

# **EURASIAN DEVELOPMENT BANK**

**Financial Statements**  
For the Year ended 31 December 2014

# EURASIAN DEVELOPMENT BANK

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KPMG Audit LLC  
050051 Almaty, 180 Dostyk Avenue,  
E-mail: company@kpmg.kz

## **Independent Auditors' Report**

To the Members of the Council of Eurasian Development Bank

We have audited the accompanying financial statements of Eurasian Development Bank (the "Bank"), which comprise the statement of financial position as at 31 December 2014, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

### *Auditors' Responsibility*

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

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

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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



**KPMG Audit LLC**

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

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Alla Nigay  
General Director of KPMG Audit LLC  
acting on the basis of the Charter



4 February 2015

# EURASIAN DEVELOPMENT BANK

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

(in thousands of US dollars)

	Note	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Interest income	4	264,879	248,111	186,311
Interest expense	4	(167,938)	(157,503)	(107,146)
<b>Net interest income before provision for impairment losses on interest bearing assets</b>		<b>96,941</b>	<b>90,608</b>	<b>79,165</b>
Provision for impairment losses on interest bearing assets	5	(20,696)	(120,828)	(30,824)
<b>NET INTEREST INCOME/(EXPENSE)</b>		<b>76,245</b>	<b>(30,220)</b>	<b>48,341</b>
Provision for impairment losses on equity financial assets available-for-sale	14	(21,295)	-	-
Net loss on financial assets and liabilities at fair value through profit or loss	6	(7,896)	(7,019)	(25,069)
Net realised gain/(loss) on financial assets available-for-sale		64	(6)	4,510
Net gain on transactions in foreign currencies	7	12,486	1,063	28,568
Fee and commission income		5,622	10,226	5,448
Fee and commission expense		(238)	(256)	(215)
Net loss on trading with debt securities issued		(650)	(1,648)	-
Other income		481	417	195
Other expenses		(2)	(417)	(586)
<b>Net non-interest (loss)/income</b>		<b>(11,428)</b>	<b>2,360</b>	<b>12,851</b>
<b>Net result from financial operations</b>		<b>64,817</b>	<b>(27,860)</b>	<b>61,192</b>
Operating expenses	8	(47,034)	(44,650)	(49,204)
<b>NET PROFIT/(LOSS)</b>		<b>17,783</b>	<b>(72,510)</b>	<b>11,988</b>

The notes on pages 11-69 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 2014 (CONTINUED)

(in thousands of US dollars)

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
<b>OTHER COMPREHENSIVE INCOME:</b>			
<b>Items that are or may be reclassified subsequently to profit or loss:</b>			
Net unrealised (loss)/gain on revaluation of financial assets available-for-sale	(22,394)	(7,105)	18,917
Transfer of impairment losses on equity financial assets available-for-sale to profit or loss	10,415	-	-
Net realised (gain)/loss on financial assets available-for-sale transferred to profit or loss	(64)	6	(4,510)
Net unrealised gain on hedging instruments	371	2,686	2,687
<b>Total items that are or may be reclassified subsequently to profit or loss</b>	<b>(11,672)</b>	<b>(4,413)</b>	<b>17,094</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>(11,672)</b>	<b>(4,413)</b>	<b>17,094</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS)</b>	<b>6,111</b>	<b>(76,923)</b>	<b>29,082</b>

Approved on behalf of the management of the Bank:

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

4 February 2015  
Almaty, Kazakhstan



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

4 February 2015  
Almaty, Kazakhstan

The notes on pages 11-69 form an integral part of these financial statements.

# EURASIAN DEVELOPMENT BANK


## STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

(in thousands of US dollars)


	Note	31 December 2014	31 December 2013	31 December 2012
<b>ASSETS</b>				
Cash and cash equivalents	9	296,652	274,958	434,936
Financial assets at fair value through profit or loss	10	1,821	5	657
Loans and advances to banks	12	249,980	406,893	304,176
Loans to customers	13	2,151,623	2,327,603	1,889,791
Financial assets available-for-sale	14	716,228	1,129,244	864,662
Investments held-to-maturity	15	437,271	403,786	315,360
Non-current assets held-for-sale	16	-	20,393	49,785
Property and equipment	17	13,311	14,161	16,514
Intangible assets		1,451	1,330	1,174
Other assets	18	47,161	15,285	6,953
<b>TOTAL ASSETS</b>		<b>3,915,498</b>	<b>4,593,658</b>	<b>3,884,008</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES:</b>				
Loans from banks	19	187,923	127,035	37,676
Financial liabilities at fair value through profit or loss	10	3,471	781	1,853
Hedging derivative financial instrument	11	-	16,763	7,434
Debt securities issued	20	2,061,561	2,785,565	2,091,994
Other liabilities	21	24,273	31,355	35,969
<b>Total liabilities</b>		<b>2,277,228</b>	<b>2,961,499</b>	<b>2,174,926</b>
<b>EQUITY:</b>				
Share capital:				
Authorised share capital	22	7,000,000	1,515,700	1,515,700
Less callable share capital	22	(5,484,300)	-	-
Paid-in share capital		1,515,700	1,515,700	1,515,700
Reserve fund	22	90,872	90,872	84,878
Hedging reserve		-	(371)	(3,057)
Revaluation reserve for financial assets available-for-sale		(4,446)	7,597	14,696
Retained earnings		36,144	18,361	96,865
<b>Total equity</b>		<b>1,638,270</b>	<b>1,632,159</b>	<b>1,709,082</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3,915,498</b>	<b>4,593,658</b>	<b>3,884,008</b>

Approved on behalf of the management of the Bank:

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

4 February 2015  
 Almaty, Kazakhstan



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

4 February 2015  
 Almaty, Kazakhstan

The notes on pages 11-69 form an integral part of these financial statements.

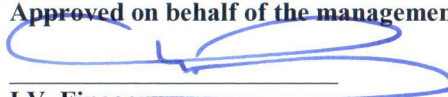
# EURASIAN DEVELOPMENT BANK

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014


(in thousands of US dollars)

	Share capital			Reserve fund	Hedging reserve	Revaluation reserve for financial assets available-for-sale	Retained earnings	Total
	Authorised	Callable	Paid-in					
<b>1 January 2012</b>	<b>1,515,700</b>	-	<b>1,515,700</b>	<b>72,640</b>	<b>(5,744)</b>	<b>289</b>	<b>97,115</b>	<b>1,680,000</b>
Net profit			-	-	-	-	11,988	11,988
Other comprehensive income			-	-	2,687	14,407	-	17,094
<b>Total comprehensive income</b>	-	-	-	-	<b>2,687</b>	<b>14,407</b>	<b>11,988</b>	<b>29,082</b>
<b>Transactions with owners, recorded directly in equity</b>								
Transfer to reserve fund	-	-	-	12,238	-	-	(12,238)	-
<b>31 December 2012</b>	<b>1,515,700</b>	-	<b>1,515,700</b>	<b>84,878</b>	<b>(3,057)</b>	<b>14,696</b>	<b>96,865</b>	<b>1,709,082</b>
Net loss	-	-	-	-	-	-	(72,510)	(72,510)
Other comprehensive income	-	-	-	-	2,686	(7,099)	-	(4,413)
<b>Total comprehensive income/(loss)</b>	-	-	-	-	<b>2,686</b>	<b>(7,099)</b>	<b>(72,510)</b>	<b>(76,923)</b>
<b>Transactions with owners, recorded directly in equity</b>								
Transfer to reserve fund	-	-	-	5,994	-	-	(5,994)	-
<b>31 December 2013</b>	<b>1,515,700</b>	-	<b>1,515,700</b>	<b>90,872</b>	<b>(371)</b>	<b>7,597</b>	<b>18,361</b>	<b>1,632,159</b>
Net profit			-	-	-	-	17,783	17,783
Other comprehensive income	-	-	-	-	371	(12,043)	-	(11,672)
<b>Total comprehensive income/(loss)</b>	-	-	-	-	<b>371</b>	<b>(12,043)</b>	<b>17,783</b>	<b>6,111</b>
<b>Transactions with owners, recorded directly in equity</b>								
Callable shares authorised	5,484,300	(5,484,300)	-	-	-	-	-	-
<b>31 December 2014</b>	<b>7,000,000</b>	<b>(5,484,300)</b>	<b>1,515,700</b>	<b>90,872</b>	<b>-</b>	<b>(4,446)</b>	<b>36,144</b>	<b>1,638,270</b>

Approved on behalf of the management of the Bank:

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



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

4 February 2015  
 Almaty, Kazakhstan

4 February 2015  
 Almaty, Kazakhstan

The notes on pages 11-69 form an integral part of these financial statements.

# EURASIAN DEVELOPMENT BANK

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

(in thousands of US dollars)

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received on loans to customers	211,421	179,201	116,062
Interest received on loans and advances to banks	16,929	17,930	20,222
(Expense paid)/interest and income received from financial assets and liabilities at fair value through profit or loss	(7,022)	6,968	(23,761)
Interest and income received on financial assets available-for-sale	12,061	16,474	13,514
Interest received on investments held-to-maturity	20,063	19,114	20,759
Interest paid on loans from banks	(6,327)	(2,844)	(1,604)
Interest paid on debt securities issued	(157,217)	(129,598)	(86,970)
Fees and commissions received	4,665	9,034	5,657
Fees and commissions paid	(204)	(256)	(208)
Other income received	481	418	196
Other expenses paid	(2)	(28)	-
Operating expenses paid	(37,591)	(45,483)	(42,031)
<b>Cash inflow from operating activities before changes in operating assets and liabilities</b>	<b>57,257</b>	<b>70,930</b>	<b>21,836</b>
<b>Changes in operating assets</b>			
Increase in loans to customers	(424,362)	(585,698)	(537,095)
Decrease/(increase) in loans and advances to banks	119,038	(104,498)	66,153
Decrease in other assets	2,023	95	697
<b>Changes in operating liabilities</b>			
Decrease in deposits from banks	-	-	(23,330)
(Decrease)/increase in other liabilities	(58)	72	(327)
<b>Cash flows used in operating activities</b>	<b>(246,102)</b>	<b>(619,099)</b>	<b>(472,066)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of financial assets available-for-sale	(963,581)	(2,265,102)	(2,330,158)
Proceeds from sale and redemption of financial assets available-for-sale	1,353,592	1,977,770	1,860,732
Purchase of investments held-to-maturity	(103,332)	(204,798)	(86,536)
Proceeds from redemption of investments held-to-maturity	66,350	113,600	73,100
Purchase of property, equipment and intangible assets	(1,075)	(1,189)	(1,016)
Proceeds from sale of property, equipment and intangible assets	18	1,633	-
<b>Cash flows from/(used in) investing activities</b>	<b>351,972</b>	<b>(378,086)</b>	<b>(483,878)</b>

The notes on pages 11-69 form an integral part of these financial statements.

