

EURASIAN DEVELOPMENT BANK

Financial Statements and Independent Auditor's Report

For the Year ended 31 December 2019

Eurasian Development Bank

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Members of the Council of Eurasian Development Bank

Opinion

We have audited the financial statements of Eurasian Development Bank ("the Bank"), which comprise the statements of financial position as at 31 December 2019, 2018 and 2017, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

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

Why the matter was determined to be a key audit matter**Assessment of expected credit losses (ECL) provision for loans to customers**

As at 31 December 2019 and 2018, the Bank reported total gross loans of 2,022,762 thousand US dollars and 1,716,492 thousand US dollars, respectively.

The amount of provision for the ECL on loans to customers is dependent on the accuracy of allocation of loans to appropriate stage of impairment in the provisioning system of the Bank.

There is a risk that not all reasonable and supportable information was taken into account when determining the stage of impairment.

The assessment of ECL is subjective and requires applying judgment on key assumptions and input data to evaluate key risk parameters, such as probability of default (PD), loss given default (LGD) and the exposure at default.

Due to the significance of the balance of loans to customers and significant judgment required to determine the ECL provision we identified the assessment of expected credit losses in accordance with IFRS 9 *Financial Instruments* as a key audit matter.

Refer to Notes 3, 5 and 16 to the financial statements for the description of the Bank's policy and disclosures of gross carrying amounts and related provision balances.

How the matter was addressed in the audit

We obtained an understanding of the procedures and associated controls to assess and monitor the level of expected credit losses on loans to customers.

We also assessed whether the Bank's methodology in respect of assessment of ECL and definitions of significant increase in credit risk and default comply to IFRS.

With the involvement of our internal actuarial specialists and specialists on valuation of the credit risk, we checked the integrity of the model to determine the ECL, as well as the reasonableness of the assumptions used in calculating the probability of default (PD) and loss given default (LGD) on a collective basis and the exposure at default. On a sample basis, we checked that the source data and key assumptions used in the PD and LGD valuation models take into account correct historical data on credit losses incurred and available and reasonable forecast macroeconomic information.

For all loans identified as stage 1 and stage 2, we performed a detailed credit review and challenged the Bank's identification of significant increase in credit risk (stage 2). In order to evaluate whether the loans have been appropriately classified to the respective stage, we checked if relevant impairment events, such as delinquency of interest or principal, restructuring events and certain financial performance indicators, had been identified on a timely manner.

For all loans, we made an independent assessment of the amount of collateral used in calculating the ECL by challenging assumptions in future cash flow projections and the valuation of collateral held, agreeing key assumptions to supporting documents.

We evaluated the adequacy and completeness of disclosures in the financial statements relating to the loans to customers in accordance with IFRS requirements.

We found no material exceptions in these tests.

Other Information

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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


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

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


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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.


 Nurlan Bekenov
 Auditor performer
 Qualification certificate No 0082
 dated 13 June 1994
 General Director
 Deloitte LLP
 State license on auditing in the
 Republic of Kazakhstan
 No. 0000015, type MFU-2, issued by the
 Ministry of Finance of the
 Republic of Kazakhstan dated
 13 September 2006




 Mark Smith
 Engagement partner
 Chartered Accountant
 Institute of Chartered Accountants
 of Scotland Licence № M21857
 Glasgow, Scotland

20 February 2020

EURASIAN DEVELOPMENT BANK

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

(in thousands of US Dollars)

	Note	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Interest income calculated using the effective interest method	4	265,028	211,038	197,467
Interest expense	4	(168,697)	(114,879)	(108,274)
Net interest income before provision for expected credit losses (2017: impairment losses) on interest bearing assets	4	96,331	96,159	89,193
Provision for expected credit losses (2017: impairment losses) on interest bearing assets	5	(6,194)	(6,824)	(26,730)
NET INTEREST INCOME		90,137	89,335	62,463
Losses from equity securities at fair value through profit or loss	13	(197)	(3,303)	-
Provision for impairment losses on equity financial assets available-for-sale		-	-	(1,543)
Provision for expected credit losses on contingent liabilities and other assets (2017: provision for impairment losses on other assets)		(602)	(79)	(12)
Net loss from modification and recognition of new financial instruments		(3,436)	(479)	-
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	6	(35,617)	31,402	(71,093)
Net realised gain/(loss) on financial assets at fair value through other comprehensive income (2017: available-for-sale)	7	546	(1,916)	2,875
Net gain/(loss) on transactions in foreign currencies	8	53,074	(20,622)	75,499
Fee and commission income	9	8,725	4,350	7,333
Fee and commission expense		(455)	(584)	(272)
Net gain/(loss) on trading with debt securities issued		24	(8)	(93)
Other income		46	531	120
Net non-interest income		22,108	9,292	12,814
Net result from financial operations		112,245	98,627	75,277
Operating expenses	10	(43,023)	(32,026)	(33,392)
Technical Assistance Fund expenses, net		(245)	(156)	(165)
NET PROFIT		68,977	66,445	41,720

EURASIAN DEVELOPMENT BANK

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

(in thousands of US Dollars)

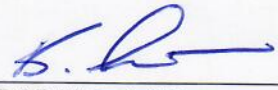
	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
OTHER COMPREHENSIVE INCOME:			
Items that are or may be reclassified subsequently to profit or loss:			
Net unrealised gain/(loss) on revaluation of financial assets at fair value through other comprehensive income	42,858	(24,245)	-
Net realised (gain)/loss on financial assets at fair value through other comprehensive income transferred to profit or loss	(546)	1,916	-
Net unrealised gain on revaluation of financial assets available-for-sale	-	-	3,671
Net realised gain on financial assets available-for- sale transferred to profit or loss	-	-	(2,875)
Net unrealized gain/(loss) on revaluation of hedge instruments	727	(435)	-
Total items that are or may be reclassified subsequently to profit or loss	43,039	(22,764)	796
OTHER COMPREHENSIVE INCOME/(LOSS)	43,039	(22,764)	796
TOTAL COMPREHENSIVE INCOME	112,016	43,681	42,516

Approved on behalf of the management of the Bank:


A.Y. Belianinov
Chairman of the Management Board

18 February 2020
Almaty, Kazakhstan




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

18 February 2020
Almaty, Kazakhstan

EURASIAN DEVELOPMENT BANK

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019 (in thousands of US Dollars)


	Note	31 December 2019	31 December 2018	31 December 2017
ASSETS				
Cash and cash equivalents	11	765,144	641,170	167,370
Financial assets at fair value through profit or loss	12	10,017	17,169	135
Loans and advances to banks	14	266,298	245,510	191,565
Loans to customers	15	1,960,004	1,650,290	1,344,265
Financial assets at fair value through other comprehensive income	16	2,106,299	1,139,341	-
Financial assets available-for-sale	16	-	-	1,600,679
Investments in associates	17	20,131	-	-
Hedging instruments	13	-	86	-
Property and equipment		11,046	11,156	11,041
Intangible assets		1,011	1,148	890
Other assets	18	20,814	4,596	4,510
TOTAL ASSETS		5,160,764	3,710,466	3,320,455
LIABILITIES AND EQUITY				
LIABILITIES:				
Loans and deposits from banks	19	740,475	242,931	377,829
Financial liabilities at fair value through profit or loss	12	26,955	3,329	11,072
Deposits from customers	20	297,344	177,145	-
Hedging instruments	13	1,616	521	-
Debt securities issued	21	2,209,328	1,525,786	1,198,341
Other liabilities	22	35,050	22,774	23,612
Total liabilities		3,310,768	1,972,486	1,610,854
EQUITY:				
Share capital:				
Authorised share capital	23	7,000,000	7,000,000	7,000,000
Less: callable share capital	23	(5,484,300)	(5,484,300)	(5,484,300)
Paid-in share capital	23	1,515,700	1,515,700	1,515,700
Reserve fund	23	111,732	111,732	90,872
Technical assistance fund reserve	24	19,133	-	-
Revaluation reserve/(deficit) for financial assets at fair value through other comprehensive income		25,248	(17,064)	-
Revaluation reserve for financial assets available-for-sale		-	-	5,265
Revaluation reserve/(deficit) of hedging instruments		292	(435)	-
Retained earnings		177,891	128,047	97,764
Total equity		1,849,996	1,737,980	1,709,601
TOTAL LIABILITIES AND EQUITY		5,160,764	3,710,466	3,320,455

Approved on behalf of the management of the Bank:


A.Y. Belianinov
Chairman of the Management Board

18 February 2020
Almaty, Kazakhstan




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

18 February 2020
Almaty, Kazakhstan

EURASIAN DEVELOPMENT BANK

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

(in thousands of US dollars)

	Share capital			Reserve fund	Technical assistance fund reserve	Revaluation reserve for financial assets available-for-sale	Revaluation reserve/(deficit) for financial assets at fair value through other comprehensive income	Revaluation reserve/(deficit) for hedging instruments	Retained earnings	Total
	Authorised	Callable	Paid-in							
1 January 2017	7,000,000	(5,484,300)	1,515,700	90,872	-	4,469	-	-	56,044	1,667,085
Net profit	-	-	-	-	-	-	-	-	41,720	41,720
Other comprehensive income	-	-	-	-	-	796	-	-	-	796
Total comprehensive income	-	-	-	-	-	796	-	-	41,720	42,516
31 December 2017	7,000,000	(5,484,300)	1,515,700	90,872	-	5,265	-	-	97,764	1,709,601
Reclassification of opening balance	-	-	-	-	-	(5,265)	5,265	-	-	-
Changes at initial application of IFRS 9 (Note 3)	-	-	-	-	-	-	-	-	(15,302)	(15,302)
Recalculated balance as of 1 January 2018	7,000,000	(5,484,300)	1,515,700	90,872	-	-	5,265	-	82,462	1,694,299
Net profit	-	-	-	-	-	-	-	-	66,445	66,445
Other comprehensive loss	-	-	-	-	-	-	(22,329)	(435)	-	(22,764)
Total comprehensive income/(loss)	-	-	-	-	-	-	(22,329)	(435)	66,445	43,681
Transfer to Reserve fund from retained earnings	-	-	-	20,860	-	-	-	-	(20,860)	-
31 December 2018	7,000,000	(5,484,300)	1,515,700	111,732	-	-	(17,064)	(435)	128,047	1,737,980
Net profit	-	-	-	-	-	-	-	-	68,977	68,977
Other comprehensive income	-	-	-	-	-	-	42,312	727	-	43,039
Total comprehensive income	-	-	-	-	-	-	42,312	727	68,977	112,016
Transfer to Technical assistance fund reserve	-	-	-	-	19,133	-	-	-	(19,133)	-
31 December 2019	7,000,000	(5,484,300)	1,515,700	111,732	19,133	-	25,248	292	177,891	1,849,996

Approved on behalf of the management of the Bank:

A.Y. Belianinov
 Managing Director, Finance
 Member of the Management Board

18 February 2020
 Almaty, Kazakhstan




 B.K. Mukhambetzhonov

18 February 2020
 Almaty, Kazakhstan

EURASIAN DEVELOPMENT BANK

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019 (in thousands of US Dollars)

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received on loans to customers	148,162	136,824	157,290
Interest received on loans and advances to banks and cash and cash equivalents	34,589	28,999	14,022
Interest income received on financial assets at fair value through other comprehensive income	43,369	45,506	-
Interest and income received on financial assets available-for-sale	-	-	39,321
Interest paid on loans and deposits from banks	(9,296)	(27,020)	(22,257)
Interest paid on deposits from customers	(14,889)	(1,276)	-
Interest paid on debt securities issued	(116,647)	(83,071)	(76,959)
(Loss paid for)/ gain received from operations with financial derivatives	(5,977)	23,504	(54,530)
Gain received from equity instruments at fair value through profit or loss	38	172	-
Fees and commissions received	1,279	4,199	6,019
Fees and commissions paid	(436)	(581)	(262)
Other income received	46	458	120
Operating expenses paid	(35,129)	(32,737)	(27,889)
Cash inflow from operating activities before changes in operating assets and liabilities	45,109	94,977	34,875
Changes in operating assets			
(Increase)/decrease in loans to customers	(263,607)	(453,428)	144,461
Increase in loans and advances to banks	(13,013)	(76,986)	(61,760)
(Increase)/decrease in other assets	(1,475)	366	(747)
Changes in operating liabilities			
Increase/(decrease) in deposits from banks	154,504	(89,703)	(31,459)
Increase in deposits from customers	119,864	178,736	-
Increase/(decrease) in other liabilities	86	111	(1,248)
Cash flows from/(used in) operating activities	41,468	(345,927)	84,122
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of financial assets available-for-sale	-	-	(3,564,083)
Proceeds from sale and redemption of financial assets available-for-sale	-	-	3,141,418
Purchase of investment in associate	(20,131)	-	-
Purchase of financial assets at fair value through other comprehensive income	(7,212,029)	(3,157,307)	-
Proceeds from sale and redemption of financial assets at fair value through other comprehensive income	6,336,649	3,548,207	-
Purchase of property, equipment and intangible assets	(875)	(1,674)	(332)
Cash flows (used in)/from investing activities	(896,386)	389,226	(422,997)

EURASIAN DEVELOPMENT BANK

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED) (in thousands of US Dollars)


	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of debt securities (Note 21)	775,557	587,991	190,168
Repayments of debt securities (Note 21)	(164,129)	(147,888)	(172,586)
Proceeds from loans from banks (Note 19)	359,879	25,125	-
Repayments of loans from banks (Note 19)	(20,920)	(21,021)	(22,329)
Repayment of lease liabilities	(2,215)	-	-
Cash flows from/(used in) financing activities	948,172	444,207	(4,747)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	93,254	487,506	(343,622)
CASH AND CASH EQUIVALENTS at the beginning of the year	641,170	167,370	477,882
Effect of changes in foreign exchange rate on cash and cash equivalents	30,720	(13,706)	33,110
CASH AND CASH EQUIVALENTS at the end of the year (Note 11)	765,144	641,170	167,370

Approved on behalf of the management of the Bank:


A.Y. Belianinov
Chairman of the Management Board

18 February 2020
Almaty, Kazakhstan




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

18 February 2020
Almaty, Kazakhstan

1. BACKGROUND

(a) Principal activities

Eurasian Development Bank (“the Bank”) is an international organisation, which was established in accordance with the Agreement Establishing Eurasian Development Bank, entered into between the Russian Federation and the Republic of Kazakhstan on 12 January 2006 (“the Agreement on Incorporation”). The Agreement on Incorporation became effective on 16 June 2006, since its ratification by the Russian Federation and the Republic of Kazakhstan via adoption of relevant laws.

The Bank’s membership is open to new participants such that other states and international organisations that have mutual objectives with 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 aims to assist Member states in integrating their economies and developing their infrastructure.

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

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

As at 31 December 2019, 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 activity is an engagement in investment activities for the benefit of socioeconomic development of the member states. 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 headquarters of the Bank is located at: 220, Dostyk Avenue, Almaty, the Republic of Kazakhstan. Also the Bank has a branch office in St. Petersburg and representative offices in Bishkek, Dushanbe, Minsk, Moscow, Nur-Sultan and Yerevan.

EURASIAN DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019 *(in thousands of US dollars)*

1. BACKGROUND, CONTINUED

(a) Principal activities, continued

In accordance with the article 31 of the Charter of the Bank, which is an integral part of the Agreement on Incorporation, the Bank possesses immunity against any legal proceedings under jurisdiction of its Member states, except in cases which do not result from its execution of its powers. Actions may be brought against the Bank only in a court of competent jurisdiction in the territory of a state in which the Bank has its principal or a branch office, a subsidiary bank or a representative office, or has appointed an agent for the purpose of accepting service or notice of process, or has issued or guaranteed securities. Property and assets of the Bank located in member states shall be immune from search, requisition, attachment, confiscation, expropriation or any other form of taking or foreclosure unless and until a final judgment is delivered against the Bank. The Bank, its income, property, assets, and its operations and transactions carried out as per this Charter in the territory of member states shall be exempt from all taxes, duties, levies or fees, except charges for particular services.

As at 31 December 2019, 2018 and 2017, shares of the Bank were owned as follows:

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

According to the Charter of the Bank, significant decisions like: accession of new Member states, changes in share capital of the Bank, liquidation/suspension of activity of the Bank must be approved by no less than 75% of votes. Also the Council of the Bank elects the Chairman and members of the Management Board and approves/disapproves all counterparty risks above 100 million US dollars. According to the Charter at least 75% of the shareholders must be present at the Council's meeting, thus effectively requiring both the Russian Federation and the Republic of Kazakhstan to vote similarly on most of the key decision of the Council. No ultimate controlling party. All six Member states have representatives in the Council of the Bank.

These financial statements were authorised for issue on 18 February 2020 by the management of the Bank.

(b) Business environment

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

2. BASIS OF PREPARATION

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

(a) Statement of compliance

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

(b) Basis of measurement

These financial statements have been prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation financial instruments categorised at fair value through profit or loss (“FVTPL”) and at fair value through other comprehensive income (“FVOCI”). The principal accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated.

(c) Functional and presentation currency

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

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

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

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

(d) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Please see details on critical accounting estimates and judgements in Note 3 (p).

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Foreign currency

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

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

Rates of exchange

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

	31 December 2019	31 December 2018	31 December 2017
US dollar/1 Kazakhstan tenge (“KZT”)	0.00261342	0.00262550	0.00300436
US dollar/1 Russian rouble (“RUB”)	0.01611700	0.01441400	0.01733400
US dollar/1 British pound sterling (“GBP”)	1.32630000	1.27460000	1.35130000
US dollar/1 Euro (“EUR”)	1.12290000	1.14520000	1.20050000

(b) Financial instruments

(i) Financial instruments – key measurement terms

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. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market’s normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(b) Financial instruments, continued***(i) Financial instruments – key measurement terms, continued*

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest rate method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(b) Financial instruments, continued*****(ii) Financial instruments – initial recognition***

Financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an expected credit loss allowance is recognized for financial assets measured at amortised cost and investments in debt instruments measured at fair value through other comprehensive income, resulting in an immediate accounting loss.

(iii) Financial assets – classification and subsequent measurement – measurement categories

The Bank classifies financial assets in the following measurement categories: fair value through profit or loss, fair value through other comprehensive income and amortised cost. The classification and subsequent measurement of debt financial assets depends on: (i) the Bank's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

(iv) Financial assets – classification and subsequent measurement – business model

The business model reflects how the Bank manages the assets in order to generate cash flows – whether the Bank's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows"), or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at fair value through profit or loss.

The business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Bank undertakes to achieve the objective set out for the portfolio available at the date of the assessment.

An assessment of business models for managing financial assets is performed at the date of initial application of IFRS 9 to determine the classification of a financial asset. The business model is applied retrospectively to all financial assets existing at the date of initial application of IFRS 9. The Bank determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument; therefore, the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

(v) Financial assets – classification and subsequent measurement – cash flow characteristics

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(b) Financial instruments, continued****(v) *Financial assets – classification and subsequent measurement – cash flow characteristics, continued***

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at fair value through profit or loss. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

(vi) *Financial assets – reclassification*

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Bank did not change its business model during the current and comparative period and did not make any reclassifications.

(vii) *Financial assets impairment – credit loss allowance for expected credit loss*

The Bank assesses, on a forward-looking basis, the expected credit loss for debt instruments measured at amortised cost and fair value through other comprehensive income and for the exposures arising from loan commitments and financial guarantee contracts. The Bank measures expected credit loss and recognises credit loss allowance at each reporting date. The measurement of expected credit loss reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at amortised cost are presented in the statement of financial position net of the allowance for expected credit loss. For loan commitments and financial guarantees, a separate provision for expected credit loss is recognised as a liability in the statement of financial position. For debt instruments at fair value through other comprehensive income, changes in amortised cost, net of allowance for expected credit loss, are recognised in profit or loss and other changes in carrying value are recognised in other comprehensive income as gains less losses on debt instruments at fair value through other comprehensive income.

