

# **EURASIAN DEVELOPMENT BANK**

**Interim Financial Statements**  
For the six-month period ended 30 June 2011

# EURASIAN DEVELOPMENT BANK

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## **Independent Auditors' Report on Interim Financial Statements**

To the members of the Council of Eurasian Development Bank

We have audited the accompanying interim financial statements of Eurasian Development Bank (the "Bank"), which comprise the interim statement of financial position as at 30 June 2011, and the interim statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Interim Financial Statements*

Management is responsible for the preparation and fair presentation of these interim financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of interim 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 interim 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 interim financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the interim financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the interim 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 interim 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 interim financial statements.

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

*Opinion*

In our opinion, the interim financial statements present fairly, in all material respects, the interim financial position of the Bank as at 30 June 2011, and its interim financial performance and its interim cash flows for the six-month period then ended in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

*Other Matter*

The financial statements of the Bank as at and for the year ended 31 December 2010 were audited by other auditors whose report dated 11 February 2011 expressed an unmodified opinion on those statements.

The corresponding figures as at and for the six-month period ended 30 June 2010 were reviewed by other auditors and whose report thereon dated 10 August 2010 stated that nothing came to their attention that caused them to believe that the condensed interim financial information was not presented fairly in all material aspects, in accordance with International Financial Reporting Standards. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on condensed interim financial statements taken as a whole.



  


Nigay A.N.  
Certified Auditor  
of the Republic of Kazakhstan,  
Auditor's Qualification Certificate  
No 536 of 10 January 2003

  
Alun Bowen  
Managing Partner

**KPMG Audit LLC**

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

Nigay A. N.  
General Director of KPMG Audit LLC  
acting on the basis of the Charter

11 August 2011


# EURASIAN DEVELOPMENT BANK

## INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2011


(in thousands of US dollars)

	Notes	Six-month period ended 30 June 2011	Unaudited Six-month period ended 30 June 2010	Unaudited Six-month period ended 30 June 2009
Interest income	4	64,819	58,071	52,063
Interest expense	4	(37,322)	(36,787)	(13,770)
<b>Net interest income before provision for impairment losses on interest bearing assets</b>		<b>27,497</b>	<b>21,284</b>	<b>38,293</b>
Provision for impairment losses on interest bearing assets	5	(1,396)	(6,927)	(4,284)
<b>NET INTEREST INCOME</b>		<b>26,101</b>	<b>14,357</b>	<b>34,009</b>
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	6	(12,572)	34,053	7,369
Net realised gain on financial assets available-for-sale		143	3,722	2,609
Net gain/(loss) on transactions in foreign currencies	7	15,503	(31,721)	(6,440)
Fee and commission income		2,562	1,637	1,307
Fee and commission expense		(75)	(121)	(235)
Other income		1,468	150	1,151
<b>Net non-interest income</b>		<b>7,029</b>	<b>7,720</b>	<b>5,761</b>
<b>Operating income</b>		<b>33,130</b>	<b>22,077</b>	<b>39,770</b>
Operating expenses	8	(19,445)	(14,786)	(9,614)
<b>NET PROFIT</b>		<b>13,685</b>	<b>7,291</b>	<b>30,156</b>
OTHER COMPREHENSIVE INCOME:				
Net unrealised gain on revaluation of financial assets available-for-sale		501	2,926	32,783
Net realised gain on financial assets available-for-sale transferred to the profit and loss during the year		(143)	(3,722)	(2,609)
Net unrealised loss on hedging instruments		(494)	-	-
<b>OTHER COMPREHENSIVE (LOSS)/INCOME</b>		<b>(136)</b>	<b>(796)</b>	<b>30,174</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>13,549</b>	<b>6,495</b>	<b>60,330</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

11 August 2011  
Almaty, Kazakhstan

11 August 2011  
Almaty, Kazakhstan

The notes on pages 9-61 form an integral part of these interim financial statements.


# EURASIAN DEVELOPMENT BANK

## INTERIM STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011


(in thousands of US dollars)

	Notes	30 June 2011	31 December 2010	31 December 2009
<b>ASSETS:</b>				
Cash and balances with national (central) banks of Member states of the Bank	9	126,605	222,389	94,872
Financial assets at fair value through profit or loss	10	-	910	40,933
Hedging derivative financial instrument	11	11,116	-	-
Loans and advances to banks	12	663,855	521,894	590,321
Loans to customers	13	1,065,918	820,953	608,984
Financial assets available-for-sale	14	344,750	215,147	287,866
Investments held-to-maturity	15	552,542	697,088	843,753
Non-current assets held for sale	16	46,179	45,613	-
Property and equipment	17	21,670	22,112	21,146
Intangible assets		1,084	1,188	1,059
Other assets	18	9,276	5,299	6,524
<b>TOTAL ASSETS</b>		<b>2,842,995</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	57,721	56,541	36,840
Financial liabilities at fair value through profit or loss	10	4,025	2,337	117
Amounts due to Anti-crisis Fund		683	499	-
Debt securities issued	20	1,082,505	810,687	812,769
Other liabilities	21	21,015	19,032	11,836
<b>Total liabilities</b>		<b>1,165,949</b>	<b>889,096</b>	<b>861,562</b>
<b>EQUITY:</b>				
Share capital	22	1,515,600	1,515,600	1,500,600
Reserve fund	22	72,640	64,733	44,839
Hedging reserve		(494)	-	-
Revaluation reserve for financial assets available-for-sale		2,975	2,617	3,829
Retained earnings		86,325	80,547	84,628
<b>Total equity</b>		<b>1,677,046</b>	<b>1,663,497</b>	<b>1,633,896</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,842,995</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



  
B.K. Mukhambetzhano" data-bbox="610 690 755 730"/>  
Managing Director, Finance  
Member of the Executive Board

11 August 2011  
Almaty, Kazakhstan

11 August 2011  
Almaty, Kazakhstan

The notes on pages 9-61 form an integral part of these interim financial statements.

# EURASIAN DEVELOPMENT BANK

## INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 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>	1,500,000	24,569	-	(58,195)	65,109	1,531,483
Other comprehensive income (unaudited)	-	-	-	30,174	-	30,174
Net profit (unaudited)	-	-	-	-	30,156	30,156
<b>Total comprehensive income (unaudited)</b>	-	-	-	<b>30,174</b>	<b>30,156</b>	<b>60,330</b>
Issue of ordinary share capital (unaudited)	600	-	-	-	-	600
Transfer to reserve fund (unaudited)	-	20,270	-	-	(20,270)	-
<b>30 June 2009 (unaudited)</b>	<b>1,500,600</b>	<b>44,839</b>	<b>-</b>	<b>(28,021)</b>	<b>74,995</b>	<b>1,592,413</b>
<b>31 December 2009</b>	1,500,600	44,839	-	3,829	84,628	1,633,896
Other comprehensive loss (unaudited)	-	-	-	(796)	-	(796)
Net profit (unaudited)	-	-	-	-	7,291	7,291
<b>Total comprehensive income (unaudited)</b>	-	-	-	<b>(796)</b>	<b>7,291</b>	<b>6,495</b>
Issue of ordinary share capital (unaudited)	15,000	-	-	-	-	15,000
Transfer to reserve fund (unaudited)	-	19,894	-	-	(19,894)	-
<b>30 June 2010 (unaudited)</b>	<b>1,515,600</b>	<b>64,733</b>	<b>-</b>	<b>3,033</b>	<b>72,025</b>	<b>1,655,391</b>
<b>31 December 2010</b>	1,515,600	64,733	-	2,617	80,547	1,663,497
Other comprehensive income/(loss)	-	-	(494)	358	-	(136)
Net profit	-	-	-	-	13,685	13,685
<b>Total comprehensive income</b>	-	-	<b>(494)</b>	<b>358</b>	<b>13,685</b>	<b>13,549</b>
Transfer to reserve fund	-	7,907	-	-	(7,907)	-
<b>30 June 2011</b>	<b>1,515,600</b>	<b>72,640</b>	<b>(494)</b>	<b>2,975</b>	<b>86,325</b>	<b>1,677,046</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

11 August 2011  
Almaty, Kazakhstan

11 August 2011  
Almaty, Kazakhstan

The notes on pages 9-61 form an integral part of these interim financial statements.

