

EURASIAN DEVELOPMENT BANK

Financial Statements and
Independent Auditor's Report
For the Year ended 31 December 2017

Eurasian Development Bank

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Council of Eurasian Development Bank

Opinion

We have audited the financial statements of Eurasian Development Bank ("the Bank"), which comprise the statements of financial position as at 31 December 2017 and 2016, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Classification of loans to customers as unimpaired	
The amount of allowance on loans is dependent on the accuracy of classification of loans as impaired or unimpaired in the provisioning system of the Bank, which is subject to significant judgements and manual adjustments.	We obtained an understanding of the loan loss provision process, particularly over the capture, monitoring and reporting of loans to customers, including classification, along with any manual inputs as part of the process.
Due to the significance of the allowance for loans to customers, we identified as a key audit matter a risk that impaired loans may be incorrectly classified as unimpaired and thus impact the provisioning level.	For a sample of loans classified as "unimpaired", we examined various impairment indicators required by IAS 39 "Financial Instruments", such as delinquency of interest or principal, restructuring events and certain financial performance indicators to evaluate
Refer to Notes 15 and 28 to the financial statements for the description of credit risk	

assessment for loans and disclosure of gross carrying amounts and related allowances for loans.

whether they have been appropriately classified in the system.

We found no material exceptions.

Allowance for impairment losses on loans to customers identified as impaired

Loans to customers represent 40% of the total assets of the Bank as at 31 December 2017.

As disclosed in Notes 3 and 15, the Bank estimates allowance for impairment of loans on an individual basis. As this process is inherently judgmental, we identified it a key audit matter.

Management estimates the expected future cash flows in relation to the loans identified as impaired. The estimation is based on analysis the borrower's expected and historical performance, forecast of cash flows generated from the business activities and from the realization of available collateral.

We obtained an understanding of the loan loss provision process.

We selected loan exposures on a sample basis and tested the appropriateness of the specific loan loss provision as at the reporting date, including reviewing the Bank's documented credit assessment of the borrowers, challenging assumptions made in respect of future cash flow projections and the valuation of collateral held, agreeing these assumptions to supporting documents and re-performing the calculations of impairment losses.

As part of our procedures, we evaluated the adequacy and completeness of related disclosures in the financial statements.

We found no material exceptions.

Interest income recognition on loans to customers

Interest income on loans to customers represent 74% of total interest income of the Bank for the year ended 31 December 2017. The Bank recognises interest income in profit or loss using the effective interest method, as disclosed in Note 3 to the financial statements.

The amount of interest income recognized on loans is significant and the calculation of interest income is reliant on the quality of the underlying source data, such as the original effective interest rate and the carrying amount of loan.

We identified interest income recognition as a key audit matter, because inaccuracy in the source data could result in significant errors in calculations and incorrect recognition of interest income.

We obtained an understanding of the process of the recording of interest income on loans and input of data to the system related to loans to customers.

On a sample basis we performed recalculation of interest income on loans to customers, checked source data applied in recalculation, such as interest rate and changes in carrying amount of loans during the year that affect the amount of recognised interest income. We compared our calculations with accounting records.

We found no material exceptions.

Other Information

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

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

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

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Other Matter

The financial statements of the Bank for the year ended 31 December 2015, were audited by another auditor who expressed an unmodified opinion on those statements on 16 April 2016.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

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

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

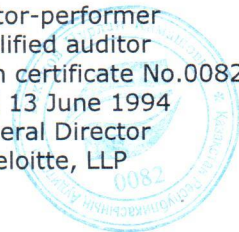
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.



Deloitte, LLP
State license on auditing in
the Republic of Kazakhstan
№ 0000015, type MFU-2, issued by the
Ministry of Finance of the
Republic of Kazakhstan dated
13 September 2006

Nurlan Bekenov
Auditor-performer
Qualified auditor
Qualification certificate No.0082
dated 13 June 1994
General Director
Deloitte, LLP



14 February 2018

EURASIAN DEVELOPMENT BANK

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of US dollars)

	Note	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Interest income	4	197,467	193,484	225,989
Interest expense	4	(108,274)	(84,272)	(133,093)
Net interest income before provision for impairment losses on interest bearing assets		89,193	109,212	92,896
(Provision)/recovery for impairment losses on interest bearing assets	5	(26,730)	54,523	(150,448)
NET INTEREST INCOME/(EXPENSE)		62,463	163,735	(57,552)
Provision for impairment losses on equity financial assets available-for-sale	16	(1,543)	-	(21,732)
(Provision)/recovery for impairment losses on other assets		(12)	435	(42,587)
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	6	(71,093)	12,726	(18,033)
Net realised gain on financial assets available-for- sale	7	2,875	26,619	1,543
Net gain/(loss) on transactions in foreign currencies	8	75,499	(11,743)	37,224
Fee and commission income	9	7,333	2,327	5,329
Fee and commission expense		(272)	(265)	(225)
Net loss on trading with debt securities issued		(93)	(162)	(13,725)
Other income		120	301	643
Other expenses		-	(20)	-
Net non-interest income/(loss)		12,814	30,218	(51,563)
Net result from financial operations		75,277	193,953	(109,115)
Operating expenses	10	(33,392)	(30,034)	(34,235)
Technical Assistance Fund expenses, net	11	(165)	(410)	(259)
NET PROFIT/(LOSS)		41,720	163,509	(143,609)

The notes on pages 12-86 form an integral part of these financial statements.

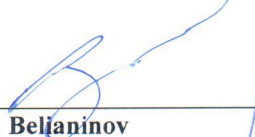
EURASIAN DEVELOPMENT BANK

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in thousands of US dollars)


	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
OTHER COMPREHENSIVE INCOME:			
Items that are or may be reclassified subsequently to profit or loss:			
Net unrealised gain on revaluation of financial assets available-for-sale	3,671	10,592	6,215
Difference between carrying amount and fair value of investments held-to-maturity at the reclassification date	-	20,270	-
Net realised gain on financial assets available-for- sale transferred to profit or loss	(2,875)	(26,619)	(1,543)
Total items that are or may be reclassified subsequently to profit or loss	796	4,243	4,672
OTHER COMPREHENSIVE INCOME	796	4,243	4,672
TOTAL COMPREHENSIVE INCOME/(LOSS)	42,516	167,752	(138,937)

Approved on behalf of the management of the Bank:


A.Y. Beljaninov
Chairman of the Executive Board

14 February 2018
Almaty, Kazakhstan




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

14 February 2018
Almaty, Kazakhstan

The notes on pages 12-86 form an integral part of these financial statements.

EURASIAN DEVELOPMENT BANK

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 (in thousands of US dollars)


	Note	31 December 2017	31 December 2016	31 December 2015
ASSETS				
Cash and cash equivalents	12	167,370	477,882	288,287
Financial assets at fair value through profit or loss	13	135	6,531	-
Loans and advances to banks	14	191,565	127,960	61,539
Loans to customers	15	1,344,265	1,482,208	1,499,391
Financial assets available-for-sale	16	1,600,679	1,145,519	609,749
Investments held-to-maturity	17	-	-	402,714
Property and equipment		11,041	11,727	12,513
Intangible assets		890	1,128	1,246
Other assets	18	4,510	2,120	5,195
TOTAL ASSETS		3,320,455	3,255,075	2,880,634
LIABILITIES AND EQUITY				
LIABILITIES:				
Loans and deposits from banks	19	377,829	408,243	161,351
Financial liabilities at fair value through profit or loss	13	11,072	904	5,137
Debt securities issued	20	1,198,341	1,156,129	1,196,357
Other liabilities	21	23,612	22,714	18,456
Total liabilities		1,610,854	1,587,990	1,381,301
EQUITY:				
Share capital:				
Authorised share capital	22	7,000,000	7,000,000	7,000,000
Less: callable share capital	22	(5,484,300)	(5,484,300)	(5,484,300)
Paid-in share capital		1,515,700	1,515,700	1,515,700
Reserve fund	22	90,872	90,872	90,872
Revaluation reserve for financial assets available-for-sale		5,265	4,469	226
Retained earnings/(accumulated deficit)		97,764	56,044	(107,465)
Total equity		1,709,601	1,667,085	1,499,333
TOTAL LIABILITIES AND EQUITY		3,320,455	3,255,075	2,880,634

Approved on behalf of the management of the Bank:


A.Y. Belianinov
Chairman of the Executive Board

14 February 2018
Almaty, Kazakhstan




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

14 February 2018
Almaty, Kazakhstan

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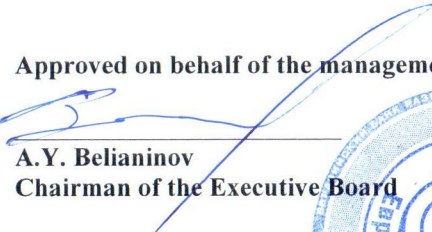
EURASIAN DEVELOPMENT BANK

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

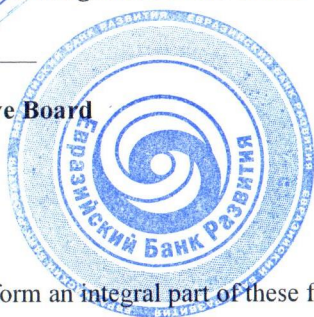
(in thousands of US dollars)


	Share capital			Reserve fund	Revaluation (deficit)/reserve for financial assets available-for-sale	Retained earnings/ (accumulated deficit)	Total
	Authorised	Callable	Paid-in				
1 January 2015	7,000,000	(5,484,300)	1,515,700	90,872	(4,446)	36,144	1,638,270
Net loss	-	-	-	-	-	(143,609)	(143,609)
Other comprehensive income	-	-	-	-	4,672	-	4,672
Total comprehensive income/(loss)	-	-	-	-	4,672	(143,609)	(138,937)
31 December 2015	7,000,000	(5,484,300)	1,515,700	90,872	226	(107,465)	1,499,333
Net profit	-	-	-	-	-	163,509	163,509
Other comprehensive income	-	-	-	-	4,243	-	4,243
Total comprehensive income	-	-	-	-	4,243	163,509	167,752
31 December 2016	7,000,000	(5,484,300)	1,515,700	90,872	4,469	56,044	1,667,085
Net profit	-	-	-	-	-	41,720	41,720
Other comprehensive income	-	-	-	-	796	-	796
Total comprehensive income	-	-	-	-	796	41,720	42,516
31 December 2017	7,000,000	(5,484,300)	1,515,700	90,872	5,265	97,764	1,709,601

Approved on behalf of the management of the Bank:


A.Y. Belianinov
 Chairman of the Executive Board

14 February 2018
 Almaty, Kazakhstan




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

14 February 2018
 Almaty, Kazakhstan

The notes on pages 12-86 form an integral part of these financial statements.

EURASIAN DEVELOPMENT BANK

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of US dollars)

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received on loans to customers	157,290	171,905	165,891
Interest received on loans and advances to banks	14,022	12,551	17,523
Interest (expense paid)/ income received from financial assets and liabilities at fair value through profit or loss	(54,530)	2,050	(14,546)
Interest and income received on financial assets available-for-sale	39,321	42,526	5,772
Interest received on investments held-to-maturity	-	14,933	19,225
Interest paid on loans and advances from banks	(22,257)	(4,311)	(5,487)
Interest paid on debt securities issued	(76,959)	(75,341)	(132,516)
Fees and commissions received	6,019	5,299	4,563
Fees and commissions paid	(262)	(253)	(255)
Other income received	120	301	643
Other expenses paid	-	(20)	-
Operating expenses paid	(27,889)	(27,917)	(37,702)
Cash inflow from operating activities before changes in operating assets and liabilities	34,875	141,723	23,111
Changes in operating assets			
Decrease in loans to customers	144,461	114,359	268,780
(Increase)/decrease in loans and advances to banks	(61,760)	(63,534)	133,478
(Increase)/decrease in other assets	(747)	272	433
Changes in operating liabilities			
(Decrease)/increase in deposits from banks	(31,459)	286,823	-
(Decrease)/increase in other liabilities	(1,248)	1,316	8
Cash flows from operating activities	84,122	480,959	425,810
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of financial assets available-for-sale	(3,564,083)	(1,750,697)	(1,032,995)
Proceeds from sale and redemption of financial assets available-for-sale	3,141,418	1,586,832	1,121,139
Purchase of investments held-to-maturity	-	(13,869)	-
Proceeds from redemption of investments held-to-maturity	-	37,771	29,430
Purchase of property, equipment and intangible assets	(332)	(404)	(635)
Cash flows (used in)/from investing activities	(422,997)	(140,367)	116,939

EURASIAN DEVELOPMENT BANK

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in thousands of US dollars)


	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of debt securities	190,168	124,416	-
Repayments of debt securities	(172,586)	(229,218)	(587,843)
Proceeds from loans from banks	-	2,792	18,804
Repayments of loans from banks	(22,329)	(46,504)	(27,677)
Cash flows used in financing activities	(4,747)	(148,514)	(596,716)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
CASH AND CASH EQUIVALENTS at the beginning of the year	(343,622)	192,078	(53,967)
Effect of changes in foreign exchange rate on cash and cash equivalents	477,882	288,287	346,436
	33,110	(2,483)	(4,182)
CASH AND CASH EQUIVALENTS at the end of the year (Note 12)	167,370	477,882	288,287

During the year ended 31 December 2016, the Bank made a reclassification from held-to-maturity investments assets to available-for-sale investments in the amount of 377,339 thousand US dollars. These non-cash transfers were excluded from the statement of cash flows.

