EURASIAN DEVELOPMENT BANK

Interim Condensed Financial Information (Unaudited)

For the six-month period ended 30 June 2018

EURASIAN DEVELOPMENT BANK

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Report on Review of Interim Financial Information

To the Members of the Council and the Management Board of Eurasian Development Bank

Introduction

We have reviewed the accompanying condensed interim statement of financial position of Eurasian Development Bank (the "Bank") as of 30 June 2018 and the related condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2400 (Revised), "Engagements to Review Financial Statements". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

PricewaterhouseCoopers LLP

7 August 2018

Almaty, Kazakhstan

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EURASIAN DEVELOPMENT BANK

INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(in thousands of US dollars)

	Note	Six-month period ended 30 June 2018 Unaudited	Six-month period ended 30 June 2017 Unaudited
Interest income	5	103,760	98,090
Interest expense	5	(56,490)	(53,811)
Net interest income before expected credit losses/(2017: provision for impairment losses) on interest bearing assets		**47,270**	**44,279**
Provision for impairment losses on interest bearing assets	6	-	(15,568)
Reversal of expected credit losses	6	5,310	-
NET INTEREST INCOME		**52,580**	**28,711**
Expected credit losses on equity financial assets at fair value through other comprehensive income (2017: available-for-sale equity financial assets)		(1,073)	-
Net loss from modification of financial assets		(2,261)	-
Net gain /(loss) on financial assets and liabilities at fair value though profit and loss	7	17,581	(48,830)
Net realised gain on financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets)		191	2,290
Net (loss)/gain on transactions in foreign currencies	8	(14,437)	49,984
Fee and commission income		2,170	3,114
Fee and commission expense		(153)	(137)
Net loss on trading with debt securities issued		(1)	(2)
Other income		219	71
Net non-interest income		**2,236**	**6,490**
Net result from financial operations		**54,816**	**35,201**
Operating expenses	9	(17,251)	(17,365)
Technical Assistance Fund expenses	10	(23)	-
NET PROFIT		**37,542**	**17,836**
OTHER COMPREHENSIVE INCOME:			
Items that are or may be reclassified subsequently to profit or loss:			
Net unrealised gain on revaluation of financial assets available-for-sale		-	3,524
Net realised gain on financial assets available-for-sale		-	(2,290)
Net unrealised loss on revaluation of financial assets at fair value through other comprehensive income		(21,052)	-
Net realised gain on financial assets at fair value through other comprehensive income transferred to the profit and loss		(191)	-
OTHER COMPREHENSIVE (LOSS)/INCOME		**(21,243)**	**1,234**
TOTAL COMPREHENSIVE INCOME		**16,299**	**19,070**

Approved on behalf of the management of the Bank:

A.Y. Belianinov
Chairman of the Executive Board

7 August 2018
Almaty, Kazakhstan

Евразийский Банк Развития

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

7 August 2018
Almaty, Kazakhstan

EURASIAN DEVELOPMENT BANK

INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018
(in thousands of US dollars)

	Note	30 June 2018 Unaudited	31 December 2017
ASSETS			
Cash and cash equivalents	11	377,834	167,370
Financial assets at fair value through profit or loss		9,613	135
Loans and advances to banks	12	231,289	191,565
Loans to customers	13	1,710,378	1,344,265
Financial assets available-for-sale	14	-	1,600,679
Financial assets at fair value through other comprehensive income	14	1,154,218	-
Property and equipment		11,011	11,041
Intangible assets		755	890
Other assets		6,764	4,510
TOTAL ASSETS		**3,501,862**	**3,320,455**
LIABILITIES AND EQUITY			
LIABILITIES:			
Loans and deposits from banks	15	498,651	377,829
Financial liabilities at fair value through profit or loss		2,802	11,072
Debt securities issued	16	1,263,457	1,198,341
Other liabilities		26,354	23,612
Total liabilities		**1,791,264**	**1,610,854**
EQUITY:			
Share capital:			
Authorised share capital		7,000,000	7,000,000
Less: callable share capital		(5,484,300)	(5,484,300)
Paid-in share capital		1,515,700	1,515,700
Reserve fund		111,732	90,872
Revaluation reserve for financial assets at fair value through other comprehensive income (2017: available-for-sale)		(15,978)	5,265
Retained earnings		99,144	97,764
Total equity		**1,710,598**	**1,709,601**
TOTAL LIABILITIES AND EQUITY		**3,501,862**	**3,320,455**

Approved on behalf of the management of the Bank:

A.Y. Belianinov
Chairman of the Executive Board

7 August 2018
Almaty, Kazakhstan

Евразийский Банк Развития

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

7 August 2018
Almaty, Kazakhstan

EURASIAN DEVELOPMENT BANK

INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(in thousands of US dollars)

	Share capital							
	Authorised	**Callable**	**Paid-in**	**Reserve fund**	**Revaluation reserve for financial assets available-for-sale**	**Revaluation (deficit)/reserve for financial assets at fair value through other comprehensive income**	**Retained earnings**	**Total**
1 January 2017	**7,000,000**	**(5,484,300)**	**1,515,700**	**90,872**	**4,469**	-	**56,044**	**1,667,085**
Net profit (unaudited)	-	-	-	-	-	-	17,836	17,836
Other comprehensive income (unaudited)	-	-	-	-	1,234	-	-	1,234
Total comprehensive income/(loss) (unaudited)	-	-	-	-	**1,234**	-	**17,836**	**19,070**
30 June 2017 (unaudited)	**7,000,000**	**(5,484,300)**	**1,515,700**	**90,872**	**5,703**	-	**73,880**	**1,686,155**
At 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	-	-	-	-	-	-	(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**
Transfer to reserve fund	-	-	-	20,860	-	-	(20,860)	-
Net profit (unaudited)	-	-	-	-	-	-	37,542	37,542
Other comprehensive loss (unaudited)	-	-	-	-	-	(21,243)	-	(21,243)
Total comprehensive income/(loss) (unaudited)	-	-	-	-	-	**(21,243)**	**37,542**	**16,299**
30 June 2018 (unaudited)	**7,000,000**	**(5,484,300)**	**1,515,700**	**111,732**	-	**(15,978)**	**99,144**	**1,710,598**

Approved on behalf of the management of the Bank:

A.Y. Belianinov
Chairman of the Executive Board

7 August 2018
Almaty, Kazakhstan

Евразийский Банк Развития

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

7 August 2018
Almaty, Kazakhstan

The notes on pages 6-44 form an integral part of this interim condensed financial information

EURASIAN DEVELOPMENT BANK

INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(in thousands of US dollars)