The Bank applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their expected credit loss measured at an amount equal to the portion of lifetime expected credit loss that results from default events possible within the next 12 months or until contractual maturity, if shorter. If the Bank identifies a significant increase in credit risk since initial recognition, the asset is transferred to Stage 2 and its expected credit loss is measured based on expected credit loss on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its expected credit loss is measured as a lifetime expected credit loss. For financial assets that are purchased or originated credit-impaired, the expected credit loss is always measured as a lifetime expected credit loss.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(b) Financial instruments, continued****(viii) Financial assets – write-off**

Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

(ix) Financial assets – derecognition

The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale. Please see details on critical judgements over derecognition in Note 3 (p).

(x) Financial assets – modification

The Bank sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Bank assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset, significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Bank derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a significant increase in credit risk has occurred. The Bank also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Bank compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Bank recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets), and recognises a modification gain or loss in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(b) Financial instruments, continued****(x) Financial assets – modification, continued**

The Bank might assess the changes in the contractual terms of the financial assets as a “market-driven” modification if (a) there were no significant increase in credit risk of an asset, (b) the borrower/issuer had contractual rights and practical ability to refinance its debt without significant expenses, (c) the change of interest rate was based in correlation with market pricing. If these conditions are met, then the effect of the change of interest rate is not recognized as modification gain or loss in profit or loss and is carried prospectively. Please see details on critical judgements over modification in Note 3 (p).

(xi) Financial liabilities – measurement categories

Financial liabilities are classified as subsequently measured at amortised cost, except for derivatives that are carried at fair value through profit or loss.

(xii) Financial liabilities – derecognition

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

An exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(xiii) Financial instruments – statement of financial position lines

Cash and cash equivalents are non-derivative financial assets that are carried at amortised cost in the statement of financial position. 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.

Loans and advances to banks are recorded when the Bank advances money to counterparty banks. Amounts due from other banks are carried at amortised cost when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at fair value through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(b) Financial instruments, continued***(xiii) Financial instruments – statement of financial position lines, continued*

Loans to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Bank classifies loans to customers into one of the following measurement categories: (i) amortised cost: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at fair value through profit or loss, and (ii) fair value through profit or loss: loans that do not meet the SPPI test or other criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Investments in debt securities. Based on the business model and the cash flow characteristics, the Bank classifies investments in debt securities as carried at amortised cost, fair value through other comprehensive income or fair value through profit or loss. Debt securities are carried at amortised cost if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at fair value through profit or loss in order to significantly reduce an accounting mismatch.

Debt securities are carried at fair value through other comprehensive income if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at fair value through profit or loss. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in other comprehensive income. When the debt security is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from other comprehensive income to profit or loss.

Investments in debt securities are carried at fair value through profit or loss if they do not meet the criteria for amortised cost or fair value through other comprehensive income. The Bank may also irrevocably designate investments in debt securities at fair value through profit or loss on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(b) Financial instruments, continued***(xiii) Financial instruments – statement of financial position lines, continued*

Investments in equity securities. Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Bank. Investments in equity securities are measured at fair value through profit or loss, except where the Bank elects at initial recognition to irrevocably designate an equity investments at fair value through other comprehensive income. The Bank's policy is to designate equity investments as fair value through other comprehensive income when those investments are held for strategic purposes other than solely to generate investment returns. When the fair value through other comprehensive income election is used, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and their reversals, if any, are not measured separately from other changes in fair value. Dividends continue to be recognised in profit or loss when the Bank's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The corresponding liability is presented within loans and deposits from banks. Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Bank, are recorded as cash and cash equivalents or advances to banks, as appropriate. The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Loans and deposits from banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost.

Deposits from customers. Customer accounts are non-derivative liabilities to corporate customers and are carried at amortised cost.

Debt securities issued. Debt securities issued consist of bonds issued by the Bank. Debt securities issued are stated at amortised cost. If the Bank purchases its own debt securities, they are removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gain/loss arising from trading with debt securities issued.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(b) Financial instruments, continued

(xiv) Financial instruments – hedge accounting

The Bank is exposed to financial risks arising from many aspects of its business and implements different risk management strategies to eliminate or reduce their risk exposures.

The objective of hedge accounting is to represent, in the financial statements, the effect of risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss or other comprehensive income. Hedge accounting is a technique that modifies the normal basis for recognising gains and losses on associated hedging instruments and hedged items, so that both are recognised in profit or loss or other comprehensive income in the same accounting period.

The risk being hedged in a fair value hedge is a change in the fair value of an asset or liability or an unrecognised firm commitment that is attributable to a particular risk and could affect profit or loss. Changes in fair value might arise through changes in interest rates (for fixed-rate loans), foreign exchange rates, equity prices or commodity prices.

The carrying value of the hedged item is adjusted for fair value changes attributable to the risk being hedged, and those fair value changes are recognised in profit or loss. The hedging instrument is measured at fair value, with changes in fair value also recognised in profit or loss.

The risk being hedged in a cash flow hedge is the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability, an unrecognised firm commitment (currency risk only) or a highly probable forecast transaction, and could affect profit or loss.

Future cash flows might relate to existing assets and liabilities, such as future interest payments or receipts on floating rate debt. Future cash flows can also relate to forecast sales or purchases in a foreign currency. Volatility in future cash flows might result from changes in interest rates, exchange rates, equity prices or commodity prices.

Provided the hedge is effective, changes in the fair value of the hedging instrument are initially recognised in other comprehensive income. The ineffective portion of the change in the fair value of the hedging instrument (if any) is recognised directly in profit or loss.

Under IFRS 9, hedge accounting continues to be optional, and Management of the Bank considers the costs and benefits when deciding whether to use it. When the hedge is decided to be used then the Bank cannot discontinue it.

(xv) Financial instruments – Offsetting

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(c) 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.

(d) Property and equipment

(i) Owned assets

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

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

(ii) Depreciation

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

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

(e) 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%.

(f) 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**(g) Credit related commitments**

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments and letters of credit. These commitments represent the Bank's credit agreements to enter into a specific project. Loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the remaining unamortised balance of the amount at initial recognition.

Financial guarantees. Financial guarantees require the Bank to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an expected credit loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

(h) Share capital

Share capital is recognised at cost.

(i) 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.

(j) Income and expense recognition

Interest income and expense are recorded for all debt instruments, on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows to the fair value on initial recognition. As a result, the effective interest is credit-adjusted.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(j) Income and expense recognition, continued

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their amortised cost, net of the expected credit loss provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the amortised cost.

Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Bank.

Other fee and commission income is recognised at a point in time when the Bank satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations.

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.

(k) Fiduciary assets

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

(l) Technical Assistance Fund

The Council of the Bank annually regularly sets an amount of funds that the Bank might spend on a) pre-investment researches; b) programs of regional integration; and c) researches aimed at economic growth, development of market economies and the expansion of mutual trade between Member states.

As the Technical Assistance Fund is not an entity/organization and is managed by the Bank employees its expenses are accrued in profit or loss of the Bank over the term of the respective services received. An unused amount of funds is accumulated as a separate reserve in equity of the Bank and could be used in future periods.

(m) Employee benefits

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

The accumulated funds are disbursed to the employee when he/she leaves the company or at the date of dismissal (Note 22).

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(n) 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.

(o) Application of new and revised International Financial Reporting Standards (IFRSs)**Amendments to IFRSs affecting amounts reported in the financial statements****Impact of initial application of IFRS 16 Leases**

In the current year, the Bank has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 3. The impact of the adoption of IFRS 16 on the Bank's financial statements is described below.

The date of initial application of IFRS 16 for the Bank is 1 January 2019.

The Bank has applied IFRS 16 using the cumulative catch-up approach.

(i) Impact of the new definition of a lease

The Bank has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Bank applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 January 2019. In preparation for the first-time application of IFRS 16, the Bank has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Bank.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(o) Application of new and revised International Financial Reporting Standards (IFRSs), continued

(ii) Impact on Lessee Accounting

- *Former operating leases*

IFRS 16 changes how the Bank accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Bank:

- a. recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
- b. recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;
- c. separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablet and personal computers, small items of office furniture and telephones), the Bank has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within ‘operating expenses’ in profit or loss.

- *Former finance leases*

The main differences between IFRS 16 and IAS 17 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Bank recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Bank’s financial statements. The Bank recognised a right-of-use asset of 7,719 thousand US dollars against a corresponding lease liability on 1 January 2019:

	31 December 2018 / 1 January 2019
Total future minimum lease payments for non-cancellable operating leases	8,427
Effect of discounting to present value	(708)
Total lease liabilities and right-of-use asset	7,719

In the current year, the Bank has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(o) Application of new and revised International Financial Reporting Standards (IFRSs), continued**

The following amended standards became effective for the Bank from 1 January 2019, but did not have any material impact on the Bank:

- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*.
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*.
- Annual Improvements to IFRS Standards 2015–2017 Cycle: Amendments to IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*.
- Amendments to IAS 19 *Employee Benefits Plan Amendment, Curtailment or Settlement*.
- IFRIC 23 *Uncertainty over Income Tax Treatments*.

IFRS 9 Financial Instruments

In 2016 the Bank has started its transition process to accommodate IFRS 9 requirements. By the end of 2017, the Bank has adopted a number of internal regulative documents and implemented new procedures that resulted in adoption of IFRS 9 effective 1 January 2018.

The Bank has adopted IFRS 9 issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Bank did not early adopt IFRS 9 in previous periods.

Under transitional provisions of IFRS 9, the Bank decided not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Accordingly, for disclosure notes, subsequent amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period disclosure notes repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 “Financial Instruments: Disclosures”.

The following table provides a reconciliation of the carrying amount of financial assets under the previous measurement categories in accordance with IAS 39 with their new measurement categories adopted, at the transition to IFRS 9 as of 1 January 2018:

EURASIAN DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands of US dollars)

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(o) Application of new and revised International Financial Reporting Standards (IFRSs), continued

	Measurement categories		Carrying amount according to IAS 39 (closing balance as of 31 December 2017)	Impact of IFRS 9 Expected credit losses	Carrying amount according to IFRS 9 (opening balance on 1 January 2018)
	IAS 39	IFRS 9			
Cash and cash equivalents:	Loans and receivables	Measured at amortised cost			
Cash and balances with national (central) banks of Member states of the Bank			458	-	458
Correspondent accounts with other banks:					
with credit ratings A- and above			21,333	-	21,333
with credit ratings below A- and not rated			4,964	-	4,964
Term deposits in other banks:					
with credit ratings A- and above			30,626	(1)	30,625
with credit ratings from BBB+ to BBB-			10,001	(3)	9,998
with credit ratings from BB+ to BB-			81,702	(17)	81,685
with credit ratings below BB-			10,437	(11)	10,426
Loans under reverse repurchase agreements:					
with pledge credit ratings from BBB+ to BBB-			7,849	(1)	7,848
Loans and advances to banks:	Loans and receivables	Measured at amortised cost			
Loans to banks			157,225	(1,631)	155,594
Loans under reverse repurchase agreements:					
with pledge credit ratings A- and above			34,340	-	34,340
Loans to customers:	Loans and receivables	Measured at amortised cost			
Unimpaired loans to customers			1,287,246	(3,021)	1,284,225
Impaired loans to customers, including:					
not overdue or overdue less than 90 days			34,686	(8,133)	26,553
overdue more than 90 days			22,333	-	22,333
	Available for sale	Measured at fair value through other comprehensive income			
Investments in debt securities:					
Debt instruments in Treasury portfolio			1,475,903	(1,845)	1,475,903*
Debt instruments in Investment portfolio			104,962	(639)	104,962*
	Available for sale	Measured at fair value through profit or loss			
Investments in equity securities:					
Equity instruments in Investment portfolio			19,814	-	19,814
	At fair value through profit or loss	Measured at fair value through profit or loss			
Derivative financial instruments:					
Foreign currency contracts:					
swaps			135	-	135
Other financial assets	Loans and receivables	Measured at amortised cost			
Accrued commission income and other receivables			3,099	-	3,099
TOTAL FINANCIAL ASSETS			3,307,113	(15,302)	3,294,295

* According to IFRS 9, impairment reserves on FVOCI securities do not affect the book value of these assets. Please see details in Note 16.

EURASIAN DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands of US dollars)

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(o) Application of new and revised International Financial Reporting Standards (IFRSs), continued

	Measurement categories		Carrying amount according to IAS 39 (closing balance as of 31 December 2017)	Impact of IFRS 9	Carrying amount according to IFRS 9 (opening balance on 1 January 2018)
	IAS 39	IFRS 9			
Loans and deposits from banks	Measured at amortised cost	Measured at amortised cost			
Deposits from banks			47,448	-	47,448
Loans from banks			109,253	-	109,253
Loans under repurchase agreements:					
in Russian rouble			170,466	-	170,466
in Kazakhstani tenge			50,662	-	50,662
Debt securities issued:	Measured at amortised cost	Measured at amortised cost			
in US dollars			585,513	-	585,513
in Russian rouble			253,856	-	253,856
in Kazakhstani tenge			358,972	-	358,972
Other financial liabilities	Measured at amortised cost	Measured at amortised cost			
Receivables for loans			1,762	-	1,762
Prepayments and accrued expenses			35	-	35
Derivative financial instruments:	At fair value through profit or loss	Estimated at fair value through profit or loss			
Foreign currency contracts					
swaps			10,618	-	10,618
forwards			454	-	454
TOTAL FINANCIAL LIABILITIES			1,589,039	-	1,589,039

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED 31 DECEMBER 2019
 (in thousands of US dollars)

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(o) Application of new and revised International Financial Reporting Standards (IFRSs), continued

The following table shows the reconciliation of the impairment allowance at the end of the previous period, in accordance with the IAS 39 incurred loss model, and the new provision for expected credit losses, in accordance with the expected loss model in accordance with IFRS 9 as of 1 January 2018:

	<u>Provision for credit losses under IAS 39</u>	<u>Impact of IFRS 9 Expected credit losses</u>	<u>Provision for expected credit losses under IFRS 9</u>
Cash and cash equivalents:			
Cash and balances with national (central) banks of Member states of the Bank	-	-	-
Correspondent accounts with other banks:			
with credit ratings A- and above	-	-	-
with credit ratings below A- and not rated	-	-	-
Term deposits in other banks:			
with credit ratings A- and above	-	(1)	(1)
with credit ratings from BBB+ to BBB-	-	(3)	(3)
with credit ratings from BB+ to BB-	-	(17)	(17)
with credit ratings below BB-	-	(11)	(11)
Loans under reverse repurchase agreements:			
with pledge credit ratings from BBB+ to BBB-	-	(1)	(1)
Loans and advances to banks:			
Loans to banks	(111)	(1,631)	(1,742)
Loans under reverse repurchase agreements:			
with pledge credit ratings A- and above	-	-	-
Loans to customers:			
Unimpaired loans to customers	(37)	(3,021)	(3,058)
Impaired loans to customers, including:			
not overdue or overdue less than 90 days	(29,845)	(8,133)	(37,978)
overdue more than 90 days	-	-	-
defaulted loans	(25,298)	-	(25,298)
Investments in debt securities:			
Debt instruments in Treasury portfolio	-	(1,845)	(1,845)
Debt instruments in Investment portfolio	(162)	(639)	(801)
Other financial assets			
Accrued commission income and other receivables	-	-	-
TOTAL	<u>(55,453)</u>	<u>(15,302)</u>	<u>(70,755)</u>

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(p) Critical Accounting Estimates, and Judgements in Applying Accounting Policies

Valuation of expected credit losses

The expected credit losses for financial assets are measured in a manner that reflects:

- an unbiased and weighted, taking into account the probability, the amount determined by assessing the range of possible outcomes;
- the time value of money;
- justified and verifiable information about past events, current conditions and projected future economic conditions, available on the valuation date without undue cost or effort.

In accordance with the requirements of IFRS 9, the Bank applies the model of expected credit losses for the purpose of reserving financial assets, the key principle of which is the timely reflection of the deterioration or improvement in the credit quality of financial assets, taking into account information about past events, current conditions, and reasonable forecasts of future events and economic conditions.

Within the general approach, the provision for impairment is formed on the basis of:

- a) 12 months expected credit losses - for financial assets without evidence of a significant increase in credit risk since the initial recognition;
- b) lifetime expected credit losses - for financial assets with an evidence of a significant increase in credit risk since the initial recognition or credit-impaired financial assets.

In accordance with the general approach, depending on the degree of deterioration in credit risk from the time of initial recognition, financial assets fall into one of the following stages:

Change in credit quality since initial recognition		
Stage 1	Stage 2	Stage 3
Initial recognition	Significant increase in credit risk since initial recognition	Credit-impaired assets
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

- (1) Stage 1 - Financial assets for which there was no significant increase in credit risk and for which 12 months expected credit losses are calculated;
- (2) Stage 2 - Financial assets with a significant increase in credit risk, but not being defaulted;
- (3) Stage 3 - Financial assets with one or more events of credit-impairment, or in expected/occurred default.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(p) Critical Accounting Estimates, and Judgements in Applying Accounting Policies, continued***Valuation of expected credit losses, continued*

A financial asset is considered impaired at the time of acquisition or provision when one or more events occur that adversely affect the estimated future cash flows of that financial asset. The confirmation of the credit impairment of a financial asset is, in particular, observed data on the following events:

- severe deterioration of financial condition of the borrower/issuer that might cause the default;
- the Bank had to provide term/interest/payment discount to the borrower/issuer;
- default and/or cross-default;
- credit rating of the borrower/issuer at D and/or RD/SD;
- significant deterioration of the borrowers/issuers business environment that might cause the default;
- possible breaches of loan covenants and/or conditions;
- non-transparent corporate governance;
- significant deterioration of financial condition of the borrowers/issuers major counterparties;
- court decision to abduct over 10% of borrowers/issuers assets;
- other facts and reasonable assumptions of possible default;
- payments overdue more than 90 days.

The allocation between stages takes place on the basis of an analysis of credit risk based on the availability of factors indicative of a significant increase in credit risk before the recognition of a default and indicators of impairment (default) on a financial asset.

Significant increase in credit risk

For the reporting period, the Bank measures a significant increase in the credit risk for each financial asset. In the event of an increase in credit risk, the Bank transfers the asset to the Stage 2 of the three-stage model. The Bank determines a significant increase in credit risk based on the following factors:

(1) For loans to customers, debt instruments in Investment portfolio with credit rating below BB-/Ba3 or not rated and other financial assets:

- delay of payment;
- downgrade of external credit rating of the borrower/issuer;
- deterioration of financial condition of the borrower/issuer;
- deterioration of market/external factors that may affect the borrower/issuer;
- possible breaches of loan covenants and/or conditions;
- deterioration in the value of collateral;
- other factors.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(p) Critical Accounting Estimates, and Judgements in Applying Accounting Policies, continued***Significant increase in credit risk, continued*

(2) For loans and advances to banks, cash and cash equivalents, debt instruments in Treasury portfolio, debt instruments in Investment portfolio with credit rating equal or above BB-/Ba3:

- downgrade of external credit rating;
- delay of payment;
- deterioration of financial condition of the borrower/issuer;
- negative data from external sources;
- decrease of price over 20%;
- breach of regulatory prudential limits;
- significant deterioration of business environment of the borrower/issuer;
- other factors.

