IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE NON U.S. PERSONS (AS DEFINED BELOW) LOCATED OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to the Offering Circular following this page and you are therefore advised to read this page carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Issuer (as defined in the Offering Circular), and Renaissance Broker Limited (the "**Lead Manager"**) as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE ATTACHED OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES DESCRIBED IN THE ATTACHED DOCUMENT.

Confirmation of your representation: In order to be eligible to view the attached Offering Circular or make an investment decision with respect to the securities being offered, prospective investors must be non U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) located outside the United States. This Offering Circular is being sent to you at your request, and by accessing this Offering Circular you shall be deemed to have represented to the Issuer and the Lead Manager that (1) you are purchasing the securities being offered in an offshore transaction (within the meaning of Regulation S) and the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories and possessions, any State of the United States or the District of Columbia and (2) you consent to delivery of such Offering Circular by electronic transmission.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Offering Circular to any other person.

The materials relating to this offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer, and the Lead Manager or any affiliate of the Lead Manager is a licensed broker or dealer in the relevant jurisdiction, the offering shall be deemed to be made by the Lead Manager or such affiliate on behalf of the Issuer in such jurisdiction.

The attached Offering Circular may only be distributed to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (b) high net worth entities falling within article 49(2)(a) to (d) of the Order, and other persons to whom it may be lawfully communicated, falling within article 49(1) of the Order (all such persons together being referred to as "**relevant persons**"). Any person who is not a relevant person should not act or rely on this document or any of its contents.

The attached Offering Circular has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Lead Manager or any person who controls them or any director, officer, employee or agent of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Lead Manager.

JSC EURASIAN BANK
(incorporated in the Republic of Kazakhstan)
U.S.$500,000,000 7.50% Notes due 2017

The U.S.$500,000,000 7.50% Notes due 2017 (the "**Notes**") are issued by JSC Eurasian Bank (the "**Issuer**" or the "**Bank**"), a joint stock company incorporated in the Republic of Kazakhstan ("**Kazakhstan**"). Interest on the Notes will accrue from 6 November 2014 and will be payable semi-annually in arrears on 6 May and 6 November of each year, commencing on 6 May 2015. The Notes will be constituted by, subject to, and have the benefit of, a trust deed dated 6 November 2014 (the "**Trust Deed**") among the Issuer and Deutsche Trustee Company Limited as trustee for the holders of the Notes (the "**Trustee**"). See "*Terms and Conditions of the Notes*".

Application has been made for the Notes to be admitted to the "*rated debt securities*" category of the official list of the Kazakhstan Stock Exchange (the "**KASE**"). On 22 October 2014, the KASE granted its consent for the admission of the Notes, which are expected to be admitted to the "*rated debt securities*" category of KASE's official list. No Notes may be issued, placed or listed outside of Kazakhstan without the consent (the "**NBK Consents**") of the National Bank of the Republic of Kazakhstan (the "**NBK**"). The Issuer has obtained the necessary NBK Consents in respect of the Notes.

The Notes are subject to redemption in whole, at their principal amount, together with accrued interest, at the option of the Issuer at any time in the event of certain changes affecting taxes of Kazakhstan. See *"Terms and Conditions of the Notes - Redemption and Purchase"*. Payments on the Notes will be made without deduction for or on account of taxes of Kazakhstan to the extent described under "*Terms and Conditions of the Notes - Taxation*".

The Notes will be offered and sold in offshore transactions outside the United States in reliance on Regulation S ("**Regulation S**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**").

THE NOTES HAVE NOT BEEN NOR WILL BE REGISTERED UNDER THE SECURITIES ACT, OR ANY STATE SECURITIES LAW, AND THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

The Notes will be represented by beneficial interests in a permanent global note (the "**Global Note**") in registered form, without interest coupons attached, which will be registered in the name of BT Globenet Nominees Limited as nominee for and deposited with a common depositary for Euroclear Bank SA/NV ("**Euroclear**"), and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") on or around 6 November 2014 (the "**Closing Date**"). Notes will be issued in denominations of U.S.$1,000. See "*Terms and Conditions of the Notes - Form, Denomination and Title*". Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, definitive note certificates evidencing holdings of Notes will not be issued in exchange for beneficial interests in the Global Note.

The Notes will be assigned a rating of B+ by Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**"). The Issuer's current long-term rating is B+ (outlook positive) by Standard & Poor's and B1 (outlook negative) by Moody's Investors Service Limited ("**Moody's**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Each of Moody's and S&P is established in the European Union (the "**EU**"), domiciled in the United Kingdom, and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009 on Credit Rating Agencies as amended by Regulation (EU) No. 513/2011 (the "**CRA Regulation**").

Investing in the Notes involves a high degree of risk. See *"Risk Factors"* beginning on page 4.

Lead Manager

RENAISSANCE CAPITAL

Kazakhstan Dealer

EURASIAN CAPITAL JSC

The date of this Offering Circular is 5 November 2014

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The purpose of this Offering Circular is to give information with regard to the Issuer and the Notes that, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and of the rights attaching to the Notes. The Issuer, accept(s) responsibility for the information contained in this Offering Circular. To the best of the knowledge (having taken all reasonable care to ensure that such is the case) of the Issuer, the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Circular is not a prospectus for the purpose of Article 5 of Directive 2003/71/EC as amended by Directive 2010/73/EU as implemented in member states of the European Economic Area (the "**Prospectus Directive**"). This Offering Circular has been prepared on the basis that all offers of the Notes made to persons in the European Economic Area will be made pursuant to an exemption under the Prospectus Directive from the requirement to produce a prospectus in connection with offers of the Notes.

Neither the Lead Manager (as defined in "*Subscription and Sale*") nor any of its directors, affiliates, advisers or agents nor the Trustee and the Agents has made an independent verification of the information contained in this Offering Circular in connection with the issue or offering of the Notes and no representation or warranty, express or implied, is made by the Lead Manager or any of its directors, affiliates, advisers or agents or the Trustee and the Agents with respect to the accuracy or completeness of such information. Nothing contained in this Offering Circular is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether to the past or the future, by the Lead Manager or any of its directors, affiliates, advisers or agents or the Trustee and the Agents in any respect. The contents of this Offering Circular are not, are not to be construed as, and should not be relied on as, legal, business or tax advice and each prospective investor should consult its own legal and other advisers for any such advice relevant to it.

No person is authorised to give any information or make any representation not contained in this Offering Circular in connection with the issue and offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by any of the Issuer or the Lead Manager or any of their directors, affiliates, advisers or agents. The delivery of this Offering Circular does not imply that there has been no change in the business and affairs of the Issuer since the date hereof or that the information herein is correct as of any time subsequent to its date.

This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy the Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Offering Circular and the offer or sale of the Notes in certain jurisdictions is restricted by law. This Offering Circular may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. In particular, this Offering Circular does not constitute an offer of securities to the public in the United Kingdom. No prospectus has been or will be approved in the United Kingdom in respect of the Notes. Consequently this document is being distributed only to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (b) high net worth entities falling within article 49(2)(a) to (d) of the Order, and other persons to whom it may be lawfully communicated, falling within article 49(1) of the Order (all such persons together being referred to as "**relevant persons**"). Any person who is not a relevant person should not act or rely on this document or any of its contents. Persons into whose possession this Offering Circular may come are required by the Issuer and the Lead Manager to inform themselves about and to observe such restrictions. Further information with regard to restrictions on offers, sales and deliveries of the Notes and the distribution of this Offering Circular and other offering material relating to the Notes is set out under "*Subscription and Sale*" and "*Summary of Provisions Relating to the Notes in Global Form*".

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

The Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks (including, without limitation, the risks discussed in "*Risk Factors—Risks Related to the Market Generally— Certain arrangements contemplated in the Deed of Subscription relating to the Notes may adversely affect the value of the Notes.*").

The language of the Offering Circular is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

FORWARD-LOOKING STATEMENTS

Certain statements included herein may constitute "forward-looking statements". Such statements, certain of which can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "are expected to", "intends", "will", "will continue", "should", "could", "would be", "seeks", "approximately", "estimates", "predicts", "projects", "aims" or "anticipates", or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions, involve a number of risks and uncertainties. Such forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realised. Such forward-looking statements relate to, among other things:

- the stability of the banking sector in Kazakhstan generally;
- changes in the Issuer's corporate, small and medium enterprises ("**SME**") and retail businesses, changes in its cross-selling activities among client segments and products and in its deposit base;
- expectations as to the impact of projects undertaken to improve cost efficiencies and enhance liquidity and revenues; and
- estimates and financial targets for increasing and changing and diversifying the composition, as well as the quality, of the Issuer's loan portfolio.

Factors that might affect such forward-looking statements include, amongst other things:

- the effects of the global financial crisis;

- changes in political, social, business and economic conditions, including commodities prices, and the regulatory environment in Kazakhstan;
- overall economic and business conditions, including commodities prices;
- the demand for the Issuer's products and services;
- competitive factors in the industries in which the Issuer and its customers compete;
- changes in government regulations, including regulatory changes affecting the availability of permits, and governmental actions that may affect the Bank's operations;
- policies regarding support for the banking sector in Kazakhstan;
- changes in tax requirements, including tax rate changes, new tax laws and revised tax law interpretations;
- interest rate fluctuations, other capital market conditions and continued accessibility of the capital markets and other commercial funding sources to the Bank;
- exchange rate fluctuations;
- economic, business and political conditions in international markets, including governmental changes;
- economic, business and political conditions in Kazakhstan;
- hostilities and restrictions on the ability to transfer capital across borders; and
- the timing, impact and other uncertainties of future actions.

See *"Risk Factors"* beginning on page 4.

The Issuer is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Offering Circular whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to the Issuer, or persons acting on its behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Offering Circular. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward-looking statements.

ENFORCEMENT OF FOREIGN JUDGMENTS

The Issuer is a joint stock company organised under the laws of Kazakhstan and certain of its directors and principal officers are residents of Kazakhstan. A substantial portion of the assets of the Issuer and of each of such persons are located in Kazakhstan. As a result, it may not be possible (a) to effect service of process upon the Issuer or any such person outside Kazakhstan, (b) to enforce against any of them, in courts of jurisdictions other than Kazakhstan, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions or (c) to enforce against any of them, in Kazakhstan's courts, judgments obtained in jurisdictions other than Kazakhstan, including judgments obtained on the Trust Deed (as defined below) and in the courts of England.

The Notes and the Trust Deed are governed by English law and the Issuer has agreed in the Notes and the Trust Deed to arbitration in London, England or at the election of the Trustee the disputes shall instead be heard by the courts of England or by any other court of competent jurisdiction. See *"Terms and Conditions of the Notes - Governing Law; Jurisdiction and Arbitration"*.

Kazakhstan's courts will likely not enforce any judgment obtained in a court established in a country other than Kazakhstan unless there is in effect a treaty between such country and Kazakhstan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Kazakhstan and the United Kingdom. However, Kazakhstan and the United Kingdom are parties to the 1958 New York Convention on Recognition and Enforcement of Arbitral

Awards (the "**Convention**") and, accordingly, an arbitral award should generally be recognised and enforceable in Kazakhstan provided the conditions to enforcement set out in that Convention are met.

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

Until 1 January 2003, the Bank maintained its books and prepared its accounts in accordance with standards required by acts of the competent authorities of the Republic of Kazakhstan and in conformity with the requirements of the NBK. In compliance with the 3 February 2003 Resolution of the government of the Republic of Kazakhstan N119, the Bank maintains its books and prepares its accounts in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Committee ("**IFRS**"). Until mid-2014 the Committee for the Control and Supervision of the Financial Market and Financial Organizations of the NBK (the "**FMSC**") performed the NBK's supervisory and regulatory roles in the financial sector acting as the NBK's subdivision. Currently, these roles are distributed among various departments within the NBK. The Bank provides financial and regulatory statements and other information to the NBK in compliance with the NBK's regulatory requirements. If not otherwise specified, the terms "**Issuer**" and "**Bank**" shall mean JSC Eurasian Bank and its consolidated subsidiaries (currently, JSC Eurasian Bank's only subsidiary is OJSC Eurasian Bank).

The financial information of the Issuer set forth herein, has, unless otherwise indicated, been extracted from (a) the audited consolidated statement of financial position as at 31 December 2013 and 2012 and consolidated statements of profit or loss and other comprehensive income, cash flows and changes in equity for the years ended 31 December 2013 and 2012, and notes, comprising a summary of significant accounting policies and other explanatory information (together, the "**Audited Financial Statements**") and (b) the unaudited consolidated interim condensed statement of financial position as at 30 June 2014 and consolidated interim condensed statements of profit or loss and other comprehensive income, cash flows and changes in equity for the six months ended 30 June 2014, and notes, comprising a summary of significant accounting policies and other explanatory information (together, the "**Unaudited Interim Financial Statements**" and, together with the Audited Financial Statements, the ("**Financial Statements"**). See the Financial Statements including the relevant notes thereto, included elsewhere in this Offering Circular and "*Financial Review*". Readers are advised that the financial information of the Issuer set forth herein should be read with the Financial Statements and the notes thereto, contained in this Offering Circular beginning on page F-1. Investors should note that the Unaudited Interim Financial Statements contained in this Offering Circular include consolidated interim condensed financial information for the six-months ended 30 June 2013, in accordance with IFRS requirements, that has not been independently reviewed by KPMG Audit LLC, independent auditors, in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. Investors should therefore interpret any such information included in the Unaudited Interim Financial Statements accordingly.

For the purposes of this Offering Circular, unless otherwise specified in the context, (i) corporate banking includes corporate customers (legal entities with an annual turnover of more than U.S.$7 million) and SME customers (legal entities with an annual turnover of less than U.S.$7 million other than SME's classified as "individual entrepreneurs" under Kazakhstan law) and (ii) retail banking includes all individual customers and SME customers that are classified as "individual entrepreneurs" under Kazakhstan law.

In this Offering Circular, references to "**Tenge**" or "**KZT**" are to Kazakhstan Tenge, the lawful currency of Kazakhstan; references to "**U.S. Dollars**" or "**U.S.$**" are to United States Dollars, the lawful currency of the United States of America; references to "**Russian Roubles**" or "**RUR**" are to Russian Roubles, the lawful currency of Russia; and references to "**Euros**" or "**€**" are to the lawful currency of the member states of the European Union that have adopted the single currency in accordance with the Treaty establishing the European Communities, as amended by the Treaty on European Union and as further amended by the Treaty of Amsterdam. References to "**Kazakhstan**", the "**Republic**" or the "**State**" are to the Republic of Kazakhstan; references to the "**government**" are to the government of Kazakhstan; and references to the "**CIS**" are to the Commonwealth of Independent States.

The following table sets out average and period-end Tenge/U.S. Dollar exchange rates on the KASE:

Period	Period Average	Period-end
Year ended 31 December 2012	149.11	150.74
Year ended 31 December 2013	152.13	153.61
Period ended 30 June 2014	176.23	183.51

As at 30 June 2014, the exchange rate for U.S. Dollars on the KASE as reported by the NBK was KZT 183.51 per U.S.$1.00. No representation is made that the Tenge or U.S. Dollar amounts in this Offering Circular could have been converted into U.S. Dollars or Tenge, as the case may be, at any particular rate or at all. Certain amounts which appear in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

MARKET SHARE, INDUSTRY AND ECONOMIC DATA

It is difficult to obtain precise industry and market information on the Kazakhstan banking sector or macroeconomic data on Kazakhstan. Certain statistical and market information that is presented in this Offering Circular on such topics and related subjects has, unless otherwise stated herein, been extracted from documents and other publications released by the NBK, the National Statistics Agency of Kazakhstan (the "**NSA**") and the KASE.

The Issuer has accurately reproduced such industry and market information on the Kazakhstan banking sector and macroeconomic data and, so far as the Issuer is aware and is able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. Where third party information has been used in this Offering Circular, the source of such information has been identified. Prospective investors should note that some of the Issuer's estimates are based on such third party information. Neither the Issuer nor the Lead Manager has independently verified the figures, market data or other information on which third parties have based their studies.

Official data published by governmental or regional agencies is substantially less complete or researched than those of more developed countries. Further, official statistics, including those published by the NBK, the NSA and the KASE, may be produced on different bases than those used in more developed countries. Macroeconomic data that appears in this Offering Circular has been derived from statistics published by the NSA and the NBK. Any discussion of matters relating to Kazakhstan's banking sector, economy and related topics as well as other participants in the Kazakhstan banking sector in this Offering Circular is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information. There is not necessarily any uniformity of views among sources as to the information provided therein.

OVERVIEW OF THE BANK AND THE OFFERING

The following overview highlights significant aspects of the Bank's business and the offering of the Notes, but prospective investors should read this entire Offering Circular, including the Financial Statements, and related notes, included elsewhere in this Offering Circular, before making an investment decision. Prospective investors also should carefully consider the information set forth under "Risk Factors".

Overview of the Bank

The Bank is a full-service, universal bank focused on corporate, SME and retail banking. As at 30 June 2014, the Bank was the ninth largest commercial bank in Kazakhstan in terms of assets, according to data compiled by the NBK. During the last decade, the Bank grew out of its role as an "in-house" bank for its affiliate, Eurasian Natural Resources Corporation ("**ENRC**"), and diversified its client base by expanding its retail, corporate and treasury related businesses as part of its strategy to develop beyond its original role into a "universal" banking institution with a national network of branches. The Controlling Shareholders of the Bank further invested in and established a professional management team to take advantage of the Bank's comparatively solid position after the global financial crisis.

As at 30 June 2014, the Bank had total assets of KZT 672,455 million, compared to KZT 588,633 million as at 31 December 2013 and KZT 470,511 million as at 31 December 2012. For the year ended 31 December 2013, the Bank's net income was KZT 13,146 million, compared to KZT 9,832 million for the year ended 31 December 2012. As at 30 June 2014 the Bank's shareholders' equity was KZT 61,251 million, compared to KZT 58,818 million as at 31 December 2013 and KZT 47,784 million as at 31 December 2012.

The Bank's net loan portfolio (net of provisions for impairment) has grown from KZT 354,642 million as at 31 December 2012 to KZT 432,529 million as at 31 December 2013 and KZT 521,616 million as at 30 June 2014, representing an overall increase of 47.1% for the period. The gross retail loan portfolio has increased significantly both in terms of percentage and in terms of absolute value, from KZT 169,904 million as at 31 December 2012 to KZT 238,400 million as at 31 December 2013 and KZT 277,819 million as at 30 June 2014, representing an overall increase of 63.5% for the period. The Bank's gross corporate loan portfolio (including SME customers) has also grown significantly, from KZT 213,615 million as at 31 December 2012 to KZT 229,700 million as at 31 December 2013 and KZT 285,829 million as at 30 June 2014, representing an overall increase of 33.8% for the period.

As at 30 June 2014, deposits from corporate customers (including current accounts, demand deposits and time deposits) amounted to KZT 297,868 million, compared to KZT 264,018 million as at 31 December 2013 and KZT 215,705 million as at 31 December 2012, representing an overall increase of 38.1% for the period. The value of the Bank's deposits from retail customers (including current accounts, demand deposits and time deposits) has increased from KZT 99,015 million as at 31 December 2012 to KZT 140,656 million as at 31 December 2013 and KZT 166,564 million as at 30 June 2014, representing an overall increase of 68.2% for the period. The significant increase in the Bank's retail customer deposits was primarily in order to increase the Bank's presence in the retail sector and to expand its funding base.

Beginning in October 2009, in response to an environment beset by high non-performing loan ("**NPL**") rates, inefficiency and low returns brought on by the global financial crisis, the Bank began to install the Bank's current management team, composed of local and international experts, and appointed Michael Eggleton as chairman of the Bank's Management Board. During the crisis, the current management team tackled "problem areas" in the Bank's statement of financial position, business process, risk management and client relationships as part of its strategy of risk control, cost control and diversified growth. The current management team implemented a "good-bank"/"bad-bank" strategy, focusing on the (i) reduction of the Bank's bad assets and (ii) growth of its good assets. The Bank maintained a high level of liquidity during the height of the global financial crisis and in the aftermath of the Tenge devaluation in February 2014. In an effort to eliminate the negative carry effect of excess liquidity, the Bank implemented policies which aimed to reduce the cost of funds. As a result the Bank successfully reduced its excess liquidity and cost of liabilities. The Bank mainly focused on replacing funding with low cost liabilities, especially in relation to corporate client deposits. As a result, the Bank was able to reduce the cost of liabilities, resulting in increased net interest margin and overall profitability. The Bank's return on average equity was 24.7% in each of 2012 and 2013, while its return on average total assets rose from 2.3% in 2012 to 2.5% in 2013 (the ratios are based on annual average total equity and annual average total assets, respectively). The Bank's cost–to–income ratio (where cost includes personnel and other general and administrative expenses and income comprises operating income) fell from 55.2% in 2012 to 51.4% in 2013 and its net interest margin rose from 7.8% in 2012 to 9.3% in 2013. See "*Selected Financial Information—Selected Financial Ratios*".

The Bank's strategy, as a full service universal bank, is to maintain an even balance between the corporate, SME and retail banking segments. The Bank's medium-term goal is to have a loan book composition of approximately 50% corporate and SME loans and 50% retail loans. As at 30 June 2014, corporate banking (excluding loans to SMEs) accounted for approximately 45.8% of the Bank's gross loan portfolio while SME banking accounted for approximately 4.9% and retail banking approximately 49.3%. Current accounts and demand deposits of corporate and SME clients accounted for 64.1% of total deposits (including accrued interest) as at 30 June 2014. Current accounts and demand deposits of retail clients accounted for 35.9% of total deposits (including accrued interest) as at 30 June 2014. The Bank's corporate banking activities include lending and deposit taking, trade and export financing, servicing promissory notes, custody and depositary operations, cash and settlement operations, factoring, leasing and brokering.

In 2010, the Bank acquired Troika Dialog Bank OJSC ("**Troika Dialog**"), located in Moscow, thereby establishing a presence in the Russian market. In 2011, the Bank acquired the ProstoKredit consumer finance operations of Société Générale in Kazakhstan, which provided the Bank with a platform to become one of the leading retail banks in the country. In 2011, the Bank decided to increase its consumer loan operations by acquiring the ProstoKredit loan portfolio and brands. The acquisition gave the Bank a functioning business that helped it achieve a significant increase in its loan portfolio and client base. It also helped develop the Bank's branches and distribution network and increased consumer awareness of the Bank. The Bank is becoming a key player in the fast-growing and highly profitable consumer finance and car loans niche market. In 2013, the Bank experienced a 40.3% growth in gross retail lending. The Bank's gross retail loan portfolio, had increased a further 16.5% year-to-date for the six months ended 30 June 2014.

As at 30 June 2014, the Bank had 20 full–service branches, 145 service centres, 439 automated teller machines ("**ATM**"), 271 Information Payment Terminals ("**IPTs**") and over 2,400 other points of sale. The Bank intends to open eight more branches, up to 60 more ATMs and over 100 IPTs in the second half of 2014.

The Bank's Business Strategy

Until 2003, the Bank effectively operated as an "in-house" bank, providing corporate banking services to its original shareholders and other Kazakh companies. Since December 2003, the Bank has pursued a strategy of extending and diversifying its range of products, services and customer base. The main objective of this strategy is for the Bank to become a "universal" banking institution with a national network of branches capable of providing a wide range of banking services and products to SMEs, retail customers and large companies.

The Bank's business strategy includes the following principal elements:

- expanding its presence in the SME and retail markets while maintaining a strong corporate business segment;
- competing on product innovation, accelerating loan approval times and improving quality of services;
- strengthening and diversifying capital and funding base;
- improving information technology ("**IT**") systems; and
- strengthening risk management.

The Bank's mid-term strategy is to maintain a degree of balance between its retail and corporate/SME businesses. The Bank's strategy for the corporate segment is to maintain it as a core business in the near- and medium-term, primarily because the Bank's corporate business is important for cross-selling products to the retail sector and reduces its top 20 concentration of borrowers, which has been an objective of the Bank since the beginning of 2012. The Bank's strategy for the retail segment is to maintain its "top–three" position in consumer finance, focusing on enhancing the effectiveness of its products and processes. See "*Business of the Bank—Strategy*".

The Bank maintained its credit ratings throughout the global financial crisis, while Standard & Poor's upgraded the Bank's outlook from stable to positive in July 2013. As at the date of this Offering Circular, the international scale ratings of the Bank are as follows:

	Moody's	**Standard & Poor's**
Short-term	NP	B
Long-term	B1	B+
Outlook	Negative	Positive

Upon issue, the Notes will be assigned a credit rating of B+ by Standard & Poor's. A security rating is not a recommendation to buy, sell or hold securities, and may be subject to revision or withdrawal at any time by the assigning rating agency.

References in this Offering Circular to "Standard & Poor's" are to Standard & Poor's Credit Market Services Europe Limited and to "Moody's" are to Moody's Investors Service Limited. Each of Standard & Poor's and Moody's is established in the European Economic Area and was registered in accordance with the CRA Regulation.

In general, under the CRA Regulation, European regulated investors are restricted from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances while the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended.

Overview of the Offering

The following is an overview of the terms of the Notes. This overview is derived from and should be read in conjunction with the full text of the "Terms and Condition of the Notes". This overview is an introduction to this Offering Circular and any decision to invest in the Notes should be made based on consideration of this Offering Circular as a whole. Capitalised terms not specifically defined in this overview have the meaning set out in the "Terms and Conditions of the Notes".

Issuer:	JSC Eurasian Bank.
Trustee:..	Deutsche Trustee Company Limited
Principal Paying and Transfer Agent:.....	Deutsche Bank AG, London Branch
Registrar:..	Deutsche Bank Luxembourg S.A.
The Issue:	U.S.$500,000,000 7.50% Notes due 2017.
Issue Price:	100.0% of the principal amount of the Notes.
Issue Date:	6 November 2014.
Maturity Date:	6 November 2017.
Interest Rate:	The Notes will bear interest at the rate of 7.50% per annum from and including 6 November 2014 to but excluding the Maturity Date (as defined in "*Terms and Conditions of the Notes*").
Interest Payment Dates:............................	Interest will be payable semi-annually in arrear on 6 May and 6 November in each year, commencing on 6 May 2015.
Withholding Taxes:	All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. See Condition 10 under "*Terms and Conditions of the Notes*". In such event, the Issuer will, subject to certain exceptions and limitations, pay such additional amounts to the holder of any Note as may be necessary in order that every net payment of the principal of and interest on such Note, after withholding for or on account of such tax upon or as a result of such payment, will not be less than the amount provided for in such Note to be then due and payable. See Condition 10 under "*Terms and Conditions of the Notes*" and "*Taxation—Kazakhstan Taxation*".
Ranking:	The Notes will at all times rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured obligations of the Issuer.
Status:	The Notes constitute direct, general, unconditional, unsubordinated and (subject to Condition 5(a)) unsecured obligations of the Issuer.
Negative Pledge:..	The Issuer has agreed that, for so long as any Notes remain outstanding, it shall not permit any Material Subsidiary (as

defined in Condition 6 under "*Terms and Conditions of the Notes*") to, create, incur, assume or permit to arise any Security Interest (other than a Permitted Security Interest) (each as defined in Condition 6 (under "*Terms and Conditions of the Notes*") upon the whole or any part of their respective undertakings, assets or revenues, present or future, to secure any Financial Indebtedness (as defined in Condition 6 under "*Terms and Conditions of the Notes*"), unless the Issuer's obligations under the Notes and the Trust Deed are secured equally and rateably therewith or have the benefit of such other arrangement as shall be approved.

Covenants:... The Notes and the Trust Deed contain certain covenants, including, without limitation, covenants with respect to the following matters: (i) limitation on certain transactions, (ii) maintenance of capital adequacy, (iii) limitation on merger and consolidation, (iv) limitation on payment of dividends, (v) limitation on substantial change in business and (vi) maintenance of business. See Condition 5 under "*Terms and Conditions of the Notes*".

Tax Redemption: .... The Issuer may, at its option, redeem the Notes in whole, but not in part, at their principal amount plus accrued interest in the event of certain changes affecting taxation in Kazakhstan. See Condition 9(b) under "*Terms and Conditions of the Notes*".

Redemption at option of Noteholders: .... If, at any time when any of the Notes remains outstanding, a Change of Control that is followed by a Rating Downgrade (each as defined in Condition 6 under *Terms and Conditions of the Notes*") occurs, then each Noteholder will, upon being notified by the Issuer, have the option to require the Issuer to redeem any Notes it holds at 100% of the principal amount, together with interest accrued.

Events of Default: .... The Terms and Conditions of the Notes contain certain events of default (including a cross-default), as described further in Condition 12 under "*Terms and Conditions of the Notes*".

Substitution:.. The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of any other company in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes.

Use of Proceeds:.. The net proceeds of the issue of the Notes, amounting to approximately U.S.$492,175,000 after the deduction of certain fees and expenses in connection with the issuance of the Notes, will be used by the Issuer for general corporate purposes. The amount of the net proceeds may vary (and could be less) in the event that the Issuer, pursuant to the terms of the Deed of Subscription, is required to accept the transfer and return of any Affected Notes (as defined herein) by the Lead Manager or decides to acquire some of the Notes for its own account. See "*Subscription and Sale*".

Form of the Notes:.................................... The Notes will be represented by beneficial interests in the Global Note in registered form, without interest coupons

	attached, which will be registered in the name of BT Globenet Nominees Limited as nominee for and deposited with a common depositary for Euroclear and/or Clearstream, Luxembourg on or around the Closing Date. Notes will be issued in denominations of U.S.$1,000. See "*Terms and Conditions of the Notes Form, Denomination and Title*".
	Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and/or Clearstream, Luxembourg and their participants.
	Except as described herein, definitive note certificates evidencing holdings of Notes will not be issued in exchange for beneficial interests in the Global Note.
Listing and Clearing:	Application has been made for the Notes described in this Offering Circular to be admitted to the "**rated debt securities**" category of the official list of the KASE.
	The Notes have been accepted for clearance through Euroclear and/or Clearstream, Luxembourg with the following identification numbers:
	ISIN: XS1129581937
	Common Code: 112958193
Governing Law:	The Notes, the Trust Deed and the Agency Agreement, and any non-contractual obligation arising out of or in connection therewith, will be governed by, and shall be construed in accordance with, English law.
Arbitration and Jurisdiction:	The Notes, the Agency Agreement and the Trust Deed provide that disputes are to be resolved by arbitration in London, England or, at the option of the Trustee, by submission to the English courts.
Selling Restrictions:...................................	The offering and sale of Notes is subject to applicable laws and regulations including, without limitation, those of the United States, the United Kingdom and Kazakhstan. See "*Subscription and Sale*".
Ratings:...	The Notes will be assigned a rating of B+ by Standard & Poor's. The Issuer's current long-term rating is B+ (outlook positive) by Standard & Poor's and B1 (outlook negative) by Moody's.
	A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Risk Factors:	Investing in the Notes involves a high degree of risk. See "*Risk Factors*" beginning on page 4.

RISK FACTORS

An investment in the Notes involves a high degree of risk. Potential investors should review this entire Offering Circular carefully and in particular should consider all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. The Bank believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Bank to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons and the Bank does not represent that the statements below regarding the risks of holding the Notes are exhaustive. These risk factors, individually or collectively, could have a material adverse effect on the Bank's business, financial condition, results of operations, prospects and/or the rights under the Notes of the holders of the Notes. Additional risks and uncertainties that the Bank is not aware of or that the Bank currently believes are immaterial also may affect the Bank's financial condition or results of operations materially and adversely. If any of the possible events described below occurs, the Bank's financial condition or results of operations could be materially and adversely affected.

Risk Factors Relating to the Bank

Any unavailability of capital, both in terms of compliance with applicable capital adequacy ratios and in respect of the conduct of its business and liquidity risk, would materially and adversely affect the Bank.

As at 30 June 2014, the Bank's Tier I (k1-1 and k1-2) and total capital (k2) adequacy ratios calculated in accordance with NBK rules, were 8.1% (k1-1), 8.2% (k1-2) and 12.1% (k2), compared to the minimum levels of 5%, 5% and 10%, respectively, required under the relevant NBK rules (applicable to every commercial bank whose shareholder is a bank holding company, as is the case for the Bank). As at 31 December 2013, the Bank's Tier I (k1-1 and k1-2) and total capital (k2) adequacy ratios calculated in accordance with NBK rules were 7.2% (k1-1), 8.6% (k1-2) and 15.9% (k2), respectively. As at 31 December 2012, the Bank's Tier I (k1-1 and k1-2) and total capital (k2) adequacy ratios calculated in accordance with NBK rules were 7.5% (k1-1), 8.0 % (k1-2) and 13.0% (k2), respectively. See "*Financial Review—Capital and Capital Adequacy*".

Any failure to raise capital as and when needed could substantially limit the Bank's ability to meet or to grow its business in compliance with applicable capital adequacy requirements. In addition, as a result of legal and regulatory developments, including the expected introduction of the Basel III rules in the coming years, the NBK could subject the Bank to enhanced capital adequacy requirements, which could impose additional costs and restrictions on the Bank and its operations. See "*—As a result of legal or regulatory developments, the Bank could be subject to enhanced capital and liquidity requirements.*" Any such events would have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank is exposed to liquidity risk, which may result in the Bank being unable to meet its obligations in a timely manner.

The Bank is exposed to liquidity risk arising out of the mismatches between the maturities of the Bank's assets and liabilities which may result in the Bank being unable to meet its obligations in a timely manner. Although the Bank monitors its liquidity needs and is currently up-to-date with servicing its debt obligations, the Bank, like other commercial banks in Kazakhstan and elsewhere, is exposed to maturity mismatches between its assets and liabilities, which could lead to lack of liquidity at certain times. As at 30 June 2014, the Bank had a negative cumulative liquidity gap of KZT 142,225 million (extending up to one year of expected maturity, excluding derivative instruments), while as at 31 December 2013, the Bank had a negative liquidity gap of KZT 85,220 million (extending up to one year of expected maturity, excluding derivative instruments) and as at 31 December 2012, the Bank had a negative liquidity gap of KZT 105,617 million (extending up to one year of expected maturity, excluding derivative instruments). A significant market downturn which results in the withdrawal of a significant portion of deposits could expose the Bank to increased credit risk and liquidity risk and have a material adverse effect on the Bank's business, results of operations, financial condition and prospects. If a significant portion of deposits were to be withdrawn, the Bank would require alternative, possibly more expensive, sources of funding, such as the inter-bank market. However, there would be no guarantee that such alternative sources of funding would be available at the rates or in the amounts envisaged by the Bank.

Although the Bank believes that its level of access to domestic and international interbank markets and its liquidity risk management policy, which includes maintaining liquidity reserves sufficient to meet the Bank's liquidity needs for a certain period, allow and will continue to allow the Bank to meet its short-term and long-term liquidity needs, any maturity mismatches between the Bank's assets and liabilities, including by reason of the withdrawal of large deposits or a large number of deposits, may have a material adverse effect on its results of operations and financial condition because the Bank's deposits constitute the majority of the Bank's funding. See also "*—A portion of the Bank's funding comes from the government or state owned enterprises and a certain related party depositors, which exposes the Bank to liquidity risk*".

The Bank's largest borrowers account for a significant percentage of its gross loan portfolio, which exposes the Bank to credit risk.

As at 30 June 2014, the Bank's ten largest borrowers comprised 21.2% of its gross loan portfolio, compared to 14.5% as at 31 December 2013 and 15.5% as at 31 December 2012. As at 30 June 2014, the Bank's 20 largest borrowers comprised 29.2% of its gross loan portfolio, compared to 22.8% as at 31 December 2013 and 25.5% as at 31 December 2012. The Bank also faces concentration risks in certain sectors of the economy. As at 30 June 2014, loans to the (i) wholesale trade, (ii) construction, (iii) agriculture, forestry and timber and (iv) transport sector made up 16%, 6%, 6% and 8%, respectively, of the gross loan portfolio. Failure to reduce such concentration in the Bank's lending portfolio could expose the Bank to increased credit risk and have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

A portion of the Bank's funding comes from the government or state-owned enterprises and a certain related party depositors, which exposes the Bank to liquidity risk.

The Bank, like many other banks in Kazakhstan, has a large concentration of depositors that are state-owned or controlled enterprises, including Samruk-Kazyna and/or JSC National Management Holding Baiterek ("**Baiterek**") and entities owned or controlled by it. As at 30 June 2014, of the Bank's ten largest depositors, which comprised 32.1% of its gross deposit portfolio, nine were state owned enterprises. As at 30 June 2014, of the 20 largest depositors, which comprised 40.4% of the Bank's deposit portfolio, ten were state-owned enterprises. The Bank has had long-term banking relationships with many of these entities. If the Bank's relationship with the government changes, the government changes its policies with respect to supporting the Kazakhstan banking sector or government-owned or controlled entities withdraw their deposits from the Bank in substantial part or on short notice, such events could result in a decrease in the Bank's liquidity and in an increase in the Bank's funding costs. Such changes could have an adverse effect on the Bank's net interest margin, profitability and capital generation and could materially and adversely affect the Bank's business, financial condition, results of operations and prospects.

Additionally, while the proportion of the Bank's deposits derived from related parties has decreased considerably in recent years due to the Bank's efforts to limit its related party exposure, deposits from related parties nevertheless remain a significant portion of the Bank's overall deposits. Deposits and current accounts from the Bank's related parties amounted to KZT 53,501 million, or 8.8% of total liabilities as at 30 June 2014, KZT 48,767 million, or 9.2% of total liabilities as at 31 December 2013, and KZT 52,006 million, or 12.3% of total liabilities as at 31 December 2012. There can be no assurance that, should the Bank's related party depositors cease to be related parties, they would continue to maintain their deposits and current accounts with the Bank.

Although the Bank intends to reduce the concentration of its deposit base by attracting further SME and retail depositors, failure to reduce the concentration in the Bank's deposit portfolio could expose the Bank to increased liquidity risk and increase the cost of funding, which could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank's asset quality could be affected by depressed collateral values resulting from adverse conditions in Kazakhstan's real estate market.

In Kazakhstan, real estate continues to represent the greatest source of collateral for the banking sector. As at 30 June 2014, 31 December 2013 and 31 December 2012, 22%, 25% and 22%, respectively, of the Bank's corporate loan portfolio was secured by real estate collateral. Volatility in real estate values can lead to loan impairment, especially in cases where the borrower faces financial difficulty. The real estate sector in Kazakhstan has been materially and adversely affected by falling prices on both commercial and residential properties, particularly as a result of the continuing effects of the global financial crisis. Despite some recent recovery, further adverse conditions in Kazakhstan's real estate market may cause the fair value of collateral held by the Bank to decline further than currently estimated. Moreover, declining real estate prices make it difficult to value certain collateral held by the Bank and future valuations reflecting then-prevailing market conditions may result in significant changes in the fair value of the collateral held by the Bank. The value of any collateral ultimately realised by the Bank will depend on the fair value of that collateral as determined at the relevant time and may be materially different from the current or estimated fair value. If the value of the collateral held by the Bank declines, the Bank could be required to record additional provisions and could experience lower than expected recovery levels, which could, in turn, materially adversely affect the Bank's business, financial condition, results of operations or prospects.

The Bank may fail to manage its loan portfolio properly, which could cause the Bank's non-performing loans to increase leading to deterioration of the Bank's asset quality.

The Bank's net loan portfolio has increased rapidly in recent years, growing by 47.1% from KZT 354,642,287 thousand as at 31 December 2012 to KZT 521,615,635 thousand as at 30 June 2014. The significant increase in the size of the Bank's loan portfolio and, in particular, its retail loan portfolio, has increased the Bank's credit exposure. Credit quality and the adequacy of the Bank's impairment assessment will have to be monitored by the Bank's management on an on-going basis, together with the continued improvement of the Bank's credit risk management programme.

The Bank considers the full principal of impaired loans overdue by more than 90 days to be NPLs. NPLs amounted to KZT 57,687,427 thousand, or 10.2% of gross loans as at 30 June 2014, an increase of approximately 24% from KZT 46,400,683 thousand or 9.9% of gross loans as at 31 December 2013 which, in turn, represented an increase of approximately 76% from KZT 26,416,901 thousand or 6.9% of gross loans as at 31 December 2012. The Bank had impairment allowance of KZT 42,032,449 thousand, KZT 35,570,458 thousand and KZT 28,877,007 thousand as at 30 June 2014, 31 December 2013 and 31 December 2012, respectively. See "*Selected Financial Information—Selected Financial Ratios*". However, the Bank continues to be subject to risks associated from the "lagging effect" of bad loans. See "*Business of the Bank—Loan Portfolio – Analysis of Loan Portfolio*".

Continued growth of the Bank's loan portfolio, particularly the percentage of performing loans, is contingent, among other factors, upon (i) the Bank's ability to borrow in the domestic and international market, (ii) the ability of the Bank to attract and retain qualified personnel and to train new personnel to monitor asset quality (iii) the Bank's ability to secure adequate funding and (iv) the Bank's ability to manage its credit risk. Any limit on the Bank's ability to accomplish these objectives could result in a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank faces increased credit risk exposure as a result of its continued expansion of lending to retail customers and sizeable SME lending business.

The Bank's growth strategy in recent years has included a focus on expanding its retail business, and, in particular, unsecured consumer finance loans and car loans. In line with this strategy, the Bank's total gross retail loan portfolio increased by 63.5% from KZT 169,904,069 thousand as at 31 December 2012 to KZT 277,819,257 thousand as at 30 June 2014. Retail loans amounted to 49.3% of the Bank's gross loan portfolio as at 30 June 2014. Additionally, loans to SME customers represented 4.9% of the Banks' gross loan portfolio as at 30 June 2014. Loans to retail and SME borrowers generally represent a higher credit risk for the Bank than do loans to large corporate borrowers with greater resources. Negative developments in Kazakhstan's economy could affect retail and SME borrowers more significantly than larger borrowers and lead to material asset quality deterioration. While the Bank's loans to retail and SME borrowers typically attract higher interest margins than those for large corporate borrowers, retail and SME borrowers are more susceptible to changes in interest rates and the Bank's consumer finance loan portfolio is unsecured. Additionally, SME and retail customers are typically less financially transparent than larger borrowers, as the quality of information available to the Bank about these potential borrowers varies and may not be accurate or sufficient. For SMEs in particular, any financial information available may not be accurate, as there are fewer third party confirmations and quality data that can be collected, and the banking industry in Kazakhstan generally recognises that lending to the SME segment represents a relatively higher degree of risk than comparable lending to large corporate or retail borrowers. As a result, the Bank may not be able to accurately assess the credit risk of its borrowers, in particular SMEs, and may need to change its estimates of impairment and implement additional credit risk management policies and procedures. Reflecting, in part, its increased focus on retail lending in recent years, the Bank's overall percentage of NPLs has increased from 6.9% of gross loans as at 31 December 2012 to 10.2% of gross loans as at 30 June 2014 and may continue to do so in the future, resulting in higher allowances for impairment losses and write-offs.

The Bank's securities portfolio is heavily invested in Kazakh government securities, exposing the Bank to significant additional risk of either economic or political events affecting the region.

The Bank has a significant concentration in securities issued by the Ministry of Finance of the Republic of Kazakhstan and the NBK, which, together, comprised 88.5% of the Bank's securities portfolio as at 30 June 2014. This exposes the Bank to significant additional risk to the value of its assets as a result of either economic or political events affecting the region. No assurance can be given that economic or political circumstances affecting Kazakhstan will not have an adverse impact on the value of its securities portfolio which, in turn, could adversely affect the Bank's results of operations or financial condition.

If the Bank is not successful in obtaining additional funding, the Bank may fail to execute its growth strategy.

In order to continue to execute its growth strategy, the Bank will require significant amounts of additional funding. The Bank may raise additional funding in several ways, including but not limited to, increasing the amount of deposits, and raising funds in securities offerings or via capital injection from its beneficial shareholders. The financing opportunities are subject to the Bank's financial condition, credit ratings, credit capacity, reputation and market conditions. The Bank cannot guarantee that it can successfully obtain additional funding or funding on commercially reasonable terms, in which case the Bank may be required to alter its growth strategy. Such changes in strategy could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank may not continue to grow at its current rate, if at all.

The Bank's growth strategy to become a "universal" commercial bank requires significant investment and could result in increased operating costs. There can be no assurance that the Bank will achieve positive returns on any investment it makes in the development of its business. The overall growth of the Bank's business could also require re-allocation of management resources away from daily operations. In addition, the management of such growth will require, among other things, continued development of the Bank's financial and information management control systems, the ability to integrate new branches or newly acquired financial services businesses with existing operations, the ability to attract and retain sufficient numbers of qualified management and other personnel, the continued training of such personnel, the presence of adequate supervision and the maintenance of consistency in the delivery of customer services. See "*Business of the Bank—Strategy—Ready for the Future-Improving IT systems*".

If the Bank fails to manage its growth strategy properly, in particular its retail business, which is a relative newcomer to the Kazakh retail banking market, such failure may have a material adverse effect on its business, financial condition, results of operations and prospects.

The Bank's long-term growth strategy includes expanding the range of products and services it offers to customers. Such expansion exposes the Bank to a number of risks and challenges which it must adequately manage, including the following:

- the Bank may have limited or no experience in certain new business activities and may not compete effectively in these areas;
- there is no guarantee that its new business activities will meet expectations for profitability;
- the Bank may need to hire or retrain personnel who are able to conduct new business activities; and
- the Bank must add to the capability of its risk management and information technology systems to support a broader range of activities.

The Bank had a minor share of the retail banking market prior to its acquisition of ProstoKredit in 2011, and, accordingly, remains a relative newcomer to this market by comparison with its principal retail banking competitors currently operating in Kazakhstan. The Bank may therefore be at a disadvantage as compared to those banks which may have, for example, greater experience and a more established marketing position in consumer finance.

Further, entering into new businesses and introducing new products requires significant capital investment and time commitment from management, and the Bank cannot assure investors that the Bank will be successful in properly assessing credit risk of its consumer finance loans or that the Bank can successfully operate its Russian subsidiary against bigger and more experienced competitors. In addition, if the Bank fails promptly to identify and expand into new areas of business to meet the increasing demand for certain products and services, the Bank may fail to maintain its market share or lose some of its existing customers to its competitors. The Bank also may have to commit proportionately more capital resources or hire or retrain its personnel to conduct new business activities in order to gain market share than those competitors. The Bank's inability to implement its development strategy successfully may have a material adverse effect on its business, financial condition, results of operations and prospects.

Credit bureaus in Kazakhstan are at a preliminary stage of development and the information and risk assessment data that are available in other jurisdictions may not be available to the Bank in Kazakhstan.

Kazakhstan's system for gathering and publishing statistical information relating to the Kazakh economy, or corporate or financial information relating to companies and other economic enterprises, as well as data relating to the retail sector, is not as comprehensive as those of many countries with established market economies. While the relevant infrastructure for the operation of a credit bureau to facilitate the collection of information and assessment of risk with respect to Kazakhstan borrowers has been created, this credit bureau is still at a preliminary stage of development and there can be no assurance that this resource will improve the Bank's ability to assess credit risk. The statistical, corporate and financial information, including financial statements, available to the Bank relating to its prospective corporate borrowers or retail clients or related to its equity investments, makes the assessment of credit risk, including the valuation of collateral, more difficult. Although the Bank ordinarily makes an estimation of the net realisable value of collateral on the basis of which it determines applicable reserve and collateral requirements, the absence of additional statistical, corporate and financial information may decrease the accuracy of the Bank's assessments of credit risk, thereby increasing the risk of borrower default and decreasing the likelihood that the Bank would be able to enforce any collateral in respect of the corresponding loan or that the relevant collateral will have a value commensurate to the loan secured by it or as to the risk of an equity investment. The Bank also finances long term projects as to which there may be little prior information or history to rely upon.

The Bank faces operational risk.

Operational risk is the risk of losses that may arise as a result of system inefficiencies, break-downs in internal processes, human error or the effect of any external negative factor. Although the Bank has extensive risk management controls in place, there can be no assurance that the Bank will be able to prevent operational risks materialising, or mitigate the damage caused should such operational risks materialise.

Any failure to deal with operational risk may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank's risk management policies and procedures may leave it exposed to unidentified or unanticipated risks.

While the Group has devoted resources to developing its risk management and internal control policies and procedures, there can be no assurance that such policies and procedures will adequately control, or protect the Bank against, all credit, liquidity, market and other risks. In addition, certain risks may not be accurately quantified by the Bank's risk management systems. Other risk management methods depend upon evaluation of information regarding the markets in which the Bank operates, its clients or other matters that are publicly available or information otherwise accessible to the Bank. This information may not be accurate, complete, up-to-date or properly evaluated in all cases. Any failure in the Bank's risk management techniques may have a material adverse effect on its business, results of operations and financial condition.