	Six-month period ended 30 June 2018 Unaudited	Six-month period ended 30 June 2017 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received on loans to customers	66,227	82,885
Interest received on loans and advances to banks	11,985	7,299
Interest expense paid for financial assets at fair value through profit or loss	(167)	(30,550)
Interest and income received on financial assets available-for-sale	-	18,664
Interest and income received on financial assets at fair value through other comprehensive income	22,577	-
Interest paid on loans and deposits from banks	(12,931)	(6,688)
Interest paid on debt securities issued	(42,061)	(41,785)
Fees and commissions received	213	3,121
Fees and commissions paid	(160)	(128)
Other income received	220	71
Operating expenses paid	(15,541)	(13,316)
Cash flows from operating activities before changes in operating assets and liabilities	**30,362**	**19,573**
Changes in operating assets:		
(Increase)/decrease in loans to customers	(415,287)	16,029
(Increase)/decrease in loans and advances to banks	(50,259)	41,898
Increase in other assets	(350)	(1,868)
Changes in operating liabilities:		
Increase in deposits from banks	152,175	40,226
Increase in other liabilities	24	406
Cash flows (used in)/from operating activities	**(283,335)**	**116,264**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets available-for-sale	-	(2,065,132)
Proceeds from sale and redemption of financial assets available-for-sale	-	1,765,961
Purchase of financial assets at fair value through other comprehensive income	(1,661,876)	-
Proceeds from sale and redemption of financial assets at fair value through other comprehensive income	2,069,110	-
Purchase of property, equipment and intangible assets	(706)	(117)
Cash flows from/(used in) investing activities	**406,528**	**(299,288)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of debt securities	238,244	69,383
Repayments of debt securities issued	(136,373)	(1,766)
Repayments of loans from banks	(10,599)	(10,325)
Cash flows from financing activities	**91,302**	**57,292**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**214,495**	**(126,332)**
Cash and cash equivalents at beginning of the period (Note 11)	167,370	477,882
Effect of changes in foreign exchange rate on cash and cash equivalents	(4,301)	21,835
CASH AND CASH EQUIVALENTS, at end of the period (Note 11)	**377,834**	**373,985**

Approved on behalf of the management of the Bank:

A.Y. Belianinov
Chairman of the Executive Board

7 August 2018
Almaty, Kazakhstan

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

7 August 2018
Almaty, Kazakhstan

Евразийский Банк Развития

The notes on pages 6-44 form an integral part of this interim condensed financial information

1 BACKGROUND

(a) Principal activities

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

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

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

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

As at 30 June 2018, the following states were members of the Bank: the Russian Federation, the Republic of Kazakhstan, the Republic of Armenia, the Republic of Tajikistan, the Republic of Belarus and the Kyrgyz Republic.

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

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

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

(in thousands of US dollars)

1 BACKGROUND (CONTINUED)

(a) Principal activities, continued

As at 30 June 2018 and 31 December 2017 shares of the Bank were owned as follows:

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

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. No ultimate controlling party.

(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

(a) Statement of compliance

This interim condensed financial information is prepared in accordance with International Accounting Standard IAS 34 *Interim Financial Reporting*. Accordingly, certain information and disclosures normally required to be included in the notes to the annual financial information have been omitted or condensed. This interim condensed financial information should be read in conjunction with the financial statements of the Bank for the year ended 31 December 2017, as this interim condensed financial information provides an update of previously reported financial statements.

This interim condensed financial information was authorised for issue on 7 August 2018 by the management of the Bank.

2 BASIS OF PREPARATION (CONTINUED)

(b) Basis of measurement

The interim condensed financial information is prepared on the historical cost basis except that financial assets at fair value through other comprehensive income (2017:available-for-sale), financial instruments at fair value through profit and loss and derivative financial instruments designated as hedging instruments are stated at fair value.

(c) Functional and presentation currency

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

The US dollar is also the presentation currency for the purposes of this interim condensed financial information.

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

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

(d) Use of estimates and judgments

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

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the interim condensed financial information is described in Note 13 "Loans to customers".

3 SIGNIFICANT ACCOUNTING POLICIES

In preparing this interim condensed financial information the Bank applied the same accounting policies as those applied in the financial statements of the Bank for the year ended 31 December 2017 except for those described in Note 4.

4 NEW ACCOUNTING STANDARDS

Amendments to IFRS 15 “Revenue under contracts with customers” (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the fundamental principles of the standard, but explain how these principles should be applied. The amendments clarify how to identify in the contract the obligation to perform (the promise of the transfer of goods or services to the buyer); how to determine whether the company is the principal (the supplier of the good or service) or the agent (responsible for the organization of the delivery of the goods or services), and how to determine whether the revenue from granting the license should be recognized at a certain point in time or during the period. In addition to the clarifications, the amendments include two additional exemption requirements, which will allow the company that first applies the new standard to reduce costs and complexity of accounting.

The adoption of IFRS 15 did not result in changes in accounting policies and in the recognition of adjustments in the financial statements. Based on the analysis of the Bank’s regular revenue streams for the six months ended 31 June 2018, the terms of individual contracts and on the basis of facts and circumstances existing at that date, the management of the Bank believes that the application of the new standard did not have a significant impact on the financial statements.

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 transitionto IFRS 9 as of 1 January 2018:

(in thousands of US dollars)

4 NEW ACCOUNTING STANDARDS (CONTINUED)

	Measurement categories IAS 39	Measurement categories IFRS 9	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)
Cash and cash equivalents:	Loans and receivables	Measured at amortized 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 amortized 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 and advances to customers:	Loans and receivables	Measured at amortized 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
Investments in debt securities:	Available for sale	Measured at fair value through other comprehensive income			
Debt instruments in Treasury portfolio			1,475,903	(1,845)	1,474,058
Debt instruments in Investment portfolio			104,962	(639)	104,323
Investments in equity securities:	Available for sale	Measured at fair value through other comprehensive income			
Equity instruments in Investment portfolio			19,814	-	19,814
Derivative financial instruments:	At fair value through profit or loss	Measured at fair value through profit or loss			
Foreign currency contracts:					
- swaps			135	-	135
Other financial assets	Loans and receivables	Measured at amortized cost			
Prepayments			1,667	-	1,667
Accrued commission income and other receivables			1,432	-	1,432
TOTAL FINANCIAL ASSETS			**3,307,113**	**(15,302)**	**3,291,811**

(in thousands of US dollars)

4 NEW ACCOUNTING STANDARDS (CONTINUED)

	Measurement categories IAS 39	Measurement categories IFRS 9	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)
Loans and deposits from banks	Loans and receivables	Measured at amortized 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:	Loans and receivables	Measured at amortized cost			
- in USD			585,513	-	585,513
- in RUB			253,856	-	253,856
- in KZT			358,972	-	358,972
Other financial liabilities	Loans and receivables	Measured at amortized cost			
Retirement savings plan			13,547	-	13,547
Short-term payments to employees			7,752	-	7,752
Prepayments 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			**1,610,338**	**-**	**1,610,338**

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:

Measurement categories	**Provision for credit losses under IAS 39**	**Revaluation**	**Provision for expected credit losses under IFRS 9**
Cash and cash equivalents	-	33	33
Loans and advances to banks	111	1,631	1,742
Loans and advances to customers	55,180	11,154	66,334
Investments in debt securities	162	2,484	2,646
Total	**55,453**	**15,302**	**70,755**

4 NEW ACCOUNTING STANDARDS (CONTINUED)

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) the expected credit losses during the year - for financial assets without evidence of a significant increase in credit risk since the initial recognition;

b) the expected credit losses during the whole period of life - for financial assets with an evidence of a significant increase in credit risk since the initial recognition.

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 in default (credit-impaired).