# EURASIAN DEVELOPMENT BANK

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

(in thousands of US dollars)

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of debt securities	363,326	1,393,166	1,116,872
Repayments of debt securities	(494,794)	(650,344)	(81,003)
Proceeds from loans from banks	72,112	90,291	17,684
Repayments of loans from banks	(12,749)	(2,076)	(30,000)
<b>Cash flows (used in)/from financing activities</b>	<b>(72,105)</b>	<b>831,037</b>	<b>1,023,553</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>33,765</b>	<b>(166,148)</b>	<b>67,609</b>
CASH AND CASH EQUIVALENTS, at beginning of the year	274,958	434,936	361,683
Effect of changes in foreign exchange rate on cash and cash equivalents	(12,071)	6,170	5,644
<b>CASH AND CASH EQUIVALENTS, at end of the year (Note 9)</b>	<b>296,652</b>	<b>274,958</b>	<b>434,936</b>

Approved on behalf of the management of the Bank:

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



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

4 February 2015  
Almaty, Kazakhstan

4 February 2015  
Almaty, Kazakhstan

The notes on pages 11-69 form an integral part of these financial statements.

## **1 BACKGROUND**

### **(a) Principal activities**

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

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

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

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

As at 31 December 2014, the following states were members of the Bank: the Russian Federation, the Republic of Kazakhstan, the Republic of Armenia, the Republic of Tajikistan, the Republic of Belarus and the Kyrgyz Republic.

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

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

The total number of employees of the Bank as at 31 December 2014 was 294 (31 December 2013: 293; 31 December 2012: 297).

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

## **1 BACKGROUND, CONTINUED**

### **(a) Principal activities, continued**

As at 31 December 2014, 2013 and 2012, 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
<b>Total</b>	<b>100.00</b>

These financial statements were authorised for issue on 4 February 2015 by the management of the Bank.

### **(b) Business environment**

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

## **2 BASIS OF PREPARATION**

### **(a) Statement of compliance**

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

### **(b) Basis of measurement**

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

### **(c) Functional and presentation currency**

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

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

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

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

## 2 BASIS OF PREPARATION, CONTINUED

### (d) Use of estimates and judgments

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

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

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

### (e) Change in accounting policies

The Bank has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014:

- *Investment Entities* (Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements) (see (i));
- *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32 Financial Instruments: Presentation) (see (ii));
- *Recoverable Amount Disclosures for Non-Financial Assets* (Amendments to IAS 36 Impairment of Assets) (see (iii));
- *Novation of Derivatives and Continuation of Hedge Accounting* (Amendments to IAS 39 Financial Instruments: Recognition and Measurements) (see (iv)).

The nature and the effect of the changes are explained below.

#### (i) *Investment entities*

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

These amendments do not have an impact on the financial statements as the Bank does not meet the definition of an investment entity under IFRS 10.

#### (ii) *Offsetting Financial Assets and Financial Liabilities*

Amendments to IAS 32 Financial Instruments: Disclosure and Presentation - Offsetting Financial Assets and Financial Liabilities do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

As the Bank does not have significant offsetting arrangements, the amendment does not have an impact on the Bank’s financial statements.

#### (iii) *Recoverable Amount Disclosures for Non-Financial Assets*

The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment.

## 2 BASIS OF PREPARATION, CONTINUED

### (e) Change in accounting policies, continued

#### (iv) *Novation of Derivatives and Continuation of Hedge Accounting*

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

The Bank does not expect that these amendments will have an impact on its financial statements as the Bank does not apply hedge accounting according to IFRS as at the reporting date.

## 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, except as explained in Note 2 (e), which addresses changes in accounting policies.

### (a) Foreign currency

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

#### **Rates of exchange**

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

	31 December 2014	31 December 2013	31 December 2012
US dollar/1 Kazakhstan tenge ("KZT")	0.0054840	0.0064821	0.0066472
US dollar/1 Russian rouble ("RUB")	0.0164648	0.0304232	0.0327600
US dollar/1 British pound sterling ("GBP")	1.5581000	1.6566000	1.6242000
US dollar/1 Euro ("EUR")	1.2100000	1.3789000	1.3197000

### (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.

### 3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### (c) Loans and advances to banks

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

#### (d) Financial instruments

##### (i) Classification

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

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

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

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

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

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

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

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

### 3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### (d) Financial instruments, continued

##### (i) *Classification, continued*

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

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

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

##### (ii) *Recognition*

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

##### (iii) *Measurement*

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

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

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

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

##### (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.

### 3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### (d) Financial instruments, continued

##### (v) *Fair value measurement principles, continued*

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

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

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

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

##### (vi) *Gains and losses on subsequent measurement*

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

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

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

##### (vii) *Derecognition*

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

### 3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### (d) Financial instruments, continued

##### (vii) *Derecognition, continued*

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

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

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

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

The Bank writes off assets deemed to be uncollectible.

##### (viii) *Repurchase and reverse repurchase agreements*

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

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

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

##### (ix) *Derivative financial instruments*

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

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

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

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

- Hedges of the fair value of recognised assets or liabilities or firm commitment (fair value hedge). A fair value hedge is a hedge of changes in the fair value of a recognised asset or liability, an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. The hedge instrument is measured at fair value with changes in fair value recognised in profit or loss

### 3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

**(d) Financial instruments, continued**

**(ix) Derivative financial instruments, continued**

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

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

**(x) Offsetting**

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

**(e) Assets held for sale**

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

**(f) Property and equipment**

**(i) Owned assets**

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

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

**(ii) Depreciation**

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

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

**(g) Intangible assets**

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

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

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

### 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.

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

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

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

### 3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### (h) Impairment, continued

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

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

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

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

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

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

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

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

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

#### **(j) Credit related commitments**

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

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

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

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

#### **(k) Share capital**

Share capital is recognised at cost.

#### **(l) Taxation**

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

#### **(m) Income and expense recognition**

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

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

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

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

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 the profit or loss.

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

**(o) Employee benefits**

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

**(p) Segment reporting**

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

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

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2014, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective. The Bank has not yet analysed the likely impact of these new standards on its financial position and performance.

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding the classification and measurement of financial liabilities was published in October 2010. The third phase of IFRS 9 was issued in November 2013 and relates to general hedge accounting. The standard was finalized and published in July 2014. The final phase relates to a new expected credit loss model for calculating impairment. The Bank recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The Bank has not analysed the impact of these changes yet. The Bank does not intend to adopt this standard early. The standard will be effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.
- Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2015. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

**EURASIAN DEVELOPMENT BANK**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR**  
**ENDED 31 DECEMBER 2014**  
*(in thousands of US dollars)*

**4 NET INTEREST INCOME**

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
<b>Interest income comprises:</b>			
Interest income on financial assets measured at amortised cost	257,930	239,785	178,299
Interest income on financial assets available-for-sale	6,949	8,326	8,012
<b>Total interest income</b>	<b>264,879</b>	<b>248,111</b>	<b>186,311</b>
Interest income on financial assets measured at amortised cost comprises:			
Interest on loans to customers	223,759	204,519	139,425
Interest on investments held-to-maturity	16,003	16,342	17,983
Interest on loans and advances to banks	16,559	17,604	16,692
Interest on cash and cash equivalents	1,609	1,320	4,199
<b>Total interest income on financial assets measured at amortised cost</b>	<b>257,930</b>	<b>239,785</b>	<b>178,299</b>
<b>Interest expense comprises:</b>			
Interest expense on financial liabilities measured at amortised cost comprises:			
Interest on debt securities issued	(161,271)	(152,785)	(105,278)
Interest on loans from banks	(6,667)	(4,718)	(1,868)
<b>Total interest expense on financial liabilities measured at amortised cost</b>	<b>(167,938)</b>	<b>(157,503)</b>	<b>(107,146)</b>
<b>Net interest income before provision for impairment losses on interest bearing financial assets</b>	<b>96,941</b>	<b>90,608</b>	<b>79,165</b>

**5 PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS**

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

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Beginning of the year	(142,238)	(30,816)	-
Net charge	(19,490)	(120,681)	(30,848)
Write-offs	119,345	9,256	-
Effect of foreign currency movements	459	3	32
<b>End of the year</b>	<b>(41,924)</b>	<b>(142,238)</b>	<b>(30,816)</b>

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

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Beginning of the year	(420)	(273)	(297)
Net charge	(182)	(147)	24
<b>End of the year</b>	<b>(602)</b>	<b>(420)</b>	<b>(273)</b>

**EURASIAN DEVELOPMENT BANK**  
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**5 PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS, CONTINUED**

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

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Beginning of the year	-	-	-
Net charge	(1,024)	-	-
Write-offs	151	-	-
<b>End of the year</b>	<b>(873)</b>	<b>-</b>	<b>-</b>

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

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Net loss on derivative financial instruments in foreign currency	(7,896)	(7,084)	(25,107)
Net gain on debt securities	-	65	38
<b>Total net loss on financial assets and liabilities at fair value through profit or loss</b>	<b>(7,896)</b>	<b>(7,019)</b>	<b>(25,069)</b>

**7 NET GAIN ON TRANSACTIONS IN FOREIGN CURRENCIES**

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Translation differences, net	11,924	2,005	29,493
Dealing, net	562	(942)	(925)
<b>Total net gain on transactions in foreign currencies</b>	<b>12,486</b>	<b>1,063</b>	<b>28,568</b>

**8 OPERATING EXPENSES**

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Staff costs and other payments to employees	33,051	28,285	30,321
Premises expenses	2,825	3,594	3,457
Business development expenses	1,993	1,928	2,387
Depreciation and amortisation	1,804	1,916	2,447
Business trip expenses	1,541	1,866	2,669
Communication expenses	1,018	1,186	1,099
Security	937	1,191	1,431
Professional services	936	1,313	1,244
Maintenance of acquired systems and programs	885	933	1,129
Transportation expenses	380	434	430
Research and regional development expenses	268	745	607
Training	251	201	553
Office, postal and printing expenses	169	168	176
Other expenses	976	890	1,254
<b>Total operating expenses</b>	<b>47,034</b>	<b>44,650</b>	<b>49,204</b>

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

## 9 CASH AND CASH EQUIVALENTS

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

	<b>31 December 2014</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Cash and balances with national (central) banks of Member states of the Bank	201,284	905	67,659
Correspondent accounts with other banks			
with credit ratings A and above	57,825	80,504	51,799
with credit ratings below A and not rated	1,928	1,621	201,718
Term deposits in other banks			
with credit ratings A and above	35,615	28,073	157
with credit ratings below A and not rated	-	163,855	113,603
<b>Total cash and cash equivalents</b>	<b>296,652</b>	<b>274,958</b>	<b>434,936</b>

As at 31 December 2014, the Bank had a balance of 201,172 thousand US dollars with the National Bank of the Republic of Kazakhstan which exceeded 10% of the Bank's equity (31 December 2013: no banks; 31 December 2012: one commercial bank of a Member state with a balance amounting to 232,466 thousand US dollars).