The Bank applies the "low credit risk" exception for loans and advances to banks, cash and cash equivalents, debt instruments in Treasury portfolio, debt instruments in Investment portfolio with credit rating equal or above BBB-/Baa3/BBB- that allows using the assumption that no significant increase in credit risk has occurred, provided that the financial instrument still demonstrates a low credit risk.

Sensitivity analyses on ECL effect on loans to customers is disclosed in Note 15.

Definition of default

Defaulted financial assets are those that have the highest credit risk, with zero probability of full repayment within initially agreed terms. A full/partial impairment loss is expected; significant modification of an asset might reduce the losses. The deterioration in the financial condition of the borrower/issuer is beyond critical level, including significant operating losses, loss of market position and negative equity.

Due to the specific character of each of the Bank's project financial assets, decision on recognition of default is done after individual review by the Credit Committee of the Bank. Usually this decision is based on occurrence or 100% expectation of some of the events described above in "Significant increase in credit risk" article.

Calculation of expected credit losses for loans to customers, debt instruments in Investment portfolio with credit rating below BB-/Ba3 or not rated and other financial assets

As the primary source of assessment the Bank uses an external credit rating of the borrower/issuer. To estimate expected credit loss the Bank multiplies its exposure by probability of default and loss given default (an opposite of recovery rate). Both probability of default and recovery rate are according to data of Moody's Investors Service.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(p) Critical Accounting Estimates, and Judgements in Applying Accounting Policies, continued*****Calculation of expected credit losses for loans to customers, debt instruments in Investment portfolio with credit rating below BB-/Ba3 or not rated and other financial assets, continued***

In case of absence of external credit rating of the borrower/issuer, probability of default and loss given default are estimated according to historical data of the Bank since 2012 and using borrower's internal ratings classification transition matrices. Matrices are based on results of monitoring internal ratings of each loan at the beginning and end of each quarter. Based on annual matrices an average and average-weighted matrices of loan movement between quality stages are concluded. Probability of default and loss-given-default are estimated using Markov chain process to the average-weighted matrix of loan movement between quality stages. Exposure at default can be reduced by the sum of collateral if the value of collateral is not expected to change in case of default of the borrower/issuer and can be sold independently.

Calculation of reserves for loans and advances to banks, cash and cash equivalents, debt instruments in Treasury portfolio and debt instruments in Investment portfolio with credit rating equal or above BB-/Ba3

To estimate expected credit loss the Bank multiplies its exposure by probability of default and recovery rate. Both probability of default and recovery rate are according to data of Moody's Investors Service.

Modification of financial assets

The Bank sometimes revises or otherwise modifies contractual cash flows on financial assets. When this occurs, the Bank assesses whether the new conditions differ significantly from the original conditions. The Bank does this, considering, among other things, the following factors:

- if the borrower/issuer has financial difficulties, whether the modification reduces the contractual cash flows to the amounts that the borrower/issuer is expected to pay;
- are there any significant new conditions, such as a return in the form of a share of profits/in the form of shares, which significantly affect the degree of risk on the financial asset;
- substantial extension of the term of financial asset, when the borrower/issuer has no financial difficulties;
- significant change in the interest rate;
- change in the currency in which the financial asset is expressed;
- adding guarantees, other collateral or means to reduce credit risk, which significantly affects the credit risk associated with the financial asset.

If the conditions are materially different, the Bank derecognizes the initial financial asset and recognizes the "new" financial asset at fair value, and recounts the new effective interest rate for the financial asset. Accordingly, the date of the review is the date of initial recognition for the purpose of calculating the impairment, including for the purpose of determining whether there has been a significant increase in credit risk. However, the Bank also assesses whether a newly recognized financial asset is considered to be credit-impaired at initial recognition, especially in circumstances in which the review is determined by the debtor's/issuer's inability to make the originally specified payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss from derecognition.

If the terms do not differ materially, the revision or modification does not lead to the termination of recognition and the Bank recalculates the gross book value based on the revised cash flows on the financial asset and recognizes the profit or loss from the modification in profit or loss. The new gross book value is recalculated by discounting the modified cash flows at the original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(p) Critical Accounting Estimates, and Judgements in Applying Accounting Policies, continued*****Derecognition of financial assets, except for cases of modification***

Financial assets, or part thereof, are written off when the contractual rights to receive cash flows from the financial assets have expired or when they were transferred and (or) the Bank transferred a significant portion of all the risks and rewards of ownership or the Bank neither transferred nor retained a substantial portion of all risks and rewards of ownership, and the Bank did not retain control.

The Bank enters into transactions in which it retains its contractual rights to receive cash flows from assets, but allows a contractual obligation to pay these cash flows to other companies and transfers substantially all risks and rewards. These transactions are accounted for as "transit" transfers that result in cancellation if the Bank:

- has no obligation to pay, except when it receives equivalent amounts from financial assets;
- the Bank is prohibited from selling or pledging financial assets; and
- has an obligation to transfer any cash that it receives from financial assets without significant delay.

The management has not applied any new estimates and judgments, except for applying the model of expected credit losses on financial instruments in accordance with IFRS 9. In the process of estimation expected credit losses the Bank applies its own judgements on a wide variety of macroeconomic factors, including exchange rates, inflation indexes, refinancing rates, consumption indexes, manufacturer' prices indexes, prices on different raw materials and other indexes.

(q) New and revised IFRS in issue, but not yet effective

At the date of authorisation of these financial statements, the Bank has not applied the following new and revised IFRS Standards that have been issued but are not yet effective.

IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the board; however, earlier application of the amendments is permitted. The directors of the Bank anticipate that the application of these amendments may have an impact on the Bank's financial statements in future periods should such transactions arise.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(q) New and revised IFRS in issue, but not yet effective, continued

Amendments to IFRS 3 *Definition of a business*

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted. The management of the Bank does not expect that the application of these amendments will have an impact on the financial statements of the Bank.

Amendments to IAS 1 and IAS 8 *Definition of material*

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of ‘obscuring’ material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from ‘could influence’ to ‘could reasonably be expected to influence’.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term ‘material’ to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted. The management of the Bank does not expect that the application of these amendments will have an impact on the financial statements of the Bank.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(q) New and revised IFRS in issue, but not yet effective, continued*****Amendments to References to the Conceptual Framework in IFRS Standards***

Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

(r) Accounting policy used during the year ended 31 December 2017

The accounting policy used during the year ended 31 December 2017 was generally the same except for the changes originated by introduction of IFRS 9. Below are accounting policies that were used by the Bank before introduction of IFRS 9:

Financial instruments – Classification

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(r) Accounting policy used during the year ended 31 December 2017, continued***Financial instruments – Classification, continued*

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

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

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

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

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

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

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

Financial instruments – 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.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(r) Accounting policy used during the year ended 31 December 2017, continued*****Financial instruments – Measurement, continued***

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.

Financial instruments – 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.

Financial instruments – Impairment – Financial assets carried at amortised cost

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

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**(r) Accounting policy used during the year ended 31 December 2017, continued**

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

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss. All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

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

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.

Financial instruments – Impairment – 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.

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4. NET INTEREST INCOME

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Interest income calculated using the effective interest method comprises:			
Loans to customers	147,753	139,824	146,826
Financial assets at fair value through other comprehensive income (2017: available-for-sale)	77,964	41,673	35,465
Cash and cash equivalents	18,106	10,717	6,654
Loans and advances to banks	17,095	18,824	8,522
Financial assets at fair value through profit or loss	4,110	-	-
Total interest income calculated using the effective interest method	265,028	211,038	197,467
Interest expense comprises:			
Debt securities issued	(132,433)	(92,070)	(82,426)
Deposits from customers	(14,932)	(1,326)	-
Loans and deposits from banks	(14,214)	(21,483)	(25,848)
Financial liabilities at fair value through profit or loss	(7,118)	-	-
Total interest expense	(168,697)	(114,879)	(108,274)
Net interest income	96,331	96,159	89,193

5. PROVISION FOR EXPECTED CREDIT LOSSES (2017: IMPAIRMENT LOSSES) ON INTEREST BEARING ASSETS

The movements in expected credit losses on cash and cash equivalents were as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
Beginning of the period	(68)	-
Expected credit loss adjustment per IFRS 9 as at 1 January 2018	-	(32)
Net recovery/(charge)	1	(36)
End of the period	(67)	(68)

The movements in allowance for expected credit losses (2017: impairment losses) on loans and advances to banks were as follows:

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Beginning of the year	(2,670)	(111)	(101)
Expected credit loss adjustment per IFRS 9 as at 1 January 2018	-	(1,631)	-
Net recovery/(charge)	597	(1,080)	(10)
Effect of foreign currency movements	(53)	152	-
End of the year	(2,126)	(2,670)	(111)

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5. PROVISION FOR EXPECTED CREDIT LOSSES (2017: IMPAIRMENT LOSSES) ON INTEREST BEARING ASSETS, CONTINUED

The movements in allowance for expected credit losses (2017: impairment losses) on loans to customers were as follows:

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Beginning of the year	(66,202)	(55,180)	(83,274)
Expected credit loss adjustment per IFRS 9 as at 1 January 2018	-	(11,154)	-
Net charge	(5,102)	(6,068)	(26,557)
Write-offs	9,178	3,636	57,321
Effect of foreign currency movements	(632)	2,564	(2,670)
End of the year	(62,758)	(66,202)	(55,180)

Table with details on stages is presented in Note 15.

The movements in allowance for expected credit losses (2017: impairment losses) on debt financial assets at fair value through other comprehensive income (2017: available-for-sale) were as follows:

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Beginning of the year	(2,163)	(162)	-
Expected credit loss adjustment per IFRS 9 as at 1 January 2018	-	(2,484)	-
Net (charge)/recovery	(1,690)	360	(163)
Effect of foreign currency movements	(93)	123	1
End of the year	(3,946)	(2,163)	(162)

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

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Net (loss)/gain on derivative financial instruments in foreign currency	(35,617)	31,402	(71,093)
Total net (loss)/gain on financial assets and liabilities at fair value through profit or loss	(35,617)	31,402	(71,093)

The Bank enters into most deals with derivative financial instruments with an aim to minimise possible gain/loss from foreign exchange revaluation of its on-balance sheet financial instruments. Consequently, the result of operations with derivative financial instruments should be considered in conjunction with the gain/loss on foreign currency revaluation (Note 8).

For the year ended 31 December 2019, the net loss on the forward side of swap deals was equal to 20,181 thousand US dollars (2018: net gain of 28,157 thousand US dollars; 2017: net loss 69,399 of thousand US dollars). And an equally opposite amount of net gain/(loss) on the spot side of these swap deals was accounted via net gain/(loss) on transactions in foreign currencies (Note 8).

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7. NET REALISED GAIN/(LOSS) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (2017: AVAILABLE-FOR-SALE)

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Net gain/(loss) on transactions with debt securities	546	(1,916)	2,875
Total net realised gain/(loss) on financial assets at fair value through other comprehensive income (2017: available-for-sale)	546	(1,916)	2,875

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

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Translation differences, net	52,929	(20,652)	75,527
Dealing, net	145	30	(28)
Total net gain/(loss) on transactions in foreign currencies	53,074	(20,622)	75,499

9. FEE AND COMMISSION INCOME

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Eurasian Fund for Stabilisation and Development management fee	7,312	3,993	3,831
Credit related fees	1,101	229	3,405
Other fees and commissions	312	128	97
Total fee and commission income	8,725	4,350	7,333

The Bank provides trust services to Eurasian Fund for Stabilisation and Development (the “Fund”), whereby it manages operational activities of the Fund. The Bank has neither control nor significant influence over decision-making process of the Fund.

As part of the Fund’s resources management, based on the Fund Council’s decisions and consistent with the Fund’s documents, the Bank:

- performs operations with the accounts of the Fund;
- presents bills issued by the member states for payment;
- concludes Agreements on the provision of Fund resources and disburses Fund’s resources in accordance with the terms of such agreements;
- invests temporarily idle resources of the Fund;
- prepares annual Programme of activities, administrative budget, annual and financial reports;
- considers applications for the provision of financing from the Fund’s resources, prepares appropriate appraisals drafts Agreements on the provision of Fund’s resources;
- keeps records of the debts of the recipients of the Fund’s resources; monitors and assesses the fulfillment of obligations under Agreements on the provision of Fund’s resources;
- cooperates with member states, the Expert Council, and the recipients of the Fund resources; and
- performs other necessary actions.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019 *(in thousands of US dollars)*

9. FEE AND COMMISSION INCOME, CONTINUED

While performing its functions as the Fund Resources' Manager, the Bank is guided solely by the interests of the member states of the Fund and the goals of its foundation. In order to manage the Fund's resources and to fulfil the Fund Secretariat functions, the Fund Project Unit ("Unit") was established within the Bank. In close cooperation with other departments of the Bank, member states and other international development institutes, the Unit is responsible for the preparation and implementation of all Fund projects.

10. OPERATING EXPENSES

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Staff costs and other payments to employees	31,396	22,051	24,069
Premises expenses	2,508	2,361	1,731
Business trip expenses	2,163	1,131	1,018
Depreciation and amortization	1,278	1,193	1,208
Business development expenses	1,210	898	773
Professional services	929	1,334	1,456
Communication expenses	755	743	886
Maintenance of acquired systems and programs	692	751	847
Security	511	552	552
Transportation expenses	253	211	188
Training	211	112	119
Office, postal and printing expenses	176	177	139
Other	941	512	406
Total operating expenses	43,023	32,026	33,392

Staff costs and other payments to employees include a retirement savings plan expenses (see Note 22). For the year ended 31 December 2019, retirement savings plan expenses were equal to 3,565 thousand US dollars (year ended 31 December 2018: 2,519 thousand US dollars; year ended 31 December 2017: 2,504 thousand US dollars).

11. CASH AND CASH EQUIVALENTS

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

	31 December 2019	31 December 2018	31 December 2017
Cash and balances with national (central) banks of Member states of the Bank	499	540	458
Correspondent accounts with other banks			
with credit ratings A- and above	17,879	24,290	21,333
with credit ratings below A- and not rated	11,674	12,489	4,964
Term deposits in other banks			
with credit ratings A- and above	342,589	110,449	30,626
with credit ratings from BBB+ to BBB-	67,394	42,904	10,001
with credit ratings from BB+ to BB-	53,676	13,003	81,702
with credit ratings below BB- and not rated	15,050	566	10,437
Loans under reverse repurchase agreements			
with pledge credit ratings from BBB+ to BBB-	256,383	114,864	7,849
with pledge credit ratings from BB+ to BB-	-	322,065	-
Total cash and cash equivalents	765,144	641,170	167,370

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11. CASH AND CASH EQUIVALENTS, CONTINUED

Cash and cash equivalents together with financial assets at fair value through other comprehensive income are major parts of the Treasury portfolio of the Bank and are intended to maintain a sufficient level of liquidity (further described in section b (iii) of Note 30. Between individual reporting dates, significant changes in the balances between these financial statements lines are possible depending on the value of short-term market rates.

As at 31 December 2019, 2018 and 1 January 2018 (date of initial adoption of IFRS 9), all cash and cash equivalents were classified within stage 1 of credit quality assessment. There were no movements between different stages of credit quality assessment during the years ended 31 December 2019 and 2018.

As at 31 December 2019 and 2017, no banks have balances that exceed 10% of equity of the Bank.

As at 31 December 2018, an outstanding balance of loans under reverse repurchase agreements with “Moscow credit bank” was equal to 316,132 thousand US dollars, which exceeds 10% of equity of the Bank.

There were no material non-cash transactions to disclose within the statement of cash flows.

The fair value of assets pledged and carrying amount of loans under reverse repurchase agreements as at 31 December 2019, 2018 and 2017 are as follows:

	31 December 2019		31 December 2018		31 December 2017	
	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral
With pledge credit ratings from BBB+ to BBB-	256,383	285,450	114,864	124,541	7,849	8,033
With pledge credit ratings from BB+ to BB-	-	-	322,065	352,258	-	-
	256,383	285,450	436,929	476,799	7,849	8,033

As at 31 December 2018, all loans under reverse repurchase agreements with pledge credit ratings from BB+ to BB- were collateralized by Eurobonds of the Russian Federation. In case of absence of collateral, effect on ECL would be insignificant.

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

	<u>31 December 2019</u>		<u>31 December 2018</u>	
	<u>Ownership interest</u>	<u>Fair value</u>	<u>Ownership interest</u>	<u>Fair value</u>
Equity instruments in Investment portfolio				
Investments into private equity fund “Macquarie Russia and CIS Infrastructure Fund”	15.87%	6,567	15.87%	16,878

On initial adoption of IFRS 9 the Bank has decided to carry its equity investment in private equity fund “Macquarie Russia and CIS Infrastructure Fund” (hereinafter “the Fund”) at fair value through profit or loss. Up to 31 December 2017, the Bank had carried this investment as available-for-sale (Note 16). At the date of transition, no changes in the carrying value of the instrument in the amount of 19,814 thousand US dollars were made, and this amount was recognized as at 1 January 2018. The table below shows the reconciliation of changes in this investment during 2019 and 2018:

	<u>Year ended 31 December 2019</u>	<u>Year ended 31 December 2018</u>
Equity instruments in Investment portfolio, carried as available-for-sale, as at 31 December 2017	-	19,814
Effect of transition to IFRS 9 as at 1 January 2018	-	-
Equity instruments in Investment portfolio, carried at fair value through profit or loss, as at beginning of the year	16,878	19,814
(Redemption)/purchase of new instruments, net	(10,076)	539
Income received	(38)	(172)
Losses less gains from equity securities at fair value through profit or loss	(197)	(3,303)
Equity instruments in Investment portfolio, carried at fair value through profit or loss, as at end of the year	6,567	16,878

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

As at 31 December 2019, 2018 and 2017, the fair value of the Bank’s investments in the Fund was estimated using a valuation technique based on discounted cash flows, where the discount rate for future cash flows comprised of the risk-free interest rate applicable in the country where the asset is located and risk premium reflecting the uncertainty associated with the cash flows.

The uninvested balance of the commitment is presented in Note 26.

	<u>31 December 2019</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
Derivative financial instruments – assets	3,450	291	135
Derivative financial instruments – liabilities	(26,955)	(3,329)	(11,072)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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12. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS, CONTINUED

	31 December 2019			31 December 2018			31 December 2017		
	Notional amount	Net fair value Asset	Net fair value Liability	Notional amount	Net fair value Asset	Net fair value Liability	Notional amount	Net fair value Asset	Net fair value Liability
Derivative financial instruments:									
Foreign currency contracts									
Swaps	364,482	3,450	(26,953)	403,375	291	(3,319)	618,379	135	(10,618)
Forwards	1,279	-	(2)	4,994	-	(10)	17,000	-	(454)
		<u>3,450</u>	<u>(26,955)</u>		<u>291</u>	<u>(3,329)</u>		<u>135</u>	<u>(11,072)</u>

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

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

Forwards

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

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

Swaps

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

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

13. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

The Bank may enter into swap agreements for hedging purposes.

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

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

On 19 December 2019, the Bank has entered into six EUR/USD swap deals with a nominal amount of 183,396 thousand EUR maturing on 22 June 2020. The purpose of these deals was to hedge a fair value risk arising from significant difference between investment and funding currencies.

These swap agreements were designated as fair value hedge principally to minimize the exchange rate risk associated with the future cash inflows from loan to customer with the principal amount of EUR 183,396 thousand, with the next payment date on 22 June 2020. The length of the swap agreements was chosen to match the date of the expected payments from the borrower. As part of the Bank's hedging strategy on 22 June 2020, the Bank will enter into new swap agreements to hedge the reduced principal amount of the loan.