4 NEW ACCOUNTING STANDARDS (CONTINUED)

For assets that are impaired at the time of acquisition or provision, the accumulated changes are estimated in the amount of expected credit losses for the entire life of the instrument when calculating reserves. 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;
- the Bank had to provide term/interest/payment discount to the borrower/issuer;
- default and/or cross-default;
- significant deterioration of the borrowers/issuers business environment;
- 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 next basket 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 and other financial assets:

- delay of payment;
- downgrade of external credit rating;
- 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.

4 NEW ACCOUNTING STANDARDS (CONTINUED)

(2) For loans and advances to banks, cash and cash equivalents, debt instruments in Treasury portfolio:

- 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;
- other factors.

The Bank does not apply the "low credit risk" exception 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.

Definition of default

Defaulted financial assets are those that have the highest credit risk, with zero probability of full repayment. 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. It is evident that the borrower/issuer cannot repay the principal and the interest in full and the collateral value is insufficient.

Calculation of expected credit losses for loans to customers, debt instruments in Investment portfolio and other financial assets

Step one: the Bank assesses the cost of collateral if any. If discounted cost of collateral is higher than the Bank's exposure then expected credit loss is deemed to be zero.

Step two: in case if discounted cost of collateral doesn't cover the Bank's exposure in full the Bank assesses financial model of a project to estimate an economic value of an asset. Financial model is tested using alternate three scenarios. Each scenario is based on certain key macroeconomic variables, such as commodity prices, exchange rates, inflation, etc. These key variables are determined by the Bank's analytical department and the Bank's chief economist office. Probability-weighted result of different scenarios multiplied by probability of default is used in calculation of expected credit loss.

Step three: in case of absence of actual financial model the Bank uses external credit rating or Bloomberg Default Risk function to estimate expected credit loss.

Probability of default is estimated based on historical data of the Bank or external rating of the borrower/issuer (Bloomberg Default Risk function).

Calculation of reserves for loans and advances to banks, cash and cash equivalents, debt instruments in Treasury portfolio

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 presented by Moody's Investors Service.

4 NEW ACCOUNTING STANDARDS (CONTINUED)

Financial assets classification and subsequent measurement

From January 1 2018, the Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- fair value through profit or loss (FVTPL);
- fair value through other comprehensive income (FVOCI);
- amortized cost.

Classification and further measurement of financial assets depends on:

- the Bank's business models for asset management; and
- Characteristics of the cash flows of the financial asset.

Based on these factors, the Bank classifies its financial assets into one of the following three measurement categories:

- amortized cost: financial assets that are held to receive contractual cash flows, while these cash flows represent only payments of principal and interest (SPPI), and which are not classified as fair value through profit or loss (FVTPL), are measured at amortized cost. The carrying amount of these financial assets is adjusted to the provision for expected credit losses. Interest income from these financial assets is included in "interest income" using the effective interest method.
- fair value through other comprehensive income (FVOCI): financial assets that are held to receive contractual cash flows and for the sale of financial assets, while cash flows of the financial asset are solely payments of principal and interest, and which are not classified as FVTPL, are measured by fair value through other comprehensive income (FVOCI). Changes in the carrying amount are recognized through the OCI, other than recognition of profit or loss, impairment losses, interest income and foreign exchange gains or losses on the amortized cost of the instrument that are recognized in profit or loss. When a financial asset is written off, a cumulative gain or loss previously recognized in the OCI is reclassified from equity to profit or loss and recognized in "Net realized gain on financial assets at fair value through other comprehensive income". Interest income from these financial assets is included in "interest income" using the effective interest method.
- fair value through profit or loss: financial assets that do not meet the amortized cost criteria or the FVOCI are measured at fair value through profit or loss. The gain or loss on a financial assets that is subsequently measured at fair value through profit or loss and is not part of the hedging relationship is recognized in profit or loss and presented to the income statement in "Net (loss)/gain on financial assets and liabilities at fair value through profit or loss" in the period in which it appears, except for cases when they relate to financial assets that have been classified as at fair value through profit or loss or that are not held for trading. Interest income from these financial income is included in "Interest income" using the effective interest method.

4 NEW ACCOUNTING STANDARDS (CONTINUED)

Business model: the business model reflects how the Bank manages financial assets to generate cash flows. That is, is the Bank's goal only to obtain contractual cash flows from financial assets or to obtain both contractual cash flows and cash flows from the sale of financial assets. If none of these cases is applicable (e. g. financial assets are held for trading purposes), then financial assets are classified as part of the "other" business model and are measured at FVTPL. The factors considered by the Bank in determining the business model for a group of financial assets include past experience of how the cash flows from these financial assets were obtained, how the performance of these financial assets is assessed and reported to key management, how risks are assessed and managed, and how managers are compensated.

SPPI: in the case where the business model is to hold financial assets to receive contractual cash flows or receive contractual cash flows and sell, the Bank assesses whether the cash flows from financial instruments represent only principal and interest payments (SPPI test). When making such assessment, the Bank considers whether the cash flows correspond to the basic agreement, more precisely interest includes only interest for the time value of money, credit risk, other underlying credit risks, and overall profitability, which corresponds to the basic agreement. When contractual terms impose an exposure to risk or volatility that do not conform to the underlying loan agreement, the relevant financial asset is classified and measured at fair value through profit or loss.

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.

4 NEW ACCOUNTING STANDARDS (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:

a) has no obligation to pay, except when it receives equivalent amounts from financial assets;

b) the Bank is prohibited from selling or pledging financial assets; and

c) has an obligation to transfer any cash that it receives from financial assets without significant delay.

Financial liabilities

Financial liabilities are classified as:

- financial liabilities at amortized cost; or
- financial liabilities at fair value through profit or loss (FVTPL).

After initial recognition, the Bank must assess all financial liabilities at amortized cost using the effective interest method, except for:

- financial liabilities recorded at fair value through profit or loss. Such liabilities, including derivative instruments that are liabilities, must be measured at fair value;
- financial liabilities that arise when the transfer of a financial asset does not meet the criteria for derecognition or when the continuing involvement approach is applied.

Significant accounting judgements and estimates

Judgements made by the Bank’s management in the process of applying accounting policies are in conformity with judgements described in the annual 2017 financial statements of the Bank. 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. The other estimates and professional judgments described in the financial statements for the year ended December 31, 2017 were not subject to any material adjustments.

Exposure to credit risk

The following table contains an analysis of the exposure to credit risk of financial instruments for which provision is recognized for expected credit losses. The gross book value of financial assets also represents the Bank's maximum exposure to credit risk for these assets.