# EURASIAN DEVELOPMENT BANK

## INTERIM STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2011 (in thousands of US dollars)

	Six-month period ended 30 June 2011	Unaudited Six-month period ended 30 June 2010	Unaudited Six-month period ended 30 June 2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Interest received on loans to customers	30,948	25,294	13,428
Interest received on loans and advances to banks	8,254	8,469	10,563
Interest and income (paid)/received (on)/from financial assets and liabilities at fair value through profit or loss	(12,549)	34,051	7,369
Interest and income received on financial assets available-for-sale	7,098	14,194	11,494
Interest received on investments held to maturity	11,013	10,521	11,693
Interest paid on loans and deposits from banks	(966)	(725)	(13,220)
Interest paid on debt securities issued	(32,846)	(37,804)	-
Fees and commissions received	2,021	1,540	1,490
Fees and commissions paid	(281)	(178)	(262)
Other income received	22	136	1,151
Operating expenses paid	(17,176)	(15,360)	(11,041)
<b>Cash inflow (used in)/from operating activities before changes in operating assets and liabilities</b>	<b>(4,462)</b>	<b>40,138</b>	<b>32,665</b>
<b>Changes in operating assets</b>			
Increase in loans to customers	(234,623)	(81,956)	(46,642)
(Increase)/decrease in loans and advances to banks	(40,938)	28,830	82,552
Decrease in financial assets at fair value through profit or loss	913	38,939	8,264
(Increase)/decrease in other assets	(2,579)	303	(786)
<b>Changes in operating liabilities</b>			
Increase/(decrease) in deposits from banks	11,610	-	(24,230)
Increase in financial liabilities at fair value through profit or loss	2,182	68	409
Increase in amounts due to Anti-crisis Fund	184	261	-
Increase/(decrease) in other liabilities	-	2,609	(894)
<b>Cash flows (used in)/from operating activities</b>	<b>(267,713)</b>	<b>29,192</b>	<b>51,338</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of financial assets available-for-sale	(187,646)	(39,616)	(6,000)
Proceeds from sale and redemption of financial assets available-for-sale	56,735	139,276	38,878
Purchase of investments held to maturity	(939,813)	(1,830,302)	(568,877)
Proceeds from redemption of investments held to maturity	1,082,800	1,930,200	635,000
Purchase of property, equipment and intangible assets	(517)	(901)	(728)
<b>Cash flows from investing activities</b>	<b>11,559</b>	<b>198,657</b>	<b>98,273</b>

The notes on pages 9-61 form an integral part of these interim financial statements.

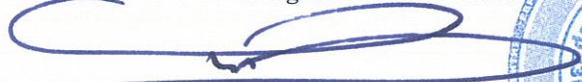
# EURASIAN DEVELOPMENT BANK

## INTERIM STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2011 (CONTINUED)

(in thousands of US dollars)

	Six-month period ended 30 June 2011	Unaudited Six-month period ended 30 June 2010	Unaudited Six-month period ended 30 June 2009
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of share capital	-	15,000	600
Proceeds from issuance of debt securities	256,822	-	81,932
Proceeds from loans from banks	24,819	8,219	34,182
Repayments of loans from banks	(35,373)	-	-
<b>Cash flows from financing activities</b>	<b>246,268</b>	<b>23,219</b>	<b>116,714</b>
<b>NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS</b>			
	<b>(9,886)</b>	<b>251,068</b>	<b>266,325</b>
CASH AND CASH EQUIVALENTS, at beginning of the period	495,341	438,948	400,110
Effect of changes in foreign exchange rate on cash and cash equivalents	16,181	(36,378)	(6,238)
<b>CASH AND CASH EQUIVALENTS, at end of the period (Note 9)</b>	<b>501,636</b>	<b>653,638</b>	<b>660,197</b>

On behalf of the management of the Bank:



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

11 August 2011  
Almaty, Kazakhstan




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

11 August 2011  
Almaty, Kazakhstan

The notes on pages 9-61 form an integral part of these interim financial statements.

## 1 BACKGROUND

### (a) Principal activities

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

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

In December 2008, the Council of the Bank approved the accession of the Republic of Armenia, the Republic of Belarus and the Republic of Tajikistan to the Agreement on Incorporation. During 2009, the Republic of Armenia and the Republic of Tajikistan 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 and 22 June 2009, respectively. On 21 June 2010, the Republic of Belarus made its contribution to the share capital of the Bank and became the fifth Member state of the Bank.

As at 30 June 2011, the following states were members of the Bank: the Russian Federation, the Republic of Kazakhstan, the Republic of Armenia, the Republic of Tajikistan and the Republic of Belarus.

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 will become a member of the Bank upon fulfilling appropriate domestic procedures related to the ratification of the Agreement on Incorporation of the Bank and contributing the required share capital.

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 30 June 2011 was 260 (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.

**EURASIAN DEVELOPMENT BANK**  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE**  
**SIX-MONTH PERIOD ENDED 30 JUNE 2011**  
*(in thousands of US dollars)*

**1 BACKGROUND, CONTINUED**

**(a) Principal activities, continued**

As at 30 June 2011 and 31 December 2010 and 2009, shares of the Bank were owned as follows:

	<b>30 June 2011, %</b>	<b>31 December 2010, %</b>	<b>31 December 2009, %</b>
The Russian Federation	65.98	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
<b>Total</b>	<b><u>100.00</u></b>	<b><u>100.00</u></b>	<b><u>100.00</u></b>

These financial statements were authorised for issue on 11 August 2011 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

The accompanying interim financial statements are prepared in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

### (b) Basis of measurement

The interim 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 interim 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 requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management’s knowledge of current events and actions, the 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 interim financial statements.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011**  
*(in thousands of US dollars)*

### 3 SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies are consistently applied in the preparation of the interim 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 interim financial statements were as follows:

	<b>30 June 2011</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
US dollar/1 Kazakhstan tenge ("KZT")	0.0068430	0.0067856	0.0067404
US dollar/1 Russian rouble ("RUR")	0.0358051	0.0327472	0.0330642
US dollar/1 British pound sterling ("GBP")	1.6056000	1.5611500	1.5884996
US dollar/1 Euro ("EUR")	1.4419500	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.

**(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 interim 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 interim 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 interim 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 interim 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 swap, forward, 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.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011**  
*(in thousands of US dollars)*

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

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

##### **(ix) Offsetting**

Financial assets and liabilities are offset and the net amount reported in the interim 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%.

### 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.

### 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 events, 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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011*(in thousands of US dollars)***3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED****(m) Income and expense recognition, continued**

Loan origination 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.

**(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 interim 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.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
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### 3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### (q) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 30 June 2011, and have not been applied in preparing these interim financial statements. Of these pronouncements, potentially the following will have an impact on the Bank's operations. 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 statements.

- IFRS 9 Financial Instruments will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2011. 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 2011. 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.
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.
- *Improvements to IFRSs 2010* resulting from the International Accounting Standards Board's third annual improvements project are to be dealt with on a standard-by-standard basis. The effective date of each amendment is included in the IFRSs affected.