Approved on behalf of the management of the Bank:


A.Y. Belianinov
Chairman of the Executive Board




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

14 February 2018
Almaty, Kazakhstan

14 February 2018
Almaty, Kazakhstan

The notes on pages 12-86 form an integral part of these financial statements.

1. BACKGROUND

(a) Principal activities

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

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

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

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

As at 31 December 2017, the following states were members of the Bank: the Russian Federation, the Republic of Kazakhstan, the Republic of Armenia, the Republic of Tajikistan, the Republic of Belarus and the Kyrgyz Republic.

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

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

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

1. BACKGROUND, CONTINUED

(a) Principal activities, continued

As at 31 December 2017, 2016 and 2015, shares of the Bank were owned as follows:

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

These financial statements were authorised for issue on 14 February 2018 by the management of the Bank.

(b) Business environment

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

2. BASIS OF PREPARATION

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future.

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

2. BASIS OF PREPARATION, CONTINUED

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

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

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

(d) Use of estimates and judgments

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Bank at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss; a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or qualifying cash flow hedges to the extent that the hedge is effective, which are recognised in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Rates of exchange

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

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
US dollar/1 Kazakhstan tenge (“KZT”)	0.00300436	0.00299679	0.00293600
US dollar/1 Russian rouble (“RUB”)	0.01733400	0.01625000	0.01372700
US dollar/1 British pound sterling (“GBP”)	1.35130000	1.23400000	1.47340000
US dollar/1 Euro (“EUR”)	1.20050000	1.05170000	1.08660000

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, balances (nostro accounts) held with other banks, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Loans and advances to banks

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

(d) Financial instruments

(i) Classification

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(d) Financial instruments, continued****(i) Classification, continued**

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category.

Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of the at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

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

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

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

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

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

(ii) Recognition of financial instruments

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 of financial instruments

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.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(d) Financial instruments, continued*****(iii) Measurement, continued***

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

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

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

(iv) Amortised cost

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

(v) Fair value measurement principles

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(d) Financial instruments, continued****(v) Fair value measurement principles, continued**

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

(vi) Gains and losses on subsequent measurement

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

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

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

(vii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

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

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

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

The Bank writes off assets deemed to be uncollectible.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(d) Financial instruments, continued*****(viii) Repurchase and reverse repurchase agreements***

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

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

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

(ix) Derivative financial instruments

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

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

(x) Offsetting

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(e) Assets held for sale

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

(f) Property and equipment

(i) Owned assets

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

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

(ii) Depreciation

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

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

(g) Intangible assets

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(h) Impairment**

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

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

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

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

(i) Financial assets carried at amortised cost

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(h) Impairment, continued****(i) *Financial assets carried at amortised cost, continued***

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

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

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

(ii) *Financial assets carried at cost*

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(h) Impairment, continued****(iv) Non financial assets**

Non financial assets are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

(i) Provisions and contingencies

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

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

(j) Credit related commitments

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(k) Share capital**

Share capital is recognised at cost.

(l) Taxation

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

(m) Income and expense recognition

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

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

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

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

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

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

(n) Fiduciary assets

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

(o) Employee benefits

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

The accumulated funds are disbursed to the employee when he/she leaves the company or at the date of dismissal (Note 21).

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(p) Segment reporting**

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

(q) Application of new and revised International Financial Reporting Standards (IFRSs)**Amendments to IFRSs affecting amounts reported in the financial statements**

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements:

Amendments to IAS 7 *Disclosure Initiative*

The Bank has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Bank's liabilities arising from financing activities consist of loans from banks (Note 19) and debt securities issued (Note 20). A reconciliation between the opening and closing balances of these items is provided in Notes 19 and 20. Consistent with the transition provisions of the amendments, the Bank has not disclosed comparative information for the prior period. Apart from the additional disclosure in Notes 19 and 20, the application of these amendments has had no impact on the Bank's financial statements.

(r) New and revised IFRSs in issue but not yet effective.

The Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 15 Revenue from Contracts with Customers (and the related Clarifications)¹;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration¹;
- Amendments to IFRS 9 – Prepayment Features With Negative Compensation².
- IFRS 9 Financial Instruments¹;

¹ Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(r) New and revised IFRSs in issue but not yet effective, continued*****IFRS 15 Revenue from Contracts with Customers***

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

1. Identify the contract with the customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contracts;
5. Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued *Clarifications to IFRS 15* in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The management of the Bank does not anticipate that the application of this IFRS will have a material impact on the Bank's financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the ‘date of transaction’ for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(r) New and revised IFRSs in issue but not yet effective, continued

The management of the Bank does not anticipate that the application of this IFRIC will have a material impact on the Bank's financial statements as the Bank currently uses the approach prescribed in IFRIC 22.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The narrow-scope amendments remedy an unintended consequence to the notion of 'reasonable additional compensation'. The amendments allow financial assets with a prepayment option that could result in the option's holder receiving compensation for early termination to meet the SPPI condition if specified criteria are met.

In addition to that, the IASB considered the accounting for financial liabilities that are modified or exchanged that do not lead to derecognition and as a result included in the Basis for Conclusion two paragraphs on that matter. In those paragraphs the Board observes that the accounting in such cases is the same as it is for modifying a financial asset. If the gross carrying amount is changed it will lead to an immediate gain or loss in profit or loss.

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The management of the Bank does not anticipate that the application of this amendment will have a material impact on the Bank's financial statements.

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(r) New and revised IFRSs in issue but not yet effective, continued

- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.
- **Derecognition.** The requirements for derecognition of financial assets and liabilities are carried forward from IAS 39.

In 2016 the Bank has started its transition process to accommodate IFRS 9 requirements. By the end of 2017 the Bank has adopted a number of internal regulative documents and implemented new procedures that resulted in adoption of IFRS 9 effective 1 January 2018. In accordance with the transition rules of IFRS 9, comparative figures have not been restated.

Based on an analysis of the Bank's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the management of the Bank has assessed the impact of IFRS 9 as follows:

Classification and measurement

1. **Cash and cash equivalents** (Note 12), **loans to banks** (Note 14) and **loans to customers** (Note 15) are carried at amortised cost: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9;
2. **Financial assets and liabilities at fair value through profit or loss** (Note 13) will continue to be subsequently measured at fair value through profit or loss upon the application of IFRS 9;

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(r) New and revised IFRSs in issue but not yet effective, continued

3. **Financial assets available-for-sale** (Note 16) are carried at fair value: these are held within a business model whose objective is achieved both by collecting contractual cash flows and selling in the open market. Accordingly, these financial assets will continue to be subsequently measured at fair value through other comprehensive income upon the application of IFRS 9, and the fair value gains or losses accumulated in the investment revaluation reserve will continue to be subsequently reclassified to profit or loss when these assets are derecognized or reclassified.

Impairment

Cash and cash equivalents, advances to banks, debt instruments in Treasury portfolio are provisioned according to their external credit ratings assigned by Fitch Ratings \ Moody's Investors Service \ S&P Global Ratings. The Bank uses probability of default and recovery rate ratios that correspond to the credit rating of a financial instrument or issuer.

As at 1 January 2018 Bank's assessment of the impairment reserves for aforementioned financial assets is:

	Carrying amount before loss allowance	Impairment loss allowance per IAS 39	Impairment loss allowance per IFRS 9	Estimated adjustment to Retained earnings at 1 January 2018
Cash, correspondent accounts and term deposits with other banks	159,521	-	(32)	(32)
Loans under reverse repurchase agreements	42,189	-	(1)	(1)
Debt instruments in Treasury portfolio	1,475,903	-	(1,845)	(1,845)
	1,677,613	-	(1,878)	(1,878)

Loans to banks, loans to customers and debt instruments in Investment portfolio are provisioned through a redeveloped process that includes the following:

- Distribution of assets into different impairment stages:** the Bank has analyzed historical data and evaluations that were made on a quarterly basis according to credit quality assessment procedures described in Note 28b(v). According to results of this analysis the Bank has allocated financial assets recognized at amortized cost or at fair value through other comprehensive income and financial guarantee contracts to the three stages: stage 1 – if the credit risk has not increased significantly, stage 2 – if the credit risk has increased significantly, stage 3 – if a financial asset is in default or otherwise credit-impaired;
- Collateral assessment:** no significant changes were made to collateral assessment procedures;
- Financial models assessment:** financial models of the projects of the Bank are tested using alternate three scenarios that are used in expected credit-loss calculation. Each scenario is based on certain key macroeconomic variables, such as commodity prices, exchange rates, inflation, etc. These key variables are determined by the Bank's analytical department and the Bank's chief economist office. Probability-weighted result of different scenarios is used in calculation of expected credit loss.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 *(in thousands of US dollars)*

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(r) New and revised IFRSs in issue but not yet effective, continued

Based on an impairment stage of a financial asset, cost of collateral and operational value the Bank has estimated following amount of reserves:

	Carrying amount before loss allowance	Impairment loss allowance per IAS 39	Impairment loss allowance per IFRS 9	Estimated adjustment to Retained earnings at 1 January 2018
Loans to banks	157,336	(111)	(1,742)	(1,631)
Loans to customers	1,399,445	(55,180)	(66,334)	(11,154)
Debt instruments in Investment portfolio	105,124	(162)	(801)	(639)
	1,661,905	(55,453)	(68,877)	(13,424)

4. NET INTEREST INCOME

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Interest income comprises:			
Interest income on financial assets measured at amortised cost comprises:			
Interest on unimpaired assets	159,656	169,105	207,464
Interest on loans to customers that were defaulted or overdue more than 90 days	2,346	5,919	13,588
Interest income on financial assets available-for-sale	35,465	18,460	4,937
Total interest income	197,467	193,484	225,989
Interest income on financial assets measured at amortised cost comprises:			
Interest on loans to customers	146,826	152,167	190,823
Interest on loans and advances to banks	8,522	8,936	10,418
Interest on cash and cash equivalents	6,654	5,895	5,705
Interest on investments held-to-maturity	-	8,026	14,106
Total interest income on financial assets measured at amortised cost	162,002	175,024	221,052
Interest expense comprises:			
Interest expense on financial liabilities measured at amortised cost comprises:			
Interest on debt securities issued	(82,426)	(77,141)	(127,957)
Interest on loans and deposits from banks	(25,848)	(7,131)	(5,136)
Total interest expense on financial liabilities measured at amortised cost	(108,274)	(84,272)	(133,093)
Net interest income before provision for impairment losses on interest bearing financial assets	89,193	109,212	92,896

For the year ended 31 December 2017, interest income on financial assets includes a total of 8,084 thousand US dollars (2016: 11,690 thousand US dollars; 2015: 45,873 thousand US dollars) accrued on impaired loans to customers.

EURASIAN DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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5. PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS

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

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Beginning of the year	(83,274)	(132,695)	(41,924)
Net (charge)/ recovery	(26,557)	54,501	(150,932)
Write-offs	57,321	3,549	43,534
Effect of foreign currency movements	(2,670)	(8,629)	16,627
End of the year	(55,180)	(83,274)	(132,695)

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

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Beginning of the year	(101)	(122)	(602)
Net (charge)/ recovery	(10)	22	480
Effect of foreign currency movements	-	(1)	-
End of the year	(111)	(101)	(122)

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

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Beginning of the year	-	-	(873)
Net (charge)/ recovery	(163)	-	4
Write-offs	-	-	848
Effect of foreign currency movements	1	-	21
End of the year	(162)	-	-

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

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Net (loss)/gain on derivative financial instruments in foreign currency	(71,093)	12,726	(18,033)
Total net (loss)/gain on financial assets and liabilities at fair value through profit or loss	(71,093)	12,726	(18,033)

During the year ended 31 December 2017, the net loss on forward side of swap deals was equal to 69,399 thousand US dollars (2016: net gain of 7,211 thousand US dollars; 2015: net loss of 6,217 thousand US dollars). An equally opposite amount of net gain/(loss) on the spot side of these swap deals was accounted via net gain/(loss) on transactions in foreign currencies (Note 8).

EURASIAN DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of US dollars)

7. NET REALISED GAIN ON FINANCIAL ASSETS AVAILABLE-FOR-SALE

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Net gain on transactions with debt securities	2,875	26,619	1,543
Total net gain on financial assets available-for-sale	2,875	26,619	1,543

During the year ended 31 December 2016, the net gain on financial assets available-for-sale in the amount of 26,547 thousand US dollars was received from trading with debt securities issued by the Russian Federation and Eurobonds of the Republic of Kazakhstan.

8. NET GAIN/(LOSS) ON TRANSACTIONS IN FOREIGN CURRENCIES

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Translation differences, net	75,527	(10,512)	12,581
Dealing, net	(28)	(1,231)	24,643
Total net gain/ (loss) on transactions in foreign currencies	75,499	(11,743)	37,224

9. FEE AND COMMISSION INCOME

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Eurasian Fund for Stabilisation and Development management fee	3,831	641	4,291
Credit related fees	3,405	1,509	808
Other fees and commissions	97	177	230
Total fee and commission income	7,333	2,327	5,329

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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10. OPERATING EXPENSES

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Staff costs and other payments to employees	24,069	21,105	22,893
Premises expenses	1,731	1,804	2,217
Professional services	1,456	1,061	1,404
Depreciation and amortisation	1,208	1,388	1,563
Business trip expenses	1,018	703	1,079
Communication expenses	886	728	939
Maintenance of acquired systems and programs	847	928	976
Business development expenses	773	988	1,391
Security	552	556	788
Transportation expenses	188	172	249
Office, postal and printing expenses	139	141	148
Training	119	53	120
Other	406	407	468
Total operating expenses	33,392	30,034	34,235

11. TECHNICAL ASSISTANCE FUND EXPENSES, NET

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Technical Assistance Fund expenses	(170)	(414)	(259)
Technical Assistance Fund revenues	5	4	-
Technical Assistance Fund expenses, net	(165)	(410)	(259)

The purpose of Technical Assistance Fund (“the TAF”) is to effectively assist the strategic objective of the Bank via: a) financing pre-investment researches; b) supporting programs of regional integration; and c) carrying out researches aimed at economic growth, development of market economies and the expansion of mutual trade between Member states.