(in thousands of US dollars)

4 NEW ACCOUNTING STANDARDS (CONTINUED)

	Loans and advances to banks				
	30 June 2018 ECL Grouping				31 December 2017
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Loans to banks	197,832	-	-	197,832	157,336
Loans under reverse repurchase agreements:					
- with pledge credit ratings A- and above	35,492	-	-	35,492	34,340
	233,324	**-**	**-**	**233,324**	**191,676**
Less expected credit loss provisions (2017: country risk provisions)	(2,035)	-	-	(2,035)	(111)
Total loans and advances to banks	**231,289**	**-**	**-**	**231,289**	**191,565**

	Loans to customers				
	30 June 2018 ECL Grouping				31 December 2017
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Unimpaired loans to customers and impaired loans with no ECL.	1,265,379	129,673	309,629	1,704,681	1,288,768
Impaired loans to customers, including:					
- not overdue or overdue less than 90 days	-	-	38,573	38,573	64,531
- overdue more than 90 days	-	-	-	-	22,333
- defaulted loans	-	-	28,262	28,262	23,813
	1,265,379	**129,673**	**376,464**	**1,771,516**	**1,399,445**
Less expected credit loss provisions (2017: impairment losses)	(3,051)	-	(58,087)	(61,138)	(55,180)
Total loans to customers	**1,262,328**	**129,673**	**318,377**	**1,710,378**	**1,344,265**

(in thousands of US dollars)

4 NEW ACCOUNTING STANDARDS (CONTINUED)

	Financial assets at fair value value through other comprehensive income (2017: available-for-sale)				
	30 June 2018 ECL Grouping				31 December 2017
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Debt instruments in Treasury portfolio	1,056,524	-	-	1,056,524	1,475,903
Debt instruments in Investment portfolio	79,988	-	599	80,587	105,124
	1,136,512	**-**	**599**	**1,137,111**	**1,581,027**
Less expected credit loss provisions (2017: impairment losses)	(1,193)	-	(594)	(1,787)	(162)
Total financial assets at fair value value through other comprehensive income (2017: available-for-sale)	**1,135,319**	**-**	**5**	**1,135,324**	**1,580,865**

5 NET INTEREST INCOME

	Six-month period ended 30 June 2018 Unaudited	Six-month period ended 30 June 2017 Unaudited
Interest income comprises:		
Interest income on financial assets measured at amortised cost comprises:		
- interest on unimpaired assets	79,070	81,756
- interest on loans to customers that were defaulted and/or overdue more than 90 days	1,939	1,111
Interest income on financial assets at fair value through other comprehensive income (2017: financial assets available-for-sale)	22,751	15,223
Total interest income	**103,760**	**98,090**
Interest income on financial assets recorded at amortised cost comprises:		
- interest on loans to customers	68,653	76,280
- interest on loans and advances to banks	9,197	3,721
- interest on cash and cash equivalents	3,159	2,866
Total interest income on financial assets recorded at amortised cost	**81,009**	**82,867**
Interest expense comprises:		
Interest expense on financial liabilities recorded at amortised cost comprises:		
- interest on debt securities issued	(41,199)	(40,368)
- interest on loans and deposits from banks	(15,291)	(13,443)
Total interest expense on financial liabilities recorded at amortised cost	**(56,490)**	**(53,811)**
Net interest income before expected credit losses (2017: provision for impairment losses) on interest bearing assets	**47,270**	**44,279**

(in thousands of US dollars)

6 PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS

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

	Six-month period ended 30 June 2018 Unaudited	Six-month period ended 30 June 2017 Unaudited
Beginning of the period	(55,180)	(83,274)
Expected credit loss adjustment per IFRS 9 as at 1 January 2018	(11,154)	-
Net recovery/(charge)	4,838	(15,520)
Effect of foreign currency movements	358	(2,254)
End of the period	**(61,138)**	**(101,048)**

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

	Six-month period ended 30 June 2018 Unaudited	Six-month period ended 30 June 2017 Unaudited
Beginning of the period	(111)	(101)
Expected credit loss adjustment per IFRS 9 as at 1 January 2018	(1,631)	-
Net charge	(355)	(48)
Effect of foreign currency movements	62	-
End of the period	**(2,035)**	**(149)**

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

	Six-month period ended 30 June 2018 Unaudited	Six-month period ended 30 June 2017 Unaudited
Beginning of the period	(162)	-
Expected credit loss adjustment per IFRS 9 as at 1 January 2018	(2,484)	-
Net recovery	825	-
Effect of foreign currency movements	34	-
End of the period	**(1,787)**	**-**

(in thousands of US dollars)

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

	Six-month period ended 30 June 2018 Unaudited	Six-month period ended 30 June 2017 Unaudited
Net gain/(loss) on derivative financial instruments in foreign currency	17,581	(48,830)
Total net gain/(loss) on operations with financial assets and liabilities at fair value through profit or loss	**17,581**	**(48,830)**

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

	Six-month period ended 30 June 2018 Unaudited	Six-month period ended 30 June 2017 Unaudited
Translation differences, net	(14,398)	49,982
Dealing, net	(39)	2
Total net (loss)/gain on transactions in foreign currencies	**(14,437)**	**49,984**

9 OPERATING EXPENSES

	Six-month period ended 30 June 2018 Unaudited	Six-month period ended 30 June 2017 Unaudited
Staff costs and other payments to employees	12,955	13,265
Premises expenses	1,110	869
Depreciation and amortisation	583	647
Professional services	490	557
Business trip expenses	423	401
Communication	403	416
Maintenance of acquired systems and programs	365	369
Business development expenses	257	174
Security	242	278
Transportation	96	91
Office, postal and printing expenses	78	86
Training	24	33
Other	225	179
Total operating expenses	**17,251**	**17,365**

(in thousands of US dollars)

10 TECHNICAL ASSISTANCE FUND EXPENSES

	Six-month period ended 30 June 2018 Unaudited	Six-month period ended 30 June 2017 Unaudited
Technical assistance fund expenses	23	-

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

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

	30 June 2018 Unaudited	31 December 2017
TAF reserve	9,300	9,323

11 CASH AND CASH EQUIVALENTS

	30 June 2018 Unaudited	31 December 2017
Cash and balances with national (central) banks of Member states of the Bank	713	458
Correspondent accounts with other banks:		
- with credit ratings A- and above	144,857	21,333
- with credit ratings below A- and not rated	9,716	4,964
Term deposits in other banks:		
- with credit ratings A- and above	141,306	30,626
- with credit ratings from BBB+ to BBB-	-	10,001
- with credit ratings from BB+ to BB-	14,991	81,702
- with credit ratings below BB- and not rated	532	10,437
Loans under reverse repurchase agreements:		
- with pledge credit ratings from BBB+ to BBB-	-	7,849
- with pledge credit ratings from BB+ to BB-	65,719	-
Total cash and cash equivalents	**377,834**	**167,370**

(in thousands of US dollars)

11 CASH AND CASH EQUIVALENTS (CONTINUED)

The movements in allowance for impairment losses/economic credit losses on cash and cash equivalents were as follows:

	Six-month period ended 30 June 2018 Unaudited
Beginning of the period	-
Expected credit loss adjustment per IFRS 9 as at 1 January 2018	(33)
Net recovery	2
End of the period	**(31)**

The fair value of assets pledged and carrying value of loans under reverse repurchase agreements as at 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018 Unaudited		31 December 2017	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
With pledge credit ratings from BBB+ to BBB-	-	-	7,849	8,033
With pledge credit ratings from BB+ to BB-	65,735	72,151	-	-
	65,735	**72,151**	**7,849**	**8,033**
Less expected credit loss provisions	(16)	-	-	-
Net value	**65,719**	**72,151**	**7,849**	**8,033**

12 LOANS AND ADVANCES TO BANKS

	30 June 2018 Unaudited	31 December 2017
Loans to banks	197,832	157,336
Loans under reverse repurchase agreements:		
- with pledge credit ratings A- and above	35,492	34,340
	233,324	**191,676**
Less expected credit loss provisions (2017: country risk provisions)	(2,035)	(111)
Total loans and advances to banks	**231,289**	**191,565**

The fair value of assets pledged and carrying amount of loans under reverse repurchase agreements as at 30 June 2018 and 31 December 2017:

	30 June 2018 Unaudited		31 December 2017	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Loans under reverse repurchase agreements:				
- with pledge credit ratings A- and above	35,492	34,843	34,340	34,577

(in thousands of US dollars)

12 LOANS AND ADVANCES TO BANKS (CONTINUED)

As at 30 June 2018, loans and advances to banks include accrued interest income amounting to 5,210 thousand US dollars (31 December 2017: 3,221 thousand US dollars).