### 4 NET INTEREST INCOME

	Six-month period ended 30 June 2011	Unaudited Six-month period ended 30 June 2010	Unaudited Six-month period ended 30 June 2009
<b>Interest income comprises:</b>			
Interest income on financial assets recorded at amortised cost:			
- interest income on impaired financial assets	223	7,597	7,316
- interest income on unimpaired financial assets	59,281	42,815	33,396
Interest income on financial assets at fair value through profit or loss	26	63	-
Interest income on financial assets available-for-sale	5,289	7,596	11,351
<b>Total interest income</b>	<b>64,819</b>	<b>58,071</b>	<b>52,063</b>
Interest income on financial assets recorded at amortised cost comprises:			
Interest on loans to customers	42,885	31,175	19,276
Interest on investments classified as held to maturity	9,454	10,528	11,604
Interest on loans and advances to banks	7,165	8,709	9,832
Total interest income on financial assets recorded at amortised cost	59,504	50,412	40,712
<b>Interest expense comprises:</b>			
Interest expense on financial liabilities recorded at amortised cost			
Interest on debt securities issued	(36,233)	(36,026)	(1,830)
Interest on loans and deposits from banks	(1,089)	(761)	(11,940)
Total interest expense on financial liabilities recorded at amortised cost	(37,322)	(36,787)	(13,770)
<b>Net interest income before provision for losses on interest bearing financial assets</b>	<b>27,497</b>	<b>21,284</b>	<b>38,293</b>

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011  
(in thousands of US dollars)

## 5 PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS

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

	Six-month period ended 30 June 2011	Unaudited Six-month period ended 30 June 2010	Unaudited Six-month period ended 30 June 2009
<b>Beginning of the period</b>	(19,214)	(6,562)	(1,377)
Provision for impairment losses	(1,402)	(7,614)	(4,965)
Reversal of provision for impairment losses	7	687	681
Effect of foreign currency movements	(200)	500	(42)
<b>End of the period</b>	<b>(20,809)</b>	<b>(12,989)</b>	<b>(5,703)</b>

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

	Six-month period ended 30 June 2011	Unaudited Six-month period ended 30 June 2010	Unaudited Six-month period ended 30 June 2009
<b>Beginning of the period</b>	(60)	-	-
Provision for losses	(1)	-	-
<b>End of the period</b>	<b>(61)</b>	<b>-</b>	<b>-</b>

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

	Six-month period ended 30 June 2011	Unaudited Six-month period ended 30 June 2010	Unaudited Six-month period ended 30 June 2009
Net (loss)/gain on financial assets held for trading	(12,572)	34,053	7,369
<b>Total net (loss)/gain on financial assets and liabilities at fair value through profit or loss</b>	<b>(12,572)</b>	<b>34,053</b>	<b>7,369</b>
Net (loss)/gain on operations with financial assets held-for-trading comprise:			
Net (loss)/gain on operations with derivative financial instruments in foreign currency	(12,743)	31,916	8,453
Unrealised (loss)/gain on fair value adjustment of debt securities	(2)	1,744	(1,084)
Realised gain on trading operations	173	393	-
<b>Total net (loss)/gain on operations with financial assets and liabilities at fair value through profit or loss</b>	<b>(12,572)</b>	<b>34,053</b>	<b>7,369</b>

## 7 NET GAIN/(LOSS) ON TRANSACTIONS IN FOREIGN CURRENCIES

	Six-month period ended 30 June 2011	Unaudited Six-month period ended 30 June 2010	Unaudited Six-month period ended 30 June 2009
Translation differences, net	15,583	(31,253)	(6,417)
Dealing, net	(80)	(468)	(23)
<b>Total net gain/(loss) on transactions in foreign currencies</b>	<b>15,503</b>	<b>(31,721)</b>	<b>(6,440)</b>

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011*(in thousands of US dollars)***8 OPERATING EXPENSES**

	<b>Six-month period ended 30 June 2011</b>	<b>Unaudited Six-month period ended 30 June 2010</b>	<b>Unaudited Six-month period ended 30 June 2009</b>
Staff costs and other payments to employees (including accommodation cost of employees)	12,198	7,875	4,871
Premises expenses	1,354	1,264	1,095
Depreciation and amortisation	1,068	834	838
Business trip expenses	889	757	338
Professional services	529	669	443
Business development expenses	475	344	263
Communication expenses	463	410	293
Maintenance of acquired systems and programs	458	423	388
Security	454	406	241
Research and regional development expenses	403	976	219
Training	236	232	75
Transportation expenses	164	158	166
Office, postal and printing expenses	86	54	184
Other expenses	668	384	200
<b>Total operating expenses</b>	<b>19,445</b>	<b>14,786</b>	<b>9,614</b>

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

	<b>30 June 2011</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
Balances with the National Bank of the Republic of Kazakhstan	126,538	222,351	94,836
Cash on hand	67	38	36
<b>Total cash and balances with national (central) banks of Member states of the Bank</b>	<b>126,605</b>	<b>222,389</b>	<b>94,872</b>

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

	<b>30 June 2011</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
Cash and balances with national (central) banks of Member states of the Bank	126,605	222,389	94,872
Loans and advances to banks	375,031	272,952	344,076
<b>Total cash and cash equivalents</b>	<b>501,636</b>	<b>495,341</b>	<b>438,948</b>

**NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011**  
*(in thousands of US dollars)*

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

	30 June 2011	31 December 2010	31 December 2009
Financial assets held-for-trading:			
Debt securities	-	-	40,037
Derivative financial instruments	-	910	896
<b>Total financial assets held-for-trading</b>	-	910	40,933
<b>Total financial assets at fair value through profit or loss</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 30 June 2011 and 31 December 2010.

	30 June 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>

	30 June 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	338,539	-	(3,953)	231,461	-	(2,307)	252,571	896	(117)
Forwards	30,000	-	(72)	151,891	910	(30)	-	-	-
		-	<b>(4,025)</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.

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.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011**  
*(in thousands of US dollars)*

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

### **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 30 June 2011 comprises fair value of cross-currency interest rate swap agreement that the Bank entered into on 14 February 2011 to exchange RUR 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 RUR 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. Interest rate on these bonds for the period from February 2014 to February 2018 is 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 offering.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011**  
(in thousands of US dollars)

## 11 HEDGING DERIVATIVE FINANCIAL INSTRUMENT, CONTINUED

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

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 six-month period ended 30 June 2011 a spot element of the foreign currency swaps has been recognised in profit or loss in the amount of 8,702 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 RUR 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 six-month period ended 30 June 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: 5.79% in RUR and 0.96% in USD.

## 12 LOANS AND ADVANCES TO BANKS

	<u>30 June 2011</u>	<u>31 December 2010</u>	<u>31 December 2009</u>
Correspondent accounts with other banks	214,491	212,932	210,723
Loans to banks	188,136	116,112	69,830
Term deposits in other banks	158,427	58,455	132,488
Loans under reverse repurchase agreements	100,058	132,867	175,989
Correspondent accounts with other banks on broker operations	2,804	1,588	1,291
	<u>663,916</u>	<u>521,954</u>	<u>590,321</u>
Less allowance for impairment losses on loans and advances to banks	(61)	(60)	-
<b>Total loans and advances to banks</b>	<b><u>663,855</u></b>	<b><u>521,894</u></b>	<b><u>590,321</u></b>

As at 30 June 2011, the Bank had receivables amounting to 211,301 thousand US dollars from one bank of the 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 30 June 2011 and 31 December 2010 and 2009, respectively.

As at 30 June 2011, loans and advances to banks included one loan in the amount of 3,068 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 an impairment allowance in the amount of 61 thousand US dollars (31 December 2010: 60 thousand US dollars; 31 December 2009: nil).

As at 30 June 2011, loans and advances to banks included accrued interest income amounting to 321 thousand US dollars (31 December 2010: 899 thousand US dollars; 31 December 2009: 840 thousand US dollars).