The amount of resources available for the TAF programs is set by the Council of the Bank annually. Any unused part of the Council of the Bank annual allocation is accumulated and could be used in future periods.

	31 December 2017	31 December 2016	31 December 2015
TAF reserve	9,323	9,487	7,297

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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12. CASH AND CASH EQUIVALENTS

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

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
Cash and balances with national (central) banks of Member states of the Bank	458	955	563
Correspondent accounts with other banks			
with credit ratings A- and above	21,333	136,700	124,425
with credit ratings below A- and not rated	4,964	8,423	1,326
Term deposits in other banks			
with credit ratings A- and above	30,626	95,589	44,647
with credit ratings from BBB+ to BBB-	10,001	-	30,091
with credit ratings from BB+ to BB-	81,702	96,467	80,932
with credit ratings below BB-	10,437	-	-
Loans under reverse repurchase agreements			
with pledge credit ratings from BBB+ to BBB-	7,849	11,402	1,535
with pledge credit ratings from BB+ to BB-	-	128,346	4,768
Total cash and cash equivalents	<u>167,370</u>	<u>477,882</u>	<u>288,287</u>

As at 31 December 2017, 2016 and 2015, no banks have balances that exceed 10% of equity of the Bank.

The fair value of assets pledged and carrying amount of loans under reverse repurchase agreements as at 31 December 2017, 2016 and 2015 are as follows:

	<u>31 December 2017</u>		<u>31 December 2016</u>		<u>31 December 2015</u>	
	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral
With pledge credit ratings from BBB+ to BBB-	7,849	8,033	11,402	13,320	1,535	1,803
With pledge credit ratings from BB+ to BB-	-	-	128,346	148,815	4,768	5,632
	<u>7,849</u>	<u>8,033</u>	<u>139,748</u>	<u>162,135</u>	<u>6,303</u>	<u>7,435</u>

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13. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2017	31 December 2016	31 December 2015
Derivative financial instruments – assets	135	6,531	-
Derivative financial instruments – liabilities	(11,072)	(904)	(5,137)

	31 December 2017			31 December 2016			31 December 2015		
	Notional amount	Net fair value Asset Liability		Notional amount	Net fair value Asset Liability		Notional amount	Net fair value Asset Liability	
Derivative financial instruments:									
Foreign currency contracts									
Swaps	618,379	135	(10,618)	377,847	6,186	(660)	191,629	-	(3,402)
Forwards	17,000	-	(454)	20,000	-	(244)	25,265	-	(1,735)
Options		-	-	11,415	345	-	-	-	-
		<u>135</u>	<u>(11,072)</u>		<u>6,531</u>	<u>(904)</u>		<u>-</u>	<u>(5,137)</u>

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.

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.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 *(in thousands of US dollars)*

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

Options

Options are contractual agreements sold by one party (the option writer) to another party (the option holder). The contract offers the buyer the right, but not the obligation, to buy (call) or sell (put) a security or other financial asset at an agreed-upon price (the strike price) during a certain period of time or on a specific date (exercise date).

14. LOANS AND ADVANCES TO BANKS

	31 December 2017	31 December 2016	31 December 2015
Loans to banks	157,336	77,109	61,661
Loans under reverse repurchase agreements with pledge credit ratings A- and above	34,340	-	-
Term deposits in other bank	-	50,952	-
	191,676	128,061	61,661
Less: country risk provisions	(111)	(101)	(122)
Total loans and advances to banks	191,565	127,960	61,539

As at 31 December 2017, loans and advances to banks include loans to three banks in the amount of 22,320 thousand US dollars (31 December 2016: loans to two banks in the amount of 20,203 thousand US dollars; 31 December 2015: loans to three banks in the amount of 24,367 thousand US dollars), against which the Bank records country risk provisions in the amount of 111 thousand US dollars (31 December 2016: 101 thousand US dollars; 31 December 2015: 122 thousand US dollars).

The fair value of assets pledged and carrying amount of loans under reverse repurchase agreements as at 31 December 2017:

	Carrying amount of loans	Fair value of collateral
Loans under reverse repurchase agreements: with pledge credit ratings A- and above	34,340	34,577

As at 31 December 2017, loans and advances to banks include accrued interest income amounting to 3,221 thousand US dollars (31 December 2016: 3,098 thousand US dollars; 31 December 2015: 500 thousand US dollars).

As at 31 December 2017, 2016 and 2015, no loans and advances to banks were past due.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 *(in thousands of US dollars)*

15. LOANS TO CUSTOMERS

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
Unimpaired loans to customers	1,288,768	1,410,756	1,318,086
Impaired loans to customers, including:			
- not overdue or overdue less than 90 days	64,531	55,296	246,373
- overdue more than 90 days	22,333	19,311	-
- defaulted loans	23,813	80,119	67,627
	<u>1,399,445</u>	<u>1,565,482</u>	<u>1,632,086</u>
Less: allowance for impairment losses	(55,180)	(83,274)	(132,695)
Total loans to customers	<u>1,344,265</u>	<u>1,482,208</u>	<u>1,499,391</u>

As at 31 December 2017, the Bank has loans to five customers in default for a total gross amount of 23,813 thousand US dollars (31 December 2016: four customers for a total gross amount of 80,119 thousand US dollars; 31 December 2015: three customers for a total gross amount of 67,627 thousand US dollars).

These projects have defaulted due to various reasons, primarily due to deterioration of market conditions. As at 31 December 2017 these loans were fully provisioned.

The Bank has started or is in process of initiating legal procedures against all defaulted customers.

On 15 December 2017, the Bank has written-off loans in the amount of 57,321 thousand US dollars after completing its legal procedures against two defaulted customers. These companies have invested funds into one industrial project that severely deteriorated due to changes in market conditions. As at 31 December 2016, the outstanding balance of these loans was 65,181 thousand US dollars (31 December 2015: 54,326 thousand US dollars) and the allowance for impairment losses was 42,192 thousand US dollars (31 December 2015: 34,816 thousand US dollars).

As at 31 December 2017, besides defaulted customers, the Bank has one customer (31 December 2016: three customers) with impaired loans overdue more than 90 days. The outstanding balance of this loan is 22,333 thousand US dollars (31 December 2016: 19,311 thousand US dollars) and the allowance for impairment losses is nil (31 December 2016: 4,629 thousand US dollars).

As at 31 December 2015, there were no customers with loans overdue more than 90 days, except defaulted ones.

As at 31 December 2017, the Bank has loans to seven customers (31 December 2016 and 2015: seven customers) with outstanding impaired loans not overdue or overdue less than 90 days for a total gross amount of 64,531 thousand US dollars (31 December 2016: 55,296 thousand US dollars; 31 December 2015: 246,373 thousand US dollars) with related allowance for impairment losses of 29,845 thousand US dollars (31 December 2016: 21,166 thousand US dollars; 31 December 2015: 84,408 thousand US dollars).

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15. LOANS TO CUSTOMERS, CONTINUED

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

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

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

As at 31 December 2017, 2016 and 2015 no collective provision was recognised in respect of other loans to customers as all possible risks have been considered in individual impairment assessments.

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

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
Loans collateralised by real estate, equipment and inventories	592,540	681,450	750,422
Loans collateralised by guarantees:			
- State entities	351,779	381,473	349,773
- Governments of the Member-states of the Bank	215,760	244,933	253,425
- Financial and commercial organisations	143,689	206,337	254,162
Loans collateralised by future cash inflows from clients' contracts	<u>95,677</u>	<u>51,289</u>	<u>24,304</u>
	1,399,445	1,565,482	1,632,086
Less: allowance for impairment losses	<u>(55,180)</u>	<u>(83,274)</u>	<u>(132,695)</u>
Total loans to customers	<u>1,344,265</u>	<u>1,482,208</u>	<u>1,499,391</u>

Loans to customers with a net carrying amount of 702,309 thousand US dollars (31 December 2016: 824,125 thousand US dollars; 31 December 2015: 857,360 thousand US dollars) are collateralised by guarantees. As at 31 December 2017 loans to three customers (31 December 2016: two customers; 31 December 2015: none) with an outstanding balance of 31,215 thousand US dollars are impaired (31 December 2016: 8,580 thousand US dollars) and the allowance for impairment losses is 8,882 thousand US dollars (31 December 2016: 8,570 thousand US dollars).

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15. LOANS TO CUSTOMERS, CONTINUED

For loans to customers collateralised by real estate, equipment and inventories with a net carrying amount of 514,767 thousand US dollars (31 December 2016: 535,290 thousand US dollars; 31 December 2015: 436,403 thousand US dollars), which are neither past due nor impaired, the fair value of collateral was estimated either at the inception of the loan or at a subsequent date. For impaired loans with a net carrying amount of 33,202 thousand US dollars (31 December 2016: 71,504 thousand US dollars; 31 December 2015: 181,449 thousand US dollars), the fair value of collateral equals 24,005 thousand US dollars (31 December 2016: 73,124 thousand US dollars; 31 December 2015: 158,185 thousand US dollars).

As at 31 December 2017, 2016 and 2015, none of the loans collateralised by the future cash inflows from clients were impaired.

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

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

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
Mining and metallurgy	384,465	430,988	306,944
Energy	346,703	327,002	349,690
Transport	279,070	301,327	360,399
Infrastructure	209,333	134,948	78,102
Agriculture	65,028	36,344	34,828
Machinery	58,855	221,580	252,662
Chemical industry	18,413	19,509	150,403
Other	37,578	93,784	99,058
	1,399,445	1,565,482	1,632,086
Less: allowance for impairment losses	(55,180)	(83,274)	(132,695)
Total loans to customers	<u>1,344,265</u>	<u>1,482,208</u>	<u>1,499,391</u>

As at 31 December 2017, the maximum credit risk exposure on loans to customers amounts to 1,344,265 thousand US dollars (31 December 2016, the maximum credit risk exposure on loans to customers amounts to 1,482,208 thousand US dollars; 31 December 2015: 1,499,391 thousand US dollars).

As at 31 December 2017, the maximum credit risk exposure on loan commitments extended by the Bank to its borrowers amounts to 637,085 thousand US dollars (31 December 2016: 605,839 thousand US dollars; 31 December 2015: 490,739 thousand US dollars) (Note 24).

As at 31 December 2017, loans to customers included accrued interest income amounting to 25,107 thousand US dollars (31 December 2016: 40,958 thousand US dollars; 31 December 2015: 65,339 thousand US dollars).

Concentration of loans to customers

As at 31 December 2017, 2016 and 2015 the Bank has one customer, whose balance exceeds 10% of total equity of the Bank. The value of this balance as at 31 December 2017 is 188,757 thousand US dollars (31 December 2016: 200,710 thousand US dollars; 31 December 2015: 214,017 thousand US dollars).

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16. FINANCIAL ASSETS AVAILABLE-FOR-SALE

As at 31 December 2017, 2016 and 2015, financial assets available-for-sale consist of:

	31 December 2017	31 December 2016	31 December 2015
Debt instruments in Treasury portfolio	1,475,903	1,090,480	589,068
Debt instruments in Investment portfolio	105,124	34,085	415
Equity instruments in Investment portfolio	19,814	20,954	20,266
	1,600,841	1,145,519	609,749
Less: allowance for impairment losses	(162)	-	-
Total financial assets available-for-sale	1,600,679	1,145,519	609,749

On 15 August 2016, the Bank has reclassified securities from investments held-to-maturity into financial assets available-for-sale according to the Banks decision to longer record financial assets in investments held-to-maturity category:

	Financial assets available- for-sale	Investments held to maturity	Fair value adjustment
Before reclassification	554,464	377,339	
Securities reclassified from investments held to maturity to financial assets available-for-sale:			
Eurobonds of the Russian Federation	239,847	220,096	19,751
US Treasuries	100,327	99,981	346
Bonds issued by non-financial organisations	33,575	33,465	110
Notes issued by National Bank of the Republic of Kazakhstan	14,212	14,234	(22)
Bonds issued by banks and financial institutions of the Russian Federation	9,648	9,563	85
	397,609	377,339	20,270
After reclassification	952,073	-	

The difference between the amortised cost and the fair value of the assets reclassified amounted to 20,270 thousand US dollars. This amount was recorded in other comprehensive income.