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

	<b>31 December 2014</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Derivative financial instruments - assets	1,821	5	657
Derivative financial instruments - liabilities	(3,471)	(781)	(1,853)

	<b>31 December 2014</b>			<b>31 December 2013</b>			<b>31 December 2012</b>		
	<b>Notional amount</b>	<b>Net fair value Asset    Liability</b>		<b>Notional amount</b>	<b>Net fair value Asset    Liability</b>		<b>Notional amount</b>	<b>Net fair value Asset    Liability</b>	
<b>Derivative financial instruments:</b>									
<b>Foreign currency contracts</b>									
Swaps	99,258	1,439	(3,344)	158,572	5	(770)	296,679	657	(1,772)
Forwards	40,887	382	(127)	9,989	-	(11)	19,300	-	(81)
		<b>1,821</b>	<b>(3,471)</b>		<b>5</b>	<b>(781)</b>		<b>657</b>	<b>(1,853)</b>

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

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

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

### **Forwards**

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

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

### **Swaps**

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

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

## **11 HEDGING DERIVATIVE FINANCIAL INSTRUMENT**

### **(a) Bank's approach to derivative transactions**

The Bank may enter into swap agreements for hedging purposes.

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

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

### **(b) Significant foreign currency transactions**

The entire amount of hedging derivative financial instrument as at 31 December 2013 and 2012 comprised the fair value of a cross-currency interest rate swap agreement that the Bank entered into on 14 February 2011 to exchange RUB 5,000,000 thousand for USD 170,707 thousand and exchange back on 14 February 2014, the transaction closure date. The Bank paid an interest of 3.55% p.a. and the counterparty paid an interest of 7.70% p.a. semi-annually.

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

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

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**12 LOANS AND ADVANCES TO BANKS**

	<b>31 December 2014</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Loans to banks	200,798	223,878	255,508
Loans under reverse repurchase agreements	49,784	183,435	48,941
	<b>250,582</b>	<b>407,313</b>	<b>304,449</b>
Less country risk provisions	(602)	(420)	(273)
<b>Total loans and advances to banks</b>	<b>249,980</b>	<b>406,893</b>	<b>304,176</b>

As at 31 December 2014, loans and advances to banks include loans to seven banks in the amount of 84,895 thousand US dollars (31 December 2013: loans to four banks in the amount of 76,145 thousand US dollars; 31 December 2012: loans to four banks in the amount of 52,007 thousand US dollars), against which the Bank records country risk provisions in the amount of 602 thousand US dollars (31 December 2013: 420 thousand US dollars; 31 December 2012: 273 thousand US dollars).

As at 31 December 2014, loans and advances to banks include accrued interest income amounting to 2,533 thousand US dollars (31 December 2013: 2,582 thousand US dollars; 31 December 2012: 1,991 thousand US dollars).

As at 31 December 2014, 2013 and 2012 no loans and advances to banks were past due.

The fair value of assets pledged and carrying value of loans under reverse repurchase agreements as at 31 December 2014, 2013 and 2012 are as follows:

	<b>31 December 2014</b>		<b>31 December 2013</b>		<b>31 December 2012</b>	
	<b>Carrying value of loans</b>	<b>Fair value of collateral</b>	<b>Carrying value of loans</b>	<b>Fair value of collateral</b>	<b>Carrying value of loans</b>	<b>Fair value of collateral</b>
Bonds issued by banks and other financial institutions	46,691	53,366	112,964	129,623	41,476	48,508
Bonds issued by non-financial organisations	3,093	3,669	70,471	81,881	7,465	8,580
	<b>49,784</b>	<b>57,035</b>	<b>183,435</b>	<b>211,504</b>	<b>48,941</b>	<b>57,088</b>

**13 LOANS TO CUSTOMERS**

	<b>31 December 2014</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Unimpaired loans to customers	1,969,945	2,213,284	1,748,108
Impaired loans to customers, including:			
- not overdue or overdue less than 90 days	116,291	132,049	172,499
- overdue more than 90 days	107,311	-	-
- defaulted loans	-	124,508	-
	<b>2,193,547</b>	<b>2,469,841</b>	<b>1,920,607</b>
Less allowance for impairment losses	(41,924)	(142,238)	(30,816)
<b>Total loans to customers</b>	<b>2,151,623</b>	<b>2,327,603</b>	<b>1,889,791</b>

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

During 2014 the Bank has transferred rights under one of the defaulted loans for a cash consideration partially payable in the future. The amount receivable was recognised at a fair value of 13,081 thousand US dollars determined applying to expected cash flows a discount rate of 11%. The Bank had collected collateral on another defaulted loan in 2013 and 2014, and transferred the foreclosed assets for a consideration of 7,487 thousand US dollars under finance lease contract (Note 18). The balances exceeding the amounts worked out were written-off in full.

### 13 LOANS TO CUSTOMERS, CONTINUED

As at 31 December 2014, the Bank has three customers with outstanding impaired loans overdue more than 90 days for a total gross amount of 107,311 thousand US dollars. The Bank has accrued allowance for impairment in amount of 28,444 thousand US dollars against these loans. One of the customers with outstanding loans amount of 61,622 thousand US dollars (allowance of 19,805 thousand US dollars) is under legal procedures of economic rehabilitation. Another customer has transferred to the Bank rights on grain certificates that were recognised as “other assets” (Note 18) in amount of 42,587 thousand US dollars that equals 80% of the loan’s carrying amount. Following the transfer the outstanding loans balance decreased to 10,913 thousand US dollars (allowance of 1,978 thousand US dollars). The third borrower with outstanding loans for 34,776 thousand US dollars (allowance of 6,661 thousand US dollars) is in negotiation process with the Bank.

Also, as at 31 December 2014, the Bank has two customers (31 December 2013: two customers; 31 December 2012: three customers) with outstanding impaired loans for a total gross amount of 116,291 thousand US dollars (31 December 2013: 132,049 thousand US dollars; 31 December 2012: 172,499 thousand US dollars) with the amount of allowance for impairment losses of 12,380 thousand US dollars (31 December 2013: 17,730 thousand US dollars; 31 December 2012: 30,816 thousand US dollars) recorded against.

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;
- a decrease of market price on customers products up to 30 % due to changes in market conditions.

As at 31 December 2014, 2013 and 2012 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 2014</u>	<u>31 December 2013</u>	<u>31 December 2012</u>
Loans collateralised by real estate, equipment and inventories	1,295,716	1,739,617	1,262,558
Loans collateralised by guarantees	847,169	668,043	622,941
Loans collateralised by future cash inflows from clients’ contracts	50,662	62,181	35,108
	<b>2,193,547</b>	<b>2,469,841</b>	<b>1,920,607</b>
Less allowance for impairment losses	(41,924)	(142,238)	(30,816)
<b>Total loans to customers</b>	<b>2,151,623</b>	<b>2,327,603</b>	<b>1,889,791</b>

For loans to customers collateralised by real estate, equipment and inventories with a net carrying amount of 1,071,015 thousand US dollars (31 December 2013: 1,483,060 thousand US dollars; 31 December 2012: 1,125,118 thousand US dollars), which are neither past due nor impaired, the fair value of collateral was estimated either at the inception of the collateral or at a subsequent date. For impaired loans with net carrying value of 182,777 thousand US dollars (31 December 2013: 114,319 thousand US dollars; 31 December 2012: 107,149 thousand US dollars), the fair value of collateral equals to 155,247 thousand US dollars (31 December 2013: 114,132 thousand US dollars; 31 December 2012: 43,010 thousand US dollars).

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### 13 LOANS TO CUSTOMERS, CONTINUED

Loans to customers with a net carrying amount of 847,169 thousand US dollars (31 December 2013: 668,043 thousand US dollars; 31 December 2012: 622,941 thousand US dollars), which are neither past due nor impaired, are collateralised by guarantees issued by governments of the Member-state of the Bank, state entities, financial and commercial organisations and individuals.

As at 31 December 2014 and 2013, none of the loans collateralised by the future cash inflows from clients were impaired. As at 31 December 2012, one customer with impaired loans with net carrying value of 34,583 thousand US dollars was collateralised by future cash inflows.

The recoverability of the above loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, 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 2014</u>	<u>31 December 2013</u>	<u>31 December 2012</u>
Transport and communication	828,419	833,394	709,822
Energy	601,017	722,733	392,745
Mining and metallurgy	300,855	286,230	146,517
Chemical industry	179,863	288,542	259,680
Agriculture	88,728	110,113	223,045
Municipal and other infrastructure	71,542	72,208	33,629
Other	123,123	156,621	155,169
	<u>2,193,547</u>	<u>2,469,841</u>	<u>1,920,607</u>
Less allowance for impairment losses	(41,924)	(142,238)	(30,816)
<b>Total loans to customers</b>	<b><u>2,151,623</u></b>	<b><u>2,327,603</u></b>	<b><u>1,889,791</u></b>

As at 31 December 2014, the maximum credit risk exposure on loans to customers amounts to 2,151,623 thousand US dollars (31 December 2013: 2,327,603 thousand US dollars; 31 December 2012: 1,889,791 thousand US dollars).

As at 31 December 2014, the maximum credit risk exposure on loan commitments extended by the Bank to its borrowers amounts to 677,081 thousand US dollars (31 December 2013: 1,092,645 thousand US dollars; 31 December 2012: 1,316,029 thousand US dollars) (Note 24).

As at 31 December 2014, loans to customers included accrued interest income amounting to 56,104 thousand US dollars (31 December 2013: 61,758 thousand US dollars; 31 December 2012: 45,333 thousand US dollars).

#### **Concentration of loans to customers**

As at 31 December 2014, the Bank has two customers (31 December 2013: three customers; 31 December 2012: two customers), whose balances exceeded 10% of total equity. The value of these balances as at 31 December 2014 was 239,800 thousand US dollars and 196,718 thousand US dollars, respectively (31 December 2013: 327,399 thousand US dollars, 273,209 thousand US dollars and 236,535 thousand US dollars, respectively; 31 December 2012: 298,633 thousand US dollars and 187,158 thousand US dollars, respectively).



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**14 FINANCIAL ASSETS AVAILABLE-FOR-SALE, CONTINUED**

	31 December 2014		31 December 2013		31 December 2012	
	Ownership interest	Fair value	Ownership interest	Fair value	Ownership interest	Fair value
<b>Equity instruments in Investment portfolio</b>						
Investments into private equity fund "Macquarie Russia and CIS Infrastructure Fund"	15.87%	41,505	15.87%	70,494	15.87%	73,324

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

During the year ended 31 December 2014 the fair value of the equity investment has significantly declined due to depreciation of Russian rouble in which the major part of revenues is generated by the Fund's underlying projects. The difference of 21,295 thousand US dollars between the acquisition cost and the fair value of the investment as at 31 December 2014 was recognised in profit or loss for the period as impairment loss. 10,880 thousand US dollars of this amount were directly recognised in profit or loss and 10,415 thousand US dollars were reclassified from equity.

