1,492)	991	(1,689)	1,526	(9,708)	9,708
Debt securities issued	(4,041)	4,041	(4,071)	4,071	-	-
<b>Net impact on equity</b>	<b>1,591</b>	<b>(682)</b>	<b>(8,813)</b>	<b>10,706</b>	<b>(64,260)</b>	<b>102,037</b>

**(d) 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 Risk Management Department manages currency risk through the management of the quantities held in open currency positions, which enables the Bank to minimize losses from significant fluctuations of exchange rates of foreign currencies. The Risk Management Department monitors the currency risk limits set by the Executive Board of the Bank.

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**28 RISK MANAGEMENT POLICIES, CONTINUED**

**(d) Currency risk, continued**

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 2011 Total
<b>Financial assets:</b>						
Cash and balances with the national (central) banks of the Member states of the Bank	56	15	31	-	-	102
Financial assets at fair value through profit or loss	5,918	-	-	-	-	5,918
Loans and advances to banks	442,363	36,277	36,142	216,337	96	731,215
Loans to customers	839,391	43,163	391,443	69,999	-	1,343,996
Financial assets available-for-sale	353,255	-	24,582	-	-	377,837
Investments held-to-maturity	302,980	-	-	-	-	302,980
Other financial assets	2,699	65	740	115	-	3,619
Total financial assets	<u>1,946,662</u>	<u>79,520</u>	<u>452,938</u>	<u>286,451</u>	<u>96</u>	<u>2,765,667</u>
<b>Financial liabilities:</b>						
Loans and deposits from banks	49,681	-	-	23,376	-	73,057
Financial liabilities at fair value through profit or loss	5,755	-	-	-	-	5,755
Hedging derivative financial instrument	18,614	-	-	-	-	18,614
Amounts due to Anti-crisis Fund	412	-	-	-	-	412
Debt securities issued	546,910	136,579	313,325	41,003	-	1,037,817
Other financial liabilities	20,995	371	361	8	8	21,743
Total financial liabilities	<u>642,367</u>	<u>136,950</u>	<u>313,686</u>	<u>64,387</u>	<u>8</u>	<u>1,157,398</u>
OPEN BALANCE SHEET POSITION	<u>1,304,295</u>	<u>(57,430)</u>	<u>139,252</u>	<u>222,064</u>	<u>88</u>	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR  
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28 RISK MANAGEMENT POLICIES, CONTINUED

(d) Currency risk, continued

	US dollars	Kazakhstan tenge	Russian rouble	Euro	Other currencies	31 December 2010 Total
<b>Financial assets:</b>						
Cash and balances with the national (central) banks of the Member states of the Bank	35	222,336	18	-	-	222,389
Financial assets at fair value through profit or loss	910	-	-	-	-	910
Loans and advances to banks	235,500	-	68,178	218,181	35	521,894
Loans to customers	737,465	19,523	-	63,965	-	820,953
Financial assets available-for-sale	179,843	-	35,304	-	-	215,147
Investments held-to-maturity	697,088	-	-	-	-	697,088
Other financial assets	654	19	593	88	-	1,354
Total financial assets	<u>1,851,495</u>	<u>241,878</u>	<u>104,093</u>	<u>282,234</u>	<u>35</u>	<u>2,479,735</u>
<b>Financial liabilities:</b>						
Loans and deposits from banks	23,086	-	-	33,455	-	56,541
Financial liabilities at fair value through profit or loss	2,337	-	-	-	-	2,337
Amounts due to Anti-crisis Fund	499	-	-	-	-	499
Debt securities issued	507,853	137,020	165,814	-	-	810,687
Other financial liabilities	17,779	312	839	26	30	18,986
Total financial liabilities	<u>551,554</u>	<u>137,332</u>	<u>166,653</u>	<u>33,481</u>	<u>30</u>	<u>889,050</u>
OPEN BALANCE SHEET POSITION	<u>1,299,941</u>	<u>104,546</u>	<u>(62,560)</u>	<u>248,753</u>	<u>5</u>	

	US dollars	Kazakhstan tenge	Russian rouble	Euro	Other currencies	31 December 2009 Total
<b>Financial assets:</b>						
Cash and balances with the national (central) banks of the Member states of the Bank	38	94,829	5	-	-	94,872
Financial assets at fair value through profit or loss	40,933	-	-	-	-	40,933
Loans and advances to banks	305,476	-	79,746	205,091	8	590,321
Loans to customers	486,796	81,257	-	40,931	-	608,984
Financial assets available- for-sale	202,266	-	85,600	-	-	287,866
Investments held-to-maturity	843,753	-	-	-	-	843,753
Other financial assets	1,877	-	23	-	-	1,900
Total financial assets	<u>1,881,139</u>	<u>176,086</u>	<u>165,374</u>	<u>246,022</u>	<u>8</u>	<u>2,468,629</u>
<b>Financial liabilities:</b>						
Loans and deposits from banks	1,573	-	-	35,267	-	36,840
Financial liabilities at fair value through profit or loss	117	-	-	-	-	117
Debt securities issued	507,922	137,597	167,250	-	-	812,769
Other financial liabilities	10,796	2	3	282	-	11,083
Total financial liabilities	<u>520,408</u>	<u>137,599</u>	<u>167,253</u>	<u>35,549</u>	<u>-</u>	<u>860,809</u>
OPEN BALANCE SHEET POSITION	<u>1,360,731</u>	<u>38,487</u>	<u>(1,879)</u>	<u>210,473</u>	<u>8</u>	