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16. FINANCIAL ASSETS AVAILABLE-FOR-SALE, CONTINUED

The table below presents the breakdown of the debt instruments in Treasury portfolio by counterparty:

	31 December 2017		31 December 2016		31 December 2015	
	Nominal interest rate	Fair value	Nominal interest rate	Fair value	Nominal interest rate	Fair value
Debt instruments in Treasury portfolio						
Bonds issued by non- financial organisations	0.00-9.50%	529,105	3.15 - 9.50%	208,390	6.13 - 9.25%	63,933
Bonds issued by governments of USA and Japan	0.00-3.50%	374,768	0.10 - 3.50%	129,919	0.63%	419,465
Bonds issued by banks and financial institutions of non-member states	0.00-2.88%	315,307	0.00 - 0.63%	268,754	-	-
Bonds issued by banks and financial institutions of the Russian Federation and the Republic of Kazakhstan	3.98-4.00%	130,699	3.98-12.00%	263,509	4.22 - 6.88%	7,142
Eurobonds of the Russian Federation	3.50 - 4.88%	117,026	3.25 - 4.88%	92,021	3.50 - 4.88%	18,442
Eurobonds of the Republic of Armenia	0.00-9.00%	8,998	-	-	-	-
Notes issued by National Bank of the Republic of Kazakhstan*	-	-	-	127,887	-	-
Eurobonds of the Republic of Kazakhstan	-	-	-	-	3.88 - 5.13%	80,086
		1,475,903		1,090,480		589,068

*Discount Notes of the national Bank of the Republic of Kazakhstan

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 *(in thousands of US dollars)*

16. FINANCIAL ASSETS AVAILABLE-FOR-SALE, CONTINUED

The table below presents the breakdown of the debt instruments in Treasury portfolio by credit risk rating:

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
	<u>Fair value</u>	<u>Fair value</u>	<u>Fair value</u>
Debt instruments in Treasury portfolio			
with credit ratings AA- and above	522,110	285,072	419,465
with credit ratings from A+ to A-	167,965	113,524	-
with credit ratings from BBB+ to BBB-	30,265	170,462	153,476
with credit ratings from BB+ to BB-	746,565	521,422	16,127
with credit ratings below BB-	8,998	-	-
	<u>1,475,903</u>	<u>1,090,480</u>	<u>589,068</u>

	<u>31 December 2017</u>		<u>31 December 2016</u>		<u>31 December 2015</u>	
	<u>Nominal interest rate</u>	<u>Fair value</u>	<u>Nominal interest Rate</u>	<u>Fair value</u>	<u>Nominal interest rate</u>	<u>Fair value</u>
Debt instruments in Investment portfolio						
Bonds issued by non-financial organisations	4.38 - 11.50%	69,524	8.50%	500	8.50%	415
Bonds issued by financial organisations	10.25 - 15.00%	35,600	10.25 - 15.00%	33,585	-	-
Less allowance for impairment losses		(162)		-		-
		<u>104,962</u>		<u>34,085</u>		<u>415</u>

As at 31 December 2017, debt instruments available-for-sale include accrued interest income amounting to 11,572 thousand US dollars (31 December 2016: 7,216 thousand US dollars; 31 December 2015: 1,861 thousand US dollars).

	<u>31 December 2017</u>		<u>31 December 2016</u>		<u>31 December 2015</u>	
	<u>Ownership interest</u>	<u>Fair value</u>	<u>Ownership interest</u>	<u>Fair value</u>	<u>Ownership interest</u>	<u>Fair value</u>
Equity instruments in Investment portfolio						
Investments into private equity fund "Macquarie Russia and CIS Infrastructure Fund"	15.87%	19,814	15.87%	20,954	15.87%	20,266

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

An impairment loss of 1,543 thousand US dollars was recognised during the year ended 31 December 2017 (the year ended 31 December 2016: nil US dollars; the year ended 31 December 2015: 21,732 thousand US dollars) as the result of the decline of the fair value of the equity investment.

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

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16. FINANCIAL ASSETS AVAILABLE-FOR-SALE, CONTINUED

As at 31 December 2017, 2016 and 2015, the fair value of the Bank's investments in the Fund was estimated using a valuation technique based on discounted cash flows, where the discount rate for future cash flows comprised of the risk-free interest rate applicable in the country where the asset is located and risk premium reflecting the uncertainty associated with the cash flows.

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

17. INVESTMENTS HELD-TO-MATURITY

On 15 August 2016, the Bank has reclassified securities from investments held-to-maturity into financial assets available-for-sale according to the Banks decision to no longer classify financial assets as investments held-to-maturity (see Note 16).

	<u>31 December 2017</u>		<u>31 December 2016</u>		<u>31 December 2015</u>	
	Nominal interest rate	Amount	Nominal interest Rate	Amount	Nominal interest rate	Amount
Debt securities						
Eurobonds of the Russian Federation	-	-	-	-	3.25 - 7.50%	228,501
US Treasuries	-	-	-	-	0.88%	100,247
Bonds issued by non-financial organisations	-	-	-	-	3.15 - 5.74%	53,638
Bonds issued by banks and financial institutions of the Russian Federation	-	-	-	-	4.95 - 5.38%	20,328
Total investments held-to-maturity		<u>-</u>		<u>-</u>		<u>402,714</u>

As at 31 December 2015, investments held-to-maturity include accrued interest income amounting 4,605 thousand US dollars.

As at 31 December 2015 no investments held-to-maturity were past due or impaired.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 *(in thousands of US dollars)*

18. OTHER ASSETS

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
Other financial assets recorded as loans and receivables:			
Prepayments	1,667	489	203
Accrued commission income and other receivables	1,432	100	3,046
	<u>3,099</u>	<u>589</u>	<u>3,249</u>
Other non-financial assets:			
Assets received as consideration for loans to customers	42,587	42,587	42,587
Prepaid expenses	1,072	1,154	1,408
Value added tax reimbursable	90	84	84
Capital expenditure debtors	48	-	81
Other debtors	213	293	802
	<u>44,010</u>	<u>44,118</u>	<u>44,962</u>
Less allowance for impairment losses	(42,599)	(42,587)	(43,016)
	<u>1,411</u>	<u>1,531</u>	<u>1,946</u>
Total other assets	<u><u>4,510</u></u>	<u><u>2,120</u></u>	<u><u>5,195</u></u>

As at 31 December 2017, other assets include certain assets received as consideration for loans to customers, which the Bank has taken over as a new owner as a result of an agreement between the borrower and the Bank. They consist of grain certificates that the Bank has received during 2014 in the amount equivalent to 42,587 thousand US dollars. During 2015, due to failure to access, unload and sell the grain, the Bank assessed that it was unlikely to be able to realise any future economic benefit from the grain. It therefore decided to provide for impairment of this asset in full and recognised a “provision for impairment losses on other assets” of 42,587 thousand US dollars in the statement of profit or loss.

19. LOANS AND DEPOSITS FROM BANKS

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
Deposits from banks	47,448	143,855	-
Loans from banks	109,253	116,998	161,351
Loans under repurchase agreements:			
in Russian rouble	170,466	96,812	-
in Kazakhstani tenge	50,662	50,578	-
	<u>377,829</u>	<u>408,243</u>	<u>161,351</u>

During 2017 and 2016, the Bank has concluded repurchase agreement operations in order to: a) satisfy its need of Russian rouble liquidity, and b) borrow Kazakhstani tenge funds from National Bank of Republic of Kazakhstan for project financing.

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19. LOANS AND DEPOSITS FROM BANKS, CONTINUED

The fair value of assets pledged and carrying amount of loans under repurchase agreements are as follows:

	<u>31 December 2017</u>		<u>31 December 2016</u>	
	<u>Carrying amount of loans</u>	<u>Fair value of collateral</u>	<u>Carrying amount of loans</u>	<u>Fair value of collateral</u>
US Treasuries	221,128	227,961	100,061	102,582
Bonds issued by banks and financial institutions of non-member states	-	-	47,329	54,014
Total loans under repurchase agreements	<u>221,128</u>	<u>227,961</u>	<u>147,390</u>	<u>156,596</u>

As at 31 December 2017, loans and deposits from banks included accrued interest payable amounting to 7,468 thousand US dollars (31 December 2016: 2,885 thousand US dollars; 31 December 2015: 528 thousand US dollars).

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

Reconciliation of loans from banks movement to cash flows arising from financing activities is as follows:

	<u>31 December 2016</u>	<u>Cash inflow</u>	<u>Cash outflow</u>	<u>Foreign exchange movement</u>	<u>31 December 2017</u>
Loans from banks	116,998	-	(22,329)	14,584	109,253

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20. DEBT SECURITIES ISSUED

				<u>31 December</u> <u>2017</u>	<u>31 December</u> <u>2016</u>	<u>31 December</u> <u>2015</u>
Debt securities issued and denominated in USD						
<u>Issue series</u>	<u>Put option date</u>	<u>Due date</u>	<u>Interest rate, %</u>			
Series 03	-	Sep 2022	4.767	302,413	302,318	311,186
Series 05	-	Sep 2020	5.000	283,100	280,278	277,625
Total debt securities issued and denominated in USD				585,513	582,596	588,811
Debt securities issued and denominated in RUB						
<u>Issue series</u>	<u>Put option date</u>	<u>Due date</u>	<u>Interest rate, %</u>			
Series 08	-	Oct 2020	8.200	88,239	-	837
Series 06	Apr 2018	Sep 2020	9.500	59,059	55,338	69,903
Series 10	-	Jan 2023	12.250	36,588	34,287	-
Series 05	Jul 2019	Jul 2020	9.500	26,569	24,962	-
Series 07	Oct 2018	Sep 2020	9.350	22,253	20,851	69,903
Series 04	-	Feb 2018	8.100	9,214	8,629	7,281
Series 09	Nov 2018	May 2021	7.800	7,936	81,858	69,107
Series 01	-	Jan 2019	9.300	3,995	5,446	4,596
Series 02	-	Feb 2019	8.300	3	8,613	69,490
Series 04, Eurobond	-	Oct 2017	8.000	-	82,757	69,879
Total debt securities issued and denominated in RUB				253,856	322,741	360,996
Debt securities issued and denominated in KZT						
<u>Issue series</u>	<u>Put option date</u>	<u>Due date</u>	<u>Interest rate, %</u>			
Series 02	-	Apr 2018	6.000	98,790	98,505	96,473
Series 03	-	Aug 2019	7.200	61,655	61,490	60,233
Series 04	-	Sep 2019	7.200	61,294	61,129	59,879
Series 10	-	Oct 2020	9.400	61,186	-	-
Series 04	-	May 2020	10.100	45,374	-	-
Series 01	-	Dec 2017	6.250	30,673	29,668	29,965
Total debt securities issued and denominated in KZT				358,972	250,792	246,550
Total debt securities issued				1,198,341	1,156,129	1,196,357

20. DEBT SECURITIES ISSUED, CONTINUED

On 20 September 2012, the Bank issued international Eurobonds on the London Stock Exchange as part of its EMTN Programme for a total amount of 500,000 thousand US dollars with maturity date on 20 September 2022 (series 03). The Eurobonds bear an interest rate fixed at 4.767% per annum. During 2015 and 2016, the Bank partially repurchased bonds with a nominal amount of 201,031 thousand US dollars resulting in a net gain of 3,195 thousand US dollars. Eurobonds with the nominal value of 298,969 thousand US dollars remain in circulation.

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

On 16 October 2013, the Bank issued Russian rouble bonds listed on the Moscow Exchange for a total amount of 5.0 billion Russian roubles (series 08) with maturity date on 7 October 2020. In accordance with the terms of the issuance, the Russian rouble bonds bear an interest rate fixed at 7.65% per annum until 14 October 2015. After 14 October 2015 the Bank determined new interest rates of 8.00% per annum valid until 12 April 2017, and as a result of a put option exercise, the nominal value of bonds in circulation amounts to 60 million Russian roubles. After 12 April 2017 the Bank determined new interest rates of 8.00% per annum valid until 11 October 2017, and as a result of put option exercise, the nominal value of bonds in circulation amounts to 11 thousands Russian roubles. On 11 October 2017, the Bank made a secondary placement of these bonds for a total amount of 5.0 billion Russian roubles with maturity date on 7 October 2020 and with interest rate fixed at 8.20% per annum.

On 2 October 2013, the Bank issued Russian rouble bonds listed on the Moscow Exchange for a total amount of 5.0 billion Russian roubles (series 06) with maturity date on 23 September 2020. In accordance with the terms of the issuance, the Russian rouble bonds bear an interest rate fixed at 7.85% per annum until 28 September 2016. After 28 September 2016 the Bank determined new interest rates of 9.50% per annum valid until 28 March 2018, and as a result of put option exercise, the nominal value of bonds in circulation amounts to 3.33 billion Russian roubles. After 28 March 2018 the interest rate will be determined by the Bank unilaterally. The bondholders are entitled to demand the redemption of the Russian rouble bonds on the put option date on 2 April 2018.

On 19 January 2016, the Bank issued Russian rouble bonds (series 10) listed on the Moscow Exchange for a total amount of 2.0 billion Russian roubles with maturity date on 10 January 2023 and with interest rate fixed at 12.25% per annum.

On 24 July 2013, the Bank issued Russian rouble bonds (series 05) listed on the Moscow Exchange for a total amount of 5.0 billion Russian roubles with maturity date on 15 July 2020. In accordance with the terms of the issuance, the Russian rouble bonds bear an interest rate fixed at 7.70% per annum until 22 July 2015. After 22 July 2015, the Bank determined the new interest rate at 8.00% per annum, and as a result of put option exercise all bonds were bought out. On 23 September 2016, the Bank made a secondary placement of these bonds for the amount of 1.46 billion Russian roubles with the interest rate at 9.50% per annum valid until 17 July 2019. After 17 July 2019, the interest rate will be determined by the Bank unilaterally. The bondholders are entitled to demand the redemption of the Russian rouble bonds on the put option date on 22 July 2019.