As at 30 June 2018 and 31 December 2017 no loans and advances to banks were past due.

There was no effect from transition to IFRS 9 in regards of new classification and measurement requirements; whole effect disclosed is a result of impairment assessment.

13 LOANS TO CUSTOMERS

	30 June 2018 Unaudited	31 December 2017
Unimpaired loans to customers	1,704,681	1,288,768
Impaired loans to customers, including:		
- not overdue or overdue less than 90 days	38,573	64,531
- overdue more than 90 days	-	22,333
- defaulted loans	28,262	23,813
	1,771,516	**1,399,445**
Less expected credit loss provisions (2017: impairment losses)	(61,138)	(55,180)
Total loans to customers	**1,710,378**	**1,344,265**

As at 30 June 2018, the Bank has loans to six customers in default for a total gross amount of 28,262 thousand US dollars (31 December 2017: five customers in default for a total gross amount of 23,813 thousand US dollars).

These projects have defaulted due to various reasons, primarily due to deterioration of market conditions. As at 30 June 2018 and 31 December 2017 these loans were fully provisioned.

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

As at 30 June 2018, there were no customers with loans overdue more than 90 days, except defaulted ones. As at 31 December 2017, besides defaulted customers, the Bank has one customer with impaired loan overdue more than 90 days. The outstanding balance of this loan is 22,333 thousand US dollars and the allowance for impairment losses is nil.

As at 30 June 2018, the Bank has loans to four customers (31 December 2017: seven customers) with outstanding impaired loans not overdue or overdue less than 90 days for a total gross amount of 38,573 thousand US dollars (31 December 2017: 64,531 thousand US dollars) with related allowance for impairment losses of 29,189 thousand US dollars (31 December 2017: 29,845 thousand US dollars).

On 20 February 2018, impaired loans to three customers that were not overdue or overdue less than 90 days for a total gross amount of 26,852 thousand US dollars (31 December 2017: 26,050 thousand US dollars) were fully repaid by third party. Following it the Bank has reversed related allowance for impairment losses of 10,062 thousand US dollars (31 December 2017: 8,713 thousand US dollars).

There was no effect from transition to IFRS 9 in regards of new classification and measurement requirements; whole effect disclosed is a result of impairment assessment.

(in thousands of US dollars)

13 LOANS TO CUSTOMERS (CONTINUED)

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

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

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

	30 June 2018 Unaudited	31 December 2017
Loans collateralised by real estate, equipment and inventories	980,366	592,540
Loans collateralised by guarantees:		
- State entities	335,478	351,779
- Governments of the Member-states of the Bank	191,871	215,760
- Financial and commercial organisations	151,359	143,689
Loans collateralised by future cash inflows from clients' contracts or without collateral	112,442	95,677
	1,771,516	**1,399,445**
Less expected credit loss provisions (2017: impairment losses)	(61,138)	(55,180)
Total loans to customers	**1,710,378**	**1,344,265**

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

	30 June 2018 Unaudited	31 December 2017
Transport	629,056	279,070
Mining and metallurgy	385,255	384,465
Energy	373,314	346,703
Infrastructure	228,537	209,333
Agriculture	68,862	65,028
Machinery	55,534	58,855
Chemical industry	17,069	18,413
Other	13,889	37,578
	1,771,516	**1,399,445**
Less expected credit loss provisions (2017: impairment losses)	(61,138)	(55,180)
Total loans to customers	**1,710,378**	**1,344,265**

As at 30 June 2018, loans to customers included accrued interest income amounting to 24,221 thousand US dollars (31 December 2017: 25,107 thousand US dollars).

(in thousands of US dollars)

13 LOANS TO CUSTOMERS (CONTINUED)

Concentration of loans to customers

As at 30 June 2018, the Bank has two customers (31 December 2017: one customer), whose balances exceed 10% of total equity of the Bank. The value of these balances as at 30 June 2018 is 380,866 thousand US dollars and 188,645 thousand US dollars, respectively (31 December 2017: 188,757 thousand US dollars). In 2018 according to the Council's decision the Bank has invested 380,866 thousand US dollars into Russian-based transport project.

14 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 30 June 2018, financial assets at fair value through other comprehensive income (2017: financial assets available-for-sale) consist of:

	30 June 2018 Unaudited	31 December 2017
Debt instruments in Treasury portfolio	1,056,524	1,475,903
Debt instruments in Investment portfolio	80,587	105,124
Equity instruments in Investment portfolio	18,894	19,814
	1,156,005	**1,600,841**
Less expected credit loss provisions (2017: impairment losses)	(1,787)	(162)
Total financial assets at fair value through other comprehensive income (2017: financial assets available-for-sale)	**1,154,218**	**1,600,679**

	30 June 2018 Unaudited		31 December 2017	
	Nominal interest rate	Fair value	Nominal interest rate	Fair value
Debt instruments in Treasury portfolio:				
- bonds issued by non-financial organizations	3.45 - 9.13%	406,627	0.00 - 9.50%	529,105
- Eurobonds of the Russian Federation	3.50 - 11.00%	324,675	3.50 - 4.88%	117,026
- bonds issued by USA	0.75 - 1.25%	205,349	0.00 - 3.50%	374,768
- bonds issued by banks and financial institutions of non-member states	0.00 - 2.88%	78,940	0.00 - 2.88%	315,307
- bonds issued by banks and financial institutions of the Russian Federation and the Republic of Kazakhstan	3.98%	24,171	3.98 - 4.00%	130,699
- Eurobonds of the Republic of Kazakhstan	3.88%	11,552	-	-
- Eurobonds of the Republic of Armenia	6.00%	5,210	0.00 - 9.00%	8,998
		1,056,524		**1,475,903**
Less expected credit loss provisions (2017: impairment losses)		(1,020)		-
		1,055,504		**1,475,903**

(in thousands of US dollars)

14 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

The table below presents the breakdown of the financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets) in Treasury portfolio by credit risk rating:

	30 June 2018 Unaudited Fair value	31 December 2017 Fair value
Debt instruments in Treasury portfolio:		
- with credit ratings AA- and above	224,698	522,110
- with credit ratings from A+ to A-	59,591	167,965
- with credit ratings from BBB+ to BBB-	254,559	30,265
- with credit ratings from BB+ to BB-	512,466	746,565
- with credit ratings below BB-	5,210	8,998
	1,056,524	**1,475,903**
Less expected credit loss provisions (2017: impairment losses)	(1,020)	-
	1,055,504	**1,475,903**

	30 June 2018 Unaudited		31 December 2017	
	Nominal interest rate	Fair value	Nominal interest rate	Fair value
Debt instruments in Investment portfolio:				
- bonds issued by non-financial organisations	4.38 - 11.50%	67,542	4.38 - 11.50%	69,524
- bonds issued by financial organisations	10.25 - 15.00%	13,045	10.25 - 15.00%	35,600
		80,587		**105,124**
Less expected credit loss provisions (2017: impairment losses)		(767)		(162)
		79,820		**104,962**

As at 30 June 2018, debt instruments at fair value through other comprehensive income (2017: available-for-sale financial assets) include accrued interest income amounting to 15,498 thousand US dollars (31 December 2017: 11,572 thousand US dollars).