The designated hedged risk is the forward exchange rate risk and, therefore, the changes in fair value of the swap are recorded initially in the hedging reserve to the extent the hedge is effective. As at 31 December 2019, the bank has recognized a revaluation deficit of 1,616 thousand US dollars.

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14. LOANS AND ADVANCES TO BANKS

	<u>31 December 2019</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
Loans to banks	233,739	225,180	157,336
Loans under reverse repurchase agreements: with pledge credit ratings A- and above	<u>34,685</u>	<u>23,000</u>	<u>34,340</u>
	268,424	248,180	191,676
Less expected credit loss provisions (2017: country risk provisions) (Note 5)	<u>(2,126)</u>	<u>(2,670)</u>	<u>(111)</u>
Total loans and advances to banks	<u>266,298</u>	<u>245,510</u>	<u>191,565</u>

As at 31 December 2019, all loans and advances to banks were classified within stage 1 of credit quality assessment except for one loan classified into stage 2 with an outstanding balance of 294 thousand US dollars and with no expected credit loss provisions against it. As at 31 December 2018, this loan was classified within stage 1 with an outstanding balance of 591 thousand US dollars and with no expected credit loss provisions against it.

As at 31 December 2018 and 1 January 2018 (date of initial adoption of IFRS 9), all loans and advances to banks were classified within stage 1 of credit quality assessment. There were no movements between different stages of credit quality assessment during the years ended 31 December 2019 and 2018 except for the aforementioned loan.

The fair value of assets pledged and carrying amount of loans under reverse repurchase agreements as at 31 December 2019, 2018 and 2017:

	<u>31 December 2019</u>		<u>31 December 2018</u>		<u>31 December 2017</u>	
	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral
Loans under reverse repurchase agreements:						
with pledge credit ratings A- and above	<u>34,685</u>	<u>34,682</u>	<u>23,000</u>	<u>24,610</u>	<u>34,340</u>	<u>34,577</u>
	<u>34,685</u>	<u>34,682</u>	<u>23,000</u>	<u>24,610</u>	<u>34,340</u>	<u>34,577</u>

As at 31 December 2019, loans and advances to banks include accrued interest income amounting to 3,328 thousand US dollars (31 December 2018: 3,295 thousand US dollars 31 December 2017: 3,221 thousand US dollars).

As at 31 December 2019, 2018 and 2017, no loans and advances to banks were past due.

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15. LOANS TO CUSTOMERS

	<u>31 December 2019</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
Loans to customers at amortized cost:			
Unimpaired loans to customers	1,961,190	1,659,470	1,288,768
Impaired loans to customers, including:			
not overdue or overdue less than 90 days	32,479	33,853	64,531
overdue more than 90 days	15,890	-	22,333
defaulted loans	13,203	23,169	23,813
	<u>2,022,762</u>	<u>1,716,492</u>	<u>1,399,445</u>
Less expected credit loss provisions (2017: impairment losses) (Note 5)	<u>(62,758)</u>	<u>(66,202)</u>	<u>(55,180)</u>
Total loans to customers	<u>1,960,004</u>	<u>1,650,290</u>	<u>1,344,265</u>

The table below summarises the distribution of loans to customers between the stages of credit quality assessment as at 31 December 2019 and 2018:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>31 December 2019 Total</u>
Unimpaired and stage 3 restructured loans to customers	1,668,863	115,885	176,442	1,961,190
Impaired loans to customers, including:				
not overdue or overdue less than 90 days	-	-	32,479	32,479
overdue more than 90 days	-	-	15,890	15,890
defaulted loans	-	-	13,203	13,203
	<u>1,668,863</u>	<u>115,885</u>	<u>238,014</u>	<u>2,022,762</u>
Less expected credit loss provisions	<u>(20,022)</u>	<u>(1,406)</u>	<u>(41,330)</u>	<u>(62,758)</u>
Total loans to customers	<u>1,648,841</u>	<u>114,479</u>	<u>196,684</u>	<u>1,960,004</u>

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>31 December 2018 Total</u>
Unimpaired and stage 3 restructured loans to customers	1,282,963	81,631	294,876	1,659,470
Impaired loans to customers, including:				
not overdue or overdue less than 90 days	-	-	33,853	33,853
defaulted loans	-	-	23,169	23,169
	<u>1,282,963</u>	<u>81,631</u>	<u>351,898</u>	<u>1,716,492</u>
Less expected credit loss provisions	<u>(9,329)</u>	<u>(1,930)</u>	<u>(54,943)</u>	<u>(66,202)</u>
Total loans to customers	<u>1,273,634</u>	<u>79,701</u>	<u>296,955</u>	<u>1,650,290</u>

As at 31 December 2019, the Bank has one customer in default for a total gross amount of 13,203 thousand US dollars (31 December 2018: five customers for a total gross amount of 23,169 thousand US dollars; 31 December 2017: five customers for a total gross amount of 23,813 thousand US dollars). As at 31 December 2019, 2018 and 2017, these loans were fully provisioned.

These projects have defaulted due to various reasons, primarily due to deterioration of market conditions.

During the year ended 31 December 2019, loans to four defaulted customers, who were in default as at 31 December 2018, in the amount of 9,178 thousand US dollars were written-off.

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15. LOANS TO CUSTOMERS, CONTINUED

On 24 August 2018, the Bank has written off a loan in the amount of 3,636 thousand US dollars after completing negotiations with the defaulted customer. This loan was issued to an agricultural company whose project severely deteriorated due to changes in market conditions. As at 31 December 2017, the outstanding balance of this loan was 4,840 thousand US dollars and the allowance for impairment losses was nil.

On 15 December 2017, the Bank has written-off loans in the amount of 57,321 thousand US dollars after completing its legal procedures against two defaulted customers. These companies have invested funds into one industrial project that severely deteriorated due to changes in market conditions.

As at 31 December 2019, the Bank has two customers (31 December 2018: no customers; 31 December 2017: one customer) with impaired loan overdue more than 90 days. As at 31 December 2019, the outstanding balance of these loans was 15,890 thousand US dollars (31 December 2017: 22,333 thousand US dollars) with a related allowance for expected credit losses of 15,196 thousand US dollars (31 December 2017: no allowance).

As at 31 December 2019, the Bank has two customers (31 December 2018: four customers; 31 December 2017: seven customers) with outstanding impaired loans not overdue or overdue less than 90 days, in the amount of 32,479 thousand US dollars (31 December 2018: 33,853 thousand US dollars; 31 December 2017: 64,531 thousand US dollars) with a related allowance for expected credit losses as at 31 December 2019 of 7,441 thousand US dollars (31 December 2018: 26,913 US dollars; 31 December 2017: 29,845 thousand US dollars).

The table below summarizes the movement of loans to customers between the stages of credit quality assessment during the year ended 31 December 2019:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Outstanding amount				
As at 1 January 2019	1,282,963	81,631	351,898	1,716,492
Net issue/(redemption)	335,433	(48,412)	(23,789)	263,232
Transfer from Stage 1 to Stage 3	(4,144)	-	4,144	-
Transfer from Stage 2 to Stage 3	-	(23,920)	23,920	-
Transfer from Stage 3 to Stage 2	-	108,025	(108,025)	-
Net change in discounts/premiums	(5,059)	326	(688)	(5,421)
Write-offs	-	-	(9,178)	(9,178)
Effect of foreign currency movements	59,670	(1,765)	(268)	57,637
As at 31 December 2019	<u>1,668,863</u>	<u>115,885</u>	<u>238,014</u>	<u>2,022,762</u>
Allowance for expected credit losses				
As at 1 January 2019	(9,329)	(1,930)	(54,943)	(66,202)
Net (charge)/recovery	(10,094)	114	4,878	(5,102)
Transfer from Stage 1 to Stage 3	1	-	(1)	-
Transfer from Stage 2 to Stage 3	-	546	(546)	-
Transfer from Stage 3 to Stage 2	-	(138)	138	-
Write-offs	-	-	9,178	9,178
Effect of foreign currency movements	(600)	2	(34)	(632)
As at 31 December 2019	<u>(20,022)</u>	<u>(1,406)</u>	<u>(41,330)</u>	<u>(62,758)</u>
Total loans to customers	<u>1,648,841</u>	<u>114,479</u>	<u>196,684</u>	<u>1,960,004</u>

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15. LOANS TO CUSTOMERS, CONTINUED

The table below summarizes the movement of loans to customers between the stages of credit quality assessment during the year ended 31 December 2018:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Outstanding amount				
As at 1 January 2018	865,296	110,418	423,731	1,399,445
Net issue/(redemption)	537,221	(27,034)	(55,457)	454,730
Net change in discounts/premiums	2,862	190	(152)	2,900
Write-offs	-	-	(3,636)	(3,636)
Effect of foreign currency movements	(122,416)	(1,943)	(12,588)	(136,947)
As at 31 December 2018	<u>1,282,963</u>	<u>81,631</u>	<u>351,898</u>	<u>1,716,492</u>
Allowance for expected credit losses				
Impairment losses as at				
31 December 2017	(9)	(12)	(55,159)	(55,180)
Expected credit loss adjustment per IFRS 9 as at 1 January 2018	(10,151)	12	(1,015)	(11,154)
Net recovery/(charge)	935	(1,949)	(5,054)	(6,068)
Write-offs	-	-	3,636	3,636
Effect of foreign currency movements	(104)	19	2,649	2,564
As at 31 December 2018	<u>(9,329)</u>	<u>(1,930)</u>	<u>(54,943)</u>	<u>(66,202)</u>
Total loans to customers	<u>1,273,634</u>	<u>79,701</u>	<u>296,955</u>	<u>1,650,290</u>

During the year ended 31 December 2018 there were no movements of loans between stages of credit quality assessment.

The Bank estimates loan impairment for its loans to customers based on an analysis of the future cash flows and collateral realization approach.

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 2019</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
Loans collateralised by real estate, equipment and inventories	955,107	891,565	592,540
Loans collateralised by guarantees:			
state entities	319,083	381,888	351,779
governments of the Member-states of the Bank	94,554	153,165	215,760
financial and commercial organisations	455,324	176,028	143,689
Loans collateralised by future cash inflows from clients' contracts	198,694	113,846	95,677
	<u>2,022,762</u>	<u>1,716,492</u>	<u>1,399,445</u>
Less expected credit loss provisions (2017: impairment losses)	(62,758)	(66,202)	(55,180)
Total loans to customers	<u>1,960,004</u>	<u>1,650,290</u>	<u>1,344,265</u>

The recoverability of the above loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, but the Bank considers the current value of the collateral as one of the factors that reduces the amount of expected credit losses. For the purpose of estimation of expected credit loss provisions the Bank does not include into calculation the value of operational collateral which is substantially bound into the borrower's operational activity and would significantly devalue in case of default.

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15. LOANS TO CUSTOMERS, CONTINUED

The current value of collateral takes into account period of collateral realization, cost of realization, liquidity coefficients, therefore, does not equal fair value of collateral.

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

	31 December 2019	31 December 2018	31 December 2017
Transport	657,389	596,419	279,070
Energy	490,302	349,254	346,703
Mining and metallurgy	397,052	369,840	384,465
Infrastructure	212,876	219,245	209,333
Chemical industry	112,431	14,722	18,413
Machinery	73,650	68,299	58,855
Agriculture	29,093	57,520	65,028
Other	49,969	41,193	37,578
	2,022,762	1,716,492	1,399,445
Less expected credit loss provisions (2017: impairment losses)	(62,758)	(66,202)	(55,180)
Total loans to customers	1,960,004	1,650,290	1,344,265

As at 31 December 2019, the maximum credit risk exposure on loans to customers amounts to 1,960,004 thousand US dollars (31 December 2018: 1,650,290 thousand US dollars; 31 December 2017: 1,344,265 thousand US dollars).

As at 31 December 2019, the maximum credit risk exposure on loan commitments extended by the Bank to its borrowers amounts to 1,275,796 thousand US dollars (31 December 2018: 1,244,532 thousand US dollars; 31 December 2017: 637,085 thousand US dollars) (Note 26).

As at 31 December 2019, loans to customers included accrued interest income amounting to 17,852 thousand US dollars (31 December 2018: 22,283 thousand US dollars; 31 December 2017: 25,107 thousand US dollars).

Concentration of loans to customers

As at 31 December 2019, the Bank has one customer, which had a balance of 356,651 thousand US dollars and whose balance exceed 10% of total equity of the Bank. As at 31 December 2018, the Bank has two customers, whose balance exceed 10% of total equity of the Bank. The first customer as at 31 December 2018, had a balance of 357,076 thousand US dollars. The second customer as at 31 December 2018, had a balance of 183,457 thousand US dollars. As at 31 December 2017, the Bank had one customer, which had a balance of 188,757 thousand US dollars and whose balance exceed 10% of total equity of the Bank.

Stress-testing of expected credit loss provisions

The Bank performs stress-testing of expected credit loss provisions via applying a scenario when all loans that are classified into stage 1 credit quality category would be reclassified into stage 2 credit quality category. Subsequently a lifetime expected credit loss allowance instead of 12-month portion allowance would be required. According to the result of test as at 31 December 2019 an increase of 36,936 thousand US dollars (31 December 2018: 40,841 thousand US dollars) in the amount of expected credit loss provisions would be required.

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16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
(2017: FINANCIAL ASSETS AVAILABLE-FOR-SALE)

As at 31 December 2019 and 2018, financial instruments at fair value through other comprehensive income (2017: financial assets available-for-sale) consist of:

	<u>31 December 2019</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
Debt instruments in Treasury portfolio	1,513,960	912,498	1,475,903
Debt instruments in Investment portfolio	592,339	226,843	104,962
Equity instruments in Investment portfolio	-	-	19,814
Total financial assets at fair value through other comprehensive income (2017: assets available-for-sale)	<u>2,106,299</u>	<u>1,139,341</u>	<u>1,600,679</u>

The tables below summarise the distribution of financial instruments at fair value through other comprehensive income between the stages of credit quality assessment as at 31 December 2019 and 2018:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>31 December 2019 Total</u>
Debt instruments in Treasury portfolio	1,513,960	-	-	1,513,960
Debt instruments in Investment portfolio	576,767	15,567	5	592,339
Total debt instruments at fair value through other comprehensive income	<u>2,090,727</u>	<u>15,567</u>	<u>5</u>	<u>2,106,299</u>

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>31 December 2018 Total</u>
Debt instruments in Treasury portfolio	912,498	-	-	912,498
Debt instruments in Investment portfolio	226,840	-	3	226,843
Total debt instruments at fair value through other comprehensive income	<u>1,139,338</u>	<u>-</u>	<u>3</u>	<u>1,139,341</u>

During the year ended 31 December 2019, one financial instrument with the carrying amount of 15,567 thousand US dollars and expected credit losses in the amount of 981 thousand US dollars was moved from stage 1 to stage 2.

During the year ended 31 December 2018, there were no movements between different stages of credit quality assessment.

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**16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
(2017: FINANCIAL ASSETS AVAILABLE-FOR-SALE), CONTINUED**

The tables below presents the breakdown of the debt instruments by credit risk rating:

	<u>31 December 2019</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
	<u>Fair value</u>	<u>Fair value</u>	<u>Fair value</u>
Debt instruments in Treasury portfolio			
with credit ratings AA- and above	590,841	204,746	522,110
with credit ratings from A+ to A-	429,135	217,926	167,965
with credit ratings from BBB+ to BBB-	493,984	176,742	30,265
with credit ratings from BB+ to BB-	-	308,971	746,565
with credit ratings below BB-	-	4,113	8,998
	<u>1,513,960</u>	<u>912,498</u>	<u>1,475,903</u>
	<u>31 December 2019</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
	<u>Fair value</u>	<u>Fair value</u>	<u>Fair value</u>
Debt instruments in Investment portfolio			
with credit ratings from BBB+ to BBB-	-	-	26,153
with credit ratings from BB+ to BB-	415,602	216,684	78,394
with credit ratings below BB- and not rated	176,737	10,159	577
	<u>592,339</u>	<u>226,843</u>	<u>105,124</u>
Less: impairment losses	-	-	(162)
	<u>592,339</u>	<u>226,843</u>	<u>104,962</u>

As at 31 December 2019 and 2018, debt instruments at fair value through other comprehensive income (2017: available-for-sale financial assets) include accrued interest income amounting to 22,830 thousand US dollars (31 December 2018: 9,178 thousand US dollars; 31 December 2017: 11,572 thousand US dollars).

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

On initial adoption of IFRS 9 the Bank has decided to carry Investments into private equity fund “Macquarie Russia and CIS Infrastructure Fund” at fair value through profit or loss (Note 12).

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

The uninvested balance of the commitment is presented in Note 26.

EURASIAN DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019 *(in thousands of US dollars)*

17. INVESTMENTS IN ASSOCIATES

Associates of the Bank as at reporting date are set out below:

	31 December 2019	
	Ownership interest	Fair value
Investments in associates		
Common shares of JSCB “NRBank” (JSC)	18.68%	20,121
Common shares of other companies	-	10

In December 2019 the Bank has purchased 18.68% share in Russia-based bank JSCB “NRBank” (JSC). The purchase price was based on the result of the external assessment of the fair value of the JSCB “NRBank” (JSC) conducted by a reputable independent appraiser in October 2019.

18. OTHER ASSETS

	31 December 2019	31 December 2018	31 December 2017
Other financial assets recorded as loans and receivables:			
Accrued commission income and other receivables	10,868	2,842	3,099
	10,868	2,842	3,099
Other non-financial assets:			
Assets received as consideration for loans to customers	42,587	42,587	42,587
Right-of-use asset	6,967	-	-
Prepaid expenses	1,911	1,279	1,072
Capital expenditure debtors	390	156	48
Value added tax reimbursable	243	108	90
Other debtors	611	302	213
	52,709	44,432	44,010
Less: allowance for impairment losses	(42,763)	(42,678)	(42,599)
	9,946	1,754	1,411
Total other assets	20,814	4,596	4,510

As at 31 December 2019, 2018 and 2017 other assets include certain assets received as consideration for loans to customers, which the Bank has taken over as a new owner as a result of an agreement between the borrower and the Bank.

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19. LOANS AND DEPOSITS FROM BANKS

	<u>31 December 2019</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
Loans from banks			
in Euro	226,689	78,445	101,905
in Kazakhstani tenge	138,557	-	-
in US dollars	88,283	30,554	7,348
Deposits from banks	44,796	68,810	47,448
Loans under repurchase agreements:			
in Euro	147,458	-	-
in Kazakhstani tenge	94,692	43,238	50,662
in Russian rouble	-	17,970	170,466
in Armenian dram	-	3,914	-
	<u>740,475</u>	<u>242,931</u>	<u>377,829</u>

The Bank has signed several loan agreements to receive financing from different international banks to fund its investment projects. Due to the terms of such agreements, the Bank shall comply with the covenants such as maintaining financial stability, non-payment clauses, cross-default, encumbrances, court proceedings and some others. As at 31 December 2019, 2018 and 2017 the Bank was in compliance with all covenants.

The Bank concludes repurchase agreement operations in order to: a) borrow Kazakhstani tenge funds from National Bank of Republic of Kazakhstan for project financing, and b) satisfy its need of Euro and Russian rouble liquidity.

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

	<u>31 December 2019</u>		<u>31 December 2018</u>		<u>31 December 2017</u>	
	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral
Eurobonds of the Russian Federation	112,325	116,240	17,970	25,496	-	-
Discount notes issued by National Bank of the Republic of Kazakhstan	94,692	97,621	-	-	-	-
US Treasuries	35,133	37,782	43,238	44,136	221,128	227,961
Eurobonds of the Republic of Armenia	-	-	3,914	4,052	-	-
Total loans under repurchase agreements	<u>242,150</u>	<u>251,643</u>	<u>65,122</u>	<u>73,684</u>	<u>221,128</u>	<u>227,961</u>

As at 31 December 2019, loans and deposits from banks included accrued interest payable amounting to 5,885 thousand US dollars (31 December 2018: 1,112 thousand US dollars; 31 December 2017: 7,468 thousand US dollars).