20. DEBT SECURITIES ISSUED, CONTINUED

On 2 October 2013, the Bank issued Russian rouble bonds listed on the Moscow Exchange for a total amount of 5.0 billion Russian roubles (series 07) with maturity date on 23 September 2020. In accordance with the terms of the issuance, the Russian rouble bonds bear an interest rate fixed at 7.85% per annum until 28 September 2016. After 28 September 2016 the Bank determined new interest rates of 9.35% per annum valid until 26 September 2018, and as a result of put option exercise, the nominal value of bonds in circulation amounts to 1.25 billion Russian roubles. After 26 September 2018, the interest rate will be determined by the Bank unilaterally. The bondholders are entitled to demand the redemption of the Russian rouble bonds on the put option date on 1 October 2018.

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

On 2 June 2014, the Bank issued Russian rouble Bonds (series 09) listed on the Moscow Exchange for a total amount of 5.0 billion Russian roubles with maturity date on 24 May 2021. In accordance with the terms of the issuance, the Russian rouble bonds bear an interest rate fixed at 9.65% per annum until 30 May 2016. After 30 May 2016 the Bank determined the new interest rate at 9.75% per annum until 27 November 2017 and as a result of put option exercise, the nominal value of bonds in circulation reduced to 140 billion Russian roubles. On 18 August 2016, the Bank made a secondary placement of 4.86 billion Russian roubles bonds with the interest rate at 9.75% per annum until 27 November 2017. After 27 November 2017, the Bank determined the new interest rate at 7.80% per annum until 26 November 2018 and as a result of put option exercise, the nominal value of bonds in circulation amounts to 460 million Russian roubles. The bondholders are entitled to demand the redemption of the Russian rouble bonds on the put option date on 29 November 2018.

On 6 February 2012, the Bank issued Russian rouble bonds (series 01) listed on the Moscow Exchange for a total amount of 5.0 billion Russian roubles with maturity date on 28 January 2019. In accordance with the terms of the issuance, the Russian rouble bonds bear an interest rate fixed at 8.50% per annum until 3 February 2014. After 3 February 2014, the Bank determined the new interest rate at 8.00% per annum valid until 30 January 2017, and as a result of put option exercise, the nominal value of bonds in circulation reduced to 331 million Russian roubles. After 30 January 2017, the Bank determined the new interest rate at 9.30% per annum and as a result of put option exercise, the nominal value of bonds in circulation amounts to 227 million Russian roubles.

On 1 March 2012, the Bank issued Russian rouble bonds (series 02) listed on the Moscow Exchange for a total amount of 5.0 billion Russian roubles with maturity date on 21 February 2019. In accordance with the terms of the issuance, the Russian rouble bonds bear an interest rate fixed at 8.50% per annum until 26 February 2015. After 26 February 2015, the Bank determined the new interest rate at 15.50% per annum until 25 February 2016 and as a result of put option exercise, the nominal value of bonds in circulation reduced to 4.98 billion Russian roubles. After 25 February 2016, the Bank determined the new interest rate at 10.00% per annum until 24 August 2017 and as a result of put option exercise, the nominal value of bonds in circulation reduced to 525 million Russian roubles. After 24 August 2017, the Bank determined the new interest rate at 8.30% per annum and as a result of put option exercise, the nominal value of bonds in circulation amounts to 170 thousand Russian roubles.

20. DEBT SECURITIES ISSUED, CONTINUED

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

On 18 August 2014, the Bank issued tenge bonds listed on the Kazakhstan Stock Exchange for a total amount of 20.0 billion tenge with maturity date on 18 August 2019 (programme 1 series 03). In accordance with the terms of the issuance, the tenge bonds bear an interest rate fixed at 7.20% per annum.

On 18 September 2014, the Bank issued tenge bonds listed on the Kazakhstan Stock Exchange for a total amount of 20.0 billion tenge with maturity date on 18 September 2019 (programme 1 series 04). In accordance with the terms of the issuance, the tenge bonds bear an interest rate fixed at 7.20% per annum.

On 10 October 2017, the Bank issued tenge bonds listed on the Kazakhstan Stock Exchange for a total amount of 20.0 billion tenge with maturity date on 10 October 2020 (programme 2 series 10). In accordance with the terms of the issuance, the tenge bonds bear an interest rate fixed at 9.40% per annum.

On 24 May 2017, the Bank issued tenge bonds listed on the Kazakhstan Stock Exchange for a total amount of 15.0 billion tenge with maturity date on 24 May 2020 (programme 2 series 04). In accordance with the terms of the issuance, the tenge bonds bear an interest rate fixed at 10.10% per annum.

An issue for a total amount of 9.9 billion tenge with maturity date on 28 December 2017 (programme 1 series 01) was fully redeemed in January 2018 in accordance with the Kazakhstan Stock Exchange regulations and bond issuance documentation.

As at 31 December 2017, debt securities issued included accrued interest payable amounting to 24,004 thousand US dollars (31 December 2016: 21,703 thousand US dollars; 31 December 2015: 21,181 thousand US dollars).

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20. DEBT SECURITIES ISSUED, CONTINUED

Reconciliation of debt securities issued movement to cash flows arising from financing activities is as follows:

	<u>31 December 2016</u>	<u>Cash inflow</u>	<u>Cash outflow</u>	<u>Foreign exchange movement</u>	<u>31 December 2017</u>
Debt securities issued	1,156,129	190,168	(172,586)	24,630	1,198,341

21. OTHER LIABILITIES

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
Other financial liabilities:			
Retirement savings plan	13,547	11,593	10,864
Short-term payments to employees	7,752	5,398	4,300
Prepayments for loans	1,762	4,002	2,866
Prepayments and accrued expenses	35	432	11
	23,096	21,425	18,041
Other non-financial liabilities:			
Accrued administrative expenses	501	345	375
Other	15	944	40
	516	1,289	415
Total other liabilities	23,612	22,714	18,456

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

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22. SHARE CAPITAL

	31 December 2017, 2016 and 2015		
	Authorised share capital	Callable share capital	Paid-in share capital
The Russian Federation	4,617,993	(3,617,993)	1,000,000
The Republic of Kazakhstan	2,309,271	(1,809,271)	500,000
The Republic of Belarus	69,295	(54,295)	15,000
The Republic of Tajikistan	2,145	(1,645)	500
The Republic of Armenia	648	(548)	100
The Kyrgyz Republic	648	(548)	100
	7,000,000	(5,484,300)	1,515,700

As at 31 December 2017, 2016 and 2015, the authorised share capital consists of 7,000,000 common shares with a nominal value of 1,000 US dollars each. One paid-in share represents one voting right.

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

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

As at 31 December 2017, 2016 and 2015, the Reserve fund of the Bank was equal to 90,872 thousand US dollars. There was no transfer from retained earnings to reserve fund in 2017, 2016 and 2015.

23. CAPITAL RISK MANAGEMENT

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

The objective of the Bank's share capital is to cover potential losses from its operations. In accordance with the Bank's internal policies, the equity should exceed 16% of the sum of credit, market and operational risks, estimated as per the Basel II Standardised approach. As at 31 December 2017, 2016 and 2015, the Bank was in compliance with its internal policy requirements.

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

23. CAPITAL RISK MANAGEMENT, CONTINUED

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

24. COMMITMENTS AND CONTINGENCIES

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

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

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

As at 31 December 2017, 2016 and 2015, the nominal or contractual amounts are:

	31 December 2017 Nominal amount	31 December 2016 Nominal amount	31 December 2015 Nominal amount
Commitments on loans and unused credit lines	637,085	605,839	490,739
Commitments to join private equity funds	16,314	17,231	17,635
Guarantees and letters of credit issued	-	160,563	5,275
Total contingent liabilities and credit commitments	653,399	783,633	513,649

On 21 December 2010, the Bank agreed to invest 100,000 thousand US dollars in the Macquarie Russia and CIS Infrastructure Fund which is included in commitments to join private equity funds in the table above. This commitment was partially disbursed up to 31 December 2017 (Note 16).

Capital commitments

As at 31 December 2017, 2016 and 2015, the Bank had no capital commitments.

Fiduciary activities

The Bank provides trust services to Eurasian Fund for Stabilisation and Development (the “Fund”), whereby it holds and manages assets or invests funds received in various financial instruments as a Manager of Fund.

24 COMMITMENTS AND CONTINGENCIES, CONTINUED

Insurance

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

Litigation

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

25. TRANSACTIONS WITH RELATED PARTIES

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

(a) Transactions with key management

The remuneration of key management personnel included in staff costs and other payments to employees (including accommodation cost of employees) (Note 10) was as follows:

	Year ended 31 December 2017		Year ended 31 December 2016		Year ended 31 December 2015	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Staff costs and other payments to employees, excluding accommodation costs	4,451	23,025	2,655	19,791	3,056	20,488
Accommodation costs of employees	91	1,044	134	1,314	315	2,405
Key management personnel compensation	4,542	24,069	2,789	21,105	3,371	22,893

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25. TRANSACTIONS WITH RELATED PARTIES, CONTINUED

(a) Transactions with key management, continued

The outstanding balances as at 31 December 2017, 2016 and 2015 for transactions with the key management personnel are as follows:

Statement of Financial Position	31 December 2017	31 December 2016	31 December 2015
Other liabilities	<u>2,514</u>	<u>2,072</u>	<u>1,541</u>

(b) Transactions with other related parties

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

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25. TRANSACTIONS WITH RELATED PARTIES, CONTINUED

(b) Transactions with other related parties, continued

The outstanding balances and the related average interest rates as at 31 December 2017, 2016 and 2015 and related profit or loss amounts of transactions for the years ended 31 December 2017, 2016 and 2015 with other related parties are as follows:

	31 December 2017		31 December 2016		31 December 2015	
	Other related parties	Average interest rate, %	Other related parties	Average interest rate, %	Other related parties	Average interest rate, %
Statement of financial position						
ASSETS						
Cash and cash equivalents						
USD	145	-	252	-	180	-
RUB	81,917	7.59%	3,635	8.94%	211	-
KZT	231	-	8,046	9.08%	294	-
Other currencies	46	-	33,711	0.50%	39	-
Loans and advances to banks						
USD	-	-	67,357	3.12%	29,205	5.80%
KZT	30,423	11.94%	1,347	10.18%	1,648	10.18%
Loans to customers						
USD	169,801	10.37%	179,713	9.28%	275,187	9.35%
RUB	190,719	11.68%	188,488	12.40%	144,391	12.51%
KZT	163,754	10.54%	207,223	10.62%	187,295	9.25%
Financial assets available-for-sale						
USD	409,430	3.75%	303,064	4.84%	141,040	5.38%
RUB	33,705	7.95%	14,221	9.59%	-	-
KZT	37,532	10.18%	137,046	12.03%	-	-
Other currencies	252,159	0.46%	84,014	4.59%	-	-
Investments held-to-maturity						
USD	-	-	-	-	302,468	5.55%
Other assets						
USD	1,242	-	1	-	2,998	-
RUB	2	-	2	-	8	-
Other currencies	-	-	105	-	-	-
LIABILITIES						
Loans and deposits from banks						
KZT	50,662	6.82%	50,578	6.84%	-	-
Debt securities issued						
RUB	106,008	8.67%	84,709	9.44%	123,091	11.08%
KZT	265,092	6.86%	247,163	6.75%	242,961	6.65%
Other liabilities						
USD	177	-	1,713	-	1,738	-
RUB	-	-	-	-	97	-
KZT	-	-	563	-	-	-
Guarantees received						
USD	193,674	-	191,555	-	191,157	-
KZT	133,648	-	153,262	-	141,535	-
RUB	25,972	-	-	-	-	-
Commitments						
USD	53,948	-	245,197	-	250,035	-
RUB	-	-	-	-	19,492	-
KZT	-	-	-	-	157	-
Other currencies	-	-	78,878	-	-	-
Statement of profit or loss						
Interest income	84,381	-	93,189	-	95,889	-
Interest expense	(37,903)	-	(30,746)	-	(52,192)	-
Net recovery/(charge) of provisions for impairment losses	51	-	21	-	(206)	-
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	(750)	-	(1,117)	-	387	-
Net realised gain on financial assets available-for-sale	2,607	-	26,575	-	423	-
Net gain on transactions in foreign currencies	34,878	-	(16,297)	-	44,579	-
Fee and commission income	3,892	-	1,031	-	4,484	-
Fee and commission expense	(5)	-	-	-	-	-
Other income	6	-	23	-	95	-

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26. SEGMENT REPORTING

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

Segment performance – geographic

Segment information for the geographical segments of the Bank as at and for the year ended 31 December 2017 is set out below:

	Russia	Kazakhstan	Belarus	Other Member states	Non-member states	Total
Interest income	75,406	86,469	25,395	1,815	8,382	197,467
Interest expense	(31,480)	(24,384)	-	-	(52,410)	(108,274)
(Provision)/recovery for impairment losses on interest bearing assets	(13,307)	(11,441)	(2,270)	288	-	(26,730)
Provision for impairment losses on equity financial assets available-for-sale	(1,543)	-	-	-	-	(1,543)
Provision for impairment losses on other assets	-	(12)	-	-	-	(12)
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	(3,548)	(5,693)	-	135	(61,987)	(71,093)
Net realised gain/(loss) on financial assets available- for-sale	3,028	(28)	-	-	(125)	2,875
Net gain/(loss) on transactions in foreign currencies	3,917	4,329	(1)	(16)	67,270	75,499
Fee and commission income	7,129	61	68	-	75	7,333
Fee and commission expense	(48)	(30)	-	(1)	(193)	(272)
Net loss on trading with debt securities issued	(93)	-	-	-	-	(93)
Other income	16	102	-	2	-	120
Net result from financial operations	39,477	49,373	23,192	2,223	(38,988)	75,277
Cash and cash equivalents	86,369	18,249	42	164	62,546	167,370
Financial assets at fair value through profit or loss	-	-	-	135	-	135
Loans and advances to banks	65,636	73,625	21,384	30,920	-	191,565
Loans to customers	411,692	697,119	233,060	2,394	-	1,344,265
Financial assets available- for-sale	720,072	181,845	-	8,998	689,764	1,600,679
Property, equipment and intangible assets	225	11,686	5	15	-	11,931
Other assets	2,326	1,867	16	29	272	4,510
Total assets	1,286,320	984,391	254,507	42,655	752,582	3,320,455
Total liabilities	257,914	431,888	4	9	921,039	1,610,854
Contingent liabilities and credit commitments	422,084	116,012	109,053	6,250	-	653,399
Capital expenditure	71	210	2	3	-	286
Depreciation and amortisation	171	1,016	2	19	-	1,208

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26. SEGMENT REPORTING, CONTINUED

Segment performance – geographic, continued

Segment information for the geographical segments of the Bank as at and for the year ended 31 December 2016 is set out below:

	<u>Russia</u>	<u>Kazakhstan</u>	<u>Belarus</u>	<u>Other Member states</u>	<u>Non-member states</u>	<u>Total</u>
Interest income	84,195	67,042	35,582	2,945	3,720	193,484
Interest expense	(30,183)	(17,069)	-	-	(37,020)	(84,272)
Recovery/(provision) for impairment losses on interest bearing assets	15,452	2,721	41,208	(4,858)	-	54,523
Provision for impairment losses on other assets	-	435	-	-	-	435
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	(8,082)	(299)	-	-	21,107	12,726
Net realised gain/(loss) on financial assets available- for-sale	28,233	(1,640)	-	-	26	26,619
Net gain/(loss) on transactions in foreign currencies	8,434	(438)	(3)	1	(19,737)	(11,743)
Fee and commission income	1,832	266	229	-	-	2,327
Fee and commission expense	(121)	(31)	-	(1)	(112)	(265)
Net (loss)/gain on trading with debt securities issued	(331)	-	-	-	169	(162)
Other income	9	137	132	23	-	301
Other expenses	-	-	-	-	(20)	(20)
Net result from financial operations	<u>99,438</u>	<u>51,124</u>	<u>77,148</u>	<u>(1,890)</u>	<u>(31,867)</u>	<u>193,953</u>
Cash and cash equivalents	226,347	18,175	52	44	233,264	477,882
Financial assets at fair value through profit or loss	-	-	-	-	6,531	6,531
Loans and advances to banks	-	36,040	20,102	20,866	50,952	127,960
Loans to customers	463,153	724,697	291,712	2,646	-	1,482,208
Financial assets available- for-sale	596,173	150,674	-	-	398,672	1,145,519
Property, equipment and intangible assets	326	12,494	5	30	-	12,855
Other assets	1,238	688	13	36	145	2,120
Total assets	<u>1,287,237</u>	<u>942,768</u>	<u>311,884</u>	<u>23,622</u>	<u>689,564</u>	<u>3,255,075</u>
Total liabilities	<u>241,247</u>	<u>321,768</u>	<u>634</u>	<u>5</u>	<u>1,024,336</u>	<u>1,587,990</u>
Contingent liabilities and credit commitments	320,126	322,352	138,155	3,000	-	783,633
Capital expenditure	88	389	4	4	-	485
Depreciation and amortisation	208	1,146	2	32	-	1,388

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26. SEGMENT REPORTING, CONTINUED

Segment performance – geographic, continued

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

	<u>Russia</u>	<u>Kazakhstan</u>	<u>Belarus</u>	<u>Other Member states</u>	<u>Non-member states</u>	<u>Total</u>
Interest income	108,144	73,061	36,117	5,891	2,776	225,989
Interest expense	(51,248)	(25,519)	-	-	(56,326)	(133,093)
(Provision)/recovery for impairment losses on interest bearing assets	(59,457)	(43,105)	(48,073)	187	-	(150,448)
Provision for impairment losses on equity financial assets available-for-sale	(21,732)	-	-	-	-	(21,732)
Provision for impairment losses on other assets	-	(42,587)	-	-	-	(42,587)
Net loss on financial assets and liabilities at fair value through profit or loss	(1,171)	(2,562)	-	-	(14,300)	(18,033)
Net realised gain on financial assets available- for-sale	423	-	-	-	1,120	1,543
Net gain/(loss) on transactions in foreign currencies	23,627	24,074	(16)	(22)	(10,439)	37,224
Fee and commission income	4,478	652	172	27	-	5,329
Fee and commission expense	(47)	(38)	-	-	(140)	(225)
Net loss on trading with debt securities issued	(337)	-	-	-	(13,388)	(13,725)
Other income	212	177	193	54	7	643
Net result from financial operations	<u>2,892</u>	<u>(15,847)</u>	<u>(11,607)</u>	<u>6,137</u>	<u>(90,690)</u>	<u>(109,115)</u>
Cash and cash equivalents	82,210	498	40	72	205,467	288,287
Loans and advances to banks	1,017	1,648	24,245	34,629	-	61,539
Loans to customers	559,830	607,404	319,114	13,043	-	1,499,391
Financial assets available- for-sale	109,783	80,501	-	-	419,465	609,749
Investments held-to- maturity	302,467	-	-	-	100,247	402,714
Property, equipment and intangible assets	446	13,252	3	58	-	13,759
Other assets	4,244	422	42	25	462	5,195
Total assets	<u>1,059,997</u>	<u>703,725</u>	<u>343,444</u>	<u>47,827</u>	<u>725,641</u>	<u>2,880,634</u>
Total liabilities	<u>361,357</u>	<u>263,709</u>	<u>916</u>	<u>6</u>	<u>755,313</u>	<u>1,381,301</u>
Contingent liabilities and credit commitments	143,980	221,554	148,115	-	-	513,649
Capital expenditure	223	316	-	27	-	566
Depreciation and amortisation	231	1,287	8	37	-	1,563

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

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

For the year ended 31 December 2017, 2016 and 2015, there were no loans to customers with interest income exceeding 10% of total interest income.

27. FAIR VALUE OF FINANCIAL INSTRUMENTS**(a) Determining fair values**

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

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

(b) Valuation of financial instruments

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

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

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

27. FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

(b) Valuation of financial instruments, continued

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

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

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

The table below analyses financial instruments measured at fair value at 31 December 2017, 2016 and 2015, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

	Level 1	Level 2	Level 3	As at 31 December 2017 Total
Financial assets at fair value through profit or loss	-	135	-	135
Financial assets available-for-sale				
- Debt instruments	1,288,897	291,553	415	1,580,865
- Equity instruments	-	-	19,814	19,814
Financial liabilities at fair value through profit or loss	-	(11,072)	-	(11,072)

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27. FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

(b) Valuation of financial instruments, continued

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>As at 31 December 2016 Total</u>
Financial assets at fair value through profit or loss	-	6,531	-	6,531
Financial assets available-for-sale				
- Debt instruments	909,629	214,498	438	1,124,565
- Equity instruments	-	-	20,954	20,954
Financial liabilities at fair value through profit or loss	-	(904)	-	(904)
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>As at 31 December 2015 Total</u>
Financial assets available-for-sale				
- Debt instruments	589,068	-	415	589,483
- Equity instruments	-	-	20,266	20,266
Financial liabilities at fair value through profit or loss	-	(5,137)	-	(5,137)

The following table shows reconciliation for the years ended 31 December 2017, 2016 and 2015 for fair value measurements in Level 3 of the fair value hierarchy:

	<u>Level 3</u>		
	<u>Year ended 31 December 2017</u>	<u>Year ended 31 December 2016</u>	<u>Year ended 31 December 2015</u>
Financial assets available-for-sale			
Balance at beginning of the year	55,039	20,681	42,264
Purchase of new instruments	66,872	33,952	-
Impairment loss	(1,706)	-	(21,728)
Revaluation	4,571	406	145
Balance at end of the year	124,776	55,039	20,681

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

The table below analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2017, 2016 and 2015. The Bank believes that the carrying amount of loans to customers and loans and advances to banks represents their fair value. The Bank is a development financial organisation and, thus, most of the loans are unique and interest rates are specific for each project and less sensitive to the market fluctuations.

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27. FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

(b) Valuation of financial instruments, continued

	<u>As at 31 December 2017</u>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total fair value</u>	<u>Total carrying amount</u>
Financial assets					
Cash and cash equivalents	-	167,370	-	167,370	167,370
Loans and advances to banks	-	191,565	-	191,565	191,565
Loans to customers	-	1,311,064	33,201	1,344,265	1,344,265
Other financial assets	-	3,099	-	3,099	3,099
Financial liabilities					
Loans and deposits from banks	-	377,829	-	377,829	377,829
Debt securities issued	1,239,240	-	-	1,239,240	1,198,341
Other financial liabilities	-	23,096	-	23,096	23,096
<u>As at 31 December 2016</u>					
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total fair value</u>	<u>Total carrying amount</u>
Financial assets					
Cash and cash equivalents	-	477,882	-	477,882	477,882
Loans and advances to banks	-	127,960	-	127,960	127,960
Loans to customers	-	1,410,694	71,514	1,482,208	1,482,208
Other financial assets	-	589	-	589	589
Financial liabilities					
Loans and deposits from banks	-	408,243	-	408,243	408,243
Debt securities issued	1,192,230	-	-	1,192,230	1,156,129
Other financial liabilities	-	21,425	-	21,425	21,425
<u>As at 31 December 2015</u>					
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total fair value</u>	<u>Total carrying amount</u>
Financial assets					
Cash and cash equivalents	-	288,287	-	288,287	288,287
Loans and advances to banks	-	61,539	-	61,539	61,539
Loans to customers	-	1,317,942	181,449	1,499,391	1,499,391
Investments held-to-maturity	417,936	-	-	417,936	402,714
Other financial assets	-	3,249	-	3,249	3,249
Financial liabilities					
Loans from banks	-	161,351	-	161,351	161,351
Debt securities issued	1,194,030	-	-	1,194,030	1,196,357
Other financial liabilities	-	18,041	-	18,041	18,041

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

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

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

(i) The Council

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

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

(ii) The Executive Board

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

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

28. RISK MANAGEMENT POLICIES, CONTINUED**(a) Risk management organisational structure, continued*****(iii) Assets and Liabilities Management Committee***

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

(iv) Credit Committee

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

(v) Credit and risk management department

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

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

(vi) Assets and liabilities management division

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

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

28. RISK MANAGEMENT POLICIES, CONTINUED

(b) Credit risk

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

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

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

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

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

(i) Credit risk in the investment project financing

The Bank sets investment project financing as its core activity. Hence, credit risk management is a 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.

28. RISK MANAGEMENT POLICIES, CONTINUED**(b) Credit risk, continued****(i) Credit risk in the investment project financing, continued**

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

A further analysis of identified risks is performed to determine the possible consequences of risks when they occur. At this stage the Bank prepares a sensitivity analysis for each project. The main sensitivity analysis performed by the Bank are interest rate sensitivity analysis, currency sensitivity analysis, inflation sensitivity analysis, 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. Taking into account 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 and project founders;
- proposals of economical hedging strategies;
- optimisation of financing structure;
- optimisation of collateral structure; and
- monitoring of industry trends and the project realisation to anticipate potential future problems.