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011*(in thousands of US dollars)***12 LOANS AND ADVANCES TO BANKS, CONTINUED**

As at 30 June 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 30 June 2011, 31 December 2010 and 31 December 2009 are presented as follows:

	30 June 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	72,365	79,342	84,067	89,273	75,990	90,428
Bonds issued by non-financial organisations	27,693	27,378	48,800	54,711	54,212	66,314
Eurobonds of the Russian Federation	-	-	-	-	45,787	53,047
	<b>100,058</b>	<b>106,720</b>	<b>132,867</b>	<b>143,984</b>	<b>175,989</b>	<b>209,789</b>

**13 LOANS TO CUSTOMERS**

	30 June 2011	31 December 2010	31 December 2009
Loans to customers	1,086,727	840,167	615,546
Less allowance for impairment losses	(20,809)	(19,214)	(6,562)
<b>Total loans to customers</b>	<b>1,065,918</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:

	30 June 2011	31 December 2010	31 December 2009
Loans collateralised by real estate, equipment and inventories	646,208	491,950	203,863
Loans collateralised by guarantees	409,909	322,798	370,209
Loans collateralised by future cash inflows	30,610	25,419	41,474
	1,086,727	840,167	615,546
Less allowance for impairment losses	(20,809)	(19,214)	(6,562)
<b>Total loans to customers</b>	<b>1,065,918</b>	<b>820,953</b>	<b>608,984</b>

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011*(in thousands of US dollars)***13 LOANS TO CUSTOMERS, CONTINUED**

	<b>30 June 2011</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
<b>Analysis by sector:</b>			
Transport and communication	475,727	306,386	210,646
Agriculture	139,211	160,160	134,641
Energy	132,800	67,647	71,955
Chemical industry	124,788	81,290	21,087
Mining and metallurgy	49,960	77,254	41,641
Other processing	164,241	147,430	135,576
	1,086,727	840,167	615,546
Less allowance for losses	(20,809)	(19,214)	(6,562)
<b>Total loans to customers</b>	<b>1,065,918</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 30 June 2011, 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 30 June 2011 and 31 December 2010 as "Transport and communication".

As at 30 June 2011, the maximum credit risk exposure on loans to customers amounted to 1,065,918 thousand US dollars (31 December 2010: 820,953 thousand US dollars; 31 December 2009: 608,984 thousand US dollars). As at 30 June 2011, the maximum credit risk exposure on loan commitments and overdrafts extended by the Bank to its customers amounted to 1,101,819 thousand US dollars (31 December 2010: 1,044,878 thousand US dollars; 31 December 2009: 569,725 thousand US dollars) (Note 24).

As at 30 June 2011 and 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 has reduced the loan amount outstanding as at 30 June 2011 accordingly to 22,441 thousand US dollars (31 December 2010: 22,789 thousand US dollars). As at 30 June 2011 and 31 December 2010, the entire amount of allowance for impairment loss of 20,809 thousand US dollars and 19,214 thousand US dollars, respectively, was recorded against this debt and the Bank was in the process of taking possession of additional collateral. As at 30 June 2011 this loan was past due by more than 360 days (31 December 2010: past due by more than 90 days and less than 360 days). No collective provision was recognised in respect of other loans to customers as all possible risks have been considered in individual impairment test.

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 30 June 2011, loans to customers included accrued interest income amounting to 13,210 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 30 June 2011 the Bank had 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 30 June 2011 and 31 December 2010 were 246,317 thousand US dollars and 175,668 thousand US dollars, respectively.



NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011*(in thousands of US dollars)***15 INVESTMENTS HELD-TO-MATURITY**

	30 June 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%	254,818	7.50%	264,016	7.50%	278,019
Bonds issued by Governments of foreign countries	-	239,975	-	374,942	-	499,926
Bonds issued by non-financial organisations	9.63%	36,841	9.63%	37,330	9.63%	31,076
Bonds issued by banks and financial institutions of the Russian Federation	6.61%	<u>20,908</u>	6.61%	<u>20,800</u>	6.61-6.88%	<u>34,732</u>
<b>Total investments held to maturity</b>		<b><u>552,542</u></b>		<b><u>697,088</u></b>		<b><u>843,753</u></b>

As at 30 June 2011, investments held to maturity included accrued interest income amounting to 5,530 thousand US dollars (31 December 2010: 5,633 thousand US dollars; 31 December 2009: 5,784 thousand US dollars).

As at 30 June 2011, 31 December 2010 and 31 December 2009 none of investments held-to-maturity were past due or impaired.

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

	30 June 2011	31 December 2010	31 December 2009
Non-current assets held for sale	<u>46,179</u>	<u>45,613</u>	<u>-</u>
<b>Total non-current assets held for sale</b>	<b><u>46,179</u></b>	<b><u>45,613</u></b>	<b><u>-</u></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 during 2011. Non-current assets held for sale were initially recognised at fair value based on the results of the independent appraisal performed by several appraisers. Management has determined that there was no significant change in the revalued amounts from 31 December 2010 to 30 June 2011.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011*(in thousands of US dollars)***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	45	373	-	422
Disposals	-	-	-	(19)	-	(19)
<b>30 June 2011</b>	<b>1,231</b>	<b>13,743</b>	<b>1,481</b>	<b>5,067</b>	<b>3,993</b>	<b>25,515</b>
<b>Accumulated depreciation</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	-	229	126	509	-	864
Disposals	-	-	-	(19)	-	(19)
<b>30 June 2011</b>	<b>-</b>	<b>578</b>	<b>1,204</b>	<b>2,063</b>	<b>-</b>	<b>3,845</b>
<b>Net book value</b>						
<b>As at 30 June 2011</b>	<b>1,231</b>	<b>13,165</b>	<b>277</b>	<b>3,004</b>	<b>3,993</b>	<b>21,670</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.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011**  
*(in thousands of US dollars)*

**18 OTHER ASSETS**

	<b>30 June 2011</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
<b>Other financial assets recorded as loans and receivables:</b>			
Accrued commission income and other receivables	5,662	1,354	1,900
	5,662	1,354	1,900
<b>Other non-financial assets:</b>			
Prepaid expenses	2,455	3,058	1,613
Prepaid amounts on construction works	356	366	1,547
Value added tax reimbursable	236	190	301
Other debtors	567	331	1,163
<b>Total other assets</b>	<b>9,276</b>	<b>5,299</b>	<b>6,524</b>

**19 LOANS AND DEPOSITS FROM BANKS**

	<b>30 June 2011</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
Loan from a bank due in August 2011, net of discount	25,172	-	-
Loan from financial organisation	20,923	23,086	1,573
Short-term deposit from bank	11,626	-	-
Loan from a bank due in April 2011, net of discount	-	33,455	35,267
<b>Total loans and deposits from banks</b>	<b>57,721</b>	<b>56,541</b>	<b>36,840</b>

Loans from banks are subject to certain financial covenants under the terms of the loan agreements. During the six-month period ended 30 June 2011 and years ended 31 December 2010 and 31 December 2009 the Bank was in compliance with all such covenants.

As at 30 June 2011, loans and deposits from banks included accrued interest expense amounting to 354 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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011*(in thousands of US dollars)***20 DEBT SECURITIES ISSUED**

	<u>30 June 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	508,047	507,853	507,921
RUR denominated 7-year bonds (“the Rouble Bonds”) due in February 2018, interest rate 7.7%, net of discount	183,757	-	-
RUR denominated 7-year bonds (“the Rouble Bonds”) due in October 2016, interest rate 10.5%, net of discount	181,700	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 9.6% from 29 April 2011 until 28 October 2011, net of discount	138,847	137,020	137,598
EUR denominated 1-year bonds due in May 2012, interest rate 0%, net of discount	45,245	-	-
USD denominated half-year Eurobonds due in November 2011, interest rate 0%, net of discount	24,909	-	-
<b>Total debt securities issued</b>	<b><u>1,082,505</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. The Eurobonds have senior payment priority and mature 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 9.6% per annum from 29 April 2011 until 28 October 2011.

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. The Eurobonds have senior payment priority and mature 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. The Rouble Bonds have senior payment priority and mature 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 will be determined by the Bank unilaterally. The bondholders are entitled to demand the redemption of the Rouble Bonds in two years after their issuance.