Maturities of amounts of loans and deposits from banks are included in Note 30 under liquidity risk.

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19. LOANS AND DEPOSITS FROM BANKS, CONTINUED

The reconciliation of loans from banks movement to cash flows arising from financing activities in 2019, 2018 and 2017 is as follows:

	<u>31 December 2018</u>	<u>Cash inflow</u>	<u>Cash outflow</u>	<u>Foreign exchange and interest accrued movement</u>	<u>31 December 2019</u>
Loans from banks	108,999	359,879	(20,920)	5,571	453,529
	<u>31 December 2017</u>	<u>Cash inflow</u>	<u>Cash outflow</u>	<u>Foreign exchange and interest accrued movement</u>	<u>31 December 2018</u>
Loans from banks	109,253	25,125	(21,021)	(4,358)	108,999
	<u>31 December 2016</u>	<u>Cash inflow</u>	<u>Cash outflow</u>	<u>Foreign exchange and interest accrued movement</u>	<u>31 December 2017</u>
Loans from banks	116,998	-	(22,329)	14,584	109,253

20. DEPOSITS FROM CUSTOMERS

	<u>31 December 2019</u>	<u>31 December 2018</u>
Current accounts:		
in Kazakhstani tenge	113,496	56,307
in US dollars	25,210	13,342
in Russian rouble	1,925	8
in Euro	516	-
Deposits from customers:		
in US dollars	104,099	82,669
in Russian rouble	31,582	-
in Kazakhstani tenge	20,515	24,819
in Euro	1	-
	<u>297,344</u>	<u>177,145</u>

During 2018, the Council of the Bank has adopted a strategy for the period from 2018 to 2022. In accordance with the strategy, the Bank has started to provide settlement and clearing services to its customers. As at 31 December 2019 and 2018, all deposits were from corporate customers based in the Russian Federation and the Republic of Kazakhstan.

The table below present the breakdown of the deposits from customers by counterparty:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Current accounts:		
state-owned companies	106,945	68,147
private companies	34,202	1,510
Deposits from customers:		
private companies	112,476	52,638
state-owned companies	43,721	54,850
	<u>297,344</u>	<u>177,145</u>

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21. DEBT SECURITIES ISSUED

				<u>31 December 2019</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
Debt securities issued and denominated in USD						
Issue series	Next put option date	Due date	Interest rate, %			
Series 03	-	Sep 2022	4.767	515,383	302,513	302,413
Series 05	-	Sep 2020	5.000	289,291	286,100	283,100
Total debt securities issued and denominated in USD				804,674	588,613	585,513
Debt securities issued and denominated in RUB						
Issue series	Next put option date	Due date	Interest rate, %			
Series 001P-01	Jan 2020	Jul 2028	7.600	166,248	148,627	-
Series 001P-05	-	Jun 2023	6.800	129,339	-	-
Series 001P-04	-	Jan 2023	8.000	83,386	-	-
Series 11	Aug 2021	Jan 2025	7.750	83,060	74,253	-
Series 001P-03	-	Mar 2021	8.600	82,595	-	-
Series 08	-	Oct 2020	8.200	82,061	73,345	88,239
Series 001P-02	-	May 2021	8.900	81,490	72,780	-
Series 06	-	Sep 2020	7.300	54,002	48,272	59,059
Series 002P-02	-	Feb 2020	6.150	48,389	-	-
Series 10	-	Jan 2023	12.250	34,044	30,436	36,588
Series 07	-	Sep 2020	8.750	28,254	25,243	22,253
Series 05	-	Jul 2020	7.800	16,038	22,042	26,569
Series 01	-	Jan 2019	9.300	-	3,325	3,995
Series 02	-	Feb 2019	8.300	-	2	3
Series 04	-	Feb 2018	8.100	-	-	9,214
Series 09	-	May 2021	7.800	-	-	7,936
Total debt securities issued and denominated in RUB				888,906	498,325	253,856
Debt securities issued and denominated in KZT						
Issue series	Next put option date	Due date	Interest rate, %			
Series 05, programme 1	-	Feb 2022	9.700	53,964	-	-
Series 10, programme 2	-	Oct 2020	9.400	53,314	53,516	61,186
Series 06, programme 2	-	Oct 2023	9.500	53,243	53,464	-
Series 03, programme 2	-	Nov 2022	9.700	52,920	53,133	-
Series 05, programme 2	-	May 2024	9.500	52,663	-	-
Series 09, programme 2	-	May 2024	9.500	52,663	-	-
Series 01, programme 2	-	Jun 2021	9.100	52,432	52,628	-
Series 02, programme 2	-	Jun 2021	9.100	52,431	52,628	-
Series 04, programme 2	-	May 2020	10.100	39,571	39,702	45,374
Series 11, programme 2	-	May 2024	9.500	26,331	-	-
Series 07, programme 2	-	Jun 2021	9.100	26,216	26,313	-
Series 03, programme 1	-	Aug 2019	7.200	-	53,890	61,655
Series 04, programme 1	-	Sep 2019	7.200	-	53,574	61,294
Series 02, programme 1	-	Apr 2018	6.000	-	-	98,790
Series 01, programme 1	-	Dec 2017	6.250	-	-	30,673
Total debt securities issued and denominated in KZT				515,748	438,848	358,972
Total debt securities issued				2,209,328	1,525,786	1,198,341

On 20 September 2012, the Bank issued international Eurobonds on the London Stock Exchange as part of its EMTN Programme for a total amount of 500,000 thousand US dollars with maturity date on 20 September 2022 (series 03). The Eurobonds bear an interest rate fixed at 4.767% per annum. During 2015 and 2016, the Bank partially repurchased bonds with a nominal amount of 201,031 thousand US dollars resulting in a net gain of 3,195 thousand US dollars. On 12 December 2019, the Bank made a secondary placement of these repurchased bonds for the nominal amount of 201,031 thousand US dollars, price of placement – 104.65%.

21. DEBT SECURITIES ISSUED, CONTINUED

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

On 24 July 2018, the Bank issued Russian rouble bonds (series 001P-01) listed on the Moscow Exchange for a total amount of 10,000 million Russian roubles with maturity date on 11 July 2028. In accordance with the terms of the issuance, the Russian rouble bonds bear an interest rate fixed at 7.60% per annum until 21 January 2020. After 21 January 2020 the interest rate will be determined by the Bank unilaterally. The bondholders are entitled to demand the redemption of the Russian rouble bonds on the put option date on 24 January 2020.

On 13 December 2019, the Bank issued Russian rouble bonds (series 001P-05) listed on the Moscow Exchange for a total amount of 8,000 million Russian roubles with maturity date on 9 June 2023. In accordance with the terms of the issuance, the Russian rouble bonds bear an interest rate fixed at 6.80% per annum until maturity date on 9 June 2023.

On 16 July 2019, the Bank issued Russian rouble bonds (series 001P-04) listed on the Moscow Exchange for a total amount of 5,000 million Russian roubles with maturity date on 10 January 2023. In accordance with the terms of the issuance, the Russian rouble bonds bear an interest rate fixed at 8.00% per annum until maturity date on 10 January 2023.

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

On 12 March 2019, the Bank issued Russian rouble bonds (series 001P-03) listed on the Moscow Exchange for a total amount of 5,000 million Russian roubles with maturity date on 9 March 2021. In accordance with the terms of the issuance, the Russian rouble bonds bear an interest rate fixed at 8.60% per annum until maturity date on 9 March 2021.

On 16 October 2013, the Bank issued Russian rouble bonds listed on the Moscow Exchange for a total amount of 5,000 million Russian roubles (series 08) with maturity date on 7 October 2020. In accordance with the terms of the issuance, the Russian rouble bonds bear an interest rate fixed at 7.65% per annum until 14 October 2015. After 14 October 2015, the Bank determined new interest rates of 8.00% per annum valid until 12 April 2017, and as a result of a put option exercise, the nominal value of bonds in circulation amounts to 60 million Russian roubles. After 12 April 2017, the Bank determined new interest rates of 8.00% per annum valid until 11 October 2017, and as a result of put option exercise, the nominal value of bonds in circulation amounts to 11 thousand Russian roubles. On 11 October 2017, the Bank made a secondary placement of these bonds for a total amount of 5,000 million Russian roubles with maturity date on 7 October 2020 and with interest rate fixed at 8.20% per annum.

On 9 November 2018, the Bank issued Russian rouble bonds (series 001P-02) listed on the Moscow Exchange for a total amount of 5,000 million Russian roubles with a maturity date on 07 May 2021. In accordance with the terms of the issuance, the Russian rouble bonds bear an interest rate fixed at 8.90% per annum until maturity date on 7 May 2021.

21. DEBT SECURITIES ISSUED, CONTINUED

On 2 October 2013, the Bank issued Russian rouble bonds listed on the Moscow Exchange for a total amount of 5,000 million Russian roubles (series 06) with maturity date on 23 September 2020. In accordance with the terms of the issuance, the Russian rouble bonds bear an interest rate fixed at 7.85% per annum until 28 September 2016. After 28 September 2016, the Bank determined new interest rates of 9.50% per annum valid until 28 March 2018, and as a result of put option exercise, the nominal value of bonds in circulation amounts to 3,330 million Russian roubles. After 28 March 2018, the Bank determined new interest rates of 7.30% per annum valid until maturity date on 23 September 2020, and as a result of put option exercise, the nominal value of bonds in circulation amounts to 3,290 million Russian roubles.

On 26 December 2019, the Bank issued short-term Russian rouble bonds (series 002P-02) listed on the Moscow Exchange for a total amount of 3,000 million Russian roubles with maturity date on 26 February 2020. In accordance with the terms of the issuance, the Russian rouble bonds bear an interest rate fixed at 6.15% per annum until maturity date on 26 February 2020.

On 19 January 2016, the Bank issued Russian rouble bonds (series 10) listed on the Moscow Exchange for a total amount of 2,000 million Russian roubles with maturity date on 10 January 2023 and with interest rate fixed at 12.25% per annum.

On 2 October 2013, the Bank issued Russian rouble bonds listed on the Moscow Exchange for a total amount of 5,000 million Russian roubles (series 07) with a maturity date on 23 September 2020. In accordance with the terms of the issuance, the Russian rouble bonds bear an interest rate fixed at 7.85% per annum until 28 September 2016. After 28 September 2016, the Bank determined new interest rates of 9.35% per annum valid until 26 September 2018, and as a result of put option exercise, the nominal value of bonds in circulation amounts to 1,250 million Russian roubles. After 26 September 2018, the Bank determined new interest rates of 8.75% per annum valid until maturity date on 23 September 2020, and as a result of put option exercise, the nominal value of bonds in circulation amounts to 1,010 million Russian roubles. On 25 December 2018, the Bank made a secondary placement of these bonds for a total amount of 700 million Russian roubles.

On 24 July 2013, the Bank issued Russian rouble bonds (series 05) listed on the Moscow Exchange for a total amount of 5,000 million Russian roubles with maturity date on 15 July 2020. In accordance with the terms of the issuance, the Russian rouble bonds bear an interest rate fixed at 7.70% per annum until 22 July 2015. After 22 July 2015, the Bank determined the new interest rate at 8.00% per annum, and as a result of put option exercise all bonds were bought out. On 23 September 2016, the Bank made a secondary placement of these bonds for the amount of 1,460 million Russian roubles with the interest rate at 9.50% per annum valid until 17 July 2019. After 17 July 2019, the interest rate will be determined by the Bank unilaterally. After 17 July 2019, the Bank determined new interest rates of 7.80% per annum valid until maturity date on 15 July 2020, and as a result of put option exercise, the nominal value of bonds in circulation amounts to 959 million Russian roubles.

On 22 February 2019, the Bank issued tenge bonds listed on the Kazakhstan Stock Exchange for a total amount of 20,000 million tenge with maturity date on 22 February 2022 (programme 1 series 05). In accordance with the terms of the issuance, the tenge bonds bear an interest rate fixed at 9.70% per annum.

On 10 October 2017, the Bank issued tenge bonds listed on the Kazakhstan Stock Exchange for a total amount of 20,000 million tenge with maturity date on 10 October 2020 (programme 2 series 10). In accordance with the terms of the issuance, the tenge bonds bear an interest rate fixed at 9.40% per annum.

21. DEBT SECURITIES ISSUED, CONTINUED

On 11 October 2018, the Bank issued tenge bonds listed on the Kazakhstan Stock Exchange for a total amount of 20,000 million tenge with maturity date on 11 October 2023 (programme 2 series 06). In accordance with the terms of the issuance, the tenge bonds bear an interest rate fixed at 9.50% per annum.

On 6 November 2018, the Bank issued tenge bonds listed on the Kazakhstan Stock Exchange for a total amount of 20,000 million tenge with maturity date on 6 November 2022 (programme 2 series 03). In accordance with the terms of the issuance, the tenge bonds bear an interest rate fixed at 9.70% per annum.

On 27 May 2019, the Bank issued tenge bonds listed on the Kazakhstan Stock Exchange for a total amount of 20,000 million tenge with maturity date on 27 May 2024 (programme 2 series 05). In accordance with the terms of the issuance, the tenge bonds bear an interest rate fixed at 9.50% per annum.

On 27 May 2019, the Bank issued tenge bonds listed on the Kazakhstan Stock Exchange for a total amount of 20,000 million tenge with maturity date on 27 May 2024 (programme 2 series 09). In accordance with the terms of the issuance, the tenge bonds bear an interest rate fixed at 9.50% per annum.

On 12 June 2018, the Bank issued tenge bonds listed on the Kazakhstan Stock Exchange for a total amount of 20,000 million tenge with maturity date on 12 June 2021 (programme 2 series 01). In accordance with the terms of the issuance, the tenge bonds bear an interest rate fixed at 9.10% per annum.

On 12 June 2018, the Bank issued tenge bonds listed on the Kazakhstan Stock Exchange for a total amount of 20,000 million tenge with maturity date on 12 June 2021 (programme 2 series 02). In accordance with the terms of the issuance, the tenge bonds bear an interest rate fixed at 9.10% per annum.

On 24 May 2017, the Bank issued tenge bonds listed on the Kazakhstan Stock Exchange for a total amount of 15,000 million tenge with maturity date on 24 May 2020 (programme 2 series 04). In accordance with the terms of the issuance, the tenge bonds bear an interest rate fixed at 10.10% per annum.

On 27 May 2019, the Bank issued tenge bonds listed on the Kazakhstan Stock Exchange for a total amount of 10,000 million tenge with maturity date on 27 May 2024 (programme 2 series 11). In accordance with the terms of the issuance, the tenge bonds bear an interest rate fixed at 9.50% per annum.

On 12 June 2018, the Bank issued tenge bonds listed on the Kazakhstan Stock Exchange for a total amount of 10,000 million tenge with maturity date on 12 June 2021 (programme 2 series 07). In accordance with the terms of the issuance, the tenge bonds bear an interest rate fixed at 9.10% per annum.

As at 31 December 2019, debt securities issued included accrued interest payable amounting to 37,392 thousand US dollars (31 December 2018: 27,522 thousand US dollars; 31 December 2017: 24,004 thousand US dollars).

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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21. DEBT SECURITIES ISSUED, CONTINUED

The reconciliation of debt securities issued movement to cash flows arising from financing activities in 2019, 2018 and 2017 is as follows:

	<u>31 December 2018</u>	<u>Cash inflow</u>	<u>Cash outflow</u>	<u>Foreign exchange and interest accrued movement</u>	<u>31 December 2019</u>
Debt securities issued	1,525,786	775,557	(164,129)	72,114	2,209,328
	<u>31 December 2017</u>	<u>Cash inflow</u>	<u>Cash outflow</u>	<u>Foreign exchange and interest accrued movement</u>	<u>31 December 2018</u>
Debt securities issued	1,198,341	587,991	(147,888)	(112,658)	1,525,786
	<u>31 December 2016</u>	<u>Cash inflow</u>	<u>Cash outflow</u>	<u>Foreign exchange and interest accrued movement</u>	<u>31 December 2017</u>
Debt securities issued	1,156,129	190,168	(172,586)	24,630	1,198,341

22. OTHER LIABILITIES

	<u>31 December 2019</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
Other financial liabilities:			
Lease liabilities	6,967	-	-
Receivables for loans	2,730	2,720	1,762
Prepayments and accrued expenses	157	47	35
	9,854	2,767	1,797
Other non-financial liabilities:			
Defined contribution plans: Retirement savings plan	16,751	13,471	13,547
Short-term payments to employees	7,166	6,177	7,752
Expected credit loss provisions on contingent liabilities	720	8	-
Accrued administrative expenses	558	351	501
Other	1	-	15
	25,196	20,007	21,815
Total other liabilities	35,050	22,774	23,612

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

EURASIAN DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019 *(in thousands of US dollars)*

22. OTHER LIABILITIES, CONTINUED

The Bank's liabilities on retirement savings are estimated using time and interest discount factors. As at 31 December 2019, the reconciliation between nominal amount and carrying amount is as follows:

Nominal amount	Time discount factor*	Interest discount factor**	Carrying amount
17,582	3.39 years	1.582%	16,751

* Time discount factor is estimated as a half of an average term of employment

** interest discount factor is equal to US dollar mid-swap interest rate at time discount factor.

23. SHARE CAPITAL

	31 December 2019, 2018 and 2017		
	Authorised share capital	Callable share capital	Paid-in share capital
The Russian Federation	4,617,900	(3,617,900)	1,000,000
The Republic of Kazakhstan	2,309,300	(1,809,300)	500,000
The Republic of Belarus	69,300	(54,300)	15,000
The Republic of Tajikistan	2,100	(1,600)	500
The Republic of Armenia	700	(600)	100
The Kyrgyz Republic	700	(600)	100
	7,000,000	(5,484,300)	1,515,700

As at 31 December 2019, 2018 and 2017, the authorised share capital consists of 7,000,000 common shares with a nominal value of 1,000 US dollars each. One paid-in share represents one voting right.

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

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

As at 31 December 2019 and 2018, the Reserve fund of the Bank was equal to 111,732 thousand US dollars (31 December 2017: 90,872 thousand US dollars). In 2018, a transfer of 20,860 thousand US dollars from retained earnings to reserve fund was done (2019 and 2017: no transfers).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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24. TECHNICAL ASSISTANCE FUND RESERVE

	31 December 2019
Technical Assistance Fund reserve	19,133

The purpose of Technical Assistance Fund (“the TAF”) is to effectively assist to strategic objective of the Bank via financing events aimed for preparation and implementation of investment projects, supporting programs of regional integration, carrying out cross-state, interstate, industrial and innovation researches aimed at economic growth, development of market economies, expansion of mutual trade between Member states and other measures related to the mission of the Bank.

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

In May 2019, the Council of the Bank has decided to separate TAF reserve as an individual part of the equity of the Bank via transferring funds from retained earnings.

25. CAPITAL RISK MANAGEMENT

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

The objective of the Bank’s share capital is to cover potential losses from its operations. In accordance with the Bank’s internal policies, the equity should exceed 16% of the sum of credit, market and operational risks, estimated as per the Basel II Standardized approach. As at 31 December 2019, 2018 and 2017, the Bank was in compliance with its internal policy requirements. The Bank is not a subject of local banking regulation in Member-states.

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 Management 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.

Please see financial ratios set by the Bank Council in Note 30 (g).