As at 31 December 2014, 2013 and 2012, the fair value of the Bank's investments in the fund was estimated using Discounted Cash Flows valuation technique 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.

Uninvested balance of the commitment is presented in the Note 24.

**15 INVESTMENTS HELD-TO-MATURITY**

	31 December 2014		31 December 2013		31 December 2012	
	Nominal interest rate	Amount	Nominal interest rate	Amount	Nominal interest rate	Amount
<b>Debt securities</b>						
Eurobonds of the Russian Federation	3.25 - 7.50%	247,856	3.25 - 7.50%	266,619	3.25 - 7.50%	233,340
US Treasuries	0.88%	100,147	-	-	-	-
Bonds issued by non-financial organisations	3.15– 5.74%	68,692	3.15– 5.74%	67,731	9.63%	35,262
Bonds issued by banks and financial institutions of the Russian Federation	4.95 – 5.38%	20,576	4.95 - 6.25%	69,436	4.95%	46,758
<b>Total investments held-to-maturity</b>		<b>437,271</b>		<b>403,786</b>		<b>315,360</b>

As at 31 December 2014, investments held-to-maturity include accrued interest income amounting to 4,951 thousand US dollars (31 December 2013: 4,798 thousand US dollars; 31 December 2012: 4,975 thousand US dollars).

As at 31 December 2014, 2013 and 2012, no investments held-to-maturity are past due or impaired.

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

	31 December 2014	31 December 2013	31 December 2012
Non-current assets held for sale	-	20,393	49,785

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

**17 PROPERTY AND EQUIPMENT**

	Land	Office buildings	Vehicles	Furniture and equipment	Construction- in-progress	Total
<i>At historical cost</i>						
1 January 2012	1,231	13,743	1,611	5,047	3,993	25,625
Additions	-	-	81	438	-	519
Disposals	-	-	-	(68)	(6)	(74)
31 December 2012	1,231	13,743	1,692	5,417	3,987	26,070
Additions	-	-	199	518	-	717
Disposals	(999)	-	(176)	(112)	(3,987)	(5,274)
31 December 2013	232	13,743	1,715	5,823	-	21,513
Additions	-	-	-	503	-	503
Disposals	-	-	(17)	(94)	-	(111)
<b>31 December 2014</b>	<b>232</b>	<b>13,743</b>	<b>1,698</b>	<b>6,232</b>	<b>-</b>	<b>21,905</b>
<i>Accumulated depreciation and impairment losses</i>						
1 January 2012	147	807	1,289	2,316	3,225	7,784
Charge for the year	-	452	145	1,243	-	1,840
Disposals	-	-	-	(68)	-	(68)
31 December 2012	147	1,259	1,434	3,491	3,225	9,556
Charge for the year	-	457	131	868	-	1,456
Disposals	(147)	-	(176)	(112)	(3,225)	(3,660)
31 December 2013	-	1,716	1,389	4,247	-	7,352
Charge for the year	-	458	133	762	-	1,353
Disposals	-	-	(17)	(94)	-	(111)
<b>31 December 2014</b>	<b>-</b>	<b>2,174</b>	<b>1,505</b>	<b>4,915</b>	<b>-</b>	<b>8,594</b>
<i>Net book value</i>						
<b>31 December 2014</b>	<b>232</b>	<b>11,569</b>	<b>193</b>	<b>1,317</b>	<b>-</b>	<b>13,311</b>
<b>31 December 2013</b>	<b>232</b>	<b>12,027</b>	<b>326</b>	<b>1,576</b>	<b>-</b>	<b>14,161</b>
<b>31 December 2012</b>	<b>1,084</b>	<b>12,484</b>	<b>258</b>	<b>1,926</b>	<b>762</b>	<b>16,514</b>

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**18 OTHER ASSETS**

	<b>31 December 2014</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Other financial assets recorded as loans and receivables:</b>			
Accrued commission income and other receivables	2,302	2,843	1,702
Prepayments	220	2,014	1,514
	<b>2,522</b>	<b>4,857</b>	<b>3,216</b>
<b>Other non-financial assets:</b>			
Assets received as consideration for loans to customers	42,587	7,694	-
Prepaid expenses	1,340	1,967	3,086
Value added tax reimbursable	172	167	299
Capital expenditure debtors	5	156	301
Other debtors	535	444	51
	<b>44,639</b>	<b>10,428</b>	<b>3,737</b>
<b>Total other assets</b>	<b>47,161</b>	<b>15,285</b>	<b>6,953</b>

Assets received as consideration for loans to customers represent collateral that the Bank has taken over as a new owner as a result of an agreement between the borrower and the Bank. It consists of grain certificates that the Bank has received during 2014 in the amount equivalent to 42,587 thousand US dollars (Note 13). The Bank intends to sell them in the near future. As at 31 December 2014, the management believes that the carrying value of these assets is not significantly different from its fair value.

Property and equipment that were held as at 31 December 2013 were leased for a consideration of 7,487 thousand US dollars (Note 13).

**19 LOANS FROM BANKS**

	<b>31 December 2014</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Loans from banks	187,923	127,035	37,676

As at 31 December 2014, loans from banks included accrued interest expense amounting to 1,131 thousand US dollars (31 December 2013: 1,453 thousand US dollars; 31 December 2012: 203 thousand US dollars).

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

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**20 DEBT SECURITIES ISSUED**

				<b>31 December 2014</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Debt securities issued and denominated in USD</b>						
<u>Issue series</u>	<u>Offer date</u>	<u>Due date</u>	<u>Interest rate, %</u>			
Series 03	-	Sep 2022	4.767	505,101	504,904	505,297
Series 05	-	Sep 2020	5.000	475,496	470,089	-
Series 02	-	Sep 2014	7.375	-	122,677	508,637
ECP, series 05	-	Jan 2013	0.000	-	-	49,914
<b>Total debt securities issued and denominated in USD</b>				<b>980,597</b>	<b>1,097,670</b>	<b>1,063,848</b>
<b>Debt securities issued and denominated in RUB</b>						
<u>Issue series</u>	<u>Offer date</u>	<u>Due date</u>	<u>Interest rate, %</u>			
Series 06 and 07	Sep 2016	Sep 2020	7.850	167,613	309,564	-
Series 05	Jul 2015	Jul 2020	7.700	85,006	157,001	-
Series 04	-	Oct 2017	8.000	83,783	154,746	166,700
Series 08	Oct 2015	Oct 2020	7.650	83,499	154,207	-
Series 09	May 2016	May 2021	9.650	82,852	-	-
Series 02	Feb 2015	Feb 2019	8.500	82,836	152,962	164,605
Series 03	Oct 2015	Oct 2016	7.250	22,330	41,065	162,906
Series 04	-	Feb 2018	7.700	8,726	156,155	167,996
Series 01	Feb 2017	Jan 2019	8.000	5,510	153,811	165,518
<b>Total debt securities issued and denominated in RUB</b>				<b>622,155</b>	<b>1,279,511</b>	<b>827,725</b>
<b>Debt securities issued and denominated in KZT</b>						
<u>Issue series</u>	<u>Offer date</u>	<u>Due date</u>	<u>Interest rate, %</u>			
Series 02	-	Apr 2018	6.000	180,133	212,845	-
Series 03	-	Aug 2019	7.200	112,539	-	-
Series 04	-	Sep 2019	7.200	111,880	-	-
Series 01	-	Dec 2017	6.250	54,257	64,110	65,830
Series 01	-	Apr 2014	8.000	-	131,429	134,591
<b>Total debt securities issued and denominated in KZT</b>				<b>458,809</b>	<b>408,384</b>	<b>200,421</b>
<b>Total debt securities issued</b>				<b>2,061,561</b>	<b>2,785,565</b>	<b>2,091,994</b>

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.

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.

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

## **20 DEBT SECURITIES ISSUED, CONTINUED**

On 24 July 2013, the Bank issued Rouble Bonds (series 05) listed on the Moscow Interbank Currency 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 Rouble Bonds bear an interest rate fixed at 7.70% per annum until 22 July 2015 and after 22 July 2015 the interest rate will be determined by the Bank unilaterally. The bondholders are entitled to demand the redemption of the Rouble Bonds in two years after their issuance (on offer date).

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

On 16 October 2013, the Bank issued Rouble Bonds (series 08) listed on the Moscow Interbank Currency Exchange for a total amount of 5.0 billion Russian roubles with maturity date on 7 October 2020. In accordance with the terms of the issuance, the Rouble Bonds bear an interest rate fixed at 7.65% per annum until 14 October 2015 and after 14 October 2015 the interest rate will be determined by the Bank unilaterally. The bondholders are entitled to demand the redemption of the Rouble Bonds in two years after their issuance (on offer date).

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

On 1 March 2012, the Bank issued Rouble Bonds (series 02) listed on the Moscow Interbank Currency Exchange for a total amount of 5.0 billion Russian roubles with maturity date on 21 February 2019. In accordance with the terms of the issuance, the Rouble Bonds bear an interest rate fixed at 8.50% per annum until 26 February 2015 and after 26 February 2015 the interest rate will be determined by the Bank unilaterally. The bondholders are entitled to demand the redemption of the Rouble Bonds in three years after their issuance (on offer date).

On 3 November 2009, the Bank issued Rouble Bonds (series 03) listed on the Moscow Interbank Currency Exchange for a total amount of 5.0 billion Russian roubles with maturity date on 25 October 2016. In accordance with the terms of the issuance, the Rouble Bonds bear an interest rate fixed at 10.50% per annum until 1 November 2011 and after 1 November 2011 the Bank unilaterally determined the new interest rate at 7.50% per annum valid till until 29 October 2013. After 29 October 2013 the Bank determined the new interest rate at 7.25% per annum valid until 29 October 2015, and as a result of redemption exercise, the nominal value of bonds in circulation amounts to 1.35 billion Russian roubles.

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

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

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## **20 DEBT SECURITIES ISSUED, CONTINUED**

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

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

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

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

As at 31 December 2014, debt securities issued included accrued interest expense amounting to 36,200 thousand US dollars (31 December 2013: 50,138 thousand US dollars; 31 December 2012: 31,194 thousand US dollars).

