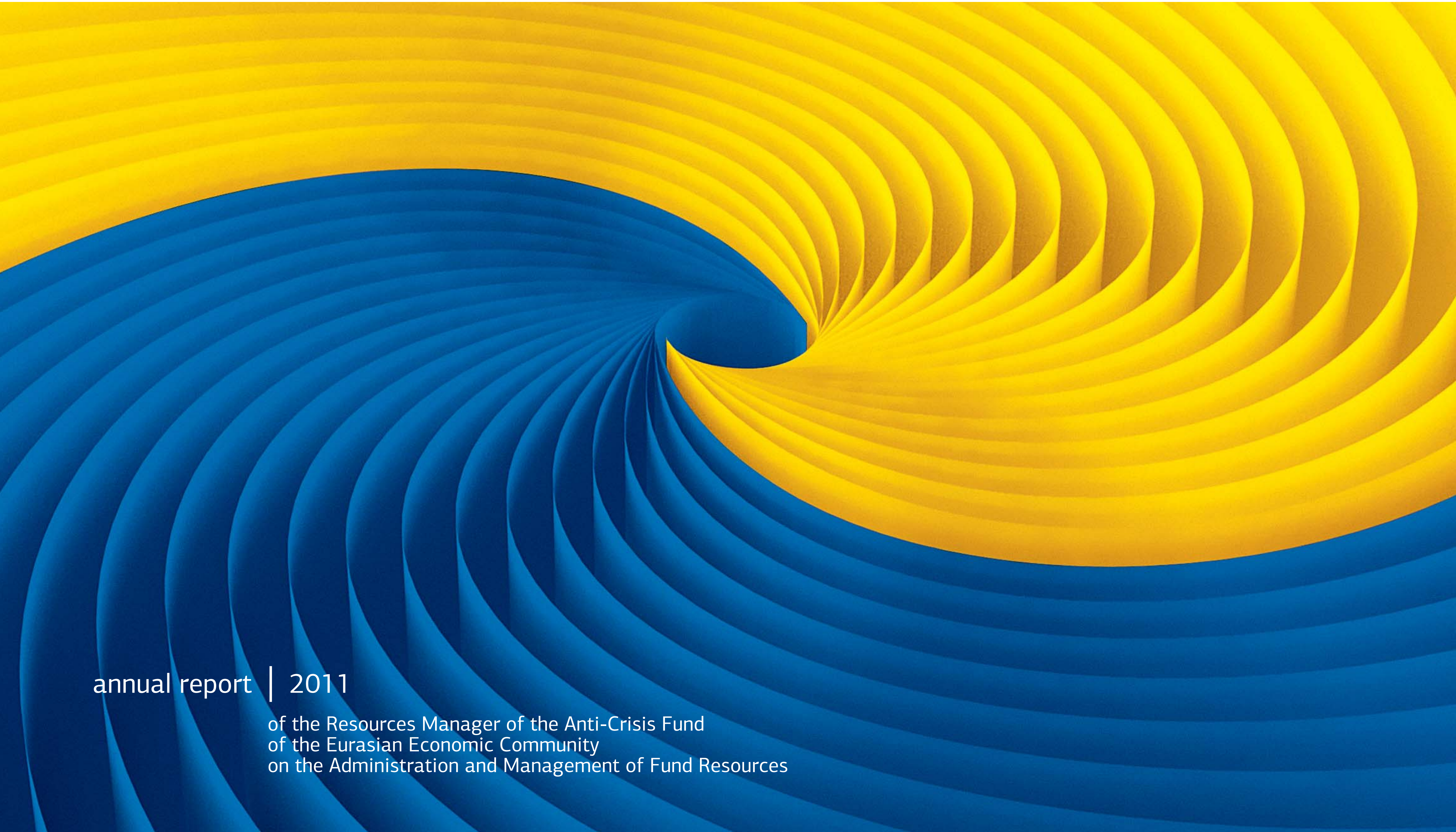
Eurasian Development Bank



annual report | 2011

of the Resources Manager of the Anti-Crisis Fund
of the Eurasian Economic Community
on the Administration and Management of Fund Resources

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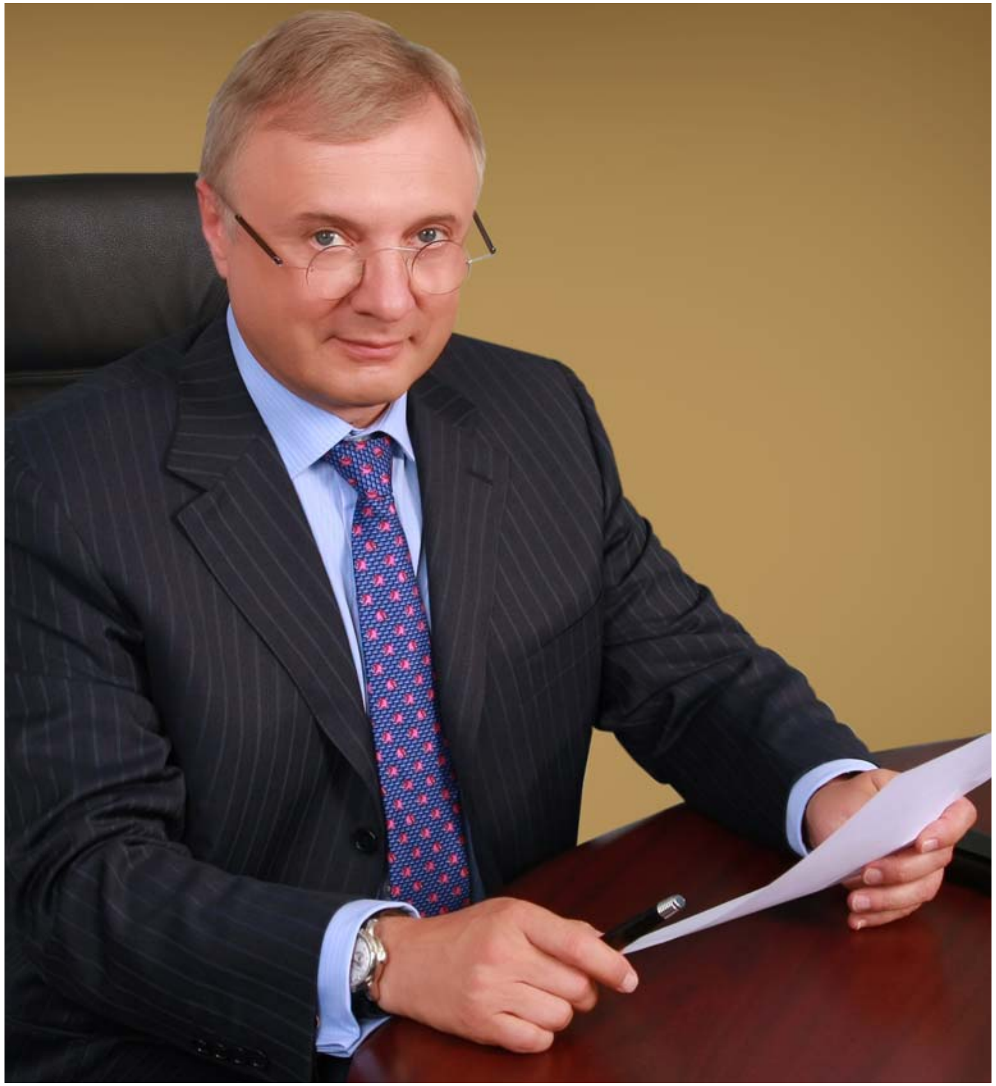
ADDRESS
of the Chairman of the Managing Board of the Eurasian Development Bank — the Resources Manager of the EurAsEC Anti-crisis Fund



Dear friends!

In 2011 the Eurasian Development Bank continued its activities as the Resources Manager of the EurAsEC Anti-Crisis Fund.

In 2011 the Fund Council approved a US$ 3 billion financial (stabilization) credit for the Republic of Belarus which aims to mitigate the impact of the financial crisis and to support the balance of payments. For this purpose the Manager conducted thorough assessments of macroeconomic situation of Belarus and developed specific recommendations to the Fund Council on the stabilization program for the Republic of Belarus.