26. 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.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019 *(in thousands of US dollars)*

26. COMMITMENTS AND CONTINGENCIES, CONTINUED

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 2019, 2018 and 2017, the nominal or contractual amounts are:

	31 December 2019 Nominal amount	31 December 2018 Nominal amount	31 December 2017 Nominal amount
Commitments on loans and unused credit lines	1,275,796	1,244,532	637,085
Guarantees and letters of credit issued	185,604	1,021	-
Commitments to join private equity funds	3,995	15,724	16,314
	<u>1,465,395</u>	<u>1,261,277</u>	<u>653,399</u>
Less expected credit loss provisions	(720)	(8)	-
Total contingent liabilities and credit commitments	<u>1,464,675</u>	<u>1,261,269</u>	<u>653,399</u>

The Bank doesn't create an allowance for expected credit losses on commitments on loans and unused credit lines because there are no automatic issues within the loan commitments of the Bank. Whenever the Bank receives a request from a customer for a new loan tranche within unused credit lines, it is reviewed each time on an individual and independent basis. The procedure of issuing new tranches includes an updated review of current financial position of a customer by credit risk, compliance and law departments of the Bank and is similar to the procedure of initial approval of credit line. As the Bank on a regular basis declines part of the requests for new tranches, the Bank considers that the issue of new loan tranches within its commitments is debatable, and makes an allowance for expected credit losses only after transfer of funds to the borrower.

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 2019 (Note 12).

Capital commitments

As at 31 December 2019, 2018 and 2017, the Bank had no capital commitments.

Fiduciary activities

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

As at 31 December 2019 the amount of assets of the Fund was 3,830,251 thousand US dollars (31 December 2018: 3,686,540 thousand US dollars; 31 December 2017: 3,611,189 thousand US dollars).

The Bank is not answerable with its own property under obligations it has entered into on behalf of Fund Members within the scope of carrying out Fund operations, except in cases when by entering into such obligations the Bank has violated the provisions of Fund Documents.

26. COMMITMENTS AND CONTINGENCIES, CONTINUED

Insurance

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

Litigations

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.

27. 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. The Bank decided not to apply the exemption from disclosure of individually insignificant transactions and balances with the government and parties that are related to the entity because the member countries has control, joint control or significant influence over such party.

(a) Transactions with key management

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

	Year ended 31 December 2019		Year ended 31 December 2018		Year ended 31 December 2017	
	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
Salary expenses and other compensation costs	6,360	26,478	4,255	18,522	4,050	20,522
Retirement savings plan expenses	605	3,565	407	2,519	401	2,503
Accommodation costs of employees	60	1,353	78	1,010	91	1,044
Staff costs and other payments to employees	7,025	31,396	4,740	22,051	4,542	24,069

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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27. TRANSACTIONS WITH RELATED PARTIES, CONTINUED

(a) Transactions with key management, continued

The outstanding balances as at 31 December 2019, 2018 and 2017 for transactions with the key management personnel are as follows:

Statement of Financial Position	31 December 2019	31 December 2018	31 December 2017
Other non-financial liabilities	3,613	1,543	1,569
Retirement savings	1,541	851	945

(b) Transactions with other related parties

According to IAS 24 “Related Party Disclosures” other related parties of the Bank comprise the Russian Federation and the Republic of Kazakhstan, national companies and other organisations controlled by these Member states, and the Eurasian Fund for Stabilisation and Development. Russian Federation and Republic of Kazakhstan have significant influence over the Bank. At the same time Russian Federation and Republic of Kazakhstan have control over companies, which are related parties of the Bank.

The Bank did not use the exemption on disclosure of government related entities.

The outstanding balances and the related average interest rates as at 31 December 2019, 2018 and 2017 and related profit or loss amounts of transactions for the years ended 31 December 2019, 2018 and 2017 with other related parties are as follows:

Statement of financial position	31 December 2019	31 December 2018	31 December 2017
ASSETS			
Cash and cash equivalents:			
in US dollars	2,218	1,155	145
in Russian rouble	220,878	13	81,917
in Kazakhstani tenge	16,714	284	231
in Euro	39,506	23,362	-
in other currencies	66	22	46
less expected credit losses	(18)	(2)	-
Financial assets at fair value through profit or loss:			
in US dollars	2,308	291	-
in Russian rouble	451	-	-
Loans and advances to banks:			
in US dollars	1,151	705	-
in Kazakhstani tenge	25,839	26,246	30,423
in Euro	38,839	22,390	-
less expected credit losses	(448)	(43)	-
Loans to customers:			
in US dollars	227,000	256,306	169,801
in Russian rouble	239,337	214,150	190,719
in Kazakhstani tenge	164,774	145,041	163,754
in Euro	266,573	223,012	-
less expected credit losses	(7,482)	(6,061)	-
Financial assets at fair value through other comprehensive income (2017: available-for-sale):			
in US dollars	336,411	396,537	409,430
in Russian rouble	106,710	134,491	33,705
in Kazakhstani tenge	513,852	91,755	37,532
in other currencies	-	-	252,159
less expected credit losses	(1,929)	(1,410)	-
Other assets:			
in US dollars	8,765	1,438	1,242
in Russian rouble	13	80	2

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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27. TRANSACTIONS WITH RELATED PARTIES, CONTINUED

(b) Transactions with other related parties, continued

	As at and for the year ended 31 December 2019	As at and for the year ended 31 December 2018	As at and for the year ended 31 December 2017
Statement of financial position			
LIABILITIES			
Loans and deposits from banks:			
in US dollars	25,000	-	-
in Russian rouble	8	21,202	-
in Kazakhstani tenge	138,558	43,238	50,662
in Euro	101,003	-	-
Financial liabilities at fair value through profit or loss:			
in US dollars	4,646	1,027	-
in Kazakhstani tenge	786	-	-
Deposits from customers:			
in US dollars	57,887	8	-
in Kazakhstani tenge	92,779	-	-
Hedge instruments:			
in US dollars	632	-	-
Debt securities issued:			
in Russian rouble	442,819	227,394	106,008
in Kazakhstani tenge	301,400	260,250	265,092
Other liabilities:			
in US dollars	793	168	177
in Russian rouble	678	22	-
in Kazakhstani tenge	91	10	-
in Euro	216	-	-
Guarantees received:			
in US dollars	265,978	193,338	193,674
in Russian rouble	25,563	87,620	25,972
in Kazakhstani tenge	89,192	98,613	133,648
Commitments:			
in US dollars	167,699	115,687	53,948
in Russian rouble	174,649	160,322	-
in Kazakhstani tenge	48,107	3,335	-
in Euro	86,416	144,410	-
Statement of profit or loss			
Interest income calculated using the effective interest method	134,351	94,586	84,381
Interest expense	(77,572)	(35,800)	(37,903)
Provision for expected credit losses (2017: impairment losses) on interest bearing assets	(1,708)	(6,000)	51
Provision for expected credit losses on contingent liabilities and other assets (2017: provision for impairment losses on other assets)	(5)	-	-
Net loss from modification and recognition of new financial instruments	(1,072)	(54)	-
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	(7,667)	5,888	(750)
Net realised (loss)/gain on financial assets at fair value through other comprehensive income	(265)	(1,950)	2,607
Net gain/(loss) on transactions in foreign currencies	4,721	(16,526)	34,878
Fee and commission income	7,563	4,056	3,892
Fee and commission expense	(153)	(22)	(5)
Other income	-	38	6

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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28. SEGMENT REPORTING

Segment performance

Segment information for the geographical segments of the Bank as at and for the year ended 31 December 2019 is set out below:

	Russia	Kazakhstan	Belarus	Other Member states	Non- member states	Total
Interest income calculated using the effective interest method	115,370	106,086	13,405	2,942	27,225	265,028
Interest expense	(52,588)	(74,924)	(13)	(2)	(41,170)	(168,697)
(Provision)/recovery for expected credit losses on interest bearing assets	(4,745)	2,070	(2,429)	(1,058)	(32)	(6,194)
Losses from equity securities at fair value through profit or loss	(197)	-	-	-	-	(197)
(Provision)/recovery for expected credit losses on contingent liabilities and other assets	(691)	89	-	-	-	(602)
Net loss from modification and recognition of new financial instruments	(688)	(2,748)	-	-	-	(3,436)
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	110	(8,961)	(381)	30	(26,415)	(35,617)
Net realised gain on financial assets at fair value through other comprehensive income	93	364	-	-	89	546
Net gain/(loss) on transactions in foreign currencies	30,873	27,600	(4)	(8)	(5,387)	53,074
Fee and commission income	8,155	465	40	15	50	8,725
Fee and commission expense	(233)	(83)	(5)	(6)	(128)	(455)
Net gain on trading with debt securities issued	24	-	-	-	-	24
Other income	2	44	-	-	-	46
Net result from financial operations	95,485	50,002	10,613	1,913	(45,768)	112,245
Cash and cash equivalents	345,908	19,825	13,580	146	385,685	765,144
Financial assets at fair value through profit or loss	6,567	2,759	-	30	661	10,017
Loans and advances to banks	78,495	60,505	84,204	43,094	-	266,298
Loans to customers	1,044,024	704,256	192,589	19,135	-	1,960,004
Financial assets at fair value through other comprehensive income	463,513	591,370	15,359	15,567	1,020,490	2,106,299
Investments in associates	20,131	-	-	-	-	20,131
Property, equipment and intangible assets	462	11,518	13	64	-	12,057
Other assets	8,072	2,480	124	471	9,667	20,814
Total assets	1,967,172	1,392,713	305,869	78,507	1,416,503	5,160,764
Total liabilities	1,139,959	997,061	174	5,288	1,168,286	3,310,768
Contingent liabilities and credit commitments, gross	703,801	521,443	156,290	83,861	-	1,465,395
Capital expenditure	260	737	14	21	-	1,032
Depreciation and amortisation	182	1,072	3	21	-	1,278

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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28. SEGMENT REPORTING, CONTINUED

Segment performance, continued

Segment information for the geographical segments of the Bank as at and for the year ended 31 December 2018 is set out below:

	Russia	Kazakhstan	Belarus	Other Member states	Non- member states	Total
Interest income calculated using the effective interest method	90,288	92,191	16,681	2,574	9,304	211,038
Interest expense	(32,004)	(34,744)	-	(7)	(48,124)	(114,879)
(Provision)/recovery for expected credit losses on interest bearing assets	(5,755)	(9,015)	9,000	(1,058)	4	(6,824)
Losses from equity securities at fair value through profit or loss	(3,303)	-	-	-	-	(3,303)
Provision for expected credit losses on contingent liabilities and other assets	(79)	-	-	-	-	(79)
Net loss from modification and recognition of new financial instruments	-	(425)	-	(54)	-	(479)
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	9,485	1,357	-	(301)	20,861	31,402
Net realised (loss)/gain on financial assets at fair value through other comprehensive income	(1,821)	14	-	(11)	(98)	(1,916)
Net (loss)/gain on transactions in foreign currencies	(12,041)	5,342	(3)	(4)	(13,916)	(20,622)
Fee and commission income	4,120	140	10	-	80	4,350
Fee and commission expense	(390)	(47)	-	(3)	(144)	(584)
Net loss on trading with debt securities issued	(8)	-	-	-	-	(8)
Other income	4	398	125	4	-	531
Net result from financial operations	48,496	55,211	25,813	1,140	(32,033)	98,627
Cash and cash equivalents	420,943	41,601	128	196	178,302	641,170
Financial assets at fair value through profit or loss	17,169	-	-	-	-	17,169
Loans and advances to banks	67,912	49,212	74,536	53,850	-	245,510
Loans to customers	834,539	675,607	138,826	1,318	-	1,650,290
Financial assets at fair value through other comprehensive income	525,153	187,405	-	4,111	422,672	1,139,341
Hedge instruments	-	-	-	-	86	86
Property, equipment and intangible assets	385	11,851	2	66	-	12,304
Other assets	2,687	1,667	25	28	189	4,596
Total assets	1,868,788	967,343	213,517	59,569	601,249	3,710,466
Total liabilities	530,192	718,674	11	4,009	719,600	1,972,486
Contingent liabilities and credit commitments, gross	632,176	368,307	99,987	160,807	-	1,261,277
Capital expenditure	337	1,166	-	63	-	1,566
Depreciation and amortisation	176	1,002	2	13	-	1,193

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28. SEGMENT REPORTING, CONTINUED

Segment performance, continued

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

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

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28. SEGMENT REPORTING, CONTINUED

Segment performance, continued

The Bank operates in the Russian Federation, the Republic of Kazakhstan, the Republic of Belarus and other countries. In presenting geographical information the allocation of revenue is based on the geographical location of customers and assets. Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The functions of the CODM are performed by the Management Board of the Bank.

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.

There are no intersegment revenues. Information on major customers is disclosed in Note 15.

The table below provides a reconciliation between the amounts of net result from financial operations disclosed in segment performance tables and net profit of the Bank:

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Net result from financial operations	112,245	98,627	75,277
Operating expenses	(43,023)	(32,026)	(33,392)
Technical Assistance Fund expenses, net	(245)	(156)	(165)
Net profit	68,977	66,445	41,720

For the year ended 31 December 2019, 2018 and 2017, there were no loans to customers with interest income exceeding 10% of total interest income.

The Bank also allocates assets and liabilities in investment and treasury portfolios, which is another segment reporting form. Refer to Note 30 (b) (iii).

29. 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(b) (i). 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.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED**(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 observable information 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. For inputs and sensitivities refer to Note 16.

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

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

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29. FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

(b) Valuation of financial instruments, continued

The table below analyses financial instruments measured at fair value at 31 December 2019, 2018 and 2017, 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 2019 Total
Financial assets at fair value through profit or loss:				
derivatives	-	3,450	-	3,450
equity instruments	-	-	6,567	6,567
Financial assets at fair value through other comprehensive income:				
debt instruments in Treasury portfolio	964,121	549,839	-	1,513,960
debt instruments in Investment portfolio	-	592,334	5	592,339
Financial liabilities at fair value through profit or loss:				
derivatives	-	(26,955)	-	(26,955)
Hedge instruments	-	(1,616)	-	(1,616)
				As at 31 December 2018 Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss:				
derivatives	-	291	-	291
equity instruments	-	-	16,878	16,878
Financial assets at fair value through other comprehensive income:				
debt instruments in Treasury portfolio	620,096	292,402	-	912,498
debt instruments in Investment portfolio	-	226,840	3	226,843
Hedge instruments	-	86	-	86
Financial liabilities at fair value through profit or loss:				
derivatives	-	(3,329)	-	(3,329)
Hedge instruments	-	(521)	-	(521)
				As at 31 December 2017 Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss:				
derivatives	-	135	-	135
Financial assets available-for-sale:				
debt instruments in Treasury portfolio	807,101	668,802	-	1,475,903
debt instruments in Investment portfolio	-	104,547	415	104,962
equity instruments	-	-	19,814	19,814
Financial liabilities at fair value through profit or loss:				
derivatives	-	(11,072)	-	(11,072)

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29. FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

(b) Valuation of financial instruments, continued

The following table shows reconciliation for the years ended 31 December 2019, 2018 and 2017 for fair value measurements in Level 3 of the fair value hierarchy:

	Level 3		
	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Financial assets at fair value through profit or loss			
Balance at beginning of the year	16,878	-	-
Transfer from financial assets at fair value through other comprehensive income on adoption of IFRS 9 (refer to Note 12)	-	19,814	-
(Redemption)/purchase of new instruments, net	(10,076)	539	-
Interest income received	(38)	(172)	-
Losses less gains from equity securities at fair value through profit or loss	(197)	(3,303)	-
Balance at end of the year	6,567	16,878	-
Financial assets at fair value through other comprehensive income (2017: available-for-sale)			
Balance at the beginning of the year	3	20,229	21,392
Transfer to financial assets at fair value through profit or loss category on adoption of IFRS 9 (refer to Note 12)	-	(19,814)	-
Purchase of new instruments, net	-	-	543
Effect of IFRS 9 adoption	-	(253)	-
Interest income accrued	2	-	-
Impairment loss	-	(71)	(1,706)
Revaluation	-	(88)	-
Balance at end of the year	5	3	20,229

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

The Bank believes that the carrying amount of loans to customers and loans and advances to banks represents their fair value. The Bank is a development financial organization and, thus, most of the loans are unique and interest rates are specific for each project. The Bank and its customers have contractual rights to review interest rates according to changes on financial markets. Due to such changes in market environment (not credit-related) some of the financial instruments of the Bank had changes in interest rate and/or were modified.

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29. FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

(b) Valuation of financial instruments, continued

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 2019, 2018 and 2017.

	Level 1	Level 2	Level 3	As at 31 December 2019	
				Total fair value	Total carrying amount
Financial assets					
<i>Cash and cash equivalents</i>					
Cash and balances with national (central) banks of Member states of the Bank	-	-	499	499	499
Correspondent accounts with other banks	-	-	29,553	29,553	29,553
Term deposits in other banks	-	-	478,709	478,709	478,709
Loans under reverse repurchase agreements	-	285,450	-	285,450	256,383
Total cash and cash equivalents	-	285,450	508,761	794,211	765,144
<i>Loans and advances to banks</i>					
Loans to banks	-	-	231,613	231,613	231,613
Loans under reverse repurchase agreements	-	-	34,685	34,685	34,685
Total loans and advances to banks	-	-	266,298	266,298	266,298
<i>Loans to customers</i>			1,960,004	1,960,004	1,960,004
<i>Other financial assets</i>	-	-	10,868	10,868	10,868
Financial liabilities					
<i>Loans and deposits from banks</i>					
Deposits from banks	-	-	44,796	44,796	44,796
Loans from banks	-	-	453,529	453,529	453,529
Loans under repurchase agreements:					
in Euro	-	-	147,458	147,458	147,458
in Kazakhstani tenge	-	-	94,692	94,692	94,692
Total loans and deposits from banks	-	-	740,475	740,475	740,475
<i>Deposits from customers</i>					
Current accounts:					
in Kazakhstani tenge	-	-	113,496	113,496	113,496
in US dollars	-	-	25,210	25,210	25,210
in Russian rouble	-	-	1,925	1,925	1,925
in Euro	-	-	516	516	516
Deposits from customers:					
in US dollars	-	-	104,099	104,099	104,099
in Russian rouble	-	-	31,582	31,582	31,582
in Kazakhstani tenge	-	-	20,515	20,515	20,515
in Euro	-	-	1	1	1
Deposits from customers	-	-	297,344	297,344	297,344
<i>Debt securities issued</i>					
in US dollars	-	826,944	-	826,944	804,674
in Russian rouble	-	882,283	-	882,283	888,906
in Kazakhstani tenge	-	516,190	-	516,190	515,748
Total debt securities issued	-	2,225,417	-	2,225,417	2,209,328
<i>Other financial liabilities</i>	-	-	9,854	9,854	9,854

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29. FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