In addition, certain risks could be greater than the Bank's empirical data would otherwise indicate. Furthermore, the Bank cannot guarantee that all of its staff will adhere to its policies and procedures and will not override controls. The Bank's risk management and internal control capabilities are also limited by the information, tools and technologies available to the Bank. Any material deficiency in the Bank's risk management or other internal control policies or procedures may expose it to significant credit, liquidity, market or operational risk, which may in turn have a material adverse effect on the Bank's business, prospects, financial condition, cash flow or results of operations.

The Bank depends on the maintenance and improvement of its information technology systems in order to execute its retail expansion strategy successfully and in order to ensure that its core operations are functioning properly.

The Bank depends on its information technology systems to process a large number of transactions on an accurate and timely basis, especially to expand its retail business, which would require the Bank's information technology systems to process an increasing number of transactions.

In addition, in order to meet the demands of its retail customers, the Bank is improving its IT systems in order to introduce more robust internet banking services. If the Bank does not introduce internet banking services that appeal to its customers, or is unable to so in a timely manner, such failure could cause the Bank to lose its share in the retail sector. The Bank's projected amount of capital expenditure for IT projects is more than U.S.$30 million for the 2013-2015 period. The Bank has engaged PricewaterhouseCoopers to assist with the development of the Bank's new IT system and a strategy to capitalise the new system. However, there is no assurance that such IT projects can actually be completed within the budget.

Furthermore, any failure, interruption or breach in the security of these systems could result in failures or interruptions in its risk management, general ledger, deposit servicing and/or loan origination systems. Although the Bank has developed backup systems and a fully equipped disaster recovery centre, and may continue some of its operations through branches in case of emergency, if the Bank's information systems failed, even for a short period of time, it might be unable to serve some customers' needs on a timely basis and might lose their business. Likewise, a temporary shutdown of the Bank's information systems may result in the Bank incurring costs associated with information retrieval and verification. A failure to update and develop the Bank's existing information systems may result in a competitive disadvantage. No assurance can be given that such failures or interruptions will not occur or that the Bank will adequately address them if they do occur. Accordingly, any such failures or interruptions could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank may not be able to comply fully with anti-money laundering and sanctions regulations which could result in penalties, fines and sanctions.

The Bank is required to comply with applicable anti-money laundering, anti-terrorism laws and other regulations and sanctions in Kazakhstan and Russia (where its subsidiary, OJSC Eurasian Bank, is established and operates).

Kazakhstan anti-money laundering legislation is based on the Anti-Money Laundering Law (the "**AML Law**"). The AML Law establishes the legal basis in Kazakhstan for combating money laundering and the financing of terrorism. The AML Law requires banks and certain other organisations to perform financial monitoring with respect to certain transactions which involve payment in cash in excess of stipulated thresholds. In addition, the AML Law subjects to financial monitoring certain suspicious transactions regardless of the value of such transactions. The AML Law also requires the Bank to adopt internal anti-money laundering regulations.

As part of the due diligence exercise required to be performed under the AML Law, the Bank must review documents confirming the identity of its client and the beneficiary under the transaction and verify the signature of the beneficiary. The Bank must ascertain the purpose and nature of business relations and carry out an ongoing check in respect of transactions carried out by the client with the Bank.

The Bank's compliance department, which reports to the Board of Directors, is responsible for ensuring that the Bank is in compliance with all laws and regulations that control its activities, including AML requirements. The Bank's policies and procedures are in accordance with local regulatory requirements and internal best practice. The Bank has active relationships with international and domestic financial institutions, all of which require the Bank to have adequate AML procedures as part of their respective KYC procedures to accept the Bank as a counterparty.

While the Bank has adopted policies and procedures aimed at detecting and preventing the use of its banking network for money laundering activities and by terrorists and terrorist-related organisations and individuals generally, such policies and procedures may not completely eliminate instances where other parties may use the Bank to engage in money laundering and other illegal or improper activities. To the extent the Bank may fail to comply fully with such applicable laws and regulations, the relevant government agencies to which the Bank reports have the power and authority to impose fines and other penalties on the Bank. In addition, the Bank's business and reputation could suffer if customers use the Bank for money laundering or other illegal or improper purposes.

A small group of shareholders controls the Bank.

EFC owns 100.0% of the Bank. EFC is a joint stock company incorporated in Kazakhstan, in which Alexander Machkevich, Patokh Chodiyev and Alijan Ibragimov (together, the "**Controlling Shareholders**"), each holds a one-third interest. The Controlling Shareholders are also members of the Board of Directors of the Bank, and Mr. Machkevich is the Chairman of the Board of Directors.

The Controlling Shareholders have the ability to significantly influence the Bank's business through their ability to control all actions that require shareholder approval, including appointments of the members of the Board of Directors and any increase of the Bank's share capital.

If the Controlling Shareholders' interests conflict with the interests of the Noteholders, the Noteholders could be disadvantaged if the Controlling Shareholders take actions contrary to the Noteholders' interests. As the Bank's Parent Company, EFC has the ability to exercise total control over the Bank's acquisitions, divestures, financing or other transactions that could enhance the value of the Bank's assets without necessarily benefiting the interests of the Noteholders.

The Controlling Shareholders also hold shares in ENRC, as a result of which ENRC and its subsidiaries are categorised as related parties to the Bank for the purposes of the Bank's Financial Statements. The Bank has benefited from its relationship with ENRC and its subsidiaries (some of which were the original shareholders of the Bank). No assurance can be given that the Controlling Shareholders will maintain their shareholding in ENRC or that, if they disposed of their shareholding, any of ENRC's subsidiaries would continue to maintain their deposits with the Bank.

The Bank's business and operations are subject to market risks, including currency risk and interest rate risk.

The Bank has assets and liabilities denominated in several foreign currencies**.** As such, the Bank is exposed to the effects of fluctuation in prevailing foreign currency exchange rates on its financial position and cash flows. Although the Bank is subject to limits on its open currency positions pursuant to NBK regulations and the Bank's internal policies, future changes in currency exchange rates and the volatility of the Tenge may adversely affect the Bank's foreign currency positions. The Bank's principal cash flows are mainly generated in Tenge, while a considerable portion of the Bank's funding base is denominated in U.S. Dollars. Accordingly, any future decrease in the value of the Tenge relative to the U.S. Dollar, such as that which occurred in February 2014 upon the NBK's decision to allow the Tenge to depreciate by 22.4% to KZT 184.50 per U.S.$1.00 as at 13 February 2014, compared to KZT 150.74 per U.S.$1.00 as at 31 December 2012, could lead to an increase in the Bank's cost of financing its U.S. Dollar-denominated liabilities, prompt an outflow of Tenge deposits and make it more difficult for Kazakhstan borrowers to service their U.S. Dollar loans. There can be no assurance that further devaluations of the Tenge against the U.S. Dollar will not take place, particularly if global political and economic conditions continue to remain volatile. Any of these developments may have a material adverse effect on the Bank's business, financial condition, cash flows or results of operations.

Additionally, the Bank faces interest rate risk resulting from mismatches in the amounts, interest rates and maturities of its assets and liabilities. Interest rates are highly sensitive to many factors beyond the Bank's control, including the reserve policies of the NBK and domestic and international economic and political factors. Although the Bank monitors interest rate fluctuations and its asset liability tenor in order to mitigate such interest rate risk, interest rate movements on both the domestic and international markets may have a material adverse effect on the Bank's business and financial condition. See "*—The Bank is subject to macroeconomic fluctuations and exchange rate policies of the Kazakhstan government*".

The Bank is subject to intense competition from domestic and foreign banks, many of whom have more resources than the Bank.

The Bank is subject to competition from both domestic and foreign banks. As at 30 June 2014, there were a total of 38 commercial banks in Kazakhstan, of which there were 16 commercial banks with foreign ownership, including subsidiaries of foreign banks. The banking system in Kazakhstan is dominated by three large domestic banks: JSC Halyk Bank, JSC Kazkommertsbank and JSC BTA Bank (in which JSC Kazkommertsbank owns 46.5% of all voting shares and holds operating control), which account for approximately 41% of the banking sector assets in Kazakhstan. The second peer group of banks in Kazakhstan is represented by medium-sized banks, including: JSC SB Sberbank (Kazakhstan), JSC Tsesnabank, JSC Bank CenterCredit, JSC Kaspi Bank and JSC ATF Bank. Despite the Bank's position as the ninth largest bank in Kazakhstan in terms of total assets, according to data compiled by the NBK, it faces significant competition from these and other banks. In addition, the Bank considers some of the banks with foreign shareholders as its competitors, primarily JSC SB Sberbank, JSC VTB Bank (Kazakhstan) and JSC Citibank (Kazakhstan), as their international experience and low-cost funding allow them to attract large domestic and foreign corporate customers. Accordingly, these entities are likely to become competitive with the Bank in the corporate banking sector in the longer term.

As part of its expansion plans, the Bank is planning to target more retail clients with the aim of increasing its market share in this sector and enhance Bank's margins. Although the Bank believes that it is well positioned to compete in the retail market due to its quality of service and increase in its branch network, it faces competition from a number of existing participants in the Kazakhstan banking sector, including JSC Kaspi Bank, JSC Tsesnabank and JSC Home Credit Bank. In particular, as the retail banking sector continues to expand in Kazakhstan, the Bank will face increased competition for retail customers from both larger Kazakhstan banks with greater branch networks and smaller banks which are primarily concentrated on servicing the SME and retail sector. Similarly, there is no assurance that the Bank will continue to be able to attract the business of SMEs.

Damage to the Bank's brand or reputation, or a decline in customer confidence in the Bank or its products, could have a material adverse effect on the Bank's profitability.

The Bank's business is dependent, in part, upon the strength of its brand and the reputation of its business. The Bank operates in a consumer-oriented industry where customer trust is important due to the need for public confidence in the quality of the Bank's services, its treatment of customers and in the security and integrity of its IT and communications systems. The Bank could suffer damage to its reputation and brand as a result of adverse publicity from legislators, pressure groups or the press, even if there is a relatively high level of satisfaction among the Bank's current customers. In addition, any significant problems with collection practices employed by external collection agencies to which the Bank outsources collections of its non-performing loans could also adversely affect the Bank's reputation and brand. Adverse publicity and damage to the brand could directly affect customer willingness to use the Bank's products or deposit funds with the Bank, which may have a material adverse effect on the Bank's business, financial condition, results of operations and/or prospects.

The Bank is dependent on certain key personnel.

The Bank's success in growing its business will depend, in part, on its ability to continue to attract, retain and motivate qualified and skilled personnel. The Bank relies on its senior management for the implementation of its key strategic initiatives and its day-to-day operations. As competition for skilled personnel, especially at the senior management level, is intense, the Bank seeks to further develop its remuneration levels and to take other measures to attract and motivate skilled personnel. See "*Management and Employees – Employees*". If the Bank is unable to retain key members of its senior management and cannot hire new qualified personnel in a timely manner, its business and results of operations could be adversely affected.

The preparation of the Bank's consolidated financial statements under IFRS requires the Bank's management to make judgments, estimates and assumptions and the inaccuracy of these estimates and assumptions could have a material adverse impact on the Bank's consolidated financial statements.

The preparation of the Bank's consolidated financial statements under IFRS requires the Bank's management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and of income and expenses during the relevant reporting period. These judgments, estimates and assumptions are based on a number of factors, including information available at the time and historical experience. Although estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates, and such differences may be material. Judgments that have the most significant effect on the amounts recorded in the consolidated financial statements include impairment of loans and receivables, valuation of financial instruments, insurance liabilities and taxation. Should circumstances change, the outcome may be materially different from what was envisaged at the time such judgments, estimates and assumptions were made. Should this occur, it could have a material adverse effect on the Bank's consolidated financial statements, including its reported net profit and statement of financial position. Investors should note also that the Unaudited Interim Financial Statements contained in this Offering Circular include consolidated interim condensed financial information for the six-months ended 30 June 2013, in accordance with IFRS requirements, that has not been independently reviewed by KPMG, in accordance with International Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. Investors should therefore interpret any such information included in the Unaudited Interim Financial Statements accordingly

Risk Factors Relating to Kazakhstan

Financial instability in emerging economies such as Kazakhstan has caused and could cause the price of the Notes to suffer.

In emerging economies, financial instability tends to adversely affect capital markets as investors move their money to more developed markets that may be considered more stable. In the recent past, financial problems and an increase in the perceived risks associated with investment in emerging markets have caused foreign investment in Kazakhstan to decrease, have adversely affected Kazakhstan's economy and could do so again in the future.

If market conditions and circumstances deteriorate, a decline in credit quality and in asset prices could follow, which, in turn, could lead to an increase in defaults and higher levels of non-performing debt, as well as a worsening of general economic conditions in the Bank's key market. Any or all such market deterioration could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects. Financial instability in any other emerging market could also have a material adverse effect on the Bank's business, financial conditions, results of operation or prospects. Any of these factors could cause the value of the Note to suffer.

Emerging markets, such as in Kazakhstan, expose investors to significant legal, economic and political risks.

Investors in emerging markets such as Kazakhstan should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. For example, the recent instability and unrest in Ukraine and related events have had and may continue to have an adverse effect on the economy in the Russian Federation ("**Russia**"), which could, in turn, have a "contagion effect" on economies in the region, including, in particular, Kazakhstan, which is a close trading partner of Russia. In connection with such instability and unrest in Ukraine, the EU and the United States have imposed sanctions on certain individuals and companies in Russia and Russia has, in turn, imposed trade sanctions on certain goods and services originating in the EU and the United States. If the instability in Ukraine continues, tensions between Russian and Ukraine escalate further or new tensions between Russia and other countries emerge, or if further economic or other sanctions, such as further limitations on trade, are imposed in response to such instability and tensions, this may have a further adverse effect on the economies in the region, including the Kazakhstan economy, as well as on companies active in the region, including the Bank. Investors should also note that emerging economies such as Kazakhstan's are subject to rapid change and that the information set out in this Offering Circular may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investments in emerging markets are suitable only for sophisticated investors who fully appreciate the significance of the risks involved (including, without limitation, the potential loss or significant diminution of their investment). Investors are urged to consult with their own legal and financial advisers before making an investment in the Notes.

The disruption recently experienced in the international and domestic capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Companies located in countries in the emerging markets may be particularly susceptible to these disruptions and reductions in the availability of credit or increases in financing costs, which could result in them experiencing financial difficulty.

In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence in such markets as a whole. Accordingly, any factors that impact market confidence, for example, a decrease in credit ratings or state or central bank intervention in a particular market, could affect the price or availability of funding for entities within any of these markets, which could, in turn, have an impact on the wider economies of such markets.

Emerging markets can also experience more instances of corruption by government officials and misuse of public funds than do more mature markets, which could affect the ability of governments to meet their obligations under issued securities.

Companies in emerging markets are particularly exposed to reduced liquidity and increased financing costs.

The global financial crisis in international and domestic capital markets, which is still ongoing in certain sectors and jurisdictions, has led to reduced liquidity and increased credit risk premiums for certain market participants, resulting in lower levels of available financing and increased funding costs. Companies operating in emerging economies such as Kazakhstan may be particularly sensitive to these developments. The availability of credit to companies in emerging markets is significantly influenced by the level of investor confidence and, as such, any factors that affect investor confidence (for example, a downgrade in credit ratings, central bank or state interventions or debt restructurings in a relevant industry) could affect the price or availability of funding for companies operating in any of these markets such as the Bank.

Most of the Bank's assets are currently located in Kazakhstan, and the Bank is therefore susceptible to country specific risk factors such as political, social and economic instability.

Kazakhstan became an independent sovereign state in 1991 as a result of the dissolution of the former Soviet Union. Since then, Kazakhstan has undergone significant change, as it has emerged from a single party political system and a centrally controlled command economy to a market oriented economy. Kazakhstan's transition was initially marked by political uncertainty and tension, a recessionary economy marked by high inflation, instability of the local currency and rapid but incomplete changes in the legal environment.

Since 1992, Kazakhstan has actively pursued a programme of economic reform designed to establish a free market economy through privatisation of state enterprises. However, the Bank cannot assure that such reforms and other reforms described elsewhere in this Offering Circular will continue, or that such reforms will achieve all or any of their intended aims. Kazakhstan depends on neighbouring countries to access world markets for a number of its major exports, including oil, gas, steel, copper, ferro alloys, iron ore, aluminium, coal, lead, zinc and wheat. Kazakhstan is thus dependent upon good relations with its neighbours to ensure its ability to export and has taken various steps to promote regional economic integration among neighbouring countries. In September 2003, Kazakhstan signed an agreement with Ukraine, Russia and Belarus for the creation of a single economic zone. The single economic zone is expected to result in common economic policies, harmonisation of legislation implementing such policies and the creation of a single commission on trade and tariffs. The aim of the single economic zone is to create a free customs area within which member countries would enjoy free movement of goods, services, capital and labour. The member countries also intend to harmonise their fiscal, credit and currency policies to support further economic integration with the CIS countries and to assure continued access to export routes. However, should access to export routes be materially impaired, this could adversely affect the economy of Kazakhstan. Moreover, adverse economic factors in the markets of such member countries may adversely affect Kazakhstan's economy.

Although Kazakhstan has enjoyed relative political stability in the recent past, it could be adversely affected by political unrest in the Central Asian region such as that experienced by the neighbouring country of Kyrgyzstan in 2005 and again in 2010. Additionally, in common with other countries in Central Asia, Kazakhstan could be adversely affected by terrorism or by military or other action taken against sponsors of terrorism in the region.

The Controlling Shareholders have had, and continue to have, close links with the government, including the President. The Bank could face enhanced risk and uncertainty upon a change in government or a change in the political climate. For example, a new government with whom the Bank may not have as close links may be more likely to seek to re-nationalise certain assets held directly or indirectly by the Controlling Shareholders, or those held by some of the Bank's largest clients and attempt to re-open or challenge the tax, legal or other arrangements affecting the Bank's operations, which could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects. See also "*–The Bank is subject to macroeconomic fluctuations and exchange rate policies of the Kazakhstan government*."

The Bank is subject to macroeconomic fluctuations and exchange rate policies of the Kazakhstan government.

Kazakhstan is negatively affected by low commodity prices and economic instability elsewhere in the world, and the government has promoted economic reform, inward foreign investment and the diversification of the economy. Moreover, to mitigate any such negative effect, the government established the National Fund of Kazakhstan in 2000 for the purpose of supporting the financial markets and the economy of Kazakhstan in the event of any sustained drop in oil revenues. Notwithstanding these efforts, however, low commodity prices and weak demand in its export markets may adversely affect the economy of Kazakhstan.

The government began implementing market based economic reforms following independence (including the implementation of a significant privatisation programme, the promotion of high levels of foreign direct investment (particularly in the oil and gas sector) and the introduction of an extensive legal framework). Despite uneven progress in this regard, Kazakhstan has experienced extensive economic transformation over the last 18 years. Since mid-1994, the government has adhered to a macroeconomic stabilisation programme aimed at curtailing inflation, reducing the fiscal deficit and boosting international currency reserves. While gross domestic product ("**GDP**") has continued to grow in real terms following the adoption of a floating exchange rate policy in April 1999, increasing by 3.1% in 2008, 1.2% in 2009, 7.0% in 2010, 7.5% in 2011, 5.0% in 2012 and 6.0% in 2013, according to the State Agency of Statistics of the Republic of Kazakhstan, there can be no assurance that the GDP will continue to grow, and any fall in GDP growth could adversely affect the development of Kazakhstan and in turn the Bank's business and profitability.

Although the Tenge is convertible for current account transactions, it is not a fully convertible currency for capital account transactions outside Kazakhstan. Since the NBK adopted a floating rate exchange policy for the Tenge in April 1999, the Tenge has fluctuated significantly. The Tenge had generally appreciated in value against the U.S. Dollar over the previous decade until its devaluation by the NBK in February 2009. After February 2009, the Tenge generally stabilised until 11 February 2014 when the NBK allowed the devaluation of the KZT/U.S.$ exchange rate, with the official rate as published by the NBK depreciating by 22.4% to KZT 184.50 per U.S.$1.00 as at 13 February 2014, compared to KZT 150.74 per U.S.$1.00 as at 31 December 2012. The NBK reported that the adjustment was made taking into consideration the situation in the global financial and commodity markets. Kazakhstan's exchange rate regime had come under increased pressure in the second half of 2013 following further deterioration in the external current account, depreciation of the Russian rouble (which put competitive pressure on industries in Kazakhstan, an important trade partner to Russia) and uncertainties related to the U.S. Federal Reserve monetary policy. As at 30 June 2014, the official USD/KZT rate of exchange as reported by the NBK was KZT 183.51 per US $1.00. There can be no assurance that the NBK will maintain its managed exchange rate policy. Any change in the NBK's exchange rate policy could have an adverse effect on Kazakhstan's public finances and economy. Any of these developments may have a material adverse effect on the Bank's business, financial condition, cash flows or results of operations.

Kazakhstan's economy is highly dependent on oil exports, export trade and commodity prices. Accordingly, Kazakhstan's economy, the profitability of the Bank and operating costs may be affected by changes in the price of oil and commodities generally.

Kazakhstan's economy and state budgets rely in part on the export of oil, oil products and other commodities, as well as the import of capital equipment and significant foreign investments in infrastructure projects, could be adversely affected by volatility in oil and other commodity prices and by any sustained fall in those prices or by the discontinuation or delay of any infrastructure projects caused by political or economic instability in countries engaged in such projects. In addition, any fluctuations in the value of the U.S. dollar relative to other currencies may cause volatility on earnings from U.S. dollar-denominated oil exports. An oversupply of oil or other commodities in world markets or a general downturn in the economies of any significant market for oil or other commodities or weakening of the U.S. dollar relative to other currencies would have a material adverse effect on the Kazakhstan economy, which would, in turn, have an adverse effect on the business, financial condition, results of operations or prospects of the Bank.

Although the government has promoted economic reform, inward foreign investment and the diversification of the economy, if demand for Kazakhstan exports weakens or commodity prices decline, especially oil and gas prices, Kazakhstan's economy would likely be adversely affected, which could, in turn, have a material adverse effect on the business, financial condition, results of operations or prospects of the Bank.

Should the commodity sector in Kazakhstan recover, it is possible that operating costs, such as labour costs, leases, machinery and plant costs, may increase as well. Rising costs may result in increased expenses for businesses operating in Kazakhstan, including many of the Bank's borrowers. Rising costs will impact the profit margins of such companies and may adversely affect their ability to service loans granted to them by the Bank, which may, in turn, have a material adverse effect on the Bank's business, financial condition, and results of operations or prospects.

Any change in the existing policies of the government, or a change in the government or the president of Kazakhstan, may adversely affect the Bank's ability to operate its business.

Since independence in 1991, Kazakhstan has had only one president, Nursultan Nazarbayev, and the country has been largely free from political instability. Under President Nazarbayev's leadership, the foundations of a market economy have taken hold, including the privatisation of state assets, liberalisation of capital controls, tax reforms and pension system development. In early April 2011, President Nazarbayev was re-elected with 95.5% of the vote for a new five year term. In 2007, Kazakhstan's Parliament voted to amend Kazakhstan's constitution to allow President Nazarbayev to run in an unlimited number of elections. The Bank's operations have benefited from these stable conditions. Despite the 2007 amendment allowing President Nazarbayev to seek re-election at the end of his term, there is no guarantee that he will remain in office. Given that an independent Kazakhstan has not had to face a Presidential succession and that the political environment is not currently producing a clear succession process, there can be no assurance that any succession will result in a smooth transfer of office. The Bank could face enhanced risk and uncertainty in the event of a change in the government, including the possibility that a successor government would seek to reopen the tax, legal or other arrangements affecting the Bank's operations, including, for example, the Concession Agreement, based on the government's own conception of the national interest and other factors.

Implementation of further market based economic reforms may affect the Bank's operations.

The need for substantial investment in many state-owned enterprises has driven the government's privatisation programme. Major privatisations in key sectors have taken place, such as full or partial sales of certain large oil and gas producers, mining companies and the national telecommunications company. The programme has excluded certain state-owned enterprises deemed strategically significant by the government. However, there remains a need for substantial investment in many sectors of the economy, and there are areas in which economic performance in the private sector is still constrained by an inadequate business infrastructure. Further, the amount of non-cash transactions in the economy and the size of the shadow economy adversely affect the implementation of reforms and restrict the efficient collection of taxes. The government has stated that it intends to address these problems by improving bankruptcy procedures, the business infrastructure and tax administration and continuation of the privatisation process. Implementation of these measures, however, may not happen in the short-term and any positive results of such actions may not materialise until the medium-term, if at all.

The Kazakhstan regulatory and tax regime, as well as the judicial system, are not fully developed and are therefore unpredictable.

Although a large volume of legislation has come into force since early 1995 (including laws relating to foreign arbitration in 2004, a new tax code in January 2009, the Risk Minimisation Law in February 2012 relating to foreign investments and additional regulation of the banking sector and other legislation covering such matters as securities exchanges, economic partnerships and companies, state enterprise reform and privatisation), the legal framework in Kazakhstan is still in a relatively early stage of development compared to countries with established market economies. The judicial system, judicial officials and other government officials in Kazakhstan may not be independent of external social, economic and political forces. There have been instances of improper payments being made to public officials, administrative decisions have been inconsistent, and court decisions have been difficult to predict.

Further, due to numerous ambiguities in Kazakhstan's commercial legislation, in particular in its newly adopted tax legislation, the tax authorities may make arbitrary assessments of tax liabilities and challenge previous tax assessments, thereby rendering it difficult for companies to ascertain whether they are liable for additional taxes, penalties and interest. As a result of these ambiguities, including, in particular, the uncertainty surrounding judgments rendered under the 2009 Tax Code, as well as a lack of an established system of precedent or consistency in legal interpretation, the legal and tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed legal and tax system.

It is also expected that tax legislation in Kazakhstan will continue to evolve, which may result in additional taxes becoming payable. Additional tax exposure could have a material adverse effect on the business, financial condition results of operations and prospects of companies operating in Kazakhstan, including the Bank.

The 2009 Tax Code provided for reduced rates for certain taxes, including the corporate income tax rate from 30% in 2008 to 20% since 2009. Under the 2009 Tax Code, the excess profit tax has also been revised. While the former excess profit tax was based on the internal rate of return of each field, the new excess profit tax is based on revenue and deductible expenses for each sector as determined in accordance with Kazakhstan tax accounting, and ranges from 0% to 60% based on the revenue-to-expense ratio of each field. The Bank's management expects that the new excess profit tax will be less onerous with respect to fields with a low revenue-to-expense ratio, but higher with respect to fields with a high revenue-to-expense ratio.

The Bank expects that there will be additional revenue raising measures which may result in significant additional taxes becoming payable. Additional tax exposure could have a material adverse effect on the Bank's business and financial condition and on the results of operations of companies operating in Kazakhstan. The newly adopted tax legislation, which came into force on 1 January 2009, introduced numerous changes to the existing tax regime, and it is not clear how this new legislation will be interpreted and applied.

As a result of these ambiguities, as well as a lack of any established system of precedent or coherence in legal interpretation, the tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed tax system. Kazakhstan's tax system is still in a transitional phase, and no assurance can be given that new taxes and duties or new tax rates will not be introduced. Further changes in the withholding tax regime may give the Bank the right to redeem the Notes prior to their stated maturity.

The corporate governance and disclosure laws and practices in Kazakhstan that apply to the Bank are less developed than corresponding requirements applicable to corporations organised in the United States, the United Kingdom and other Western European countries.

The Bank's corporate affairs are regulated by laws and regulations governing companies incorporated in Kazakhstan, including the Banking Law and the Corporate Governance Code, as well as the Bank's own charter. See "*Management and Employees*". Disclosure requirements and standards applicable to Kazakh companies differ from those in more developed economies in certain respects. In general, there may be substantially less information available about Kazakhstan companies, including the Bank, than there would be generally available about a publicly traded company in certain other countries with more developed capital markets. Although the Bank's Corporate Governance Code implements certain provisions of the UK Corporate Governance Code, such as those related to remuneration, performance evaluation, information and professional development of the directors, dialogue with shareholders, establishment of audit, nomination and remuneration committees of the board of directors, the corporate governance regime in Kazakhstan is generally less developed than that in the United States, the United Kingdom and other West European countries and the rights of shareholders and the responsibilities of members of the board of directors and the Management Board under Kazakhstan law are different from, and may be subject to certain requirements not generally applicable to, corporations organised in the United States, the United Kingdom and other Western European countries.

The government has stated that it intends to continue to reform the corporate governance regulations to which the Bank and all other joint stock companies are subject, with a view toward increasing disclosure and transparency in the corporate sector in order to promote growth and stability. There can be no assurance, however, that the government will continue to pursue such a policy in the future or that such policy, if continued, will ultimately prove to be successful. It is not possible to predict the effect on the Bank of future legislative developments in this regard.

The securities market in Kazakhstan is less developed than in western jurisdictions.

An organised securities market was established in Kazakhstan in the mid-to-late 1990s and procedures for settlement, clearing and registration of securities transactions may, therefore, be subject to legal uncertainties, technical difficulties and delays. Although significant developments have occurred in recent years, the sophisticated legal and regulatory frameworks necessary for the efficient functioning of modern capital markets have yet to be fully developed in Kazakhstan. In particular, although legal protections against market manipulation and insider trading are developing in Kazakhstan and proper legislation have been adopted, the current market is not well developed and as liquid as Western European countries and the United States and existing laws and regulations may be applied inconsistently with consequent irregularities in enforcement. In addition, limited information relating to entities in Kazakhstan, such as the Bank, may be publicly available to investors in securities issued or guaranteed by such entities than is available to investors in entities organised in Western European countries or the United States.

Kazakhstan is dependent on access to export routes in neighbouring countries, and an impairment in this access could adversely affect Kazakhstan's economy.

Kazakhstan depends on good relations with its neighbouring countries to access world markets for a number of its major exports, including oil, natural gas, steel, copper, ferro-alloys, iron ore, aluminium, coal, lead, zinc and wheat. In order to ensure its ability to export, Kazakhstan has taken various steps to promote regional economic integration among neighbouring states, including entering into a new Customs Union with Russia and Belorussia, which is expected to promote trade between Kazakhstan and these neighbouring countries.

Should access to these export routes be materially impaired, however, or should other adverse economic factors develop in regional markets, this could adversely impact the economy of Kazakhstan.

Risk Factors Relating to the Kazakhstan Bank Sector

The instability of the global and the Kazakhstan credit markets and banking sectors, and the ongoing European sovereign debt crisis could have a material adverse effect on the Bank's business, liquidity and financial condition.

The global economy and the global financial system have experienced a period of significant turbulence and uncertainty in recent years, particularly the severe disruption of the financial markets around the world that began in August 2007 and that has substantially worsened since September 2008 with adverse consequences for many large global commercial and investment banks, insurance companies and other financial institutions. This disruption has severely impacted general levels of liquidity and the availability of credit together with the terms on which credit is available. Governments around the world, including that of Kazakhstan, have sought to inject liquidity into banking systems and to recapitalise their banking sectors to reduce the risk of systemic failure and increase confidence in the financial markets. This market disruption has also been accompanied by a slowdown in many economies including that of Kazakhstan. There was a relatively short period (from approximately the end of 2009 to the first half of 2011) of moderate recovery in the world economy and the financial markets after which growth in the world economy again slowed against the background of debt and budget crisis in many major developed countries caused in part by high volatility in world financial and raw materials markets. In 2010 and 2011 there was significant growth in the Kazakhstan economy; however, any positive effect in the Kazakhstan banking sector was limited, and was mainly confined to growth of the deposit base. At the same time, industries strongly represented on the loan portfolios of second tier banks struggled to recover fully after this crisis, as demonstrated by the continued growth of overdue indebtedness on loans and relatively weak loan activities of banks in the corporate and SME segments. In 2012, GDP growth in Kazakhstan decreased to 5.0% compared to 7.5% in 2011, despite strong growth in the retail sector, as growth in the corporate and SME sectors remained sluggish. In 2013, GDP growth increased to 6.0%.

In the near future, the Eurozone economies may continue to suffer significant financial difficulties, the crisis situation in the debt levels and budgets of developed countries will remain and there are obvious signs of a noticeable slowing down of economic growth in China. These factors bring significant uncertainty in predicting economic growth in the global economy, and in Kazakhstan in particular. Continued general deterioration in the world economy, including plummeting production and services, business and consumer confidence, the plunging pace of growth of household income, unemployment trends, the state of the housing market, the commercial real estate sector, equity markets, bond markets, foreign exchange markets, counterparty risk, inflation, the availability and cost of credit, lower transaction volumes in key markets, the liquidity of the global financial markets and market interest rates, would further reduce the level of demand for, and supply of, the Bank's products and services, would lead to lower realisations as well as writedowns and impairments of investments and negative fair value adjustments of assets, and could materially and adversely impact the Bank's business, financial condition, cash flows or results of operations.

The Kazakhstan banking sector has been particularly affected by the lack of availability of international wholesale debt financing and the volatility of deposits. Kazakhstan banks have previously heavily relied on such financing and deposits as a source of funding. After significant repayments and several bank restructurings, the dependence of the Kazakhstan banking sector as a whole on wholesale debt financing has significantly decreased. However, at the same time, dependence on short-term and volatile deposits has significantly increased. If the Bank suffers from increased volatility of its deposit base, this could adversely affect the Bank's business, financial condition, cash flows or results of operations. In addition, if as a result of poor credit market conditions the Bank is unable to obtain wholesale debt financing from the domestic or international capital markets or the domestic loan market, this could have a material adverse effect on the Bank's business, financial condition and results of operations. The effect of any of these conditions may be exacerbated by a deterioration of the financial condition of other banks in Kazakhstan. The full range and consequences of the risks faced by the Bank are difficult to predict and guard against in view of the fact that many of those risks are either partially or entirely outside the control of the Bank and may be exacerbated by an increase in the severity of the ongoing financial crisis or any future financial crisis.

The soundness or the perceived soundness of other financial institutions and counterparties, which could result in significant systemic liquidity problems, losses or defaults could adversely affect the Bank.

Due to constraints on liquidity and the high cost of funds in the interbank lending market, and given the high level of interdependence between financial institutions that became increasingly evident in the aftermath of the global financial crisis, the Bank, like other financial institutions, is subject to the risk of deterioration of the commercial and financial soundness, or perceived soundness, of other financial institutions. Within the financial services industry, the default of any one institution could lead to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, because the commercial and financial soundness of many financial institutions may be closely related as a result of their credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by the Bank or by other institutions. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearinghouses, banks, securities firms and exchanges with whom the Bank interacts on a daily basis. Systemic risk could have a material adverse effect on the Bank's ability to raise new funding and on its business, financial condition, results of operations, liquidity and prospects.

The Kazakhstan banking sector has been, and continues to be, particularly affected by the lack of availability of high-quality, credit-worthy institutional borrowers, and relatively low interest rates associated with loans to such quality borrowers. The intense competition among banks for such quality borrowers continues to place negative pressure on net interest margin for both individual banks and the banking system as a whole. If the Bank loses one or more of its large institutional borrowers, the Bank may experience material and adverse effects on its business, financial condition, results of operations or prospects.

Changes to the NBK minimum reserve requirements, capital reserve requirements, as well as potential restrictions imposed by the NBK, may materially and adversely affect the Bank's business, financial conditions, results of operations or prospects.

In 2008, the NBK adopted resolutions increasing the charter capital and own capital requirements for commercial banks. In 2009, the minimum own capital (net worth) requirement for commercial banks increased from KZT 1 billion to KZT 5 billion and, on 1 July 2011, was further increased to KZT 10 billion. In the second half of 2008, the NBK adopted a number of measures aimed at providing additional liquidity to banks. Starting in May 2011, the NBK changed its minimum reserve requirements for liabilities to constitute 2.5% of internal liabilities (liabilities of the Bank due to Kazakhstan residents) and 4.5% of other liabilities. Effective from 13 November 2012, the minimum level at which the banks must maintain reserves is 2.5% for domestic short-term liabilities, 0% for domestic long-term liabilities, 6% for foreign short-term liabilities and 2.5% for foreign long-term liabilities.

If the Bank is unable to meet future requirements imposed by the NBK, its business, financial condition, results of operations or prospects may be materially and adversely affected.

Risks resulting from failures in Kazakhstan's banking industry could adversely affect the Bank and the Kazakhstan banking industry generally.

Within Kazakhstan's banking industry, the default of any institution could lead to defaults by other institutions. Concerns about, or a default by, one institution could prevent the Bank from accessing its international credit lines or raising new or additional funds in the international markets and could also significantly reduce depositors' confidence in the banking industry in general and in the Bank in particular. The commercial soundness of many financial institutions may be closely related as a result of their credit, trading, clearing or other relationships and, accordingly, such concerns or defaults could also lead to significant liquidity problems, losses or defaults by other institutions. This risk is sometimes referred to as "systemic risk" or "contagion risk" and may adversely affect financial intermediaries, such as banks, securities firms and exchanges with whom the Bank interacts on a daily basis. This could, in turn, have a material adverse effect on the Bank's ability to raise new funds and on the Bank's business, financial condition, results of operations or prospects.

Since the peak of the banking crisis at the beginning of 2009, BTA, Temirbank and Alliance Bank, which collectively owned 34.6% of the total assets of the banking system in Kazakhstan as at 1 January 2009, have defaulted on their contractual payments and breached certain regulatory requirements of the FMSA. Astana Finance, which is a non-bank financial holding company that owns companies providing lease financing and commercial and residential mortgages and is more than 25% owned by the state, announced a moratorium on the repayment of its debts in May 2009.

During 2010, the restructuring of the financial liabilities of JSC Alliance Bank (in March), JSC Temirbank (in June) and BTA (in September) were completed. Subsequently, in 2012, BTA Bank underwent a second restructuring, in which its financial indebtedness was reduced from U.S.$11.1 billion to U.S.$3.3 billion, and its average debt maturity was extended from 3 to 12 years. The second restructuring was completed in December 2012. Following this restructuring, the National Welfare Fund "Samruk-Kazyna" ("**Samruk-Kazyna"**) owned a 97% equity holding in BTA Bank. In June and July 2014, Samruk-Kazyna sold a 97.33% stake in JSC BTA Bank to JSC Kazkommertsbank (47.57%) and Mr. K. Rakishev (47.57%) and placed its remaining shares in trust under the control of JSC Kazkommertsbank. Alliance Bank is currently undergoing a second restructuring which will involve the restructuring approximately U.S.$1.2 billion of its indebtedness and the merger of JSC Alliance Bank with JSC Temirbank and Forte Bank. In February 2014 President Nazarbayev instructed Samruk-Kazyna to sell its stakes in Kazakhstan's commercial banks so as to withdraw the State's participation in the commercial banking sector in Kazakhstan. In May 2014, Samruk-Kazyna sold part of its shares (a 16% stake) in Alliance Bank to Mr. Bulat Utemuratov. Samruk-Kazyna currently owns 51% of Alliance Bank, and Mr. Utemuratov has conditionally agreed to obtain control of Alliance Bank. The second restructuring is expected to be completed prior to the end of 2014. Upon completion of restructuring procedures of JSC Temirbank, in May 2014, Samruk-Kazyna sold all of its shares (a 79.88% stake) in JSC Temirbank to Mr. Bulat Utemuratov. Astana Finance announced on 10 July 2014 further delays to its financial restructuring beyond the deadline of 31 July 2014.

The Kazakhstan banking system remains under stress with banks continuing to seek to deleverage through partial repayments and debt restructurings. The Bank remains exposed to the risk of further bank failures, which could result in the government's resources becoming strained such that the government may be required to allocate support and funds selectively and, generally, such failures could negatively impact the Banking sector as a whole. Additionally, the negative impact from the continuing problems in the Banking sector may impact the willingness of foreign investors and banks to consider lending to or investing in Kazakhstan banks such as the Bank. This reluctance could have an adverse effect on the Bank's ability to attract support from foreign financial institutions, if needed.

As a result of legal or regulatory developments, the Bank could be subject to enhanced capital and liquidity requirements.

As a result of the global financial and economic crisis, legislators, regulators and global standard setters have scrutinised the regulatory prudential standards applied to banks. In July 2009, the Basel Committee announced, among other things, higher capital requirements for trading and securitisation activities. On 16 December 2010, the Basel Committee on Banking Supervision published the main Basel III rules, which mandate extensive enhancements of capital and liquidity standards for banking organisations. On 13 January 2011, it published further material prescribing the conditions that regulatory capital instruments (apart from common equity) must satisfy so that they are fully loss-absorbing. In July 2011, the Basel Committee on Banking Supervision published consultative proposals which, if implemented, would impose additional capital requirements on banks classed as global and systemically important.

The Basel III framework would increase minimum common equity and minimum tier 1 capital as a percentage of risk-weighted assets and introduce additional capital conservation and countercyclical buffers. In addition, Basel III would enhance the risk coverage of the capital framework and increase risk-weights, including, among other things, in relation to trading and securitisation activities and counterparty credit risk exposures. Risk-based capital requirements would be complemented by a non-risk-weighted maximum leverage ratio of tier 1 capital to total exposures (including on-balance sheet and off-balance sheet items). Quantitative capital requirements would be reinforced by more stringent qualitative capital standards, in particular tighter eligibility conditions for regulatory capital instruments (including, among other things, those issued on 13 January 2011) and revised regulatory adjustments. Further, changes to liquidity standards would require banks to hold appreciably higher stocks of high quality liquid assets against the risk of short-term and longer term funding losses. Basel III includes other measures not expressly referred to in this risk factor.

The Bank expects the government to start introducing and adopting Basel III from 1 January 2015, which may impose additional costs on the Bank. As a consequence of Basel III and other legal or regulatory developments, the Bank may, amongst other things, need to raise additional capital, increase retained earnings and/or reduce risk-weighted assets through sales and/or a shift in the kinds of business undertaken. However, the Bank closely monitors its capital position against new regulation and its' mid-term business plans. The Bank believes its capital position will fully satisfy new regulatory requirements and will not require additional capital, any increase in retained earnings, a reduction of risk-weighted assets and/or a substantial change of its business plans due to the changes.

The Bank depends on its banking and other licenses.

All banking operations in Kazakhstan require licensing by the NBK, which also acts as the licensing authority for entities engaged in securities, insurance and pension services business in Kazakhstan. As at the date of this Offering Circular, the Bank has licences for general banking, broker/dealer and custody operations. Although the Bank believes it is currently in compliance with its existing material licences obligations, there is no assurance that the Bank will be able to maintain such licences in the future. The Bank is subject to unannounced periodic reviews by the NBK. If the Bank loses its general banking licence or such licence is temporarily suspended, the Bank will be unable to perform any banking operations. The loss of any of its licences, a temporary suspension thereof, a breach of the terms of a licence by the Bank or failure to obtain any further required licences in the future for whatever reason could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects.

The Bank's mortgage loans are exposed to risk due to delays and uncertainty in the Kazakh court system.

The Bank is exposed to the risk that its mortgage loans will default, and an inability to take possession of security in a timely manner, if at all, due to uncertainty in the court system. While this problem is fairly widespread in the entire real estate sector, it is particularly acute in the residential retail mortgage sector, perhaps as a result of the political climate in Kazakhstan. As at 30 June 2014, the Bank's gross retail mortgage loans amounted to KZT 18,572,385 thousand, accounting for 3.3% of the Bank's entire gross loan portfolio. As at 31 December 2013 and 2012, the Bank's gross retail mortgage loans amounted to KZT 17,943,436 thousand and KZT 33,831,716 thousand, respectively, accounting for 3.8% and 8.8% of the Bank's entire gross loan portfolio, respectively. Mortgage loans had decreased significantly by 30 June 2014 following the Bank' sale of a portfolio of mortgage loans to the Kazakhstan Mortgage Company, with whom it has an agreement in place to originate further loans on their behalf. Due to the delays and unpredictability of the court system, the Bank is forced to manage its troubled retail mortgage loans more proactively without relying on the legal system. If the Bank is not able to do so, then NPLs in the retail mortgage sector may materially adversely affect the Bank's business, financial condition, results of operations or prospects.

Risk Factors Relating to the Notes

Insolvency laws in Kazakhstan may not be as favourable to holders of Notes as English or United States insolvency laws or those of another jurisdiction with which Noteholders may be familiar.

The Issuer is organised in Kazakhstan and is subject to the bankruptcy law of Kazakhstan, which was introduced in early 2014. From the moment bankruptcy proceedings are initiated in court, a Kazakhstan debtor is prohibited from paying any debts outstanding prior to the bankruptcy proceedings, subject to specified exceptions.

After the initiation of bankruptcy proceedings, the debtor's creditors may not pursue any legal action against the debtor to obtain payment to set aside a contract in force for non-payment or to enforce their rights against any of the debtor's assets until the bankruptcy proceedings are complete. Contractual provisions, such as those contained in the Notes, which would accelerate the payment of the debtor's obligations upon the occurrence of certain bankruptcy events, would accelerate the amount due but each accelerated amount would become a part of the debtor's total liabilities within the relevant priority class.

Specifically, Kazakhstan bankruptcy law provides that transactions that are entered into by a debtor may be deemed invalid if they are entered into within three days prior to the onset of bankruptcy or rehabilitation proceedings. The transactions must contain elements which qualify for grounds of invalidation under Kazakhstan Civil Code or have the following features (i) the price of a transaction or other conditions related to the transaction which are more onerous on the debtor than the price and conditions for similar transactions in the market concluded under similar circumstances; (ii) transactions that are beyond the framework of activities authorised for the debtor by law; (iii)transactions which include assets transferred free of charge or at an undervalue for the debtor in comparison to the market price of the asset in other transactions under similar economic circumstances or otherwise the transfer infringers the interests of the creditors; (iv) transactions are entered into six months before the bankruptcy or rehabilitation proceedings and resulted in preferential payments to certain creditors; (v) the debtor has gifted its assets and entered into transactions, which are significantly different from different from the transactions entering into during the year before the start of bankruptcy or rehabilitation proceedings. Since Kazakhstan's courts are not experienced with complex commercial issues, there is no way to predict the outcome of a bankruptcy proceeding.

Also, there is a likelihood that recently promulgated bank restructuring legislation may be made applicable to non-banking institutions, which could present significant risks to investors in the event of default in respect of the notes.

The trading price of the Notes may be volatile.

In recent years, stock markets have experienced significant price fluctuations. These fluctuations were often unrelated to the operating performance of the companies whose securities are traded on such stock markets. Market fluctuations, as well as adverse economic conditions, have negatively affected the market price of many securities and may affect the market price of the Notes.

In particular, the markets for securities bearing emerging market risks, such as risks relating to Kazakhstan, may be volatile. Markets for such securities are, to varying degrees, influenced by economic and securities market conditions in other emerging market countries. Although economic conditions are different in each country, investors' reactions to developments in one country may affect securities of issuers in other countries, including Kazakhstan.

Risk Factors Relating to the Structure of the Notes

Redemption prior to maturity for tax reasons.

In the event that the Bank would be obliged to increase the amounts payable in respect of the Notes due to any change in or amendment to the laws or regulations of Kazakhstan, as the case may be, or any political sub-division thereof or of any authority therein or thereof having the power to tax or in the interpretation or administration thereof, the Bank may redeem all outstanding Notes in accordance with the Conditions of the Notes. As with the optional redemption feature of the Notes referred to above, it may not be possible to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and this may only be possible at a significantly lower rate.

Risks Factors Relating to the Notes Generally

Set out below is a brief description of certain risks relating to the Notes generally:

A majority of Noteholders may make certain modifications to the Notes or waive certain rights.

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or (ii) determine without the consent of the Noteholders that any Event of Default (as defined in the Trust Deed) shall not be treated as such in the circumstances described in Condition 14 (*Meetings of Noteholders; Modification and Waiver*) of the Notes.

Therefore, a defined majority of the Noteholders or the Trustee may make certain modifications to the Notes or waive certain rights without your prior approval.

The EU Savings Directive may affect your tax obligations.

Under EC Council Directive 2003/48/EC (the "**EU Savings Directive**") on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income (within the meaning of the EU Savings Directive) paid by a paying agent (within the meaning of the EU Savings Directive) within its jurisdiction to, or collected by such a paying agent for, an individual resident or certain limited types of entity established in that other Member State. However, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates which have risen over time to 35%, unless in the case of Luxembourg the beneficial owner of the interest payments opts for information exchange. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

In a press release of 10 April 2013, the Luxembourg Ministry of Finance announced that the Luxembourg government had decided to introduce with effect from 1 January 2015, the automatic exchange of information system under the EU Savings Directive for all interest payments made by Luxembourg financial operators to individuals resident in another Member State. This will replace the 35% withholding tax.