In another milestone development, the Fund Resources Manager completed the implementation of the very first ACF financial credit, extended to the Republic of Tajikistan in 2010. The Manager also continued appraising several other applications for financial credits and investment loans that were filed by ACF member countries and by project companies.

The Manager maintained active dialogue with international and national development institutions on issues pertaining to crisis management and coordination of operations in ACF member countries. The international community highly appreciated the Manager's efforts to support stabilization programs in and to provide anti-crisis stimulus to the EurAsEC economies.

Despite the Fund being a non-profit institution, it generated in 2011 close to US$ 21 million in net interest income. These additional resources belong to the Fund's member states and can be used to expand its operations.

We thank the Fund's founders and partners for their comprehensive support of the Manager, and look forward to further productive cooperation with them aimed to build the prosperity of our member states.

Chairman of the Board I. Finogenov

BACKGROUND

The Anti-Crisis Fund of the Eurasian Economic Community (hereinafter — ACF, the Fund) was set up on 9 June, 2009 on the basis of the Treaty on the Establishment of the Fund pursuant to the relevant decision of the EurAsEC Interstate Council at the heads of state level. The Fund's mission is to support the economies of its member states in overcoming the consequences of global financial and economic crisis, in ensuring their economic and financial sustainability, and in promoting integration between the Fund member states. The Fund was founded by the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, Kyrgyz Republic, Russian Federation and the Republic of Tajikistan. The Fund is open for accession by other CIS countries.

The initial contributions of the founding states totalled US$ 8.513 billion. The size of contributions to the Fund from the founding states is established by the Treaty and is as follows:

Armenia	equivalent of US$ 1 million;
Belarus	equivalent of US$ 10 million;
Kazakhstan	equivalent of US$ 1 billion;
Kyrgyz Republic	equivalent of US$ 1 million;
Russian Federation	equivalent of US$ 7.5 billion;
Tajikistan	equivalent of US$ 1 million.

The ACF country access limits are established by the Fund Council annually and are proportionate to their countries' gross national income (GNI) per capita:

Armenia	US$ 1,106.99 million;
Belarus	US$ 1,787.73 million;
Kazakhstan	US$ 2, 043.12 million;
Kyrgyz Republic	US$ 255.39 million;
Russian Federation	US$ 3,149.81 million;
Tajikistan	US$ 170.26 million.

Pursuant to the Agreement on the Management of Resources of the Anti-Crisis Fund of the Eurasian Economic Community, management of the Fund resources was assigned to the Eurasian Development Bank (hereinafter — Manager, or EDB).

LENDING OPERATIONS

EDB's performance as the ACF Resources Manager is guided by the principle that national economies' resilience to crisis and their ability to grow, as well as to raise the standards of living are primarily the responsibilities of national states themselves. Timely support provided to the member states with ACF resources should help them to overcome the consequences of the global financial and economic crisis more efficiently.

In 2011 the Manager continued preparing and extending financial credits and investment loans of the Fund. It also carried out institutional development activities and coordinated its work with other international development institutions.

In the reporting year two agreements (one of which was a supplementary agreement) were signed to extend financial credits to the Fund member countries to a total of just over US$ 3 billion, and US$ 1.240 billion were disbursed by the year end. Seven more applications for financial credits and investment loans were being appraised, adding up to US$ 1.159 billion.

FINANCIAL CREDITS

ACF's financial credits are provided only to governments of member countries to support their budgets and balance of payments, and to enhance their economies' capacity to resist crises.

EDB as the ACF Manager adheres to its mission of supporting anti-crisis programs that are elaborated and implemented by the governments of borrower states themselves. Financial support is provided to stabilization programs that are consistent with policy objectives of the Fund, and include measures to restore macroeconomic stability, to strengthen their budgets and/or balances of payments, to improve competitiveness and business climate, and to promote financial and economic cooperation between member-states.

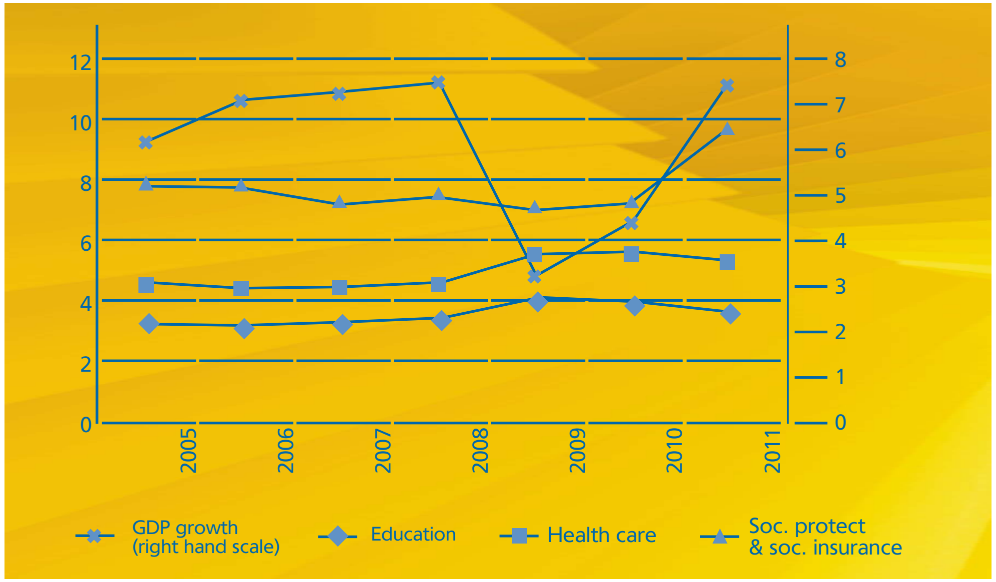
In the reporting year the Manager continued monitoring the utilization of financial credit to the Republic of Tajikistan in the amount of US$ 70 million, provided under the Agreement dated 24 July, 2010. On 4 June, 2011 the Fund Council supported Tajikistan's request to draw by end-2011 the undisbursed amount of this loan (US$ 8.5 million), which was carried over from 2010. By the end of the reporting year, the entire amount of this credit was drawn down.

Timely provision of financial resources by the Fund, in the context of exposure to adverse global and regional factors, helped the Government of Tajikistan to offset the shortfall of budget revenues and to fund most social spending programs approved by the Government.

During loan implementation, share of social sectors' expenditures has increased to 44.4% and 45.9% in 2010 and 2011 respectively, compared to 43.6% of actual state budget expenditures in 2009[1] (Figure 1). The share of this category of expenditures in GDP increased from 9% in 2010 to 9.7% in 2011 (Figure 2), with health care and social protection expenditures growing particularly strongly.

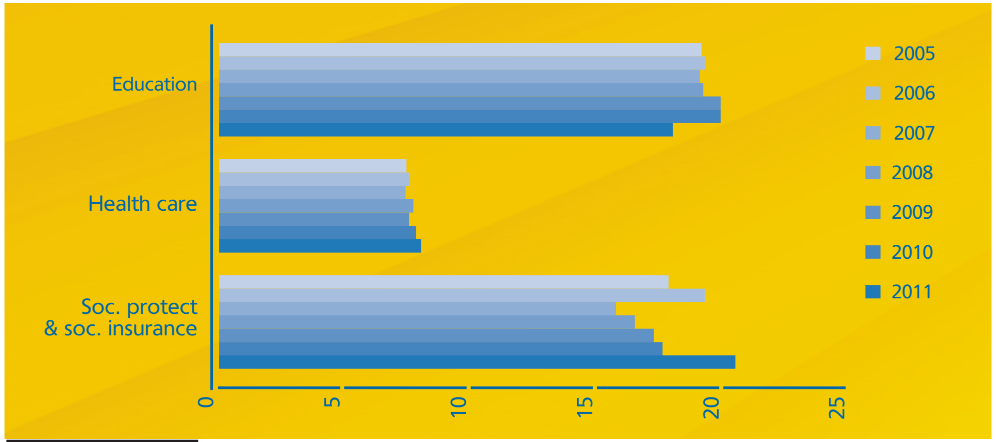
Under this loan agreement, the Government of Tajikistan has also launched important reforms aimed at improving the quality of public finance management. In particular, a decision was made to set up institutions for internal and external audit, and legislation was enacted to establish the main principles of their functioning. Over medium-term, the establishment and development of these institutions will help to increase the effectiveness of public spending and strengthen the Government's accountability for efficient use of resources use with the regards to other branches of authority and to civil society. Under ACF-supported program of reforms, important steps have been taken to change the structure and increase the level of civil servants' salaries in order to strengthen their motivation to improving the quality of state services.