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**28 RISK MANAGEMENT POLICIES, CONTINUED**

**(d) 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.

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 2011 Total
Accounts payable on spot and derivative contracts	(228,176)	(2,996)	(298,485)	(222,479)	-	(752,136)
Accounts receivable on spot and derivative contracts	524,230	57,363	155,584	-	-	737,177
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	296,054	54,367	(142,901)	(222,479)	-	(14,959)
TOTAL OPEN POSITION	1,600,349	(3,063)	(3,649)	(415)	88	

	US dollars	Kazakhstan tenge	Russian rouble	Euro	Other currencies	31 December 2010 Total
Accounts payable on spot and derivative contracts	(22,400)	(113,034)	-	(249,261)	-	(384,695)
Accounts receivable on spot and derivative contracts	322,651	-	60,617	-	-	383,268
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	300,251	(113,034)	60,617	(249,261)	-	(1,427)
TOTAL OPEN POSITION	1,600,192	(8,488)	(1,943)	(507)	5	

	US dollars	Kazakhstan tenge	Russian rouble	Euro	Other currencies	31 December 2009 Total
Accounts payable on spot and derivative contracts	-	(40,117)	-	(211,675)	-	(251,792)
Accounts receivable on spot and derivative contracts	252,571	-	-	-	-	252,571
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	252,571	(40,117)	-	(211,675)	-	779
TOTAL OPEN POSITION	1,613,302	(1,630)	(1,879)	(1,202)	8	

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**28 RISK MANAGEMENT POLICIES, CONTINUED**

**(d) Currency risk, continued**

**(ii) Currency risk sensitivity**

The following table details the Bank's sensitivity to a 15%, 15% and 25% increase and decrease in the US Dollar/Russian Rouble and US Dollar/Kazakhstani Tenge exchange rates as at 31 December 2011, 2010 and 2009, respectively and a 10% increase and decrease in the US Dollar/Euro exchange rate. Management of the Bank believe that given the current conditions and more stable economic environment in Russia and Kazakhstan that a significant devaluation of the currency exchange against the US Dollar is less likely than in prior years and that a 15% increase/decrease is a realistic movement in the Rouble and Tenge exchange rates against the US Dollar. This is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents 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 2011, 2010 and 2009.

Impact on net profit based on asset values as at 31 December 2011, 2010 and 2009:

	As at 31 December 2011		As at 31 December 2010		As at 31 December 2009	
	USD/RUB +15%	USD/RUB -15%	USD/RUB +15%	USD/RUB -15%	USD/RUB +25%	USD/RUB -25%
Impact on net profit	(547)	547	(291)	291	(470)	470
	As at 31 December 2011		As at 31 December 2010		As at 31 December 2009	
	USD/KZT +15%	USD/KZT -15%	USD/KZT +15%	USD/KZT -15%	USD/KZT +25%	USD/KZT -25%
Impact on net profit	(459)	459	(1,273)	1,273	(408)	408
	As at 31 December 2011		As at 31 December 2010		As at 31 December 2009	
	USD/EUR +10%	USD/EUR -10%	USD/EUR +10%	USD/EUR -10%	USD/EUR +10%	USD/EUR -10%
Impact on net profit	(42)	42	(51)	51	(120)	120

Impact on equity based on asset values as at 31 December 2011, 31 December 2010 and 2009:

	As at 31 December 2011		As at 31 December 2010		As at 31 December 2009	
	USD/RUB +15%	USD/RUB -15%	USD/RUB +15%	USD/RUB -15%	USD/RUB +25%	USD/RUB -25%
Impact on equity	(547)	547	(291)	291	(470)	470
	As at 31 December 2011		As at 31 December 2010		As at 31 December 2009	
	USD/KZT +15%	USD/KZT -15%	USD/KZT +15%	USD/KZT -15%	USD/KZT +25%	USD/KZT -25%
Impact on equity	(459)	459	(1,273)	1,273	(408)	408
	As at 31 December 2011		As at 31 December 2010		As at 31 December 2009	
	USD/EUR +10%	USD/EUR -10%	USD/EUR +10%	USD/EUR -10%	USD/EUR +10%	USD/EUR -10%
Impact on equity	(42)	42	(51)	51	(120)	120

## 28 RISK MANAGEMENT POLICIES, CONTINUED

### (d) Currency risk, continued

#### (iii) *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.

## 29 SUBSEQUENT EVENTS

On 06 February 2012 the Bank placed Rouble bonds (further referred to as "Bonds") listed on the Moscow Interbank Currency Exchange for the total amount of 5.0 billion RUB. The Bonds mature on 28 January 2019. In accordance with the terms of their placement, the Bonds bear an interest rate fixed at 8.50% per annum until 3 February 2014 during coupon periods from the first to the eighth inclusively. Interest payments are to be effected on the quarterly basis. After 3 February 2014 the interest rate will be unilaterally determined by the Bank. The bondholders are entitled to exercise the put option on the Bonds within 2 years after the date of placement. The put option date is determined as the second business day from the date of the beginning of the ninth coupon period.