	30 June 2018 Unaudited		31 December 2017	
	Ownership interest	Fair value	Ownership interest	Fair value
Equity instruments in Investment portfolio:				
- investments into private equity fund “Macquarie Russia and CIS Infrastructure Fund”	15.87%	18,894	15.87%	19,814

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.

(in thousands of US dollars)

14 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

An impairment loss of 1,073 thousand US dollars was recognized during the six-months period ended 30 June 2018 (the year ended 31 December 2017: 1,543 thousand US dollars) as the result of the decline of the fair value of the equity investment.

As at 30 June 2018 and 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.

15 LOANS AND DEPOSITS FROM BANKS

	30 June 2018 Unaudited	31 December 2017
Deposits from banks	117,772	109,253
Loans from banks	95,916	47,448
Loans under repurchase agreements:		
- in Russian rouble	226,586	170,466
- in Kazakhstani tenge	58,377	50,662
	498,651	**377,829**

During 2018 and 2017 the Bank has concluded repurchase agreement operations in order to: a) satisfy its need of Russian rouble liquidity, and b) borrow Kazakhstani tenge funds from National Bank of Republic of Kazakhstan for project financing.

The fair value of assets pledged and carrying value of loans under repurchase agreements as at 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018 Unaudited		31 December 2017	
	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral
US Treasuries	207,586	229,390	221,128	227,961
Eurobonds of the Republic of Kazakhstan and Russian Federation	77,377	86,460	-	-
Total loans under repurchase agreements	**284,963**	**315,850**	**221,128**	**227,961**

As at 30 June 2018, loans and deposits from banks included accrued interest payable amounting to 9,181 thousand US dollars (31 December 2017: 7,468 thousand US dollars).

(in thousands of US dollars)

16 DEBT SECURITIES ISSUED

				30 June 2018 Unaudited	31 December 2017
Debt securities issued and denominated in USD					
Issue series	Put option date	Due date	Interest rate, %		
Series 03	-	Sep 2022	4.767	302,462	302,413
Series 05	-	Sep 2020	5.000	284,577	283,100
Total debt securities issued and denominated in USD				**587,039**	**585,513**
Debt securities issued and denominated in RUB					
Issue series	Put option date	Due date	Interest rate, %		
Series 11	Aug 2021	Jan 2025	7.750	82,016	-
Series 08	-	Oct 2020	8.200	81,003	88,239
Series 06	-	Sep 2020	7.300	53,317	59,059
Series 10	-	Jan 2023	12.250	33,612	36,588
Series 05	Jul 2019	Jul 2020	9.500	24,379	26,569
Series 07	Oct 2018	Sep 2020	9.350	20,447	22,253
Series 09	Nov 2018	May 2021	7.800	7,292	7,936
Series 01	-	Jan 2019	9.300	3,671	3,995
Series 02	-	Feb 2019	8.300	3	3
Series 04	-	Feb 2018	8.100	-	9,214
Total debt securities issued and denominated in RUB				**305,740**	**253,856**
Debt securities issued and denominated in KZT					
Issue series	Put option date	Due date	Interest rate, %		
Series 03	-	Aug 2019	7.200	60,137	61,655
Series 04	-	Sep 2019	7.200	59,785	61,294
Series 10	-	Oct 2020	9.400	59,700	61,186
Series 01	-	Jun 2021	9.100	58,710	-
Series 02	-	Jun 2021	9.100	58,710	-
Series 04	-	May 2020	10.100	44,281	45,374
Series 07	-	Jun 2021	9.100	29,355	-
Series 02	-	Apr 2018	6.000	-	98,790
Series 01	-	Dec 2017	6.250	-	30,673
Total debt securities issued and denominated in KZT				**370,678**	**358,972**
Total debt securities issued				**1,263,457**	**1,198,341**

As at 30 June 2018, debt securities issued included accrued interest payable amounting to 21,060 thousand US dollars (31 December 2017: 24,004 thousand US dollars).

(in thousands of US dollars)

17 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 interim condensed statement of financial position.

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

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

As at 30 June 2018 and 31 December 2017, the nominal or contractual amounts were:

	30 June 2018 Unaudited Nominal Amount	**31 December 2017 Nominal amount**
Commitments on loans and unused credit lines	933,599	637,085
Guarantees and letters of credit issued	1,021	-
Commitments to join private equity funds	16,314	16,314
Total contingent liabilities and credit commitments	**950,934**	**653,399**

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.

(in thousands of US dollars)

18 TRANSACTIONS WITH RELATED PARTIES

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

(a) Transactions with key management

The remuneration of directors and other members of key management included in staff costs and other payments to employees (including accommodation cost of employees) (Note 9) was as follows:

	Six-month period ended 30 June 2018 Unaudited		Six-month period ended 30 June 2017 Unaudited	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Key management personnel compensation, short-term employee benefits:				
Staff costs and other payments to employees	1,783	12,449	2,219	12,773
Accommodation costs of employees	73	506	62	492
Total	**1,856**	**12,955**	**2,281**	**13,265**

The outstanding balances as at 30 June 2018 and 31 December 2017 for transactions with the members of the Executive Board are as follows:

	30 June 2018 Unaudited	31 December 2017
Interim condensed statement of financial position		
Other liabilities - pension reserves and accrued bonuses	1,653	2,514

(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 Fund.

(in thousands of US dollars)

18 TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

(b) Transactions with other related parties, continued

The outstanding balances and the related average interest rates as at 30 June 2018 and 31 December 2017 with other related parties are as follows:

	30 June 2018 Unaudited		31 December 2017	
	Other related parties	Average interest rate, %	Other related parties	Average interest rate, %
Statement of financial position				
ASSETS				
Cash and cash equivalents:				
- USD	15,615	1.83%	145	-
- RUB	191	-	81,917	7.59%
- KZT	354	-	231	-
- Other currencies	724	-	46	-
Financial assets at fair value through profit or loss:				
- USD	2,264	-	-	-
Loans and advances to banks:				
- USD	690	0.00%	-	-
- KZT	29,154	10.75%	30,423	11.94%
- Other currencies	22,780	3.03%	-	-
Loans to customers:				
- USD	219,367	9.52%	169,801	10.37%
- RUB	169,437	11.47%	190,719	11.68%
- KZT	149,174	10.23%	163,754	10.54%
- Other currencies	231,008	2.64%	-	-
Financial assets at fair value through other comprehensive income (2017: available-for-sale):				
- USD	535,117	4.98%	409,430	3.75%
- RUB	96,666	7.49%	33,705	7.95%
- KZT	38,297	11.36%	37,532	10.18%
- Other currencies	80,094	4.26%	252,159	0.46%
Other assets:				
- USD	3,226	-	1,242	-
- RUB	-	-	2	-
- KZT	1	-	-	-
LIABILITIES				
Loans and deposits from banks:				
- RUB	27,085	7.30%	-	-
- KZT	49,946	6.73%	50,662	6.82%
Debt securities issued:				
- RUB	117,053	7.98%	106,008	8.67%
- KZT	209,414	7.97%	265,092	6.86%
Other liabilities:				
- USD	162	-	177	-
- RUB	2	-	-	-
Guarantees received:				
- USD	193,325		193,674	
- RUB	-		25,972	
- KZT	119,672		133,648	
Commitments:				
- USD	103,248		53,948	
- RUB	78,324		-	
- Other currencies	147,335		-	