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. The Rouble Bonds have senior payment priority and mature 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 18 May 2011 and 20 May 2011 the Bank placed its debut euro-commercial papers for 25,000 thousand US dollars and 32,000 thousand Euros due on 18 November 2011 and 18 May 2012, respectively. 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 30 June 2011, debt securities issued included accrued interest expense amounting to 16,852 thousand US dollars (31 December 2010: 14,029 thousand US dollars; 31 December 2009: 15,672 thousand US dollars).

**NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011**  
*(in thousands of US dollars)*

**21 OTHER LIABILITIES**

	<b>30 June 2011</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
<b>Other financial liabilities:</b>			
Deferred income	9,041	8,037	3,002
Retirement savings plan	5,751	4,747	3,134
Short-term payments to employees	4,540	4,293	4,690
Accrued expenses	1,235	1,909	257
	<u>20,567</u>	<u>18,986</u>	<u>11,083</u>
<b>Other non-financial liabilities:</b>			
Accrued administrative expenses	-	-	183
Other	448	46	570
	<u>448</u>	<u>46</u>	<u>570</u>
<b>Total other liabilities</b>	<b><u>21,015</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 30 June 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 30 June 2011, shares issued and outstanding consisted of 1,515,600 shares (31 December 2010: 1,515,600 shares; 31 December 2009: 1,500,600 shares).

At 30 June 2011 the Bank's share capital comprised the following:

	<b>Share capital issued</b>	<b>Share capital authorised and not issued</b>	<b>Share capital authorised</b>
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>1,515,600</u></b>	<b><u>100</u></b>	<b><u>1,515,700</u></b>

**NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011**  
*(in thousands of US dollars)*

**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><u>-</u></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 30 June 2011, 31 December 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><u>1,515,600</u></b>	<b><u>1,515,600</u></b>
<b>30 June 2011</b>	<b><u>1,515,600</u></b>	<b><u>1,515,600</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 such time as this reserve fund represents 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 30 June 2011, 31 December 2010 and 31 December 2009:

	<u>30 June 2011</u>	<u>31 December 2010</u>	<u>31 December 2009</u>
Beginning of the period	64,733	44,839	24,569
Transfer from retained earnings	7,907	19,894	20,270
<b>End of the period</b>	<b><u>72,640</u></b>	<b><u>64,733</u></b>	<b><u>44,839</u></b>

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011*(in thousands of US dollars)***22 SHARE CAPITAL, CONTINUED**

The objective of the Bank's share capital is to cover potential losses from its operations. In accordance with the Bank's internal policies, the equity should exceed 16% of the sum of credit, market and operational risks, estimated as per the Basle II Standardised approach. As at 30 June 2011, 31 December 2010 and 31 December 2009, the Bank was in compliance with its internal policy requirements. The Bank is not subject to any capital requirements from external regulatory entities.

**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 capital structure of the Bank consists of debt, which mainly includes loans and deposits from banks disclosed in Note 19, debt securities issued disclosed in Note 20, and equity attributable to equity holders, comprising share capital, reserves and retained earnings as disclosed in 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 30 June 2011, 31 December 2010 and 31 December 2009, the nominal or contractual amounts were:

	<b>30 June 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	1,101,819	1,044,878	569,725
Commitments to join private equity funds	69,296	100,000	-
Letters of credit issued	-	194	-
<b>Total contingent liabilities and credit commitments</b>	<b>1,171,115</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 six-month period ended 30 June 2011 (Note 14).

## 24 COMMITMENTS AND CONTINGENCIES, CONTINUED

### Capital commitments

As at 30 June 2011 and 31 December 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 at the direction 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 interim statement of financial position. The Bank is not exposed to any credit risk relating to such placements. In the judgment of management, as at 30 June 2011 the maximum potential financial risk on securities and due from banks accepted by the Bank on behalf of the Fund does not exceed 282,195 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 local or national 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:

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011  
(in thousands of US dollars)

## 25 TRANSACTIONS WITH RELATED PARTIES, CONTINUED

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

	Six-month period ended 30 June 2011		Unaudited Six-month period ended 30 June 2010		Unaudited Six-month period ended 30 June 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	1,569	11,506	1,872	7,173	1,147	4,290
Accommodation costs of employees	141	692	158	702	201	581
<b>Key management personnel compensation</b>	<b>1,710</b>	<b>12,198</b>	<b>2,030</b>	<b>7,875</b>	<b>1,348</b>	<b>4,871</b>

### (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 30 June 2011, 31 December 2010 and 31 December 2009 and related profit or loss amounts of transactions for the six-month period ended 30 June 2011 and years ended 31 December 2010 and 31 December 2009 with other related parties are as follows.

	30 June 2011		31 December 2010		31 December 2010	
	Other related parties	Average interest rate, %	Other related parties	Average interest rate, %	Other Related parties	Average interest rate, %
<b>Interim Statement of Financial Position</b>						
<b>ASSETS</b>						
Cash and balances with national (central) banks of Member states of the Bank	126,538	0.88%	222,351	0.98%	94,836	0.83%
Loans and advances to banks	251,331	0.07%	211,844	0.05%	251,735	7.43%
Loans to customers	130,251	5.29%	141,706	5.57%	140,686	5.57%
Financial assets available-for-sale	25,628	7.15%	29,660	7.30%	87,152	7.53%
Investments held-to- maturity	254,818	7.50%	264,016	7.50%	292,151	7.47%
<b>LIABILITIES</b>						
Amounts due to Anti- crisis Fund	683	-	499	-	-	-
<b>Profit /(loss)</b>						
Interest income	13,033		25,077		32,058	
Net gain/(loss) on transactions in foreign currencies	20,505		(14,319)		(7,736)	
Fee and commission income	158		182		170	
Other income	1,446		-		-	

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011*(in thousands of US dollars)***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.

	<u>Russia</u>	<u>Kazakhstan</u>	<u>Other countries</u>	<b>Total as at and for the six-month period ended 30 June 2011</b>
Interest income	38,861	16,252	9,706	64,819
Interest expense	(11,438)	(5,990)	(19,894)	(37,322)
Provisions for impairment losses on loans to customers	-	(1,401)	(1)	(1,402)
Reversal of provisions for impairment losses on loans to customers	-	6	-	6
Gain on financial assets at fair value through profit or loss	31,626	1,967	12,036	45,629
Loss on financial assets at fair value through profit or loss	(48,244)	(2,175)	(7,782)	(58,201)
Realised gain on financial assets available-for-sale	36	29	78	143
Gain on transactions in foreign currencies	625,900	131,650	486,352	1,243,902
Loss on transactions in foreign currencies	(631,556)	(129,410)	(467,433)	(1,228,399)
Fee and commission income	1,506	666	390	2,562
Fee and commission expense	(16)	-	(59)	(75)
Other income	1,457	10	1	1,468
<b>External operating income</b>	<b><u>8,132</u></b>	<b><u>11,604</u></b>	<b><u>13,394</u></b>	<b><u>33,130</u></b>
Cash and balances with national (central) banks of Member states of the Bank	-	126,605	-	126,605
Hedging derivative financial instrument	11,116	-	-	11,116
Loans and advances to banks	364,191	68,726	230,938	663,855
Loans to customers	759,787	241,913	64,218	1,065,918
Financial assets available-for-sale	185,350	5,258	154,142	344,750
Investments held to maturity	312,567	-	239,975	552,542
Assets held-for-sale	-	46,179	-	46,179
Property, equipment and intangible assets	1,007	21,544	203	22,754
Other assets	5,192	1,339	2,745	9,276
<b>Total assets</b>	<b><u>1,639,210</u></b>	<b><u>511,564</u></b>	<b><u>692,221</u></b>	<b><u>2,842,995</u></b>
<b>Total liabilities</b>	<b><u>372,534</u></b>	<b><u>154,623</u></b>	<b><u>638,792</u></b>	<b><u>1,165,949</u></b>
Capital expenditure	151	345	26	522
Depreciation and amortisation	203	829	36	1,068