## **21 OTHER LIABILITIES**

	<b>31 December 2014</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Other financial liabilities:</b>			
Retirement savings plan	12,398	10,769	8,650
Short-term payments to employees	8,119	785	7,582
Prepayments for loans	2,939	15,761	17,786
Accrued expenses	82	2,429	18
	<b>23,538</b>	<b>29,744</b>	<b>34,036</b>
<b>Other non-financial liabilities:</b>			
Accrued administrative expenses	711	1,173	1,714
Other	24	438	219
	<b>735</b>	<b>1,611</b>	<b>1,933</b>
<b>Total other liabilities</b>	<b>24,273</b>	<b>31,355</b>	<b>35,969</b>

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

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## 22 SHARE CAPITAL

	<b>31 December 2014</b>		
	<b>Authorised share capital</b>	<b>Callable share capital</b>	<b>Paid-in share capital</b>
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
	<b>7,000,000</b>	<b>(5,484,300)</b>	<b>1,515,700</b>

	<b>31 December 2013 and 2012</b>		
	<b>Authorised share capital</b>	<b>Callable share capital</b>	<b>Paid-in share capital</b>
The Russian Federation	1,000,000	-	1,000,000
The Republic of Kazakhstan	500,000	-	500,000
The Republic of Belarus	15,000	-	15,000
The Republic of Tajikistan	500	-	500
The Republic of Armenia	100	-	100
The Kyrgyz Republic	100	-	100
	<b>1,515,700</b>	<b>-</b>	<b>1,515,700</b>

As at 31 December 2014, the authorised share capital consists of 7,000,000 common shares (31 December 2013 and 2012: 1,515,700 common shares) with a nominal value of 1,000 US dollars each. One paid-in share represents one voting right.

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

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

The below table provides a reconciliation of the reserve fund as at 31 December 2014, 2013 and 2012:

	<b>31 December 2014</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Beginning of the year	90,872	84,878	72,640
Transfer from retained earnings	-	5,994	12,238
<b>End of the year</b>	<b>90,872</b>	<b>90,872</b>	<b>84,878</b>

There was no transfer from retained earnings to reserve fund in 2014 due to net loss for the year ended 31 December 2013.

## 23 CAPITAL RISK MANAGEMENT

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

The objective of the Bank's share capital is to cover potential losses from its operations. In accordance with the Bank's internal policies, the equity should exceed 16% of the sum of credit, market and operational risks, estimated as per the Basle II Standardised approach. As at 31 December 2014, 2013 and 2012, the Bank was in compliance with its internal policy requirements.

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

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

## 24 COMMITMENTS AND CONTINGENCIES

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

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

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

As at 31 December 2014, 2013 and 2012, the nominal or contractual amounts are:

	<b>31 December 2014</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>Nominal amount</b>	<b>Nominal amount</b>	<b>Nominal amount</b>
Commitments on loans and unused credit lines	677,081	1,092,645	1,316,029
Commitments to join private equity funds	31,150	31,543	32,043
Guarantees and letters of credit issued	48,373	24,358	25,189
<b>Total contingent liabilities and credit commitments</b>	<b>756,604</b>	<b>1,148,546</b>	<b>1,373,261</b>

## **24 COMMITMENTS AND CONTINGENCIES, CONTINUED**

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 2014 (Note 14).

### **Capital commitments**

As at 31 December 2014, 2013 and 2012, the Bank had no capital commitments.

### **Fiduciary activities**

The Bank provides trust services to the Anti-crisis Fund (the “Fund”), whereby it holds and manages assets or invests funds received in various financial instruments as a Manager of Fund. The Bank may be liable for losses or actions aimed at appropriation of the Fund’s assets until such funds or securities are not returned to the Fund due to gross negligence or wilful misconduct by the Bank only. Trust assets are not assets of the Bank and are not recognised in the statement of financial position. The Bank is not exposed to any credit risk relating to such placements. In the judgment of management, as at 31 December 2014 the maximum potential financial risk on securities and due from banks accepted by the Bank on behalf of the Fund does not exceed 685,005 thousand US dollars (31 December 2013: 123,175 thousand US dollars; 31 December 2012: 86,107 thousand US dollars). These amounts represent clients’ funds under the management of the Bank as at respective dates.

### **Insurance**

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

### **Litigation**

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

## **25 TRANSACTIONS WITH RELATED PARTIES**

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

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**25 TRANSACTIONS WITH RELATED PARTIES, CONTINUED****(a) Transactions with the key management**

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

	Year ended 31 December 2014		Year ended 31 December 2013		Year ended 31 December 2012	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
<b>Key management personnel compensation, short-term employee benefits:</b>						
Staff costs and other payments to employees, excluding accommodation costs	4,674	31,526	4,197	26,075	5,451	28,535
Accommodation costs of employees	306	1,525	357	2,210	358	1,786
<b>Key management personnel compensation</b>	<b>4,980</b>	<b>33,051</b>	<b>4,554</b>	<b>28,285</b>	<b>5,809</b>	<b>30,321</b>

The outstanding balances as at 31 December 2014, 2013 and 2012 for transactions with the key management personnel are as follows:

Statement of Financial Position	31 December 2014	31 December 2013	31 December 2012
Other liabilities	3,554	2,298	3,799

**(b) Transactions with other related parties**

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

The outstanding balances and the related average interest rates as at 31 December 2014, 2013 and 2012 and related profit or loss amounts of transactions for the years ended 31 December 2014, 2013 and 2012 with other related parties are as follows:

	31 December 2014		31 December 2013		31 December 2012	
	Other related parties	Average interest rate, %	Other related parties	Average interest rate, %	Other related parties	Average interest rate, %
<b>Statement of financial position</b>						
<b>ASSETS</b>						
Cash and cash equivalents	201,461	-	119,959	4.46	330,926	1.25
Loans to customers	580,857	8.58	443,153	8.21	307,773	7.98
Financial assets available-for-sale	84,524	4.60	133,047	6.37	78,520	5.85
Investments held-to-maturity	337,124	5.99	394,005	5.65	301,679	7.38
Other assets	2,192	-	1,637	-	-	-
<b>LIABILITIES</b>						
Debt securities issued	793,967	7.28	865,522	7.72	452,428	8.03
Other liabilities	1,961	-	9,058	-	7,110	-
<b>Guarantees received</b>	498,102		372,944		182,775	
<b>Commitments</b>	222,341		338,616		290,481	
<b>Statement of profit or loss</b>						
Interest income	61,540		45,130		31,895	
Interest expense	(64,638)		(46,487)		(32,991)	
Net loss on financial assets and liabilities at fair value through profit or loss	(641)		-		-	
Net realised (loss)/gain on financial assets available-for-sale	(203)		33		-	
Net gain on transactions in foreign currencies	451,630		250		4,166	
Fee and commission income	4,402		5,457		1,925	
Other income	53		23		-	

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## 26 SEGMENT REPORTING

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

### Segment performance – geographic

Segment information for the geographical segments of the Bank as at and for the year ended 31 December 2014 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	147,127	80,966	30,053	5,514	1,219	264,879
Interest expense	(77,862)	(22,704)	-	-	(67,372)	(167,938)
Provision for impairment losses on interest bearing assets	741	(20,400)	(404)	(633)	-	(20,696)
Provision for impairment losses on equity financial assets available-for-sale	(21,295)	-	-	-	-	(21,295)
Net loss on financial assets and liabilities at fair value through profit or loss	(357)	(3,095)	-	-	(4,444)	(7,896)
Net realised (loss)/gain on financial assets available-for-sale	(203)	-	-	-	267	64
Net gain/(loss) on transactions in foreign currencies	12,231	15,326	(4)	(22)	(15,045)	12,486
Fee and commission income	4,754	832	11	25	-	5,622
Fee and commission expense	(75)	(37)	-	-	(126)	(238)
Net loss on trading with debt securities issued	(650)	-	-	-	-	(650)
Other income	25	402	51	3	-	481
Other expenses	-	(2)	-	-	-	(2)
<b>Net result from financial operations</b>	<b><u>64,436</u></b>	<b><u>51,288</u></b>	<b><u>29,707</u></b>	<b><u>4,887</u></b>	<b><u>(85,501)</u></b>	<b><u>64,817</u></b>
Cash and cash equivalents	1,687	201,413	31	76	93,445	296,652
Financial assets at fair value through profit or loss	-	-	-	-	1,821	1,821
Loans and advances to banks	91,495	24,654	74,528	59,303	-	249,980
Loans to customers	860,376	845,619	406,011	39,617	-	2,151,623
Financial assets available-for-sale	126,030	759	-	-	589,439	716,228
Investments held-to-maturity	337,124	-	-	-	100,147	437,271
Property, equipment and intangible assets	462	14,216	11	73	-	14,762
Other assets	3,101	43,537	104	107	312	47,161
<b>Total assets</b>	<b><u>1,420,275</u></b>	<b><u>1,130,198</u></b>	<b><u>480,685</u></b>	<b><u>99,176</u></b>	<b><u>785,164</u></b>	<b><u>3,915,498</u></b>
<b>Total liabilities</b>	<b><u>622,763</u></b>	<b><u>481,768</u></b>	<b><u>341</u></b>	<b><u>198</u></b>	<b><u>1,172,158</u></b>	<b><u>2,277,228</u></b>
Contingent liabilities and credit commitments	243,117	383,348	120,116	10,023	-	756,604
Capital expenditure	186	885	-	4	-	1,075
Depreciation and amortisation	241	1,494	19	50	-	1,804

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## 26 SEGMENT REPORTING, CONTINUED

### Segment performance – geographic, continued

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

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

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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 2012 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	108,792	50,007	19,152	6,857	1,503	186,311
Interest expense	(49,586)	(11,876)	-	-	(45,684)	(107,146)
Provision for impairment losses on interest bearing assets	(30,084)	(607)	(25)	(108)	-	(30,824)
Net loss on financial assets and liabilities at fair value through profit or loss	(6,364)	(174)	-	-	(18,531)	(25,069)
Net realised (loss)/gain on financial assets available-for-sale	4,456	-	-	-	54	4,510
Net gain/(loss) on transactions in foreign currencies	21,225	(22)	(1)	-	7,366	28,568
Fee and commission income	4,293	738	63	354	-	5,448
Fee and commission expense	(45)	(13)	-	-	(157)	(215)
Other income	80	95	-	20	-	195
Other expenses	(4)	(582)	-	-	-	(586)
<b>Net result from financial operations</b>	<b>52,763</b>	<b>37,566</b>	<b>19,189</b>	<b>7,123</b>	<b>(55,449)</b>	<b>61,192</b>
Cash and cash equivalents	315,441	67,465	54	20	51,956	434,936
Financial assets at fair value through profit or loss	652	-	-	-	5	657
Loans and advances to banks	54,916	69,685	48,738	81,896	48,941	304,176
Loans to customers	1,030,880	727,656	100,788	30,467	-	1,889,791
Financial assets available-for-sale	129,494	1,955	-	-	733,213	864,662
Investments held-to-maturity	315,360	-	-	-	-	315,360
Non-current assets held-for-sale	-	49,785	-	-	-	49,785
Property, equipment and intangible assets	544	17,012	54	78	-	17,688
Other assets	2,936	1,373	132	81	2,431	6,953
<b>Total assets</b>	<b>1,850,223</b>	<b>934,931</b>	<b>149,766</b>	<b>112,542</b>	<b>836,546</b>	<b>3,884,008</b>
<b>Total liabilities</b>	<b>667,745</b>	<b>228,431</b>	<b>956</b>	<b>22</b>	<b>1,277,772</b>	<b>2,174,926</b>
Contingent liabilities and credit commitments	709,727	482,489	149,002	-	32,043	1,373,261
Capital expenditure	142	772	37	53	-	1,004
Depreciation and amortisation	329	2,009	31	78	-	2,447

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 2014, interest income on loans to two customers (2013: two customers; 2012: one customer) individually exceeds 10% of total revenue and amounts to 33,131 and 26,823 thousand US dollars, respectively (2013: 30,985 and 26,364 thousand US dollars, respectively; 2012: 30,715 thousand US dollars).