Spending on social sectors (% OF GDP) Figure 2



Spending on social sectors in the Tajikistan State budget (without PIP)[2]

Spending on social sectors (% of total spending) Figure 1



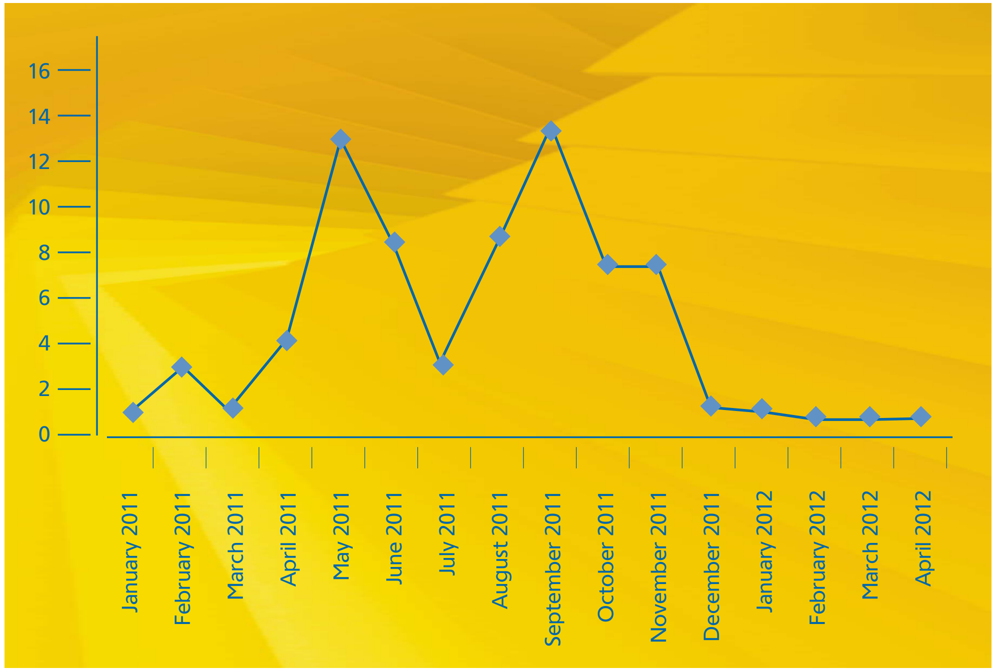
In the reporting year the Manager appraised a new application of the Ministry of Finance of Tajikistan dated 26 May, 2011 for the second financial credit in the amount of US$ 30 million for budget support and the continuation of public finance reforms funded by the First financial credit of the ACF. Since actual GDP growth in 2011 exceeded expectations and budget revenue collection was good, the Minister of Finance of Tajikistan as the plenipotentiary representative of the country in the Fund Council requested to defer the review of the above application to 2012.

On 4 June, 2011the Fund Council approved the application of the Republic of Belarus for a financial credit in the amount of US$ 3 billion. The credit was requested to support the stabilization of the balance of payments, to improve the economy's competitiveness, to cut the practice of emission lending, to strengthen the budget discipline and to replenish the currency reserves to a level that ensures economic security. Once the agreed upon stabilization steps had been undertaken, EDB disbursed to Belarus US$ 1.240 billion from this credit in two tranches — on 21 June and 30 December, 2011.

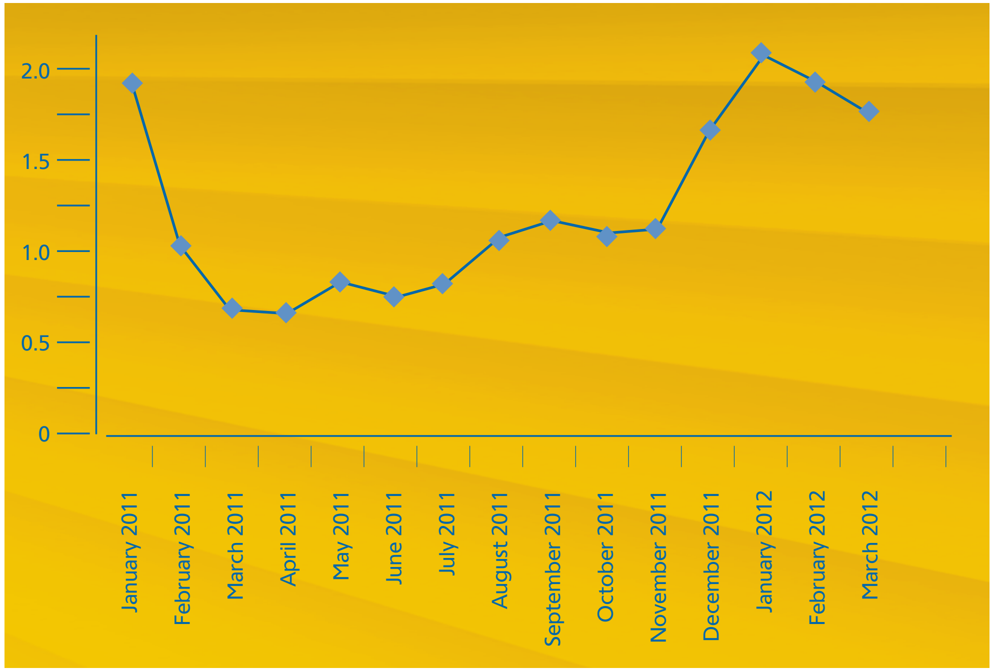
[1] Excluding the Public Investment Program (PIP).
[2] Source: The Ministry of Finance of the Republic of Tajikistan.

Belarus: Key Economic Indicators, 2011–2012 (Figures 3–5)[1]

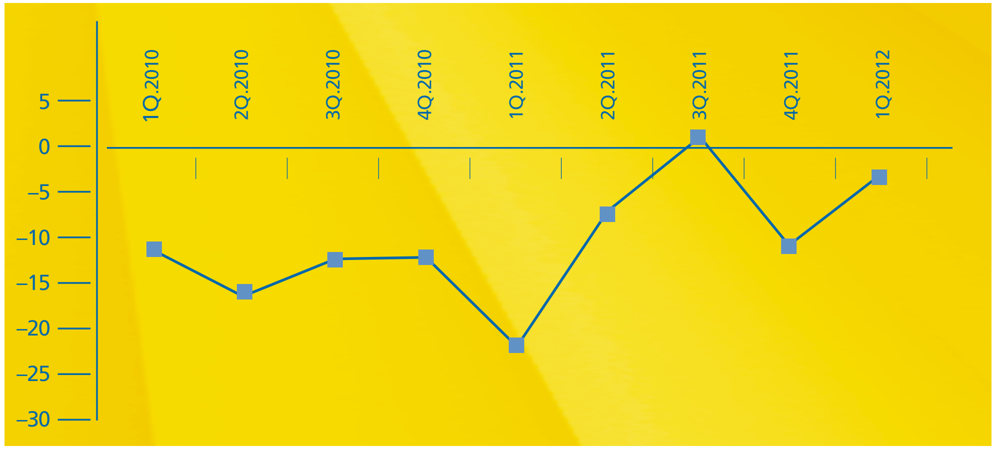
Headline Inflation (month to month, %) Figure 3



Gross Interational Reserves (months of imports) Figure 5



Current Account Balance (% of GDP) Figure 4



[1] Sources: Belstat, NB RB, ACF staff calculations

The financial resources of ACF provided to support the anti-crisis program of the Government and National Bank of Belarus, facilitated significant reduction of domestic and external economic imbalances (Figures 3–5). The current account deficit dropped in 2011 to 10.6% of GDP against 15.5% in 2010, and the international reserves grew to 2.1 months of imports in December 2011 compared to 1.1 in July 2011.