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011*(in thousands of US dollars)***26 SEGMENT REPORTING, CONTINUED**

	Unaudited Russia	Unaudited Kazakhstan	Unaudited Other countries	Unaudited Total as at and for the six-month period ended 30 June 2010
Interest income	34,550	21,258	2,263	58,071
Interest expense	(8,734)	(8,624)	(19,429)	(36,787)
Provisions for impairment losses on loans to customers	(1,253)	(6,361)	-	(7,614)
Reversal of provisions for impairment losses on loans to customers	1	686	-	687
Gain on financial assets at fair value through profit or loss	68,092	2,497	6,787	77,376
Loss on financial assets at fair value through profit or loss	(34,297)	(2,731)	(6,295)	(43,323)
Realised gain on financial assets available-for-sale	3,311	212	1,746	5,269
Realised loss on financial assets available-for-sale	(1,258)	(208)	(81)	(1,547)
Gain on transactions in foreign currencies	128,700	50,315	171,278	350,293
Loss on transactions in foreign currencies	(129,228)	(49,707)	(203,079)	(382,014)
Fee and commission income	1,351	230	56	1,637
Fee and commission expense	(60)	(8)	(53)	(121)
Other income	3	146	1	150
<b>External operating income/(loss)</b>	<b>61,178</b>	<b>7,705</b>	<b>(46,806)</b>	<b>22,077</b>
				<b>Total as at 31 December 2010</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
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	160	654	20	834

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011*(in thousands of US dollars)***26 SEGMENT REPORTING, CONTINUED**

	Unaudited Russia	Unaudited Kazakhstan	Unaudited Other countries	Unaudited Total as at and for the six-month period ended 30 June 2009
Interest income	24,782	20,953	6,328	52,063
Interest expense	(4,246)	(1,851)	(7,673)	(13,770)
Provisions for impairment losses on loans to customers	(1,492)	(3,473)	-	(4,965)
Reversal of provisions for impairment losses on loans to customers	342	339	-	681
Gain on financial assets at fair value through profit or loss	3,610	4,067	-	7,677
Loss on financial assets at fair value through profit or loss	-	-	(308)	(308)
Realised gain on financial assets available-for-sale	3,035	-	-	3,035
Realised loss on financial assets available-for-sale	-	(426)	-	(426)
Gain on transactions in foreign currencies	138,802	14,089	152,132	305,023
Loss on transactions in foreign currencies	(139,295)	(16,790)	(155,378)	(311,463)
Fee and commission income	844	463	-	1,307
Fee and commission expense	(194)	(40)	(1)	(235)
Other income	692	459	-	1,151
<b>External operating income/(loss)</b>	<b>26,880</b>	<b>17,790</b>	<b>(4,900)</b>	<b>39,770</b>
				<b>Total as at 31 December 2009</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>1,159,061</b>	<b>555,832</b>	<b>780,565</b>	<b>2,495,458</b>
<b>Total liabilities</b>	<b>170,289</b>	<b>146,160</b>	<b>545,113</b>	<b>861,562</b>
Capital expenditure	773	3,998	46	4,817
Depreciation and amortisation	38	800	-	838

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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011*(in thousands of US dollars)***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 judgement 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 interim statement of financial position of the Bank, except for investments held-to-maturity and debt securities issued:

	30 June 2011		31 December 2010		31 December 2009	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Investments held-to-maturity	552,542	570,861	697,088	710,688	843,753	848,142
Debt securities issued	1,082,505	1,151,081	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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011*(in thousands of US dollars)***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 judgement 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 judgement 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 judgement 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:

	30 June 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	-	-	-	-	910	-	40,037	896	-
Hedging derivative financial instrument	-	11,116	-	-	-	-	-	-	-
Financial assets available-for-sale	280,872	29,158	34,720	180,427	-	34,720	253,146	-	34,720
Financial liabilities at fair value through profit or loss	-	4,025	-	-	2,337	-	-	117	-

As at 30 June 2011, 31 December 2010 and 31 December 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.

## 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, the Assets and Liabilities Management Committee ("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. Credit risks are compared to the limits set on a daily basis.

**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.

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

(a) **Credit risk, continued**

(ii) **Maximum exposure**

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

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

	30 June 2011	31 December 2010	31 December 2009
Cash and balances with national (central) banks of Member states of the Bank	126,605	222,389	94,872
Financial assets at fair value through profit or loss	-	910	40,933
Hedging derivative financial instrument	11,116	-	-
Loans and advances to banks	663,855	521,894	590,321
Loans to customers	1,065,918	820,953	608,984
Financial assets available-for-sale	344,750	215,147	287,866
Investments held-to-maturity	552,542	697,088	843,753
Other assets	5,662	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	30 June 2011 Total
Cash and balances with national (central) banks of Member states of the Bank	-	-	-	126,605	-	-	126,605
Hedging derivative financial instrument	-	11,116	-	-	-	-	11,116
Loans and advances to banks	-	37,508	1,187	251,348	206,538	167,274	663,855
Loans to customers	-	-	-	-	109,974	955,944	1,065,918
Financial assets available-for-sale	124,984	-	-	68,160	122,448	29,158	344,750
Investments held-to-maturity	239,975	-	-	291,659	20,908	-	552,542
Other assets	-	-	-	-	-	5,662	5,662

	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	121,019	-	215,147
Investments held-to-maturity	374,942	-	-	322,146	-	-	697,088
Other assets	-	-	-	-	-	1,354	1,354

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
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**28 RISK MANAGEMENT POLICIES, CONTINUED****(a) Credit risk, 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	104,122	-	287,866
Investments held-to-maturity	499,926	-	-	343,827	-	-	843,753
Other assets	-	-	-	-	-	1,900	1,900

As at 30 June 2011, the Bank had outstanding loans to 19 customers (31 December 2010: 16; 31 December 2009: 13) and nine banks (31 December 2010: six banks; 31 December 2009: one bank). The loans are made with intention to develop 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. 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 some minor negative indicators, the Bank has confidence that the borrower will be able to cope with such temporary difficulties. Interest and principal are repaid in full and in a timely fashion. 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, not less than 75 per cent in case of highly liquid collateral (which may include a Government guarantee, bank guarantee with an individual rating not lower than AA - from one of the rating agencies, corporate guarantee with an individual rating not lower than AA, cash collateral, Government securities or precious metals).

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 temporary 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. The financial condition of the borrower is stable, though there is evidence of a temporary deterioration in the financial condition of the borrower, including a decrease in income or a loss of market share. Due to temporary difficulties the borrower repays the loan and the interest with several short delays.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011

(in thousands of US dollars)

**28 RISK MANAGEMENT POLICIES, CONTINUED****(a) Credit risk, 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, including negative operating results and a declining liquidity position. 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.

	<u>30 June 2011</u>	<u>31 December 2010</u>	<u>31 December 2009</u>
Standard loans	1,054,809	817,378	404,204
Loans classified to 2nd category	9,477	-	211,342
Loans classified to 5th category	22,441	22,789	-
	<u>1,086,727</u>	<u>840,167</u>	<u>615,546</u>
Less – Allowance for losses	<u>(20,809)</u>	<u>(19,214)</u>	<u>(6,562)</u>
Loans to customers	<u><u>1,065,918</u></u>	<u><u>820,953</u></u>	<u><u>608,984</u></u>

As at 30 June 2011, one loan was classified as 5th category loan (31 December 2010: one; 31 December 2009: nil) and one loan was classified as 2nd category loan (31 December 2010: nil; 31 December 2009: four).

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.