A number of non-EU countries and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a paying agent within their jurisdiction to, or collected by such a paying agent for, an individual resident in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Bank nor any Paying and Transfer Agent nor any other person would be obligated to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obligated to withhold or deduct tax pursuant to the Directive. Therefore, the EU Savings Directive may affect Noteholders' tax obligations.

Risk Factors Relating to the Market Generally

A market for the Notes may never develop.

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of the Notes.

Application has been made for the listing of the Notes on the KASE. There can be no assurance that this listing and admission to trading will be obtained or, if they are obtained, that an active trading market will develop or be sustained. In addition, the liquidity of any market for the Notes will depend on the number of holders of the Notes, the interest of securities dealers in making a market in the Notes and other factors. Accordingly, there can be no assurance as to the development or liquidity of any market for the Notes.

Certain arrangements contemplated in the Deed of Subscription relating to the Notes may adversely affect the value of the Notes.

Pursuant to the terms of the Deed of Subscription (as defined in "*Subscription and Sale*") relating to the Notes, the Lead Manager is entitled to, in certain circumstances, return all or a portion of the allocation of Notes that it has agreed to subscribe and pay (or procure the subscription and payment) for under the Deed of Subscription (the "**Affected Notes**") to the Issuer, whereupon the Issuer may hold, cancel and/or re-issue the Affected Notes on such terms as and when it so determines. Additionally, the Issuer may acquire Notes for its own account through the local offering, and hold, cancel and/or re-issue such Notes on such terms as and when it so determines.

Any such dealings by the Issuer in relation to the Notes (or any failure by the Issuer to sell such Notes in the secondary market) may adversely affect, among other things, the liquidity and/or value of the Notes. Consequently, investors may not be able to sell their Notes for a price that reflects their value. See "*Subscription and Sale*".

Government and monetary authorities may impose exchange controls that could adversely affect an applicable exchange rate.

The Issuer will pay principal and interest on the Notes in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to U.S. dollars would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Subsequent changes in market interest rates may adversely affect the value of the Notes.

And investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Credit ratings may not reflect all risks.

The credit rating(s) assigned to the Notes at any time may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Any downwards change in the ratings of either the Bank or Kazakhstan could affect the trading price of the Notes.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes which, subject to amendment and completion and except for the text in italics, will be endorsed on each Definitive Note Certificate (as defined in the Trust Deed), if issued.

The U.S.$500,000,000 7.50% Notes due 2017 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 17 (*Further Issues*) and forming a single series therewith) of JSC Eurasian Bank (the "**Issuer**") are (a) constituted by and subject to, and have the benefit of, a trust deed dated 6 November 2014 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and Deutsche Trustee Company Limited as trustee (the "**Trustee**", which expression includes all persons for the time being appointed as trustee for the holders of the Notes under the Trust Deed) and (b) are the subject of an agency agreement dated 6 November 2014 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, the Trustee and Deutsche Bank AG, London Branch as principal paying and transfer agent (the "**Principal Paying and Transfer Agent**", which expression includes any successor principal paying and transfer agents and any other paying and transfer agents appointed from time to time in connection with the Notes (being referred to below as the "**Paying and Transfer Agents**") and Deutsche Bank Luxembourg S.A. (the "**Registrar**", which expression shall include any successor registrar under the Agency Agreement).

Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and are subject to their detailed provisions. The Noteholders are bound by, and are deemed to have notice of all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the Specified Offices (as defined in the Agency Agreement) of the Principal Paying and Transfer Agent and the Paying and Transfer Agents. Copies are also available for inspection during normal business hours at the registered office for the time being of the Trustee, being at the date hereof Winchester House, 1 Great Winchester Street, London, EC2N 2DB United Kingdom.

1. FORM, DENOMINATION AND TITLE

(a) **Form and denomination**

The Notes are in registered form, serially numbered.

The Notes will be issued in minimum denominations of U.S.$1,000 (each denomination referred as to herein as an "**Authorised Holding**").

(b) **Title**

Title to the Notes will pass by transfer and registration as described in Conditions 2 (*Registration*) and 3 (*Transfer of Notes*). The holder (as defined below) of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or any other interest in it, any writing thereon by any Person (as defined below) (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous theft or loss thereof; and no Person will be liable for so treating such holder.

In these Conditions, "**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or other judicial entity, including, without limitation, any state or agency of a state or other entity, whether or not having separate legal personality, "**Noteholder**" or "**holder**" means the Person in whose name a Note is for the time being registered in the Register (as defined below) (or, in the case of joint holders, the first named thereof) and "**holders**" shall be construed accordingly. A Definitive Note Certificate (as defined in the Trust Deed) will be issued to each Noteholder in respect of its registered holding.

The Notes will be represented by a Global Note (as defined in the Trust Deed), interests in which will be exchangeable for notes in definitive form in the limited circumstances specified *in the Global Note. The Global Note will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**").*

(c) **Third party rights**

No Person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

2. REGISTRATION

The Issuer will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement at the Specified Office of the Registrar in which will be entered the names and addresses of the holders of the Notes and the particulars of the Notes held by them and all transfers and redemptions of the Notes.

3. TRANSFER OF NOTES

(a) **Transfer**

Each Note may, subject to the terms of the Trust Deed and to Conditions 3(b) (*Formalities Free of Charge*), 3(c) (*Closed Periods*) and 3(e) (*Regulations Concerning Transfer and Registration*), be transferred in whole or in part in an Authorised Holding by lodging the relevant Definitive Note Certificate (with the endorsed form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the Specified Office of the Registrar or any Paying and Transfer Agent together with such evidence as the Registrar or (as the case may be), such Paying and Transfer Agent may reasonably require to prove the title of the transferor and the authority of the persons who have executed the form of transfer). A Note may be registered only in the name of, and transferred only to, a named person or persons. No transfer of a Note will be valid unless and until entered on the Register.

The Registrar will within five Business Days (as defined below) of any duly made application for the transfer of a Note, register the transfer and deliver a new Definitive Note Certificate to the transferee (and, in the case of a transfer of part only of a Note, deliver a Definitive Note Certificate for the untransferred balance to the transferor), at the Specified Office of the Registrar, or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the Definitive Note Certificate by uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

(b) **Formalities Free of Charge**

Such transfer will be effected without charge subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar and the Trustee.

(c) **Closed Periods**

Neither the Issuer nor the Registrar will be required to register the transfer of any Note (or part thereof) during the period of 15 days immediately prior to the due date for any payment of principal or interest in respect of the Notes.

(d) **Business Day**

In these Conditions, "**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in both New York City and the city in which the Specified Office of the Registrar or, as the case may be, the Principal Paying and Transfer Agent is located.

(e) **Regulations Concerning Transfer and Registration**

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer to reflect changes in legal requirements or in any other manner which is not prejudicial to the interests of Noteholders with the prior approval of the Registrar and the Trustee (such approval not to be unreasonably withheld or delayed).

(f) **Authorised Holdings**

No Note may be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of the Notes not transferred are Authorised Holdings.

4. STATUS

(a) The Notes constitute direct, general, unconditional, unsubordinated and (subject to Condition 5(a) (*Negative Pledge*)), unsecured obligations of the Issuer. The Notes will at all times rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

5. COVENANTS

For so long as any Note remains outstanding (as defined in the Trust Deed), the Issuer undertakes to comply with each of the following covenants.

(a) **Negative Pledge**

The Issuer shall not, and shall not permit any Material Subsidiary to, create, incur, assume or permit to arise any Security Interest (other than a Permitted Security Interest) upon the whole or any part of their respective undertakings, assets or revenues, present or future, to secure any Financial Indebtedness of the Issuer, any such Material Subsidiary or any other Person, unless, at the same time or prior thereto, the Issuer's obligations under the Notes and the Trust Deed are secured equally and rateably therewith to the satisfaction of the Trustee or have the benefit of such other arrangement as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders or as the Trustee in its discretion shall deem to be not materially less beneficial to the Noteholders;

(b) **Limitations on Certain Transactions**

The Issuer shall not (except for any transactions between the Issuer and any Subsidiary), directly or indirectly, enter into or suffer to exist any transaction or series of connected transactions (including, without limitation, the sale, purchase, exchange or lease of assets, property or services) involving aggregate consideration equal to or greater than U.S.$5,000,000, unless such transaction or series of transactions is, or are, at not less than Fair Market Value.

(c) **Maintenance of Capital Adequacy**

The Issuer shall not permit its total capital adequacy ratio calculated in accordance with applicable regulations of the National Bank of Kazakhstan (including, without limitation, the Instructions on the Requirements and Calculation Methodology for Prudential Norms for Second Tier Banks, approved by Decree No.358 of the Board of FMSA dated 30 September 2005 as amended from time to time) to fall below the minimum ratio required pursuant to such regulations.

(d) **Merger and Consolidation**

The Issuer shall not consolidate with, merge with or into, or liquidate into, or convey, transfer or lease all or substantially all of its assets to, any Person, unless: (i) the corporation (if other than the Issuer) formed by or resulting from any such consolidation or merger shall be a corporation duly incorporated, organised and existing under the laws of the Issuer's jurisdiction of organisation and shall assume the performance and observance of all of the obligations and conditions of these Conditions and the Trust Deed to be performed or observed by the Issuer; (ii) the Issuer or such successor corporation, as the case may be, shall not immediately thereafter be in default in relation to its obligations under any indebtedness (as certified in writing to the Trustee by two Authorised Signatories of the Issuer); and (iii) such consolidation, merger, liquidation, conveyance, transfer or leasing shall not result in a Material Adverse Effect.

(e) **Limitation on Payment of Dividends**

The Issuer shall not pay any dividends, in cash or otherwise, or make any other distributions (whether by way of redemption, acquisition or otherwise) in respect of its share capital (i) at any time when there exists an Event of Default or an event or circumstance which could with the giving of notice, lapse of time, issue of a certificate and/or fulfilment of any other requirement provided for in Condition 12 (*Events of Default*), become an Event of Default or (ii) at any time when no such Event of Default (or event) exists, (x) more frequently than once during any calendar year or (y) in an aggregate amount exceeding 50 per cent. of the Issuer's net profit for the period in respect of which the dividends are being paid or the distribution is being made, calculated in accordance with IFRS, for which purpose, the amount of the Issuer's net profit shall be determined by reference to its audited and, if available, consolidated, financial statements for the period in respect of which the dividend is being paid. The foregoing limitation shall not apply to the payment of (i) any dividends in respect of any preferred shares of the Issuer, which may be issued by the Issuer from time to time; or (ii) any dividends in respect of any common shares of the Issuer, which are paid through the issuance of additional common shares.

(f) **Substantial Change in Business**

The Issuer shall not, nor shall the Issuer permit any Material Subsidiary to, engage in any business other than its Banking Business that would be materially prejudicial to the interests of the Noteholders.

(g) **Maintenance of Business**

The Issuer shall take any action as is required of it under applicable banking regulations in Kazakhstan and shall maintain in effect its banking license or corporate existence and take any action to maintain any material rights, privileges, titles to property, franchises and the like necessary or desirable in the normal conduct of its Banking Business, activities or operations, except where any failure to do so would not result in a Material Adverse Effect.

6. DEFINITIONS

For the purposes of these Conditions:

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not) of, or of any national, regional or local government of, any state or, as applicable, of any supra-national body.

"**Banking Business**" means, in relation to the Issuer or any of its Subsidiaries, any type of banking business (including, without limitation, any short term interbank operations with maturities of one year or less, factoring, consumer and car credit, mortgages, issuance of banking guarantees and letters of credit (and related cash cover provision), bills of exchange, promissory notes and certificates of deposit and payments under such guarantees, letters of credit, trading of securities, fund management and professional securities market participation business, including, for the avoidance of doubt, any

Permitted Securitisation) or other financial services which it conducts or may conduct in accordance with any licence issued by the appropriate authorities for that purpose and any applicable law.

"**Capital**" means the Issuer's capital as such term is defined in the BIS Guidelines.

"**Change of Control**" will be deemed to have occurred if, after the Issue Date, the Controlling Shareholders or any of them cease to control, whether directly or indirectly:

(i) the beneficial ownership of the Issuer's shares carrying (a) more than 50 per cent. of the voting or economic rights attaching to the issued share capital of the Issuer; or (b) the right to appoint a majority of the board of directors of the Issuer; or

(ii) without limitation of (i) above, the power to direct the management and policies of the Issuer, whether through the ownership of voting capital, by contract or otherwise.

"**Change of Control Period**" means the period commencing on the date on which the relevant Change of Control occurs and ending on the date which is 90 days after the date of the occurrence of the relevant Change of Control (the "**Initial Longstop Date**") *provided that* unless the requisite number of Rating Agencies has on or prior to the Initial Longstop Date effected a Rating Downgrade in respect of the Issuer, if a Rating Agency publicly announces prior to the Initial Longstop Date that it has placed its rating of the Issuer under consideration for rating review as a result of, or partly as a result of, the Change of Control, the Change of Control Period shall be extended to the date which falls 90 days after the day of such public announcement by such Rating Agency.

"**Controlling Shareholders**" means Alijan Ibragimov, Alexander Machkevich and Patokh Chodiyev and/or any of their respective spouses, family members or relatives, any trust or partnership for the benefit of one or more of such individuals and any such spouse, family member or relative, or the estate, executor, administrator, committee or beneficiaries of any thereof.

"**Development Organisation**" means any of JSC Development Bank of Kazakhstan, Eurasian Development Bank, Asian Development Bank, Islamic Development Bank, European Bank for Reconstruction and Development, International Bank for Reconstruction and Development, International Finance Corporation, Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. or Deutsche Investitions und Entwicklungsgesellschaft mbH or any other development finance institution established or controlled by one or more states and any other Person which is a, or controlled by any, Kazakhstan governmental body acting on behalf of or funded in relation to the relevant Financial Indebtedness by one or more of the foregoing development finance institutions.

"**Fair Market Value**" means, with respect to a transaction, the value that would be obtained in an arm's length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy. If requested by the Trustee (which shall be under no duty to make such a request), a report of the Auditors (as defined in the Trust Deed) of the Issuer or of any other independent appraiser of international repute appointed by the Issuer with the approval of the Trustee (such approval not to be unreasonably withheld) determining such Fair Market Value may be relied upon by the Trustee without further enquiry or evidence and without liability to Noteholders for so doing, and, if so relied upon, shall be conclusive and binding on all parties.

"**Financial Indebtedness**" means any Indebtedness of any Person for or in respect of Indebtedness for Borrowed Money.

"**IFRS**" means the International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board ("**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time) as consistently applied.

"**Indebtedness**" means any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent.

"**Indebtedness for Borrowed Money**" means any Indebtedness of any Person for or in respect of (i) moneys borrowed; (ii) amounts raised by acceptance under any acceptance credit facility; (iii) amounts raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or similar instruments; (iv) the amount of any liability in respect of leases or hire purchase contracts, which would, in accordance with generally accepted accounting standards in the jurisdiction of incorporation of the lessee, be treated as finance or capital leases; (v) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred primarily as a means of raising finance or financing the acquisition of the relevant asset or service; and (vi) amounts raised under any other transaction (including any forward sale or purchase agreement and the sale of receivables on a "with recourse" basis) having the commercial effect of a borrowing (but excluding trade accounts payable and other accrued liabilities arising in the ordinary course of its business).

"**Indebtedness Guarantee**" means, in relation to any Indebtedness for Borrowed Money of any Person, any obligation of another Person to pay such Indebtedness for Borrowed Money including (without limitation) (i) any obligation to purchase such Indebtedness for Borrowed Money; (ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness for Borrowed Money; (iii) any indemnity against the consequences of a default in the payment of such Indebtedness for Borrowed Money; and (iv) any other agreement to be responsible for such Indebtedness for Borrowed Money.

"**Material Adverse Effect**" means a material adverse effect on the business, operations, assets, condition (financial or otherwise) of the Issuer and its Material Subsidiaries taken as a whole or on its ability to perform or comply with its obligations under the Notes or the Trust Deed or on the validity or enforceability of the Notes or the Trust Deed or on the rights and remedies of any person thereunder.

"**Material Subsidiary**" means, at any given time, any Subsidiary of the Issuer whose gross assets or gross revenues or whose pre-taxation profits attributable to the Issuer (having regard to its direct and/or indirect beneficial interest in the shares, or the like, of that Subsidiary) represent at least 10 per cent. of the consolidated gross assets or consolidated gross revenues or, as the case may be, consolidated pre-taxation profits of the Issuer and its consolidated Subsidiaries and, for these purposes:

(i) the gross assets, gross revenues and pre-taxation profits of such Subsidiary shall be determined by reference to its then most recent audited financial statements in accordance with IFRS (or, if none, its then most recent management accounts); and

(ii) the consolidated gross assets, consolidated gross revenues and pre-taxation profits of the Issuer and its consolidated Subsidiaries shall be determined by reference to its then most recent audited consolidated financial statements.

"**Non-recourse Project Financing**" means any financing of all or part of the costs of the acquisition, construction or development of any project, *provided that* (i) any Security Interest given by the Issuer or the relevant Subsidiary is limited solely to assets of the project, (ii) the Person or Persons providing such financing expressly agrees to limit their recourse to the project financed and the revenues derived from such project as the principal source of repayment for the moneys advanced and (iii) there is no other recourse to the Issuer or the relevant Subsidiary in respect of any default by any Person under the financing.

"**Permitted Securitisation**" means any securitisation of, or other similar structured finance transaction in relation to, any property or assets of the Issuer or any Subsidiary of the Issuer, including, without limitation, any present or future credit card, debit card, cheque, cash remittance, worker's remittances, trade payments rights, mortgage receivables, receivables or payment rights, instruments or other assets, where the recourse in relation to Financial Indebtedness secured by such property or assets is limited to such property or assets, provided that the amount of Financial Indebtedness so secured pursuant to this clause (xii) at any one time shall not exceed an amount in any currency or currencies equivalent (as determined by reference to the middle spot exchange rate for the relevant currency against Tenge appearing on the Bloomberg page WCR as of 10:00 a.m., London time on the date of determination or, if such source is unavailable or contains manifestly erroneous information, a successor or similar source of information selected by the Trustee in its sole discretion) to 15 per cent. of the Issuer's loans and advances to customers before provisions for loan losses (calculated by reference to the most recent audited consolidated financial statements of the Issuer prepared in accordance with IFRS).

"**Permitted Security Interest**" means any Security Interest:

(i) in existence on 5 November 2014 to the extent that it secures Financial Indebtedness outstanding on such date;

(ii) granted in favour of the Issuer by any Subsidiary of the Issuer or granted in favour of any Subsidiary of the Issuer by the Issuer to secure Financial Indebtedness owed by such Subsidiary to the Issuer or by the Issuer to such Subsidiary (as the case may be);

(iii) arising pursuant to any order of attachment, distraint or similar legal process arising in connection with court or arbitration proceedings or as security for costs and expenses in any such proceedings, so long as the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings;

(iv) being liens or rights of set-off or netting arrangements arising in the ordinary course of the Issuer's business for the purpose of netting debit and credit balances, including without limitation, any rights of set off with respect to demand or term deposits maintained with financial institutions and bankers' liens with respect to property of the Issuer or any Subsidiary held by financial institutions;

(v) arising in the ordinary course of the Issuer's or any of its Subsidiaries' business and (a) which are necessary in order to enable the Issuer or such Subsidiary to comply with any mandatory or customary requirement imposed on it by a banking or other regulatory authority in connection with the Issuer's or such Subsidiary's business or (b) limited to deposits made in the name of the Issuer or such Subsidiary to secure obligations of the Issuer's or such Subsidiary's customers;

(vi) on property acquired (or deemed to be acquired) under a financial lease, or claims arising from the use or loss of or damage to such property, *provided that* any such encumbrance secures only rentals and other amounts payable under such lease;

(vii) arising pursuant to any agreement (or other applicable terms and conditions), which is standard or customary in the relevant market (and not for the purpose of raising credit or funds for the operation of the Issuer or any Subsidiary of the Issuer other than on a short-term basis as part of the Issuer's or such Subsidiary's liquidity management activities) and entered into in the ordinary course of its business, in connection with (a) contracts entered into substantially simultaneously for sales and purchases at market prices of precious metals or securities, (b) the establishment of margin deposits and similar securities, set-off or netting arrangements in connection with interest rate and foreign currency hedging operations and trading in securities or (c) the Issuer's and its Subsidiary's foreign exchange dealings or other or proprietary trading activities, including, without limitation (in the case of each of (a), (b) and (c)), Repos;

(viii) created by the operation of a reservation of title clause contained in a vendor's or supplier's standard terms and conditions of sale in respect of goods acquired by the Issuer or a Subsidiary in the ordinary course of its business;

(ix) granted upon or with regard to any property hereafter acquired by the Issuer or any Subsidiary of the Issuer to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition (other than a Security Interest created in contemplation of such acquisition), *provided that* the maximum amount of Financial Indebtedness thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property;

(x) securing Indebtedness of a Person and/or its Subsidiaries existing at the time that such Person is merged into or consolidated with the Issuer or a Subsidiary, *provided that* such Security Interest was not created in contemplation of such merger or consolidation and does not extend to any other assets or property of the Issuer or any Subsidiary;

(xi) in respect of Indebtedness created by a person prior to it becoming a Material Subsidiary or otherwise being acquired by the Issuer or any Subsidiary, *provided that* such Security Interest was not created in contemplation thereof or in connection therewith;

(xii) created in connection with any Non-recourse Project Financing;

(xiii) created in connection with any Permitted Securitisation;

(xiv) granted by the Issuer or any Subsidiary of the Issuer in favour of a Development Organisation to secure Financial Indebtedness owed by the Issuer or such Subsidiary to such a Development Organisation pursuant to any loan agreement or other credit facility entered into between the Issuer or any Subsidiary of the Issuer and such Development Organisation, *provided, however*, that the amount of Financial Indebtedness so secured pursuant to this clause (xiii) at any one time shall not exceed in aggregate an amount in any currency or currencies equivalent (as determined by reference to the middle spot exchange rate for the relevant currency against Tenge appearing on the Bloomberg page WCR as of 10:00 a.m., London time on the date of determination or, if such source is unavailable or contains manifestly erroneous information, a successor or similar source of information selected by the Trustee in its sole discretion) to 10 per cent. of the Issuer's loans and advances to customers before provisions for loan losses (calculated by reference to the most recent audited consolidated financial statements of the Issuer prepared in accordance with IFRS);

(xv) granted in favour of any noteholders or any trustee acting for them by a Subsidiary over any proceeds of any Indebtedness incurred by such Subsidiary and on-lent by it to the Issuer, to secure any indebtedness owed by such Subsidiary to such noteholders or such trustee;

(xvi) in addition to any of the above exceptions, in aggregate securing Financial Indebtedness with an aggregate principal amount at any time not exceeding the greater of (a) U.S.$10,000,000 (or its equivalent in other currencies) at that time and (b) 5 per cent. of the Issuer's total shareholders' equity (calculated by reference to the most recent audited consolidated financial statements of the Issuer prepared in accordance with IFRS); and

(xvii) arising out of the refinancing, extension, renewal or refunding of any Financial Indebtedness secured by a Security Interest either existing on or before the issue date of the Notes or permitted by any of the above exceptions, *provided that* the Financial Indebtedness thereafter secured by such Security Interest does not exceed the amount of the original Financial Indebtedness and such Security Interest is not extended to cover any property not previously subject to such Security Interest.

"**Put Event**" means the announcement of, or (in the absence of such announcement) the occurrence of, a Change of Control which is followed by a Rating Downgrade.

"**Rating Agency**" means any of the following: (i) Standard & Poor's Credit Market Services Europe Limited; (ii) Fitch Ratings Limited; (iii) Moody's Investors Service Limited; or (iv) any other rating agency of equivalent international standing specified from time to time by the Issuer and, in each case, their respective successors or affiliates.

"**Rating Downgrade**" shall be deemed to have occurred if, within the Change of Control Period, the long-term international scale rating previously assigned to the Issuer by the requisite number of Rating Agencies is (i) withdrawn or (ii) lowered by at least two full rating notches (for example, from B+ to B- or their respective equivalents) and is not, within the Change of Control Period, subsequently upgraded (in the case of a downgrade) or reinstated (in the case of a withdrawal) to its earlier credit rating or better, such that there is no longer a downgrade or withdrawal by the requisite number of Rating Agencies.

For these purposes, the "**requisite number of Rating Agencies**" shall mean (i) at least two Rating Agencies, if, at the time of the rating downgrade or withdrawal, three or more Rating Agencies have assigned a credit rating to the Issuer, or (ii) at least one Rating Agency if, at the time of the rating downgrade or withdrawal, fewer than three Rating Agencies have assigned a credit rating to the Issuer.

"**Repo**" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities borrowing agreement or any agreement relating to securities which is similar in effect to any of the foregoing and for the purposes of this definition, the term "**securities**" means any capital stock, share, debenture or other debt or equity instrument, or other derivative, whether issued by any private or public company, any government or agency or instrumentality thereof or any supranational, international or multilateral or organisation.

"**Risk Weighted Assets**" means the aggregate of the Issuer's consolidated balance sheet assets and off-balance sheet engagements, weighted for credit and market risk in accordance with the BIS Guidelines.

"**Security Interest**" means any mortgage, charge, pledge, lien, security interest or other encumbrance securing any obligation of any Person or any other type of preferential arrangement having similar effect over any assets or revenues of such Person.

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at a given time, any other Person (the "**second Person**") (i) whose affairs and policies the first Person directly or indirectly controls or (ii) as to whom the first Person owns directly or indirectly more than 50 per cent. of the capital, voting stock or other right of ownership. "**control**", as used in this definition, means the power by the first Person to direct the management and the policies of the second Person, whether through the ownership of share capital, by contract or otherwise, *provided that* no company or special purpose vehicle established for the purpose of a Permitted Securitisation shall be a Subsidiary.

7. INTEREST

(a) Interest Accrual

Each Note bears interest from 6 November 2014 (the "**Issue Date**") at the rate of 7.50% per annum (the "**Rate of Interest**") payable semi-annually in arrear on 6 May and 6 November in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 8 (*Payments*). Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an "**Interest Period**"

(b) Cessation of Interest

Each Note will cease to bear interest from the due date for final redemption unless, upon due surrender of the relevant Note, payment of principal is improperly withheld or refused. In such case it will continue to bear interest at such rate (after as well as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying and Transfer Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment) in accordance with Condition 15 (*Notices*).

(c) Calculation of Interest for an Interest Period

The amount of interest payable in respect of each Note for any Interest Period shall be calculated by applying the Rate of Interest to the principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

(d) **Calculation of Interest for any other period**

If interest is required to be calculated for any period other than an Interest Period, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

The determination of the amount of interest payable under Conditions 7(c) (*Calculation of Interest for an Interest Period*) and 7(d) (*Calculation of Interest for any other period*) by the Principal Paying and Transfer Agent shall, in the absence of manifest error, be binding on all parties.

8. PAYMENTS

(a) **Principal**

Payment of principal in respect of each Note and payment of interest due other than on an Interest Payment Date will be made to the person shown in the Register at the close of business on the Record Date (as defined below) and subject to the surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Note Certificate at the Specified Office of the Registrar or of the Paying and Transfer Agents.

(b) **Interest**

Payments of interest due on an Interest Payment Date will be made to the persons shown in the Register at close of business on the Record Date.

(c) **Record Date**

"**Record Date**" means the fifteenth day before the due date for the relevant payment.

*If this Note is represented by a Global Note , each payment in respect of the Global Note will be made to the person shown as the Noteholder in the Register at the close of business on the Clearing System Business Day before the due date for payment (the "**Record Date**"), where "Clearing System Business Day" means a day on which each clearing system for which the Global Note is being held is open for business.*

(d) **Payments**

Each payment in respect of the Notes pursuant to Conditions 8(a) (*Principal*) and 8(b) (*Interest*) will be made by United States dollar cheque drawn on a branch of a bank in New York City mailed to the holder of the relevant Note at his address appearing in the Register. However, upon application by the holder to the Specified Office of the Registrar or any Paying and Transfer Agent not less than 15 days before the due date for any payment in respect of a Note, such payment may be made by transfer to a United States dollar account maintained by the payee with a bank in New York City.

Where payment is to be made by cheque, the cheque will be mailed, on the business day preceding the due date for payment or, in the case of payments referred to in Condition 8(a) (*Principal*), if later, on the business day on which the relevant Definitive Note Certificate is surrendered (or, in the case of part payment only, endorsed, as the case may be) as specified in Condition 8(a) (*Principal*) (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder).

Where payment is to be made by transfer to a United States dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated, in the case of principal, on the later of the due date for payment and the day on which the relevant Definitive Note Certificate is surrendered (or, in the case of part payment only, endorsed, as the case may be) and, in the case of interest and other amounts on the due date for payment.

(e) **Agents**

The names of the initial Paying and Transfer Agents and Registrar and their Specified Offices are set out below. The Issuer reserves the right under the Agency Agreement at any time with the prior written approval of the Trustee (such consent not to be unreasonably withheld or delayed), to remove any Paying and Transfer Agent or the Registrar and to appoint successor or additional Paying and Transfer Agents or another Registrar, *provided that* the Issuer will at all times maintain:

(i) a Principal Paying and Transfer Agent;

(ii) a Paying and Transfer Agent in a major European city;

(iii) a Paying and Transfer Agent with a Specified Office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Union Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments or any law implementing or complying with, or introduced in order to conform to, such Directive; and

(iv) a Registrar;

an no such removal or appointment shall take effect prior to 30 days after such notice has been given.

Notice of any such removal or appointment and of any change in the Specified Office of any Paying and Transfer Agent or Registrar will be given to Noteholders in accordance with Condition 15 (*Notices*) as soon as reasonably practicable.

(f) **Payments subject to Fiscal Laws**

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 10 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(g) **Delay in Payment**

Noteholders will not be entitled to any interest or other payment in respect of any delay in payment resulting from (i) the due date for payment not being a business day or (ii) a cheque mailed in accordance with this Condition 8 (*Payments*) arriving after the due date for payment or being lost in the mail.

(h) **Business Days**

In this Condition, "**business day**" means any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in New York City and, in the case of surrender of a Definitive Note Certificate, in the place of the Specified Office of the Registrar or relevant Paying and Transfer Agent, to whom the relevant Definitive Note Certificate is surrendered.

9. REDEMPTION AND PURCHASE

(a) **Scheduled redemption**

Unless previously redeemed or purchased and cancelled as provided below, each Note will be redeemed at its principal amount on 6 November 2017, subject as provided in Condition 8 (*Payments*).

(b) **Redemption for Taxation Reasons**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable) at their principal amount, together with interest accrued to (but excluding) the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that:

(i) it has or will become obliged to pay additional amounts as provided or referred to in Condition 10 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 5 November 2014; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it (but at no material cost) to mitigate the effects of the occurrence of the relevant events described in (i) above.

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Trustee (1) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (2) an opinion in form and substance satisfactory to the Trustee of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts or has or will become obliged to make such additional withholding or deduction as a result of such change or amendment. The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out in (i) and (ii) above, in which event they shall be conclusive and binding on the holders of the Notes.

Upon the expiry of any such notice as is referred to in this Condition 9(b) (*Redemption for Taxation Reasons*), the Issuer shall be bound to redeem the Notes in accordance with this Condition 9(b) (*Redemption for Taxation Reasons*).

(c) **Redemption at the option of the Noteholders**

If, at any time when any of the Notes remains outstanding, a Put Event occurs, then each Noteholder will, upon the giving of a Put Event Notice (as defined below) by the Issuer, have the option to require the Issuer to redeem any Notes it holds on the fifth Business Day after the date of expiry of the Put Event Period (as defined below) (the "**Put Event Date**') at 100 per cent. of the principal amount, together with interest accrued to, but excluding the Put Event Date. Promptly upon becoming aware that a Put Event has occurred, and in any event not later than 10 Business Days after the occurrence of a Put Event, the Issuer shall give notice (a '**Put Event Notice**') to the Noteholders in accordance with Condition 15 (*Notices*), specifying the nature of the Put Event and the procedure for exercising the option contained in this Condition 9(c).

To exercise the option to require the Issuer to redeem a Note under this Condition 9(c), the Noteholder must deliver such Note at the Specified office of any Paying and Transfer Agent within the period of 45 days after the date on which a Put Event Notice is given (the '**Put Event Period**'), accompanied by a duly signed and completed exercise notice in the form available from each office of the Paying and Transfer Agents (the '**Exercise Notice**'). Payment by the Issuer in respect of any Note so delivered shall be made to the account or otherwise as specified in the Exercise Notice by transfer to that account (or otherwise as specified in the Exercise Notice) on the Put Event Date. An exercise Notice, once given, shall be irrevocable.

If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Paying and Transfer Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on its instruction by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Paying and Transfer Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Note is represented by a Global Note, at the same time, present or procure the presentation of the relevant Global Note to the Paying and Transfer Agent for notation accordingly.

(d) **No other redemption**

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Conditions 9(a) (*Scheduled redemption*), 9(b) (*Redemption for Taxation Reasons*) and 9(c) (*Redemption at the option of the Noteholders*) above.

(e) **Purchase**

The Issuer or any of its Subsidiaries may at any time purchase or procure others to purchase for its account Notes in the open market or otherwise and at any price. The Notes so purchased may be held or resold (*provided that* such resale is outside the United States and in compliance with all applicable laws) or surrendered for cancellation at the option of the Issuer or otherwise, as the case may be in compliance with Condition 9(e) (*Cancellation of Notes*) below. The Notes so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the holder to vote at any meeting of the Noteholders or in respect of any resolution in writing and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 14(a) (*Meetings of Noteholders*).

(f) **Cancellation of Notes**

All Notes which are redeemed pursuant to Conditions 9(b) (*Redemption for Taxation Reasons*) or submitted for cancellation pursuant to Condition 9(d) (*Purchase*) will be cancelled and may not be reissued or resold.

10. TAXATION

(a) All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction on account of such taxes had been required, except that no such additional amounts shall be payable in respect of any Note:

(i) *Other Connection*

presented for payment by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with Kazakhstan other than the mere holding of the Note;

(ii) *Presentation more than 30 days after the Relevant Date*

where (in the case of payment of principal or interest on redemption) the relevant Definitive Note Certificate is presented for payment more than 30 days after the

Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such additional amounts on surrendering such Definitive Note Certificate for payment on the last day of such period of 30 days;

(iii) *Payment to Individuals*

where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Union Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;

(iv) *Payment by another Paying and Transfer Agent*

where (in the case of payment of principal or interest on redemption) the relevant Definitive Note Certificate is presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by surrendering the relevant Definitive Note Certificate to another Paying and Transfer Agent in a Member State of the European Union; or

(v) *Payment in Kazakhstan*

where the relevant Definitive Note Certificate is presented for payment in Kazakhstan.

(b) **Taxing jurisdiction**

If the Issuer becomes subject at any time to any taxing jurisdiction other than Kazakhstan, references in this Condition 10 (*Taxation*) to Kazakhstan shall be construed as references to Kazakhstan and/or such other jurisdiction.

"**Relevant Date**" means in respect of any Note whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable in respect of it has not been received in New York City by the Principal Paying and Transfer Agent or the Trustee on or prior to such due date, the date on which, the full amount plus any accrued interest having been so received, notice to that effect shall have been given to the Noteholders. Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition or any undertaking given in addition to or substitution for it under the Trust Deed.

11. PRESCRIPTION

Claims in respect of principal and interest will become void unless the relevant Definitive Note Certificate is surrendered for payment as required by Condition 8 (*Payments*) within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

12. EVENTS OF DEFAULT

The Trustee at its discretion may, and if so requested in writing by the holders of not less than one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (subject in the case of the happening of any of the events mentioned in Conditions 12(b), 12(g) or 12(h), to the Trustee having certified in writing that the happening of such event is in its opinion (and in its sole discretion) materially prejudicial to the interests of the Noteholders) (subject in each case to being indemnified, prefunded or secured to its satisfaction) shall, give notice to the Issuer that the Notes are and they shall immediately become due and repayable in each case at their principal amount together with accrued interest if any of the following events (each, an "**Event of Default**") occurs and is continuing:

(a) **Non-payment**

The Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment when the same becomes due and payable either at maturity, by declaration or otherwise or the Issuer is in default with respect to the payment of interest or any additional amount payable in respect of any of the Notes and such default in respect of interest or additional amounts continues for a period of 14 calendar days; or

(b) **Breach of other obligations**

The Issuer defaults in the performance or observance of any covenant, obligation, undertaking or other agreements under the Notes or the Trust Deed (other than a default or breach elsewhere specifically dealt with in this Condition 12) and such default (i) is in the opinion of the Trustee, incapable of remedy or (ii) being a default which is, in the opinion of the Trustee, capable of remedy, remains unremedied for 30 days (or such longer period as the Trustee may agree after the Trustee has given written notice thereof, addressed to the Issuer; or

(c) **Cross-default**

(i) Any Indebtedness for Borrowed Money of the Issuer or any Subsidiary becomes (or becomes capable of being declared) due and payable prior to the due date for payment thereof by reason of any default by the Issuer, or is not repaid at maturity as extended by the period of grace, if any, applicable thereto; *provided that* the aggregate principal amount of such Indebtedness for Borrowed Money exceeds U.S.$7,000,000 (or its equivalent in other currencies (as determined by the Trustee)); or

(ii) any Indebtedness Guarantee given by the Issuer or any Subsidiary in respect of Financial Indebtedness of any other Person is not honoured when due and called; *provided that* the aggregate principal amount of such Indebtedness Guarantee exceeds U.S.$7,000,000 (or its equivalent in other currencies (as determined by the Trustee)); or

(d) **Judgment default**

A judgment or order or arbitration award (from which no further appeal or judicial review is permissible under applicable law) for the payment of an aggregate amount in excess of U.S.$7,000,000 (or its equivalent in any other currency or currencies) is rendered or granted against the Issuer or any of its Subsidiaries and continue(s) unsatisfied and unstayed for a period of 30 days after the date thereof or, if later, the date therein specified for payment; or

(e) **Bankruptcy**

(i) Any Person shall have instituted a proceeding or entered a decree or order for the appointment of a receiver, manager, administrator or liquidator or similar Person in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities or similar arrangements involving the Issuer or any Material Subsidiary or all or substantially all of their respective property and such proceeding, decree or order shall not have been vacated or shall have remained in force undischarged or unstayed for a period of 60 days; or

(ii) the Issuer or any Material Subsidiary shall institute proceedings under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect to be placed into rehabilitation or adjudicated a bankrupt or shall consent to the filing of a bankruptcy, insolvency or similar proceeding against it or shall file a petition or answer or consent seeking reorganisation under any such law or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver, manager, administrator or liquidator or trustee or assignee in bankruptcy or liquidation of the Issuer or any Material Subsidiary, as the case may be, or in respect of its respective property, or shall make an assignment for the benefit of its creditors or shall otherwise be unable or admit its inability to pay its debts generally as they become due, or the Issuer or any Material Subsidiary commences proceedings with a view to the general adjustment of its Indebtedness which event is, in the case of the relevant Material Subsidiary, (in the opinion of the Trustee) materially prejudicial to the interests of the Noteholders; or

(f) **Invalidity or unenforceability**

(i) the validity of the Notes, the Trust Deed or the Agency Agreement is contested by the Issuer, or the Issuer denies any of its obligations under the Notes, the Trust Deed or the Agency Agreement (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise); or

(ii) it is or becomes unlawful for the Issuer to perform or comply with all or any of its obligations set out in the Notes, the Trust Deed or the Agency Agreement; or

(iii) all or any of its obligations set out in the Notes, the Trust Deed or the Agency Agreement shall be or become unenforceable or invalid,

and, following the occurrence of any of the events specified in this Condition 12(f) (other than the Issuer denying any of its obligations under the Notes, the Trust Deed or the Agency Agreement), the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Noteholders; or

(g) **Government Intervention**

(i) All or any substantial part of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries is condemned, seized or otherwise appropriated by any Person acting under the authority of any national, regional or local government; or

(ii) the Issuer or any of its Material Subsidiaries is prevented by any such Person from exercising normal control over all or any substantial part of its undertaking, assets and revenues,

and, following the occurrence of any of the events specified in this Condition 12(g), the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Noteholders; or

(h) **Material Compliance with Applicable Laws**

The Issuer fails to comply in any material respect with any applicable laws or regulations (including any foreign exchange rules or regulations) of any governmental or other regulatory authority for any purpose to enable it lawfully to exercise its rights or perform or comply with its obligations under the Notes, the Trust Deed or the Agency Agreement or to ensure that those obligations are legally binding and enforceable or that all necessary agreements or other documents are entered into and that all necessary consents and approvals of, and registrations and filings with, any such authority in connection therewith are obtained and maintained in full force and effect; or

(i) **Securities Enforced**

A secured party takes possession, or a receiver manager, or other similar officer is appointed, of the whole or any substantial part of the undertaking, assets and revenue of the Issuer or any of its Material Subsidiaries.

13. REPLACEMENT OF NOTES

If any Definitive Note Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the Specified Office of the Registrar or any Paying and Transfer Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (*provided that* the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Definitive Note Certificates must be surrendered before replacements will be issued.

14. MEETINGS OF NOTEHOLDERS; MODIFICATION, WAIVER AND SUBSTITUTION

(a) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Trustee or the Issuer, or by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing a clear majority of the aggregate principal amount of the Notes for the time being outstanding, or, at any adjourned meeting, one or more persons being or representing Noteholders whatever the principal amount of the Notes for the time being outstanding so held or represented; *provided, however*, that certain proposals (including any proposal (i) to change the maturity of the Notes or any date fixed for payment of principal or interest in respect of the Notes, (ii) to reduce or cancel the amount of principal or interest or other amounts payable on any date in respect of the Notes or to reduce the rate of interest on the Notes, (iii) to change the currency of payment under the Notes, (iv) to amend this proviso or (v) to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present at the meeting(s) or not.

(b) Written resolution

A resolution in writing signed (i) by or on behalf of the holders of all of the Notes of a class who for the time being are entitled to receive notice of a meeting under the Trust Deed or (ii) if such holders have been given at least 21 days' notice of such resolution, by or on behalf of persons holding three-quarters of the aggregate principal amount of the outstanding Notes, shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of the Noteholders of that class duly convened and held. Such resolution in writing may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the relevant Noteholders and the date of such resolution shall be the date of the latest such document.

(c) Modification without Noteholders' consent

The Trustee may agree, without the consent of the Noteholders, (a) to any modification of these Conditions, the Trust Deed (other than in respect of a Reserved Matter) or the Paying Agency Agreement which is, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and (b) to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or to correct a manifest error. In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby. Any such authorisation, waiver or modification shall be binding on the Noteholders and, if the Trustee so requires, shall be notified to the Noteholders as soon as practicable thereafter.

(d) **Substitution**

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require but without the consent of the Noteholders to the substitution of any other company in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. Under the Trust Deed, the Issuer has covenanted that it shall use reasonable endeavours to procure the substitution as principal debtor of a company incorporated in some other jurisdiction than that of the Issuer in the event of the Issuer becoming subject to any greater tax on its income than that at the Issue Date or any tax on payments in respect of the Notes.

The Trust Deed will contain covenants (i) to ensure that each Noteholder or beneficial owner of a Note has the benefit of a covenant in terms corresponding to the obligations of the Issuer in respect of the payment of additional amounts (but, replacing references to Kazakhstan with references to such other jurisdiction); and (ii) to indemnify each Noteholder or beneficial owner of a Note against all taxes or duties (a) which arise by reason of a law or regulation in effect or contemplated on the effective date of the substitution, which may be incurred or levied against such Noteholder or beneficial owner as a result of the substitution and which would not have been so incurred or levied had the substitution not been made and (b) which are imposed on such Noteholder or beneficial owner by any political subdivision or taxing authority of any country in which such Noteholder resides or is subject to any such tax or duty and which would not have been so imposed had the substitution not been made.

15. NOTICES

Notices to Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

So long as any of the Notes are represented by the Global Note, notices required to be published in accordance with Condition 15 (Notices) may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the relevant accountholders.

16. TRUSTEE

(a) **Indemnification**

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of its respective Subsidiaries.

(b) **Exercise of power and discretion**

In the exercise of its powers and discretion under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual holders of Notes as a result of such holders being connected in any way with a particular territory or taxing jurisdiction.

(c) **Enforcement; Reliance**

The Trustee may at any time after the Notes become due and payable, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed and these Conditions in respect of the Notes, but it shall not be bound to do so unless:

(i) it has been so requested in writing by the holders of at least one-quarter in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(ii) it has been indemnified and/or provided with security to its satisfaction.

The Trustee may, in making any determination under these Conditions, act on the opinion or advice of, or information obtained from, any expert and will not be responsible for any loss, liability, cost, claim, action, demand, expense or inconvenience which may result from it so acting.

The Trustee may rely without liability to Noteholders on any certificate or report prepared by any of the above mentioned experts, including specifically the Auditors (as defined in the Trust Deed), or any auditor, pursuant to the Conditions or the Trust Deed, whether or not the expert or auditor's liability in respect thereof is limited by a monetary cap or otherwise.

Until the Trustee has actual or express knowledge to the contrary, the Trustee may assume that no Event of Default or Potential Event of Default (as defined in the Trust Deed) has occurred.

(d) **Failure to act**

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

(e) **Confidentiality**

Unless ordered to do so by a court of competent jurisdiction or unless required by the rules of the Kazakhstan Stock Exchange, the Trustee shall not be required to disclose to any Noteholder any confidential financial or other information made available to the Trustee by the Issuer.

17. FURTHER ISSUES

The Issuer may from time to time, without notice to or the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the date for and amount of the first payment of interest) so as to be consolidated and form a single series with the Notes ("**Further Notes**"). The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed.

18. CURRENCY INDEMNITY

The Trust Deed provides that if any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Registrar or any Paying and Transfer Agent with its Specified Office in London against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof, on the date of such receipt. This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

19. GOVERNING LAW; JURISDICTION AND ARBITRATION

(a) Governing law

The Trust Deed and the Notes, including any non-contractual obligations arising out of or in connection with the Notes, are governed by, and shall be construed in accordance with, English law.

(b) Arbitration

Subject to Condition 19(c) (*Trustee's Option*) and Condition 19(d) *(Jurisdiction)*, the Issuer agrees that any claim, dispute or difference of whatever nature arising under, out of or in connection with the Trust Deed or the Notes (including a claim, dispute or difference regarding its existence, termination or validity or any non-contractual obligations arising out of or in connection with the Trust Deed or the Notes) (a "**Dispute**"), shall be referred to and finally settled by arbitration in accordance with the LCIA rules (the "**Rules**") as at present in force and as modified by this Condition, which Rules shall be deemed incorporated into this Condition. The number of arbitrators shall be three, one of whom shall be nominated by the Issuer, one by the Trustee and the third of whom, who shall act as Chairman, shall be nominated by the two party-nominated arbitrators, *provided that* if the third arbitrator has not been nominated within 30 days of the nomination of the second party-nominated arbitrator, such third arbitrator shall be appointed by the LCIA Court. The parties hereby agree that any restriction in the Rules upon the nomination or appointment of an arbitrator by reason of nationality shall not apply to any arbitration commenced pursuant to this Condition 19(b) (*Arbitration*). The seat of arbitration shall be London, England and the language of arbitration shall be English.

(c) Trustee's Option

At any time before the Trustee has nominated an arbitrator to resolve any Dispute(s) pursuant to Condition 19(b) (*Arbitration*), the Trustee, at its sole option, may elect by notice in writing (an "**Election Notice**") to the Issuer that such Dispute(s) shall instead be resolved in the manner set out in Condition 19(d) (*Jurisdiction*). Following any such election, no arbitral tribunal shall have jurisdiction in respect of such Dispute(s).

(d) Jurisdiction

In the event that the Trustee serves an Election Notice in respect of any Dispute(s) pursuant to Condition 19(c) (*Trustee's Option*), the Issuer agrees for the benefit of the Trustee and the Noteholders that the courts of England shall have exclusive jurisdiction to hear and determine any such Dispute(s) and, that the Issuer may not commence any proceedings ("**Proceedings**") for the determination of any Dispute(s) in any other jurisdiction. Subject to Condition 19(b) (*Arbitration*), nothing in this Condition shall (or shall be construed so as to) limit the right of the Trustee to bring Proceedings for the determination of any Dispute(s) in the courts of England or in any other court of competent jurisdiction, nor shall the bringing of such Proceedings in any one or more jurisdictions preclude the bringing of Proceedings by the Trustee in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

(e) Appropriate Forum

For the purposes of Condition 19(d) (*Jurisdiction*), the Issuer irrevocably submits to the jurisdiction of the courts of England and waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and agrees not to claim that any such court is not a convenient or appropriate forum.