These positive changes resulted from terminating (in the second half of 2011) the non-market emission lending schemes, adopting a unified equilibrium exchange rate (in October), and achieving positive interest rates in real terms towards the year-end.

As compared with 2010, the funding of public programs from government deposits diminished, which reduced the quasi-fiscal deficit. Incomes earned from the privatization of 50% of stock of «Beltransgaz» also helped to replenish international reserves.

In 2011 the Manager continued appraisal of the application of the Kyrgyz Republic for an ACF financial credit, which was filed in 2010. In October 2011 the Kyrgyz Republic presented evidence of compliance with all the ACF credit eligibility requirements established by the Fund Council. On 28 November, 2011 the Fund Council recommended the Kyrgyz Ministry of Finance to specify the current requirements of the national budget and to submit the updated application for the ACF financial credit.

On 12 October, 2011 the Republic of Armenia filed an application for a financial credit in the amount of US$ 400 million to support the restructuring of its gas-chemical industry. Following consultations with the Fund, as of the end of the reporting year the Government of Armenia was considering an arrangement involving a strategic investor to support the upgrading program for its gas-chemical sector.

INVESTMENT LOANS

Investment loans are extended by the Fund to support projects designed to promote integration, as well as projects classified as large-scale national ones. In the challenging global economic environment, examination of applications and preparation of such projects for funding requires considerable time and detailed sector-specific assessment. Given the above, as of today the Fund has extended no loans for any investment purposes.

In the reporting year the Manager was appraising four applications for investment project funding by ACF totaling US$ 623 million, from Republic of Armenia, Republic of Belarus, Republic of Kazakhstan and Kyrgyz Republic. The above applications seek financial support for the construction of power transmission lines, hydroelectric plants, highways and railroads.

Furthermore, in 2011 consultations were carried out with the Government of Tajikistan on promoting the development of hydro power-generating facilities and financial institutions. The estimated cost of these projects as of the year-end was over US$ 500 million.

COORDINATION WITH OTHER DEVELOPMENT INSTITUTIONS

In 2011 the Manager actively pursued its partnership dialogue with other international development institutions to agree both on recommendations to borrowing countries on their stabilization programs supported by Fund financial credits, and on issues of investment project financing. In particular, as of the year-end:

- Indicative Plan for the Implementation of the Framework Agreement on Cooperation between the World Bank and EDB for 2011 — 2013 was signed and its execution began;
- Dialogue with IMF continued on the coordination between the two institutions in specific countries, as well as on reforming the international financial infrastructure;
- Interaction with EBRD expanded to the improvement of the Manager's corporate governance practices;
- The Manager actively participated in the donor clubs in Armenia, Kyrgyz Republic and Tajikistan.

ENSURING THE TRANSPARENCY AND ACCOUNTABILITY OF FUND OPERATIONS

In the reporting year the Manager prepared the following documents:

- Methodology for Creating Provisions for ACF Financial Credits and the new version of the Rules of Appraisal of EDB Assets (approved by the EDB Managing Board on 28 December 2011);
- EDB's Environmental and Social Safeguards Policy;
- Statute of the Department for Anti-Crisis Fund Management.

Furthermore, work continued on development of rules and procedures for procurement of goods, work and services under ACF projects and on EDB Regulations on ACF investment loans.

ADMINISTRATION OF TEMPORARILY IDLE RESOURCES

The administration of temporarily idle resources of the Fund was carried out in compliance with the Regulation on Investing Temporarily Idle Resources of ACF, adopted by the Fund Council on 25 February, 2010.

Pursuant to the decision of the Fund Council (Minutes # 6 dated 28 November, 2011), with a view to ensuring the security of temporary idle resources of the Fund, trading in securities of certain European sovereign issuers, international financial organizations and foreign government agencies was suspended.

At the same time the list of instruments for investing temporary idle resources of the Fund was extended to include certificates of deposit of principal financial institutions of the Fund member states, i.e. Vneshekonombank, Savings Bank of the Russian Federation and Development Bank of Kazakhstan.

FINANCIAL RESULTS

The independent audit report of KPMG Audit LLP dated 29 February, 2012 and the audited financial statements of ACF for 2011 compiled in compliance with the International Financial Reporting Standards are given in Appendix 1.

As of 31 December, 2011 the paid up contributions of the ACF member states were equal to US$ 1,540.6 billion. For the same date the amount of temporarily idle resources of the Fund was US$ 281.115 million. Net interest income of the Fund in 2011 amounted to US$ 21.892 million. US$ 20.842 million of the above amount accounts for interest paid on the financial credits extended to Belarus and Tajikistan.

In 2011 the provision for credit losses in the amount of US$ 1.050 million created in 2010 for the financial credit to Tajikistan, was posted into the Fund's proceeds accounts in accordance with the new methodology for creating credit loss provisions of the Manager.

Appendix 1

ANTI-CRISIS FUND OF THE EURASIAN ECONOMIC COMMUNITY

Financial Statements
For the Year Ended 31 December 2011

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KPMG Audit LLC
Koktem Business Centre
180 Dostyk Avenue
050051 Almaty, Kazakhstan
Telephone +7 (727) 298 08 98
Fax +7 (727) 298 07 08
E-mail company@kpmg.kz

Independent Auditors' Report

To the Member-states of the Anti-Crisis Fund of the Eurasian Economic Community

We have audited the accompanying financial statements of the Anti-Crisis Fund of the Eurasian Economic Community (the "Fund"), which comprise the statement of financial position as at 31 December 2011, and the statements of comprehensive income, changes in net assets attributable to the Member-states of the Fund and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The financial statements of the Fund as at and for the year ended 31 December 2010 were audited by other auditors whose report dated 22 February 2011 expressed an unmodified opinion on those statements.

Certified Auditor of the Republic of Kazakhstan,
Auditor's Qualification Certificate No. 536 of 10 January 2003 Alun Bowen

Managing Partner Nigay A. N.

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

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

28 February 2012

ANTI-CRISIS FUND OF THE EURASIAN ECONOMIC COMMUNITY

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011 (in thousands of US dollars)

	Note	Year ended 31 December 2011	Year ended 31 December 2010
Interest income	4	20,842	609
Interest income before provision for impairment losses on interest bearing assets		**20,842**	**609**
Reversal of / (provision for) impairment losses on loans to Member-states	5	1,050	(1,050)
NET INTEREST INCOME		**21,892**	**(441)**
Net gain on foreign exchange operations		1	–
Fee and commission expense		(16)	(14)
Operating income/(loss)		**21,877**	**(455)**
Operating expenses		(1,476)	(220)
NET PROFIT/(LOSS)		**20,401**	**(675)**
OTHER COMPREHENSIVE INCOME:			
Net unrealised loss on revaluation of financial assets available-for-sale		(1)	–
OTHER COMPREHENSIVE INCOME		**(1)**	**–**
TOTAL COMPREHENSIVE INCOME/(LOSS)		**20,400**	**(675)**

On behalf of the Asset Manager of the Fund, as appointed by the Member-states of the Fund:

Finogenov I. V.
Chairman of the Executive Board
Eurasian Development Bank

28 February 2012
Almaty, Kazakhstan

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

28 February 2012
Almaty, Kazakhstan

The notes on pages 15-39 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011 (in thousands of US dollars)