(b) Valuation of financial instruments, continued

	Level 1	Level 2	Level 3	As at 31 December 2018	
				Total fair value	Total carrying amount
Financial assets					
<i>Cash and cash equivalents</i>					
Cash and balances with national (central) banks					
of Member states of the Bank	-	-	540	540	540
Correspondent accounts with other banks	-	-	36,779	36,779	36,779
Term deposits in other banks	-	-	166,922	166,922	166,922
Loans under reverse repurchase agreements	-	476,799	-	476,799	436,929
Total cash and cash equivalents	-	476,799	204,241	681,040	641,170
<i>Loans and advances to banks</i>					
Loans to banks	-	-	222,510	222,510	222,510
Loans under reverse repurchase agreements	-	-	23,000	23,000	23,000
Total loans and advances to banks	-	-	245,510	245,510	245,510
Loans to customers			1,650,290	1,650,290	1,650,290
Other financial assets	-	-	2,842	2,842	2,842
Financial liabilities					
<i>Loans and deposits from banks</i>					
Deposits from banks	-	-	68,810	68,810	68,810
Loans from banks	-	-	108,999	108,999	108,999
Loans under repurchase agreements:					
in Russian rouble	-	-	17,970	17,970	17,970
in Kazakhstani tenge	-	-	43,238	43,238	43,238
in Armenian dram	-	-	3,914	3,914	3,914
Total loans and deposits from banks	-	-	242,931	242,931	242,931
<i>Deposits from customers</i>					
Current accounts:					
in US dollars	-	-	13,342	13,342	13,342
in Kazakhstani tenge	-	-	56,307	56,307	56,307
in Russian rouble	-	-	8	8	8
Deposits from customers:					
in US dollars	-	-	82,669	82,669	82,669
in Kazakhstani tenge	-	-	24,819	24,819	24,819
Deposits from customers	-	-	177,145	177,145	177,145
<i>Debt securities issued</i>					
in US dollars	-	596,412	-	596,412	588,613
in Russian rouble	-	494,710	-	494,710	498,325
in Kazakhstani tenge	-	438,335	-	438,335	438,848
Total debt securities issued	-	1,529,457	-	1,529,457	1,525,786
Other financial liabilities	-	-	2,767	2,767	2,767

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29. FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

(b) Valuation of financial instrument, continued

	Level 1	Level 2	Level 3	As at 31 December 2017	
				Total fair value	Total carrying amount
Financial assets					
<i>Cash and cash equivalents</i>					
Cash and balances with national (central) banks of Member states of the Bank	-	-	458	458	458
Correspondent accounts with other banks	-	-	26,297	26,297	26,297
Term deposits in other banks	-	-	132,766	132,766	132,766
Loans under reverse repurchase agreements	-	8,033	-	8,033	7,849
Total cash and cash equivalents	-	8,033	159,521	167,554	167,370
<i>Loans and advances to banks</i>					
Loans to banks	-	-	157,225	157,225	157,225
Loans under reverse repurchase agreements	-	-	34,577	34,577	34,340
Total loans and advances to banks	-	-	191,802	191,802	191,565
<i>Loans to customers</i>			1,344,265	1,344,265	1,344,265
<i>Other financial assets</i>	-	-	3,099	3,099	3,099
Financial liabilities					
<i>Loans and deposits from banks</i>					
Deposits from banks	-	-	47,448	47,448	47,448
Loans from banks	-	-	109,253	109,253	109,253
Loans under repurchase agreements:					
in Russian rouble	-	-	170,466	170,466	170,466
in Kazakhstani tenge	-	-	50,662	50,662	50,662
Total loans and deposits from banks	-	-	377,829	377,829	377,829
<i>Debt securities issued</i>					
in US dollars	-	629,147	-	629,147	585,513
in Russian rouble	-	256,201	-	256,201	253,856
in Kazakhstani tenge	-	353,892	-	353,892	358,972
Total debt securities issued	-	1,239,240	-	1,239,240	1,198,341
<i>Other financial liabilities</i>	-	-	1,797	1,797	1,797

30. 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 Management Board, (iii) the Assets and Liabilities Management Committee ("ALMC"), (iv) the Credit Committee, (v) the Credit and risk management department, (vi) Assets and liabilities management division, which together are responsible for devising and implementing the Bank's risk management policies, including financial, credit and market risks. The basic credit policy of the Bank is set out in, and governed by, the Charter, also the Bank has adopted a regulation concerning its future investment activities (the "Investment Regulations"), a key policy and strategic document of the Bank, which allows it to manage its credit risks. Other internal guidelines to manage risks are contained in the internal guidelines regulation. For changes in risk management procedures related to implementation of IFRS 9, refer to Note 3 (o), (p).

(i) The Council

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

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

(ii) The Management Board

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

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

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

(v) Credit and risk management department

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

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

(vi) Assets and liabilities management division

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

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

30. RISK MANAGEMENT POLICIES, CONTINUED

(b) Credit risk

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

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

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

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

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

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

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

- project risks;
- currency and interest rate risks;
- market and industry risks;
- operational risks;
- country 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.

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

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

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

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

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

(ii) Credit risk in the treasury portfolio

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

The above restriction does not apply to (i) government securities of the Member States having a long-term credit rating of not less than BBB-\Baa3\BBB- or the equivalent assigned by Fitch Ratings \ Moody's Investors Service \ S&P Global Ratings, respectively; (ii) government securities of other countries having a long-term credit rating not less than AA-\Aa3\AA- or the equivalent assigned by Fitch Ratings \ Moody's Investors Service \ S&P Global Ratings, respectively; and (iii) securities issued by international financial organisations having a long-term credit rating not less than AA-\Aa3\AA- or the equivalent assigned by Fitch Ratings \ Moody's Investors Service \ S&P Global Ratings, respectively.

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

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

(iii) Assets allocation in portfolios

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

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

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

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30. RISK MANAGEMENT POLICIES, CONTINUED

(b) Credit risk, continued

(iii) Assets allocation in portfolios, continued

Information regarding each portfolio is included below:

	Current investment portfolio	Treasury Portfolio	Unallocated*	31 December 2019 Total
Cash and cash equivalents	-	765,144	-	765,144
Financial assets at fair value through profit or loss	6,567	3,450	-	10,017
Loans and advances to banks	232,334	34,685	(721)	266,298
Loans to customers	2,031,401	-	(71,397)	1,960,004
Financial assets at fair value through other comprehensive income	566,283	1,513,960	26,056	2,106,299
Investments in associates	20,131	-	-	20,131
Property, equipment and intangible assets	-	-	12,057	12,057
Other assets	-	-	20,814	20,814
Total assets	2,856,716	2,317,239	(13,191)	5,160,764
Total liabilities	-	315,517	2,995,251	3,310,768
Contingent liabilities and credit commitments, gross	1,465,395	-	-	1,465,395
Total current investment portfolio	4,322,111			

*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 2018 Total
Cash and cash equivalents	-	641,170	-	641,170
Financial assets at fair value through profit or loss	16,878	291	-	17,169
Loans and advances to banks	223,479	23,000	(969)	245,510
Loans to customers	1,714,385	-	(64,095)	1,650,290
Financial assets at fair value through other comprehensive income	225,925	912,498	918	1,139,341
Hedge instrument	-	86	-	86
Property, equipment and intangible assets	-	-	12,304	12,304
Other assets	-	-	4,596	4,596
Total assets	2,180,667	1,577,045	(47,246)	3,710,466
Total liabilities	-	137,868	1,834,618	1,972,486
Contingent liabilities and credit commitments, gross	1,261,277	-	-	1,261,277
Total current investment portfolio	3,441,944			

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30. RISK MANAGEMENT POLICIES, CONTINUED

(b) Credit risk, continued

(iii) Assets allocation in portfolios, continued

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

(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 Agreements. 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.

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30. RISK MANAGEMENT POLICIES, CONTINUED

(b) Credit risk, continued

(iv) Offsetting financial assets and financial liabilities, continued

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.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2019:

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Net and gross amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position	Net amount
			Financial instruments/collateral received	
Derivative assets	3,450	3,450	-	3,450
Loans under reverse repurchase agreements	291,068	291,068	(320,132)	(29,064)
Total financial assets	294,518	294,518	(320,132)	(25,614)
Derivatives liabilities	(26,955)	(26,955)	-	(26,955)
Hedge instruments	(1,616)	(1,616)	-	(1,616)
Loans under repurchase agreements	(242,150)	(242,150)	251,643	9,493
Total financial liabilities	(270,721)	(270,721)	251,643	(19,078)

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2018:

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Net and gross amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position	Net amount
			Financial instruments/collateral received	
Derivative assets	291	291	-	291
Hedge instruments	86	86	-	86
Loans under reverse repurchase agreements	459,929	459,929	(501,409)	(41,480)
Total financial assets	460,306	460,306	(501,409)	(41,103)
Derivatives liabilities	(3,329)	(3,329)	-	(3,329)
Hedge instruments	(521)	(521)	-	(521)
Loans under repurchase agreements	(65,122)	(65,122)	73,684	8,562
Total financial liabilities	(68,972)	(68,972)	73,684	4,712

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30. RISK MANAGEMENT POLICIES, CONTINUED

(b) Credit risk, continued

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

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

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position	Net amount
			Financial instruments/collateral received	
Derivative assets	135	135	-	135
Loans under reverse repurchase agreements	42,189	42,189	(42,610)	(421)
Total financial assets	42,324	42,324	(42,610)	(286)
Derivatives liabilities	(11,072)	(11,072)	-	(11,072)
Loans under repurchase agreements	(221,128)	(221,128)	227,961	6,833
Total financial liabilities	(232,200)	(232,200)	227,961	(4,239)

(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 unrecognized 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 2019	31 December 2018	31 December 2017
Cash and cash equivalents	765,144	641,170	167,370
Derivative asset	3,450	291	135
Loans and advances to banks	266,298	245,510	191,565
Loans to customers	1,960,004	1,650,290	1,344,265
Financial assets at fair value through other comprehensive income (2017: available-for-sale, excluding equity investments)	2,106,299	1,139,341	1,580,865
Hedge instruments	-	86	-
Other financial assets	10,868	2,842	3,099

The maximum exposure to credit risk from unrecognized contractual commitments at the reporting date is presented in Note 26.

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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30. RISK MANAGEMENT POLICIES, CONTINUED

(b) Credit risk, continued

(v) Maximum exposure, continued

The following tables detail the credit ratings of financial assets held by the Bank as at 31 December 2019, 2018 and 2017:

	AA	A	BBB	<BBB-	Not rated	31 December 2019 Total
Cash and cash equivalents	140,145	220,353	331,457	68,406	4,783	765,144
Financial assets at fair value through profit or loss	-	661	2,759	30	6,567	10,017
Loans and advances to banks	34,685	-	-	231,319	294	266,298
Financial assets at fair value through other comprehensive income	590,841	429,135	493,984	482,843	109,496	2,106,299
Other financial assets	-	-	-	-	10,868	10,868

	AA	A	BBB	<BBB-	Not rated	31 December 2018 Total
Cash and cash equivalents	376	134,555	158,768	338,960	8,511	641,170
Financial assets at fair value through profit or loss	-	-	-	291	16,878	17,169
Loans and advances to banks	23,000	-	-	212,130	10,380	245,510
Financial assets at fair value through other comprehensive income	204,746	217,926	176,742	529,768	10,159	1,139,341
Hedge instruments	-	86	-	-	-	86
Other financial assets	-	-	-	-	2,842	2,842

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

As at 31 December 2019, the outstanding loans to customers and financial institutions 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.

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.

30. RISK MANAGEMENT POLICIES, CONTINUED

(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.

The Council of the Bank set the minimum level of liquid assets in treasury portfolio not less than 1-year projected net loan disbursements (loans disbursed less repayments and tied financing), if greater than zero, plus the annual cost of financial debt. This limit is reviewed on a quarterly basis.

An amount of liquid assets in treasury portfolio is the sum of assets in treasury portfolio less: (a) derivative financial assets and liabilities at fair value through profit or loss, (b) hedge instruments, (c) assets that were deemed as illiquid, (d) treasury liabilities, (e) deposits from customers. Therefore, a fulfillment of the Council's ratio of minimal amount of liquid assets in Treasury portfolio is one of the objectives of liquidity management of the Bank.

The monitoring of liquidity risk is done by the Bank on a continuous basis. The ALMC manages this risk through analysis of asset and liability maturity. The assets and liabilities management division of the Bank monitors liquidity indicators and conducts gap taking in consideration possible changes in a composition of assets and liabilities of the Bank. Such analysis is conducted on a semi-monthly basis and is reviewed on ALMC meetings. Based on the results of these reviews ALMC makes decisions on liquidity risk management, including decisions to borrow funds on financial markets.

EURASIAN DEVELOPMENT BANK

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30. RISK MANAGEMENT POLICIES, CONTINUED

(c) Liquidity risk, continued

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

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2019 Total
FINANCIAL ASSETS:							
Cash and cash equivalents	3.60%	735,092	-	-	-	-	735,092
Loans and advances to banks	6.78%	3,822	14,569	141,082	106,825	-	266,298
Loans to customers	7.63%	51,704	169,836	222,122	1,227,887	288,455	1,960,004
Financial assets at fair value through other comprehensive income	4.94%	476,890	376,475	326,658	333,574	592,702	2,106,299
Total interest bearing financial assets		1,267,508	560,880	689,862	1,668,286	881,157	5,067,693
Cash and cash equivalents		30,052	-	-	-	-	30,052
Financial assets at fair value through profit or loss		30	9,652	335	-	-	10,017
Other financial assets		-	-	10,868	-	-	10,868
Total financial assets		1,297,590	570,532	701,065	1,668,286	881,157	5,118,630
FINANCIAL LIABILITIES:							
Loans and deposits from banks	3.71%	245,482	12,771	18,709	334,608	128,905	740,475
Deposits from customers	5.00%	216,187	29,251	16,350	25,267	10,289	297,344
Debt securities issued*	7.21%	176,177	77,098	588,990	1,367,063	-	2,209,328
Other financial liabilities		-	-	2,370	4,597	-	6,967
Total interest bearing financial liabilities		637,846	119,120	629,149	1,731,535	139,194	3,254,114
Financial liabilities at fair value through profit or loss		716	2,053	6,877	17,309	-	26,955
Hedge instruments		-	-	1,616	-	-	1,616
Other financial liabilities		157	-	2,730	-	-	2,887
Total financial liabilities		638,719	121,173	637,642	1,748,844	139,194	3,285,572
Liquidity gap		658,871	449,359	63,423	(80,558)	741,963	

* For the purpose of liquidity calculations the maturity of debt securities issued is taken according to next put option dates (if any).

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30. 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 2018 Total
FINANCIAL ASSETS:							
Cash and cash equivalents	3.10%	602,393	-	-	-	-	602,393
Loans and advances to banks	7.15%	3,178	13,341	101,510	127,481	-	245,510
Loans to customers	8.59%	37,596	44,107	340,984	967,556	260,047	1,650,290
Financial assets at fair value through other comprehensive income	4.62%	234,673	4,273	246,796	321,795	331,804	1,139,341
Total interest bearing financial assets		877,840	61,721	689,290	1,416,832	591,851	3,637,534
Cash and cash equivalents		38,777	-	-	-	-	38,777
Financial assets at fair value through profit or loss		-	-	291	16,878	-	17,169
Hedge instruments		-	-	86	-	-	86
Other financial assets		-	-	2,842	-	-	2,842
Total financial assets		916,617	61,721	692,509	1,433,710	591,851	3,696,408
FINANCIAL LIABILITIES:							
Loans and deposits from banks	3.64%	67,011	32,686	53,382	66,339	23,513	242,931
Deposits from customers	4.62%	106,704	7,877	62,564	-	-	177,145
Debt securities issued*	7.42%	10,652	13,735	132,331	1,369,068	-	1,525,786
Total interest bearing financial liabilities		184,367	54,298	248,277	1,435,407	23,513	1,945,862
Financial liabilities at fair value through profit or loss		999	543	1,787	-	-	3,329
Hedge instruments		-	-	521	-	-	521
Other financial liabilities		47	-	2,720	-	-	2,767
Total financial liabilities		185,413	54,841	253,305	1,435,407	23,513	1,952,479
Liquidity gap		731,204	6,880	439,204	(1,697)	568,338	

EURASIAN DEVELOPMENT BANK

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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30. 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 2017 Total
FINANCIAL ASSETS:							
Cash and cash equivalents	5.59%	140,194	-	-	-	-	140,194
Loans and advances to banks	9.46%	566	12,602	124,152	54,245	-	191,565
Loans to customers	9.80%	13,450	63,131	175,284	728,926	363,474	1,344,265
Financial assets available-for-sale	2.03%	242,772	91,489	648,881	289,787	307,936	1,580,865
Total interest bearing financial assets		396,982	167,222	948,317	1,072,958	671,410	3,256,889
Cash and cash equivalents		27,176	-	-	-	-	27,176
Financial assets at fair value through profit or loss		-	68	67	-	-	135
Financial assets available-for-sale		-	-	-	19,814	-	19,814
Other financial assets		-	-	3,099	-	-	3,099
Total financial assets		424,158	167,290	951,483	1,092,772	671,410	3,307,113
FINANCIAL LIABILITIES:							
Loans and deposits from banks	6.41%	47,448	21,555	221,437	82,650	4,739	377,829
Debt securities issued*	6.93%	33,752	79,333	131,737	918,862	34,657	1,198,341
Total interest bearing financial liabilities		81,200	100,888	353,174	1,001,512	39,396	1,576,170
Financial liabilities at fair value through profit or loss		10,618	-	454	-	-	11,072
Other financial liabilities		-	35	1,762	-	-	1,797
Total financial liabilities		91,818	100,923	355,390	1,001,512	39,396	1,589,039
Liquidity gap		332,340	66,367	596,093	91,260	632,014	

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30. RISK MANAGEMENT POLICIES, CONTINUED

(c) Liquidity risk, continued

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

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2019 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	765,886	-	-	-	-	765,886
Financial assets at fair value through profit or loss	30	9,652	335	-	-	10,017
Loans and advances to banks	4,181	16,812	153,551	116,519	-	291,063
Loans to customers	57,567	192,786	335,401	1,692,288	375,142	2,653,184
Financial assets at fair value through other comprehensive income	477,592	379,628	364,064	581,753	814,074	2,617,111
Other financial assets	-	-	10,868	-	-	10,868
Total financial assets	1,305,256	598,878	864,219	2,390,560	1,189,216	6,348,129
FINANCIAL LIABILITIES:						
Loans and deposits from banks	240,689	14,083	22,153	396,020	149,166	822,111
Financial liabilities at fair value through profit or loss	716	2,053	6,877	17,309	-	26,955
Deposits from customers	216,732	29,809	18,183	30,749	11,890	307,363
Debt securities issued	176,177	77,098	657,002	1,592,400	-	2,502,677
Hedge instruments	-	-	1,616	-	-	1,616
Other financial liabilities	157	-	5,100	4,863	-	10,120
Total financial liabilities	634,471	123,043	710,931	2,041,341	161,056	3,670,842
Net position	670,785	475,835	153,288	349,219	1,028,160	2,677,287
Contingent liabilities and credit commitments, gross	116,411	199,455	844,570	304,959	-	1,465,395

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30. RISK MANAGEMENT POLICIES, CONTINUED

(c) Liquidity risk, continued

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2018 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	641,176	-	-	-	-	641,176
Financial assets at fair value through profit or loss	-	-	291	16,878	-	17,169
Loans and advances to banks	3,470	15,351	111,793	139,102	-	269,716
Loans to customers	46,775	62,152	515,200	1,200,458	341,709	2,166,294
Hedge instruments	-	-	86	-	-	86
Financial assets at fair value through other comprehensive income	235,845	7,360	281,184	469,541	470,066	1,463,996
Other financial assets	-	-	2,842	-	-	2,842
Total financial assets	927,266	84,863	911,396	1,825,979	811,775	4,561,279
FINANCIAL LIABILITIES:						
Loans and deposits from banks	67,057	34,228	56,039	72,413	26,243	255,980
Financial liabilities at fair value through profit or loss	999	543	1,787	-	-	3,329
Deposits from customers	106,734	7,981	64,259	-	-	178,974
Debt securities issued	11,568	23,695	201,201	1,541,310	-	1,777,774
Hedge instruments	-	-	521	-	-	521
Other financial liabilities	47	-	2,720	-	-	2,767
Total financial liabilities	186,405	66,447	326,527	1,613,723	26,243	2,219,345
Net position	740,861	18,416	584,869	212,256	785,532	2,341,934
Contingent liabilities and credit commitments, gross	73,395	333,945	595,538	258,399	-	1,261,277
	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2017 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	167,526	-	-	-	-	167,526
Financial assets at fair value through profit or loss	-	68	67	-	-	135
Loans and advances to banks	1,388	13,850	167,847	65,013	-	248,098
Loans to customers	19,540	70,754	257,694	1,101,377	439,420	1,888,785
Financial assets available-for-sale	243,979	94,954	676,151	408,179	387,196	1,810,459
Other financial assets	-	-	3,099	-	-	3,099
Total financial assets	432,433	179,626	1,104,858	1,574,569	826,616	4,118,102
FINANCIAL LIABILITIES:						
Loans and deposits from banks	47,548	21,881	237,733	85,902	4,813	397,877
Financial liabilities at fair value through profit or loss	10,618	-	454	-	-	11,072
Debt securities issued	29,743	31,686	229,087	1,074,395	36,786	1,401,697
Other financial liabilities	-	35	1,762	-	-	1,797
Total financial liabilities	87,909	53,602	469,036	1,160,297	41,599	1,812,443
Net position	344,524	126,024	635,822	414,272	785,017	2,305,659
Contingent liabilities and credit commitments, gross	31,134	175,184	157,124	289,957	-	653,399

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

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

(d) Market risk

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

Interest rate sensitivity

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

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

The Bank conducts a regular analysis of interest rate risk in order to maintain this type of risk at an adequate level and control its impact on the Bank's financial indicators. To analyse the level of interest rate risk, the Bank uses gap analysis and the Economic Values of Equity (EVE) method, which assesses the Bank's assets and liabilities in terms of sensitivity to changes in interest rates. In order to manage interest rate risk, the Bank sets limits on negative financial results in case of changing market interest rates. The analysis is carried out by the ALM division, general management and setting of limits - ALCO.