(f) **Service of Process**

The Issuer agrees that the process by which any Proceedings are commenced in England pursuant to Condition 19(d) (*Jurisdiction*) or by which any proceedings are commenced in the English courts in support of, or in connection with, an arbitration commenced pursuant to Condition 19(b) (*Arbitration*) may be served on it by being delivered to Law Debenture Corporate Services Limited (having an office, at the date hereof, at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom) or, if different, its registered office for the time being or at any address of the Issuer in the United Kingdom at which process may be served on it in accordance with Part 34 of the Companies Act 2006 or any successor provision thereto. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of the Trustee, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 5 days, the Trustee shall be entitled to appoint such a person by written notice to the Issuer. Nothing in this paragraph shall affect the right of the Trustee and the Noteholders to serve process in any other manner permitted by law.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, amounting to approximately U.S.$492,175,000 after the deduction of certain fees and expenses in connection with the issuance of the Notes, will be used by the Issuer for general corporate purposes. Investors should note that the amount of the net proceeds may vary (and could be less) in the event that the Issuer, pursuant to the terms of the Deed of Subscription, is required to accept the transfer and return of any Affected Notes by the Lead Manager or decides to acquire some of the Notes for its own account. See "*Subscription and Sale*".

BUSINESS OF THE BANK

Overview

The Bank is a full-service, universal bank focused on corporate, SME and retail banking. As at 30 June 2014, the Bank was the ninth largest commercial bank in Kazakhstan in terms of assets, according to data compiled by the NBK. During the last decade, the Bank grew out of its role as an "in-house" bank for its affiliate, ENRC, and diversified its client base by expanding its retail, corporate and treasury related businesses as part of its strategy to develop beyond its original role into a "universal" banking institution with a national network of branches. The Controlling Shareholders of the Bank further invested in and established a professional management team to take advantage of the Bank's comparatively solid position after the global financial crisis.

As at 30 June 2014, the Bank had total assets of KZT 672,455 million, compared to KZT 588,633 million as at 31 December 2013 and KZT 470,511 million as at 31 December 2012. For the year ended 31 December 2013, the Bank's net income was KZT 13,146 million, compared to KZT 9,832 million for the year ended 31 December 2012. As at 30 June 2014 the Bank's shareholders' equity was KZT 61,251 million, compared to KZT 58,818 million as at 31 December 2013 and KZT 47,784 million as at 31 December 2012.

The Bank's overall loan portfolio (net of provisions for impairment) has grown from KZT 354,642 million as at 31 December 2012 to KZT 432,529 million as at 31 December 2013 and KZT 521,616 million as at 30 June 2014, representing an overall increase of 47.1% for the period. The gross retail loan portfolio has increased significantly both in terms of percentage and in terms of absolute value, from KZT 169,904 million as at 31 December 2012 to KZT 238,400 million as at 31 December 2013 and KZT 277,819 million as at 30 June 2014, representing an overall increase of 63.5% for the period. The Bank's gross corporate loan portfolio (including SME customers) has also grown significantly, from KZT 213,615 million as at 31 December 2012 to KZT 229,700 million as at 31 December 2013 and KZT 285,829 million as at 30 June 2014, representing an overall increase of 33.8% for the period.

As at 30 June 2014, deposits from corporate customers (including current accounts, demand deposits and time deposits) amounted to KZT 297,868 million, compared to KZT 264,018 million as at 31 December 2013 and KZT 215,705 million as at 31 December 2012, representing an overall increase of 38.1% for the period. The value of the Bank's deposits from retail customers (including current accounts, demand deposits and time deposits) has increased from KZT 99,015 million as at 31 December 2012 to KZT 140,656 million as at 31 December 2013 and KZT 166,564 million as at 30 June 2014, representing an overall increase of 68.2% for the period. The significant increase in the Bank's retail customer deposits was primarily in order to increase the Bank's presence in the retail sector and to expand its funding base.

Beginning in October 2009, in response to an environment beset by high NPL rates, inefficiency and low returns brought on by the global financial crisis, the Bank began to install the Bank's current management team, composed of local and international experts, and appointed Michael Eggleton as chairman of the Bank's Management Board. During the crisis, the current management team tackled "problem areas" in the Bank's statement of financial position, business process, risk management and client relationships as part of its strategy of risk control, cost control and diversified growth. The current management team implemented a "good-bank"/"bad-bank" strategy, focusing on the (i) reduction of the Bank's bad assets and (ii) growth of its good assets. The Bank maintained a high level of liquidity during the height of the global financial crisis and in the aftermath of the Tenge devaluation in February 2014. In an effort to eliminate the negative carry effect of excess liquidity, the Bank implemented policies which aimed to reduce the cost of funds. As a result the Bank successfully reduced its excess liquidity and cost of liabilities. The Bank mainly focused on replacing funding with low cost liabilities, especially in relation to corporate client deposits. As a result, the Bank was able to reduce the cost of liabilities, resulting in increased net interest margin and overall profitability. The Bank's return on average equity was 24.7% in each of 2012 and 2013, while its return on average total assets rose from 2.3% in 2012 to 2.5% in 2013 (the ratios are based on annual average total equity and annual average total assets, respectively). The Bank's cost–to–income ratio (where cost includes personnel and other general and administrative expenses and income comprises operating income) fell from 55.2% in 2012 to 51.4% in 2013 and its net interest margin rose from 7.8% in 2012 to 9.3% in 2013. See "*Selected Financial Information—Selected Financial Ratios*".

The Bank's strategy, as a full service universal bank, is to maintain an even balance between the corporate, SME and retail banking segments. The Bank's medium-term goal is to have a loan book composition of approximately 50% corporate and SME loans and 50% retail loans. As at 30 June 2014, corporate banking (excluding loans to SMEs) accounted for approximately 45.8% of the Bank's gross loan portfolio while SME banking accounted for approximately 4.9% and retail banking approximately 49.3%. Current accounts and demand deposits of corporate and SME clients accounted for 64.1% of total deposits (including accrued interest) as at 30 June 2014. Current accounts and demand deposits of retail clients accounted for 35.9% of total deposits (including accrued interest) as at 30 June 2014. The Bank's corporate banking activities include lending and deposit taking, trade and export financing, servicing promissory notes, custody and depositary operations, cash and settlement operations, factoring, leasing and brokering.

In 2010, the Bank acquired Troika Dialog, located in Moscow, thereby establishing a presence in the Russian market. In 2011, the Bank acquired the ProstoKredit consumer finance operations of Société Générale in Kazakhstan, which provided the Bank with a platform to become one of the leading retail banks in the country. In 2011, the Bank decided to increase its consumer loan operations by acquiring the ProstoKredit loan portfolio and brands. The acquisition gave the Bank a functioning business that helped it achieve a significant increase in its loan portfolio and client base. It also helped develop the Bank's branches and distribution network and increased consumer awareness of the Bank. The Bank is becoming a key player in the fast-growing and highly profitable consumer finance and car loans niche market. In 2013, the Bank experienced a 40.3% growth in gross retail lending. The Bank's gross retail loan portfolio, had increased a further 16.5% year-to-date for the six months ended 30 June 2014.

As at 30 June 2014, the Bank had 20 full–service branches, 145 service centres, 439 ATMs, 271 IPTs and over 2,400 other points of sale. The Bank intends to open eight more branches, up to 60 more ATMs and over 100 IPTs in the second half of 2014.

As at 30 June 2014, EFC owned 100.0% of the Bank's share capital. EFC is a joint stock company incorporated in Kazakhstan. As at 30 June 2014, the Bank's Controlling Shareholders—Alexander Machkevich, Patokh Chodiyev and Alijan Ibragimov—each owns an equal one-third interest in EFC. Each Controlling Shareholder is a member of the Bank's Board of Directors, which currently has nine members, and Mr. Machkevich is the Chairman of the Board of Directors. See "*Share Capital, Principal Shareholders and Related Party Transactions*" for further information.

The Bank currently has one subsidiary, OJSC Eurasian Bank, which is located in Russia.

Eurasian Bank JSC was incorporated in December 1994 for an unlimited term as a commercial bank operating in Kazakhstan. The Bank's head office and registered address is located at 56 Kunayev Street, Almaty 050002, Kazakhstan, and its registration number is 841-1900-AO.

The Bank is authorised to act as a commercial bank and to offer a wide range of traditional banking services. The Bank holds a general banking license (License No. 237), and it is also licensed to conduct broker/dealer operations (License No. 0401100623) and custody operations (License No. 0407100189). The Bank has been a member of the KASE since 1996, giving it the right to deal in FX Repo, government and corporate securities traded on the KASE.

History

The Bank was incorporated in December 1994 in order to provide corporate banking services for ENRC. From 1994 to 2003, the Bank primarily served as an in-house bank for ENRC. In September 2003, due to legislative changes by the government, the Bank reorganised as a joint stock company. Since December 2003, the Bank has sought to develop beyond its original role into a "universal" banking institution with a national network of branches capable of providing a wide range of banking services and products to large corporations, SME and retail customers. From 2003 to 2005, the Bank began to diversify its client base by adding non-affiliated corporate and smaller company customers, and from 2005 to 2007, the Bank continued the diversification of its client base by expanding its SME and retail business.

During the global financial crisis, the Bank incurred significant NPLs, mostly from loans issued during 2005 to 2009. Beginning in October 2009, in response to an environment beset by high NPL rates, inefficiency and low returns, the Controlling Shareholders began installing the current management team and appointed

Michael Eggleton as chairman of the Bank's Management Board. The primary goal of the new management team was to "cleanse" the Bank's statement of financial position and establish it as a universal full service bank. The strategy since implemented and maintained by the Bank has been one of risk control, cost control and diversified growth.

On 1 April 2010, the Bank acquired Troika Dialog, a bank and brokerage firm based in Russia and renamed it, "OJSC Eurasian Bank". Troika Dialog was essentially an empty shell but had a complete set of banking licenses to operate in Russia. The Bank saw this as an important opportunity for growth outside the core Kazakhstan market and an opportunistic investment in the short term. Since the date of the acquisition, Kazakhstan had entered into a Customs Union with Russia and Belarus. This Customs Union has led to a greater need by the Bank's corporate client base for banking support in connection with their trade flows with Russia. In 2013, OJSC Eurasian Bank opened a new branch in Novosibirsk. Going forward, management is also considering opening branches in certain cities in the regions close to Kazakhstan's border to better serve the needs of its Kazakhstan based corporate clients.

On 1 January 2011, the Bank acquired the established consumer finance business of ProstoKredit (which included its non–defaulted Kazakhstan retail loan portfolio), from Société Générale as part of the Bank's overall strategy to transform the Bank into a full-service financial institution that targets both the corporate and consumer retail banking markets. The ProstoKredit acquisition helped to accelerate the Bank's management strategy, increase its market share in the retail sector and further diversify its lending and deposit base. The Bank offers its retail customers a range of term savings, current accounts, mortgage loans, car loans, consumer lending products and payment cards and has developed specific products for the SME sector. The Bank also generates income from foreign exchange transactions in Kazakhstan, offers cash and settlement services, money transfers and clearing facilities and participates in fixed income securities trading. .

In April 2012, the Bank announced that its Board of Directors had approved a nine billion Tenge increase in its authorised capital stock.

In December 2012, the Bank became a party to the Kazakhstan Interbank Deposit Indicator (KazPrime) Agreement. The KazPrime indicator is a price index that reflects the average value of rates for Tenge placement on interbank deposits among Kazakhstan's best credit quality rated banks. KASE calculates the indicator daily based on quotes submitted by participants. In addition to the Bank, the other current members of the KazPrime agreement are JSC Halyk Bank, JSC ATF Bank, JSC Bank CenterCredit and JSC Kazkommertsbank. The Bank's participation in the agreement reflected Eurasian Bank's high credit quality and positive reputation within Kazakhstan's interbank money market as well as its active operations in the market and in respect of financial stability.

In January 2013, the Bank became a principal member of MasterCard Worldwide or "MasterCard".

In June 2013, the Bank launched a number of innovative projects, opening a new 24/7 call-centre in Almaty and around-the-clock self-service points throughout Kazakhstan.

In July 2013, Standard & Poor's revised its outlook on the Bank to positive from stable.

In December 2013, the Bank successfully closed a retail loan assignment and servicing transaction under which the Bank assigned a portion of its consumer loan portfolio to one of Kazakhstan's second-tier banks. At the same time, the Bank and Kazakhstan Mortgage Company also reported the successful completion of a transaction involving the transfer by the Bank of certain mortgage loan portfolio receivables to the Kazakhstan Mortgage Company, which transaction amounted to KZT 13.2 billion.

In March 2014 the Bank launched a new multi-year marketing and advertising effort on the basis of sponsorship of a leading Moto GP team, Movistar Yamaha MotoGP. The Bank also sponsors one of their two star riders, Jorge Lorenzo.

In June and July 2014, the Bank announced the launch of its SMARTBANK mobile application for iOS, Android and Windows platform devices.

Strategy

The key elements of the Bank's strategy are as follows:

Strengthening market share in retail business, while maintaining strong corporate business segment.

The Bank's retail business strategy is to maintain one of the leading positions in consumer finance (as at 30 June 2014 the Bank holds a top three position in the market for retail loans (excluding mortgages) and to substantially strengthen its position in the retail deposit market (among the current top ten positions).

The Bank plans to further expand its retail customer base through offering new products and new partner programmes, improving the loyalty of its existing customers, improving the quality of and developing alternative distribution channels and modernising its IT platforms.

Apart from growth expansion, the Bank's mid-term strategy is to improve efficiency. To achieve this, the Bank will focus on margins rather than volumes, enhance cross-selling, improve its risk-management technologies, optimise its networks, transfer the bulk of its transactions into alternative distribution channels while, at the same time, improving functionality the range of services.

The Bank's strategy is also focused on maintaining a strong corporate business segment in the near and mid-term. The Bank's corporate business is important for cross-selling products to the retail sector and for the Bank's treasury business, deposits and payments. The Bank's management aims to reduce its exposure to its top 20 corporate borrowers to levels at between 100%-150% of Tier 1 capital in the mid-term.

As at 30 June 2014, the Bank's gross loan portfolio comprised 46% corporate loans (excluding SME), 5% SME loans and 49% retail loans. The Bank plans to maintain an even balance between its retail and corporate SME segments in the medium-term.

The Bank's management believes that this strategy will allow the Bank to:

- increase the Bank's volume of individual clients at a low acquisition expense, since most of the new clients will be captured through the POS channel, direct sales or payroll programmes;
- reinforce its capacity to develop cross-sales. From a "mono product" customer profile, the Bank is able to propose additional products such as insurance packages or plastic cards which would increase ATM activity. These additional products, as well as increased ATM activity, will contribute to an increase in both profitability per customer account as well as the level of client loyalty;
- generate a comprehensive customer database to enable the Bank to launch non-amortisable financial products (i.e. revolving cards);
- obtain a "noticeable" market share in Kazakhstan;
- grow its customer base to 2,000,000 active clients by the end of 2016 (up from 1,000,000 active clients as at mid-2014); and
- compete through product innovation, accelerating loan approval times and improving the quality of its services.

The Bank intends to continue improving and expanding its product range and has, for example, developed new products in order to attract more corporate, SME and retail customers. See "*—Corporate Banking—Corporate and SME deposit-taking and lending*" and "*—Retail Banking—Retail Deposits and Loans*". A quick loan approval process and turnaround time is one of the Bank's competitive strengths, and the Bank intends to continue to improve this even further. In addition, the Bank is seeking to develop new value added financial products to offer its clients.

Strengthening and diversifying capital and funding base

The Bank has significantly improved and diversified its funding base by increasing its market share of retail and corporate deposits. The Bank does not make use of any cross-border funding and a significant share of its funding is obtained from various segments to avoid concentration of its large creditors. Additionally, the

Bank is focusing on increasing its retail deposits. The Bank expects that these measures will allow it to establish a more diversified and stable funding base. In the meantime, the Bank does not expect its overall funding costs to significantly increase, while it expects its maturity profile to be balanced.

Domestic deposits remain an attractive source of funding and the Bank expects a further increase of its corporate deposit base. In order to diversify its funding base, the Bank plans to attract funds from the local debt market though local bond issuances. Furthermore, the Bank is a member of the Kazakhstan deposit insurance fund, which guarantees certain retail deposits of up to KZT 5,000,000. Since 2012, the Bank actively implemented a new retail strategy, focused on increasing its retail deposits. Corporate deposits are considered to be a cheaper and a larger source of funding than retail deposits. As at 30 June 2014, corporate deposits represented 49% of the Bank's total liabilities, while retail deposits, despite being more expensive, represented 27% of the Bank's total liabilities. Overall, since the new management team was implemented, the Bank's net loan-to-deposit ratio has not exceeded 115% and the Bank's target is to keep the ratio at this level.

The Bank's deposit base has generally matched or exceeded its outstanding gross loans, making the Bank's funding base less dependent on international and domestic wholesale funding-availability. The Bank's target is, however, to settle its net loan-to-deposit ratio at 110%.

Ready for the Future - Improving IT systems

The Bank considers IT to be an important and integral part of its operations and is committed to continue its investment in IT to support the efficiency of and growth in its operations. The Bank routinely reviews and updates its IT systems, introduces new IT services and upgrades its software and hardware systems in close cooperation with well-known global IT brands.

The Bank believes that its existing IT platform has allowed it to increase its operational capability, reduce costs and increase employees' productivity. The Bank operates an integrated banking system covering both its headquarters and branches. The Bank has a unified same-day, centrally operated and monitored payment system which allows for online interactive communication between the head office of the Bank and its branches through a real time nation-wide network. The Bank's IT systems are equipped with international reputable and up to date anti-virus and security systems and are supported by operational processes following ITIL and ITSM standards.

The Bank fully restructured its IT structure to feature a three-tiered technical support system. The IT division consists of the following areas: IT Operations, IT Development, Project Management Office, IT Regional Management and Card Processing Services.

The Bank's IT systems are fully centralised in a hub from a networking and technology perspective and a matrix structure from an organisational perspective. Each supports the Bank's business lines. The Bank has two main datacentres located in Almaty that are eight kilometre apart from each other. All mission critical systems incorporate redundant infrastructure such as stand-by servers, clusters and daily tape backups as well as datacentres which are built to support high tier levels of power, climate and environmental requirements.

Prior the ProstoKredit acquisition, the Bank had a centralised core banking system to support SME and corporate clients. In order to serve the Bank's new retail clients, and to support potential growth in the retail market, the Bank launched a series of major IT projects in all areas of service. Below is a list of the Bank's main completed and ongoing IT projects.

- The Bank launched a new banking system dedicated to service its retail sector and integrate with all existing platforms in the Bank.
- The Bank launched a data warehouse project to rebuild its management information system in order to centralise certain processes, namely, regulatory reporting, risk management, sales analytics, budgeting and planning onto a single reliable platform.
- The Bank launched a new internet and mobile banking platform that allows the Bank to add new products and services quickly and efficiently.

- The Bank's system architecture follows the SOA (Service Oriented Architecture) approach and uses an ESB (Enterprise Service Bus) topology to allow for scalability, integration and future growth.
- The Bank plans to create a single "front office" which will be a work office for all relationship managers and sales personnel, with a goal towards maximising client service, achieving efficiency and minimising human mistakes.
- The Bank launched its disaster recovery project, and the second disaster recovery site (datacentre part) will be located in Astana.

The projected amount of capital expenditures for IT projects exceeds U.S.$30 million for the 2013-2015 period. The Bank has also engaged PricewaterhouseCoopers to assist with the development of the Bank's new IT system and a strategy to capitalise the new system.

Strengthening risk management

The Bank pursues a policy of risk management that allows it to identify, evaluate, control and minimise risk and mitigate its effect on the Bank's financial results.

In 2011, the Bank developed and improved its risk management system to align with the Basel Committee's and NBK's requirements. In particular, the Bank implemented an internal credit rating system for corporate borrowers covering both the borrower's rating and the facility's rating. The Bank's system structure follows the Basel Committee recommendations for internal credit rating, using internal rating-based approaches for assessing capital adequacy. The Bank intends to further develop the system and related credit processes in anticipation of the implementation of Basel III in Kazakhstan. Additionally, the Bank introduced dedicated internal rating systems for SME borrowers in order to comply with the Basel Committee recommendations. The Bank uses its rating systems in both credit approval and monitoring processes, enabling it to identify the risk profile of its credit portfolio.

The Bank further improved its credit monitoring process by creating a separate department for monitoring higher risk borrowers and implementing a reporting system. The Bank also updated its collateral valuation principles, processes and procedures, helping the Bank to improve the quality of its independent valuations through stricter assessment of work performed by independent valuation companies.

With the development of the consumer finance business in the retail segment, the Bank integrated existing default databases with its own and used them in recalibrating all scorecards for retail products. Statistical scoring systems score all current retail clients applying for credit products. As a result, the Bank enabled its front and back offices to work on a fully automated basis, thereby allowing the Bank to analyse data and risk exposures in real time.

To further improve credit risk management the Bank intends to implement a behavioural scoring model. Implementation of the behavioural scoring is currently in process and the Bank expects to finish the project by the end of 2014.

Such risk management policy initiatives focus not only on the most important credit risk areas, but also on market risk and operational risk areas. Specifically, in 2011, the Bank implemented a value-at-risk model for measuring its market risk in foreign exchange and fixed income operations. During 2012 and 2013, the Bank installed the RiskPro system, which allows the Bank to manage market and liquidity risks by generating certain static and dynamic reports. In 2014, the Bank connected its subsidiary bank to the RiskPro system, which allows the management of these risks on a consolidated basis. The Bank also began changing its operational risk management system to comply with the Basel Committee requirements. To meet the international standards of risk management, the Bank continues to implement Basel II and Basel III standards. To enhance operational risk management practices, the risk management department developed the Operational Risks Matrix (Heat Map) providing balanced assessment of the risks and prioritising the measures to be taken to mitigate these risks.

The Bank also engaged external consulting companies to assess the Bank's policies, processes and methods related to risk management.

Business

Before the current management team was appointed in 2010, the Bank had been managed and monitored as a whole without any focus on the profitability of its business lines. The current management team instituted a reporting system that gives it the ability to make rational business decisions in all segments based on individual segment reporting. The Bank looks at the results of five different segments, four of which are client facing business lines: corporate, SME, retail and treasury, with each segment having lending and deposit taking activities, and/or other income sources such as fees and commission. The fifth segment is a support function, namely asset-liability management.

Corporate Banking

Overview

The Bank provides a broad range of traditional corporate banking services, including deposit taking and lending, trade financing, servicing promissory notes, custody and depositary operations, safe-keeping operations, cash and settlement operations.

Customer Segmentation

The Bank currently categorises its customers into corporate, SME and retail segments. The Bank categorises legal entities with an annual turnover of more than U.S.$7 million as corporate customers. The Bank categorises legal entities with an annual turnover of less than U.S.$7 million as SMEs. Prior to 2011, the Bank categorised SMEs as part of the corporate segment. The Bank categorises all loans to individuals, including loans to small businesses that are classified under the Kazakh legal and tax rules as "individual entrepreneurs", as "retail" loans.

Eurasian Bank is constantly aiming to diversify and increase its customer base. Its primary business development focus is to increase cross-selling and promote customer service. As part of its management system and compliance with the recommendations of the Basel Committee, the Bank began to develop specialised internal rating systems for borrowers. The introduction of a credit rating system in the Bank plays a key role in "rationalising" lending decisions.

The Bank uses a broad approach in assessing the solvency of a borrower. In addition to the general credit assessment undertaken on a borrower, the Bank evaluates a borrower's contractual commitments, the financial condition of co-borrowers, guarantors, the founders as well as the companies with which the borrower does business. The Bank has developed a set of strict collateral requirements for loans and contingent liabilities, which rules are contained in its collateral policy.

Similar to the Bank's credit rating system in the corporate segment, the Bank's credit committee and loan officer not only assess the creditworthiness of SME borrowers on a stand-alone basis, but also evaluates their contractual commitments and the businesses which the borrowers conduct business with. The Bank analyses these data points along with the borrower's collateral in order to manage risks in the SME segment.

The Bank's corporate and SME distribution channels are based on a relationship manager structure. The Bank assigns one relationship manager to each client or prospective client, and the relationship manager is responsible for maintaining a relationship with the client and introducing products to the client as needed. Corporate and SME client development and retention is centralised by the Bank's headquarters, but is supported by both relationship managers and the Bank's branch managers in each region.

Corporate and SME deposit-taking and lending

A significant portion of the Bank's funding base comprises corporate customer accounts. As at 30 June 2014, deposits from corporate customers (including current accounts, demand deposits and time deposits) amounted to KZT 297,868 million compared to KZT 264,018 million as at 31 December 2013 and KZT 215,705 million as at 31 December 2012, an increase of 38.1% for the period.

Corporate current accounts and deposits accounted for 64.1% of total current accounts and deposits from customers as at 30 June 2014 compared to 65.2% as at 31 December 2013 and 68.5% as at 31 December 2012.

Corporate lending constitutes the Bank's principal business. As at 30 June 2014, 50.7% of the Bank's gross loan portfolio consisted of loans to corporate customers (compared to 49.1% as at 31 December 2013 and 55.7% as at 31 December 2012). This overall proportional decrease in corporate loans is consistent with the Bank's strategy of expanding its share of the retail loans market and further diversifying its asset base.

As at 30 June 2014, the Bank had a market share of 4.1% of the corporate deposit market in Kazakhstan (according to the Bank's estimates based on official data from the NBK).

The Bank has significantly increased the total value of its loan portfolio over the past three years, in particular its retail loans, and improved the industry-wide diversification of its loans. For further information regarding the composition of the Bank's loan portfolio, see "—*Loan Portfolio*".

The Bank has furthermore been actively involved in state support programmes for the development of SME businesses in co-operation with the DAMU Entrepreneurship Development Fund ("**DAMU**"), the Ministry of Agriculture and the Ministry of Finance of the Republic of Kazakhstan. Under the DAMU programmes, the Bank provides concessional loans to organisations involved in entrepreneurial activities. The Bank is also an active participant of the "Business Road Map – 2020" programme, pursuant to which approximately 250 Kazakhstan businesses received government subsidies, amounting to more than KZT 4 billion to date.

Promissory Notes

As part of its service to large industrial clients, the Bank accepts discounts and settles promissory notes issued by these clients to their suppliers. The Bank provides these services by accepting and settling the promissory notes from monies deposited by the issuers in special accounts held with the Bank (*domiciling*). The Bank's network of branches allows it to accept and settle the promissory notes in any region of the country at the payee's convenience. As at 31 December 2013, the Bank held a portfolio of promissory notes totalling KZT 165,265 thousand, compared to KZT 24,743 thousand as at 31 December 2012.

In 2004, the Bank entered into a framework agreement with the NBK in relation to re-discounting promissory notes. The Bank actively supports the NBK's policy to stimulate the development of the market for promissory notes.

Trade Finance and International Banking

The Bank provides pre-export and post-import financing to its clients and provides related services to settle payments by issuing letters of credit ("**LCs**") and guarantees and remitting funds. The Bank's major trade finance customers include both large industrial companies and SMEs.

As at 30 June 2014, the Bank's outstanding trade finance portfolio amounted to KZT 29,641 million (7,872 LCs and 21,768 guarantees), compared to KZT 29,494 million (9,052 LCs and 20,443 guarantees) and KZT 28,537 million (4,973 LCs and 23,564 guarantees) as at 31 December 2013 and 31 December 2012, respectively. The Bank has established trade finance credit lines with large, well-known banking institutions based in Europe and CIS.

The majority of the Bank's trade finance loans have maturities of up to one year. However, as demand for longer-term facilities grows, the Bank intends to link underlying funding sources to longer-term financing when available.

Other than OJSC Eurasian Bank, the Bank does not have any operating subsidiaries or affiliates. To support corporate and SME customers who engage in international trade, the Bank maintains correspondent and partnership relationships with over 100 financial institutions including well-known international financial institutions based in the United States, the European Union and Russia.

Custodial Services

The Bank is licensed to provide custody services by the NBK under Licence No. 237 for custodial activity in the securities market. The majority of the assets in the Bank's custody are the assets of well-known pension funds and insurance companies in Kazakhstan.

As at 30 June 2014, the Bank held in custody assets amounting to KZT 12,774 thousand compared to KZT 11,639 thousand as at 31 December 2013 and KZT 102,873 thousand as at 31 December 2012.

Payroll Services

Since 2006, the Bank has offered payroll services to its corporate customers. This service allows corporate clients to deposit with the Bank the salaries of their employees who are able to make withdrawals using cards issued by the Bank. Currently, the Bank provides payroll services to corporate customers employing more than 190,000 employees who hold the Bank's corporate cards. The largest corporate customers who engage the Bank for payroll services are businesses of ENRC, an affiliate of the Bank.

Retail Banking

Overview

The Bank offers its retail customers a range of products - term savings, current deposits, mortgage loans, car loans, consumer finance loans and payment cards. In particular, the Bank has recently enhanced its focus on increasing unsecured consumer finance loans to retail borrowers, a business that grew substantially from 2012 to 2013. The increased focus on unsecured consumer finance loans could lead to a greater number of defaults, as consumer finance exhibits inherently higher default rates than corporate loans. In this regard, the Bank has already increased resources for soft and hard collections processes. On the other hand, the small loan size and high number of retail customers in this segment will increase diversification in the Bank's credit portfolio and enable the Bank to manage expected losses by proper pricing policies and statistical assessment of credit risk for the homogeneous portfolio. The Bank has already invested in the necessary IT infrastructure system and internal processes for sound assessment of credit risk and collections for the Bank's expansion of the consumer lending business.

As a central part of the Bank's strategy to expand its retail lending business, the Bank acquired the established consumer finance business of ProstoKredit, which included, among other things, its non-defaulted retail loan portfolio in Kazakhstan, from Société Générale in the first quarter of 2011. This acquisition gave the Bank a functioning business that it was able to integrate quickly. The acquisition of ProstoKredit's consumer loan portfolio, together with the PosiKredit brand name, gave the Bank a functioning business that helped it to significantly increase its loan portfolio and client base. It also helped to develop the Bank's branches and network and increase consumer awareness of the Bank.

Over the past few years, the Bank has become Kazakhstan's car financing market leader, with an approximately 50% share of the Kazakhstan new car financing loan market. This success was achieved through the introduction of a series of customer-friendly initiatives that have simplified the process of financing car purchases. The Bank was the first bank in the Kazakhstan to provide POS car lending services in car dealerships and to work with car dealerships to facilitate car sales. The Bank also introduced a "Car in One Day" offering, which expedites the car purchase and financing process, including all requisite government documentation. Finally, the Bank introduced a package whereby car insurance is provided upon sale for the duration of the financing period and at a significant discount to market prices. This success is partially attributable to the Bank's close relationship with car dealers and its customer-centric focus.

Beginning in late 2013, the Bank began implementing synthetic securitisation of portions of the retail lending portfolio through a retail loan assignment programme. This represents the first securitisation of standard loans in the Kazakhstan market. The Bank has been selling portions of its retail portfolio to financial institutions that are interested in gaining retail market exposure without setting up greenfield operations. The Bank continues to service the loans for a fee, and thus can continue to grow its retail franchise, be a constant presence in the market and still maintain a balanced business mix with the slower growing corporate and SME markets. This project required significant preparation of systems and procedures to ensure that the Bank could tailor loan packages to the counterparties' preference of segment exposure and risk.

Customer Segmentation

The Bank categorises all loans to individuals, including loans to small businesses that are classified under the Kazakh legal and tax rules as an "individual entrepreneur", as "retail" loans.

The main components of the Bank's retail banking business are car financing, corporate payroll consumer loans, mortgage loans and POS services. The Bank obtains its retail business through multiple and diversified acquisition channels, such as branches and customer service centres, POS terminals, car showrooms and dealerships, telesales, and cooperation agreements with companies to provide loans and other retail products to their employees.

Retail Deposits and Loans

As at 30 June 2014, retail customer deposits amounted to KZT 166,564 million, constituting 35.9% of the Bank's entire deposit portfolio. This is an increase compared to 31 December 2013, when retail customers' deposits amounted to KZT 140,656 million, and constituted 34.8% of the entire deposit portfolio and to 31 December 2012, when the total amount was KZT 99,015 million and constituted 31.5% of the entire deposit portfolio.

As at 30 June 2014, the Bank's gross retail loans amounted to KZT 277,819 million and constituted 49.3% of gross loans, compared to KZT 238,400 million and 50.9% of gross loans as at 31 December 2013 and KZT 169,904 million and 44.3% of gross loans as at 31 December 2012.

The Bank has increased its customer base almost six-fold in the past four years under the new management team. Its client base reached 994,063 as at 30 June 2014 (compared to 867,436 as at 31 December 2013 and 647,696 as at 31 December 2012).

The composition of the Bank's retail loan portfolio has changed over the past two years. From 31 December 2012 to 30 June 2014, car loans and uncollateralised consumer loans grew from 68.8% to 87.3% of the Bank's gross retail portfolio. Mortgage loans decreased significantly from KZT 33,832 million as at 31 December 2012 to KZT 18,572 million as at 30 June 2014 as the Bank sold a portfolio of mortgage loans to the Kazakhstan Mortgage Company and has an agreement in place to originate further loans on its behalf.

In 2013, there was a rapid growth in the Bank's car loans, which are collateralised. As at 30 June 2014, car loans amounted to KZT 107,093 million, or 38.5% of the gross retail segment loan portfolio, an increase of 40.2% from 31 December 2013, when car loans had amounted to KZT 76,369 million, or 32% of the Bank's retail segment loan portfolio, which, in turn represented an increase of 164% from 31 December 2012, when car loans had amounted to KZT 28,903 million, or 17.0% of the Bank's retail segment loan portfolio. This growth is attributable to the increase of car sales in Kazakhstan, the Bank's focus on this segment and it being the first bank to offer a "Car in One Day" product.

Consumer lending continues to drive retail lending growth due to the short duration of loans, the relatively high interest rates and the opportunities for fee income. The Bank's retail loan portfolio increased mainly due to the increase in consumer lending by 44.4% from the previous year to KZT 127,100 million as at December 2013 and by 6.5% to KZT 135,374 million as at 30 June 2014.

Retail loan origination continues to outpace corporate and SME loan origination, and offers higher interest and fee income opportunities. By the end of 2013, the Bank started a loan assignment and servicing programme for standard retail loans that is unique to the market. The programme allows the Bank to capture many of the benefits of the retail business, without it having to represent a large portion of its statement of financial position. The loan assignment programme for standard retail loans will allow the Bank to sell loan portfolios to other financial institutions and investors who are seeking exposure to retail lending without setting up greenfield operations. The Bank will continue to service the loans for a fee, and does not have to constantly change its participation in the retail market and to adjust for balance sheet constraints. This strategy reflects the growth opportunities presented by the market, as well as balancing the risk and earning potential of the various segments.

The Bank believes that its new branch network, along with cross-selling opportunities offered by its relationship with its corporate clients, will allow it to take advantage of the expansion of the retail market to increase its individual customer and depositor base. See "*—Distribution Channels*".

State Mortgage Loan Guarantee Fund

The Bank has been a member of the State Mortgage Loan Guarantee Fund since 2004. The State Mortgage Loan Guarantee Fund was established by an NBK decree on 27 October 2003.

In accordance with its charter, the fund is a non-profit organisation which provides guarantees to creditors under residential mortgages. The principal objective of the fund is to provide residents of Kazakhstan with better access to mortgage lending and improve the quality of the overall mortgage lending market with the aim of reducing the financial risks of creditors. As a participant in this system, the Bank is able to use guarantees issued by the fund to reduce its financial risks.

As at 30 June 2014, the Bank had a market share of 11% of the retail loan market in Kazakhstan and 3.6% of the retail deposit market in Kazakhstan (according to the Bank's estimates based on official data from the NBK).

Payment Card/ATM Services

The Bank is a principal member of International Payment Cards System Visa International, or "Visa" and MasterCard Worldwide, or "MasterCard". The Visa principal issuer license was granted to the Bank in 2008 after acquiring an associated membership in 2001. In 2011, the Bank became a merchant acquiring bank by obtaining an additional Visa license. The principal membership in MasterCard, both issuer and merchant acquiring, including contactless technology MasterCard Paypass, was obtained in 2013.

This allows the Bank to offer a wider range of services and opportunities to its clients and render services on payment cards transactions processing to different merchants, (sometimes called POS services) as well as open new opportunities such as third-party banks sponsorship.

The merchant acquiring network currently accounts for more than 1000 retail POS-terminals, accepting Visa and MasterCard/Maestro cards. The Bank considers the merchant acquiring business to be strategically important and intends to double the network by 2015.

The Bank issues a variety of Visa debit and credit card products: Infinite (Diamond), Platinum, Gold, Classic, Electron, and Business and has started to issue MasterCard Standard and Gold (Contact and Contactless) cards. As at 30 June 2014, the Bank had approximately 770,000 active Visa payment cards compared to approximately 618,000 as at 31 December 2013 and 208,000 as at 31 December 2012.

The Bank has its own in-house personalisation centre, providing high-level security and the ability to issue debit and credit cards in a relatively short time.

Each branch of the Bank has the necessary equipment to service payment cards and access its own database by remote access, which allows it to render services at any branch to any Bank customer. The services that each branch can provide includes personal consultation on account status, balances, changes, if required, reissuing, blocking, and other related services.

As at 30 June 2014, the Bank had 439 ATMs (of which 188 accept cash deposits) and 1,355 automated POS terminals, functioning in all branches and the Bank's merchants throughout Kazakhstan.

The Bank provides certain services to its corporate clients within the "*salary*" card product package. The services that the Bank offers within this package allows corporate clients to pay salaries to employees directly to the cards issued, and the corporate client may also provide complimentary meals to the employee through the Bank's loyalty programme. This product package also provides additional benefits to the corporate client, such as free business cards. Employees within this product package also benefit from free of charge cash withdrawals in the Bank's network and have an opportunity to get a revolving credit card with a credit limit of up to 30% of their monthly salary. Payroll projects are also widely offered to the market, and as at 30 June 2014, the Bank had payroll agreements with corporate clients within which 190,000 bank payment cards are opened for employees of these companies.

In 2011, the Bank began to provide processing services to other banks. The Bank became a sponsor of Fortbank (Kazakhstan) Visa and is implementing back- and front-office services for Fortbank's cards and ATMs.

Cross-Sales

The Bank believes that cross-selling to retail customers will continue to be a key part of its retail strategy. The Bank intends to promote cross-selling by targeting its corporate customers for payroll programmes, expand on payroll programme packages to increase the number of product offerings per customer and increase telesale capacity so that the telesales department are authorised to offer insurance packages, credit cards and deposit products to customers with good credit history. The Bank also expects to increase cross-selling by offering debit cards to all of its amortisable loan customers in order to increase volume in its ATM and POS terminals, and, with respect to the its car finance business, the Bank expects to explore new products, such as fleet programmes and wholesale financing, to maintain its leading position in this segment.

Treasury Services and Foreign Exchange

Foreign exchange trading on behalf of the Bank and its clients dominate the Bank's treasury operations. It is also involved in hedging activities, and the trading of fixed income securities. Going forward, this department aims to continue to increase its activity on behalf of the Bank's clients. The Bank, like most other banks in Kazakhstan, mainly trades in U.S. Dollars, Euros, British pounds and Russian Roubles. The Bank is also active in the interbank market and trades with most of key participants in the foreign exchange market.

Distribution Channels

The Bank sells its products and offers its services through its own network of branches and cash settlement centres.

Branches, Cash settlement centres and POS Terminals

As at 30 June 2014, the Bank had 20 branches, 145 cash settlement centres and a total of 3,371 sales points (up from 3,225 as at 31 December 2013 and 1,941 as at 31 December 2012). The operations of each branch are subject to internal regulations and are overseen by the head office. The Bank's branches and cash settlement centres perform the same level of banking operations and services. They each provide a broad range of banking products and services, such as deposit-taking, lending, foreign exchange operations and remittances. However, discount operations, trust operations, clearing operations, issuance of payment cards, guarantee operations, issuance of securities and transactions with precious metals are only conducted in the head office.

The coordination and planning of the lending operations of the branches and control over their lending activity is conducted by the branch banking department and risk department which monitor the lending operations of the branches and are responsible for the development of branch lending policies and strategies.

Other Distribution Channels

Like many other retail banks in Kazakhstan, customers of the Bank can use the ATM networks of other Kazakh banks for a small service fee for each withdrawal. The Bank has established its own network of ATMs (439 ATMs as at 30 June 2014), accepting Visa and MasterCard cards (including Maestro), and has plans to expand this network to a total of 500 ATMs during 2015.

The Bank offers its customers Visa-to-Visa transfers and utility bill payment services through ATMs, as well as cash deposit services.

The Bank has been developing a network of IPTs since 2013. The Bank accepts cash for any loan repayments made by the Bank's customers. The Bank's IPT network comprises 271 units as at 30 June 2014 and is expected to reach 380 units in 2015.

The Bank operates a corporate call centre for its customers. The call centre is open seven days a week and provides customers with information on banking products, branches, exchange rates and other Bank services and operates the Bank's automated service which provides support for cardholders 24 hours a day, seven days a week. Beginning in October 2011, the call centre also carries out various promotional campaigns, receive inquiries for retail banking products, such as deposits, loans and payment cards and make outgoing calls to customers. Beginning in October 2011, the call centre also began to cross-sell and offer the Bank's products and services. The Bank also provides information on banking products and services to companies and individuals through its own website.

Since December 2008, the Bank has implemented an Internet-banking system called "SMARTBANK". SMARTBANK currently allows the Bank's customers remote access to information relating to their account(s) and to make different types of payments and transfers.

Since 2013, the Bank has continuously been improving its IT systems to allow for a more expansive list of services in the SMARTBANK system. Currently SMARTBANK allows customers to:

- transfer funds, including inter-bank and international transfers and payments at any time;
- make payments to more than 140 service providers at any time;
- make tax and traffic fines payments;
- process payment orders of regular payments;
- block and unblock cards;
- open deposits online at any time;
- make loan repayments;
- do currency conversions; and
- generate statements, obtain a payment history and update account information.

Remote registration in SMARTBANK is available for cardholders via ATMs and the system's website.

The SMARTBANK mobile application has also been developed earlier in 2014 together with Monetise Create for the platform iOS, Android and Windows Mobile. The application was rated second among all other mobile banking applications in Kazakhstan, just two months after its launch.

The Bank is exploring ways of developing other channels to make available a variety of banking services to customers over the internet and telephone. Among other innovations, the Bank communicates with its customers by SMS and e-mail.

The Bank intends to create a direct marketing platform that consists of three major components:

- *Commercial database*: the base level of the direct marketing platform that provides a single place to store all client, product and operations data from all banks systems.
- *SAS*: a tool used on top of the commercial database, which will allow for:
  - the automatic generation of marketing campaigns (clients attraction/retention, promotional activities);
  - the creation of cross- and up-selling campaigns;
  - forecasting analysis to increase the effectiveness of retail actions;
  - the preparation of macro-market analysis; and
  - the automation of all retail business reporting.
- *Call software/CRM*: a single user interface for direct marketing operators and front office staff, which will help to:
  - initiate campaigns created by SAS using different communication channels (calls, SMS);
  - automate direct marketing operators' work processes;
  - enable the cross-sales functionality for the front office staff; and
  - secure all client data, preventing possible leaks.

Competition

Competition in Corporate Sector

As at 30 June 2014, there were 38 commercial banks, licensed in Kazakhstan, 16 of which are commercial banks with foreign ownership, including ten subsidiaries of foreign banks. The total number of all Kazakh banks' branches was 411, and the total number of all cash settlement centres was 2,118.

The Bank is the ninth largest bank in Kazakhstan in terms of assets according to the financial statements published by Kazakhstan banks. The banking system in Kazakhstan is dominated by three large domestic banks: JSC Halyk Bank, JSC Kazkommertsbank, and JSC BTA Bank (in which JSC Kazkommertsbank owns 46.5% of the voting shares and holds operating control), which accounts for approximately 41% of the banking sector assets in Kazakhstan. The second peer group of banks in Kazakhstan is represented by medium-sized banks, which include JSC SB Sberbank (Kazakhstan), JSC Tsesnabank, JSC Bank CenterCredit, JSC Kaspi Bank and JSC ATF Bank.

In the corporate sector, the Bank competes with banks on all levels (including the leading Kazakhstan banks) in corporate and trade finance. Given the increased focus that banks (universal and specialists), are giving to the retail segment, the Bank faces increased competition in this sector.

The following table compares certain financial information, derived from published financial statements (prepared in accordance with Kazakhstan accounting practices and the regulations of the NBK) relating to the Bank and other leading banks operating in Kazakhstan as at 30 June 2014:

	As at 30 June 2014	
	Assets	**Own Capital**
	(KZT millions)	
Large Domestic Banks		
JSC Kazkommertsbank	2,800,742	383,787
JSC Halyk Bank	2,725,211	407,447
JSC BTA Bank	1,521,563	230,817
Medium-Sized Domestic Banks		
JSC Tsesnabank	1,218,478	96,717
JSC Bank CenterCredit	1,117,025	87,753
JSC Kaspi Bank	942,824	96,581
JSC ATF Bank	931,494	71,264
JSC Eurasian Bank	687,877	61,251
Smaller Sized Domestic Banks		
JSC Alliance Bank	456,722	(100,067)
JSC Zhilstroysberbank	389,601	102,831
JSC Bank RBK	323,802	37,545
JSC Temirbank	319,773	49,088
JSC Nurbank	293,422	43,546
JSC Delta Bank	238,087	30,472
Banks with Foreign Participation		
JSC SB Sberbank (Kazakhstan)	1,363,458	127,633
JSC Citibank (Kazakhstan)	370,595	57,592
JSC HSBC Bank Kazakhstan	238,947	27,454
JSC SB Alfa Bank	197,717	28,043
JSC VTB Bank (Kazakhstan)	148,815	17,754
JSC Home Credit Bank	110,430	23,893
JSC SB RBS Kazakhstan	70,470	17,206

Competition in Corporate Sector

The Bank considers JSC Sberbank, JSC Halyk Bank, JSC Kazkommertsbank, JSC Bank CenterCredit and JSC Tsesnabank as its principal competitors in the corporate segment.

Competition in SME Sector

The Bank's competitive new products dedicated to SME clients allow it to compete with other banks in Kazakhstan. A key advantage of the Bank's SME loans includes flexible interest rates and tariffs. The Bank actively participates in state programmes dedicated to SME support. Through these programmes, the Bank provides loans to qualifying SME clients on preferential terms (including partial subsidies, lower interest rates, state guarantees, etc.), which help the Bank to reduce credit risk. The Bank's primary competitors in the SME sector are JSC VTB Bank (Kazakhstan), JSC SB Sberbank (Kazakhstan), JSC Bank CenterCredit and JSC Kazkommerzbank.

Competition in Retail Sector

Although there are many other banks in Kazakhstan that compete in the retail sector, no single bank competes with the Bank in all segments of the retail sector. The Bank's main competitors in payment cards are JSC Kazkommertsbank, JSC Halyk Bank, JSC Bank CenterCredit and JSC Kaspi Bank. The Bank's main competitor in car financing is JSC Tsesnabank; in corporate payroll the Bank's main competitors are JSC Halyk Bank and JSC SB Sberbank (Kazakhstan), and in POS and other unsecured loans the Bank's main competitors are JSC Kaspi Bank and JSC Home Credit Bank.

The two dominant banks in Kazakhstan, JSC Halyk Bank and JSC Kazkommertsbank attract retail customers through the traditional approach of operating a branch network in high traffic locations. Through this method, JSC Halyk Bank and JSC Kazkommertsbank have had success in attracting retail deposits and payment cards. Halyk Bank began to develop the distribution of consumer loans through payroll programmes and competes with the Bank in this market and JSC SB Sberbank (Kazakhstan) began to offer car finance loans in certain car dealership showrooms.

The most active bank in consumer lending is JSC Kaspi Bank. JSC Kaspi Bank's business is focused exclusively on consumer lending. JSC Kaspi Bank distributes both amortisable loans and credit cards though the branch network and also through points of sales. JSC Kaspi Bank competes in this sector by heavily investing in advertisements in mainstream media such as television, radio and billboards. The second most active bank in consumer lending is JSC Home Credit Bank, which primarily operates by distributing cash loans in Kazpost offices.

Technology

The Bank considers IT to be an important and integral part of its operations and is committed to continue its investment in IT to support the efficiency of and growth in its operations. The Bank routinely reviews and updates its IT systems, introduces new IT services and upgrades its software and hardware systems in close cooperation with well-known global IT brands.

The Bank believes that its existing IT platform has allowed it to increase its operational capability, reduce costs and increase employees' productivity. The Bank operates an integrated banking system covering both its headquarters and branches. The Bank has a unified same-day, centrally operated and monitored payment system which allows for online interactive communication between the head office of the Bank and its branches through a real time nation-wide network. The Bank's IT systems are equipped with international reputable and up to date anti-virus and security systems and are supported by operational processes following ITIL and ITSM standards.