	Note	31 December 2011	31 December 2010
ASSETS			
Cash and cash equivalents	6	74,795	689
Loans to Member-states	7	1,310,563	69,209
Financial assets available-for-sale	8	174,998	–
Investments held-to-maturity	9	–	280,948
Amounts receivable from the Member-states of the Fund in the form of committed contributions	10	500,000	500,000
TOTAL ASSETS		**2,060,356**	**850,846**
LIABILITIES			
Payables to Eurasian Development Bank		30	220
Other liabilities		1	1
Total liabilities		**31**	**221**
NET ASSETS ATTRIBUTABLE TO THE MEMBER-STATES OF THE FUND		**2,060,325**	**850,625**
Net assets attributable to the Member-states of the Fund represented by:			
Paid-in contributions by the Member-states of the Fund	**10**	**1,540,600**	**351,300**
Initial contributions receivable from the Member-states of the Fund	10	500,000	500,000
Revaluation reserve for financial assets available-for-sale		(1)	–
Increase/(decrease) in net assets attributable to the Member-states of the Fund		19,726	(675)
		2,060,325	**850,625**

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO THE MEMBER-STATES OF THE FUND FOR THE YEAR ENDED 31 DECEMBER 2011 (in thousands of US dollars)

	Paid-in contributions by the Member-states of the Fund	Initial contributions receivable from the Member-states of the Fund	Revaluation reserve financial assets available-for-sale	Increase/(decrease) in net assets attributable to the Member-states of the Fund	Total
Balance at 31 December 2009	**101,300**	**750,000**	**–**	**–**	**851,300**
Net loss	–	–	–	(675)	(675)
Total comprehensive loss	**–**	**–**	**–**	**(675)**	**(675)**
Contributions by the Member-states of the Fund	250,000	(250,000)	–	–	–
Balance at 31 December 2010	**351,300**	**500,000**	**–**	**(675)**	**850,625**
Other comprehensive income	–	–	(1)	–	(1)
Net profit	–	–	–	20,401	20,401
Total comprehensive income	**–**	**–**	**(1)**	**20,401**	**20,400**
Contributions by the Member-states of the Fund	1,189,300	–	–	–	1,189,300
Balance at 31 December 2011	**1,540,600**	**500,000**	**(1)**	**19,726**	**2,060,325**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011 (in thousands of US dollars)

	Year ended 31 December 2011	Year ended 31 December 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received on loans to Member-states	**20,255**	**–**
Interest received on cash and cash equivalents	**6**	**6**
Interest received on investments held to maturity	**–**	**344**
Fee and commission paid	**(16)**	**(13)**
Operating expenses paid	**(1,667)**	**–**
Cash inflow from operating activities before changes in operating assets and liabilities	**18,578**	**337**
Changes in operating assets		
Increase in loans to Member-states	**(1,240,000)**	**(70,000)**
Net cash outflow from operating activities	**(1,221,422)**	**(69,663)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets available-for-sale	(174,887)	–
Redemption/(purchase) of investments held-to-maturity	281,115	(280,948)
Net cash inflow/(outflow) from investing activities	**106,228**	**(280,948)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions made by the Member-states of the Fund	1,189,300	250,000
Net cash inflow from financing activities	**1,189,300**	**250,000**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**74,106**	**(100,611)**
CASH AND CASH EQUIVALENTS, at beginning of the year	689	101,300
CASH AND CASH EQUIVALENTS, at end of the year (Note 6)	**74,795**	**689**

1 BACKGROUND

(a) Principal activities

The Anti-crisis Fund of the Eurasian Economic Community ("the Fund") was established by the Member-states of the Fund: the Republic of Belarus, the Republic of Kazakhstan, Kyrgyz Republic, the Russian Federation, the Republic of Tajikistan and the Republic of Armenia in accordance with a Treaty of Establishment of the Anti-crisis Fund of the Eurasian Economic Community signed in Moscow on 9 June 2009.

The Fund's main goals are to assist Member-states in overcoming the consequences of the global financial crisis, to ensure their long-run economic stability and to foster economic integration. The Fund has two main instruments: financial credits and investment loans.

The Fund's activities are not subject to the national legislations of the Member-states of the Fund.

The Fund's net assets are attributable to the Member-states of the Fund.

The Member-states of the Fund have appointed Eurasian Development Bank ("the Bank") as an Asset Manager of the Fund ("the Asset Manager"). The Asset Manager's function is performed by the Bank under the Agreement on asset management of the Fund between Member-states of the Fund and the Bank which was signed in Moscow on 9 June 2009. The Bank undertakes the Asset Manager's function for the Fund and manages the Fund's assets according to terms and conditions stipulated by this Agreement.

As at 31 December 2011 and 2010, the breakdown of the paid-in contributions by the Member-states of the Fund was distributed as follows:

	31 December 2011 %	31 December 2011	31 December 2010 %	31 December 2010
The Russian Federation	93.35	1,438,000	71.16	250,000
The Republic of Kazakhstan	6.49	100,000	28.47	100,000
The Republic of Belarus	0.13	2,000	0.28	1,000
Kyrgyz Republic	0.01	200	0.03	100
The Republic of Armenia	0.01	200	0.03	100
The Republic of Tajikistan	0.01	200	0.03	100
Total	**100.00**	**1,540,600**	**100.00**	**351,300**

According to the Treaty of Establishment of the Anti-crisis Fund of the Eurasian Economic Community, as at 31 December 2011 and 2010 the contributions not paid-in by the Member-states are as follows:

	Authorised, but not paid-in contributions as at 31 December 2011	Authorised, but not paid-in contributions as at 31 December 2010
The Russian Federation	6,062,000	7,250,000
The Republic of Kazakhstan	900,000	900,000
The Republic of Belarus	8,000	9,000
Kyrgyz Republic	800	900
The Republic of Armenia	800	900
The Republic of Tajikistan	800	900
Total	**6,972,400**	**8,161,700**

These financial statements were authorised for issue on 28 February 2012 by the Asset Manager of the Fund, as appointed by the Member-states of the Fund.

(b)Business environment

Member-states, that are emerging markets, are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Member-states and their economies in general.

Laws and regulations affecting businesses in Member-states continue to change. Tax, currency and customs legislation within Member-states are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges that might be faced by entities currently operating in Member-states. The future economic direction of Member-states is largely dependent upon economic, fiscal and monetary measures undertaken by their governments, together with legal, regulatory, and political developments.

Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment and from decline in the oil and gas prices could slow or disrupt the economies of Member-states, adversely affect business, results of operations, financial condition and prospects of the Fund.

The financial statements reflect management's assessment of the impact of the business environment in the Member states on the operations and the financial position of the Fund. The future business environment may differ from management's assessment.

2 BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial assets available-for-sale are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Fund is the US dollar ("USD") as it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

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

The following factors were considered in determining the functional currency by the Asset Manager of the Fund: contributions by the Member-states of the Fund are formed in US dollars, and the majority of the Fund's principal activities are conducted in US dollars.

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

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, 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 financial statements is described in the Note 7 "Loans to Member-states".

3 SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies are consistently applied in the preparation of the financial statements.

(a) Cash and cash equivalents

Cash and cash equivalents of the Fund include cash on hand, unrestricted balances on correspondent and time deposit accounts with original maturities of less than 90 days, which are subject to insignificant risk of changes in their fair value, and are used by the Asset Manger of the Fund in the management of short-term commitments.

(b) Loans to Member-states

Loans to Member-states are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified in other categories of financial assets. Loans to Member-states with a fixed maturity term are subsequently measured at amortised cost using the effective interest method. Loans to Member-states are carried net of allowance for impairment losses, if any.

(c) Financial instruments

(i) Classification

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,

- upon initial recognition, designated by the Fund as at fair value through profit or loss.

The Asset Manager of the Fund may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,

the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

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

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

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

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Asset Manager of the Fund has the positive intention and ability to hold to maturity, other than those that:

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

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

(ii) Recognition

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

(iii) Measurement

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

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

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

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

(iv) Amortised cost

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

(v) Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction on the measurement date.

When available, the Asset Manager of the Fund measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm’s length basis.

If a market for a financial instrument is not active, the Asset Manager of the Fund establishes fair value using a valuation technique. Valuation techniques include using recent arm’s length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Asset Manager of the Fund, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where there are positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Fund and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Asset Manager of the Fund believes a third-party market participant would take them into account in pricing a transaction.

(vi) Gains and losses on subsequent measurement

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

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

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

(vii) Derecognition

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

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

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

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

The Asset Manager of the Fund writes off assets deemed to be uncollectible.