(ii) Credit risk in the treasury portfolio

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

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

28. RISK MANAGEMENT POLICIES, CONTINUED**(c) Credit risk, continued*****(ii) Credit risk in the treasury portfolio, continued***

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

(iii) Assets allocation in portfolios

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 *(in thousands of US dollars)*

28. RISK MANAGEMENT POLICIES, CONTINUED

(b) Credit risk, continued

(iii) Assets allocation in portfolios, continued

Information regarding each portfolio is included below:

	Current investment portfolio	Treasury Portfolio	Unallocated*	31 December 2017 Total
Cash and cash equivalents	-	167,370	-	167,370
Financial assets at fair value through profit or loss	-	135	-	135
Loans and advances to banks	155,256	34,340	1,969	191,565
Loans to customers	1,402,375	-	(58,110)	1,344,265
Financial assets available-for-sale	122,757	1,475,903	2,019	1,600,679
Property, equipment and intangible assets	-	-	11,931	11,931
Other assets	-	-	4,510	4,510
Total assets	1,680,388	1,677,748	(37,681)	3,320,455
Total liabilities	-	279,648	1,331,206	1,610,854
Contingent liabilities and credit commitments	653,399	-	-	653,399
Total current investment portfolio	2,333,787			

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

	Current investment portfolio	Treasury Portfolio	Unallocated*	31 December 2016 Total
Cash and cash equivalents	-	477,882	-	477,882
Financial assets at fair value through profit or loss	-	6,531	-	6,531
Loans and advances to banks	75,167	50,952	1,841	127,960
Loans to customers	1,555,830	-	(73,622)	1,482,208
Financial assets available-for-sale	55,206	1,090,480	(167)	1,145,519
Property, equipment and intangible assets	-	-	12,855	12,855
Other assets	-	-	2,120	2,120
Total assets	1,686,203	1,625,845	(56,973)	3,255,075
Total liabilities	-	292,149	1,295,841	1,587,990
Contingent liabilities and credit commitments	783,633	-	-	783,633
Total current investment portfolio	2,469,836			

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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28. RISK MANAGEMENT POLICIES, CONTINUED

(b) Credit risk, continued

(iii) Assets allocation in portfolios, continued

	Current investment portfolio	Treasury Portfolio	Unallocated*	31 December 2015 Total
Cash and cash equivalents	-	288,287	-	288,287
Loans and advances to banks	61,421	-	118	61,539
Loans to customers	1,604,210	-	(104,819)	1,499,391
Financial assets available-for-sale	21,135	589,068	(454)	609,749
Investments held-to-maturity	-	402,714	-	402,714
Property, equipment and intangible assets	-	-	13,759	13,759
Other assets	-	-	5,195	5,195
Total assets	1,686,766	1,280,069	(86,201)	2,880,634
Total liabilities	-	5,137	1,376,164	1,381,301
Contingent liabilities and credit commitments	513,649	-	-	513,649
Total current investment portfolio	2,200,415			

(iv) Offsetting financial assets and financial liabilities

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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28. RISK MANAGEMENT POLICIES, CONTINUED

(b) Credit risk, continued

(iv) Offsetting financial assets and financial liabilities, continued

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2017:

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position Financial instruments/collateral received	Net amount
Derivative assets	135	-	135	(135)	-
Loans under reverse repurchase agreements	42,189	-	42,189	(42,189)	-
Total financial assets	42,324	-	42,324	(42,324)	-
Derivatives liabilities	(11,072)	-	(11,072)	11,072	-
Loans under repurchase agreements	(221,128)	-	(221,128)	221,128	-
Total financial liabilities	(232,200)	-	(232,200)	232,200	-

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2016:

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position Financial instruments/collateral received	Net amount
Derivative assets	6,531	-	6,531	(6,531)	-
Loans under reverse repurchase agreements	139,748	-	139,748	(139,748)	-
Total financial assets	146,279	-	146,279	(146,279)	-
Derivatives liabilities	(904)	-	(904)	904	-
Loans under repurchase agreements	(147,390)	-	(147,390)	147,390	-
Total financial liabilities	(148,294)	-	(148,294)	148,294	-

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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28. RISK MANAGEMENT POLICIES, CONTINUED

(b) Credit risk, continued

(iv) Offsetting financial assets and financial liabilities, continued

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

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

(v) Maximum exposure

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

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

	31 December 2017	31 December 2016	31 December 2015
Cash and cash equivalents	167,370	477,882	288,287
Financial assets at fair value through profit or loss	135	6,531	-
Loans and advances to banks	191,565	127,960	61,539
Loans to customers	1,344,265	1,482,208	1,499,391
Financial assets available-for-sale, excluding equity investments	1,580,865	1,124,565	589,483
Investments held-to-maturity	-	-	402,714
Other financial assets	3,099	589	3,249

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

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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28. RISK MANAGEMENT POLICIES, CONTINUED

(b) Credit risk, continued

(v) Maximum exposure, continued

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

	AA	A	BBB	<BBB-	Not rated	31 December 2017 Total
Cash and cash equivalents	1,787	50,172	22,627	92,162	622	167,370
Financial assets at fair value through profit or loss	-	-	-	135	-	135
Loans and advances to banks	34,340	-	-	148,325	8,900	191,565
Loans to customers	-	-	-	-	1,344,265	1,344,265
Financial assets available-for- sale	522,110	167,965	99,212	791,578	19,814	1,600,679
Other financial assets	-	-	-	-	3,099	3,099

	AA	A	BBB	<BBB-	Not Rated	31 December 2016 Total
Cash and cash equivalents	1,690	230,642	1,525	243,915	110	477,882
Financial assets at fair value through profit or loss	-	6,531	-	-	-	6,531
Loans and advances to banks	-	-	50,952	-	77,008	127,960
Loans to customers	-	-	-	-	1,482,208	1,482,208
Financial assets available-for- sale	285,072	113,524	170,462	521,422	55,039	1,145,519
Other financial assets	-	-	-	-	589	589

	AA	A	BBB	<BBB-	Not Rated	31 December 2015 Total
Cash and cash equivalents	376	168,434	30,711	88,665	101	288,287
Loans and advances to banks	-	-	-	-	61,539	61,539
Loans to customers	-	-	-	-	1,499,391	1,499,391
Financial assets available-for- sale	419,465	-	153,476	16,127	20,681	609,749
Investments held-to-maturity	100,247	-	-	302,467	-	402,714
Other financial assets	-	-	-	-	3,249	3,249

As at 31 December 2017, the Bank had outstanding loans to 42 customers (31 December 2016 and 2015: 41) and 10 financial institutions (31 December 2016 and 2015: 9). The loans are made with intention to develop the economies of the Member states. Most of the borrowers are not rated by international rating agencies, however, the Bank is able to perform specific monitoring of each individual loan. Loans are regularly reviewed by the Bank's Credit Committee.

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

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

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

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

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

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

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

28. RISK MANAGEMENT POLICIES, CONTINUED

(b) Credit risk, continued

(v) Maximum exposure, continued

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
Loans classified to from 1 st to 3rd category	1,297,194	1,260,882	1,250,644
Loans classified to 4th category	59,021	196,586	289,545
Loans classified to 5th category	43,230	108,014	91,897
	1,399,445	1,565,482	1,632,086
Less: allowance for losses	(55,180)	(83,274)	(132,695)
Loans to customers	<u>1,344,265</u>	<u>1,482,208</u>	<u>1,499,391</u>

As at 31 December 2017 loans to six customers were classified as 5th category loans (31 December 2016: eight; 31 December 2015: four); loans to eight customers were classified as 4th category loans (31 December 2016: nine 31 December 2015: thirteen); remaining were classified as 3rd or higher category loans.

The above analysis is based on loan classification principles used for internal risk management purposes. Management also employs some of the criteria used therein to assess whether there is potential evidence of impairment of loans for IFRS reporting purposes. Following identification of such evidence the Bank performs an analysis of estimated future cash flows of the loan concerned. If these estimated cash flows, based on the loan's original contractual interest rate, or net value of collateral are sufficient to permit repayment of all principal and interest amounts, the loan is not considered to be impaired. Otherwise the Bank accrues relevant provisions. Note 15 presents significant estimates and assumptions made by management in the estimation of the impairment allowance for loans to customers.

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

(c) Liquidity risk

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017 *(in thousands of US dollars)*

28. RISK MANAGEMENT POLICIES, CONTINUED

(c) Liquidity risk, continued

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

In December 2016, the Council of the Bank approved the changes in the procedure for calculating the minimum level of liquidity ratio. The new approach sets the minimum level of treasury portfolio not less than 1-year projected net loan disbursements (loans disbursed less repayments and tied financing) if greater than zero, less bilateral commitments, plus the annual cost of financial debt.

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

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

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2017 Total
FINANCIAL ASSETS:							
Cash and cash equivalents	5.59%	140,194	-	-	-	-	140,194
Loans and advances to banks	9.46%	566	12,602	124,152	54,245	-	191,565
Loans to customers	9.80%	13,450	63,131	175,284	728,926	363,474	1,344,265
Financial assets available-for-sale	2.03%	242,772	91,489	648,881	289,787	307,936	1,580,865
Total interest bearing financial assets		396,982	167,222	948,317	1,072,958	671,410	3,256,889
Cash and cash equivalents		27,176	-	-	-	-	27,176
Financial assets at fair value through profit or loss		-	68	67	-	-	135
Financial assets available-for-sale		-	-	-	19,814	-	19,814
Other financial assets		-	-	3,099	-	-	3,099
Total financial assets		424,158	167,290	951,483	1,092,772	671,410	3,307,113
FINANCIAL LIABILITIES:							
Loans and deposits from banks	6.41%	47,448	21,555	221,437	82,650	4,739	377,829
Debt securities issued	6.93%	33,752	79,333	131,737	918,862	34,657	1,198,341
Total interest bearing financial liabilities		81,200	100,888	353,174	1,001,512	39,396	1,576,170
Financial liabilities at fair value through profit or loss		10,618	-	454	-	-	11,072
Other financial liabilities		-	35	9,514	13,547	-	23,096
Total financial liabilities		91,818	100,923	363,142	1,015,059	39,396	1,610,338
Liquidity gap		332,340	66,367	588,341	77,713	632,014	

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28. RISK MANAGEMENT POLICIES, CONTINUED

(c) Liquidity risk, continued

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2016 Total
FINANCIAL ASSETS:							
Cash and cash equivalents	2.09%	331,804	-	-	-	-	331,804
Loans and advances to banks	6.37%	55,648	57	40,074	32,181	-	127,960
Loans to customers	9.82%	20,887	25,402	251,876	805,669	378,374	1,482,208
Financial assets available- for-sale	3.06%	198,876	300,642	300,240	287,486	37,321	1,124,565
Total interest bearing financial assets		607,215	326,101	592,190	1,125,336	415,695	3,066,537
Cash and cash equivalents		146,078	-	-	-	-	146,078
Financial assets at fair value through profit or loss		4,787	1,400	344	-	-	6,531
Financial assets available- for-sale		-	-	-	20,954	-	20,954
Other financial assets		-	-	589	-	-	589
Total financial assets		758,080	327,501	593,123	1,146,290	415,695	3,240,689
FINANCIAL LIABILITIES:							
Loans and deposits from banks	7.06%	284,512	2,665	23,509	75,432	22,125	408,243
Debt securities issued	6.84%	-	-	112,425	707,098	336,606	1,156,129
Total interest bearing financial liabilities		284,512	2,665	135,934	782,530	358,731	1,564,372
Financial liabilities at fair value through profit or loss		904	-	-	-	-	904
Other financial liabilities		-	29	9,803	11,593	-	21,425
Total financial liabilities		285,416	2,694	145,737	794,123	358,731	1,586,701
Liquidity gap		472,664	324,807	447,386	352,167	56,964	

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017
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28. RISK MANAGEMENT POLICIES, CONTINUED

(c) Liquidity risk, continued

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2015 Total
FINANCIAL ASSETS:							
Cash and cash equivalents	0.74%	161,973	-	-	-	-	161,973
Loans and advances to banks	7.00%	1,607	384	18,108	41,440	-	61,539
Loans to customers	10.20%	9,526	115,758	128,189	847,451	398,467	1,499,391
Financial assets available- for-sale	1.81%	-	149,970	262,014	76,702	100,797	589,483
Investments held-to- maturity	4.38%	-	7,800	27,896	283,319	83,699	402,714
Total interest bearing financial assets		173,106	273,912	436,207	1,248,912	582,963	2,715,100
Cash and cash equivalents		126,314	-	-	-	-	126,314
Financial assets available- for-sale		-	-	-	20,266	-	20,266
Other financial assets		2,990	-	259	-	-	3,249
Total financial assets		302,410	273,912	436,466	1,269,178	582,963	2,864,929
FINANCIAL LIABILITIES:							
Loans and deposits from banks	2.46%	-	-	24,216	1,097	136,038	161,351
Debt securities issued	7.00%	-	69,490	209,750	605,931	311,186	1,196,357
Total interest bearing financial liabilities		-	69,490	233,966	607,028	447,224	1,357,708
Financial liabilities at fair value through profit or loss		5,137	-	-	-	-	5,137
Other financial liabilities		-	11	7,166	10,864	-	18,041
Total financial liabilities		5,137	69,501	241,132	617,892	447,224	1,380,886
Liquidity gap		297,273	204,411	195,334	651,286	135,739	

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28. RISK MANAGEMENT POLICIES, CONTINUED

(c) Liquidity risk, continued

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

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2017 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	167,526	-	-	-	-	167,526
Financial assets at fair value through profit or loss	-	68	67	-	-	135
Loans and advances to banks	1,388	13,850	167,847	65,013	-	248,098
Loans to customers	19,540	70,754	257,694	1,101,377	439,420	1,888,785
Financial assets available-for-sale	243,979	94,954	676,151	408,179	387,196	1,810,459
Other financial assets	-	-	3,099	-	-	3,099
Total financial assets	432,433	179,626	1,104,858	1,574,569	826,616	4,118,102
FINANCIAL LIABILITIES:						
Loans and deposits from banks	47,548	21,881	237,733	85,902	4,813	397,877
Financial liabilities at fair value through profit or loss	10,618	-	454	-	-	11,072
Debt securities issued	29,743	31,686	229,087	1,074,395	36,786	1,401,697
Other financial liabilities	-	35	9,514	13,547	-	23,096
Total financial liabilities	87,909	53,602	476,788	1,173,844	41,599	1,833,742
Net position	344,524	126,024	628,070	400,725	785,017	2,284,360
Commitments	653,399	-	-	-	-	653,399

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28. RISK MANAGEMENT POLICIES, CONTINUED

(c) Liquidity risk, continued

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2016 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	478,040	-	-	-	-	478,040
Financial assets at fair value through profit or loss	4,787	1,400	344	-	-	6,531
Loans and advances to banks	55,679	434	42,409	34,073	-	132,595
Loans to customers	30,375	43,992	352,586	1,119,715	463,159	2,009,827
Financial assets available- for-sale	200,654	305,003	319,007	335,225	62,735	1,222,624
Other financial assets	-	-	589	-	-	589
Total financial assets	769,535	350,829	714,935	1,489,013	525,894	3,850,206
FINANCIAL LIABILITIES:						
Loans and deposits from banks	284,512	2,827	25,271	79,675	22,454	414,739
Financial liabilities at fair value through profit or loss	904	-	-	-	-	904
Debt securities issued	8,595	22,704	248,664	757,432	351,676	1,389,071
Other financial liabilities	-	29	9,803	11,593	-	21,425
Total financial liabilities	294,011	25,560	283,738	848,700	374,130	1,826,139
Net position	475,524	325,269	431,197	640,313	151,764	2,024,067
Commitments	783,633	-	-	-	-	783,633

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	31 December 2015 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	288,326	-	-	-	-	288,326
Loans and advances to banks	1,647	785	21,607	45,501	-	69,540
Loans to customers	15,428	135,988	230,444	1,200,729	611,047	2,193,636
Financial assets available- for-sale	1,396	150,306	269,511	85,960	120,806	627,979
Investments held-to-maturity	440	14,408	37,456	316,229	81,803	450,336
Other financial assets	2,990	-	259	-	-	3,249
Total financial assets	310,227	301,487	559,277	1,648,419	813,656	3,633,066
FINANCIAL LIABILITIES:						
Loans from banks	-	2,415	44,100	80,339	44,770	171,624
Financial liabilities at fair value through profit or loss	5,137	-	-	-	-	5,137
Debt securities issued	-	95,801	247,666	768,586	337,188	1,449,241
Other financial liabilities	-	11	7,166	10,864	-	18,041
Total financial liabilities	5,137	98,227	298,932	859,789	381,958	1,644,043
Net position	305,090	203,260	260,345	788,630	431,698	1,989,023
Commitments	513,649	-	-	-	-	513,649

28. RISK MANAGEMENT POLICIES, CONTINUED

(c) Liquidity risk, continued

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

(d) Market risk

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

Interest rate sensitivity

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

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

The following table details the Bank's sensitivity to a 3% increase and decrease in the interest rates in 2017, 2016 and 2015. This is the sensitivity rate used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates. The sensitivity analysis includes only outstanding financial assets and liabilities with variable interest rates.