The Organisation

The Bank fully restructured its IT structure to feature a three-tiered technical support system. The IT division consists of the following areas: IT Operations, IT Development, Project Management Office, IT Regional Management and Card Processing Services.

The Bank's IT systems are fully centralised in a hub from a networking and technology prospective and a matrix structure from an organisational prospective. Each supports the Bank's business lines. The Bank has two main datacentres located in Almaty that are eight kilometre apart from each other. All mission critical systems incorporate redundant infrastructure such as stand-by servers, clusters and daily tape backups as well as datacentres which are built to support high tier levels of power, climate and environmental requirements.

The IT Environment

Prior to acquisition of the ProstoKredit portfolio, the Bank had a centralised core banking system to support SME and corporate clients. In order to serve the Bank's new retail clients and to support growth in the retail market, the Bank launched a series of major IT projects in all areas of service. See "*—Strategy—Ready for the Future-Improving IT systems*".

Compliance and Anti-Money Laundering

The Bank's compliance division is responsible for ensuring that the Bank and its employees follow its anti-money laundering policy and procedures. The compliance division reports directly to the Board of Directors.

The Bank has adopted anti-money laundering policy and procedures, which have been approved by the NBK and the Financial Monitoring Committee. The Bank's anti-money laundering policy and procedures were instituted in March 2010; at the same time the government instituted the AML Law, which required banks to implement such policies and procedures. As part of its anti-money laundering policy and procedures, the Bank carries out "know your client" (or "**KYC**") procedures on each of its individual and corporate clients, including correspondent banks. The Bank is also required to undertake due diligence measures when its client performs transactions that are subject to financial monitoring under the AML Law and when the Bank has reasonable doubts with regards to the reliability of the information previously received from the client as part of the KYC measures. Each client must complete the Bank's KYC forms and documentation.

The Bank has financial monitoring software that uses algorithms to identify possible money laundering transactions. The Bank reports all transactions that have to be reported to the CFC. It sends this information to the Financial Monitoring Committee through the Kazakhstan interbank settlement centre. The Bank is committed to its anti-money laundering obligations, and the Bank has anti-money laundering training, recruitment and continuing education programmes for employees and new employees.

Insurance

The customer deposits in the Bank are covered under a self-funded domestic deposit insurance scheme. See "*—Banking Supervision - Deposit Insurance*" below.

Property

The Bank owns or leases real property where its offices are located. Currently, the Bank owns approximately 17.5% of the buildings that its branches and cash settlement centres use and leases the remaining 82.5%.

Legal Proceedings

The Bank is subject to various legal proceedings and claims with respect to its properties, assets or operations that have arisen and may arise in the ordinary course of business. However, there are no material legal proceedings pending or, to the knowledge of the Bank, threatened, which could have a material impact on its results of operations, financial condition or prospects.

Asset, Liability and Risk Management

Introduction

The Bank's operations are subject to various risks, including risks relating to fluctuations in interest rates and foreign exchange rates, decreases in liquidity and the deterioration of the credit quality of its loan and securities portfolios. The Bank monitors and manages these risk factors to minimise the impact these risk factors might have on its overall financial situation.

The risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls and to monitor risk levels and adherence to limits by the Bank's employees. The Bank reviews and updates risk management policies and procedures regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Bank manages and controls credit, market and liquidity risks both at the portfolio and transactional levels through various credit committees, the Asset and Liability Management Committee ("**ALCO**") and the Market Risk and Liquidity Management Committee ("**MRLMC**"). In order to facilitate efficient and effective decision-making, the Bank established a hierarchy of committees depending on the type and amount of the exposure.

The Bank is exposed to market risk, which is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges and equity prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Overall authority for market risk management is vested in MRLMC, which is chaired by a member of the Bank's Management Board. Market risk limits are approved by MRLMC based on recommendations of the Risk Management Department. The Bank uses a number of stress test models and Value-at-Risk (VaR) methodology to measure its market risk. Specific risk limits exist for each type of market risk, for example, the internally determined currency risk is limited to a foreign exchange risk VaR limit amounting to KZT 1 billion and a foreign exchange risk trigger level amounting to KZT 500 million.

The Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The Board of Directors reviews and approves credit policy.

The credit policy establishes:

- procedures for review and approval of loan credit applications,
- methodology for the credit assessment of borrowers (corporate and retail),
- methodology for the credit assessment of counterparties, issuers and insurance companies,
- methodology for the evaluation of collateral,
- credit documentation requirements, and
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Corporate Business Department, which is responsible for the corporate loan portfolio. The loan credit application and report are then independently reviewed by the Risk Management Department, which then issues a second opinion and ensures that credit policy requirements are met. The Credit Committee of the Board of Directors reviews the loan credit application on the basis of submissions by the Corporate Business Department and the Risk Management Department. Individual transactions are also reviewed by the Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee of the Board of Directors.

The Bank monitors the performance of individual credit exposures and reassesses the creditworthiness of its customers regularly. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. The current market value of collateral is regularly assessed by either independent appraisal companies or internal specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

The Retail Business Department reviews retail loan credit applications based on the pre-approved scoring models and application data verification procedures developed together with the Risk Management Department.

Apart from individual customer analysis, the credit portfolio is also assessed by the Risk Management Department with regard to credit concentration and market risks. Loan approvals and credit card limits can be cancelled at any time.

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

The Bank's Treasury and Asset Liability Management ("**ALM**") Department manage liquidity risk through a liquidity framework that MRLMC has approved. The Treasury and ALM Department manage liquidity on a daily basis and submits weekly and monthly reports to MRLMC. The Treasury and ALM Department are responsible for monitoring the daily cash inflows and outflows of the Bank. MRLMC sets limits on the level of liquid assets necessary to meet deposit withdrawals and other outflows and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Performance

The Bank's Treasury and ALM Department are also responsible for local bond issues. MRLMC actively manages the duration and currency exposures of the Bank's assets and liabilities and sets various targets. With respect to the Bank's deposits at the NBK, the Bank is required to meet certain mandatory levels based on foreign and domestic liabilities. The Bank places funds with the NBK in order meet internal asset ratio requirements with respect to funds placement. During the past three years, international banks have lowered their exposures and lines to Kazakhstan's banking sector. However, the Bank has managed to increase its lines with international banks six-fold.

Organisation

The Bank has a unified risk management system, based on its asset, liability and risk management policy guidelines, approved by its Board of Directors.

The Bank has several committees, each of which is responsible for certain key functions of the Bank, as described in more detail below. The Bank's Risk Management Department is primarily responsible for the risk management and also monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain information in each unit's areas of expertise.

The Bank bases its risk management system on the principle of continually assessing risk throughout the life of any transaction. The Bank manages its risks through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and the Bank holds all employees accountable for the risk exposures that are within their responsibilities.

The Board of Directors has ultimate responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significant exposures.

The Management Board has the responsibility of monitoring and implementing risk mitigation measures and making sure that the Bank operates within established risk parameters. The chief risk officer is responsible for overall risk management and compliance functions, ensuring common principles and methods for identifying, measuring, managing and reporting financial and non-financial risks are properly implemented. He reports directly to the Chairman and indirectly to the Board of Directors.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of credit committees and MRLMC and ALCO.

Committees

According to Kazakhstan legislation, the Board of Directors is responsible for establishing a number of specific committees. These committees include an Audit Committee, a Social Issues, Strategic Planning, Staff and Remuneration Committee, an Asset and Liability Management Committee (ALCO) and a Credit Committee of the Board of Directors. Such committees are formed to prevent conflicts of interest in respect to the Board of Directors and to ensure their substitutability.

Audit Committee

The Audit Committee is primarily responsible for considering and implementing projects in relation to internal regulatory acts, which serve to define the Bank's internal control and risk management policies. The Audit Committee defines and aims to minimise risks arising from the Bank's activities and reports directly to the Board of Directors. The Audit Committee: (i) monitors compliance with the policies and procedures of the Bank; (ii) analyses the function and assessment of internal control system efficiency; (iii) reviews and assesses the Bank's auditing and accounting activities and IT and security systems; (iv) monitors internal audit activities; (v) makes proposals to address deficiencies identified by internal and external audits and, if necessary, initiates ad-hoc reviews of the Bank's structural units; and (vi) monitors compliance with applicable laws and regulatory requirements.

Social Issues, Strategic Planning, Staff and Remuneration Committee

The Social Issues, Strategic Planning, Staff and Remuneration Committee is responsible for developing proposals that establish the priorities of the Bank, including defining the Bank's long-term strategies and objectives and making recommendations to the Board of Directors. The committee also makes recommendations with respect to Management Board member appointments, the maintenance of effective performance-based remuneration systems for Directors and Management Board members, and remuneration ranges for Directors and Management Board members.

Asset and Liability Management Committee (ALCO)

ALCO is primarily responsible for managing the Bank's financial resources, minimising risk in banking activities and achieving an adequate level of income. In addition, ALCO makes strategic decisions involving any changes in asset and liability structure, engages and places resources based on their analysis of the Bank's operations for preceding period, taking into account short term and medium term financial market forecasts. The committee also determines rules and procedures for borrowings, performs operations on the purchase/sale of financial instruments, designates benchmarks for asset diversification, profit margin, liquidity and capital adequacy.

ALCO ensures risk management in relation to the Bank's asset and liability management operations within acceptable limits, approves such limits (other than those restricting credit risks) and ensures control over their observance. ALCO also analyses results and monitors the efficiency of the Bank's operations and the Bank's products. ALCO is also responsible for tariffs by optimising of the tariff (price) policy of the Bank, including within the industry and region, organising and monitoring interest rates and tariffs in the inter-bank market and ensuring adequate response to any changes in the market environment and considering proposals to set any possible amounts of discounts from the existing tariffs of the Bank for any current or potential customers of the Bank.

Credit Committee of the Board of Directors

The Credit Committee of the Board of Directors is primarily responsible the preliminary approval and review of (i) all applications for loans valued in excess of 5% of the Bank's share capital and (ii) any loans to/guarantees of related parties. In addition, the Credit Committee of the Board of Directors requests the Board of Directors' approval in respect of matters (i) and (ii) above, the Bank's credit policy and the Management Board's report monitoring Bank and employee credit policy compliance and loan portfolio quality. The Credit Committee of the Board of Directors also monitors and controls the efficiency of the lending process and procedures set by on the Management Board or the internal audit report.

Market Risk and Liquidity Management Committee (MRLMC)

MRLMC is chaired by a member of the Bank's Management Board. MRLMC sets limits on the level of liquid assets necessary to meet deposit withdrawals and other outflows and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. MRLMC actively manages the duration and currency exposures of the Bank's assets and liabilities and sets various targets. MRLMC approves general conditions for attracting funds and resource allocation; considers monitoring results and/or makes decisions on the investment portfolio, market risk, positions on the purchase/ sale of financial instruments, liquidity management; monitors compliance with prudential standards established by the NBK (in terms of liquidity ratios, placement of the funds in domestic assets, the minimum reserve requirements); and approves the interest rate on deposits.

Committees for approving and revising the terms of the credit facilities and guarantees extended by the Bank

- Credit Committee of the Board of Directors

See description above.

- Head Office Credit Committee

The Head Office Credit Committee is primarily responsible for reviewing applications for loans (i) valued at up to 5% of the Bank's share capital or (ii) to the Bank's top 20 borrowers. In addition, the Head Office Credit Committee considers all matters relating to credit operations, including but not limited to: credit policy management, counterparty or country credit limits, decisions relating to loan projects of the Bank's Russian subsidiary and monitoring of current credit line usage, credit limits and stress test results. The Head Office Credit Committee also establishes credit limits in accordance with relevant client information.

- SME Credit Committee

The SME Credit Committee is primarily responsible for reviewing applications for loans valued at up to U.S.$3 million. In addition, the SME Credit Committee performs tasks in relation to the Bank's small and medium business customers.

- Retail Business Credit Committee

The Retail Business Credit Committee is primarily responsible for reviewing applications for retail customer loans valued at up to U.S.$1 million. The Retail Business Credit Committee considers and takes decisions on all matters relating to the Bank's credit card business and retail-related credit risk.

SME Business Credit Group

The SME Business Credit Group is primarily responsible for reviewing applications for loans valued at up to U.S.$200,000.

Branch Credit Group

Each Branch Credit Group is primarily responsible for reviewing applications for 100% value of collateral on the balance of secured loans in amounts of up to U.S.$100,000.

Credit Committee for retail and SME problem loans

The Credit Committee for retail and SME problem loans is primarily responsible for organising, implementing and controlling borrowers' overdue debt recovery process.

Departments

Risk Management Department

The Risk Management Department is responsible for devising and implementing the Bank's risk management policies and monitoring the Bank's risks.

The Risk Management Department has five separate divisions: (i) the credit risk and security appraisal division, (ii) the risk management division, (iii) the operational risks management and anti-fraud division, (iv) the soft collection division and (v) the projects financial monitoring division.

The credit risk and security appraisal division manages transaction risks related to specific loans and borrowers. It is responsible for drafting opinions on credit risk assessment, monitoring calculations of discounted flows related to individual loans, and monitoring and assessing pledged assets. The credit risk and security appraisal division participates in developing and improving the methods to assess pledged assets. This division also calculates and monitors the maximum amount of the risk per single borrower or a single group of related borrowers and also monitors the borrower's activity with other banks by monitoring those transactions and the borrower's financial condition.

The risk management division manages the Bank's portfolio risks and is responsible for analysing the Bank's portfolio in general and by certain criteria, such as, but not limited to product, region, economic sector, and loan quality. The division is also responsible for analysing certain market and operational risks encountered by the Bank, including foreign exchange risk, liquidity risks and interest rate risks. The risk management division drafts regular reports on its findings to the Management Board and also prepares scoring cards for retail lending products which are internal documents related to bank risks.

The operational risks management and anti-fraud division manages the Bank's operational risks using operational risk management tools including the operational events database, key risk indicators, the risks matrix heat map and risk self-assessment for the identification and assessment of potential sources of operational risks. The operational risk management and anti-fraud division provides regular reports on its findings to the Management Board and the Board of Directors.

Treasury and ALM Department

The Bank, through its Treasury, invests in securities as part of its liquidity management function. The Bank adopts a conservative investment policy and as such, a major part of the Bank's portfolio is invested in NBK notes and government bonds issued by the Ministry of Finance of the Republic of Kazakhstan. As at 30 June 2014, corporate securities amounted to approximately 9% of the Bank's total portfolio and all corporate securities are rated BB- by an international rating agency. See *"—Treasury Services and Foreign Exchange"*.

The Bank established the ALM Department in the first quarter of 2010. In the second quarter of 2014, the Treasury and ALM Department were merged into a single department. The Treasury and ALM Department is responsible for assets and liabilities management, liquidity management and planning, interest rate risk, foreign exchange strategic risk, central bank requirements execution, funding and gapping, funds transfer pricing and other liquidity issues. The Treasury and ALM Department maintains liquid assets, such as cash or nostro accounts in the NBK.

Financial Department

The members of the Financial Department, including its Director, are appointed by the Chairman of the Management Board. The Financial Department has a wide range of responsibilities and consists of four divisions (the finance analysis division, the budgeting division, the division of banking products and the operations and control division). The finance analysis division prepares financial and analytical information about the Bank, prepares financial management reports of the Bank's operation and controls the Bank's compliance. The budgeting division makes short term budgetary plans and investment plans, forecasts economic growth and financial performance and maintains control of the Bank's budget. The division of banking products calculates the profitability of the Bank, its branches and individual departments, as well as the profitability of specific products or customers. The operation control division budgets and controls the Bank's administrative expenses and capital expenditures and prepares detailed budgetary investment plans.

Legal Department

The Legal Department is responsible primarily for managing legal risks and continuously monitoring changes in the law and the applicable regulations to assess the impact of such changes on the Bank's business. The responsibilities of the Legal Department include the review of all legal documentation of the Bank and the preparation of standard form documentation for the different types of banking products offered by the Bank. The Legal Department is involved in the assessment of legal risks relating to contracts and agreements to be entered into by the Bank.

Security Department

The Security Department reports to the Management Board. The Security Department performs its activities under the control of the director of the department.

The main responsibilities of the Security Department are (i) securing the financial and banking operations of the Bank and its branches, (ii) detecting the threats to the Bank, its branches and related parties, (iii) developing and implementing a range of measures for the prevention of threats, (iv) creating and extending the overall security of the Bank, its branches and related parties, and (v) securing the information system of the Bank, its branches and related parties.

Internal Audit Service

The Internal Audit Service provides independent information on and recommends improvements to the Bank's internal control and risk management to the Board of Directors and management.

The Internal Audit Service has access to all of the Bank's operations. Members of the Internal Audit Service are independent from the Bank's operations and may not manage or perform any other activity for the Bank, including participation in any of the Bank's credit committee or governing body.

Compliance Control Department

The Compliance Control Department assesses the Bank's compliance with the NBK and adequacy of the Bank's internal procedures and professional standards. The Compliance Control Department is controlled by, and reports to, the Board of Directors.

Liquidity Risk

Liquidity risk refers to the Bank's ability to generate sufficient funds to meet customer deposit withdrawals and other financial liabilities associated with financial instruments as they actually fall due. As with other banks, the Bank is exposed to liquidity risk arising out of mismatches between the maturities of its assets and liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs and guarantees. The Bank seeks to maintain a liquid statement of financial position in order to enable it to respond quickly to cash needs and minimise the potential for short-term liquidity problems. The Bank currently seeks to maintain a liquid assets to total assets ratio within a range of 10%-15% depending on market conditions and scenarios envisioned by MRLMC.

MRLMC analyses the liquidity level of the Bank, the structure and maturity of attracted and allocated funds and on that basis sets liquidity ratios (in addition to the current and short-term liquidity ratios (k4, k4-1, k4-2, k4-3, k4-4, k4-5, k4-6) established by the NBK), and takes decisions on transactions which might affect established liquidity ratios and limits. In particular, the MRLMC approves the maximum limits for the following ratios: highly liquid assets to total assets, loans to deposits, loans to term deposits, loans to assets and liquid assets to deposits.

The Treasury and ALM Department is responsible for maintaining current and short-term liquidity based upon its review of the Bank's current liquidity, which includes a detailed breakdown, by maturity and volume, of all assets and liabilities based on agreements and commitments entered into by the Bank. The Bank's Treasury and ALM Department jointly with the Risk Management Department also conducts daily monitoring of the internal and external financial markets.

The main source of managing current and short term liquidity for the Bank is REPO operations with government securities, foreign exchange swaps and interbank borrowings from local and international markets, within the limits for counter-party banks set by the Credit Committee of the Board of Directors and the Management Boar, as applicable. The limit for counter-parties represents the maximum amount of unsecured liability to the Bank broken down by types of inter-bank operations.

Stress-testing is carried out periodically using various scenarios developed by the Risk Management Department, while the Treasury and ALM Department usually assesses the impact to the liquidity of a combination of negative factors, including:

- the withdrawal of deposits, significant outflow of funds or the loss of significant group of clients,
- defaults on loans by large borrowers or a group of borrowers,
- a substantial decrease in the market value of highly-liquid assets or a reduction in their liquidity and
- material fluctuations in interest rate or foreign exchange rates.

The Bank has also adopted internal guidelines which set out counter-measures (contingency plans) to be taken by the Bank in the event of a sudden and significant deterioration of the Bank's financial situation, or deterioration of the economic situation in Kazakhstan as a whole and lack of liquidity in the local market.

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position, excluding derivative instruments, as at 30 June 2014:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No Maturity	Overdue	Total
				(unaudited, KZT thousand)				
Non-derivative assets								
Cash and cash equivalents....	70,482,911	4,859,070	-	-	-	-	-	75,341,981
Financial instruments at fair value through profit or loss..................................	918,310	-	-	-	-	-	-	918,310
Available-for-sale financial assets..............................	-	9,326,646	2,507,075	2,436,788	-	14,962	-	14,285,471
Loans and advances to banks..............................	4,268,172	2,291,603	-	-	460	200,421	-	6,760,656
Loans to customers	10,676,307	46,550,559	116,860,602	244,576,417	62,791,814	-	40,159,936	521,615,635
Held-to-maturity investments....................	5,070,736	45,433	1,096,696	7,999,849	2,682,469	-	-	16,895,183
Current tax asset	1,555,024	-	-	-	-	-	-	1,555,024
Property, equipment and intangible assets	-	-	-	-	-	21,025,798	-	21,025,798
Other assets	5,584,275	220,811	3,715,904	57,919	4,246,848	202,414	28,900	14,057,071
Total assets	**98,555,735**	**63,294,122**	**124,180,277**	**255,070,973**	**69,721,591**	**21,443,595**	**40,188,836**	**672,455,129**
Non-derivative liabilities....								
Deposits and balances from banks..............................	5,236,473	7,228,247	3,965,568	1,925,625	18,352	-	-	18,374,265
Amounts payable under repurchase agreements....	26,287,106	-	-	-	-	-	-	26,287,106
Current accounts and deposits from customers..	129,301,037	41,195,719	187,395,906	95,735,835	10,803,413	-	-	464,431,910
Debt securities issued...........	2,346,793	185,442	540,864	22,059,005	7,427,934	-	-	32,560,038
Subordinated debt securities issued.............................	400,000	9,788,038	224,144	5,000,802	20,434,970	-	-	35,847,954
Other borrowed funds	1,258,275	1,188,758	2,853,902	8,629,111	7,645,413	-	-	21,575,459
Deferred tax liability...........	-	-	-	-	-	13,333	-	13,333
Other liabilities	7,904,414	22,599	931,670	9,652	3,245,506	-	-	12,113,841
Total liabilities...................	**172,734,098**	**59,608,803**	**195,912,054**	**133,360,030**	**49,575,588**	**13,333**	**-**	**611,203,906**
Net position........................	**(74,178,363)**	**3,685,319**	**(71,731,777)**	**121,710,943**	**20,146,003**	**21,430,262**	**40,188,836**	**61,251,223**

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position, excluding derivative instruments, as at 31 December 2013:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
				(KZT thousand)				
Non-derivative assets								
Cash and cash equivalents..	80,651,043	2,495,335	-	-	-	-	-	83,146,378
Financial instruments at fair value through profit or loss	1,139,628	-	-	-	-	-	-	1,139,628
Available-for-sale financial assets............................	-	8,531,885	12,667	2,421,122	-	14,198	-	10,979,872
Loans and advances to banks............................	1,593,745	-	1,004,645	-	460	323,523	-	2,922,373
Loans to customers	15,403,906	36,224,310	89,642,362	213,282,785	48,166,933	-	29,808,790	432,529,086
Held-to-maturity investments..................	4,993,240	7,026,043	3,443,184	7,999,839	-	-	-	23,462,306
Current tax asset	1,284,278	-	-	-	-	-	-	1,284,278
Property, equipment and intangible assets	-	-	-	-	-	19,758,591	-	19,758,591
Other assets	3,535,866	375,767	4,495,024	481,909	4,303,445	200,804	18,081	13,410,896
Total assets	**108,601,706**	**54,653,340**	**98,597,882**	**224,185,655**	**52,470,838**	**20,297,116**	**29,826,871**	**588,633,408**
Non-derivative liabilities..								
Deposits and balances from banks............................	7,298,607	3,265,986	3,318,040	234,000	-	-	-	14,116,633
Amounts payable under repurchase agreements..	8,803,285	-	-	-	-	-	-	8,803,285
Current accounts and deposits from customers	68,402,068	18,672,190	209,511,861	95,860,663	12,227,004	-	-	404,673,786
Debt securities issued.........	115,208	188,635	2,770,026	20,943,742	8,768,745	-	-	32,786,356
Subordinated debt securities issued	-	404,139	9,940,319	5,001,847	20,322,983	-	-	35,669,288
Other borrowed funds	903,352	1,688,940	3,608,126	10,025,888	5,184,043	-	-	21,410,349
Deferred tax liability..........	-	-	-	-	-	257,542	-	257,542
Other liabilities	7,143,176	250,073	788,527	9,012	3,904,739	-	-	12,095,527
Total liabilities.................	**92,665,696**	**24,469,963**	**229,936,899**	**132,075,152**	**50,407,514**	**257,542**	**-**	**529,812,766**
Net position......................	**15,936,010**	**30,183,377**	**(131,339,017)**	**92,110,503**	**2,063,324**	**20,039,574**	**29,826,871**	**58,820,642**

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position, excluding derivative instruments, as at 31 December 2012.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
				(KZT thousand)				
Non-derivative assets								
Cash and cash equivalents	57,328,362	2,294,392	-	-	-	-	-	59,622,754
Financial instruments at fair value through profit or loss	1,259,771	-	-	-	-	-	-	1,259,771
Available-for-sale financial assets	6,996,829	9,009,452	12,459	2,390,854	7	13,945	-	18,423,546
Loans and advances to banks	1,846,573	145	1,510,190	-	171	128,334	-	3,485,413
Loans to customers	29,051,566	18,858,526	36,911,533	201,543,658	58,069,799	-	10,207,205	354,642,287
Held-to-maturity investments	-	323,426	2,004,434	5,999,677	1,999,655	-	-	10,327,192
Current tax asset	872,533	-	12,608	-	-	-	-	885,141
Property, equipment and intangible assets	-	-	-	-	-	16,760,598	-	16,760,589
Other assets	2,792,024	361,463	1,702,075	23,975	19,425	201,793	-	5,100,755
Total assets	**100,147,658**	**30,847,404**	**42,153,299**	**209,958,164**	**60,089,057**	**17,104,670**	**10,207,205**	**470,507,457**
Non-derivative liabilities								
Deposits and balances from banks	8,370,758	508,576	12,349,242	-	-	-	-	21,228,576
Current accounts and deposits from customers	78,811,161	16,938,914	138,405,488	70,556,216	10,008,619	-	-	314,720,398
Debt securities issued	131,590	158,567	571,263	24,875,421	8,704,923	-	-	34,441,764
Subordinated debt securities issued	-	371,917	10,164,776	14,339,059	2,995,752	-	-	27,871,504
Other borrowed funds	1,178,762	913,497	4,510,343	9,852,542	2,107,012	-	-	18,562,156
Deferred tax liability	-	-	-	-	-	41,572	-	41,572
Other liabilities	4,354,740	539,053	486,831	478,639	-	-	-	5,859,263
Total liabilities	**92,847,011**	**19,430,524**	**166,487,943**	**120,101,877**	**23,816,306**	**41,752**	**-**	**422,725,233**
Net position	**7,300,647**	**11,416,880**	**(124,334,644)**	**89,856,287**	**36,272,751**	**17,063,098**	**10,207,205**	**47,782,224**

Maturity Analysis

As at 30 June 2014, the Bank had a cumulative positive maturity gap of KZT 61,251,223 thousand, while as at 31 December 2013, the Bank had a cumulative positive maturity gap of KZT 58,820,642 thousand and as at 31 December 2012, the Bank had a cumulative positive maturity gap of KZT 47,782,224 thousand. The tables set out in note 30 of the Audited Financial Statements and note 18 of the Unaudited Interim Financial Statements set out the maturity analysis of the Bank's statement of financial position based on the remaining period to maturity as at the relevant dates.

Although the relative maturities of the Bank's assets and liabilities give some indication as to the Bank's sensitivity to interest rate movements, it is an imprecise measure as it does not take into account the frequency with which the Bank is able to re-price its assets and liabilities. Corporate long-term credits and overdrafts are generally not available in Kazakhstan, except under programmes established by international financial institutions or the government of Kazakhstan. Many short-term credits, however, are granted with the expectation of renewing them at maturity. As such, the ultimate maturity of assets may also be different from the analysis presented above.

The Bank, through its Treasury and ALM Department, invests in securities as part of its liquidity management function. The Bank categorises its securities portfolio in its financial statements as available-for-sale and held-to-maturity investments. The Bank adopts a conservative policy towards investing in securities and intends to continue to do so. Treasury notes issued by the Ministry of Finance of the Republic of Kazakhstan and the NBK made up 88.5% of the securities portfolio as at 30 June 2014 compared to 96.8% as at 31 December 2013 and 95.8% as at 31 December 2012.

As at 30 June 2014, the Bank had an available-for-sale securities portfolio of KZT 14,285 million (representing 2.1% of total assets) as compared to an available-for-sale securities portfolio of KZT 10,980 million (representing 1.9% of total assets) as at 31 December 2013 and an available-for-sale securities portfolio of KZT 18,424 million (representing 3.9% of total assets) as at 31 December 2012.

The Bank meets all requirements with respect to liquidity established by the NBK. As at 30 June 2014, ratios K4; K4-1; K4-2; and K4-3, which the NBK uses to measure liquidity risks, equated 80.7%; 130.3%; 168.4%; and 149.8%, respectively, for the Bank, which is above the limits established under NBK regulations (i.e., greater than 30%, 100%, 90% and 80%, respectively).

See *"Financial Review—Capital and Capital Adequacy"*. This high liquidity ratio was achieved by holding a large portfolio of highly-liquid securities.

Interest Rate Risk

The Bank's principal objective in managing its interest rates is to enhance profitability by limiting the effect of adverse interest rate movements and increasing net interest income by mitigating interest rate exposure.

The main factors determining the level of interest rate risk are:

- the mismatch of repayment and maturity dates of the allocated assets and attracted liabilities of the Bank, and
- the difference in interest rates (floating or fixed) established by the Bank for its assets as compared to its liabilities.

In order to assess interest rate sensitivity, the Bank monitors the changes in 'net interest margin' and changes in 'interest spread 'regularly, and also uses the chart showing mismatches or differences in interest rates and maturities of assets and liabilities, off-balance sheet financial instruments, susceptible to interest rate fluctuations (the "**Gap Positions**"). The Gap Position chart shows the breakdown of assets and liabilities by maturity and by currency exposure.

A negative gap indicates that the Bank has more liabilities which are sensitive to interest rates than similar assets. With a proportionate growth of assets and liabilities interest rates, the Bank's expenses on payment of interest grow higher than income in the form of interest. With a proportionate fall of interest rates, more liabilities than assets are reassessed at lower rates, the average spread grows and net interest rate increases.

A positive gap shows that the Bank has more assets sensitive to changes in interest rates than sensitive liabilities. With a growth of interest rates, interest income increases more than interest costs as proportionally more assets are reassessed. Therefore, spread and net interest income increase. A decline in interest rates has the opposite effect. Interest income declines by a larger amount than expenses on payment of interest, which results in a decline of the Bank's spread and net interest income.

The Bank believes that its sensitivity to interest rates is largely reduced by the relatively short term maturity of its loan portfolio and its ability to adjust the interest rate or call for repayment in another currency under the majority of its loan agreements. Furthermore, in the event of material changes in circumstances, the Bank is also entitled to call for prepayment of loans. Nevertheless, as the average maturity of the Bank's loan portfolio increases the Bank will, without a matching increase in the average maturity of its liabilities, face increasing interest rate risk and will be obliged to introduce more sophisticated risk management techniques and/or more sophisticated standard terms and conditions in its loan agreements.

Market risks, including interest rate risk, are managed by ALCO and MRLMC based on risk limits recommended by the Risk Management Department. The Bank uses a number of stress test models and the VaR method to measure its risks. Specific risk limits exist for each type of market risk. For instance, foreign exchange and interest rate risks are controlled through a system of triggers and limits.

The following table sets out the effective average interest rates for interest earning/bearing monetary financial instruments as at the dates indicated:

	As at 31 December 2013 Average effective interest rate, %			As at 31 December 2012 Average effective interest rate, %			As at 30 June 2014 Average effective interest rate, %		
	(KZT)	(USD)	(Other currencies)	(KZT)	(USD)	(Other currencies)	(KZT)	(USD)	(Other currencies)
Interest bearing assets									
Cash and cash equivalents	-	0.79	2.03	6.00	0.50	4.12	-	0.50	2.00
Financial instruments at fair value through profit or loss	-	-	7.00	-	-	6.80	-	-	7.00
Available-for-sale financial assets	3.16	-	-	4.17	-	-	3.15	-	-
Loans and advances to banks	-	2.99	0.10	0.02	2.91	-	-	2.69	-
Loans to customers	17.67	11.76	12.44	18.83	10.57	12.29	19.65	9.55	10.63
Held to maturity investments	3.60	-	-	4.54	3.74	12.00	4.21	6.42	-
Interest bearing liabilities									
Deposits and balances from banks									
- Term deposits	5.48	1.98	2.84	7.74	1.45	-	6.85	0.00	1.00
Amounts payable under repurchase agreements	3.30	-	-	-	-	-	3.76	-	-
Current accounts and deposits from customers									
- Corporate customers	7.38	4.45	2.55	6.88	3.25	5.38	7.80	3.88	1.81
- Retail customers	8.90	5.60	3.36	9.18	6.12	4.07	8.84	5.34	2.95
Debt securities issued	9.28	-	-	8.70	-	-	9.25	-	-
Subordinated debt securities issued	10.92	-	-	9.51	-	-	10.93	-	-
Other borrowed funds									
- Loans from financial institutions	7.79	-	-	7.48	-	-	6.87	-	-
- Loans from banks	-	4.23	6.47	-	-	6.86	-	4.33	-
- Loans from the Ministry of Finance of Kazakhstan	5.50	1.93	-	5.50	2.25	-	5.50	1.87	-

Foreign Exchange Risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign exchange risk is controlled by a parametric VaR model used by the system and liquidity risk is controlled by real GAP reports. In addition, the Bank's internal models are periodically back-tested and stress-tested. A number of new reports were introduced to improve the assessment and monitoring of market and liquidity risks by ALCO, MRLMC, the Management Board and the Board of Directors.

The Bank is exposed to the effects of the fluctuation of the prevailing foreign currency exchange rates on its financial positions and cash flows. The committees set the Bank's net position by currency within the minimum requirements of the NBK. The Risk Management Department monitors the currency risk on the basis of the net open position for each foreign currency, and advises on the Bank's position and implements the Bank's strategy accordingly. The Treasury and ALM Department manages the Bank's currency risk.

The Bank's principal cash flows are primarily generated in KZT.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 30 June 2014:

	USD	RUB[(1)]	EUR	Other currencies	Total
			(unaudited, KZT thousand)		
ASSETS					
Cash and cash equivalents	50,815,730	1,619,348	6,191,446	129,461	58,755,985
Financial instruments at fair value through profit or loss	-	918,310	-	-	918,310
Loans and advances to banks	3,989,835	200,421	-	-	4,190,256
Loans to customers	109,163,168	5,599,281	1,960,347	-	116,722,796
Held-to-maturity investments	2,761,118	-	-	-	2,761,118
Other financial assets	3,294,167	1,351	559,930	22	3,855,470
Total assets	**170,024,018**	**8,338,711**	**8,711,723**	**129,483**	**187,203,935**
LIABILITIES					
Deposits and balances from banks	1,419,299	272,303	2,231,459	20	3,923,081
Current accounts and deposits from customers	183,967,368	1,989,798	6,935,783	48,601	192,941,550
Other borrowed funds	1,195,506	-	-	-	1,195,506
Other financial liabilities	639,444	10,413	14,853	228	664,938
Total liabilities	**187,221,617**	**2,272,514**	**9,182,095**	**48,849**	**198,725,075**
Net position as at 30 June 2014	**(17,197,599)**	**6,066,197**	**(470,372)**	**80,634**	**(11,521,140)**
The effect of derivatives held for risk management	15,965,763	-	-	-	15,965,763
Net position with the effect of derivatives held for risk management as at 30 June 2014	**(1,231,836)**	**6,066,197**	**(470,372)**	**80,634**	**4,444,623**

(1) A portion of the net RUB position equivalent to KZT 6,269,241 thousand, unaudited, is not subject to direct currency risk exposure as it represents net assets of the subsidiary that are remeasured through cumulative translation reserve.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2013:

	USD	RUB[(1)]	EUR	Other currencies	Total
			(KZT thousand)		
ASSETS					
Cash and cash equivalents	58,100,807	2,720,034	5,633,259	251,592	66,705,692
Financial instruments at fair value through profit or loss	-	1,139,628	-	-	1,139,628
Loans and advances to banks	2,594,099	323,523	-	-	2,917,622
Loans to customers	67,071,004	4,731,898	1,409,494	-	73,212,396
Other financial assets	4,169,214	1,115	472,063	-	4,642,392
Total assets	**131,935,124**	**8,916,198**	**7,514,816**	**251,592**	**148,617,730**
LIABILITIES					
Deposits and balances from banks	1,967,845	468,072	1,810,830	16	4,246,763
Current accounts and deposits from customers	127,216,497	3,908,507	4,644,754	200,469	135,970,227
Other borrowed funds	2,478,755	-	139,366	-	2,618,121
Other financial liabilities	281,486	8,256	14,852	364	304,958
Total liabilities	**131,944,583**	**4,384,835**	**6,609,802**	**200,849**	**143,140,069**
Net position as at 31 December 2013	**(9,459)**	**4,531,363**	**905,014**	**50,743**	**5,477,661**
The effect of derivatives held for risk management	-	843,922	(843,922)	-	-
Net position with the effect of derivatives held for risk management as at 31 December 2013	**(9,459)**	**5,375,285**	**61,092**	**50,743**	**5,477,661**

(1) A portion of the net RUB position equivalent to KZT 3,084,025 thousand is not subject to direct currency risk exposure as it represents net assets of the subsidiary that are remeasured through cumulative translation reserve.

The following table shows the foreign currency exposure of financial assets and liabilities as at 31 December 2012:

	USD	RUB(1)	EUR	Other currencies	Total
			(KZT thousand)		
ASSETS					
Cash and cash equivalents	22,874,087	7,342,416	6,160,532	485,444	36,862,479
Financial instruments at fair value through profit or loss	913	1,259,771	-	-	1,260,684
Loans and advances to banks	3,352,492	128,334	-	-	3,480,826
Loans to customers	42,616,874	3,055,249	2,385,609	-	48,057,732
Held-to-maturity investments	-	277,993	-	-	277,993
Other financial assets	1,370,796	27	154,251	-	1,525,074
Total assets	**70,215,162**	**12,063,790**	**8,700,392**	**485,444**	**91,464,788**
LIABILITIES					
Deposits and balances from banks	8,222,238	2	2,086	15	8,224,341
Current accounts and deposits from customers	61,098,671	8,794,259	6,796,498	454,192	77,143,620
Other borrowed funds	360,712	-	1,758,902	-	2,119,614
Other financial liabilities	175,762	17,062	1,223	168	194,215
Total liabilities	**69,857,383**	**8,811,323**	**8,558,709**	**454,375**	**87,681,790**
Net position as at 31 December 2012	**357,779**	**3,252,467**	**141,683**	**31,069**	**3,782,998**
The effect of derivatives held for risk management	(460,659)	(257,429)	-	-	(718,088)
Net position with the effect of derivatives held for risk management as at 31 December 2012	**(102,880)**	**2,995,038**	**141,683**	**31,069**	**3,064,910**

(1) A portion of the net RUB position equivalent to KZT 3,016,984 thousand is not subject to direct currency risk exposure as it represents net assets of the subsidiary that are remeasured through cumulative translation reserve.

Loan Portfolio

Introduction

Loans to customers represent the largest part of the Bank's assets.

The Bank offers a variety of bank lending products including loans, trade financing, LCs and letters of guarantee. Financing is provided for various purposes, although the majority of corporate loans are for working capital and trade finance purposes with a maturity of between 12 and 24 months and loans to finance the purchase of fixed assets with a maturity of up to five years. Retail lending relates primarily to consumer loans, car loans and mortgages.

The Bank's loan portfolio is monitored by the risk department. The Credit Committee of the Board of Directors determines the amount that the Bank is prepared to lend, together with the type of collateral required to secure the loans. Some of the functions of the Credit Committee of the Board of Directors are delegated to the Credit Commissions in order to make the process more efficient.

Problem loans are dealt with by a separate department of the Bank (the Problem Loans Department), which conducts analysis and claims work on problem loans.

Lending Policies and Procedures

The NBK sets guidelines in relation to the credit approval process of banks and the terms, amounts and interest rates of the loans given. NBK regulations limit the exposure to any single borrower or group of borrowers to 10% of a bank's own capital for parties related to the bank and to 25% of a bank's own capital for parties not related to the bank.

The Bank developed its loan approval policy to establish a baseline of the credit activities and decrease its exposure. The loan approval policy is based as on requirements of NBK and the Bank's own internal procedures, established by the Management Board and the Board of Directors.

The Bank maintains separate bodies to authorise loans, depending on the size and nature of the loan.

The following table sets out the authority of each structural division for approving and revising the terms of the credit facilities and guarantees extended by the Bank:

Structural Division	**Credit limit for a borrower**
Board of Directors	• More than 5% of the Bank's share capital • Any loans to/guarantees of related parties
Credit Committee of the Board of Directors	• Preliminary approval for loans of more than 5% of the Bank's share capital
Management Board	• Up to 5% of the Bank's share capital • Top 20 borrowers
Head Office Credit Committee	• Preliminary approval for loans of up to 5% of the Bank's share capital • Preliminary approval for loans top top 20 borrowers
SME Credit Committee	• Up to U.S.$3 million
Retail Business Credit Committee	• Up to U.S.$1 million
SME Business Credit Group	• Up to U.S.$200,000
Branch Credit Group	• 100% value of collateral on the balance of secured loans in amounts of up to U.S.$100,000
Credit Committee for retail and SME problem loans	• Responsible for debt recovery process, may give credit and restructure loans of up to U.S.$3 million

The Management Board approves each new member of the Head Office Credit Committee. The Head Office Credit Committee appoints each member of the credit commissions and credit groups.

All applications for loans must be submitted to the Bank on its standard forms. The credit department of the local branch of the Bank typically carries out the initial review of the application for its compliance with internal regulations and criteria based on the financial condition of the potential borrower and quality of collateral offered. The reviewer then determines the applicable interest rate. If an application based on such a review satisfies the Bank's internal criteria, a credit officer prepares a credit dossier that sets forth additional information and documentation that a borrower has to submit. The credit officer is primarily responsible for liaising with the potential borrower and coordinating the review and evaluations by various divisions within the Bank in order to prepare the final and full credit dossier within a certain period established by Bank's procedures.

The security division obtains references on the borrower from third parties including other banks and various government authorities, such as tax authorities, NBK and the credit bureau. If the loan is secured by collateral, the legal department verifies title and checks for prior encumbrances. At the final stage, a risk management division reviews the credit file together with any opinions from all other divisions. The credit officer then forwards the loan application with all required documentation to the authorised body of the Bank for review and approval.

Automated Scoring Model

The Bank grants retail loans based on the applicant's personal data, including the applicant's financial condition, employment history, education, assets and other demographic indicators. The Bank uses this information to develop and recalibrate scoring cards, which allows the Bank to make a consistent and objective decision to grant credit to borrowers.

The scoring system automatically sends an enquiry to the State Pension Processing Centre in order to verify the individual identification number and pension payments for the last six months as well as to First Credit Bureau "**Credit Bureau**" to check the credit history of the applicant. An applicant receives a score based on information the Bank has on the applicant. The Bank uses this score to determine whether to approve the loan application. In this manner, loan applications are generally processed within 15 to 30 minutes.

The Bank uses an automated scoring system for car loans, mortgage loans and unsecured cash loans, which significantly reduce application process times for each product. In January 2012, the Bank implemented

CrediLogic, a new system which allows the Bank to monitor all of its retail loans in the same system as the one the Bank uses to process its applications for retail loans. Full implementation of the CrediLogic system was completed in October 2012.

Maturity Limit

The maximum maturity of a loan depends on the type of loan as follows:

Nature of the Loan	Maximum Maturity (years)
Short-term loans	1
Consumer loans	7
Mortgage loans	20
Financial Leasing	15 (or 75% of the useful economic life of the relevant equipment)
Financing of working capital	15
Financing of fixed assets	20
Commercial real estate	20
Project Finance	6
Inter-bank loans	1 month

Collateralisation Policy

The collateralisation policy seeks to form a reliable loan portfolio, develop common requirements for handling liens and ensure prompt and effective control at all stages of collateral process.

To reduce credit risk, the Bank requires collateral from all borrowers, except certain borrowers in the Bank's homogeneous collateral-free loan portfolio. Collateral includes, but is not limited to, pledges of real estate, machinery and motor vehicles, industrial equipment, industrial goods and stock in trade and other commercial goods, as well as cash deposits, pledges of securities and corporate guarantees. The Bank monitors the quality of the collateral regularly.

In certain cases when existing collateral decreases in value, additional collateral may be requested. In addition, the terms of the loan agreements usually give the Bank the flexibility to adjust interest rates or request a prepayment of the loan or a portion thereof upon changes in circumstances, including a decline in the value of the collateral. As an additional safeguard, the Bank, as a matter of its internal policy, does not lend an amount equal to the maximum security value of the offered collateral, but applies certain discounts depending on the types of security. For example, the Bank usually lends only up to 75% of the value of any real estate which is offered as collateral, or up to 50% of the value of equipment. The Bank's management believes that the Bank's loan portfolio is sufficiently collateralised.

Portfolio Supervision

On a regular basis, the Bank monitors each borrower's financial condition based on all available information, including their financial statements, in order to determine whether there has been a deterioration in the borrower's financial condition and operating results since the origination of the loan which could cause default or delay in payment of principal or interest on loans outstanding.

The Bank's Risk Management Department determines whether a problem has arisen with the repayment of a loan (and whether a loan needs to be re-classified) based on a number of factors, including: falling behind the repayment schedule; improper use of the loan proceeds; reduction in the amount of deposited funds; arrears in payments to the budget or obligatory payments to the government; deterioration of economic conditions in the industry where the borrower carries on its business; and decline in quality or value of the underlying collateral.

The Bank monitors the changes in the borrower's financial condition based on data collection services and analysis of borrower's financial statements, analyses effectiveness of borrower's financial leverage, checks for excessive risk exposure (an amount greater than 5% of equity), compares the consolidated credit risk of borrower with that of its parent and affiliated entities, if applicable, re-evaluates the adequacy of borrower's loan obligations and implements additional measures to prevent loss of collateral or exposure to credit risk in the event of borrower's poor performance and financial indicators.

If, after an evaluation, the Bank determines that the borrower exhibits any characteristics of default, then the Bank will seek to restructure the loan by conducting negotiations with the borrower to amend the schedule of debt repayment, provide financial advice to borrower on the management of assets and liabilities, assist the borrower in searching for business partners, and assist in selling borrower's assets.

Any deterioration in the overall quality of the entire loan portfolio is brought to the attention of the Bank's Management Board to review the level of credit risk in respect of assets and liabilities, and off-balances sheet contingent liabilities.

Analysis of Loan Portfolio

The following table provides information on the credit quality of loans to customers as at 30 June 2014, 31 December 2013 and 31 December 2012:

	As at 31 December		As at 30 June
	2013	**2012**	**2014**
			(unaudited)
		(KZT thousands)	
Loans to large corporate and SME customers			
Loans without individual signs of impairment	204,848,226	198,934,700	259,553,290
Loans with individual signs of impairment			
Not overdue	5,337,130	7,005,864	9,298,258
Overdue less than 90 days	4,299,884	161,975	2,286,774
Overdue more than 90 days and less than 1 year	7,857,558	930,312	3,872,588
Overdue more than 1 year	7,357,163	6,582,374	10,817,917
Total loans to large corporate and SME customers	**229,699,961**	**213,615,225**	**285,828,827**
Loans to retail customers			
Not overdue	193,109,880	142,238,402	219,070,478
Overdue less than 30 days	7,642,550	5,779,794	9,562,156
Overdue 30-89 days	6,461,191	2,981,658	6,189,701
Overdue 90-179 days	4,895,199	3,785,965	6,196,746
Overdue 180-360 days	7,723,500	4,303,884	11,139,587
Overdue more than 360 days	18,567,263	10,814,366	25,660,589
Total loans to retail customers	**238,399,583**	**169,904,069**	**277,819,257**

The risk control and loan portfolio management policies that the Bank's current management team has pursued since 2010 have resulted in a significant reduction in the proportion of newly-originated loans that ultimately evolve into problem loans. A significant portion of NPLs currently on the Bank's books relate to loans that originated prior to the appointment of the current management team in 2010. NPL rates are consistently higher among SME and retail loans, which typically represent higher credit risks to the Bank. SME and retail borrowers are often less financially transparent than larger borrowers, and the quality of information available to the Bank about such potential borrowers varies and may not be accurate or sufficient. SME loans are particularly affected by significant NPL rates. Financial information available about SME borrowers may not be accurate, as there are fewer third party confirmations and quality data that can be collected. As a result, the banking industry in Kazakhstan generally recognises that lending to the SME segment represents a relatively higher degree of risk than comparable lending to large corporate or retail borrowers.