(viii) Offsetting

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

(d) Impairment

(i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and other receivables ("loans and receivables"). The Asset Manager of the Fund reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

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

The Asset Manager of the Fund first assesses whether objective evidence of impairment exists individually for all loans and receivables. If the Asset Manager of the Fund determines that no objective evidence of impairment exists for an individually assessed loan or receivable, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

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

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

(ii) Financial assets carried at cost

Loans and receivables are written off against the allowance for losses when deemed uncollectible. Such write offs are recorded after management has exercised all possibilities available to collect amounts due to the Fund. Subsequent recoveries of amounts previously written off are reflected as an offset to the provision for impairment losses on loans to customers in the statement of comprehensive income in the period of recovery.

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

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

(iii) Available-for-sale assets

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

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

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

(e) Contributions by the Member-states of the Fund

Contributions by the Member-states of the Fund are recognised at cost and upon the confirmation of contribution transfer to the bank accounts specified in the Fund's bylaws.

The Council of the Fund reviews the capital structure on a regular basis. As a part of this review, the Council of the Fund approves changes in the authorised contributions by the Member-states of the Fund.

(f) Income and expense recognition

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

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

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

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

(g) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2011, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance of the Fund. The Asset Manager of the Fund plans to adopt these pronouncements when they become effective. The Asset Manager of the Fund has not yet analysed the likely impact of these new standards on its financial position and performance.

- IFRS 9 Financial Instruments will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in several phases and is intended to replace IAS 39 Financial Instruments: Recognition and Measurement. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012.

The Asset Manager of the Fund recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Fund's financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Asset Manager of the Fund does not intend to adopt this standard earlier.

- Amendment to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.

- Amendment to IFRS 7 Disclosures — Transfers of Financial Assets introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designed to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011.

- IFRS 13 Fair Value Measurement will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.
- Various Improvements to IFRSs have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2012. The Asset Manager of the Fund has not yet analysed the likely impact of the improvements on the financial position or performance of the Fund.

4 INTEREST INCOME

	Year ended 31 December 2011	Year ended 31 December 2010 года
Interest income comprises:		
Interest income on financial assets measured at amortised cost	20,732	609
Interest income on financial assets available-for-sale	110	–
Total interest income	**20,842**	**609**
Interest income on financial assets measured at amortised cost comprises:		
Interest on loans to Member-states	20,559	259
Interest on investments held-to-maturity	167	344
Interest on cash and cash equivalents	6	6
Total interest income on financial assets measured at amortised cost	**20,732**	**609**
Interest income before provision for impairment losses on interest bearing assets	**20,842**	**609**

5 PROVISION FOR IMPAIRMENT LOSSES ON LOANS TO MEMBER-STATES

The movements in allowance for impairment losses on loans to Member-states were as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Beginning of the year	**(1,050)**	**–**
Provision for impairment losses	–	(1,050)
Reversal of provision for impairment losses	1,050	–
End of the year (Note 7)	**–**	**(1,050)**

6 CASH AND CASH EQUIVALENTS

	31 December 2011	31 December 2010
Term deposits	70,000	–
Overnight loan	4,383	190
Correspondent accounts in banks on broker operations	304	389
Correspondent accounts in banks	108	110
Total cash and cash equivalents	**74,795**	**689**

None of cash and cash equivalents are impaired or past due.

As at 31 December 2011 and 2010, cash and cash equivalents did not include accrued interest.

Term deposits are made with 1 bank that has a credit rating of BBB by Standard&Poor's.

7 LOANS TO MEMBER-STATES

	31 December 2011	31 December 2010
Loans to Member-states:		
Loan to the Republic of Belarus	1,240,312	–
Loan to the Republic of Tajikistan	70,251	70,259
Less allowance for impairment losses	–	(1,050)
Total loans to Member-states	**1,310,563**	**69,209**

In 2011, the agreement granting the loan to Republic of Belarus was signed within the framework of anti-crisis program. The loan is committed for the total amount of 3,000,000 thousand US dollars, bears interest equal to the borrowing rate of the Russian Federation but not exceeding 4.9%, reset quarterly. The loan is provided in installments and as at 31 December 2011 1,240,000 thousand US dollars are disbursed. The loan matures in 10 years from the date of the agreement and has a grace period of 3 years. The loan is not collateralised.

The loan to Republic of Tajikistan is not collateralised and was provided for support of the healthcare, education and social sectors. The loan amount comprised 70,000 thousand US dollars. The loan bears an interest rate of 1%. The loan matures in year

2030 and has a grace period of 5 years from the date when the agreement comes into force.

As at 31 December 2011 and 2010, the maximum credit risk exposure on loans to Member-states amounted to 1,310,563 thousand US dollars and 70,259 thousand US dollars, respectively.

As at 31 December 2011 and 2010, none of loans to Member-states are past due.

As at 31 December 2011 and 31 December 2010, loans to Member-states included accrued interest income amounting to 563 thousand US dollars and 259 thousand US dollars, respectively.

Key assumptions and judgments for estimating the loan impairment

Loans to the Member-states are measured at amortised cost less allowance for losses. The estimation of allowances for losses involves the exercise of significant judgment. The Asset Manager of the Fund estimates allowances for losses with the objective of maintaining provisions in the statement of financial position at a level believed by the Asset Manager of the Fund to be sufficient to absorb losses on loans to Member-states. The calculation of provisions for losses on loans to the Member-states is based on the likelihood of the asset being written off and the estimated loss on such a write-off. These assessments are made using available information on the country's current debt servicing status, analysis of the country's debt service capacity and assessment of recoverable amounts of loan in case of default. These determinations are supplemented by the judgment of the Asset Manager of the Fund. The allowance for losses as at 31 December 2011 and 2010 was nil and 1,050 thousand US dollars, respectively.

The Asset Manager of the Fund considers accounting estimates related to provisions for impairment losses on loans to the Member-states to be key sources of estimation uncertainty because: (i) they are highly susceptible to change from period to period as the assumptions about probabilities of default and valuation of losses relating to loans and advances are based on recent performance experience, and (ii) any significant difference between the Fund's estimated losses and actual losses would require the Asset Manager of the Fund to record provisions for losses which could have a material impact on the Fund's financial statements in future periods.

8 FINANCIAL ASSETS AVAILABLE-FOR-SALE

	31 December 2011	31 December 2010
Bonds issued by Governments of foreign countries — US Treasury	174,998	–
Total financial assets available-for-sale	**174,998**	**–**

As at 31 December 2011, financial assets available for sale did not include accrued interest.

As at 31 December 2011 none of financial assets available-for-sale were past due or impaired.

9 INVESTMENTS HELD-TO-MATURITY

	31 December 2011	31 December 2010
Bonds issued by Governments of EU countries	–	149,987
Bonds issued by financial organisations	–	130,961
Total investments held-to-maturity	**–**	**280,948**

As at 31 December 2010, investments held-to-maturity did not include accrued interest.

As at 31 December 2010 none of investments held-to-maturity were past due or impaired.