## **27 FAIR VALUE OF FINANCIAL INSTRUMENTS**

### **(a) Determining fair values**

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

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

### **(b) Valuation of financial instruments**

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

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

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

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

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.

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

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 2014, 2013 and 2012, 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 2014 Total
Financial assets at fair value through profit or loss	-	1,821	-	1,821
Financial assets available-for-sale				
- Debt instruments	673,964	-	759	674,723
- Equity instruments	-	-	41,505	41,505
Financial liabilities at fair value through profit or loss	-	(3,471)	-	(3,471)
	Level 1	Level 2	Level 3	As at 31 December 2013 Total
Financial assets at fair value through profit or loss	-	5	-	5
Financial assets available-for-sale				
- Debt securities	1,056,900	-	1,850	1,058,750
- Equity securities	-	-	70,494	70,494
Financial liabilities at fair value through profit or loss	-	(781)	-	(781)
Hedging derivative financial instrument	-	(16,763)	-	(16,763)
	Level 1	Level 2	Level 3	As at 31 December 2012 Total
Financial assets at fair value through profit or loss	-	657	-	657
Financial assets available-for-sale				
- Debt securities	789,385	-	1,953	791,338
- Equity securities	-	-	73,324	73,324
Financial liabilities at fair value through profit or loss	-	(1,853)	-	(1,853)
Hedging derivative financial instrument	-	(7,434)	-	(7,434)

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## 27 FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

### (b) Valuation of financial instruments, continued

The following table shows reconciliation for the years ended 31 December 2014, 2013 and 2012 for fair value measurements in Level 3 of the fair value hierarchy:

	Level 3		
	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
<b>Financial assets available-for-sale</b>			
<b>Equity instruments</b>			
Balance at beginning of the year	72,344	75,277	60,226
Purchases	-	-	38,785
Sale	-	-	(39,000)
Impairment loss	(22,319)	-	-
Revaluation	(7,761)	(2,933)	15,266
<b>Balance at end of the year</b>	<b>42,264</b>	<b>72,344</b>	<b>75,277</b>

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 2014, 2013 and 2012. The Bank believes that carrying value of loans to customers and loans and advances to banks represents their fair value. The Bank is a development financial organisation and, thus, most of the loans are unique and interest rates are specific for each project and less sensitive to the market fluctuations.

				As at 31 December 2014	
	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
<b>Financial assets</b>					
Cash and cash equivalents	-	296,652	-	296,652	296,652
Loans and advances to banks	-	249,980	-	249,980	249,980
Loans to customers	-	1,968,846	182,777	2,151,623	2,151,623
Investments held-to-maturity	416,382	-	-	416,382	437,271
Other financial assets	-	2,522	-	2,522	2,522
<b>Financial liabilities</b>					
Loans from banks	-	187,923	-	187,923	187,923
Debt securities issued	1,937,683	-	-	1,937,683	2,061,561
Other financial liabilities	-	23,538	-	23,538	23,538

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

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

	Level 1	Level 2	Level 3	As at 31 December 2012	
				Total fair value	Total carrying amount
<b>Financial assets</b>					
Cash and cash equivalents	-	434,936	-	434,936	434,936
Loans and advances to banks	-	304,176	-	304,176	304,176
Loans to customers	-	1,720,961	168,830	1,889,791	1,889,791
Investments held-to-maturity	350,558	-	-	350,558	315,360
Other financial assets	-	3,216	-	3,216	3,216
<b>Financial liabilities</b>					
Loans from banks	-	37,676	-	37,676	37,676
Debt securities issued	2,169,058	-	-	2,169,058	2,091,994
Other financial liabilities	-	34,036	-	34,036	34,036

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

**(i) The Council**

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

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

**(ii) The Executive Board**

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

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

## 28 RISK MANAGEMENT POLICIES, CONTINUED

### (a) Risk management organisational structure, continued

#### (iii) *Assets and Liabilities Management Committee*

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

#### (iv) *Credit Committee*

The Credit Committee monitors and manages overall risk concentration by reference to borrower and industry exposure and critically reviews each individual loan and equity investment proposal made by the project groups involved in corporate lending activity (the "Project Groups"). 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 policies and guidelines and is also responsible for:

- analysing the credit risk of each individual lending and equity investment proposal on real sector projects with financial institutions and making recommendations to the Credit Committee based on the documentation produced by the Project Groups
- monitoring each individual loan and equity investment
- assessing, monitoring and preparing proposals concerning the management of currency, liquidity, interest rate and other risks and
- producing analytical information and performing qualitative and quantitative assessments of the foregoing risks to collective bodies of the Bank.

### (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. ALMC sets limits by determining maximum credit exposure on individual financial counterparties (including banks and brokers). In accordance with the internal limits the maximum credit exposure on a single borrower or a group of associated borrowers cannot be more than 25 per cent of the Bank's equity.

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

## **28 RISK MANAGEMENT POLICIES, CONTINUED**

### **(b) Credit risk, continued**

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

### **(i) Credit risk in the investment project financing**

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

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

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

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

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

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

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

- 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.

## 28 RISK MANAGEMENT POLICIES, CONTINUED

### (b) Credit risk, continued

#### (ii) *Credit risk in the treasury portfolio*

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

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

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

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

#### (iii) *Assets allocation in portfolios*

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

- 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.

## 28 RISK MANAGEMENT POLICIES, CONTINUED

### (b) Credit risk, continued

#### (iii) Assets allocation in portfolios, continued

- Assets in the investment portfolio pursue the strategic objectives of the Bank of development of the market economy and integration in its Member states. These assets must conform with the Investment regulations, which set out the main principles that guide the Bank when considering investment projects. Origination and acquisition of these assets must be approved by the Credit Committee, the Executive Board and, in certain cases, the Council of the Bank.

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

Information regarding each portfolio is included below:

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

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

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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 2012 Total
Cash and cash equivalents	-	434,936	-	434,936
Financial assets at fair value through profit or loss	-	657	-	657
Loans and advances to banks	254,290	48,941	945	304,176
Loans to customers	1,890,552	-	(761)	1,889,791
Financial assets available-for-sale	116,806	748,761	(905)	864,662
Investments held-to-maturity	-	315,360	-	315,360
Non-current assets held for sale	35,499	-	14,286	49,785
Property, equipment and intangible assets	-	-	17,688	17,688
Other assets	-	-	6,953	6,953
<b>Total assets</b>	<b>2,297,147</b>	<b>1,548,655</b>	<b>38,206</b>	<b>3,884,008</b>
<b>Total liabilities</b>	<b>-</b>	<b>1,853</b>	<b>2,173,073</b>	<b>2,174,926</b>
Contingent liabilities and credit commitments	1,373,261	-	-	1,373,261
<b>Total current investment portfolio</b>	<b>3,670,408</b>			

#### (iv) Offsetting financial assets and financial liabilities

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

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

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

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

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

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

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## 28 RISK MANAGEMENT POLICIES, CONTINUED

### (b) Credit risk, continued

#### (iv) Offsetting financial assets and financial liabilities, continued

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

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

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

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

**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 2012:

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	657	-	657	-	657
Loans under reverse repurchase agreements	48,941	-	48,941	(48,941)	-
<b>Total financial assets</b>	<b>48,598</b>	<b>-</b>	<b>49,598</b>	<b>(48,941)</b>	<b>657</b>
Derivatives liabilities	(1,853)	-	(1,853)	-	(1,853)
<b>Total financial liabilities</b>	<b>(1,853)</b>	<b>-</b>	<b>(1,853)</b>	<b>-</b>	<b>(1,853)</b>

**(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 2014	31 December 2013	31 December 2012
Cash and cash equivalents	296,652	274,958	434,936
Financial assets at fair value through profit or loss	1,821	5	657
Loans and advances to banks	249,980	406,893	304,176
Loans to customers	2,151,623	2,327,603	1,889,791
Financial assets available-for-sale	674,723	1,058,749	791,337
Investments held-to-maturity	437,271	403,786	315,360
Other financial assets	2,522	4,857	3,216

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

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

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**28 RISK MANAGEMENT POLICIES, CONTINUED**

**(b) Credit risk, continued**

**(v) Maximum exposure, continued**

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

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

	<b>AA</b>	<b>A</b>	<b>BBB</b>	<b>&lt;BBB-</b>	<b>Not rated</b>	<b>31 December 2013 Total</b>
Cash and cash equivalents	25,187	83,390	119,958	46,381	42	274,958
Financial assets at fair value through profit or loss	5	-	-	-	-	5
Loans and advances to banks	-	-	67,069	116,366	223,458	406,893
Loans to customers	-	-	-	-	2,327,603	2,327,603
Financial assets available-for-sale	923,852	-	133,047	-	1,850	1,058,749
Investments held-to-maturity	-	-	394,005	9,781	-	403,786
Other financial assets	-	-	-	-	4,857	4,857

	<b>AA</b>	<b>A</b>	<b>BBB</b>	<b>&lt;BBB-</b>	<b>Not rated</b>	<b>31 December 2012 Total</b>
Cash and cash equivalents	51,823	133	331,014	51,946	20	434,936
Financial assets at fair value through profit or loss	5	-	-	652	-	657
Loans and advances to banks	-	-	17,995	204,284	81,897	304,176
Loans to customers	-	-	-	-	1,889,791	1,889,791
Financial assets available-for-sale	659,889	-	88,871	42,577	-	791,337
Investments held-to-maturity	-	-	301,679	13,681	-	315,360
Other financial assets	-	-	-	-	3,216	3,216

As at 31 December 2014, the Bank had outstanding loans to 46 customers (31 December 2013: 36; 31 December 2012: 28) and 19 financial institutions (31 December 2013: 16; 31 December 2012: 14). 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*

	<b>31 December 2014</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Loans classified to from 1 <sup>st</sup> to 3rd category	1,915,746	2,289,357	1,720,961
Loans classified to 4th category	240,507	55,976	199,646
Loans classified to 5th category	37,294	124,508	-
	<b>2,193,547</b>	<b>2,469,841</b>	<b>1,920,607</b>
Less – Allowance for losses	(41,924)	(142,238)	(30,816)
<b>Loans to customers</b>	<b>2,151,623</b>	<b>2,327,603</b>	<b>1,889,791</b>

As at 31 December 2014 loans to one customers were classified as 5th category loans (31 December 2013: two; 31 December 2012: nil); loans to seven customers were classified as 4th category loans (31 December 2013: two; 31 December 2012: three); rest of the loans were classified as 3rd or higher category loans.