Loan Portfolio Structure by Sector

The Main Credit Committee sets limits on the Bank's total exposure to economic sectors. The Bank's primary objective with respect to its corporate lending activities is to diversify into different sectors of the economy in order to reduce its exposure to particular industries. The following table sets out an analysis of the Bank's gross loan portfolio, by economic sector, as at the dates indicated:

	As at 31 December				As at 30 June	
	2013		**2012**		**2014**	
					(unaudited)	
	(KZT thousands)	*(%)*	*(KZT thousands)*	*(%)*	*(KZT thousands)*	*(%)*
Loan to corporate customers						

	As at 31 December				As at 30 June	
	2013		2012		2014	
Wholesale trade	68,650 ,164	15	54,460,389	14	90,454,268	16
Agriculture, forestry and timber	33,685,072	7	30,098,595	8	31,663,520	6
Construction	28,950,432	6	25,948,505	7	33,025,572	6
Transport	14,587,091	3	17,864,121	5	45,198,739	8
Mining/metallurgy	13,751,948	3	16,370,651	4	10,841,703	2
Retail trade	13,081,639	3	10,569,052	3	10,694,838	2
Services	12,250,035	3	8,030,071	2	13,140,950	2
Manufacturing	11,250,637	2	5,522,765	1	16,223,054	3
Lease, rental and leasing	6,585,798	1	6,676,845	2	9,443,098	2
Foods production	5,962,130	1	15,683,238	4	5,657,033	1
Energy production and supply	3,574,595	1	4,311,954	1	3,046,663	1
Research and activities	3,407,717	1	4,820,585	1	3,339,250	1
Financial intermediary	3,073,755	1	3,870,388	1	2,044,819	0
Medical and social care	1,942,913	1	1,679,524	0	2,664,571	0
Real estate	1,336,098	0	1,922,944	1	1,080,614	0
Machinery production	848,764	0	35,396	0	612,751	0
Entertainment	584,241	0	630,457	0	618,879	0
Publishing	396,656	0	343,921	0	306,079	0
Other	5,780,275	1	4,775,824	1	5,772,426	1
Loans to retail customers						
Uncollateralised consumer loans	127,099,793	27	88,011,821	23	135,373,815	24
Car loans	76,369,442	16	28,902,541	8	107,093,192	19
Mortgage loans	17,943,436	4	33,831,716	9	18,572,385	3
Small business loans	16,664,846	4	18,629,432	5	16,589,193	3
Loans collateralized by cash	171,172	0	528,559	0	39,320	0
Private banking loans	150,894	0	-	0	151,352	0
Loans to customers before allowance for loan impairment	468,099,544	**100**	383,519,294	**100**	563,648,084	**100**
Impairment allowance	(35,570,458)		(28,877,007)		(42,032,449)	
Loans to customers after allowance for loan impairment	**432,529,086**		**354,642,287**		**521,615,635**	

Loans to corporate customers in the wholesale trade sector and the agriculture, forestry and timber sector, have historically accounted for the two largest portions of loans to corporate customers, and, during the first six months of 2014, loans to corporate customers in the transport and whole sale trade sectors increased significantly. Loans to corporate customers in the wholesale trade sector accounted for 16%, 15% and 14% as at 30 June 2014, 31 December 2013 and 31 December 2012, respectively, while loans to corporate customers in the agriculture, forestry and timber sector accounted for 6%, 7% and 8% as at 30 June 2014, 31 December 2013 and 31 December 2012, respectively. Loans to corporate customers in the transport sector accounted for 8%, 3% and 5% as at 30 June 2014, 31 December 2013 and 31 December 2012, respectively, while loans to corporate customers in the construction sector accounted for 6%, 6% and 7% as at 30 June 2014, 31 December 2013 and 31 December 2012, respectively.

Loan Portfolio Structure by Currency

The composition of the Bank's loan portfolio by currency has fluctuated in recent periods. Tenge-denominated loans comprised 78% of loans as at 30 June 2014, 83% as at 31 December 2013 and 86% as at 31 December 2012. The Bank's Tenge denominated loans generally have a shorter-term maturity profile and usually contain provisions that allow the Bank to increase interest rates or demand early repayment in the event of a devaluation of the Tenge.

Foreign currency-denominated loans are principally comprised of loans denominated in U.S. dollars. Fluctuations in the Bank's loan portfolio by currency generally reflect the Bank's policy to match the currencies of its assets and liabilities. The high proportion of foreign currency denominated loans reflects the export orientation of the Bank's industrial client base and its significant involvement in foreign trade operations. The Bank's treasury operations is also involved in foreign exchange trading on behalf of the Bank and its clients, hedging activity and trading of fixed income securities. See *"–Treasury Services and Foreign Exchange"*.

The following table sets out an analysis of the Bank's net loan portfolio, by currency, as at the dates indicated:

	As at 31 December				As at 30 June	
	2013		2012		2014	
					(unaudited)	
	(KZT thousands)	*(%)*	*(KZT thousands)*	*(%)*	*(KZT thousands)*	*(%)*
Tenge	359,316,690	83	306,584,555	86	404,892,839	78
Foreign currencies[(1)]	73,212,396	17	48,057,732	14	116,722,796	22
Loans to customers	**432,529,086**	**100**	**354,642,287**	**100**	**521,615,635**	**100**

Note:

(1) The U.S. dollar accounted for 94% of "foreign currencies" as at 30 June 2014, 92% as at 31 December 2013 and 89% as at 31 December 2012.

Collection Procedures

The Bank believes that it has one of the most active and effective collection systems in Kazakhstan. Between 2010 and 2012, the Bank completed implementation of a multi-stage collection system that takes into account the time by which a payment is overdue.

- *Preliminary collection (pre-collection)* is a preliminary, preventative measure taken by the Bank prior to overdue status. A borrower is informed by telephone, e-mail or SMS of the forthcoming loan repayment date.

- *Soft collection* is a remote interaction with a borrower, initiated when a payment becomes overdue. This stage lasts, with respect to unsecured loans, until the payment is 120 days past due and, with respect to secured loans, until the payment is 90 days past due. During the soft-collection stage, order mailing, automated power dialing and telephone calls from call center specialists are utilised. The Bank consistently implements various new mechanisms and methods and provides training to employees in motivational techniques.

- *Hard collection* involves in-person interaction with a borrower. At this stage, the Bank or a collection agency employee visits a borrower's home or workplace with a view to persuading him to make the overdue payment, and in case of payments that are severely overdue, return the full loan amount. All secured loans over 90 days past due or unsecured loans over 120 days past due are immediately transferred to the hard collection divisions, without exception. The approach and methods of recovery vary depending on the loan amount.

- *Legal collection* is debt collection within the scope of executive and legal proceedings. By decision of a court, it is possible to enforce collection of collateral securing a loan (if this did not take place at the pre-judicial stage) or the inventory of a borrower's estate to repay a loan.

Loans under U.S.$1 million are collected by a team consisting of branch employees that deal directly with the borrower. The Bank gives borrowers an opportunity to repay the outstanding balance and become current, restructure the loan, make cash payment, or be subject to foreclosure. The collection team is fully supported by the Bank's legal department. All decisions, with the exception of full payment of outstanding balance, must be approved by the Bank's Head Office authorized bodies that make decisions based on the current market value of the collateral and the borrower's creditworthiness. The Bank moves quickly, and will not restructure a loan unless the borrower pays at least a threshold amount of cash. If the collection team does not resolve an overdue loan with a borrower, the Bank uses the court system for debt and security enforcement.

The collection divisions handle loans under U.S.$1 million differently than loans of more than U.S.$1 million. Due to the size of these loans, collection is normally more complicated and, the collection process will be focused more on refinancing and restructuring options and alternative methods of collection.

Write-off Policy

The Bank does not account for penalties until collected. After 90 days past due the Bank accrues interest on the unimpaired portion of the loan (at least once per year in accordance with IFRS). Until 2014, the Kazakhstan tax code provided disincentives to write-offs. As a result, the Bank has chosen consistently to maintain its NPLs on its books, leading to higher NPL rates. However, owing to recent amendments to Kazakhstan's tax code, the negative tax incentives on write-downs have been alleviated. As a result, the Bank has commenced a policy of writing off and selling NPLs, which the Bank's management believes may result in a reduction in the Bank's NPL rates. See "*—Provisioning Policy and Write-Offs*".

Loans and Advances to Banks

As at 30 June 2014, loans and advances to banks and other financial institutions were KZT 6,761 million, compared to KZT 2,922 million as at 31 December 2013 and KZT 3,485 million as at 31 December 2012 (in each case net of provisions for impairment).

In general, loans and advances to banks were represented by short-term U.S. dollar and Tenge deposits placed for liquidity management. The Bank undertakes a conservative approach in its funding activities through placements with banks and other financial institutions. Funds are usually placed for a short-term period with a maximum limit on the amount placed, unless such placements are backed by state securities or cash deposits. As such, as at 30 June 2014, the majority (63%) of loans and advances to banks had maturities of less than one month. Furthermore, as at 30 June 2014, 97% of loans and advances to banks had maturities of up to one year.

Loan Classification

Loan classification is carried out in accordance with both IFRS and the requirements of the NBK. The bank classifies its loan portfolio monthly. The Bank's loan portfolio is divided into the following three categories:

- Individual loans portfolio;
- Loans with group factors for impairment;
- Homogeneous loans portfolio

Portfolio assessment of the Bank's individual loans and loans with group factors for impairment is based on estimates of future cash flows received from the borrower's business and sale of collateral. Future cash flows on loans with group factors for impairment are calculated on the basis of past experience of loss on assets that have similar credit risk characteristics. The calculation of the capitalised value of future cash flows on individual significant loans is made on the basis of the current (planned) activity assessment of the borrower by forecasting incoming payments on the loan and the realisation of collateral loans on the expected date of their receipt.

Assessment of the homogeneous loans portfolio is based on historical information obtained through quantification of losses incurred on the basis of the following calculated parameters—probability of default ("**PD**") and loss given default ("**LGD**"). The amount of provisions for potential losses in the loan portfolio is determined on the basis of such assessment.

Provisioning Policy and Write-Offs

The Bank carries out provisioning in accordance with IFRS and the requirements of the NBK, using the approach described above, based on the capitalised value of future cash flow and indicators of loss (PD and LGD). The Bank calculates provisions on a monthly basis.

The Bank may write off NPLs, a category that conforms to IFRS and the Bank's internal classification of assets and contingent liabilities. Before the Bank can write off a loan, the Bank must exhaust all collection efforts, receive appropriate opinions confirming the impossibility of collecting the overdue obligation and exhaust all attempts for the realisation of collateral.

The Bank does not extend the period of limitations on the debts written off at the expense of creating provisions. Once the Bank has fully provided a loan, the departments continue to monitor the loan and related collateral in order to assess the possibility of making a subsequent recovery.

CAPITALISATION OF THE BANK

The following table sets out the consolidated capitalisation of the Bank as at 30 June 2014. This information should be read in conjunction with "*Use of Proceeds*", "*Financial Review*" and "*Selected Financial Information*" and the Bank's Financial Statements, and related notes thereto, included elsewhere in this Offering Circular.

	As at 30 June 2014
	(KZT thousands)
Long-term debt	
Senior long-term debt [(1)]	29,486,939
Subordinated long-term debt [(2)]	25,435,772
Total long-term debt	54,922,711
Equity	
Total shareholders' equity	61,251,223
Total capitalisation	**116,173,934**

Notes:

(1) Senior long-term debt represents liabilities that are not subordinated and that have remaining contractual maturities of over one year.

(2) Subordinated long-term debt represents liabilities that are subordinated and that have remaining contractual maturities of over one year.

SELECTED FINANCIAL INFORMATION

The Bank has derived the selected consolidated financial data presented below as at and for the years ended 31 December 2013 and 2012 and as at and for the six months ended 30 June 2014 from its Financial Statements, and it should be read in conjunction with, and is qualified in its entirety by, the Financial Statements, including the notes thereto, contained elsewhere in this Offering Circular. Prospective investors should read the summary consolidated financial information in conjunction with the information contained in "*Risk Factors*", "*Capitalisation of the Bank*", "*Financial Review*" and "*Business of the Bank*", as well as the Financial Statements including the notes thereto, and all other financial data appearing elsewhere in this Offering Circular.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the year ended 31 December		For the six months ended 30 June
	2013	**2012**	**2014**
			(unaudited)
		(KZT '000)	
Interest income	69,302,876	50,387,551	37,235,859
Interest expense	(29,489,203)	(23,450,884)	(18,314,033)
Net interest income	**39,813,673**	**26,936,667**	**18,921,826**
Fee and commission income	11,687,847	8,955,723	4,918,569
Fee and commission expense	(1,986,506)	(1,031,406)	(1,162,277)
Net fee and commission income	**9,701,341**	**7,924,317**	**3,756,292**
Net loss on financial instruments at fair value through profit or loss	(161,988)	(420,138)	(10,198)
Net foreign exchange gain	2,642,196	4,105,006	1,988,959
Net loss on available-for-sale financial assets	(290)	(22,061)	345
Gain from sale of mortgage loan	707,582	-	16,352
Other operating expenses, net	(165,286)	(76,580)	129,969
Operating income	**52,537,228**	**38,447,211**	**24,803,545**
Impairment losses	(8,247,764)	(4,153,442)	(6,181,610)
Personnel expenses	(15,070,861)	(11,971,416)	(8,255,208)
Other general administrative expenses	(11,940,071)	(9,236,049)	(6,223,722)
Profit before income tax	**17,278,532**	**13,086,304**	**4,143,005**
Income tax expense	(4,132,351)	(3,254,251)	(923,941)
Profit for the year	**13,146,181**	**9,832,053**	**3,219,064**
Other comprehensive income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value	62,315	(53,532)	28,751
- Net change in fair value to profit or loss	290	22,061	(345)
Foreign currency translation differences for foreign operations	(174,496)	201,977	685,405
Total items that are or may be reclassified subsequently to profit or loss	*(111,891)*	170,506	*713,811*
Total other comprehensive income/(loss) for the year,	**(111,891)**	**170,506**	**713,811**
Total comprehensive income for the year	**13,034,290**	**10,002,559**	**3,932,875**
Earnings per ordinary share, in KZT	810.94	621.63	198.57

Consolidated Statement of Financial Position

	As at 31 December		As at 30 June
	2013	2012	2014
			(unaudited)
		(KZT '000)	
ASSETS			
Cash and cash equivalents	83,146,378	59,622,754	75,341,981
Financial instruments at fair value through profit or loss	1,139,628	1,262,873	918,310
Available-for-sale financial assets	10,979,872	18,423,546	14,285,471
Loans and advances to banks	2,922,373	3,485,413	6,760,656
Loans to customers	432,529,086	354,642,287	521,615,635
Held-to-maturity investments	23,462,306	10,327,192	16,895,183
Current tax asset	1,284,278	885,141	1,555,024
Property, equipment and intangible assets	19,758,591	16,760,598	21,025,798
Other assets	13,410,896	5,100,755	14,057,071
Total assets	**588,633,408**	**470,510,599**	**672,455,129**
LIABILITIES			
Financial instruments at fair value through profit or loss	2,278	1,123	-
Deposits and balances from banks	14,116,633	21,228,576	18,374,265
Amounts payable under repurchase agreements	8,803,285	-	26,287,106
Current accounts and deposits from customers	404,673,786	314,720,398	464,431,910
Debt securities issued	32,786,356	34,441,764	32,560,038
Subordinated debt securities issued	35,669,288	27,871,504	35,847,954
Other borrowed funds	21,410,349	18,562,156	21,575,459
Deferred tax liabilities	257,542	41,572	13,333
Other liabilities	12,095,527	5,859,263	12,113,841
Total liabilities	**529,815,044**	**422,726,356**	**611,203,906**
EQUITY			
Share capital	30,110,207	30,110,307	30,110,207
Share premium	25,632	25,632	25,632
Reserve for general banking risks	8,234,923	6,650,265	8,234,923
Dynamic reserve	6,733,233	-	6,733,233
Revaluation reserve for available-for-sale financial assets	(51,653)	(114,258)	(23,247)
Cumulative translation reserve	(182,251)	(7,755)	503,154
Retained earnings	13,948,273	11,120,112	15,667,321
Total equity	**58,818,364**	**47,784,203**	**61,251,223**
Total liabilities and equity	**588,633,408**	**470,510,599**	**672,455,129**

Shareholders' Equity

	As at 31 December		As at 30 June
	2013	2012	2014
			(unaudited)
		(KZT '000)	
Share capital	30,110,207	30,110,207	30,110,207
Share premium	25,632	25,632	25,632
Reserve for general banking risks	8,234,923	6,650,265	8,234,923
Dynamic reserve	6,733,233	-	6,733,233
Revaluation reserve for available-for-sale financial assets	(51,653)	(114,258)	(23,247)
Cumulative translation reserve	(182,251)	(7,755)	503,154
Retained earnings	13,948,273	11,120,112	15,667,321
Total equity	**58,818,364**	**47,784,203**	**61,251,223**

Selected Financial Ratios

	For the year ended 31 December		For the six months ended 30 June
	2013	2012	2014
			(unaudited)
		(%)	
Profitability Ratios			
Return on average equity[(1)]	24.7%	24.7%	10.7%
Return on average total assets[(2)]	2.5%	2.3%	1.0%
Net interest margin[(3)]	9.3%	7.8%	7.3%
Cost-to-income [(4)]	51.4%	55.2%	58.4%
Balance Sheet Ratios			
Non-performing loans[(5)]/Gross loans to customers	9.9%	6.9%	10.2%
Impairment allowance/Non-performing loans	76.7%	109.3%	72.9%
Gross loans to customers/Customer deposits[(6)]	115.7%	121.9%	121.4%
Total equity/total assets	10.0%	10.2%	9.1%
Liquid assets[(7)]/total assets	20.7%	19.7%	16.6%

Notes:

(1) Return on average equity is (x) net income, divided by (y) annual average total equity. Net income for the six months ended 30 June 2014 is annualised.

(2) Return on average total assets comprises (x) net income divided by (y) annual average total assets. Net income for the six months ended 30 June 2014 is annualised.

(3) Net interest margin comprises (x) net interest income before impairment charge divided by (y) average interest-earning assets, which include trading securities, inter-bank assets, short-term (less than one year) KZT-denominated government securities, net loans to customers and securities held-to-maturity.

(4) Cost-to-income is (x) operating expenses, divided by (y) operating income before impairment charge. Operating expenses include personnel expenses and other general and administrative expenses.

(5) Non-performing loans represent the gross book value of impaired loans to customers that are overdue by more than 90 days.

(6) Customer deposits represent current accounts and deposit from customers.

(7) Liquid assets consist of cash and short term funds due from the central banks, trading securities, interbank assets and short-term KZT-denominated government securities.

FINANCIAL REVIEW

The Current Economic Environment

Kazakhstan's economy has been and is likely to continue to be subject to worldwide market downturns and economic slowdowns, such as the recent global financial crisis, which has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and tighter credit conditions within Kazakhstan and generally for Kazakhstan companies. According to statistics published by the NSA, the GDP has continued to grow in real terms increasing by 7.0 % in 2010, 7.5% in 2011, 5.0% in 2012, 6.0% in 2013, and 3.8% in the first quarter of 2014. Nonetheless, global economic circumstances and related developments in Kazakhstan had an adverse effect on the Bank's financial position and results of operations, and may continue to do so in the future. Moreover, despite positive signs in the overall economy, uncertainties remain.

Weaknesses in the global financial markets have contributed to bank failures globally, including in Kazakhstan, and put downward pressure on emerging market currencies, including the Tenge. See "Risk Factors—The Bank is subject to macroeconomic fluctuations and exchange rate policies of the Kazakhstan government." Future changes in currency exchange rates, which can be particularly volatile in times of national or global financial instability, such as the recent period of global economic turmoil, could cause economic instability in Kazakhstan. Moreover, concerns about the stability of the banking sector in Kazakhstan have led to a material reduction in liquidity in the financial sector and funding has become both more expensive and less available. The government has taken a number of steps to support the Kazakhstan banking sector, including making significant capital injections. See "*Risk Factors—Risk Factors relating to Kazakhstan Banking Sector—Risks resulting from failures in Kazakhstan's banking industry could adversely affect the Bank and the Kazakhstan banking industry generally*" and "The Banking Sector in Kazakhstan".

The future stability of the Kazakhstan economy is largely dependent upon certain economic reforms and legal, tax and regulatory developments, which the government of Kazakhstan continues to pursue, as well as a range of stabilization measures aimed at providing liquidity and supporting the refinancing of foreign debt for Kazakhstan banks and companies. See "*Risk Factors—Risks Factors relating to Kazakhstan*".

Introduction to the Bank

The Bank is a full-service, universal bank focused on corporate, SME and retail banking. As at 30 June 2014, the Bank was the ninth largest commercial bank in Kazakhstan in terms of assets according to data compiled by the NBK, with total assets of KZT 672,455 million, compared to KZT 588,633 million as at 31 December 2013 and KZT 470,511 million as at 31 December 2012. For the year ended 31 December 2013, the Bank's net income was KZT 13,146 million, compared to KZT 9,832 million for the year ended 31 December 2012. As at 30 June 2014 the Bank's shareholders' equity was KZT 61,251 million, compared to KZT 58,818 million as at 31 December 2013 and KZT 47,784 million as at 31 December 2012.

The Bank's net loan portfolio (net of provisions for impairment) has grown from KZT 354,642 million as at 31 December 2012 to KZT 432,529 million as at 31 December 2013 and KZT 521,616 million as at 30 June 2014, representing an overall increase of 47.1% for the period. The gross retail loan portfolio has increased significantly both in terms of percentage and in terms of absolute value, from KZT 169,904 million as at 31 December 2012 to KZT 238,400 million as at 31 December 2013 and KZT 277,819 million as at 30 June 2014, representing an overall increase of 64% for the period. The Bank's gross corporate loan portfolio (including SME customers) has also grown significantly, from KZT 213,615 million as at 31 December 2012 to KZT 229,700 million as at 31 December 2013 and KZT 285,828 million as at 30 June 2014, representing an overall increase of 34% for the period.

As at 30 June 2014, deposits from corporate customers (including current accounts, demand deposits and time deposits) amounted to KZT 297,868 million, compared to KZT 264,018 million as at 31 December 2013 and KZT 215,705 million as at 31 December 2012, representing an overall increase of 38.1% for the period. The value of the Bank's deposits from retail customers (including current accounts, demand deposits and time deposits) has increased from KZT 99,015 million as at 31 December 2012 to KZT 140,656 million as at 31 December 2013 and KZT 166,564 million as at 30 June 2014, representing an overall increase of 68.2% for the period. The significant increase in the Bank's retail customer deposits was primarily in order to increase the Bank's presence in the retail sector and to expand its funding base.

Recent Developments

In September 2014, the Bank issued a principal amount of KZT 15 million of six series domestic bonds under its second domestic bond programme.

In September 2014, Standard & Poor's revised the Bank's national scale issuer credit rating to kzBBB from kzBBB+ following the publication of its revised national scale criteria. These rating actions do not reflect any other change in the fundamental credit quality of the Bank or issues. The international scale ratings of the Bank and its issues have not been affected by this ratings action.

On 23 October 2014, the Bank announced its unaudited financial results for the nine month period ended 30 September 2014.

Critical Accounting Policies

The Bank's accounting policies are integral to understanding the financial condition and results of operations presented in the audited consolidated financial statements and the related notes thereto. The Bank describes its significant accounting estimates in Note 3 of the Audited Financial Statements for the years ended 2013 and 2012. The preparation of the Audited Financial Statements requires the Bank's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reported period. On an ongoing basis, the Bank's management evaluates its estimates and judgments, including those related to allowances for losses, income taxes, insurance reserves, contingencies, fair value of financial instruments and properties, and litigation and arbitration. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from estimates under different assumptions or conditions.

The Bank's management believes that the following critical significant accounting policies require more critical judgments or estimates or involve a relatively greater degree of complexity in the application of accounting policies that affect the Bank's financial condition and results of operations.

Fair value measurement principles

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

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

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

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

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

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell the net long position (or paid to transfer the net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Bank recognises transfers between the levels of the fair value hierarchy as of the end of the end of the reporting period during which the change has occurred.

Allowance for Impairment of Loans and Receivables

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

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

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

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

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

Income and Expense Recognition

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

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

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided. The Bank acts as an agent for insurance providers offering their insurance products to consumer loan borrowers. Commission income from insurance represents commissions for such agency services received by the Bank from such partners. It is not considered to be integral to the overall profitability of consumer loans because it is determined and recognised based on the Bank's contractual arrangements with the insurance provider rather than with the borrower, the borrowers have a choice whether to purchase the policy, the interest rates for customers with and without the insurance are the same. The Bank does not participate on the insurance risk, which is entirely borne by the partner. Commission income from insurance is recognised in profit or loss when the Bank provides the agency service to the insurance company.

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

Results of Operations for the years ended 31 December 2013 and 31 December 2012

Interest Income

Interest income increased by KZT 18,915,325 thousand, or 37.5%, to KZT 69,302,876 thousand for 2013 from KZT 50,387,551 thousand for 2012, mainly due to an increase in interest income on loans to customers resulting primarily from a significant increase in higher margin retail loans.

Interest Expense

Interest expense increased by KZT 6,038,319 thousand, or 25.7%, to KZT 29,489,203 thousand for 2013 from KZT 23,450,884 thousand for 2012, mainly due to an increase in interest expense on current accounts and deposits from customers resulting primarily from an increase in the volume of deposits.

Net Interest Income

Net interest income before impairment losses increased by KZT 12,877,006 thousand, or 47.8%, to KZT 39,813,673 thousand for 2013 from KZT 26,936,667 thousand for 2012 mainly due to the more significant increase in interest income in 2013 compared to the increase in interest expense for the same period.

Fee and Commission Income/Expense

Fee and commission income increased by KZT 2,732,124 thousand, or 30.5%, to KZT 11,687,847 thousand for 2013 from KZT 8,955,723 thousand for 2012, mainly due to increases in fees and commissions received from agent services and payment card maintenance fees and partially offset by decreases in fee and commissions received from cash withdrawal and guarantee and letter of credit issuance. Fees and commissions received from agent services comprise primarily commission on the sale of insurance policies with the Bank's consumer loans.

Fee and commission expense increased by KZT 955,100 thousand, or 92.6%, to KZT 1,986,506 thousand for 2013 from KZT 1,031,406 thousand for 2012, mainly due to a significant increase in fee and commission expenses from agent services as well as increases in fee and commission expenses from settlement, cash withdrawal, payment card maintenance fees and custodian services.

Net fee and commission income increased by KZT 1,777,024 thousand, or 22.4%, to KZT 9,701,341 thousand for 2013 from KZT 7,924,317 thousand for 2012, mainly due to the more significant increase in fee and commission income in 2013 compared to the increase in fee and commission expense for the same period. This growth reflects the general growth of the Bank's consumer lending business, as well as the success of its efforts to cross-sell products such as low cost insurance for car loan clients.

Net Loss on Financial Instruments at Fair Value through Profit or Loss

The Bank's financial instruments, at fair value through profit or loss, are principally comprised of government securities. The Bank recorded a net loss on financial instruments at fair value through profit or loss of KZT 161,988 thousand in 2013, which represented a 61.4% decrease as compared to 2012, when the Bank recorded a net loss on financial instruments at fair value through profit or loss of KZT 420,138 thousand.

Net Foreign Exchange Gain/(Loss)

The Bank recorded a net foreign exchange gain of KZT 2,642,196 thousand in 2013, which represented a 35.6% decrease as compared to 2012, when the Bank recorded a net foreign exchange gain of KZT 4,105,006 thousand. This decrease was mainly due to a decrease in the gain recorded from dealing (net) in light of market conditions.

Gain from Sale of Mortgage Loans

The Bank recorded a gain of KZT 707,582 thousand from sale of mortgage loans in 2013 which resulted from the Bank's December 2013 sale to Kazakhstan Mortgage Company JSC of a portfolio of mortgage loans with a carrying value of KZT 12,509,133 thousand for KZT 13,242,692 thousand. As part of the transaction, the Bank provided a guarantee to the buyer that it will repurchase individual loans back or exchange them for other individual loans if loans become delinquent for more than sixty days. See Note 16(g) of the Audited Financial Statements.

Impairment Losses

Impairment losses increased by KZT 4,094,322 thousand or 98.6% to KZT 8,247,764 thousand for 2013 from KZT 4,153,442 thousand for 2012 primarily as a result of an increase in lending, particularly in the higher growth retail segment which typically necessitates higher provisioning levels that are compensated by the higher interest rates charged on such loans.

Personnel Expenses

Personnel expenses increased by KZT 3,099,445 thousand, or 25.9%, to KZT 15,070,861 thousand for 2013 from KZT 11,971,416 thousand for 2012, mainly due to an increase in the number of employees of the Bank in connection with the expansion of the Bank's business over the period.

Other General Administrative Expenses

Other general administrative expenses increased by KZT 2,704,022 thousand, or 29.3%, to KZT 11,940,071 thousand for 2013 from KZT 9,236,049 thousand for 2012, mainly due to increases in depreciation and amortisation expenses, operating lease expenses, security expenses and expenses relating to insurance of car loans. This increase was partially offset by a decrease in loan servicing expenses, repairs and maintenance expenses and stationary and office supplies expenses.

Income Tax Expense

The Bank reported income tax expense of KZT 4,132,351 thousand for 2013 and KZT 3,254,251 thousand for 2012. The Bank's ETR was higher than 20% in each of 2013 and 2012. The Bank had a net deferred tax expense of KZT 215,970 thousand for 2013, primarily due to the tax effect of taxable temporary differences arising from depreciation accrued on property and equipment and allowance for impairment losses on loans to customers. The Bank had a net deferred tax expense of KZT 1,526,596 thousand for 2012, primarily due to the tax effect of deductible temporary differences arising from the losses carried forward, as well as the tax effect of taxable temporary differences arising from depreciation accrued on property and equipment and allowance for impairment losses on loans to customers.

Financial Condition as at 30 June 2014, 31 December 2013 and 31 December 2012

Total Assets

As at 30 June 2014, the Bank's total assets amounted to KZT 672,455,129 thousand, an increase of 14.2% from KZT 588,633,408 thousand as at 31 December 2013 which, in turn, represented an increase of 25.1% from KZT 470,510,559 thousand as at 31 December 2012. The increase in total assets during the first six months of 2014 was primarily attributable to an increase in the Bank's loan portfolio, which increase was partially offset by decreases in cash and cash equivalents and held-to-maturity investments. The increase in total assets during 2013 was primarily attributable to increases in the Bank's loan portfolio, cash and cash equivalents, held-to-maturity investments and other assets, which increase was partially offset by decreases in available-for-sale financial assets.

As at 30 June 2014, the Bank's cash and cash equivalents amounted to KZT 75,341,981 thousand, a decrease of 9.4% from KZT 83,146,378 thousand as at 31 December 2013 which, in turn, represented an increase of 39.5% from KZT 59,622,754 thousand as at 31 December 2012. The decrease of cash and cash equivalents during the first six months of 2014 was mainly due to the significant decrease in balances of the Bank's accounts with NBK and the CBRF, which was partially offset by increases in the Bank's cash on hand and balances of the Bank's accounts and term deposits with other banks. The decrease in balances of the Bank's accounts with NBK and the CBRF during the first six months of 2014 resulted from the transfer of these funds to the lending and securities portfolios. The increase in cash and cash equivalents in 2013 was mainly due to increases in the Bank's cash on hand and balances of the Bank's accounts with other banks, which was partially offset by a decrease in total term deposits with other banks.

As at 30 June 2014, the Bank's financial instruments at fair value through profit or loss amounted to KZT 918,310 thousand, a decrease of 19.4% from KZT 1,139,628 thousand as at 31 December 2013 which, in turn, represented a decrease of 9.8% from KZT 1,262,873 thousand as at 31 December 2012. The decreases in the first six months of 2014 and in 2013 were primarily attributable to a decrease in the value of Russian government bonds held by the Bank's subsidiary.

As at 30 June 2014, the Bank's available-for-sale financial assets amounted to KZT 14,285,471 thousand, an increase of 30.1% from KZT 10,979,872 thousand as at 31 December 2013 which, in turn, represented a decrease of 40.4% from KZT 18,423,546 thousand as at 31 December 2012. The increase in the first six months of 2014 was primarily attributable to the Bank's purchase of NBK-issued notes in its securities portfolio, while the decrease in 2013 was primarily attributable to the maturity of NBK-issued notes in its securities portfolio.

As at 30 June 2014, the Bank's loans and advances to banks amounted to KZT 6,760,656 thousand, an increase of 131.3% from KZT 2,922,373 thousand as at 31 December 2013 which, in turn, represented a decrease of 16.2% from KZT 3,485,413 thousand as at 31 December 2012. The increase in the first six months of 2014 was primarily attributable to an increase in term deposits in order to utilise the Bank's excess liquidity in a foreign currency. The decrease in 2013 was primarily attributable to a net decrease in term deposits.

Loans to customers represent the largest component of the Bank's assets. Total loans to customers, net of allowance for loan impairment, represented 77.6%, 73.5% and 75.4% of the Bank's total assets as at 30 June 2014, 31 December 2013 and 31 December 2012, respectively. As at 30 June 2014, the Bank's total loans to customers, net of allowance for loan impairment, amounted to KZT 521,615,635 thousand, an increase of 20.6% from KZT 432,529,086 thousand as at 31 December 2013 which, in turn, represented an increase of 22.0% from KZT 354,642,287 thousand as at 31 December 2012. The increase in the first six months of 2014 was primarily attributable to increases in loans (a) to large corporate customers and (b) to retail customers, in particular in the form of car loans and uncollateralised consumer loans. The increase in 2013 was primarily attributable to increases in loans (a) to large corporate customers and (b) to retail customers, in particular in the form of car loans and uncollateralised consumer loans, which increases were partially offset by decreases in mortgage loans and small business loans.

As at 30 June 2014, the Bank's held-to-maturity investments amounted to KZT 16,895,183 thousand, a decrease of 28.0% from KZT 23,462,306 thousand as at 31 December 2013 which, in turn, represented an increase of 127.2% from KZT 10,327,192 thousand as at 31 December 2012. The decrease in the first six months of 2014 was primarily attributable to a significant decrease in the amount of Kazakhstan Ministry of Finance treasury notes held by the Bank, which was partially offset by an increase in the Bank's corporate securities portfolio. The increase in 2013 was primarily attributable to the increase in the amount of Kazakhstan Ministry of Finance treasury notes held by the Bank.

As at 30 June 2014, the Bank's property, equipment and intangible assets after accumulated depreciation and amortisation amounted to KZT 21,025,798 thousand, an increase of 6.4% from KZT 19,758,591 thousand as at 31 December 2013 which, in turn, represented an increase of 17.9% from KZT 16,760,598 thousand as at 31 December 2012. The increase over the course of 2013 and the first half of 2014 was primarily due to an increase in land, buildings, computer and banking equipment, computer software and other intangibles over the period. Such increase was principally attributable to the expansion of the Bank's branch and banking outlet network as well as investment in technology and intangible assets.

Total Liabilities

As at 30 June 2014, the Bank's total liabilities amounted to KZT 611,203,906 thousand, an increase of 15.4% from KZT 529,815,044 thousand as at 31 December 2013 which, in turn, represented an increase of 25.3% from KZT 422,726,356 thousand as at 31 December 2012. Overall, the increase over the course of 2013 and the first half of 2014 was principally due to growth in current accounts and deposits from customers, amounts payable under repurchase agreements and subordinated debt securities issued.

As at 30 June 2014, the Bank's current accounts and deposits from customers amounted to KZT 464,431,910 thousand, an increase of 14.8% from KZT 404,673,786 thousand as at 31 December 2013 which, in turn, represented an increase of 28.6% from KZT 314,720,398 thousand as at 31 December 2012. The increase in current accounts and deposits from customers over the course of 2013 and the first half of 2014 was principally due to increased customer confidence in the Bank and the products it offers, increased brand recognition and an expanded distribution network.

As at 30 June 2014, the Bank's amounts payable under repurchase agreements amounted to KZT 26,287,106 thousand, an increase of 198.6% from KZT 8,803,285 thousand as at 31 December 2013. The Bank recorded zero amounts payable under repurchase agreements as at 31 December 2012. The increase in amounts payable under repurchase agreements over the course of 2013 and the first half of 2014 was principally due to the Bank's efforts to cover imbalances in cash inflows and outflows on a daily basis.

As at 30 June 2014, the Bank's debt securities issued amounted to KZT 32,560,038 thousand, a slight decrease of 0.7% from KZT 32,786,356 thousand as at 31 December 2013 which, in turn, represented a decrease of 4.8% from KZT 34,441,764 thousand as at 31 December 2012. As at 30 June 2014, the Bank's subordinated debt securities issued amounted to KZT 35,847,954 thousand, a slight increase of 0.5% from KZT 35,669,288 thousand as at 31 December 2013 which, in turn, represented an increase of 28.0% from KZT 27,871,504 thousand as at 31 December 2012.

Capital and Capital Adequacy

As at 30 June 2014, the Bank's total regulatory capital, calculated in accordance with the NBK's requirements, amounted to KZT 83,083,500 thousand, (comprising 12.4% of total assets) which includes first-level capital of KZT 55,744,555 thousand, an increase of 5.9% from KZT 78,422,913 thousand, (comprising 13.3% of total assets) which includes first-level capital of KZT 42,510,525 thousand as at 31 December 2013, which, in turn represented an increase of 39.7% from KZT 56,131,021 thousand, (comprising 11.9% of total assets) which includes first-level capital of KZT 34,575,553 thousand as at 31 December 2012 . This increase was largely a result of an increase in retained statutory income and reserves.

As at 30 June 2014, the Bank's total equity amounted to KZT 61,251,223 thousand (9.1% of total assets), an increase of 4.1%, from KZT 58,818,364thousand (10.0% of total assets) as at 31 December 2013, which in turn represented an increase of 23.1%, from KZT 47,784,203thousand (10.2% of total assets) as at 31 December 2012. This increase was primarily attributable to retained earnings and dynamic reserve.

The capital adequacy requirements currently in effect in Kazakhstan exceed guidelines adopted by the Basel Committee on Banking Regulations and Supervision Practices of the Bank for International Settlements (the "BIS Guidelines"). See "*The Banking Sector in Kazakhstan*". There are, however, two major differences between the NBK capital adequacy methodology and the BIS Guidelines: (i) under NBK regulations, current period earnings are included in Tier II capital whereas BIS Guidelines include such earnings in Tier I capital; and (ii) under NBK regulations, risk-weighted assets are calculated without credit risk mitigations for balance sheet assets and conversion factors for off-balance sheet items.

The NBK regulations set three principal capital adequacy ratios: (i) k1-1 (Tier I capital to total assets (leverage ratio)); (ii) k1-2 (Tier I capital to risk-weighted assets); and (iii) k2 (Total capital to risk-weighted assets). For a bank with a regulated banking holding company (i.e., an entity holding more than 25.0% of a bank's voting share capital, alone or together with affiliated companies) among its shareholders, such as the Bank, the NBK regulations require a minimum leverage ratio (k1-1; Tier 1 capital to total assets) and a minimum Tier 1 capital adequacy ratio (k1-2; Tier I capital to risk-weighted assets), in each case, of 5%, compared to the recommended minimum ratio of 4% for comparable Tier 1 capital adequacy ratio under BIS Guidelines, and a minimum total capital adequacy ratio (k2; total capital to risk-weighted assets) of 10%, compared to the recommended minimum of 8% under BIS Guidelines. See "*Risk Factors—Risk Factors relating to the Bank—Any unavailability of capital, both in terms of compliance with applicable capital adequacy ratios and in respect of the conduct of its business and liquidity risk, would materially and adversely affect the Bank" and "The Banking Sector in Kazakhstan*".

The following table sets out the Bank's capital adequacy and liquidity ratios calculated in accordance with the requirements of the NBK as at the dates indicated:

	The NBK's minimum requirements	As at 31 December 2013	As at 31 December 2012	As at 30 June 2014
		(% unless otherwise indicated)		
Share capital	Not less than KZT 5 billion	30,110.0	30,110.0	30,110.0
k1-1 - Tier I capital to total assets	5%[(1)]	7.2	7.5	8.1
k1-2 - Tier I capital to risk-weighted assets	5%[(1)]	8.6	8.0	8.2
k2 - Total capital to risk-weighted assets	10%[(1)]	15.9	13.0	12.1
k4 - Current liquidity ratio[(2)]	Greater than 30%	100.5	85.2	80.7
k4-1 - Term liquidity ratio[(2)]	Greater than 100%	199.8	338.6	130.3
k4-2 - Term liquidity ratio[(2)]	Greater than 90%	237.4	299.2	168.4
k4-3 - Term liquidity ratio[(2)]	Greater than 80%	223.8	340.9	149.8
k4-4 - Term foreign currency liquidity ratio[(2)]	Greater than 100%	1081.7	823.1	1397.6
k4-5 - Term foreign currency liquidity ratio[(2)]	Greater than 90%	1052.3	704.0	812.1
k4-6 -Term foreign currency liquidity ratio[(2)]	Greater than 80%	857.7	519.5	256.6
k6 - Investments into fixed assets and non-financial assets to equity	Not more than 50% of bank's regulatory capital[(3)]	24.3	30.3	26.3
k7 - short-term liabilities to non-residents excluding debt securities	Not more than 100% of bank's regulatory capital[(3)]	6.7	8.9	8.5
k8 - Liabilities to non-residents excluding debt securities	Not more than 200% of bank's regulatory capital[(3)]	11.7	13.8	13.2
k9 - Liabilities to non-residents including debt securities	Not more than 300% of bank's regulatory capital[(3)]	11.7	13.8	13.2
Maximum exposure to any single:				
unrelated party	Not more than 25% of bank's regulatory capital	13.1	15.0	21.2
related party	Not more than 10% of bank's regulatory capital	5.8	6.0	7.4
unsecured loan	Not more than 10% of bank's regulatory capital	1.2	1.7	1.2
Funds placement into internal assets ratio	Not less than 100%	103.0	105.6	100.4

Notes:

(1) Under applicable NBK regulations, for commercial banks without a banking holding company or an individual significant stakeholder as shareholder, the minimum required kl-1, kl-2 and k2 capital adequacy ratios are 6%, 6% and 12%, respectively.

(2) Under applicable NBK rules, the k4-1 ratio is calculated as the ratio of average monthly balances of highly liquid assets to average monthly balances of term liabilities with a maturity of no more than seven days; the k4-2 ratio is calculated as the ratio of average monthly balances of liquid assets with a maturity of no more than one month, including highly liquid assets, to average monthly balances of term liabilities with a maturity of no more than one month; the k4-3 ratio is calculated as the ratio of average monthly balances of liquid assets with a maturity of no more than three months, including highly liquid assets, to average monthly balances of term liabilities with a maturity of no more than three months; the k4-4 ratio is calculated as the ratio of average monthly balances of highly liquid assets in foreign currency to average monthly balances of term liabilities in the same foreign currency with a maturity of no more than seven days; the k4-5 ratio is calculated as the ratio of average monthly balances of liquid assets in foreign currency with a maturity of no more than one month, including highly liquid assets, to average monthly balances of term liabilities in the same foreign currency with a maturity of no more than one month; and the k4-6 ratio is calculated as the ratio of average monthly balances of liquid assets in foreign currency with a maturity no more than three months, including highly liquid assets, to average monthly balances of term liabilities in the same foreign currency with a maturity of no more than three months. In addition, the k4-4, k4-5, k4-6 ratios are calculated for currencies of countries rated "A" or higher by Standard & Poor's or an equivalent rating from another recognized international rating agency, as well as for the Euro.

(3) Under applicable NBK rules, "regulatory capital" is defined as the sum of Tier I capital, Tier II capital (to the extent Tier II capital does not exceed Tier I capital) and Tier III capital (to the extent that Tier III capital does not exceed 250% of Tier I capital calculated to cover market risk) less equity investments. Tier I capital is the sum of share capital minus repurchased shares plus additional capital plus retained earnings plus accumulated reserve (including reserve capital and dynamic reserve) plus perpetual financial instruments less intangible assets, negative income for the past years and negative income for the current year; Tier II capital is the sum of current profit for the period plus revaluation reserves, subordinated debt (to the extent this does not exceed 50% of Tier I capital) plus paid-in perpetual financial instruments not included in Tier I capital; and Tier III capital is the sum of Tier III subordinated debt plus Tier II subordinated debt not included in the calculation of Tier II capital.

For the purposes of the above ratios:

- "Highly liquid assets" include cash, refined precious metals, certain securities issued by the government, the NBK or certain other Kazakhstan entities, call deposits with the NBK and with banks rated 'BBB-' or higher by Standard & Poor's or an equivalent rating from another recognized international rating agency, overnight loans to such banks and securities issued by foreign governments rated 'BBB-' or higher by Standard & Poor's or an equivalent rating from another recognized international rating agency, overnight loans to Kazakhstan's banks and non-resident banks rated "BBB-" or higher by Standard & Poor's or an equivalent rating from another recognized international rating agency, overnight deposits with Kazakhstan's banks and non-resident banks rated "BBB-" or higher by Standard & Poor's or an equivalent rating from another recognized international rating agency, debt securities issued by foreign issuers, excluding debt securities pledged or sold under reverse repurchase transactions, and other qualifying liquid assets.

- For the purposes of calculating liquidity ratios, applicable NBK regulations provide that certain assets should not be included in the computation, including claims on non-residents established in jurisdictions that have not assumed information exchange obligations and, if a bank has outstanding unpaid obligations to its creditors or depositors or has violated Kazakhstan's legislation on payments and money transfers during the relevant reporting period, the liquidity ratios shall be deemed to be not satisfied, irrespective of the actual position.
- The sum of exposures to one borrower where each exposure exceeds 10% of regulatory capital should not exceed five times a bank's regulatory capital.

The following table sets out certain information regarding the Bank's Tier I, Tier II, Tier III and total capital as at the dates indicated based on NBK requirements:

	As at 31 December		As at 30 June
	2013	2012	2014
		(KZT thousands)	
Tier I capital			
Share capital	30,110,207	30,110,207	30,110,207
Additional paid–in capital	2,025,632	2,025,632	2,025,632
Retained statutory income/(loss) of prior years	3,763,507	(2,564,659)	10,231,524
Reserves formed from statutory retained earnings of prior years	8,234,923	6,650,265	8,234,923
Dynamic reserve[1]	-	-	6,719,532
Intangible assets	(1,623,744)	(1,645,892)	(1,577,263)
Total Tier I capital	**42,510,525**	**34,575,553**	**55,744,555**
Tier II capital			
Net statutory income for the year	7,954,333	9,912,953	3,047,785
Dynamic reserve subject to limitation of 1.25% of risk-weighted statutory assets	6,733,233	-	-
Deferred tax liability accrued in the current year	-	34,668	-
Revaluation reserve for available-for-sale financial asset	(51,653)	(114,258)	(23,247)
Unamortised portion of subordinated debt limited to 50% of tier 1 capital	21,255,263	11,722,105	24,314,407
Total Tier II capital	**35,891,176**	**21,555,468**	**27,338,945**
Total Tier III capital	**21,212**	**-**	**-**
Total capital	**78,422,913**	**56,131,021**	**83,083,500**

(1) In accordance with Resolution of the National Bank of the Republic of Kazakhstan #137 dated 27 May 2013 On Approval of Rules on Forming Dynamic Reserves by Second-Tier Banks and Establishment of Minimum Size of Dynamic Reserves and Expected Loss, the Bank has established a dynamic reserve calculated using a formula determined in the Rules. In accordance with the Rules, dynamic reserve cannot be less than zero and shall be calculated as the difference between expected losses and actual charge on deductible for tax purposes impairment losses recognised during the reporting quarter in accordance with IFRS net of income from recovery of provisions. Expected losses are estimated based on the increase of loans to customers during the reporting quarter multiplied by certain coefficients. The Resolution has been effective from 1 January 2013. Starting from 1 February 2014, Tier I capital also includes dynamic reserve, which was previously included in Tier 2.

MANAGEMENT AND EMPLOYEES

Management

Pursuant to the laws of Kazakhstan and the Bank's charter, the control and management of the Bank are carried out by the General Meeting of Shareholders of the Bank (the supreme body of the Bank), the Board of Directors (the supreme management body), the Management Board (the executive body) and the Audit Committee, which is accountable to the Board of Directors and responsible for operating an adequate internal control system.