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 entity.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011*(in thousands of US dollars)***28 RISK MANAGEMENT POLICIES, CONTINUED****(b) Liquidity risk, continued**

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	30 June 2011 Total
<b>FINANCIAL ASSETS:</b>								
Cash and balances with the national (central) banks of the Member states of the Bank	0.88%	123,413	-	-	-	-	-	123,413
Loans and advances to banks	2.48%	472,763	3,006	58,572	126,496	-	-	660,837
Loans to customers	9.21%	-	-	9,477	291,913	762,896	-	1,064,286
Financial assets available-for-sale	4.25%	13,935	24,998	149,571	43,259	49,109	-	280,872
Investments held to maturity	3.90%	164,993	74,983	-	57,749	254,817	-	552,542
Total interest bearing financial assets		775,104	102,987	217,620	519,417	1,066,822	-	2,681,950
Cash and balances with the national (central) banks of the Member states of the Bank	-	3,192	-	-	-	-	-	3,192
Hedging derivative financial instrument					11,116			11,116
Loans and advances to banks	-	3,018	-	-	-	-	-	3,018
Loans to customers	-	-	-	1,632	-	-	-	1,632
Financial assets available-for-sale	-	-	-	-	-	29,158	34,720	63,878
Other assets	-	1,532		4,130				5,662
Total financial assets		782,846	102,987	223,382	530,533	1,095,980	34,720	2,770,448
<b>FINANCIAL LIABILITIES:</b>								
Loans and deposits from banks	1.91%	-	36,798	-	-	20,923	-	57,721
Debt securities issued	7.14%	-	-	70,154	646,894	365,457	-	1,082,505
Total interest bearing financial liabilities		-	36,798	70,154	646,894	386,380	-	1,140,226
Financial liabilities at fair value through profit or loss		3,850	-	175	-	-	-	4,025
Amounts due to Anti- crisis Fund		683	-	-	-	-	-	683
Other liabilities		416	158	14,242	5,751	-	-	20,567
Total financial liabilities		4,949	36,956	84,571	652,645	386,380	-	1,165,501
Liquidity gap		777,897	66,031	138,811	(122,112)	709,600	34,720	
Interest sensitivity gap		775,104	66,189	147,466	(127,477)	680,442	-	
Cumulative interest sensitivity gap		775,104	841,293	988,759	861,282	1,541,724	1,541,724	
Cumulative interest sensitivity gap as a percentage of total assets		27.26%	29.59%	34.78%	30.29%	54.23%	54.23%	

**NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011**  
(in thousands of US dollars)

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

	Weighted average effective interest rate	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 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
<b>Total interest bearing financial assets</b>		<b>858,027</b>	<b>155,959</b>	<b>55,899</b>	<b>539,934</b>	<b>825,376</b>	<b>-</b>	<b>2,435,195</b>
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 assets		79	-	1,275	-	-	-	1,354
<b>Total financial assets</b>		<b>862,997</b>	<b>155,959</b>	<b>60,749</b>	<b>539,934</b>	<b>825,376</b>	<b>34,720</b>	<b>2,479,735</b>
<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
<b>Total interest bearing financial liabilities</b>		<b>-</b>	<b>-</b>	<b>47,726</b>	<b>633,622</b>	<b>185,880</b>	<b>-</b>	<b>867,228</b>
Financial liabilities at fair value through profit or loss		2,337	-	-	-	-	-	2,337
Amounts due to Anti-crisis Fund		499	-	-	-	-	-	499
Other liabilities		1,913	3,842	8,484	4,747	-	-	18,986
<b>Total financial liabilities</b>		<b>4,749</b>	<b>3,842</b>	<b>56,210</b>	<b>638,369</b>	<b>185,880</b>	<b>-</b>	<b>889,050</b>
<b>Liquidity gap</b>		<b>858,248</b>	<b>152,117</b>	<b>4,539</b>	<b>(98,435)</b>	<b>639,496</b>	<b>34,720</b>	
<b>Interest sensitivity gap</b>		<b>858,027</b>	<b>155,959</b>	<b>8,173</b>	<b>(93,688)</b>	<b>639,496</b>	<b>-</b>	
<b>Cumulative interest sensitivity gap</b>		<b>858,027</b>	<b>1,013,986</b>	<b>1,022,159</b>	<b>928,471</b>	<b>1,567,967</b>	<b>1,567,967</b>	
<b>Cumulative interest sensitivity gap as a percentage of total assets</b>		<b>34.60%</b>	<b>40.89%</b>	<b>41.22%</b>	<b>37.44%</b>	<b>63.23%</b>	<b>63.23%</b>	

**NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011**  
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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 month 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
<b>Total interest bearing financial assets</b>		<b>863,825</b>	<b>296,616</b>	<b>86,065</b>	<b>292,331</b>	<b>891,783</b>	<b>-</b>	<b>2,430,620</b>
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 assets		328	-	1,572	-	-	-	1,900
<b>Total financial assets</b>		<b>865,542</b>	<b>296,616</b>	<b>87,637</b>	<b>292,331</b>	<b>891,783</b>	<b>34,720</b>	<b>2,468,629</b>
<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
<b>Total interest bearing financial liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>680,786</b>	<b>168,823</b>	<b>-</b>	<b>849,609</b>
Financial liabilities at fair value through profit or loss		117	-	-	-	-	-	117
Other liabilities		257	4,690	3,002	3,134	-	-	11,083
<b>Total financial liabilities</b>		<b>374</b>	<b>4,690</b>	<b>3,002</b>	<b>683,920</b>	<b>168,823</b>	<b>-</b>	<b>860,809</b>
<b>Liquidity gap</b>		<b>865,168</b>	<b>291,926</b>	<b>84,635</b>	<b>(391,589)</b>	<b>722,960</b>	<b>34,720</b>	
<b>Interest sensitivity gap</b>		<b>863,825</b>	<b>296,616</b>	<b>86,065</b>	<b>(388,455)</b>	<b>722,960</b>	<b>-</b>	
<b>Cumulative interest sensitivity gap</b>		<b>863,825</b>	<b>1,160,441</b>	<b>1,246,506</b>	<b>858,051</b>	<b>1,581,011</b>	<b>1,581,011</b>	
<b>Cumulative interest sensitivity gap as a percentage of total assets</b>		<b>34.99%</b>	<b>47.01%</b>	<b>50.49%</b>	<b>34.76%</b>	<b>64.04%</b>	<b>64.04%</b>	

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011

(in thousands of US dollars)

**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	30 June 2011 Total
<b>FINANCIAL ASSETS:</b>							
Cash and balances with national (central) banks of the Member states of the Bank	126,646	-	-	-	-	-	126,646
Hedging derivative financial instrument	-	-	-	11,116	-	-	11,116
Loans and advances to banks	475,887	3,083	71,703	141,879	-	-	692,552
Loans to customers	-	-	108,909	650,854	900,203	-	1,659,966
Financial assets available-for-sale	13,964	25,000	158,167	61,748	86,327	34,720	379,926
Investments held-to-maturity	165,000	91,234	20,602	184,593	200,866	-	662,295
Other assets	1,532	-	4,130	-	-	-	5,662
<b>Total financial assets</b>	<b>783,029</b>	<b>119,317</b>	<b>363,511</b>	<b>1,050,190</b>	<b>1,187,396</b>	<b>34,720</b>	<b>3,538,163</b>
<b>FINANCIAL LIABILITIES:</b>							
Loans and deposits from banks	-	36,787	491	1,963	22,391	-	61,632
Financial liabilities at fair value through profit or loss	3,850	-	175	-	-	-	4,025
Amounts due to Anti-crisis Fund	683	-	-	-	-	-	683
Debt securities issued	-	-	154,127	874,711	398,693	-	1,427,531
Other liabilities	416	158	14,242	5,751	-	-	20,567
Commitments to extend credit	-	2,666	203,562	823,734	71,856	-	1,101,818
<b>Total financial liabilities</b>	<b>4,949</b>	<b>39,611</b>	<b>372,597</b>	<b>1,706,159</b>	<b>492,940</b>	<b>-</b>	<b>2,616,256</b>
<b>Net position</b>	<b>778,080</b>	<b>79,706</b>	<b>(9,086)</b>	<b>(655,969)</b>	<b>694,456</b>	<b>34,720</b>	<b>921,907</b>
	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 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 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 liabilities	1,913	3,842	8,484	4,747	-	-	18,986
Commitments to extend credit	362	36,068	275,532	732,916	-	-	1,044,878
<b>Total financial liabilities</b>	<b>5,111</b>	<b>39,910</b>	<b>383,499</b>	<b>1,571,093</b>	<b>205,557</b>	<b>-</b>	<b>2,205,170</b>
<b>Net position</b>	<b>858,312</b>	<b>116,116</b>	<b>(175,537)</b>	<b>(533,039)</b>	<b>1,075,382</b>	<b>34,720</b>	<b>1,375,954</b>

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011*(in thousands of US dollars)***28 RISK MANAGEMENT POLICIES, CONTINUED****(b) Liquidity risk, continued**

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	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 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 liabilities	257	4,690	3,002	3,134	-	-	11,083
Commitments to extend credit	-	-	-	-	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>

**(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 instruments: duration, modified duration and dollar value of 1 basis point.