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

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

### (c) Liquidity risk

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

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

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

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

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

The ALMC manages this risk through analysis of asset and liability maturity. The credit and risk management department 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, omitting interim payments, 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 2014 Total
<b>FINANCIAL ASSETS:</b>							
Cash and cash equivalents	0.01%	65,438	-	-	-	-	65,438
Loans and advances to banks	6.34%	50,794	2,503	47,338	145,655	3,690	249,980
Loans to customers	9.24%	8,935	-	73,850	783,010	1,285,828	2,151,623
Financial assets available-for-sale	0.74%	-	79,586	425,825	145,556	23,756	674,723
Investments held-to-maturity	4.75%	-	-	14,256	232,161	190,854	437,271
Total interest bearing financial assets		125,167	82,089	561,269	1,306,382	1,504,128	3,579,035
Cash and cash equivalents		231,214	-	-	-	-	231,214
Financial assets at fair value through profit or loss		1,821	-	-	-	-	1,821
Financial assets available-for-sale		-	-	-	41,505	-	41,505
Other financial assets		2,166	-	356	-	-	2,522
<b>Total financial assets</b>		<b>360,368</b>	<b>82,089</b>	<b>561,625</b>	<b>1,347,887</b>	<b>1,504,128</b>	<b>3,856,097</b>
<b>FINANCIAL LIABILITIES:</b>							
Loans and deposits from banks	2.71%	956	2,502	6,022	45,401	133,042	187,923
Debt securities issued	6.22%	-	82,836	168,505	829,623	980,597	2,061,561
Total interest bearing financial liabilities		956	85,338	174,527	875,024	1,113,639	2,249,484
Financial liabilities at fair value through profit or loss		3,471	-	-	-	-	3,471
Other financial liabilities		58	25	11,057	12,398	-	23,538
<b>Total financial liabilities</b>		<b>4,485</b>	<b>85,363</b>	<b>185,584</b>	<b>887,422</b>	<b>1,113,639</b>	<b>2,276,493</b>
Liquidity gap		355,883	(3,274)	376,041	460,465	390,489	

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

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2013 Total
<b>FINANCIAL ASSETS:</b>							
Cash and cash equivalents	2.28%	244,317	-	-	-	-	244,317
Loans and advances to banks	3.99%	183,435	9,324	2,607	211,527	-	406,893
Loans to customers	9.31%	-	-	49,979	846,808	1,430,816	2,327,603
Financial assets available-for-sale	0.95%	15,933	224,978	632,487	121,572	63,780	1,058,750
Investments held-to-maturity	5.59%	-	-	50,240	144,517	209,029	403,786
<b>Total interest bearing financial assets</b>		<b>443,685</b>	<b>234,302</b>	<b>735,313</b>	<b>1,324,424</b>	<b>1,703,625</b>	<b>4,441,349</b>
Cash and cash equivalents		30,641	-	-	-	-	30,641
Financial assets at fair value through profit or loss		5	-	-	-	-	5
Financial assets available-for-sale		-	-	-	-	70,494	70,494
Other financial assets		1,599	-	3,258	-	-	4,857
<b>Total financial assets</b>		<b>475,930</b>	<b>234,302</b>	<b>738,571</b>	<b>1,324,424</b>	<b>1,774,119</b>	<b>4,547,346</b>
<b>FINANCIAL LIABILITIES:</b>							
Loans and deposits from banks	4.34%	-	-	-	84,311	42,724	127,035
Debt securities issued	6.62%	-	309,966	254,106	1,246,500	974,993	2,785,565
<b>Total interest bearing financial liabilities</b>		<b>-</b>	<b>309,966</b>	<b>254,106</b>	<b>1,330,811</b>	<b>1,017,717</b>	<b>2,912,600</b>
Financial liabilities at fair value through profit or loss		781	-	-	-	-	781
Hedging derivative financial instrument		-	16,763	-	-	-	16,763
Other financial liabilities		2,526	306	16,143	10,769	-	29,744
<b>Total financial liabilities</b>		<b>3,307</b>	<b>327,035</b>	<b>270,249</b>	<b>1,341,580</b>	<b>1,017,717</b>	<b>2,959,888</b>
Liquidity gap		472,623	(92,733)	468,322	(17,156)	756,402	

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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 2012 Total
<b>FINANCIAL ASSETS:</b>							
Cash and cash equivalents	1.63%	346,587	-	-	-	-	346,587
Loans and advances to banks	5.10%	48,941	-	131,627	123,608	-	304,176
Loans to customers	9.36%	-	40,111	138,962	519,802	1,190,916	1,889,791
Financial assets available-for-sale	2.11%	149,998	210,341	331,783	50,074	49,142	791,338
Investments held-to-maturity	6.49%	-	35,262	43,181	9,621	227,296	315,360
<b>Total interest bearing financial assets</b>		<b>545,526</b>	<b>285,714</b>	<b>645,553</b>	<b>703,105</b>	<b>1,467,354</b>	<b>3,647,252</b>
Cash and cash equivalents		88,349	-	-	-	-	88,349
Financial assets at fair value through profit or loss		657	-	-	-	-	657
Financial assets available-for-sale		-	-	-	-	73,324	73,324
Other financial assets		-	-	3,216	-	-	3,216
<b>Total financial assets</b>		<b>634,532</b>	<b>285,714</b>	<b>648,769</b>	<b>703,105</b>	<b>1,540,678</b>	<b>3,812,798</b>
<b>FINANCIAL LIABILITIES:</b>							
Loans and deposits from banks	2.57%	-	-	-	19,881	17,795	37,676
Debt securities issued	6.83%	49,914	-	-	1,038,663	1,003,417	2,091,994
<b>Total interest bearing financial liabilities</b>		<b>49,914</b>	<b>-</b>	<b>-</b>	<b>1,058,544</b>	<b>1,021,212</b>	<b>2,129,670</b>
Financial liabilities at fair value through profit or loss		1,853	-	-	-	-	1,853
Hedging derivative financial instrument		-	-	-	7,434	-	7,434
Other financial liabilities		134	7,466	17,786	8,650	-	34,036
<b>Total financial liabilities</b>		<b>51,901</b>	<b>7,466</b>	<b>17,786</b>	<b>1,074,628</b>	<b>1,021,212</b>	<b>2,172,993</b>
Liquidity gap		582,631	278,248	630,983	(371,523)	519,466	

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR  
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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.

	<b>Up to 1 month</b>	<b>1 month to 3 months</b>	<b>3 month to 1 year</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>31 December 2014 Total</b>
<b>FINANCIAL ASSETS:</b>						
Cash and cash equivalents	296,652	-	-	-	-	296,652
Financial assets at fair value through profit or loss	1,821	-	-	-	-	1,821
Loans and advances to banks	61,478	18,063	90,584	101,399	651	272,175
Loans to customers	38,499	156,680	491,954	1,369,296	813,480	2,869,909
Financial assets available-for-sale	503	81,559	429,926	163,341	14,561	689,890
Investments held-to-maturity	438	14,993	33,232	341,580	108,745	498,988
Other financial assets	2,166	-	356	-	-	2,522
<b>Total financial assets</b>	<b>401,557</b>	<b>271,295</b>	<b>1,046,052</b>	<b>1,975,616</b>	<b>937,437</b>	<b>4,631,957</b>
<b>FINANCIAL LIABILITIES:</b>						
Loans from banks	1,184	5,193	14,500	122,339	58,291	201,507
Financial liabilities at fair value through profit or loss	3,471	-	-	-	-	3,471
Debt securities issued	-	131,463	262,453	1,113,358	1,096,505	2,603,779
Other financial liabilities	58	25	11,057	12,398	-	23,538
Commitments	756,604	-	-	-	-	756,604
<b>Total financial liabilities and commitments</b>	<b>761,317</b>	<b>136,681</b>	<b>288,010</b>	<b>1,248,095</b>	<b>1,154,796</b>	<b>3,588,899</b>
<b>Net position</b>	<b>(359,760)</b>	<b>134,614</b>	<b>758,042</b>	<b>727,521</b>	<b>(217,359)</b>	<b>1,043,058</b>

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**28 RISK MANAGEMENT POLICIES, CONTINUED**

(c) **Liquidity risk, continued**

	<u>Up to 1 month</u>	<u>1 month to 3 months</u>	<u>3 month to 1 year</u>	<u>1 year to 5 years</u>	<u>Over 5 years</u>	<u>31 December 2013 Total</u>
<b>FINANCIAL ASSETS:</b>						
Cash and cash equivalents	275,107	-	-	-	-	275,107
Financial assets at fair value through profit or loss	5	-	-	-	-	5
Loans and advances to banks	198,438	44,205	73,077	92,241	-	407,961
Loans to customers	5,787	32,642	342,087	1,920,965	1,138,276	3,439,757
Financial assets available-for-sale	16,792	226,825	636,256	133,193	154,613	1,167,679
Investments held-to-maturity	-	7,902	62,922	205,782	346,239	622,845
Other financial assets	1,599	-	3,258	-	-	4,857
<b>Total financial assets</b>	<b><u>497,728</u></b>	<b><u>311,574</u></b>	<b><u>1,117,600</u></b>	<b><u>2,352,181</u></b>	<b><u>1,639,128</u></b>	<b><u>5,918,211</u></b>
<b>FINANCIAL LIABILITIES:</b>						
Loans from banks	231	2,099	3,155	95,818	46,128	147,431
Financial liabilities at fair value through profit or loss	781	-	-	-	-	781
Hedging derivative financial instrument	-	16,763	-	-	-	16,763
Debt securities issued	5,856	363,825	351,661	1,605,477	1,145,340	3,472,159
Other financial liabilities	2,908	306	15,761	10,769	-	29,744
Commitments	1,148,546	-	-	-	-	1,148,546
<b>Total financial liabilities and commitments</b>	<b><u>1,158,322</u></b>	<b><u>382,993</u></b>	<b><u>370,577</u></b>	<b><u>1,712,064</u></b>	<b><u>1,191,468</u></b>	<b><u>4,815,424</u></b>
<b>Net position</b>	<b><u>(660,594)</u></b>	<b><u>(71,419)</u></b>	<b><u>747,023</u></b>	<b><u>640,117</u></b>	<b><u>447,660</u></b>	<b><u>1,102,787</u></b>
	<u>Up to 1 month</u>	<u>1 month to 3 months</u>	<u>3 month to 1 year</u>	<u>1 year to 5 years</u>	<u>Over 5 years</u>	<u>31 December 2012 Total</u>
<b>FINANCIAL ASSETS:</b>						
Cash and cash equivalents	435,079	-	-	-	-	435,079
Financial assets at fair value through profit or loss	657	-	-	-	-	657
Loans and advances to banks	49,056	799	142,766	138,052	-	330,673
Loans to customers	52,308	10,725	269,777	1,045,244	1,590,943	2,968,997
Financial assets available-for-sale	151,058	210,664	337,558	70,423	123,282	892,985
Investments held-to-maturity	-	43,279	51,838	71,239	405,519	571,875
Other financial assets	77	-	3,139	-	-	3,216
<b>Total financial assets</b>	<b><u>688,235</u></b>	<b><u>265,467</u></b>	<b><u>805,078</u></b>	<b><u>1,324,958</u></b>	<b><u>2,119,744</u></b>	<b><u>5,203,482</u></b>
<b>FINANCIAL LIABILITIES:</b>						
Loans from banks	49	353	483	22,598	19,253	42,736
Financial liabilities at fair value through profit or loss	1,853	-	-	-	-	1,853
Hedging derivative financial instrument	-	-	-	7,434	-	7,434
Debt securities issued	56,962	43,623	90,722	1,431,440	1,158,650	2,781,397
Other financial liabilities	134	7,466	17,786	8,650	-	34,036
Commitments	1,373,261	-	-	-	-	1,373,261
<b>Total financial liabilities and commitments</b>	<b><u>1,432,259</u></b>	<b><u>51,442</u></b>	<b><u>108,991</u></b>	<b><u>1,470,122</u></b>	<b><u>1,177,903</u></b>	<b><u>4,240,717</u></b>
<b>Net position</b>	<b><u>(744,024)</u></b>	<b><u>214,025</u></b>	<b><u>696,087</u></b>	<b><u>(145,164)</u></b>	<b><u>941,841</u></b>	<b><u>962,765</u></b>