Kazakhstan laws and the Bank's Charter determine the authority of the General Meeting of Shareholders to make certain corporate decisions, including the determination of the number of members, term of authority of the Board of Directors, election of its members and early termination thereof, and also determining the amount and conditions of paying remuneration to the members of the Board of Directors, voluntary reorganisation or liquidation of the Bank, amendments to this Charter or its restatement, and determining the conditions and procedure for converting the Bank's securities and amending the same. In accordance with Kazakhstan laws and the Bank's Charter, the exclusive competence of the Board of Directors includes determining the conditions of issuing any notes.

Members of the Board of Directors are elected by the General Meeting of Shareholders of the Bank. The Board of Directors in turn elects the chairman and members of the Management Board. The Board of Directors represents the interests of the shareholders, exercises the overall management of the Bank's operations and approve the strategic and operational plans. The Board of Directors does not perform day-to-day management functions. Overall responsibility for the day-to-day administration of the Bank's activities is vested in the Management Board. In accordance with Kazakhstan legislation, members of the Board of Directors, chairman of the Management Board and other members of the Management Board and other managing officers of the Bank are appointed subject only to the consent of the NBK.

Board of Directors

The Board of Directors is not involved in the day-to-day management and has no authority to act on its own behalf or to perform any functions of the executive body (the Management Board). The Board of Directors supervises the Management Board's activities to protect shareholder's interests. Its role is to define investment, credit and other policies of the Bank, elect the Chairman and members of the Management Board, convene annual and extraordinary General Meetings of Shareholders, approve the Bank's budget, and exercising other powers in accordance with the Bank's Charter.

The Board of Directors consists of nine members elected by the General Meeting of Shareholders. The current members of the Board of Directors are:

Name	Position
Alexander Machkevich	Chairman of the Board of Directors
Alijan Ibragimov	Member of the Board of Directors
Patokh Chodiev	Member of the Board of Directors
Michael Eggleton	Member of the Board of Directors, Chairman of the Bank's Management Board
Boris Umanov	Member of the Board of Directors
Nikolay Radostovets	Member of the Board of Directors, Independent Director
Olga Rozmanova	Member of the Board of Directors, Independent Director
Simon Alexander Vine	Member of the Board of Directors, Independent Director
David Alun Bowen	Member of the Board of Directors, Independent Director

Kazakhstan's law on Joint Stock Companies requires that joint stock companies have independent directors. An "independent director" is a person who is not an affiliate of the Bank (and has not been one during the past three years), is not a subordinate of a director or member of the management board of the Bank and has not participated in the audit of the Bank for a period of three years prior to becoming a director. Furthermore, an independent director must not have represented any of the shareholders of the Bank at a general meeting of shareholders, board of directors meeting or management board meeting during three years prior to becoming an independent director.

The Bank's shareholders elect the Board of Directors and establish the term at the general meeting of shareholders. The shareholders may re-elect the members of the Board of Directors an unlimited number of times. The location of the Board of Directors is determined as coinciding with the location of the Management Board of the Bank.

The name, year of birth and certain other information about each of the current members of the Board of Directors are set out below:

Alexander Machkevich (b. 1954) – Chairman of the Board of Directors. Mr. Machkevich has been the chairman of the Bank's Board of Directors since September 1998. Mr. Machkevich has also been chairman of the board of directors of EFC since March 2008 and chairman of the board of directors of EPC since March 2010. Mr. Machkevich has also served on the board of directors of Eurasian Industrial Company ("**EIC**") since September 2009. Mr. Machkevich is one of the largest shareholders of ENRC, a diversified natural resources company and one of the largest companies operating in Kazakhstan.

Alijan Ibragimov (b. 1953) – Member of the Board of Directors. Mr. Ibragimov has been on the Bank's Board of Directors since September 1998. Mr. Ibragimov has also served on the board of directors of EFC since July 2008, on the board of directors of EPC since March 2010 and has been chairman of the board of EIC since October 2009. Mr. Ibragimov is one of the largest shareholders of ENRC.

Patokh Chodiyev (b. 1953) – Member of the Board of Directors. Mr. Chodiyev has been on the Bank's Board of Directors since September 1998. Mr. Chodiyev has also served on the board of directors of EFC since July 2008, on the board of directors of EPC since March 2010 and on the board of directors of EIC since October 2009. Mr. Chodiyev is one of the largest shareholders of ENRC.

Michael Eggleton (b. 1968) – Member of the Board of Directors. Mr. Eggleton spent almost 20 years working as an investment professional in the United States, the United Kingdom, Turkey and Russia. In 2006, Mr. Eggleton joined TRUST Investment Bank to serve as the bank's chief executive officer and chairman. Previously, Mr. Eggleton had worked at Merrill Lynch International Investment Bank as managing director and head of Emerging Markets (CEEMEA) in London and Moscow since 2004. Between 2004 and 2005, Mr. Eggleton headed Credit Suisse First Boston's Tactical Markets Group, where he was responsible for investments in Turkey, CIS, the Middle East and North Africa and also served as director and regional manager in Russia and the former Soviet republics. Mr. Eggleton was also a senior manager of the Financial Institutions Consulting Practice at Price Waterhouse Coopers in Moscow. Mr. Eggleton is the chairman of the board of directors at Eurasian Bank's Russian subsidiary (OJSC Eurasian Bank) and Chairman of the Bank's Management Board. He was certified to be a head of a bank by the Russian, Egyptian, Turkish and Kazakh central banks. Mr. Eggleton is a Certified US Public Accountant and certified by the UK FCA. Mr. Eggleton holds a B.A. with honours from the University of San Diego and an MSc in business from San Diego State University.

Boris Umanov (b. 1955) – Member of the Board of Directors. Mr. Umanov has been on the Bank's Board of Directors since May 2008. Mr. Umanov has also served on the board of directors of EFC since July 2009 and as chairman of the board of directors of Eurasian Capital JSC since March 2009. Mr. Umanov has been chairman of the management board of Eurasia Insurance Company since June 2003 and a member of the board of directors of Eurasia Insurance Company since February 2002. Mr. Umanov was chairman of the board of directors of Eurasian Saving Pension Funds JSC between February 2008 and April 2011.

Nikolay Radostovets (b. 1955) – Member of the Board of Directors, Independent Director. Mr. Radostovets has been on the Bank's Board of Directors and an independent director since March 2011. He has served on the board of directors and an independent director of Bank RBK JSC since September 2011. Since August 2005, Mr. Radostovets has been an executive director of the Republican Association of Mining and Metallurgical Enterprises, and since 2004, he has been the president of the Union of Producers and Exporters of Kazakhstan.

Olga Rozmanova (b. 1965) – Member of the Board of Directors, Independent Director. Ms. Rozmanova has been on the Bank's board of directors since June 2011. Since February 1998, Ms. Rozmanova has served as financial director and chief accountant of Centraudit Kazakhstan LLP, and from March 2006 to July 2011, she was director of Independent Appraisal and Consulting for Centraudit LLP.

Simon Alexander Vine (b. 1962) – Member of the Board of Directors, Independent Director. Mr. Vine has been on the Bank's Board of Directors since December 2013. Mr. Vine has also served as co-director of Alfa-Bank JSC Russia's Corporate and Investment Bank Block since July 1998.

David Alun Bowen (b. 1955) – Member of the Board of Directors, Independent Director. Mr. Bowen has been on the Bank's Board of Directors since April 2014. Since July 2013, Mr. Bowen has been an independent non-executive director at Julian Hodge Bank Limited and Hodge Life Assurance Company Limited. From April 2008 to June 2013, he was managing partner of KPMG Audit LLC (Kazakhstan) and KPMG Tax and Advisory LLC (Kazakhstan). From February to March 2014, Mr. Bowen served as independent director and member of the board of directors of EFC.

Management Board

The Management Board of the Bank is responsible for the day-to-day management and administration of the Bank and it has all the executive powers, while the Board of Directors plays a supervisory role. In accordance with the legislation of Kazakhstan the chairman and members of the Management Board must be approved by the NBK, but the NBK does not have a representative on the Board of Directors or the Management Board of the Bank.

The Management Board manages the Bank on the day-to-day basis and its responsibilities include as follows:

- acting on behalf of the Bank and representing its interests;
- carrying out transactions on behalf of the Bank in accordance with the procedure established by the legislation of the Republic of Kazakhstan and the Bank's Charter;
- preparing all issues for the review by the General Meeting of Shareholders or the Board of Directors pursuant to the Bank's Charter and preparing appropriate materials and draft resolutions;
- ensuring compliance with the legislation of Kazakhstan by the Bank's employees;
- promptly addressing all issues arising in carrying out of banking and other operations;
- review and approval of documents related to the organisation of the Bank's activities;
- approval of issues related to selection, placement and training of the Bank's personnel;
- issue of binding resolutions and instructions to the Bank's employees;
- resolution of issues related to accounting, reporting and internal control; and
- reviewing and resolving other issues submitted to the Bank's Management Board as proposed by the Chairman of the Management Board of the Bank.

The Management Board consists of six members elected by the Board of Directors. The Management Board of the Bank is located at the Bank's principal office at Kunayev Street 56, Almaty 050002, Republic of Kazakhstan.

Members of the Management Board are:

Name	Position
Michael Eggleton	Chairman
Seitzhan Yermekbayev	Deputy Chairman – Director of Corporate, Institutional, SME and Transactional Banking Department
Roman Maszczyk	Deputy Chairman – Director of Risk Management Department
Anna Bichurina	Deputy Chairman – Director of Accounting, Methodology, and Resources Department
Nurbek Ayazbayev	Deputy Chairman – Director of Treasury and Asset/Liability Management Department
Ayaz Bakassov	Deputy Chairman – Director of Entrepreneur and Private Banking Department

The name, year of birth and certain other information about each of the current members of the Management Board and Management Team are set out below:

Michael Eggleton (b. 1968) – Chairman of the Management Board. A brief biography of Mr. Eggleton appears in the section entitled "*Board of Directors*" above.

Seitzhan Yermekbayev (b. 1967) – Deputy Chairman of the Management Board; Director of the Corporate, Institutional, SME and Transactional Banking Department. Mr. Yermekbayev joined the Bank in July 2011 to manage the Bank's Corporate, Institutional, SME and Transactional Banking Department. Prior to joining the Bank, he worked as a senior banker at the European Bank for Reconstruction and Development. Mr. Yermekbayev has considerable managerial experience in the banking sector. Between 1998 and 2010, he managed the Corporate, Institutional and Transactional division of JSC HSBC Bank Kazakhstan, a fully-owned subsidiary of the HSBC Group in Almaty. While at JSC HSBC Bank Kazakhstan, he evolved from department director to deputy chief executive officer. Additionally, Mr. Yermekbayev served as head of the representative office of HSBC Bank Plc in Ukraine between 2009 and 2010. Previously, Mr. Yermekbayev worked on the Committee for External Economic Relations of the Almaty Akimat. He was head of the representative office of Wimpey Construction Plc, a UK EPC company, in Almaty and regional director for Albert Abela Corporation. Mr. Yermekbayev graduated from the Almaty Institute of Foreign Languages in 1990 and has a diploma in finance and credit from the Eurasian Institute of Markets.

Roman Maszczyk (b. 1966) – Deputy Chairman of the Management Board; Director of the Risk Management Department. Mr. Maszczyk joined the team in 2010 to supervise the Bank's risk management. He has extensive experience in risk management across various financial institutions. His risk management career has included serving as managing director of the Risk Division of PKO BP SA Bank, Poland's largest bank, between 2001 and 2006 and again in 2009, serving as chief risk officer of the Russian National Bank Trust in 2007 and serving as chief risk officer of Nadra Bank in Ukraine between 2007 and 2009. Mr. Maszczyk has also partaken in several consulting projects for the financial sector. In addition to his risk management positions, Mr. Maszczyk has been a member of several supervisory boards of other companies, including Bankowy Fundusz Leasingowy SA, a Polish leasing company, between 2001 and 2003, PKO-Inwestycje SA between 2001 and 2003 and a Polish real estate developer between 2003 and 2006. Mr. Maszczyk is a former member of the EU's Committee of European Banking Supervisors, a former member of the Institute of International Finance's Working Group on Operational Risk, a current member of the Polish Bank Association's Advisory Committee on Regulatory Supervision and a current member of the Professional Risk Managers' International Association. Mr. Maszczyk has a graduate degree in banking from Warsaw Higher School of Banking and Insurance and holds a PhD in theoretical physics from Warsaw University.

Anna Bichurina (b. 1974) – Deputy Chairman of the Management Board; Director of the Accounting, Methodology, and Resources Department. Mrs. Bichurina joined the Management Board of the Bank in 2009. Since 2010, she has been responsible for the entire finance function of the Bank. In January 2013, she was appointed Deputy Chairman of the Management Board of the Bank. Mrs. Bichurina started her career in 1993 at the NBK. Between 1994 and 1996, she worked at the Almaty territorial branch of NBK, holding various positions ranging from economist of the Department of Correspondent Relationship to chief economist of the Department of Currency Regulation. From 1996 to 2000, she worked in various divisions of the NBK's

Department of Banking Supervision and Internal Audit Department. In 2000, she moved to Termibank OJSC to work in the Audit Department. The broad experience Mrs. Bichurina gained from working in the NBK system and second-tier banks gave her thorough knowledge in banking regulation, supervision, internal audit, accounting and reporting. While working at the Bank, Mrs. Bichurina has participated in and led a number of projects related to the organisation of accounting functions and business processes, which includes a project for the centralisation of accounting activities. Mrs. Bichurina graduated from the Kazakh State Academy of Management in 1995 majoring in accounting and audit, with an economist's qualification. She also has a Certificate of Professional Accountant of the Republic of Kazakhstan, a CAP qualification and an ACCA Diploma in the International Financial Reporting, and received an MBA in 2011.

Nurbek Ayazbayev (b. 1968) – Deputy Chairman of the Management Board; Director of the Treasury and Asset/Liability Management Department. Mr. Ayazbayev joined the management team of the Bank in January 2010 as managing director for Treasury and Asset/Liability Management. He became Deputy Chairman in January 2013. Mr. Ayazbayev gained extensive experience in the treasury and asset/liability management area from working in various financial institutions. Beginning in 1996, Mr. Ayazbayev worked at ATF Bank for 13 years, starting as a dealer in interbank operations. Between 2007 and 2010, he served as director of the Treasury Department of ATF Bank. From 2009 to 2010, Mr. Ayazbayev served as an adviser on investment activities to the chairman of Otan Pension Fund, which was controlled by ATF Bank, successfully assisting the management in its development of an investment strategy and structuring a portfolio which provides stable returns and controlled risk. He also played a part in optimising the business process of the pension fund. Mr. Ayazbayev holds a DBA degree from the Russian Presidential Academy of National Economy and Public Administration and, in 2011, obtained a PhD from the International Academy of Business School in Switzerland.

Ayaz Bakassov (b. 1959) – Deputy Chairman of the Management Board; Director of the Entrepreneur and Private Banking Department. Mr. Bakassov joined the Bank's management team as Deputy Chairman in March 2013. His responsibilities at the Bank include supervising wealth management and private and VIP banking. Prior to this, Mr. Bakassov held top executive positions at a number of leading financial institutions and corporations in Switzerland, including those of chief executive officer of Sea Launch AG in the United States and Switzerland, managing director and head of the Global Financial Institutions and Wealth Management CIS departments of Liechtensteinische Landesbank, managing director at Valartis Bank AG and CIO at RENOVA Management AG. He was also involved in the management of various subsidiaries of Credit Suisse, including Credit Suisse Private Banking and Russian Projects Department. Mr. Bakassov has a record in building, developing and managing portfolios for wealth management and private banking as well as for institutional customers. As a seasoned executive, he achieved excellent results in cross-selling bank products of different business divisions, quality control of internal processes and launching new procedures and processes. Mr. Bakassov possesses extensive knowledge on banking legislation in a number of jurisdictions. He holds a PhD in quantum physics from JINR in Russia, a Swiss Federal Economist diploma and a bachelor's degree from GSBA in Switzerland. Before starting his banking career, Mr. Bakassov headed a range of research projects at leading scientific institutions in Switzerland, Italy, the United States and Russia.

Bank's Committees

For a description of the responsibilities of each committee, see *"Business of the Bank—Committees"*.

Management and Remuneration

In accordance with the Bank's charter, remuneration and compensation of the members of the Board of Directors are determined by the shareholders of the Bank. The Bank paid the Board of Directors KZT 562,619 thousand in aggregate for the year ended 31 December 2013 and KZT 759,269 thousand in aggregate for the year ended 31 December 2012. The aggregate remuneration of the Management Board members decreased from KZT 608,207 thousand in 2012 to KZT 383,337 thousand in 2013.

The total principal amount of loans outstanding to members of the Board of Directors and the Management Board and other key management personnel increased from KZT 178 thousand as at 31 December 2012 to KZT 10,605 thousand as at 31 December 2013 and KZT 647,633 thousand as at 30 June 2014.

As at 30 June 2014, EFC (the "**Parent Company**") owned 100.0% of the Bank's share capital. As at 30 June 2014, EFC was controlled by three members of the Bank's Board of Directors (the "**Controlling**

Shareholders") —Alexander Machkevich, Patokh Chodiyev and Alijan Ibragimov—each of whom owns 33.3% of EFC's share capital. The following table sets out information on percentage ownership (direct and indirect) by EFC and the three members of the Bank's Board of Directors as at 30 June 2014:

	As at 30 June 2014	
	Direct	**Indirect**
	(%)	
Patokh Chodiyev	0.0	33.3
Alijan Ibragimov	0.0	33.3
Alexander Machkevich	0.0	33.3
EFC	100.0	0.0

Employees

As at 30 June 2014, the Bank had 6,264 full-time employees, compared to 5,552 employees as at 31 December 2013 and 4,617 employees as at 31 December 2012. The increase in total full time employees reflects the expansion of the Bank's operations and expansion of the Bank's branch network.

The Bank currently has a staff motivation and social package in the form of bonuses and/or additional unpaid time off in place for its employees. Each year the Bank's human resources unit and the relevant unit manager prepare a training plan for each employee in accordance with the list of personal objectives set for that employee.

Training is a key factor in ensuring that the Bank's staff remains motivated and competent in their tasks. In 2013, the Bank conducted over 300 internal training sessions, with more than 26,000 attendees. More than 400 employees attended various seminars and workshops, both in Kazakhstan and abroad, in order to gain insight and specific knowledge relating to technical and management aspects of the Bank's operations.

Employee compensation is based on fixed salary and variable bonus structures. The fixed salary is based on market rates required to hire a specific profile of employee based on experience and capabilities. Variable compensation depends first on the profitability of the Bank as a whole and on specific Key Performance Indicators ("**KPIs**"). KPIs are both (i) financial indicators such as loan book growth, NPL metrics, department efficiency, cost management, return on average equity and other budget achievement-based metrics, and (ii) specific non-financial targets such as the launches of new products, implementation of new systems, network roll-out and employee turnover. As of 2014, the Bank refrains from paying bonuses if the Bank does not achieve at least 85% of its net profit target. To ensure that the Bank's bonus award programme truly differentiates between employees in terms of their performance, the top 5-10% of employees receive maximum bonuses, the middle 70-75% of employees receive the standard bonus and the bottom 20% of employees receive no bonus.

Compensation of the Board of Directors is established and approved by the Shareholders Meeting. Compensation for the Management Board is established by the Board of Directors. Compensation for all other employees is the responsibility of the Chairman and the Management Board.

The Bank has never experienced industrial action or other work stoppages resulting from labour disputes.

Conflicts of Interest

As at 30 June 2014, EFC, the Bank's Parent Company, is 100% owned by the Controlling Shareholders, each of whom holds an equal one-third interest. The Controlling Shareholders are also the ultimate beneficial owners of the Bank, with equal shareholdings. Each of the Controlling Shareholders is a member of the Board of Directors of the Bank, and Mr. Machkevich is the Chairman of the Board of Directors.

In addition, the Controlling Shareholders together own the shares in ENRC (see "*Share Capital, Principal Shareholders and Related Party Transactions*").

The Bank provides banking services (including loans and deposits) to certain subsidiaries of ENRC and EFC. If the interests of such subsidiaries at any time conflict with the interests of the Bank, it is possible that the duties which the Controlling Shareholders owe to ENRC or EFC and/or their private interests in ENRC or

EFC may conflict with the duties which they owe to the Bank as members of the Board of Directors of the Bank.

In respect of potential conflicts of interest that may arise in the future, the Bank has processes for the management of such conflicts such that it does not expect that any actual conflict would arise.

Except as mentioned above, there are no potential conflicts of interest between the duties that the members of the Board of Directors and/or the Management Board owe to the Bank and their private interests and/or other duties.

SHARE CAPITAL, PRINCIPAL SHAREHOLDER AND RELATED PARTY TRANSACTIONS

Share Capital

As at 30 June 2014, the issued and outstanding share capital of the Bank comprised 16,211,133 fully paid ordinary shares. As at 30 June 2014, the Bank's authorised share capital comprised 33,000,000 ordinary shares and 3,000,000 preference shares. As at 30 June 2014, the Bank does not have any issued and outstanding preference shares.

Issued capital and share premium

	30 June 2014 shares	31 December 2013 shares
	(shares)	
	(unaudited)	
Issued at KZT 955.98	8,368,300	8,368,300
Issued at KZT 1,523.90	2,631,500	2,631,500
Issued at KZT 1,092.00	2,930,452	2,930,452
Issued at KZT 6,532.60	2,280,881	2,280,881
Total issued and outstanding shares	16,211,133	16,211,133

Principal Shareholder

EFC currently holds 100.0% of the Bank's share capital. EFC is controlled by three members of the Bank's Board of Directors—Alexander Machkevich, Patokh Chodiyev and Alijan Ibragimov—each of whom owns 33.3% of EFC's share capital.

Dividends

The holders of ordinary shares of the Bank are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank. In accordance with Kazakhstan legislation and the Bank's charter documents, distributable reserves are subject to the rules and regulations of the Republic of Kazakhstan. In 2013, the Bank paid shareholders its first dividend since the start of the Bank's financial turnaround in 2010 in the amount of KZT 2 billion, or KZT 123.38 per share. In May 2014, the Bank made another dividend payment of KZT 1.5 billion, or KZT 92.53 per share.

Subsidiary

The Bank currently has only one subsidiary: OJSC Eurasian Bank (formerly known as Bank Troika Dialog OJSC).

Related Party Transactions

In the ordinary course of its business, the Bank may, from time to time, enter into transactions with related parties; however, under applicable laws and regulations, Kazakhstan banks, including the Bank, are prohibited from granting favourable terms to related parties. The Bank believes it fully complies with these laws and regulations and furthermore, all related party transactions are entered into at arm's length and have commercially reasonable terms similar to transactions with unrelated third parties.

Of the Bank's gross deposit portfolio, KZT 53,501 million (accounting for 11.5% of all deposits), KZT 48,767 million (accounting for 12.1% of all deposits) and KZT 55,006 million (accounting for 16.5% of all deposits) were made to related parties as at 30 June 2014, 31 December 2013 and 31 December 2012, respectively.

For a description of the definition of related parties under IAS 24 "*Related Party Disclosures*", see Notes 35 to the consolidated Financial Statements of the Bank as at and for the year ended 31 December 2013 and Note 22 in the consolidated interim condensed financial statements of the Bank as at 30 June 2014 and for the six-months period then ended included elsewhere in this Offering Circular.

Transactions with the members of the Board of Directors and the Management Board

The outstanding balances and average interest rates as at 30 June 2014, 31 December 2013 and 31 December 2012 for transactions with the members of the Board of Directors, the Management Board and other key management personnel are as follows:

	30 June 2014	Average interest rate	31 December 2013	Average interest rate	31 December 2012	Average interest rate
	(KZT thousand)	*(%)*	*(KZT thousand)*	*(%)*	*(KZT thousand)*	*(%)*
Consolidated statement of financial position						
ASSETS						
Loans to customers	647,633	6.00	10,605	12.00	178	12.18
LIABILITIES						
Current accounts and deposits from customers	9,723,574	7.99	7,286,721	7.80	7,966,733	8.19

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Board for the years ended 31 December 2013 and 2012 is as follows:

	31 December	
	2013	2012
Profit or loss		
Interest income	109,159	140
Interest expense	(628,906)	(585,397)

Transactions with other related parties

The outstanding balances and the related average interest rates as at 30 June 2014 for transactions with other related parties are as follows:

	Parent Company		Other subsidiaries of the Parent Company		Other related parties [(1)]		TOTAL
	KZT thousand	Average interest rate, %	KZT thousand	Average interest rate, %	KZT thousand	Average interest rate, %	KZT thousand
Consolidated statement of financial position							
ASSETS							
Loans to customers (principal balance)							
- In Tenge:	-	-	-	-	4,669,770	11.82	4,669,770
- In USD	-	-	-	-	25,819,668	6.06	25,819,668
- In other currencies	-	-	-	-	391,130	10.00	391,130
Loans to customers (provision for impairment)							
Other assets:	-	-	-	-	(222,912)	-	(222,912)
- In Tenge:	-	-	669,520	-	1,467	-	670,987
LIABILITIES							
Deposits and balances from customers							
- In Tenge	15,479	4.36	1,406,247	1.54	23,564,386	5.40	24,986,112
- In USD	21,368	2.00	18,518	-	15,344,841	2.26	15,384,727
- In other currencies	-	-	931,327	2.11	2,475,542	1.92	3,406,869
Debt securities issued							
- In Tenge	-	-	738,639	12.38	-	-	738,639
Subordinated debt securities issued							
- In Tenge	-	-	40,278	8.16	-	-	40,278
Other liabilities							
- In Tenge	-	-	76,929	-	8,610	-	85,539
- In other currencies	-	-	-	-	213	-	213
Items not recognised in the consolidated statement of financial position							
Loans and credit line commitments	-	-	-	-	43,387	-	43,387
Guarantees issued	-	-	-	-	52,065	-	52,065
Guarantees received	-	-	-	-	749,808	-	749,808
Letters of credit	-	-	-	-	2,022,010	-	2,022,010

(1) Other related parties are the entities that are controlled by the Parent Company's shareholders.

The outstanding balance and related average interest rates as at 31 December 2013 and related profit or loss amounts of transactions for the year ended 31 December 2013 with other related parties are as follows:

	Parent Company		Other subsidiaries of the Parent Company		Other related parties[(1)]		TOTAL
	KZT thousand	Average interest rate, %	KZT thousand	Average interest rate, %	KZT thousand	Average interest rate, %	KZT thousand
Consolidated statement of financial position							
ASSETS							
Loans to customers (principal balance)							
- In Tenge	-	-	-	-	4,353,179	13.05	4,353,179
- In USD	-	-	-	-	17,518,219	6.06	17,518,219
- In other currencies	-	-	-	-	128,271	10.65	128,271
Loans to customers (provision for impairment)	-	-	-	-	(143,894)	-	(143,894)
Other assets	-	-	-	-	-	-	-
- In Tenge	-	-	37,212	-	366	-	37,578
LIABILITIES							
Deposits and balances from customers							
- In Tenge	1,655	-	3,098,834	2.93	17,071,717	1.27	20,172,206
- In USD	1,239,879	0.99	110,276	2.10	16,259,576	1.31	17,609,731
- In other currencies	-	-	229,520	0.37	3,469,034	0.54	3,698,554
Debt securities issued							
- In Tenge	-	-	729,149	12.48	-	-	729,149
Subordinated debt securities issued							
- In Tenge	-	-	51,600	7.39	-	-	51,600
Other liabilities							
- In Tenge	-	-	152,631	-	808	-	153,439
Items not recognised in the consolidated statement of financial position							
Loans and credit commitments	-	-	-	-	89,458	-	89,458
Guarantees issued	-	-	-	-	10,478	-	10,478
Guarantees received	-	-	-	-	406,442	-	406,442
Letters of credit	-	-	-	-	5,012,538	-	5,012,538
Profit (loss)							
Interest income	-	-	-	-	341,988	-	341,988
Interest expense	(6,605)	-	(406,618)	-	(1,223,153)	-	(1,636,376)
Fee and commission income	249	-	19,615	-	487,521	-	507,385
Other operating income/(expenses)	(18,577)	-	(149,085)	-	2,692	-	(164,970)
Reversal of impairment losses	-	-	-	-	137,369	-	137,369
Other general administrative expenses	-	-	(1,100,173)	-	(233,660)	-	(1,333,833)

(1) Other related parties are the entities that are controlled by the Parent Company's shareholders.

The outstanding balance and related average interest rates as at 31 December 2012 and related profit or loss amounts of transactions for the year ended 31 December 2012 with other related parties are as follows:

	Parent Company		Other subsidiaries of the Parent Company		Other related parties[1]		TOTAL
	KZT thousand	Average interest rate, %	KZT thousand	Average interest rate, %	KZT thousand	Average interest rate, %	KZT thousand
Consolidated statement of financial position							
ASSETS							
Loans to customers (principal balance)							
- In Tenge	-	-	-	-	4,493,708	13.34	4,493,708
- In USD	-	-	-	-	370,001	10.12	370,001
- In other currencies	-	-	-	-	62,695	14.00	62,695
Loans to customers (provision for impairment)	-	-	-	-	(286,878)	-	(286,878)
Other assets							
- In Tenge	-	-	91,074	-	3,444	-	94,518
LIABILITIES							
Deposits and balances from customers							
- In Tenge	13,210	-	5,445,607	5.37	22,738,248	1.11	28,197,065
- In USD	-	-	53,500	-	11,007,876	1.33	11,061,376
- In other currencies	-	-	41,222	-	4,742,299	1.74	4,783,521
Debt securities issued							
- In Tenge	-	-	710,098	12.69	-	-	710,098
Subordinated debt securities issued							
- In Tenge	-	-	33,947	6.78	-	-	33,947
Other liabilities							
- In Tenge	-	-	5,282	-	3,227	-	8,509
- In other currencies	-	-	-	-	41	-	41
Items not recognised in the consolidated statement of financial position							
Loans and credit line commitments	-	-	-	-	617,302	-	617,302
Guarantees issued	-	-	-	-	146,842	-	146,842
Guarantees received	-	-	-	-	296,650	-	296,650
Letters of credit	-	-	-	-	945,376	-	945,376
Profit (loss)							
Interest income	-	-	-	-	445,064	-	445,064
Interest expense	(22,267)	-	(476,899)	-	(893,177)	-	(1,392,343)
Fee and commission income	299	-	99,521	-	703,443	-	803,263
Other operating income/(expenses)	-	-	(31,012)	-	6	-	(31,006)
Reversal of impairment losses	-	-	-	-	367,856	-	367,856
Other general administrative expenses	-	-	(79,863)	-	(363)	-	(80,226)

(1) Other related parties are the entities that are controlled by the Parent Company's shareholders.

Related parties for purposes of this discussion follows the definition set out in International Accounting Standard 24. Under such definition, related parties include:

(a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise (this includes holding companies, subsidiaries and fellow subsidiaries);

(b) associates – enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;

(c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank;

(d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and

(e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

All transactions with related parties outstanding at the dates indicated above, were made in the normal course of business and at arm's length and were approved by the Board of Directors of the Bank.

THE BANKING SECTOR IN KAZAKHSTAN

Introduction

Since mid-1994, Kazakhstan has adhered to a strict macro-economic stabilisation programme, combining tight budgetary discipline, stringent monetary policy and structural economic reforms. These polices have sharply reduced inflation and lowered interest rates.

Kazakhstan has a two-tier banking system with the NBK, comprising the first tier and all other commercial banks comprising the second tier (with the exception of the DBK, which, as a state development bank, has a special status and belongs to neither tier). Generally, all credit institutions in Kazakhstan are required to be licensed and regulated by the NBK. From 2004 until April 2011, these functions were carried out by the FMSC, while since April 2011, these functions have been carried out by the NBK.

Effects of the Global Financial Crisis and Anti-Crisis Measures

Kazakhstan's banking sector has been particularly adversely affected by the global financial crisis. Between 2000 and 2007, while the Kazakhstan economy was experiencing rapid growth, banks in Kazakhstan incurred high levels of foreign debt in order to fund a rapid expansion of credit, largely concentrated in the construction and real estate sectors. Following the onset of the global financial crisis which began in 2008, credit growth stopped due to the lack of availability of wholesale debt financing, deposits were volatile and property prices significantly decreased. Oil prices significantly declined, which had an adverse impact on the Kazakhstan economy. These factors caused significant losses for Kazakhstan banks and a general destabilisation of Kazakhstan's banking sector in 2008 and 2009. The banking sector experienced considerable asset quality deterioration in 2009, with NPLs in the banking sector increasing to 36.5%. as at 1 January 2010 from 8.1%. as at 1 January 2009.

In response to the pressure faced by major banks in 2008 and 2009, new banking legislation was introduced related to financial stability and bank restructurings. See the ''*Financial Stability and Restructuring Reforms*'' below.

In 2009, following the discovery of substantial fraud by the former management of JSC BTA Bank and JSC Alliance Bank, the government effectively nationalised these banks. In February 2009, the FMSC entered into an agreement with the government relating to the acquisition of approximately 75.1% of JSC BTA Bank's shares, which were subsequently acquired by Samruk-Kazyna pursuant to the financial stability legislation. In March 2009, Samruk-Kazyna purchased newly issued common shares of Alliance Bank in the amount of KZT 24.0 billion, to support its financial stabilisation and to provide further capitalisation. Both JSC BTA Bank and JSC Alliance Bank defaulted on their debt in April 2009. On 31 December 2009, Samruk-Kazyna purchased 100% of the outstanding common and preferred shares of JSC Alliance Bank. The restructuring of JSC Alliance Bank was completed in April 2010. After such restructuring, Samruk-Kazyna held 67% of the outstanding common shares and 67% of the outstanding preferred shares of JSC Alliance Bank. The restructuring of JSC BTA Bank was completed on 31 August 2010, cancelling approximately U.S.$8.6 billion of JSC BTA Bank's financial indebtedness. In 2012, JSC BTA Bank underwent a second restructuring, in which its financial indebtedness was reduced from U.S.$11.1 billion to U.S.$3.3 billion, and its average debt maturity was extended from 3 to 12 years. The second restructuring was completed in December 2012. Following this restructuring Samruk-Kazyna owned a 97% equity holding in JSC BTA Bank. In June and July 2014, Samruk-Kazyna sold a 97.33% stake in JSC BTA Bank to JSC Kazkommertsbank (47.57%) and Mr. K. Rakishev (47.57%) and placed its remaining shares in trust under the control of JSC Kazkommertsbank.

In March 2009, Samruk-Kazyna purchased newly issued common shares of Alliance Bank in the amount of KZT 24.0 billion, to support its financial stabilisation and to provide further capitalisation. On 31 December 2009, Samruk-Kazyna purchased 100% of the outstanding common and preferred shares of JSC Alliance Bank. The first restructuring of JSC Alliance Bank was completed in April 2010, restructuring and/or cancelling over U.S.$2.7 billion of JSC Alliance Bank's financial indebtedness. After such restructuring, Samruk-Kazyna held 67% of the outstanding common shares and 67% of the outstanding preferred shares of JSC Alliance Bank. JSC Alliance Bank is currently undergoing a second restructuring which will involve the restructuring approximately U.S.$1.2 billion of its indebtedness and the merger of Alliance Bank with JSC Temirbank and Forte Bank. In February 2014 President Nazarbayev instructed Samruk-Kazyna to sell its stakes in Kazakhstan's commercial banks so as to withdraw the State's participation in the commercial banking sector in Kazakhstan. In May 2014, Samruk-Kazyna sold part of its shares (a 16% stake) in Alliance Bank to Mr. Bulat Utemuratov. Samruk-Kazyna currently owns 51% of JSC Alliance Bank, and Mr. Utemuratov has conditionally agreed to obtain control of JSC Alliance Bank. The second restructuring is expected to be completed prior to the end of 2014.

In November 2009, JSC Temirbank defaulted and announced a moratorium on the repayment of its debts. Upon completion of restructuring procedures, in May 2014, Samruk-Kazyna sold all of its shares (a 79.88% stake) in JSC Temirbank to Mr. Bulat Utemuratov.

The government has taken a number of steps to support Kazakhstan's banking sector, including significant capital injections. The government's capital injections into the Kazakhstan banking sector have been estimated at 6.4% of Kazakhstan's GDP in 2009, compared, for example, to the United Kingdom and the United States where, according to the IMF, capital injections represented 3.9% and 2.2%, respectively.

The National Fund of the Republic of Kazakhstan had allocated KZT 1,946.1 billion to putting into effect the Plan of Joint Actions of the government, the NBK and the FMSC for the Stabilisation of the Economy and the Financial System for 2009-2010.

For a discussion of the various risks associated with the banking sector and banking regulation in Kazakhstan, see "*Risk Factors — Risks Factors relating to the Kazakhstan Bank Sector*".

The NBK

The NBK is the central bank of Kazakhstan and the state authority performing state regulation, control and supervision of the financial markets and financial organisations. Although it is an independent institution, it reports directly to the President of the Republic of Kazakhstan. The President of the Republic of Kazakhstan appoints the Chairman of the NBK with the consent of the Senate (upper chamber of Parliament) and the Deputy Chairmen upon the recommendation of the Chairman. The President approves the NBK's annual reports and has the right to demand any information relating to its activity. In October 2013, the President of the Republic of Kazakhstan appointed Mr. Kairat Kelimbetov as the Chairman of the NBK, replacing Mr. Grigoriy Marchenko. The principal governing bodies of the NBK are the Executive Board and the Board of Directors. The Executive Board, the highest governing body of the NBK, consists of nine members, including the Chairman, five other representatives of the NBK, a representative of the President of the Republic of Kazakhstan and two representatives of the government of Kazakhstan.

The NBK is empowered to develop and implement state monetary policy, organise the functioning of payment systems, conduct currency regulation and currency control, ensure the stability of the financial system and to protect the rights and interests of the financial services consumers.

The NBK is responsible for most of the supervisory and regulatory functions in the financial sector. These functions were performed by the FMSC between 2004 and April 2011, when they were transferred back to the NBK on the basis of a decree of the President of the Republic of Kazakhstan. The NBK's supervisory and regulatory roles in the financial sector until mid-2014 were performed by the FMSC, which is a sub-division of the NBK. Currently, these roles are distributed among different departments within the NBK.

In addition, in April 2011, the NBK took responsibility for the regulation of the operations of the Almaty Regional Financial Centre (the "**RFCA**"), a role previously performed by the Agency for Regulation of the Operations of the RFCA (the "**ARO RFCA**").

Moreover, under the Law on provision of pensions adopted on 21 June 2013 (the "**Pension law**"), the NBK was appointed as the custodian bank, trust manager of shares and assets of Single Accumulative Pension Fund JSC. Under the Pension law, all pension assets and liabilities of pension funds were transferred to Single Accumulative Pension Fund JSC, which is owned by the Kazakhstan government, in March 2014.

The Competition Agency is the competition authority in Kazakhstan and its responsibilities include the supervision of compliance with anti-monopoly legislation within the banking sector. However, certain issues of anti-monopoly regulation are under the jurisdiction of both the Competition Agency and the NBK. For example, certain transactions with a value exceeding certain thresholds require the prior consent of the Competition Agency. Such thresholds for the purposes of regulated financial organisations are established jointly by the Competition Agency and the NBK.

Banking Supervision

Banking Reform and Supervision

Reform of the banking sector started in 1995 with the introduction of international prudential standards, including capital adequacy requirements and liquidity ratios to regulate and protect the banking system, transparency requirements as to the auditing of banks by local and international auditors, harmonisation of local accounting practices with IFRS, and personnel training programmes.

In addition, to strengthen the banking industry, promote stability and move towards internationally accepted practices, the NBK required commercial banks to adopt recapitalisation and corporate enhancement plans with the aim of enhancing their ability to attract long-term, private investors. In 2000, guidelines were established for bank inspections and for periodic reporting by commercial banks to the NBK, and then to the FMSC. In 2003, all banks were required to develop and install internal risk management systems.

The objective of these reforms was to bring supervisory practices closer to international standards to allow for a more transparent view of banks' levels of capitalisation and exposure to financial risks.

Capital Adequacy

The FMSC redefined its capital adequacy and credit exposure standards in September 2005, and set limits and rules for calculating capital adequacy, single party exposure, liquidity ratios and open currency positions.

In November 2005, new regulations regarding regulatory capital and risk management came into effect in Kazakhstan. These regulations represent a substantial step toward the implementation of the Basel accord. In particular, the new regulations introduce the concepts of hybrid capital eligible to be included in Tier I and Tier II capital, Tier III capital (a qualified subordinated debt) and operational and market risks, and include rules for calculating risk with respect to derivatives.

The NBK requires banks to maintain a K1-1 (Tier 1 capital to total assets) and K1-2 (Tier 1 capital to total assets weighted for risk) capital adequacy ratio of 6%, compared with the BIS Guidelines' recommendation of 4%. The K2 (own capital to total assets weighted for risk) capital adequacy ratio requirement is 12% compared with the BIS Guidelines' recommendation of 8%. For banks with a bank holding company or a bank parent company among their shareholders and state-controlled banks, the K1-1 (Tier 1 capital to total assets) and K1-2 (Tier 1 capital to total assets weighted for risk) capital adequacy ratio requirement is 5% while the K2 (own capital to total assets weighted for risk ratio) is 10% of risk weighted assets.

Furthermore, the NBK regulations require a bank which does not have amongst its shareholders an individual holding directly or indirectly at least 10% of such bank's shares to comply with higher capital adequacy ratios. Such ratios are 7% for the K1-1 (Tier 1 capital to total assets) and K1-2 (Tier 1 capital to total assets weighted for risk) ratios and 14% for the K2 (own capital to total assets weighted for risk) ratio. In addition, where a bank is deemed a "systemic bank" pursuant to NBK regulations, such bank may be subject to specific prudential requirements determined by the NBK.

In February 2007, to reduce the risks associated with the substantial growth in the external debt of Kazakhstan's banks, the FMSC introduced amendments to the capital adequacy regulations which imposed limits on levels of foreign borrowings or "external liabilities" which a bank can incur as a multiple of such bank's "own capital" as calculated both including and excluding debt securities issued.

These amendments mean that banks are not permitted to increase borrowings from non-domestic holders (subject to certain exceptions) to a level in excess of certain multiples of regulatory capital. If banks exceed the prescribed ratios they have to either repay foreign sourced debt or increase their regulatory capital. The ratios that apply to banks currently are (i) two times own capital for external liabilities excluding debt securities issued by special purpose subsidiaries of the bank guaranteed by the bank (K8 ratio) and (ii) three times own capital for external liabilities including issued debt securities (K9 ratio).

In order to control the rapid growth of consumer lending, in 2014 the NBK introduced a maximum growth rate of consumer loans. The growth rate of consumer loans in the loan portfolio of the bank is set at no more than 0.30 and is calculated as the ratio of growth in the consumer loan portfolio at the reported date since the beginning of the current calendar year to the portfolio of consumer loans as of the beginning of the calendar year, taking into account the allowances made for international financial reporting standards (K10 ratio).

In order to strengthen banks capital requirement on bank liquidity and bank leverage, the NBK plans to implement the standards of the Basel Committee on Banking Supervision with respect to bank capital adequacy, stress testing and market liquidity risk (Basel III) in Kazakhstan starting from 2015, with the regulatory framework has been expected to be put in place in July 2014, however, as we understand, it is still under consideration by the Government. The process of transition to the new standards for the Kazakhstan banking sector is incremental, the duration of which is expected to be four years. In this case, a gradual increase in capital requirements, as such, will be made after the exclusion of instruments that do not meet the standards of Basel III and introduction of the conversion buffer. In addition, the Basel III standards provide for the establishment of the systemic bank buffer, the size of which is determined for each bank separately depending on the systemic importance of the bank. Countercyclical capital buffer accumulation is aimed at levelling out the financial cycle by restraining excessive credit growth during the financial boom. In order to identify the condition variables which can signal the onset of economic growth and contraction, the NBK has reviewed the macroeconomic indicators and indicators of the banking activity. The Basel III standards provide for the use of deviation from its long-run trend of the ratio of loans in the economy to the GDP as the main indicator to determine the financial boom period. Basel III strengthens bank capital requirements and introduces new regulatory requirements.

Reserve Requirements

Starting in the second half of 2008, the NBK adopted a number of measures aimed at providing additional liquidity to banks. With effect from 3 March 2009, the minimum level at which second tier banks must maintain reserves had been decreased from 2% to 1.5% with respect to domestic liabilities and from 3% to 2.5% with respect to other liabilities. These measures were abolished in May 2011. From 31 May 2011, the minimum level at which second tier banks were obliged to maintain reserves has been increased from 1.5% to 2.5% with respect to domestic liabilities and from 2.5% to 4.5% with respect to other liabilities.

On 21 September 2012, the NBK set the applicable rate of the reserve requirements for banks undergoing restructuring proceedings to 0% for both domestic and other liabilities. The rate applies from the date of the order of the Specialised Inter-district Financial Court (the "**Court**") commencing the restructuring to the date on which the Court order on the completion of the restructuring comes into force.

Effective from 13 November 2012, the minimum level at which the banks must maintain reserves is 2.5% for domestic short-term liabilities, 0% for domestic long-term liabilities, 6% for foreign short-term liabilities and 2.5% for foreign long-term liabilities.

Deposit Insurance

In December 1999, a self-funded domestic deposit insurance scheme was established and, as at 1 June 2014, 38 banks, including the Bank, were covered by this scheme. The insurance coverage is presently limited to individual term deposits in any currency and current accounts up to a maximum amount per customer of KZT 5 million at any given bank. From January 2012, the maximum guaranteed amount was increased from KZT 1 million to KZT 5 million. Only banks participating in the deposit insurance scheme are authorised to open accounts and take deposits from private individuals.

Acquisition of Interests in Kazakhstan Banks

Current legislation requires the NBK to approve any acquisition of a direct or indirect shareholding of 10% or more (whether held independently or jointly with another legal entity) in a Kazakhstan bank. This requirement does not apply to a national management holding company (which are currently Samruk-Kazyna and Baiterek (the "**National Management Holding Companies**")) and the government. Furthermore, subject to certain limited exceptions, a foreign entity directly or indirectly holding 10% or more of the shares in a Kazakhstan bank must have a minimum required credit rating from one of the approved rating agencies. Where a foreign legal entity directly holds 25% or more shares of a bank, such foreign legal entity must be a financial organisation having a minimum required rating and being subject to consolidated supervision in its home country.

Other Regulations

In June 2006, the FMSC implemented measures to restrict Kazakhstan banks from having outstanding external short-term financings which exceed a bank's regulatory capital. These measures may limit a bank's ability to enter into short-term loan facilities causing it to look for longer term financings or customer deposits to replace such short-term facilities.

To address concerns about currency mismatches and, more precisely, to manage banks' liquidity, the FMSC also tightened requirements regarding open/net currency positions and introduced various limits on currency liquidity.

Effective from 1 January 2013, certain amendments to the Banking Law have resulted in the abolition of the provisions requirements that were previously based on classification of assets in accordance with the FMSC's rules, and the introduction of the following two requirements: (i) to create a mandatory dynamic reserve; and (ii) to create mandatory reserves (other than a dynamic reserve) under IFRS and not under the FMSC's rules. The amendments to banking legislation were further supported by respective changes to the NBK's regulations, including the Rules for Formation of Dynamic Reserve and Establishment of Minimum Size Dynamic Reserve, Size for Expected Losses No. 127 dated 27 May 2013 (the "**Reservation Rules**"). On 7 July 2013, NBK Resolution No. 73 dated 25 February 2013 "On Approval of Rules on Application of Measures of Early Reaction and Methodology for Determination of Factors Having Adverse Influence on Financial Position of a Second Tier Bank" came into effect. From 1 January 2014, a commercial bank's NPLs must not exceed 15% of its total loan portfolio (excluding its reserves) which is a decrease from the previous mandatory ratio of 20%, which has been in effect until 1 January 2014. Banks that exceed the 15% threshold are required to work with the NBK to take measures to improve their financial stability.

Almaty Regional Financial Centre

The RFCA was established in June 2006 for the purpose of developing Kazakhstan's securities market, integrating it into the international capital markets and attracting investment into Kazakhstan's economy. The RFCA is governed by regulations regarding the relations between its participants and relations between foreign and local participants. The NBK controls and supervises the activities of the RFCA, as well as registering its participants. Prior to April 2011, these functions were performed by the ARO RFCA. The inaugural trade on the special trade platform (the "**Special Trade Platform**") of the KASE functioning at the RFCA occurred on 27 February 2007. In November 2009, the Special Trade Platform was merged into the main trading platform of the KASE. As at 6 December 2013, 17 companies were registered as RFCA participants.

Commercial Banks

According to the NBK, as at 1 May 2014, there were 38 commercial banks in Kazakhstan, compared to 184 in mid-1994. This decrease is largely a result of the NBK's stringent policy towards increased capitalisation and liquidity of the banking system. The general reduction in the number of banks has largely been at the expense of small and medium-sized banks.