10 CONTRIBUTIONS BY THE MEMBER-STATES OF THE FUND

As at 31 December 2011, the contributions of the Member-states to the Fund comprised the following:

	Paid-in contributions	Initial contributions receivable	Authorised, but not paid-in contributions	Total authorised contributions
The Russian Federation	1,438,000	500,000	5,562,000	7,500,000
The Republic of Kazakhstan	100,000	–	900,000	1,000,000
The Republic of Belarus	2,000	–	8,000	10,000
The Republic of Armenia	200	–	800	1,000
Kyrgyz Republic	200	–	800	1,000
The Republic of Tajikistan	200	–	800	1,000
Total	**1,540,600**	**500,000**	**6,472,400**	**8,513,000**

As at 31 December 2010, the contributions of the Member-states to the Fund comprised the following:

	Paid-in contributions	Initial contributions receivable	Authorised, but not paid-in contributions	Total authorised contributions
The Russian Federation	250,000	500,000	6,750,000	7,500,000
The Republic of Kazakhstan	100,000	–	900,000	1,000,000
The Republic of Belarus	1,000	–	9,000	10,000
The Republic of Armenia	100	–	900	1,000
Kyrgyz Republic	100	–	900	1,000
The Republic of Tajikistan	100	–	900	1,000
Total	**351,300**	**500,000**	**7,661,700**	**8,513,000**

As at 31 December 2011, the contributions paid in by and the initial contributions receivable from the Member-states, amounted to 23.97% of total authorised contributions, totaling 2,040,600 thousand US dollars (2010: 10% and 851,300 thousand US dollars, respectively). Of this amount as at 31 December 2011 and 2010, the initial contributions committed by the Republic of Belarus, the Republic of Kazakhstan, Kyrgyz Republic, the Republic of Tajikistan and the Republic of Armenia have been completely met and were equal to 102,600 thousand US dollars and 101,300 thousand US dollars, respectively. As at 31 December 2011, the contribution committed by the Russian Federation amounted to 1,938,000 thousand US dollars (31 December 2010: 750,000 thousand US dollars). As at 31 December 2011 and 2010, 1,438,000 thousand US dollars and 250,000 thousand US dollars have been paid in, respectively, and a further 500,000 thousand US dollars have been transferred to the account opened by the Ministry of Finance of Russian Federation with the Central Bank of Russian Federation available on request of the Asset Manager of the Fund as agreed by the Member-state.

11 CAPITAL RISK MANAGEMENT

The Asset Manager of the Fund manages the capital of the Fund to ensure that it will be able to continue as a going concern while improving its performance through the optimisation of debt and net assets attributable to the Member-states of the Fund.

The capital structure of the Fund consists of net assets attributable to the Member-states of the Fund, comprising paid-in contributions and change in net assets as disclosed in statements of changes in net assets attributable to the Member-states of the Fund.

12 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, operations with the Fund’s assets include the financing of Member-states. Accordingly, the Asset Manager of the Fund on behalf of the Fund enters into numerous transactions with related parties as a result of its ownership by the Member-states.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Asset Manager of the Fund on behalf of the Fund had the following transactions with related parties:

	31 December 2011		31 December 2010	
	Related party transactions	Total category as per financial statements caption	**Related party transactions**	Total category as per financial statements caption
Cash and cash equivalents	70,000	74,795	–	–
Russian Federation	70,000	–	–	–
Amounts receivable from the Member-states of the Fund in the form of committed contributions	500,000	500,000	500,000	500,000
Russian Federation	500,000	–	500,000	–

Included in the statement of comprehensive income for the years ended 31 December 2011 and 2010 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2011		Year ended 31 December 2010	
	Related party transactions	Total category as per financial statements caption	**Related party transactions**	Total category as per financial statements caption
Operating expenses	1,446	1,476	220	220
Eurasian Development Bank	1,446	–	220	–

13 FAIR VALUE OF FINANCIAL INSTRUMENTS

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 are not necessarily indicative of the amounts the Asset Manager of the Fund could realise in a market exchange of the Fund's financial instruments.

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

The fair value of financial assets and liabilities approximates the carrying amount in the statement of financial position of the Fund.

(a) Valuation of financial instruments

Financial instruments recognised at fair value are broken down for disclosure purposes into a three level fair value hierarchy based on the observability of inputs as follows:

- Quoted prices in an active market (Level 1) — Valuations based on quoted prices in active markets that the Asset Manager of the Fund has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to these financial instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuations of these products do not entail a significant amount of judgment.

- Valuation techniques using observable inputs (Level 2) — Valuations based on inputs for which all significant inputs are observable, either directly or indirectly and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active.

- Valuation techniques incorporating information other than observable market data (Level 3) — Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

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

As at 31 December 2011, the financial assets available-for-sale of 174,998 thousand US dollars are valued using quoted prices in an active market (Level 1).

14 COMMITMENTS

The Asset Manager of the Fund on behalf of the Fund has outstanding commitments to extend loans. These commitments take the form of approved loan facilities.

The Asset Manager of the Fund applies the same credit risk management policies and procedures when granting credit commitments as it does for granting loans to Member-states.

The contractual amounts of loan commitments are set out in the following table. The amounts reflected in the table for commitments assume that amounts are fully advanced.

	31 December 2011	31 December 2010
Contracted amount		
Loan and credit line commitments	1,760,000	–
	1,760,000	**–**

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

15 RISK MANAGEMENT

Management of risk is fundamental and an essential element of the operations with assets of the Fund. The main risks inherent to the operations with assets of the Fund are those related to:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk.

The Member-states of the Fund recognise that it is essential to have efficient and effective risk management processes in place. To enable this, a risk management framework was established, whose main purpose is to protect the assets of the Fund from risk and allow the Asset Manager of the Fund to achieve the Fund's performance objectives. The risk management framework involves the Council of the Fund, Council of Experts, the Executive Board of the Asset Manager of the Fund and different departments and staff of the Asset Manager of the Fund, in relation to the daily operations with the assets of the Fund. Through the risk management framework, the Asset Manager of the Fund manages the following risks:

(a) Credit risk

Management of Credit risk of the Fund is maintained by the Council of the Fund, Council of Experts and by Executive Board of the Asset Manager of the Fund. These groups manage Credit risk primarily through the issuance of loans only within set limits.

On issuing loans, a draft of the loan agreement is prepared by the Asset Manager of the Fund and approved by the Council of the Fund. In its role as Asset Manager of the Fund, the Asset Manager of the Fund provides an opinion on the application for each financial loan, which is then submitted to the Executive Board of the Asset Manager of the Fund and, if approved, forwarded to the Fund's Council of Experts for further consideration and appropriate conclusion. After consideration by the Council of Experts of the Fund, the application and the conclusion of the Asset Manager of the Fund and Council of Experts are sent to the Council of the Fund for the final decision.

Appropriate departments of the Asset Manager of the Fund conduct regular monitoring of the risk levels of loans and debt servicing. In cases where routine monitoring of a financial loan, it becomes aware of events that may lead to an apparent deterioration in the quality of the loan, the Asset Manager of the Fund reviews the level of provision.

Loans to Member-states are classified into one of two categories. These categories are as follows:

The first category (standard loans) — include financial loans with a low credit risk and good debt servicing;

Second category (non-standard loans) — financial loans with a low level of credit risk and poor level of debt servicing, financial loans with high level of credit risk and average level of debt servicing as well as financial loans with high credit risk and poor level of debt servicing;

The level of country risk on loans to Member-states is based on a combination of the following classification criteria:

- Sovereign debt default/partial default occurred, and/or;

- According to professional judgment of the Asset Manager of the Fund, there are indications of inevitability of the sovereign debt default/partial default.

In other cases, loans are treated as financial loans with low country risk.

Maximum exposure

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

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	31 December 2011	31 December 2010
ASSETS		
Cash and cash equivalents	74,795	689
Loans to Member States	1,310,563	69,209
Financial assets available-for-sale	174,998	–
Investments held-to-maturity	–	280,948
Amounts receivable from the Member-states of the Fund in the form of committed contributions	500,000	500,000

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 14.

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

The following table details the credit ratings of financial assets held by the Asset Manager of the Fund on behalf of the Fund:

	AAA	AA	A	B BB	B-	Not rated	31 December 2011 Total
Cash and cash equivalents	–	4,795	–	70,000	–	–	74,795
Loans to the Member-states	–	–	–	–	1,240,312	70,251	1,310,563
Financial assets available-for-sale	174,998	–	–	–	–	–	174,998
Amounts receivable from the Member-states of the Fund in the form of committed contributions	–	–	–	500,000	–	–	500,000

	AAA	AA	A	BBB	B-	Not rated	31 December 2010 года Total
Cash and cash equivalents	–	689	–	–	–	–	689
Loans to the Member-states	–	–	–	–	–	69,209	69,209
Investments held-to-maturity	280,948	–	–	–	–	–	280,948
Amounts receivable from the Member-states of the Fund in the form of committed contributions	–	–	–	500,000	–	–	500,000

As at 31 December 2011, loans to the Republic of Belarus and to the Republic of Tajikistan have been issued. The Republic of Tajikistan is not rated by international rating agencies; however, the Asset Manager of the Fund is able to perform specific monitoring of the loans.