An analysis of sensitivity of net profit and equity to changes in interest rates (repricing risk) based on a simplified scenario of a 300 basis point (bp) symmetrical fall or rise in all yield curves and positions of variable interest rate assets and liabilities existing as at 31 December 2017, 2016 and 2015 is as follows:

	As at 31 December 2017		As at 31 December 2016		As at 31 December 2015	
	Interest rate +3%	Interest rate -3%	Interest rate +3%	Interest rate -3%	Interest rate +3%	Interest rate -3%
Financial assets:						
Loans and advances to banks	416	(416)	1,165	(1,165)	1,770	(1,770)
Loans to customers	12,453	(12,450)	7,363	(7,363)	14,518	(14,518)
Financial liabilities:						
Loans from banks	(3,278)	1,826	(3,506)	1,976	(4,167)	2,338
Net impact on net profit and equity	9,591	(11,040)	5,022	(6,552)	12,121	(13,950)

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28. RISK MANAGEMENT POLICIES, CONTINUED

(d) Market risk, continued

Interest rate sensitivity, continued

An analysis of sensitivity of equity as a result of changes in the financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2017, 2016 and 2015, and a simplified scenario of a 300 bp symmetrical fall or rise in all yield curves is as follows:

	As at 31 December 2017		As at 31 December 2016		As at 31 December 2015	
	Interest rate +3%	Interest rate -3%	Interest rate +3%	Interest rate -3%	Interest rate +3%	Interest rate -3%
Financial assets available-for-sale	(106,375)	120,090	(36,150)	43,533	(31,286)	35,381
Net impact on equity	(106,375)	120,090	(36,150)	43,533	(31,286)	35,381

(e) Currency risk

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

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

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

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

	US dollars	Kazakhstan tenge	Russian rouble	Euro	Other currencies	31 December 2017 Total
Financial assets:						
Cash and cash equivalents	53,841	8,186	83,471	21,362	510	167,370
Financial assets at fair value through profit or loss	135	-	-	-	-	135
Loans and advances to banks	50,398	72,801	67,844	522	-	191,565
Loans to customers	538,252	294,331	358,047	153,635	-	1,344,265
Financial assets available-for- sale	1,237,807	38,106	69,010	252,159	3,597	1,600,679
Other financial assets	1,339	1,467	279	14	-	3,099
Total financial assets	1,881,772	414,891	578,651	427,692	4,107	3,307,113
Financial liabilities:						
Loans from banks	7,347	98,111	170,466	101,905	-	377,829
Financial liabilities at fair value through profit or loss	11,072	-	-	-	-	11,072
Debt securities issued	585,513	358,972	253,856	-	-	1,198,341
Other financial liabilities	21,964	34	1,085	13	-	23,096
Total financial liabilities	625,896	457,117	425,407	101,918	-	1,610,338
OPEN BALANCE SHEET POSITION	1,255,876	(42,226)	153,244	325,774	4,107	

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28. RISK MANAGEMENT POLICIES, CONTINUED

(e) Currency risk, continued

	US dollars	Kazakhstan tenge	Russian rouble	Euro	Other currencies	31 December 2016 Total
Financial assets:						
Cash and cash equivalents	285,486	18,119	6,469	93,470	74,338	477,882
Financial assets at fair value through profit or loss	6,186	-	-	148	197	6,531
Loans and advances to banks	95,933	32,027	-	-	-	127,960
Loans to customers	628,476	278,417	414,787	160,528	-	1,482,208
Financial assets available-for-sale	857,907	137,546	47,136	84,014	18,916	1,145,519
Other financial assets	52	275	157	105	-	589
Total financial assets	1,874,040	466,384	468,549	338,265	93,451	3,240,689
Financial liabilities:						
Loans from banks	10,330	193,543	96,812	107,558	-	408,243
Financial liabilities at fair value through profit or loss	904	-	-	-	-	904
Debt securities issued	582,596	250,791	322,742	-	-	1,156,129
Other financial liabilities	20,316	567	34	508	-	21,425
Total financial liabilities	614,146	444,901	419,588	108,066	-	1,586,701
OPEN BALANCE SHEET POSITION	1,259,894	21,483	48,961	230,199	93,451	

	US dollars	Kazakhstan tenge	Russian rouble	Euro	Other currencies	31 December 2015 Total
Financial assets:						
Cash and cash equivalents	222,638	325	1,084	64,110	130	288,287
Loans and advances to banks	58,875	1,648	1,016	-	-	61,539
Loans to customers	774,565	217,139	319,480	188,207	-	1,499,391
Financial assets available-for-sale	609,334	415	-	-	-	609,749
Investments held-to-maturity	402,714	-	-	-	-	402,714
Other financial assets	3,039	22	51	137	-	3,249
Total financial assets	2,071,165	219,549	321,631	252,454	130	2,864,929
Financial liabilities:						
Loans from banks	11,511	-	22,331	127,509	-	161,351
Financial liabilities at fair value through profit or loss	5,137	-	-	-	-	5,137
Debt securities issued	588,811	246,550	360,996	-	-	1,196,357
Other financial liabilities	17,777	74	140	49	1	18,041
Total financial liabilities	623,236	246,624	383,467	127,558	1	1,380,886
OPEN BALANCE SHEET POSITION	1,447,929	(27,075)	(61,836)	124,896	129	

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28. RISK MANAGEMENT POLICIES, CONTINUED

(e) Currency risk, continued

(i) *Derivative financial instruments and spot contracts*

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

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

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

	US dollars	Kazakhstan tenge	Russian rouble	Euro	Other currencies	31 December 2017 Total
Accounts payable on spot and derivative contracts	(102,700)	(60,009)	(155,391)	(324,623)	(3,593)	(646,316)
Accounts receivable on spot and derivative contracts	529,436	102,216	3,727	-	-	635,379
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	426,736	42,207	(151,664)	(324,623)	(3,593)	(10,937)
TOTAL OPEN POSITION	1,682,612	(19)	1,580	1,151	514	
	US dollars	Kazakhstan tenge	Russian rouble	Euro	Other currencies	31 December 2016 Total
Accounts payable on spot and derivative contracts	(11,414)	(20,244)	(49,875)	(229,391)	(93,054)	(403,978)
Accounts receivable on spot and derivative contracts	397,847	-	-	5,448	6,310	409,605
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	386,433	(20,244)	(49,875)	(223,943)	(86,744)	5,627
TOTAL OPEN POSITION	1,646,327	1,239	(914)	6,256	6,707	
	US dollars	Kazakhstan tenge	Russian rouble	Euro	Other currencies	31 December 2015 Total
Accounts payable on spot and derivative contracts	(97,000)	-	-	(125,031)	-	(222,031)
Accounts receivable on spot and derivative contracts	122,795	25,265	68,834	-	-	216,894
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	25,795	25,265	68,834	(125,031)	-	(5,137)
TOTAL OPEN POSITION	1,473,724	(1,810)	6,998	(135)	129	

28. RISK MANAGEMENT POLICIES, CONTINUED

(e) Currency risk, continued

(ii) Currency risk sensitivity

The following table details the Bank's sensitivity to a 15% increase and decrease in the US Dollar/Russian rouble and US Dollar/Kazakhstan tenge exchange rates as at 31 December 2017, 2016 and 2015, respectively and a 10% increase and decrease in the US Dollar/Euro exchange rate. These sensitivity rates are used when reporting foreign currency risk internally to key management personnel and represent management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for respective changes in currency rates as at 31 December 2017, 2016 and 2015.

Impact on net profit based on asset values as at 31 December 2017, 2016 and 2015:

	As at 31 December 2017		As at 31 December 2016		As at 31 December 2015	
	USD/RUB	USD/RUB	USD/RUB	USD/RUB	USD/RUB	USD/RUB
	+15%	-15%	+15%	-15%	+15%	-15%
Impact on net profit	(237)	237	137	(137)	(1,050)	1,050

	As at 31 December 2017		As at 31 December 2016		As at 31 December 2015	
	USD/KZT	USD/KZT	USD/KZT	USD/KZT	USD/KZT	USD/KZT
	+15%	-15%	+15%	-15%	+15%	-15%
Impact on net profit	3	(3)	(186)	186	272	(272)

	As at 31 December 2017		As at 31 December 2016		As at 31 December 2015	
	USD/EUR	USD/EUR	USD/EUR	USD/EUR	USD/EUR	USD/EUR
	+10%	-10%	+10%	-10%	+10%	-10%
Impact on net profit	(115)	115	(626)	626	14	(14)

Impact on equity based on asset values as at 31 December 2017, 2016 and 2015:

	As at 31 December 2017		As at 31 December 2016		As at 31 December 2015	
	USD/RUB	USD/RUB	USD/RUB	USD/RUB	USD/RUB	USD/RUB
	+15%	-15%	+15%	-15%	+15%	-15%
Impact on equity	(237)	237	137	(137)	(1,050)	1,050

	As at 31 December 2017		As at 31 December 2016		As at 31 December 2015	
	USD/KZT	USD/KZT	USD/KZT	USD/KZT	USD/KZT	USD/KZT
	+15%	-15%	+15%	-15%	+15%	-15%
Impact on equity	3	(3)	(186)	186	272	(272)

	As at 31 December 2017		As at 31 December 2016		As at 31 December 2015	
	USD/EUR	USD/EUR	USD/EUR	USD/EUR	USD/EUR	USD/EUR
	+10%	-10%	+10%	-10%	+10%	-10%
Impact on equity	(115)	115	(626)	626	14	(14)

28. RISK MANAGEMENT POLICIES, CONTINUED

(e) Currency risk, continued

(ii) Currency risk sensitivity, continued

Limitations of sensitivity analysis

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

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

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

(f) Financial ratios

In December 2011, the Council of the Bank has set financial ratios:

	31 December 2017	31 December 2016	31 December 2015
Minimum amount of liquid assets in Treasury portfolio			
- required amount in thousands US dollars*	454,395	525,990	837,301
- <i>actual amount</i>	1,409,037	1,328,069	1,280,069
Financial leverage ratio			
- should be less or equal to 300% of the Bank's equity	300.00%	300.00%	300.00%
- <i>actual ratio</i>	75.63%	75.79%	90.15%
Maximum principal amount of the Bank's borrowings			
- allowed amount in thousands of US Dollars	1,606,800	1,444,336	2,734,000
- <i>actual amount of the Bank's borrowings</i>	1,292,916	1,263,521	1,351,601

* In December 2016, the Council of the Bank approved the changes in the procedure for calculating the minimum level of liquidity ratio. According to the previous approach the size of the treasury portfolio should not be less than 65% of the Bank's commitments under its investment activities less issued guarantees and bilateral commitments, plus the annual cost of financial debt. The new approach sets the minimum level of treasury portfolio not less than 1-year projected net loan disbursements (loans disbursed less repayments and tied financing) if greater than zero, less bilateral commitments, plus the annual cost of financial debt. The new procedure of calculation has taken effect from 1 January 2017 and this limit is reviewed on a quarterly basis.

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

29. EVENTS AFTER THE REPORTING PERIOD

On 2 February 2018, the Bank issued Russian rouble bonds (series 11) listed on the Moscow Exchange for a total amount of 5,000 million Russian roubles with maturity date on 24 January 2025. In accordance with the terms of the issuance, the Russian rouble bonds bear an interest rate fixed at 7.75% per annum until 30 July 2021. After 30 July 2021 the interest rate will be determined by the Bank unilaterally. The bondholders are entitled to demand the redemption of the Russian rouble bonds on the put option date on 4 August 2021.

On 6 February 2018, in accordance with the terms of the issuance the Bank redeemed issued Rouble Bonds (series 04) listed on the Moscow Exchange for a total amount of 515 million Russian roubles.