## 28 RISK MANAGEMENT POLICIES, CONTINUED

### (c) Liquidity risk, continued

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

### (d) Market risk

Market risk covers interest rate risk, currency and pricing risks. In order to measure price and currency risks the Bank uses value-at-risk (VAR) methodology. In order to measure interest rate risk the Bank assesses its sensitivity to changes in interest rates using the following financial modelling techniques: duration, modified duration and dollar value of 1 basis point. 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 credit and risk management department 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 2014, 2013 and 2012. 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 2014, 2013 and 2012 is as follows:

	As at 31 December 2014		As at 31 December 2013		As at 31 December 2012	
	Interest rate +3%	Interest rate -3%	Interest rate +3%	Interest rate -3%	Interest rate +3%	Interest rate -3%
<b>Financial assets:</b>						
Loans and advances to banks	3,067	(3,067)	2,063	(2,063)	2,776	(2,776)
Loans to customers	17,577	(17,577)	11,640	(11,640)	14,107	(14,107)
<b>Financial liabilities:</b>						
Loans from banks	(4,821)	3,109	(1,869)	1,512	(1,129)	966
Debt securities issued	-	-	-	-	(3,988)	3,988
<b>Net impact on net profit and equity</b>	<b>15,823</b>	<b>(17,535)</b>	<b>11,834</b>	<b>(12,191)</b>	<b>11,766</b>	<b>(11,929)</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR  
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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 2014, 2013 and 2012, and a simplified scenario of a 300 bp symmetrical fall or rise in all yield curves is as follows:

	As at 31 December 2014		As at 31 December 2013		As at 31 December 2012	
	Interest rate +3%	Interest rate -3%	Interest rate +3%	Interest rate -3%	Interest rate +3%	Interest rate -3%
Financial assets available-for-sale	(25,608)	28,964	(29,027)	39,263	(13,098)	14,543
<b>Net impact on equity</b>	<b>(25,608)</b>	<b>28,964</b>	<b>(29,027)</b>	<b>39,263</b>	<b>(13,098)</b>	<b>14,543</b>

**(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 credit and risk management department 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 2014 Total
<b>Financial assets:</b>						
Cash and cash equivalents	291,036	1,200	1,340	2,923	153	296,652
Financial assets at fair value through profit or loss	1,821	-	-	-	-	1,821
Loans and advances to banks	166,206	24,654	45,666	13,454	-	249,980
Loans to customers	1,001,423	381,784	582,257	186,159	-	2,151,623
Financial assets available-for-sale	673,964	759	-	-	-	674,723
Investments held-to-maturity	437,271	-	-	-	-	437,271
Other financial assets	2,286	9	162	65	-	2,522
<b>Total financial assets</b>	<b>2,574,007</b>	<b>408,406</b>	<b>629,425</b>	<b>202,601</b>	<b>153</b>	<b>3,814,092</b>
<b>Financial liabilities:</b>						
Loans from banks	38,148	-	26,714	123,061	-	187,923
Financial liabilities at fair value through profit or loss	3,471	-	-	-	-	3,471
Debt securities issued	980,597	458,809	622,155	-	-	2,061,561
Other financial liabilities	22,716	245	365	210	2	23,538
<b>Total financial liabilities</b>	<b>1,044,932</b>	<b>459,054</b>	<b>649,234</b>	<b>123,271</b>	<b>2</b>	<b>2,276,493</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>1,529,075</b>	<b>(50,648)</b>	<b>(19,809)</b>	<b>79,330</b>	<b>151</b>	



**EURASIAN DEVELOPMENT BANK**  
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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, and forwards. Derivatives are contracts or agreements whose value is derived from one or more underlying indices or asset values inherent in the contract or agreement, which require no or little initial net investment and are settled at a future date.

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

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

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

	US dollars	Kazakhstan tenge	Russian rouble	Euro	Other currencies	31 December 2013 Total
Accounts payable on spot and derivative contracts	(281,707)	(1,795)	-	(56,541)	-	(340,043)
Accounts receivable on spot and derivative contracts	57,884	110,677	152,116	-	-	320,677
<b>NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION</b>	<b>(223,823)</b>	<b>108,882</b>	<b>152,116</b>	<b>(56,541)</b>	<b>-</b>	<b>(19,366)</b>
<b>TOTAL OPEN POSITION</b>	<b>1,500,316</b>	<b>(852)</b>	<b>(2,171)</b>	<b>73</b>	<b>232</b>	

	US dollars	Kazakhstan tenge	Russian rouble	Euro	Other currencies	31 December 2012 Total
Accounts payable on spot and derivative contracts	(171,007)	(34,124)	-	(282,751)	-	(487,882)
Accounts receivable on spot and derivative contracts	315,679	300	163,800	-	-	479,779
<b>NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION</b>	<b>144,672</b>	<b>(33,824)</b>	<b>163,800</b>	<b>(282,751)</b>	<b>-</b>	<b>(8,103)</b>
<b>TOTAL OPEN POSITION</b>	<b>1,565,274</b>	<b>(3,386)</b>	<b>(4,005)</b>	<b>425</b>	<b>70</b>	

**EURASIAN DEVELOPMENT BANK**  
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**28 RISK MANAGEMENT POLICIES, CONTINUED**

**(e) Currency risk, continued**

**(ii) Currency risk sensitivity**

The following table details the Bank's sensitivity to a 15% increase and decrease in the US Dollar/Russian rouble and US Dollar/Kazakhstan tenge exchange rates as at 31 December 2014, 2013 and 2012, respectively and a 10% increase and decrease in the US Dollar/Euro exchange rate. These sensitivity rates used when reporting foreign currency risk internally to key management personnel and represent management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for respective changes in currency rates as at 31 December 2014, 2013 and 2012.

Impact on net profit based on asset values as at 31 December 2014, 2013 and 2012:

	As at 31 December 2014		As at 31 December 2013		As at 31 December 2012	
	USD/RUB	USD/RUB	USD/RUB	USD/RUB	USD/RUB	USD/RUB
	+15%	-15%	+15%	-15%	+15%	-15%
Impact on net profit	253	(253)	326	(326)	601	(601)

	As at 31 December 2014		As at 31 December 2013		As at 31 December 2012	
	USD/KZT	USD/KZT	USD/KZT	USD/KZT	USD/KZT	USD/KZT
	+15%	-15%	+15%	-15%	+15%	-15%
Impact on net profit	1,614	(1,614)	128	(128)	508	(508)

	As at 31 December 2014		As at 31 December 2013		As at 31 December 2012	
	USD/EUR	USD/EUR	USD/EUR	USD/EUR	USD/EUR	USD/EUR
	+10%	-10%	+10%	-10%	+10%	-10%
Impact on net profit	(67)	67	(7)	7	(43)	43

Impact on equity based on asset values as at 31 December 2014, 2013 and 2012 :

	As at 31 December 2014		As at 31 December 2013		As at 31 December 2012	
	USD/RUB	USD/RUB	USD/RUB	USD/RUB	USD/RUB	USD/RUB
	+15%	-15%	+15%	-15%	+15%	-15%
Impact on equity	253	(253)	326	(326)	601	(601)

	As at 31 December 2014		As at 31 December 2013		As at 31 December 2012	
	USD/KZT	USD/KZT	USD/KZT	USD/KZT	USD/KZT	USD/KZT
	+15%	-15%	+15%	-15%	+15%	-15%
Impact on equity	1,614	(1,614)	128	(128)	508	(508)

	As at 31 December 2014		As at 31 December 2013		As at 31 December 2012	
	USD/EUR	USD/EUR	USD/EUR	USD/EUR	USD/EUR	USD/EUR
	+10%	-10%	+10%	-10%	+10%	-10%
Impact on equity	(67)	67	(7)	7	(43)	43

## **28 RISK MANAGEMENT POLICIES, CONTINUED**

### **(e) Currency risk, continued**

#### **(ii) Currency risk sensitivity, continued**

##### **Limitations of sensitivity analysis**

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

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

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

### **(f) Financial ratios**

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

	<b>31 December 2014</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Minimum amount of liquid assets in Treasury portfolio			
- required amount in thousands US dollars	976,648	1,494,219	1,170,506
- <i>actual amount</i>	<u>1,457,671</u>	<u>1,919,078</u>	<u>1,547,998</u>
Financial leverage ratio			
- should be less or equal to 300% of the Bank's equity*	300.00%	200.00%	200.00%
- <i>actual ratio</i>	<u>137.12%</u>	<u>177.11%</u>	<u>123.19%</u>
Maximum principal amount of the Bank's borrowings			
- allowed amount in thousands of US Dollars	3,312,000	3,432,000	2,175,000
- <i>actual amount of the Bank's borrowings</i>	<u>2,246,391</u>	<u>2,903,443</u>	<u>2,105,394</u>

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

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

## **29 EVENTS AFTER THE REPORTING PERIOD**

On 26 January 2015 credit rating agency Standard & Poor's downgraded Russian Federation sovereign rating to BB+. Management of the Bank believes that this downgrade will not have an immediate effect on operations of the Bank.