The following table details the Bank's sensitivity to a 3% increase and decrease in the interest rates in 2019, 2018 and 2017. This is the sensitivity rate used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates. The sensitivity analysis includes only outstanding financial assets and liabilities with variable interest rates.

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30. RISK MANAGEMENT POLICIES, CONTINUED

(d) Market risk, continued

Interest rate sensitivity, continued

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 2019, 2018 and 2017 is as follows:

	As at 31 December 2019		As at 31 December 2018		As at 31 December 2017	
	Interest rate +3%	Interest rate -3%	Interest rate +3%	Interest rate -3%	Interest rate +3%	Interest rate -3%
Financial assets:						
Loans and advances to banks	875	(875)	468	(468)	416	(416)
Loans to customers	33,245	(31,245)	21,700	(19,838)	12,453	(12,450)
Financial liabilities:						
Loans from banks	(9,458)	4,788	(3,262)	2,139	(3,278)	1,826
Net impact on net profit and equity	24,662	(27,332)	18,906	(18,167)	9,591	(11,040)

An analysis of sensitivity of equity as a result of changes in the financial assets at fair value through other comprehensive income (2017: available for sale) due to changes in the interest rates based on positions existing as at 31 December 2019, 2018 and 2017, and a simplified scenario of a 300 bp symmetrical fall or rise in all yield curves is as follows:

	As at 31 December 2019		As at 31 December 2018		As at 31 December 2017	
	Interest rate +3%	Interest rate -3%	Interest rate +3%	Interest rate -3%	Interest rate +3%	Interest rate -3%
Financial assets at fair value through other comprehensive income (2017: available-for-sale)	(152,084)	182,007	(111,315)	122,126	(106,375)	120,090
Net impact on equity	(152,084)	182,007	(111,315)	122,126	(106,375)	120,090

(e) Currency risk

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

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

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30. RISK MANAGEMENT POLICIES, CONTINUED

(e) Currency risk, continued

Currency risk analysis is performed by analysing the amount of the Bank's assets and liabilities in different currencies. Potential changes in the balance sheet structure are also taken into account. The bank maintains this type of risk at an acceptable level. The Bank sets limits on the open currency position in one single currency and in aggregate for all currencies. All the currency limits are being controlled on a daily basis. Currency risk analysis is carried out by the ALM division, general management and setting of limits - ALCO.

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	Kazakhstani tenge	Russian rouble	Euro	Other currencies	31 December 2019 Total
Financial assets:						
Cash and cash equivalents	383,055	17,032	302,515	62,052	490	765,144
Financial assets at fair value through profit or loss	9,566	-	451	-	-	10,017
Loans and advances to banks	15,664	60,505	78,495	111,634	-	266,298
Loans to customers	518,002	227,739	734,405	479,858	-	1,960,004
Financial assets at fair value through other comprehensive income	1,424,212	548,893	133,194	-	-	2,106,299
Investments in associates	20,131	-	-	-	-	20,131
Other financial assets	9,417	1,277	155	19	-	10,868
Total financial assets	2,380,047	855,446	1,249,215	653,563	490	5,138,761
Financial liabilities:						
Loans and deposits from banks	116,118	233,378	16,148	374,723	108	740,475
Financial liabilities at fair value through profit or loss	25,339	786	830	-	-	26,955
Deposits from customers	129,308	134,011	33,507	518	-	297,344
Hedge instruments	1,616	-	-	-	-	1,616
Debt securities issued	804,674	515,748	888,906	-	-	2,209,328
Other financial liabilities	273	687	8,307	519	68	9,854
Total financial liabilities	1,077,328	884,610	947,698	375,760	176	3,285,572
OPEN BALANCE SHEET POSITION	1,302,719	(29,164)	301,517	277,803	314	
Contingent liabilities and credit commitments, gross	373,929	163,796	681,308	246,362	-	1,465,395

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30. RISK MANAGEMENT POLICIES, CONTINUED

(e) Currency risk, continued

	US dollars	Kazakhstani tenge	Russian rouble	Euro	Other currencies	31 December 2018 Total
Financial assets:						
Cash and cash equivalents	570,028	26,733	2,529	41,148	732	641,170
Financial assets at fair value through profit or loss	17,169	-	-	-	-	17,169
Loans and advances to banks	38,863	49,212	67,912	89,523	-	245,510
Loans to customers	580,902	261,807	478,112	329,469	-	1,650,290
Financial assets at fair value through other comprehensive income	904,673	91,196	143,472	-	-	1,139,341
Hedge instruments	86	-	-	-	-	86
Other financial assets	1,489	1,279	73	1	-	2,842
Total financial assets	2,113,210	430,227	692,098	460,141	732	3,696,408
Financial liabilities:						
Loans and deposits from banks	32,352	43,238	39,172	124,255	3,914	242,931
Financial liabilities at fair value through profit or loss	3,329	-	-	-	-	3,329
Deposits from customers	96,011	81,126	8	-	-	177,145
Hedge instruments	521	-	-	-	-	521
Debt securities issued	588,613	438,848	498,325	-	-	1,525,786
Other financial liabilities	599	48	2,116	4	-	2,767
Total financial liabilities	721,425	563,260	539,621	124,259	3,914	1,952,479
OPEN BALANCE SHEET POSITION	1,391,785	(133,033)	152,477	335,882	(3,182)	
Contingent liabilities and credit commitments, gross	450,381	34,608	612,295	163,993	-	1,261,277
	US dollars	Kazakhstani tenge	Russian rouble	Euro	Other currencies	31 December 2017 Total
Financial assets:						
Cash and cash equivalents	53,841	8,186	83,471	21,362	510	167,370
Financial assets at fair value through profit or loss	135	-	-	-	-	135
Loans and advances to banks	50,398	72,801	67,844	522	-	191,565
Loans to customers	538,252	294,331	358,047	153,635	-	1,344,265
Financial assets available-for-sale	1,237,807	38,106	69,010	252,159	3,597	1,600,679
Other financial assets	1,339	1,467	279	14	-	3,099
Total financial assets	1,881,772	414,891	578,651	427,692	4,107	3,307,113
Financial liabilities:						
Loans and deposits from banks	7,347	98,111	170,466	101,905	-	377,829
Financial liabilities at fair value through profit or loss	11,072	-	-	-	-	11,072
Debt securities issued	585,513	358,972	253,856	-	-	1,198,341
Other financial liabilities	665	34	1,085	13	-	1,797
Total financial liabilities	604,597	457,117	425,407	101,918	-	1,589,039
OPEN BALANCE SHEET POSITION	1,277,175	(42,226)	153,244	325,774	4,107	
Contingent liabilities and credit commitments, gross	330,941	-	322,458	-	-	653,399

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30. RISK MANAGEMENT POLICIES, CONTINUED

(e) Currency risk, continued

(i) *Derivative financial instruments and spot contracts*

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

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

The fair value of derivative financial instruments, spot contracts and hedge instruments 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	Kazakhstani tenge	Russian rouble	Euro	Other currencies	31 December 2019 Total
Accounts payable on spot and derivative contracts	(109,598)	(102,079)	(427,921)	(74,502)	(442)	(714,542)
Accounts payable on hedge instruments	-	-	-	(208,175)	-	(208,175)
Accounts receivable on spot and derivative contracts	430,756	135,254	121,400	2,248	-	689,658
Accounts receivable on hedge instruments	206,559	-	-	-	-	206,559
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	527,717	33,175	(306,521)	(280,429)	(442)	(26,500)
TOTAL OPEN POSITION	1,830,436	4,011	(5,004)	(2,626)	(128)	

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30. RISK MANAGEMENT POLICIES, CONTINUED

(e) Currency risk, continued

(i) Derivative financial instruments and spot contracts, continued

	US dollars	Kazakhstani tenge	Russian rouble	Euro	Other currencies	31 December 2018 Total
Accounts payable on spot and derivative contracts	(134,000)	-	(156,548)	(120,860)	-	(411,408)
Accounts payable on hedge instruments	-	-	-	(219,453)	-	(219,453)
Accounts receivable on spot and derivative contracts	272,008	130,506	2,000	-	3,856	408,370
Accounts receivable on hedge instruments	219,018	-	-	-	-	219,018
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	357,026	130,506	(154,548)	(340,313)	3,856	(3,473)
TOTAL OPEN POSITION	1,748,811	(2,527)	(2,071)	(4,431)	674	
	US dollars	Kazakhstani tenge	Russian rouble	Euro	Other currencies	31 December 2017 Total
Accounts payable on spot and derivative contracts	(102,700)	(60,009)	(155,391)	(324,623)	(3,593)	(646,316)
Accounts receivable on spot and derivative contracts	529,436	102,216	3,727	-	-	635,379
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	426,736	42,207	(151,664)	(324,623)	(3,593)	(10,937)
TOTAL OPEN POSITION	1,703,911	(19)	1,580	1,151	514	

(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/Kazakhstani tenge exchange rates as at 31 December 2019, 2018 and 2017, respectively and a 10% increase and decrease in the US Dollar/Euro exchange rate. These sensitivity rates are used when reporting foreign currency risk internally to key management personnel and represent management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for respective changes in currency rates as at 31 December 2019, 2018 and 2017.

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30. RISK MANAGEMENT POLICIES, CONTINUED

(e) Currency risk, continued

(ii) Currency risk sensitivity, continued

Impact on net profit based on asset values as at 31 December 2019, 2018 and 2017:

	As at 31 December 2019		As at 31 December 2018		As at 31 December 2017	
	USD/RUB	USD/RUB	USD/RUB	USD/RUB	USD/RUB	USD/RUB
	+15%	-15%	+15%	-15%	+15%	-15%
Impact on net profit	751	(751)	311	(311)	(237)	237

	As at 31 December 2019		As at 31 December 2018		As at 31 December 2017	
	USD/KZT	USD/KZT	USD/KZT	USD/KZT	USD/KZT	USD/KZT
	+15%	-15%	+15%	-15%	+15%	-15%
Impact on net profit	(602)	602	379	(379)	3	(3)

	As at 31 December 2019		As at 31 December 2018		As at 31 December 2017	
	USD/EUR	USD/EUR	USD/EUR	USD/EUR	USD/EUR	USD/EUR
	+10%	-10%	+10%	-10%	+10%	-10%
Impact on net profit	263	(263)	443	(443)	(115)	115

Impact on equity based on asset values as at 31 December 2019, 2018 and 2017:

	As at 31 December 2019		As at 31 December 2018		As at 31 December 2017	
	USD/RUB	USD/RUB	USD/RUB	USD/RUB	USD/RUB	USD/RUB
	+15%	-15%	+15%	-15%	+15%	-15%
Impact on equity	751	(751)	311	(311)	(237)	237

	As at 31 December 2019		As at 31 December 2018		As at 31 December 2017	
	USD/KZT	USD/KZT	USD/KZT	USD/KZT	USD/KZT	USD/KZT
	+15%	-15%	+15%	-15%	+15%	-15%
Impact on equity	(602)	602	379	(379)	3	(3)

	As at 31 December 2019		As at 31 December 2018		As at 31 December 2017	
	USD/EUR	USD/EUR	USD/EUR	USD/EUR	USD/EUR	USD/EUR
	+10%	-10%	+10%	-10%	+10%	-10%
Impact on equity	263	(263)	443	(443)	(115)	115

30. 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.

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30. RISK MANAGEMENT POLICIES, CONTINUED

(f) Presentation of Financial Instruments by Measurement Category

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2019:

	Fair value through profit or loss	Debt instruments at fair value through other comprehensive income	Amortised cost	31 December 2019 Total
<i>Cash and cash equivalents</i>				
Cash and balances with national (central) banks of Member states of the Bank	-	-	499	499
Correspondent accounts with other banks	-	-	29,553	29,553
Term deposits in other banks	-	-	478,709	478,709
Loans under reverse repurchase agreements	-	-	256,383	256,383
<i>Total cash and cash equivalents</i>	-	-	765,144	765,144
<i>Financial assets at fair value through profit or loss</i>				
Derivative financial instruments				
Foreign currency swaps	3,450	-	-	3,450
Equity instruments in Investment portfolio, carried at fair value through profit or loss	6,567	-	-	6,567
<i>Total financial assets at fair value through profit or loss</i>	10,017	-	-	10,017
<i>Loans and advances to banks</i>				
Loans to banks	-	-	231,613	231,613
Loans under reverse repurchase agreements	-	-	34,685	34,685
<i>Total loans and advances to banks</i>	-	-	266,298	266,298
<i>Loans to customers</i>			1,960,004	1,960,004
<i>Financial assets at fair value through other comprehensive income</i>				
Debt instruments in Treasury portfolio	-	1,513,960	-	1,513,960
Debt instruments in Investment portfolio	-	592,339	-	592,339
<i>Total financial assets at fair value through other comprehensive income</i>	-	2,106,299	-	2,106,299
<i>Other financial assets</i>	-	-	10,868	10,868

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30. RISK MANAGEMENT POLICIES, CONTINUED

(f) Presentation of Financial Instruments by Measurement Category, continued

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2018:

	<u>Fair value through profit or loss</u>	<u>Debt instruments at value through other comprehensive income</u>	<u>Amortised cost</u>	<u>31 December 2018 Total</u>
<i>Cash and cash equivalents</i>				
Cash and balances with national (central) banks of Member states of the Bank	-	-	540	540
Correspondent accounts with other banks	-	-	36,779	36,779
Term deposits in other banks	-	-	166,922	166,922
Loans under reverse repurchase agreements	-	-	436,929	436,929
<i>Total cash and cash equivalents</i>	-	-	641,170	641,170
<i>Financial assets at fair value through profit or loss</i>				
<i>Derivative financial instruments</i>				
Foreign currency swaps	291	-	-	291
Equity instruments in Investment portfolio, carried at fair value through profit or loss	16,878	-	-	16,878
<i>Total financial assets at fair value through profit or loss</i>	17,169	-	-	17,169
<i>Loans and advances to banks</i>				
Loans to banks	-	-	222,510	222,510
Loans under reverse repurchase agreements	-	-	23,000	23,000
<i>Total loans and advances to banks</i>	-	-	245,510	245,510
<i>Loans to customers</i>			1,650,290	1,650,290
<i>Financial assets at fair value through other comprehensive income</i>				
Debt instruments in Treasury portfolio	-	912,498	-	912,498
Debt instruments in Investment portfolio	-	226,843	-	226,843
<i>Total financial assets at fair value through other comprehensive income</i>	-	1,139,341	-	1,139,341
<i>Hedge instruments</i>	86	-	-	86
<i>Other financial assets</i>	-	-	2,842	2,842

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30. RISK MANAGEMENT POLICIES, CONTINUED

(f) Presentation of Financial Instruments by Measurement Category, continued

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2017:

	Loans and receivables	Available-for-sale	Fair value through profit or loss	31 December 2017 Total
<i>Cash and cash equivalents</i>				
Cash and balances with national (central) banks of Member states of the Bank	458	-	-	458
Correspondent accounts with other banks	26,297	-	-	26,297
Term deposits in other banks	132,766	-	-	132,766
Loans under reverse repurchase agreements	7,849	-	-	7,849
<i>Total cash and cash equivalents</i>	167,370	-	-	167,370
<i>Financial assets at fair value through profit or loss</i>				
Derivative financial instruments				
Foreign currency swaps	-	-	135	135
<i>Total financial assets at fair value through profit or loss</i>	-	-	135	135
<i>Loans and advances to banks</i>				
Loans to banks	157,225	-	-	157,225
Loans under reverse repurchase agreements	34,340	-	-	34,340
<i>Total loans and advances to banks</i>	191,565	-	-	191,565
<i>Loans to customers</i>	1,344,265	-	-	1,344,265
<i>Investments in debt securities</i>				
Debt instruments in Treasury portfolio	-	1,475,903	-	1,475,903
Debt instruments in Investment portfolio	-	104,962	-	104,962
<i>Total investments in debt securities</i>	-	1,580,865	-	1,580,865
<i>Investments in equity securities</i>				
Equity instruments in Investment portfolio	-	19,814	-	19,814
<i>Total investments in equity securities</i>	-	19,814	-	19,814
<i>Other financial assets</i>	3,099	-	-	3,099

As at 31 December 2019, 2018 and 2017, all of the Bank's financial liabilities, except for derivatives and hedge instruments carried at fair value through profit or loss, were carried at amortised cost.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019 *(in thousands of US dollars)*

30. RISK MANAGEMENT POLICIES, CONTINUED

(g) Financial ratios

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

	31 December 2019	31 December 2018	31 December 2017
Minimum amount of liquid assets in Treasury portfolio required amount in thousands US dollars*	893,910	852,321	454,395
<i>actual amount</i>	1,729,498	1,265,592	1,409,037
Financial leverage ratio should be less or equal to 300% of the Bank's equity	300.00%	300.00%	300.00%
<i>actual ratio</i>	141.40%	92.98%	75.63%
Maximum principal amount of the Bank's borrowings**			
allowed amount in thousands of US Dollars	n/a	n/a	1,606,800
<i>actual amount of the Bank's borrowings</i>	n/a	n/a	1,292,916

* The Council of the Bank set the minimum level of liquid assets in treasury portfolio not less than 1-year projected net loan disbursements (loans disbursed less repayments and tied financing), if greater than zero, plus the annual cost of financial debt. This limit is reviewed on a quarterly basis.

** In March 2018, the Council of the Bank dismissed this ratio from further usage.

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

31. EVENTS AFTER THE REPORTING PERIOD

In January 2020 the Bank opted to change interest rate on its Russian rouble bonds (series 001P-01) from 7.60% to 5.95% per annum. As the result of a put option exercise, after 24 January 2020 the nominal value of Russian rouble bonds (series 001P-01) in circulation reduced from 10,000 to 560 million Russian roubles. The new interest rate of 5.95% per annum was fixed till 17 January 2023.