(in thousands of US dollars)

18 TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

(b) Transactions with other related parties, continued

The profit or loss amounts of transactions for the six-month periods ended 30 June 2018 and 30 June 2017 with other related parties are as follows:

	Six-month period ended 30 June 2018 Unaudited	Six-month period ended 30 June 2017 Unaudited
Statement of profit or loss		
Interest income	45,503	41,925
Interest expense	(14,442)	(16,010)
Net recovery of provisions for impairment losses on interest bearing assets	200	9
Net loss from modification of financial assets	(150)	-
Net gain on financial assets and liabilities at fair value through profit or loss	1,804	206
Net realised gain on financial assets at fair value through other comprehensive income (2017: financial assets available-for-sale)	232	1,802
Net gain on transactions in foreign currencies	18,055	26,401
Fee and commission income	1,982	1,898
Fee and commission expense	(7)	-
Other income	28	26

(in thousands of US dollars)

19 SEGMENT REPORTING

Segment performance

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

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

	Russia Unaudited	Kazakhstan Unaudited	Belarus Unaudited	Other Member states Unaudited	Non-member states Unaudited	Total for the six-month period ended 30 June 2018 Unaudited
Interest income	41,893	46,612	9,271	1,110	4,874	103,760
Interest expense	(13,446)	(14,689)	-	-	(28,355)	(56,490)
Net recovery/(charge) of provisions for impairment losses on interest bearing assets	279	(4,708)	9,754	(56)	41	5,310
Provision for impairment losses on equity financial assets available-for-sale	(1,073)	-	-	-	-	(1,073)
Net loss from modification of financial assets	-	(1,842)	(419)	-	-	(2,261)
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	1,829	6,640	-	(300)	9,412	17,581
Net realised gain/(loss) on financial assets at fair value through other comprehensive income	253	45	-	(2)	(105)	191
Net (loss)/ gain on transactions in foreign currencies	(6,148)	(3,109)	-	8	(5,188)	(14,437)
Fee and commission income	2,084	12	2	-	72	2,170
Fee and commission expense	(50)	(16)	-	(1)	(86)	(153)
Net loss on trading with debt securities issued	(1)	-	-	-	-	(1)
Other income	-	90	125	4	-	219
Net result from financial operations	**25,620**	**29,035**	**18,733**	**763**	**(19,335)**	**54,816**
Capital expenditure	113	303	-	2	-	418
Depreciation and amortization	100	478	1	4	-	583

(in thousands of US dollars)

19 SEGMENT REPORTING (CONTINUED)

Segment performance, continued

	Russia Unaudited	Kazakhstan Unaudited	Belarus Unaudited	Other Member states Unaudited	Non-member states Unaudited	Total 30 June 2018 Unaudited
Cash and cash equivalents	89,711	820	18	283	287,002	377,834
Financial assets at fair value through profit or loss	2,264	104	-	-	7,245	9,613
Loans and advances to banks	79,488	74,003	31,993	45,805	-	231,289
Loans to customers	726,884	789,373	191,871	2,250	-	1,710,378
Financial assets at fair value through other comprehensive income	685,279	179,489	-	4,964	284,486	1,154,218
Property, equipment and intangible assets	238	11,512	3	13	-	11,766
Other assets	4,087	2,153	10	41	473	6,764
Total assets	**1,587,951**	**1,057,454**	**223,895**	**53,356**	**579,206**	**3,501,862**
Total liabilities	**385,536**	**453,460**	**1**	**11**	**952,256**	**1,791,264**
Contingent liabilities and credit commitments	422,468	354,335	109,519	64,612	-	950,934

(in thousands of US dollars)

19 SEGMENT REPORTING (CONTINUED)

Segment performance, continued

	Russia Unaudited	Kazakhstan Unaudited	Belarus Unaudited	Other Member states Unaudited	Non-member states Unaudited	Total for the six-month period ended 30 June 2017 Unaudited
Interest income	37,898	43,416	13,035	901	2,840	98,090
Interest expense	(16,606)	(10,891)	-	-	(26,314)	(53,811)
Net charge of provisions for impairment losses on interest bearing assets	(14,443)	(1,010)	(48)	(67)	-	(15,568)
Net loss on financial assets and liabilities at fair value through profit or loss	(1,195)	(5,359)	-	-	(42,276)	(48,830)
Net realised gain/(loss) on financial assets available-for-sale	2,318	(27)	-	-	(1)	2,290
Net gain/(loss) on transactions in foreign currencies	2,002	3,991	-	(3)	43,994	49,984
Fee and commission income	3,110	4	-	-	-	3,114
Fee and commission expense	(31)	(14)	-	-	(92)	(137)
Net loss on trading with debt securities issued	(2)	-	-	-	-	(2)
Other income	16	55	-	-	-	71
Net result from financial operations	**13,067**	**30,165**	**12,987**	**831**	**(21,849)**	**35,201**
Capital expenditure	35	69	2	-	-	106
Depreciation and amortization	93	541	1	12	-	647

(in thousands of US dollars)

19 SEGMENT REPORTING (CONTINUED)

Segment performance, continued

	Russia	Kazakhstan	Belarus	Other Member states	Non-member states	Total 31 December 2017
Cash and cash equivalents	86,369	18,249	42	164	62,546	167,370
Financial assets at fair value through profit or loss	-	-	-	135	-	135
Loans and advances to banks	65,636	73,625	21,384	30,920	-	191,565
Loans to customers	411,692	697,119	233,060	2,394	-	1,344,265
Financial assets available for sale	720,072	181,845	-	8,998	689,764	1,600,679
Property, equipment and intangible assets	225	11,686	5	15	-	11,931
Other assets	2,326	1,867	16	29	272	4,510
Total assets	**1,286,320**	**984,391**	**254,507**	**42,655**	**752,582**	**3,320,455**
Total liabilities	**257,914**	**431,888**	**4**	**9**	**921,039**	**1,610,854**
Contingent liabilities and credit commitments	422,084	116,012	109,053	6,250	-	653,399

Net result from financial operations, assets, liabilities and capital expenditure have generally been allocated based on the domicile of the counterparty. Tangible assets (cash on hand, premises and equipment) have been allocated based on the country in which they are physically held.

For the six-month period ended 30 June 2018 and 2017 there were no loans to customers with interest income individually exceeding 10% of interest income.

20 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 the Bank's accounting policy. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(b) Valuation of financial instruments

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

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

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

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

The Bank uses widely recognized 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.