**(i) 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.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011**  
*(in thousands of US dollars)*

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

Impact on net profit based on asset values as at 30 June 2011, 31 December 2010 and 2009:

	As at 30 June 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	4,490	(4,490)	2,100	(2,100)	2,100	(2,100)
Loans to customers	6,861	(6,861)	6,637	(6,637)	5,780	(5,780)
<b>Financial liabilities:</b>						
Loans and deposits from banks	(1,721)	1,100	(1,689)	1,526	(9,708)	9,708
Debt securities issued	(4,112)	4,112	(4,071)	4,071	-	-
<b>Net impact on net profit</b>	<b>5,518</b>	<b>(6,139)</b>	<b>2,977</b>	<b>(3,140)</b>	<b>(3,917)</b>	<b>4,101</b>

Impact on equity is based on asset values as at 30 June 2011, 31 December 2010 and 2009:

	As at 30 June 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	4,490	(4,490)	2,100	(2,100)	2,100	(2,100)
Loans to customers	6,861	(6,861)	6,637	(6,637)	5,780	(5,780)
Financial assets available-for-sale	(9,902)	11,600	(11,790)	13,846	(60,343)	97,936
<b>Financial liabilities:</b>						
Loans and deposits from banks	(1,721)	1,100	(1,689)	1,526	(9,708)	9,708
Debt securities issued	(4,112)	4,112	(4,071)	4,071	-	-
<b>Net impact on equity</b>	<b>(4,384)</b>	<b>5,461</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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011*(in thousands of US dollars)***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	30 June 2011 Total
<b>Financial assets:</b>						
Cash and balances with the national (central) banks of the Member states of the Bank	30	126,553	22	-	-	126,605
Hedging derivative financial instrument	5,936	-	5,180	-	-	11,116
Loans and advances to banks	347,476	-	87,859	228,496	24	663,855
Loans to customers	801,724	41,430	148,756	74,008	-	1,065,918
Financial assets available-for- sale	309,064	-	35,686	-	-	344,750
Investments held to maturity	552,542	-	-	-	-	552,542
Other assets	4,447	5	1,056	154	-	5,662
<b>Total financial assets</b>	<b>2,021,219</b>	<b>167,988</b>	<b>278,559</b>	<b>302,658</b>	<b>24</b>	<b>2,770,448</b>
<b>Financial liabilities:</b>						
Loans and deposits from banks	46,095	-	-	11,626	-	57,721
Financial liabilities at fair value through profit or loss	4,025	-	-	-	-	4,025
Amounts due to Anti-crisis Fund	683	-	-	-	-	683
Debt securities issued	532,956	138,847	365,457	45,245	-	1,082,505
Other liabilities	19,844	251	438	31	3	20,567
<b>Total financial liabilities</b>	<b>603,603</b>	<b>139,098</b>	<b>365,895</b>	<b>56,902</b>	<b>3</b>	<b>1,165,501</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>1,417,616</b>	<b>28,890</b>	<b>(87,336)</b>	<b>245,756</b>	<b>21</b>	

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011  
(in thousands of US dollars)

**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 assets	654	19	593	88	-	1,354
<b>Total financial assets</b>	<b>1,851,495</b>	<b>241,878</b>	<b>104,093</b>	<b>282,234</b>	<b>35</b>	<b>2,479,735</b>
<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 liabilities	17,779	312	839	26	30	18,986
<b>Total financial liabilities</b>	<b>551,554</b>	<b>137,332</b>	<b>166,653</b>	<b>33,481</b>	<b>30</b>	<b>889,050</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>1,299,941</b>	<b>104,546</b>	<b>(62,560)</b>	<b>248,753</b>	<b>5</b>	
	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 assets	1,877	-	23	-	-	1,900
<b>Total financial assets</b>	<b>1,881,139</b>	<b>176,086</b>	<b>165,374</b>	<b>246,022</b>	<b>8</b>	<b>2,468,629</b>
<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 liabilities	10,796	2	3	282	-	11,083
<b>Total financial liabilities</b>	<b>520,408</b>	<b>137,599</b>	<b>167,253</b>	<b>35,549</b>	<b>-</b>	<b>860,809</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>1,360,731</b>	<b>38,487</b>	<b>(1,879)</b>	<b>210,473</b>	<b>8</b>	

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
SIX-MONTH PERIOD ENDED 30 JUNE 2011

(in thousands of US dollars)

**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	30 June 2011 Total
Accounts payable on spot and derivative contracts	(173,473)	(30,096)	(99,251)	(244,257)	-	(547,077)
Accounts receivable on spot and derivative contracts	369,539	-	184,624	-	-	554,163
<b>NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION</b>	<b>196,066</b>	<b>(30,096)</b>	<b>85,373</b>	<b>(244,257)</b>	<b>-</b>	<b>7,086</b>
<b>TOTAL OPEN POSITION</b>	<b>1,613,682</b>	<b>(1,206)</b>	<b>(1,963)</b>	<b>1,499</b>	<b>21</b>	
	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
<b>NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION</b>	<b>300,251</b>	<b>(113,034)</b>	<b>60,617</b>	<b>(249,261)</b>	<b>-</b>	<b>(1,427)</b>
<b>TOTAL OPEN POSITION</b>	<b>1,600,192</b>	<b>(8,488)</b>	<b>(1,943)</b>	<b>(507)</b>	<b>5</b>	
	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
<b>NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION</b>	<b>252,571</b>	<b>(40,117)</b>	<b>-</b>	<b>(211,675)</b>	<b>-</b>	<b>779</b>
<b>TOTAL OPEN POSITION</b>	<b>1,613,302</b>	<b>(1,630)</b>	<b>(1,879)</b>	<b>(1,202)</b>	<b>8</b>	

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE  
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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 30 June 2011 and 31 December 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 30 June 2011 and 31 December 2010 and 2009.

Impact on net profit based on asset values as at 30 June 2011, 31 December 2010 and 2009:

	As at 30 June 2011		As at 31 December 2010		As at 31 December 2009	
	USD/RUR +15%	USD/RUR -15%	USD/RUR +15%	USD/RUR -15%	USD/RUR +25%	USD/RUR -25%
Impact on net profit	(294)	294	(291)	291	(470)	470

	As at 30 June 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	(181)	181	(1,273)	1,273	(408)	408

	As at 30 June 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	150	(150)	(51)	51	(120)	120

Impact on equity based on asset values as at 30 June 2011, 31 December 2010 and 2009:

	As at 30 June 2011		As at 31 December 2010		As at 31 December 2009	
	USD/RUR +15%	USD/RUR -15%	USD/RUR +15%	USD/RUR -15%	USD/RUR +25%	USD/RUR -25%
Impact on equity	(107)	107	(291)	291	(470)	470

	As at 30 June 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	(181)	181	(1,273)	1,273	(408)	408

	As at 30 June 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	150	(150)	(51)	51	(120)	120

**28 RISK MANAGEMENT POLICIES, 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.