(b) Liquidity risk

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

The Asset Manager of the Fund manages this risk by analysing asset and liability maturity and performance of money market transactions to maintain current liquidity and optimise cash flows.

An analysis of the liquidity and interest rate risks is presented in the following table:

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year 5 years	Over 5 years	31 December 2011 Total
FINANCIAL ASSETS:							
Cash and cash equivalents	0.19%	74,383	–	–	–	–	74,383
Loans to Member-states	4.19%	–	–	–	–	1,310,563	1,310,563
Financial assets available-for-sale	–	–	99,999	74,999	–	–	174,998
Total interest bearing financial assets		74,383	99,999	74,999	–	1,310,563	1,559,944
Cash and cash equivalents		412	–	–	–	–	412
Amounts receivable from the Member-states of the Fund in the form of committed contributions		500,000	–	–	–	–	500,000
Total financial assets		574,795	99,999	74,999	–	1,310,563	2,060,356
FINANCIAL LIABILITIES:							
Payables to Eurasian Development Bank		30	–	–	–	–	30
Other liabilities		1	–	–	–	–	1
Total financial liabilities		31	–	–	–	–	31
Liquidity gap		574,764	99,999	74,999	–	1,310,563	
Interest sensitivity gap		74,383	99,999	74,999	–	1,310,563	
Cumulative interest sensitivity gap		74,383	174,382	249,381	249,381	1,559,944	
Cumulative interest sensitivity gap as a percentage of total assets		3.61%	8.46%	12.10%	12.10%	75.71%	

An analysis of the liquidity and interest rate risks is presented in the following table:

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year 5 years	Over 5 years	31 December 2010 Total
FINANCIAL ASSETS:							
Cash and cash equivalents	0.025%	190	–	–	–	–	190
Loans to Member-states	1%	–	–	–	–	69,209	69,209
Investments held-to-maturity	0.030%	205,982	74,966	–	–	–	280,948
Total interest bearing financial assets		**206,172**	**74,966**	**–**	**–**	**69,209**	**350,347**
Cash and cash equivalents		499	–	–	–	–	499
Amounts receivable from the Member-states of the Fund in the form of committed contributions		500,000	–	–	–	–	500,000
Total financial assets		**706,671**	**74,966**	**–**	**–**	**69,209**	**850,846**
FINANCIAL LIABILITIES:							
Payables to Eurasian Development Bank		220	–	–	–	–	220
Other liabilities		1	–	–	–	–	1
Total financial liabilities		**221**	**–**	**–**	**–**	**–**	**221**
Liquidity gap		706,450	74,966	–	–	69,209	
Interest sensitivity gap		206,172	74,966	–	–	69,209	
Cumulative interest sensitivity gap		206,172	281,138	281,138	281,138	350,347	
Cumulative interest sensitivity gap as a percentage of total assets		24.23%	33.04%	33.04%	33.04%	41.18%	

A further analysis of the liquidity and interest rate risks is not presented due to the fact that remaining contractual liabilities will not significantly differ from outstanding amounts recorded in the statement of financial position.

(c) Market risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Fund's assets and liabilities are exposed.

Interest rate sensitivity

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

The Asset Manager of the Fund manages interest rate risk through the management of interest-sensitive asset and liability positions of the Fund, and ensures the positive margin and expected profitability from changes in market interest rates with set limits on the maximum amount of interest rate risk accepted by the Asset Manager of the Fund. The Risk management department of the Asset Manager of the Fund monitors interest rate risk, estimates sensitivity of the Fund in relation to changes in interest rates and the influence of changes in interest rates on the net profit of the Fund.

The following table details the Fund's sensitivity to a 1% increase and decrease in the interest rates in 2011 and 2010. The sensitivity analysis includes only outstanding financial assets and liabilities with variable interest rates. As at 31 December 2011 and 2010, the Fund has one and nil interest bearing assets with variable interest rates, respectively.

Impact on net assets attributable to the Member-states of the Fund:

	As at 31 December 2011		As at 31 December 2010	
	Interest rate +1%	Interest rate –1%	Interest rate +1%	Interest rate –1%
Loans to member states	3,534	(9,536)	–	–
Republic of Belarus	3,534	(9,536)	–	–

(d) Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The financial assets and liabilities of the Fund are not exposed to the effects of fluctuations in the prevailing exchange rates of currencies other than US dollars on its financial position and cash flows.

The Treasury department of the Asset Manager of the Fund, together with the Risk management department of the Asset Manager of the Fund manages currency risk through the management of the quantities held in open currency positions, which enables the Asset Manager of the Fund to minimise losses from significant fluctuations of exchange rates of foreign currencies. The Risk management division of the Asset Manager of the Fund monitors the currency risk limits set by the Council of the Fund.

Currency risk sensitivity

As at 31 December 2011 and 2010, the financial assets and liabilities of the Fund were not exposed to currency risk, due to the absence of financial assets and liabilities denominated in currencies other than US dollars. As such, for the years ended 31 December 2011 and 2010, there was no impact on net profit or net assets at the same time the Treasury department of the Asset Manager of the Fund, together with the Risk management department of the Asset Manager of the Fund manages currency risk through the management of the quantities held in open currency positions, which enables the Asset Manager of the Fund to minimise losses from significant fluctuations of exchange rates of foreign currencies, if any. The Risk management division of the Asset Manager of the Fund monitors the currency risk limits set by the Council of the Fund.

Appendix 2

LIST OF DECISIONS ADOPTED BY ACF COUNCIL IN 2011

Description	Date
Approval of the Annual Report of the Fund Resources Manager for 2010	04/06/2011
Acceptance of the progress report of the Resources Manager on the status of implementation of the Fund Program in 2011	04/06/2011
Instruction to the Resources Manager to present encashment orders for the bills of exchange issued by the Fund founding states as payment of their initial contributions in amounts sufficient for the Fund to finance its operations in 2011	04/06/2011
Approval of the draft Side Agreement to the Agreement on provision of the ACF financial credit between the Eurasian Development Bank and the Republic of Tajikistan of 24 July, 2010	04/06/2011
Endorsement of the Resources Manager's Appraisal Report on the application of the Republic of Belarus for an ACF financial credit, and approval of the above ACF financial credit in the amount of US$ 3 billion to be provided to Belarus	04/06/2011
Recommendation to the Resources Manager to undertake further assessment of the proposed provision of a financial credit to the Republic of Armenia for restructuring of its gas-chemical industry	04/06/2011
Acceptance of the information provided by the representative of the Kyrgyz Republic and by the Resources Manager on its macroeconomic and fiscal status in 2011.	04/06/2011
Acceptance of the Implementation Plan for the Framework Agreement on Cooperation between EDB and the International Bank for Reconstruction and Development	04/06/2011
Approval of the Fund Resources Manager's Evaluation of the Report of the Ministry of Finance of Belarus on compliance with the requirements for the second tranche of the ACF financial credit, and decision to disburse the above tranche in the amount of US$ 440 million	28/11/2011
Deferral of consideration of investment applications received by the Fund, for six months based on the need to clarify the Fund Program for 2012 in view of the increasing volatility of the global economy	28/11/2011
Recommendation of the Resources Manager to the Ministry of Finance of the Kyrguz Republic to provide more specific current budget requirements in the Fund's resources	28/11/2011
Decision to revise the limits for investing temporarily idle ACF resources	28/11/2011
Decision to reimburse the expenses for the audit of ACF's financial statements for 2011	28/11/2011

Appendix 3

Abbreviations

CIS	Commonwealth of Independent States
EBRD	European Bank for Reconstruction and Development
EDB, Bank, Fund Resources Manager	Eurasian Development Bank
EurAsEC	Eurasian Economic Community
FC	Financial Credit
Fund, ACF	EurAsEC Anti-Crisis Fund
GDP	Gross Domestic Product
GNI	Gross National Income
IL	Investment Loan
IMF	International Monetary Fund
LLP	Limited Liability Partnership
WB	The World Bank Group

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