(in thousands of US dollars)

20 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Valuation of financial instruments, continued

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

The table below analyses financial instruments measured at fair value as at 30 June 2018 and 31 December 2017, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position:

	Level 1	Level 2	Level 3	30 June 2018 Total Unaudited
Financial assets at fair value through profit or loss	-	9,613	-	9,613
Financial assets at fair value through other comprehensive income:				
- debt instruments	1,055,504	98,709	5	1,154,218
- equity instruments			18,894	18,894
Financial liabilities at fair value through profit or loss	-	(2,802)	-	(2,802)

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

(in thousands of US dollars)

20 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Valuation of financial instruments, continued

The following table shows reconciliation for the periods ended 30 June 2018 and 31 December 2017 for fair value measurements in Level 3 of the fair value hierarchy:

	Level 3	
	Six-month period ended 30 June 2018 Unaudited	**Year-ended 31 December 2017**
Financial assets at fair value through other comprehensive income (2017: available-for-sale)		
Balance at beginning of the period	124,776	55,039
Expected credit loss adjustment per IFRS 9 as at 1 January 2018	(639)	-
(Sale)/purchase of instruments	(24,328)	66,872
Expected credit gain/(loss) provisions (2017: impairment losses)	16	(1,706)
Revaluation	(1,111)	4,571
Balance at end of the period	**98,714**	**124,776**

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 value of the investments by 10 or more percent within a one year horizon.

The table below analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorized as at 30 June 2018, and 31 December 2017. The Bank believes that carrying value of loans to customers and loans and advances to banks represents their fair value. The Bank is a financial organization oriented for development and, thus, most of the loans are unique and interest rates are specific for each project and less sensitive to the market fluctuations.

				30 June 2018 Unaudited	
	Level 1	**Level 2**	**Level 3**	**Total fair value**	**Total carrying value**
Financial assets					
Cash and cash equivalents	-	377,834	-	377,834	377,834
Loans and advances to banks	-	231,289	-	231,289	231,289
Loans to customers	-	1,710,378	-	1,710,378	1,710,378
Other financial assets	-	4,897	-	4,897	4,897
Financial liabilities					
Loans and deposits from banks	-	498,651	-	498,651	498,651
Debt securities issued	1,265,255	-	-	1,265,255	1,263,457
Other financial liabilities	-	25,229	-	25,229	25,229

(in thousands of US dollars)

20 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Valuation of financial instruments, continued

				31 December 2017	
	Level 1	Level 2	Level 3	Total fair value	Total carrying value
Financial assets					
Cash and cash equivalents	-	167,370	-	167,370	167,370
Loans and advances to banks	-	191,565	-	191,565	191,565
Loans to customers	-	1,311,064	33,201	1,344,265	1,344,265
Other financial assets	-	3,099	-	3,099	3,099
Financial liabilities					
Loans and deposits from banks	-	377,829	-	377,829	377,829
Debt securities issued	1,239,240	-	-	1,239,240	1,198,341
Other financial liabilities	-	23,096	-	23,096	23,096

21 RISK MANAGEMENT POLICIES

(a) Credit risk

As at 30 June 2018, the credit ratings and credit risk of the counterparties have not significantly changed compared to 31 December 2017.

(i) Assets allocation in portfolios

The Bank separates its assets into two portfolios which are the investment portfolio and the treasury portfolio. The purpose of this separation is to provide management of the Bank with the information about the portfolios' assets structure as these portfolios pursue different aims of the Bank and are managed differently. For each of the portfolios the Executive Board of the Bank and the Assets and Liabilities Management Committee review 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 in the investment portfolio pursue the strategic objectives of the Bank of development of the market economy and integration in its Member states. These assets must conform with the Investment regulations, which set out the main principles that guide the Bank when considering investment projects. Origination and acquisition of these assets must be approved by the Credit Committee, the Executive Board and, in certain cases, the Council of the Bank.

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

(in thousands of US dollars)

21 RISK MANAGEMENT POLICIES (CONTINUED)

(a) Credit risk, continued

(i) Assets allocation in portfolios, continued

Information regarding each portfolio is included below:

	Current investment portfolio	Treasury Portfolio	Unallocated*	30 June 2018 Total Unaudited
Cash and cash equivalents	-	377,834	-	377,834
Financial assets at fair value through profit or loss	-	9,613	-	9,613
Loans and advances to banks	196,074	35,492	(277)	231,289
Loans to customers	1,769,388	-	(59,010)	1,710,378
Financial assets at fair value through other comprehensive income	98,741	1,055,504	(27)	1,154,218
Property, equipment and intangible assets	-	-	11,766	11,766
Other assets	-	-	6,764	6,764
Total assets	**2,064,203**	**1,478,443**	**(40,784)**	**3,501,862**
Total liabilities	**-**	**405,537**	**1,385,727**	**1,791,264**
Contingent liabilities and credit commitments	950,934	-	-	950,934
Total current investment portfolio	**3,015,137**			

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

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

(in thousands of US dollars)

21 RISK MANAGEMENT POLICIES (CONTINUED)

(b) Liquidity risk

During the six-month period ended 30 June 2018, there were no significant changes in liquidity risk comparing to 31 December 2017.

(c) Market risk

Market risk covers interest rate risk, currency and pricing risks. In order to measure price and currency risks the Bank uses value-at-risk (VAR) methodology. In order to measure interest rate risk the Bank assesses its sensitivity to changes in interest rates. The Bank uses a system of limits to manage these risks. During the six-month period ended 30 June 2018, there were no significant changes in market risk comparing to 31 December 2018.

(d) Currency risk

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

	US dollars Unaudited	Kazakhstan tenge Unaudited	Russian rouble Unaudited	Euro Unaudited	Other currencies Unaudited	30 June 2018 Total Unaudited
Open balance sheet position	1,189,225	(31,266)	13,865	531,158	806	1,703,788
Net spot and derivative financial instruments position	528,342	30,709	(15,991)	(536,393)	144	6,811
TOTAL OPEN POSITION	**1,717,567**	**(557)**	**(2,126)**	**(5,235)**	**950**	**1,710,599**

	US dollars	Kazakhstan tenge	Russian rouble	Euro	Other currencies	31 December 2017 Total
Open balance sheet position	1,255,876	(42,226)	153,244	325,774	4,107	1,696,775
Net spot and derivative financial instruments position	426,736	42,207	(151,664)	(324,623)	(3,593)	(10,937)
TOTAL OPEN POSITION	**1,682,612**	**(19)**	**1,580**	**1,151**	**514**	**1,685,838**

21 RISK MANAGEMENT POLICIES (CONTINUED)

(e) Financial ratios

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

	30 June 2018 Unaudited	31 December 2017
Minimum amount of liquid assets in Treasury portfolio		
- required amount in thousands US dollars*	541,565	454,395
- *actual amount*	1,066,095	1,409,037
Financial leverage ratio		
- should be less or equal to 300% of the Bank's equity	300.00%	300.00%
- *actual ratio*	78.72%	75.63%
Maximum principal amount of the Bank's borrowings**		
- allowed amount in thousands of US Dollars		1,606,800
- *actual amount of the Bank's borrowings*		1,292,916

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

** 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.

22 EVENTS AFTER THE REPORTING PERIOD

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.