According to data published by the NBK, as at 1 October 2014, 36 of the 38 second-tier banks had capital of over KZT 5,000 million and two banks had capital below KZT 5,000 million. Since 1 October 2009, any bank whose own capital (i.e. shareholders' equity) falls below KZT 5,000 million (or KZT 2,000 million for banks registered outside of Astana and Almaty and complying with certain other conditions) was required to apply to the NBK for a reorganisation into a credit partnership. Starting from 1 July 2011, the minimum capital requirements were set at KZT 10,000 million for banks, including newly-created banks, KZT 5,000 million for residential construction savings banks and KZT 4,000 million for banks registered and carrying out a significant part of their operations outside Astana and Almaty (and complying with certain other conditions).

The total capital of commercial banks increased to KZT 2,078 billion as at 1 April 2014 compared to capital of KZT 2,063 billion as at 1 April 2013 and KZT 1,163 billion as at 1 April 2012. During the same period, the total assets of the banks increased to KZT 16,878 billion as at 1 April 2014 from KZT 14,649 billion as at 1 April 2013 (compared to approximately KZT 13,299 billion as at 1 April 2012). The aggregate liabilities increased to approximately KZT 14,801 billion as at 1 April 2014 from KZT 12,586 billion as at 1 April 2013 and KZT 12,136 billion as at 1 April 2012. The banking system recorded net loss amounted to

KZT 14,572 billion for the first 3 months of 2014 compared to net profit of KZT 60,891 billion for the same period in 2013.

The NBK decreased its refinancing rate from 10% in 2008 to 5.5% which came into effect on 6 August 2012. The NBK stated that the reason for the rate cut was a decrease of inflation and the stimulation of the market rates to fall.

In 2001, the government established the DBK to provide medium and long term financing for, and otherwise facilitate, industrial projects in Kazakhstan. The DBK was established with a charter capital of KZT 30,000 million that was subsequently increased to KZT 250,000 million in March 2014. The DBK has its own legal status which does not fall within either tier of the Kazakhstan banking system. The DBK does not currently accept commercial or retail deposits or provide payment services. The DBK is not treated as a commercial bank for the purposes of market share data and ranking in this.

Foreign banks, which include JSC Citibank (Kazakhstan), RBS (Kazakhstan), JSC Bank CenterCredit (Kookmin), JSC SB Sberbank (Kazakhstan), Alfabank (Kazakhstan) and VTB (Kazakhstan), have established relatively strong positions and compete in the retail and particularly in the corporate segments of the banking sector in Kazakhstan. Since some of these banks may have significantly greater resources and a cheaper funding base than the Bank, such banks, together with the larger local banks, may become the Bank's primary long-term competitors. Foreign banks also bring international experience in customer service and target the best domestic and foreign companies operating in Kazakhstan.

Foreign Capital in the Banking Sector

The liberalisation of the economy in Kazakhstan in recent years has resulted in a number of foreign companies, including banks, establishing operations in Kazakhstan through direct investment and by otherwise participating in the banking and financial services sector. Foreign banks are prohibited from opening branches in Kazakhstan. Accordingly, foreign banks must establish a Kazakhstan subsidiary or joint venture in order to provide banking services in Kazakhstan.

As at 1 January 2014, there were 17 banks with foreign participation operating in Kazakhstan, including JSC SB RBS (Kazakhstan), JSC Citibank (Kazakhstan), JSC SB Sberbank (Kazakhstan) and JSC VTB Bank (Kazakhstan). Under relevant legislation, a bank with foreign participation is defined as a bank whose share capital is more than one third foreign-owned. Banks whose share capital is less than one- third directly or indirectly foreign-owned are considered domestic banks. A number of foreign banks have opened representative offices in Kazakhstan, including JP Morgan Chase Bank N.A., Deutsche Bank AG, Commerzbank AG, ING Bank N.V., Landesbank Berlin AG, The Bank of Tokyo-Mitsubishi UFJ Ltd, Standard Chartered Bank and Société Générale.

Financial Stability and Restructuring Reforms

Financial Stability Laws

On 23 October 2008, new legislation relating to the stability of the Kazakhstan financial system was adopted.

Under this law, in the event of (i) a breach by a bank of capital adequacy or liquidity ratios or (ii) two or more breaches by a bank in any consecutive twelve-month period of any other prudential or other mandatory requirements, the government may, with the agreement of the NBK, acquire, either directly or through a National Management Holding Company, the shares of any bank in Kazakhstan to the extent necessary (but not less than 10% of the total amount of placed shares of such bank, including those to be acquired by the government or a National Management Holding Company) to improve such bank's financial condition and ensure compliance with prudential or other mandatory requirements. Under the law, the government may acquire shares in a bank with the purpose of protecting the interests of creditors of an affected bank and procure the stability of the Kazakhstan banking system, but only if measures previously applied by the NBK to the affected bank did not improve such bank's financial condition. The law provides that the management and shareholders of an affected bank are not granted any right to approve any such acquisition, and any shares issued as part of any such acquisition may be issued without granting pre-emptive rights to existing shareholders. Following such an acquisition, the state body authorised to manage state property or a National Management Holding Company is authorised to appoint no more than 30% of the members of the board of directors and the management board of the affected bank.

The main objectives of the financial system stability law were to improve early detection mechanisms for risks in the financial system, to provide the government with the power to acquire shares in commercial banks that face financial problems and to improve the overall condition of financial institutions in Kazakhstan. The law also consolidates the authority to oversee second-tier Kazakhstan banks and provides additional mechanisms for supervising commitments made by banks and other financial institutions.

The government or a National Management Holding Company must sell the acquired shares within a period of time determined by the government to a third party investor or investors by way of direct sale or through the stock exchange.

On 2 February 2009, the FMSC agreed with the government on the acquisition of 75.1% of the shares in JSC BTA Bank by Samruk-Kazyna within the new financial stability measures. In March 2009, Samruk-Kazyna signed a deposit agreement for the deposits of KZT 24,000 million with Alliance Bank to support its financial stabilisation and further capitalisation. These measures proved to be insufficient and both Alliance Bank and JSC BTA Bank defaulted on their debt in April 2009.

On 30 December 2009, FMSC issued a resolution on mandatory buyout of the 100% of the common and preference shares of Alliance Bank and their sale to Samruk-Kazyna. After the restructuring of the debts of Alliance Bank, Samruk-Kazyna became its largest shareholder, holding 67% of the ordinary shares and 67% of the preferred shares in Alliance Bank.

The NBK plans to introduce the Basel III requirements starting from 2015 with respect to capital adequacy, stress testing and market liquidity risk ratios (including liquidity ratio (LCR) and net stable funding ratio (NSFR)). The process of transition to the new standards for the Kazakhstan banking sector is incremental, the duration of which is expected to be four years.

The Restructuring Law in Kazakhstan

Prior to July 2009, when Kazakhstan's Parliament adopted a law, amending certain legislative acts, No.185- IV dated 11 July 2009 (the "**Restructuring Law**"), there was no statutory framework allowing the restructuring of banks' indebtedness on the basis of approval of a majority of the relevant classes of creditors. Creditors not wishing to participate in a restructuring had the ability to set off their claims against a bank's assets or bring litigation in any jurisdiction where any of those assets were located.

Temirbank defaulted and announced a moratorium on the repayment of its debt in November 2009. Astana Finance, a diversified financial services company, defaulted and announced a moratorium on the repayment of its debt in May 2009, and other banks faced increasing pressure due to the growing number of NPLs. In response to the pressure faced by major banks in Kazakhstan in 2008-2009, Kazakhstan's Parliament adopted the Restructuring Law with the twin aims of enabling consensual financial restructurings approved by a majority of creditors and of revising the existing framework for good bank/bad bank reorganisations. As at the date of this Offering, the Kazakhstan banking system remains under stress with banks starting to de- leverage through partial repayments and debt restructurings.

The completion of the restructuring of Alliance Bank was announced in March 2010, restructuring and/or cancelling over U.S.$4.5 billion of Alliance Bank's financial indebtedness. The completion of the restructuring of Temirbank was announced in June 2010, restructuring approximately U.S.$1.5 billion of Temirbank's financial indebtedness. The restructuring of JSC BTA Bank was completed on 16 September 2010, cancelling approximately U.S.$16.7 billion of its financial indebtedness. The restructuring of Astana Finance was approved by creditors on 29 June 2012 and was subsequently re-scheduled to be completed on 15 November 2014. The JSC BTA Bank's second restructuring was completed on 28 December 2012, restructuring 93.8% of its total financial indebtedness.

Financial Restructurings

The Restructuring Law introduced a procedure for restructuring the financial indebtedness of a bank in the following general format. The bank first decides to restructure its debt and enters into an agreement with the NBK with respect to such restructuring. The bank then submits a restructuring plan to the NBK for its consideration. The restructuring plan should describe the process for and period of the restructuring, list the bank's assets and liabilities to be restructured, actions and measures to be taken in the restructuring, expected financial results of the restructuring, and describe limitations on any future activities of the bank. The bank then applies to the Court to initiate the process described in the restructuring plan. If the Court approves the restructuring process, then, with immediate effect, all relevant claims of the bank's creditors are stayed, the bank's property is protected from execution and attachment, and the bank's obligations and performance under agreements for the sale of assets and other agreements for the alienation of the bank's assets or signing of credit agreements and any other financing agreements relating to credit risk may be suspended in whole or in part.

The bank must convene a meeting of its relevant creditors to approve the restructuring plan. If creditors holding at least two-thirds in value of the bank's obligations subject to the restructuring vote in favour of the restructuring plan, the restructuring plan is approved. The bank then submits the approved restructuring plan to the NBK to establish its conformity with the plan originally submitted to the NBK. If the NBK determines that the restructuring plan approved by the creditors does not conform with the plan originally submitted to the NBK, the NBK may request that corresponding changes be made to the restructuring plan approved by the creditors. In this case, the bank will have to amend the plan, convene a new creditors' meeting to approve the amended plan and submit such amended plan as approved by creditors to the NBK.

The restructuring plan is then submitted to the Court for final approval. If the restructuring plan is approved by the Court, it becomes binding on all creditors with claims subject to the restructuring.

Completion of the bank's restructuring will be achieved when the restructuring plan has been carried out to the satisfaction of the Court and the NBK. Upon completion of the restructuring, the relevant liabilities of the bank included in the restructuring plan are cancelled and any claims in relation to them are discharged and replaced by appropriate restructured claims. Completion of the restructuring is confirmed by a decision of the Court upon the NBK's application. If after completion of the restructuring new bankruptcy proceedings are initiated against the bank, the creditors whose claims are included in the restructuring plan will have the right to claim only the amounts provided under the restructuring plan.

The restructuring process set out in the Restructuring Law is designed to be fair on the affected creditors and should ensure that a restructuring effect is capable of international recognition in countries (such as the United Kingdom and the United States) which have adopted legislation based on the Model Insolvency Law. At the date of this Offering Circular, the application of the Restructuring Law has been tested in practice four times, in the restructurings of Alliance Bank, BTA Bank, Temirbank and Astana Finance.

Pursuant to the amendments to the Banking Law dated 19 March 2014, a bank is allowed to acquire control (i.e. over 50% of shares) over another bank that is subject to restructuring without any applicable thresholds. Moreover, establishment or acquisition of a subsidiary in connection with such acquisition will not require obtainment of the NBK's prior consent.

Good Bank/Bad Bank Reorganisations

The second principal feature of the Restructuring Law is the amendment to the existing legislative framework allowing for the segregation of the "good" assets from the liabilities of a distressed bank and the transfer of them to another bank (or several banks) or to a specialised stabilisation bank. The good bank/bad bank structure could be used in a number of different circumstances. For example:

- the process could be initiated by a bank itself if other efforts to restructure itself have failed or if it does not wish or cannot, for any reason, achieve a financial restructuring following the process described above;
- if a bank has already been placed in conservation, the reorganisation may be initiated by a temporary manager appointed by the NBK; or
- if a bank's license has been revoked, the reorganisation may be initiated by a temporary manager appointed by the NBK to manage the bank's assets pending the court-ordered compulsory liquidation taking effect.

Any transfer under these new procedures requires the NBK's consent and the consent of depositors and creditors. Depositors and creditors are notified of the proposed transfer by an announcement published in Kazakhstan's mass media and any depositor or creditor may object to it by the timely filing of a written objection.

Stabilisation Banks

The Restructuring Law also makes provision for the establishment of stabilisation banks. These could be used as the "good" bank in the reorganisation of a bank. A stabilisation bank would be a special purpose company established by the NBK on an ad hoc basis and would have a special status under the Banking Law and a limited scope of business compared to ordinary commercial banks. Due to its special status and purpose, a stabilisation bank would not be subject to normal capital adequacy and other prudential requirements. Its main role would be to hold "good" assets while the segregation of the "good" and "bad" assets of the distressed bank was in progress. The Restructuring Law does not require the consent of any of the bank's creditors to transfer the bank's assets to the stabilisation bank. Upon completion of the segregation process, the stabilisation bank would transfer the "good" assets and liabilities to another bank designated by the NBK, subject to the consent of the depositors and other creditors of the stabilisation bank. The procedures for obtaining this consent would be similar to the procedures for obtaining the depositors' and creditors' consent to the initial transfer of "good" assets from the distressed bank.

The Restructuring Law provides that once the stabilisation bank passes on the assets to an acquiring bank, it may either be liquidated or be sold to an investor, provided the investor can procure a recapitalisation of the stabilisation bank and bring it into compliance with the requirements applicable to ordinary commercial banks. This is because, following a sale, the stabilisation bank would lose its special status and become subject to the general banking legislation applicable to an ordinary bank.

As at the date of this Offering Circular it is unclear whether a stabilisation bank can be used as a holding vehicle for "good" assets of several distressed banks.

The NBK's Powers under the Banking Law

Under the Banking Law, the NBK may apply a number of compulsory restrictive measures to banks in financial distress or in breach of prudential or other mandatory regulations. Articles 45, 46, 47 and 47-1 of the Banking Law allow the NBK to apply, *inter alia*, the following compulsory measures to second tier banks (commercial banks) in Kazakhstan and their shareholders which are major participants, bank holding companies or organisations included in a bank conglomerate (for these purposes, a "bank conglomerate" is a group of companies consisting of a bank holding company, a bank and organisations in which the bank holding company or the bank has a substantial shareholding; however, a National Management Holding Companies is specifically exempted from the definition of "bank conglomerate" under the Banking Law:

- issuing a warning and mandatory written instructions to a bank;
- entering into an agreement with a bank setting out measures to be taken by the bank to remedy any identified breaches;
- instituting the NBK special regime in a bank and requiring the bank to develop an action plan to restore such bank's financial condition;
- suspending or revoking a bank's license for all or certain banking operations;
- mandatory purchase of a bank's shares;
- removing the management of a bank;
- forcing a bank to reorganise into a credit partnership;
- forcing a bank into conservation procedures;
- forcing a bank into mandatory liquidation; and
- forcing a bank into segregating such bank's "good" assets from its liabilities and to make a mandatory transfer of such assets and liabilities to another bank or a stabilisation bank, following the revocation of the bank's license or the bank being put into conservation, pursuant to the Restructuring Law.

Where a bank's shareholders include a major participant or a bank holding company, the NBK may require such shareholders to decrease their direct or indirect ownership of the relevant shares in the bank to less than 10% of the bank's voting shares in the case of a major participant and less than 25% of the bank's voting shares in the case of a bank holding company shareholder. Such measures can be applied to a bank's shareholder when, for example, the bank's shareholders which are major participants or bank holding companies are in an unstable financial condition which may negatively affect the bank concerned.

Furthermore, the NBK may put into conservation a bank holding company which is resident of Kazakhstan and which holds directly or indirectly more than 50% of the share in a bank. The NBK may put the bank holding company into conservation when, for example, the bank holding company has negative equity capital.

The NBK Special Regime

Article 45.2 of the Banking Law provides for "measures of early response" which the NBK may apply to a bank or a bank holding company under certain circumstances. These are discretionary measures that the NBK may take with respect to a bank or a bank conglomerate that is in financial distress. For example, if a bank's liquidity ratio is lower than usual, the NBK may require such bank to develop and deliver to the NBK for approval a plan of action in which the bank must undertake to improve its financial stability. If the NBK does not approve the plan, it may apply certain early response measures including replacing the bank's or a bank holding company's management and restructuring the bank's assets.

Reorganisation into a Credit Partnership

Under Article 47 of the Banking Law, the NBK may require a bank to reorganise into a credit partnership if the bank's capital adequacy ratios fall to a level below 50% of the minimum requirements. Shareholders of a bank being reorganised receive participation interests in a credit partnership in proportion to their shares in the reorganised bank. A credit partnership is not allowed to carry out normal banking activities and is allowed to carry out only certain limited banking operations and services for its participants.

Mandatory Purchase of Shares

The Banking Law provides that the NBK may, with the government's consent, effect a mandatory purchase of all of a bank's shares from such bank's shareholders at a price determined by the NBK in the event that the bank's own capital (i.e., shareholders' equity) is negative. According to the Banking Law, after such purchase the NBK must sell the shares to a new investor which can procure an increase of the bank's regulatory capital and restore the bank's normal operations.

Conservation

Conservation is a compulsory measure which may be applied by the NBK to a Kazakhstan second tier bank (i.e., not upon such bank's discretion) or a bank holding company, which is a resident of Kazakhstan and which holds directly or indirectly more than 50% of the share in the bank, when, among other things, such bank or bank holding company is in breach of prudential norms, or has negative equity capital. When a bank or a bank holding company is put into conservation, the authority to manage the bank is transferred to a temporary manager appointed by the NBK. The bank or the bank holding company put into conservation may carry out its operations in its regular manner but specific restrictions may be imposed by the NBK (for example suspending contingent liabilities of the bank or the bank holding company).

Conservation does not involve an automatic stay. The bank's creditors have the right to bring court actions against the bank and seek enforcement of court judgements or arbitral awards during conservation. However, during the conservation, the NBK (acting through a temporary administration which replaces the bank's management) may suspend the bank's obligations under deposit agreements or terminate or unilaterally amend the bank's contracts obliging the bank to invest funds. There have not yet been many examples of banks being put into conservation in the Kazakhstan banking sector.

Financial institutions that have gone through conservation include Nauryz Bank in 2004 (the successor to Kazagroprombank, which itself went through conservation in 2001) and JSC Valut Transit Bank. Both these institutions were unable to improve their financial condition during the conservation period. At present, these institutions are in the process of liquidation.

Bankruptcy Regime

Any creditor has the right to initiate insolvency proceedings against a Kazakhstan entity (including a bank) if the entity has failed to pay its debt within four months after the debt became due and payable, provided that the amount owed by the debtor is more than 150 times the monthly calculation index (approximately U.S.$1,526) (in relation to tax claims) and 1,000 times the monthly calculation index (approximately U.S.$10,175) (in relation to all other claims of creditors) if the entity has failed to pay its debt within three months after the debt became due and payable. The court will declare the entity bankrupt if the entity fails to prove its solvency.

However, in respect of banks, it is not the court but the NBK which will determine whether the bank is insolvent. Thus, under the Banking Law, a court cannot declare a bank insolvent unless the NBK consents. The NBK will determine whether the bank is solvent on the basis of its own calculations, taking into account the applicable capital requirements and other factors.

If the NBK decided that the bank was not insolvent, then the bankruptcy proceedings would be effectively terminated. In this case, the NBK may decide to put the bank into conservation. However, if the NBK decided that the bank was indeed insolvent and this decision was confirmed by the court, then the court would have a liquidator appointed by the NBK and there would be a liquidation of the bank in accordance with the order of priority set out under the Banking Law. Article 74-2 of the Banking Law provides that administrative and legal expenses of bankruptcy are paid before any distributions to creditors of an insolvent bank. The proceeds of the bankruptcy estate of an insolvent bank should be distributed among its creditors in the following order:

- administrative and legal expenses incurred in course of the bankruptcy proceedings;
- payments for tort claims involving harm to life or health;
- payments due to employees as a result of their employment and related social security, obligatory alimony, pension payments and payments due under copyright agreements;
- claims of the organisation carrying out the obligatory guaranteeing of deposits (equal to the compensation paid or payable by such organisation);
- claims relating to bank deposits or settlement accounts of individuals, deposits comprising pension assets and deposits of life insurance companies;
- settlements with charitable and other similar organisations;
- claims of entities secured by pledge (to the extent of the value of the collateral);
- tax and other obligatory payments to the budget and repayment of borrowings to the budget; and
- settlements with other creditors in accordance with general legislation.

Accordingly, under current Kazakhstan bankruptcy law, in the event of the bankruptcy of the Bank, claims with respect to the repayment of the amounts outstanding under its debt securities which are not secured would be treated as claims of creditors as identified in the last item above.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

1. Global Notes

The Notes will be evidenced on issue by the Global Note (deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and/or Clearstream, Luxembourg).

Interests in the Global Note may be held only through Euroclear and/or Clearstream, Luxembourg at any time. See "*4. Book-Entry Procedures*".

Except in the limited circumstances described below, owners of interests in the Global Note will not be entitled to receive physical delivery of certificated Notes in definitive form (the "**Definitive Note Certificates**"). The Notes are not issuable in bearer form.

2. Amendments to the Conditions

The Global Note contains provisions that apply to the Notes that it represents, some of which modify the effect of the above Conditions of the Notes. The following is a summary of those provisions:

Payments. Payments of principal, premium (if any) and interest in respect of Notes evidenced by the Global Note will be made against presentation for endorsement by the Principal Paying and Transfer Agent and, if no further payments are to be made in respect of the relevant Notes, surrender of the Global Note to or to the order of the Principal Paying and Transfer Agent or such other Paying and Transfer Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Notes.

Notices. So long as any of the Notes are represented by the Global Note, notices required to be published in accordance with Condition 15 (*Notices*) may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg (or any alternative clearing system) for communication by them to the relevant accountholders.

Meetings. The holder of the Global Note will be treated as having one vote in respect of each U.S.$1,000 in principal amount of Notes for which the Global Note may be exchangeable at any meeting of Noteholders.

Trustee's Powers. In considering the interests of Noteholders while the Global Note is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Note and may consider such interests as if such accountholders were the holders of the Global Note.

Prescription. Claims against the Issuer in respect of principal, premium (if any) and interest on the Notes while the Notes are represented by the Global Note will become void unless it is presented for payment within a period of ten years (in the case of principal and premium (if any)) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 10 (*Taxation*) of the Notes).

Call Option. No drawing of Notes will be required under Condition 9(b) (*Redemption for Taxation Reasons*) of the Notes in the event that the Issuer exercises its call option in such Condition while the Notes are represented by the Global Note in respect of less than the aggregate principal amount of Notes outstanding.

Purchase and Cancellation. Cancellation of any Note required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Global Note.

3. Exchange for and Transfers of Definitive Note Certificates

The Global Note will become exchangeable, free of charge to the holder, in whole but not in part, for Definitive Note Certificates if Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so, or an Event of Default (as defined in Condition 12 (*Events of Default*) of the Notes) occurs. In such circumstances, the Issuer will notify the Noteholders as soon as practicable after the occurrence of the relevant event and that such Definitive Note Certificates will be registered in such names as Euroclear and/or Clearstream, Luxembourg shall direct in writing.

In such circumstances, the Global Note shall be exchanged in full for Definitive Note Certificates and the Issuer will, without charge to the holder or holders thereof, but against such indemnity, security or payment in advance as the Registrar may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange, cause sufficient Definitive Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in the Global Note must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes.

The holder of a Definitive Note Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Paying and Transfer Agent, together with the completed form of transfer thereon. The Registrar will not register the transfer of any Notes or exchange of interests in a Global Note for Definitive Note Certificates for a period of 15 calendar days ending on the due date for any payment of principal or interest in respect of the Notes.

4. Book-Entry Procedures

Custodial and depositary links are expected to be established between Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "*Book-Entry Ownership*" and "*Settlement and Transfer of Interests in Notes held in the Clearing Systems*" below.

Investors may hold their interests in the Global Note directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

5. Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

6. Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

A Global Note representing the Notes will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

The address of Euroclear is 1 Boulevard du Roi Albert 11, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855 Luxembourg.

7. Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear and Clearstream, Luxembourg as the holder of a Note evidenced by the Global Note must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of the Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by the Global Note, the Paying Agent, will immediately credit the relevant Participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective interests in the principal amount of the Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of interests in the Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by the Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of the Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Paying and Transfer Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

8. Settlement and Transfer of Interests in Notes held in the Clearing Systems

Subject to the rules and procedures of the applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in the Global Note are exchanged for Definitive Note Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited.

Secondary market sales of book-entry interests in the Notes held through Euroclear and/or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear and/or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

TAXATION

The following is a general summary of the material European Union tax consequences and Kazakhstan tax consequences as of the date hereof in relation to payments made under the Notes and in relation to the sale or transfer of Notes. It is not exhaustive and purchasers are urged to consult their professional advisors as to the tax consequences to them of holding or transferring Notes.

EU Directive on the Taxation of Savings Income (Directive 2003/48/EC)

Under EC Council Directive 2003/48/EC (the "**EU Savings Directive**") on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income (within the meaning of the EU Savings Directive) paid by a paying agent (within the meaning of the EU Savings Directive) within its jurisdiction to, or collected by such a paying agent for, an individual resident or certain limited types of entity established in that other Member State. However, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates which have risen over time to 35%, unless in the case of Luxembourg the beneficial owner of the interest payments opts for information exchange. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. A number of other countries and territories have adopted similar measures to the EU Savings Directive. On 10 April 2013, the Luxembourg Ministry of Finance announced that Luxembourg's transitional period will end with effect from 1 January 2015, in favour of automatic information exchange under the EU Savings Directive.

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If an amount of, or in respect of, tax were to be withheld from a payment of principal or interest under a Note, pursuant to the EU Savings Directive, any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. See Condition 10 (*Taxation*) of the "*Terms and Conditions of the Notes*". However, the Issuer is required, as provided in Condition 8(e) (*Agents*) of the "*Terms and Conditions of the Notes*", to maintain a Paying Agent in a Member State that does not impose an obligation to withhold or deduct tax pursuant to the EU Savings Directive or any law implementing or complying with, or introduced in order to conform to, the EU Savings Directive or any such other Directive.

Kazakhstan Taxation

The following is a general summary of Kazakhstan tax consequences as at the date hereof in relation to payments made under the Notes and in relation to the sale or transfer of Notes. It is not exhaustive and purchasers are urged to consult their professional advisors as to the tax consequences to them of holding or transferring Notes.

Interest

Under Kazakhstan law as presently in effect, payments of interest on the Notes to an individual who is a non-resident of Kazakhstan or to a legal entity that (i) is not established in accordance with the legislation of Kazakhstan, (ii) does not have its actual governing body (place of actual management) in Kazakhstan, (iii) does not maintain a permanent establishment in Kazakhstan and (iv) otherwise has no taxable presence in Kazakhstan (together, "**Non-Kazakhstan holders**") will be subject to withholding tax at a rate of 15% unless reduced by an applicable double taxation treaty. Payments of interest on the Notes to Non-Kazakhstan holders registered in specified countries with a favourable tax regime (such as Cyprus, Liechtenstein, Luxembourg, Nigeria, Malta, Aruba and others) will be subject to the Kazakhstan withholding tax at a rate of 20% unless reduced by an applicable double taxation treaty.

Non-Kazakhstan holders who are resident in countries, such as the United States or the United Kingdom, with which Kazakhstan has bilateral taxation treaties may be entitled to a reduced rate of withholding tax, subject to timely submission to the Issuer of the duly issued tax residence certificate from such country of residence.

The withholding tax on interest would not apply if the Notes are listed, as at the date of accrual of interest, on the official list of a stock exchange operating in the territory of Kazakhstan (such as the KASE).

In general, interest payable to residents of Kazakhstan or to non-residents who maintain a permanent establishment in Kazakhstan (together, "**Kazakhstan Holders**") will be subject to Kazakhstan withholding tax at a rate of 15% unless the Notes are, as at the date of accrual of interest, listed on the official list of a stock exchange operating in Kazakhstan (such as the KASE).

The Terms and Conditions of the Notes state that all payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes.

Gains

Gains realised by Non-Kazakhstan Holders derived from the disposal, sale, exchange or transfer of the Notes will be subject to withholding tax at a rate of 15% unless reduced by an applicable double taxation treaty. If such disposal of the Notes is made to a Kazakhstan Holder and the transferor is registered in a country with a favourable tax regime, as referred to above, gains derived from such a disposal are subject to withholding tax in Kazakhstan at the rate of 20% unless reduced by an applicable double taxation treaty.

Non-Kazakhstan holders who are resident in countries, such as the United States or the United Kingdom, with which Kazakhstan has bilateral taxation treaties may be entitled to a reduced rate of withholding tax, subject to timely submission to a purchaser, acting as a withholding agent, of the duly issued tax residence certificate from such country of residence.

Any gains realised by Kazakhstan Holders and Non-Kazakhstan Holders in relation to Notes which are listed as at the date of sale on the official list of a stock exchange operating in the territory of Kazakhstan (such as the KASE) (applies to Kazakhstan Holders and Non-Kazakhstan Holders) or a foreign stock exchange (applies to Non-Kazakhstan Holders only) and sold through open trades on such stock exchanges are not subject to withholding tax in Kazakhstan. However, gains made by a holder on the sale of a Note otherwise than through open trades on a stock exchange may be subject to Kazakhstan tax or withholding tax and a purchaser may be treated as a withholding agent for such purposes and be liable to account for Kazakhstan withholding tax on the portion of the purchase price representing the gain by the seller of such Note. However, Kazakhstan tax legislation does not specify a mechanism for the collection of any such tax where the purchaser of Notes in such a situation (i) is not an individual entrepreneur or a legal entity registered in accordance with the legislation of Kazakhstan, (ii) is not a legal entity registered in accordance with the legislation of a country other than Kazakhstan acting via its branch or representative office or other permanent establishment in Kazakhstan, and (iii) otherwise has no taxable presence in Kazakhstan.

SUBSCRIPTION AND SALE

Renaissance Broker Limited (the "**Lead Manager**") and Eurasian Capital JSC (the "**Kazakhstan Dealer**") have, pursuant to a deed of subscription dated 5 November 2014 (the "**Deed of Subscription**"), agreed with the Issuer, subject to the satisfaction of certain conditions, to severally (and not jointly) subscribe for the Notes at 100.0% of their principal amount. Additionally, the Issuer has separately agreed with the Kazakhstan Dealer to act as the Kazakhstan Dealer's local settlement manager and to take delivery from the Lead Manager (in accordance with a separate agreement between the Issuer and the Lead Manager for this purpose) of an agreed portion of Notes for onward distribution to and settlement with local investors. As part of this arrangement, the Issuer may purchase some of the Notes for its own account. The Issuer has agreed to pay certain costs and expenses in connection with the issue of the Notes.

The Deed of Subscription entitles the Lead Manager (on behalf of the managers named therein (such managers, together with the Lead Manager, the "**Managers**") to terminate it in certain circumstances prior to payment for the Notes being made to the Issuer. Additionally, the Lead Manager is entitled to return to the Issuer, in certain circumstances (and prior to payment for the Notes being made to the Issuer), all or some of the allocation of Notes (the "**Affected Notes**") that the Lead Manager has, pursuant to the Deed of Subscription, agreed to subscribe and pay (or procure the subscription and payment) for, whereupon the Issuer may hold, cancel and/or re-issue the Affected Notes freely on such terms as and when it so determines. The Issuer has agreed to indemnify the Managers against certain liabilities in connection with the offer and sale of the Notes.

The Lead Manager and its affiliates have, from time to time, engaged in, and may in the future engage in, various commercial dealings in the ordinary course of business with the Issuer and its affiliates. The Lead Manager has received customary fees and commissions for these transactions and services.

United States

The Notes have not been and will not be registered under the Securities Act and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or in a transaction not subject to the registration requirements of, the Securities Act.

The Lead Manager has agreed that:

(a) it has not solicited and will not solicit offers for, or offer or sell, Notes by means of any general solicitation or advertising in the United States or otherwise in any manner involving a public offerings within the meaning of Section 4(2) of the Securities Act;

(b) none of it, its affiliates or any person acting on its or their behalf, has engaged or will engage in any directed selling efforts (within the meaning of Regulation S) with respect to the Notes;

(c) it, or any person acting on its behalf, will offer or sell or solicit offers for the Notes as part of their initial distribution only in offshore transactions within the meaning and meeting the requirements of Rule 903 under the Securities Act.

Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Kazakhstan

The Lead Manager has represented, warranted and agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy or sell the Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in Kazakhstan, except in compliance with the applicable securities laws of Kazakhstan.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), the Lead Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular to the public in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Managers; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer or the Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State. The expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

United Kingdom

The Lead Manager has represented, warranted and agreed that: (a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act, as amended (the "**FIEA**"). This document is not an offer of securities for sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or entity organised under the laws of Japan) or to others for reoffer or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the securities registration requirements under the FIEA and otherwise in compliance with such law and any other applicable laws, regulations and ministerial guidelines of Japan.

General

No action has been or will be taken in any jurisdiction by the Issuer or the Lead Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Issuer and the Lead Manager to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

1. Clearing Systems

The Notes have been accepted for clearance through the Clearstream, Luxembourg and Euroclear systems with a Common Code of 112958193. The ISIN for the Notes is XS1129581937.

2. Admission to Trading

Application has been made for the Notes to be admitted to the "rated debt securities" category of the official list of the KASE. On 22 October 2014, the KASE granted its consent for the admission of the Notes, which are expected to be admitted to the "rated debt securities" category of KASE's official list.

3. Authorisations

The Issuer has obtained all necessary consents, approvals and authorisations in Kazakhstan in connection with the issue and performance of the Notes. The issue of the Notes was authorised by resolution of the Board of Directors of the Issuer passed on 29 September 2014.

4. Material Adverse Change

There has been no significant change in the financial or trading position of the Issuer since 30 June 2014 and no material adverse change in the financial position or prospects of the Issuer since 20 June 2014.

5. Litigation

Neither the Issuer nor any of its subsidiaries is involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had during the 12 months preceding the date of this Offering Circular, a significant effect on the financial position or profitability of the Issuer.

6. Documents on Display

For so long as any of the Notes is outstanding, copies of the following documents may be inspected at the specified offices of each of the Paying and Transfer Agents during normal business hours:

(a) the constitutional documents of the Issuer;

(b) the interim accounts of the Issuer as at and for the six months ended 30 June 2014 including the review report relating to such accounts;

(c) the annual report and accounts of the Issuer as at and for the financial years ended 31 December 2013 and 2012, including, in each case, the audit report relating to such accounts;

(d) the Trust Deed;

(e) the Agency Agreement;

(f) the Deed of Subscription;

(g) this Offering Circular and any supplements thereto.

English translations of any of the documents listed above which are not in English are also available for inspection as described above.

7. Independent Auditors

The consolidated financial statements of the Bank as at and for the year ended 31 December 2013, included in this Offering Circular, have been audited by KPMG Audit LLC, independent auditors, ("**KPMG**") as stated in their report appearing herein. The consolidated interim condensed financial statements of the Bank as at 30 June 2014 and for the six-month period then ended have been reviewed by KPMG in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, as stated in their report appearing herein. Investors should note that the consolidated interim condensed financial statements of the Bank as at 30 June 2014 contained in this Offering Circular include consolidated interim condensed financial information for the six-months ended 30 June 2013, in accordance with IFRS requirements, that has not been independently reviewed by KPMG in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.

8. Enforcement by the Trustee

The Conditions provide for the Trustee to take action on behalf of the Noteholders in certain circumstances, but only if the Trustee is indemnified to its satisfaction. It may not be possible for the Trustee to take certain actions in relation to the Notes and accordingly in such circumstances the Trustee will be unable to take action, notwithstanding the provision of an indemnity to it, and it will be for Noteholders to take action directly.

INDEX TO FINANCIAL STATEMENTS

(1) Investors should note that the Unaudited Consolidated Interim Condensed Financial Statements as at and for the six months ended 30 June 2014 (the "**Unaudited Interim Financial Statements**") include consolidated interim condensed financial information for the six-months ended 30 June 2013, in accordance with IFRS requirements, that has not been independently reviewed by KPMG Audit LLC, independent auditors, in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. Investors should therefore interpret any such information included in the Unaudited Interim Financial Statements accordingly.

Eurasian Bank JSC

Consolidated Financial Statements

for the year ended 31 December 2013

Contents

«КПМГ Аудит» жауапкершілігі
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KPMG Audit LLC
050051 Almaty, 180 Dostyk Avenue,
E-mail: company@kpmg.kz

Independent Auditors' Report

To the Board of Directors of Eurasian Bank JSC

We have audited the accompanying consolidated financial statements of Eurasian Bank JSC and its subsidiary (together referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

KPMG Audit LLC

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

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

25 April 2014

	Note	2013 KZT'000	2012 KZT'000
Interest income	4	69,302,876	50,387,551
Interest expense	4	(29,489,203)	(23,450,884)
Net interest income		**39,813,673**	**26,936,667**
Fee and commission income	5	11,687,847	8,955,723
Fee and commission expense	6	(1,986,506)	(1,031,406)
Net fee and commission income		**9,701,341**	**7,924,317**
Net loss on financial instruments at fair value through profit or loss		(161,988)	(420,138)
Net foreign exchange gain	7	2,642,196	4,105,006
Net loss on available-for-sale financial assets		(290)	(22,061)
Gain from sale of mortgage loans	16	707,582	-
Other operating expenses, net		(165,286)	(76,580)
Operating income		**52,537,228**	**38,447,211**
Impairment losses	8	(8,247,764)	(4,153,442)
Personnel expenses	9	(15,070,861)	(11,971,416)
Other general administrative expenses	10	(11,940,071)	(9,236,049)
Profit before income tax		**17,278,532**	**13,086,304**
Income tax expense	11	(4,132,351)	(3,254,251)
Profit for the year		**13,146,181**	**9,832,053**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		62,315	(53,532)
- Net change in fair value transferred to profit or loss		290	22,061
Foreign currency translation differences for foreign operations		(174,496)	201,977
Total items that are or may be reclassified subsequently to profit or loss		*(111,891)*	*170,506*
Total other comprehensive (loss)/income for the year		**(111,891)**	**170,506**
Total comprehensive income for the year		**13,034,290**	**10,002,559**
Earnings per ordinary share, in KZT	28	810.94	621.63

The consolidated financial statements as set out on pages 5 to 86 were approved by management on 25 April 2014 and were signed on its behalf by:

Eggleton M.
Chairman

Nelina L.N.
Chief Accountant

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Note	2013 KZT'000	2012 KZT'000
ASSETS			
Cash and cash equivalents	12	83,146,378	59,622,754
Financial instruments at fair value through profit or loss	13	1,139,628	1,262,873
Available-for-sale financial assets	14	10,979,872	18,423,546
Loans and advances to banks	15	2,922,373	3,485,413
Loans to customers	16	432,529,086	354,642,287
Held-to-maturity investments	17	23,462,306	10,327,192
Current tax asset		1,284,278	885,141
Property, equipment and intangible assets	18	19,758,591	16,760,598
Other assets	19	13,410,896	5,100,755
Total assets		**588,633,408**	**470,510,559**
LIABILITIES			
Financial instruments at fair value through profit or loss	13	2,278	1,123
Deposits and balances from banks	20	14,116,633	21,228,576
Amounts payable under repurchase agreements	21	8,803,285	-
Current accounts and deposits from customers	22	404,673,786	314,720,398
Debt securities issued	23	32,786,356	34,441,764
Subordinated debt securities issued	24	35,669,288	27,871,504
Other borrowed funds	25	21,410,349	18,562,156
Deferred tax liability	11	257,542	41,572
Other liabilities	26	12,095,527	5,859,263
Total liabilities		**529,815,044**	**422,726,356**
EQUITY			
Share capital	27	30,110,207	30,110,207
Share premium		25,632	25,632
Reserve for general banking risks		8,234,923	6,650,265
Dynamic reserve		6,733,233	-
Revaluation reserve for available-for-sale financial assets		(51,653)	(114,258)
Cumulative translation reserve		(182,251)	(7,755)
Retained earnings		13,948,273	11,120,112
Total equity		**58,818,364**	**47,784,203**
Total liabilities and equity		**588,633,408**	**470,510,559**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	2013 KZT'000	2012 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	62,615,229	47,543,365
Interest payments	(28,398,992)	(21,956,549)
Fee and commission receipts	11,799,057	8,602,144
Fee and commission payments	(1,986,506)	(1,031,402)
Net payments from financial instruments at fair value through profit or loss	(150,551)	(378,349)
Net receipts from foreign exchange	2,683,016	4,251,478
Other payments	(168,675)	(83,282)
Personnel expenses payments	(14,534,561)	(11,835,902)
Other general administrative expenses payments	(9,372,090)	(7,203,001)
(Increase)/decrease in operating assets		
Financial instruments at fair value through profit or loss	56,500	416,223
Mandatory reserve	(206,759)	(24,055)
Loans and advances to banks	759,294	(2,401,493)
Amounts receivable under reverse repurchase agreements	-	2,500,001
Loans to customers	(80,354,726)	(99,753,431)
Other assets	(3,859,898)	(671,050)
Increase/(decrease) in operating liabilities		
Deposits and balances from banks	(6,740,082)	17,538,247
Amounts payable under repurchase agreements	8,801,003	(6,755,451)
Current accounts and deposits from customers	88,901,052	66,481,786
Other liabilities	1,905,318	1,528,399
Net cash from/(used in) operating activities before income tax paid	**31,747,629**	**(3,232,322)**
Income tax paid	(4,312,612)	(2,015,156)
Cash flows from/(used in) operating activities	**27,435,017**	**(5,247,478)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale financial assets	(10,425,277)	(54,832,728)
Sale and repayment of available-for-sale financial assets	18,145,893	37,509,065
Purchases of held-to-maturity investments	(20,005,394)	(42,230,551)
Redemption of held-to-maturity investments	7,242,093	70,676,262
Purchases of property and equipment and intangible assets	(5,658,011)	(4,416,754)
Sales of property and equipment and intangible assets	17,554	14,630
Advances for capital expenditures	(761,780)	(311,650)
Cash flows (used in)/from investing activities	**(11,444,922)**	**6,408,274**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	2013 KZT'000	2012 KZT'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from debt securities issued	-	1,452,539
Repurchase of debt securities issued	(1,295,789)	(105,363)
Receipts from subordinated debt securities issued	17,534,520	3,706,600
Repayment of subordinated debt securities issued	(10,000,000)	-
Receipts of other borrowed funds	12,328,852	19,829,527
Repayment of other borrowed funds	(9,733,272)	(22,085,218)
Proceeds from issuance of share capital	-	5,900,003
Dividends paid	(2,000,129)	-
Cash flows from financing activities	**6,834,182**	**8,698,088**
Net increase in cash and cash equivalents	**22,824,277**	**9,858,884**
Effect of changes in exchange rates on cash and cash equivalents	699,347	992,869
Cash and cash equivalents as at the beginning of the year	59,622,754	48,771,001
Cash and cash equivalents as at the end of the year (Note 12)	**83,146,378**	**59,622,754**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

KZT'000	**Share capital**	**Share premium**	**Reserve for general banking risks**	**Revaluation reserve for available-for-sale financial assets**	**Cumulative translation reserve**	**Retained earnings**	**Total**
Balance as at 1 January 2012	24,210,204	25,632	5,381,456	(82,787)	(209,732)	2,556,868	31,881,641
Total comprehensive income							
Profit for the year	-	-	-	-	-	9,832,053	9,832,053
Other comprehensive income							
Items that are or may be reclassified subsequently to profit or loss:							
Net change in fair value of available-for-sale financial assets	-	-	-	(53,532)	-	-	(53,532)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	22,061	-	-	22,061
Foreign currency translation differences for foreign operations	-	-	-	-	201,977	-	201,977
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	*(31,471)*	*201,977*	-	*170,506*
Total other comprehensive income	-	-	-	(31,471)	201,977	-	170,506
Total comprehensive income for the year	**-**	**-**	**-**	**(31,471)**	**201,977**	**9,832,053**	**10,002,559**
Transactions with owners, recorded directly in equity							
Shares issued	5,900,003	-	-	-	-	-	5,900,003
Other movements in equity							
Increase in general reserve (Note 27 (d))	-	-	1,268,809	-	-	(1,268,809)	-
Balance as at 31 December 2012	**30,110,207**	**25,632**	**6,650,265**	**(114,258)**	**(7,755)**	**11,120,112**	**47,784,203**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

KZT'000	**Share capital**	**Share premium**	**Reserve for general banking risks**	**Dynamic reserve**	**Revaluation reserve for available-for-sale financial assets**	**Cumulative translation reserve**	**Retained earnings**	**Total**
Balance as at 1 January 2013	30,110,207	25,632	6,650,265	-	(114,258)	(7,755)	11,120,112	47,784,203
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	13,146,181	13,146,181
Other comprehensive income								
Items that are or may be reclassified subsequently to profit or loss:								
Net change in fair value of available-for-sale financial assets	-	-	-	-	62,315	-	-	62,315
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	-	290	-	-	290
Foreign currency translation differences for foreign operations	-	-	-	-	-	(174,496)	-	(174,496)
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	-	*62,605*	*(174,496)*	-	*(111,891)*
Total other comprehensive income	-	-	-	-	62,605	(174,496)	-	(111,891)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**62,605**	**(174,496)**	**13,146,181**	**13,034,290**
Transactions with owners, recorded directly in equity				-				
Dividends declared	-	-	-	-	-	-	(2,000,129)	(2,000,129)
Other movements in equity								
Increase in general reserve (Note 27 (d))	-	-	1,584,658	-	-	-	(1,584,658)	-
Transfer to dynamic reserve (Note 27 (d))	-	-	-	6,733,233	-	-	(6,733,233)	-
Balance as at 31 December 2013	**30,110,207**	**25,632**	**8,234,923**	**6,733,233**	**(51,653)**	**(182,251)**	**13,948,273**	**58,818,364**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

1 Background

(a) Organisation and operations

These consolidated financial statements include the financial statements of Eurasian Bank JSC (the "Bank") and its subsidiary, Eurasian Bank OJSC (together referred to as the "Group").

The Bank was established in 1994 in the Republic of Kazakhstan as a closed joint-stock company under the laws of the Republic of Kazakhstan. Due to a change in legislation introduced in 2003, the Bank was re-registered as a joint-stock company on 2 September 2003. The Bank operates based on general banking licence number 237 granted on 28 December 2007. The Bank also possesses licences number 0401100623 and number 0407100189 for brokerage, dealing and custodian activities. The principal activities of the Group are deposit taking and customer account maintenance, lending and issuing guarantees, custodian services, cash and settlement operations, operations with securities and foreign exchange.

The activities of the Bank are regulated by the Committee for the control and supervision of the financial market and financial organisations of the National Bank of the Republic of Kazakhstan (the "FMSC") and the National Bank of the Republic of Kazakhstan (the "NBRK").

As at 31 December 2013 the Group has 20 regional branches (2012: 19) and 143 cash settlement centers (2012: 99) from which it conducts business throughout the Republic of Kazakhstan and Russian Federation.

The registered address of the Bank's head office is 56 Kunayev str., Almaty, Republic of Kazakhstan. The majority of the Group's assets and liabilities are located in Kazakhstan.

On 1 April 2010 the Bank acquired a subsidiary, Eurasian Bank OJSC, located in Moscow, Russian Federation.

On 1 January 2011 the Group acquired the retail assets of LLP Prosto Kredit and LLP MKO Prosto Kredit ("Prosto Kredit") in the Republic of Kazakhstan.

(b) Shareholders

As at 31 December 2013 Eurasian Financial Company JSC (hereafter, EFC) is the Bank's Parent company, which owns 100.00% of the Bank's shares (2012: EFC owned 99.67%, Eurasian Industrial Company JSC owned 0.33%).

(c) Business environment

The Group's operations are primarily located in Kazakhstan. Consequently, the Group is exposed to the economic and financial markets of Kazakhstan which display characteristics of an emerging market. 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 Kazakhstan. The consolidated financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

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

(c) Functional and presentation currency

The functional currency of the Bank is the Kazakhstan tenge (“KZT”) as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to the Bank.

The functional currency of the Bank’s subsidiary is the Russian Rouble (“RUB”) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to the subsidiary.

The KZT is the presentation currency for the purposes of these consolidated financial statements.

In translating to the KZT, assets and liabilities of the Bank’s subsidiary that are included in the statement of financial position are translated at the foreign exchange rate ruling at the reporting date. All income and expense and equity items are translated at approximating rates at the dates of the transactions. The resulting exchange difference is recorded in the cumulative translation reserve.

Financial information presented in KZT is rounded to the nearest thousand.

Any conversion of RUB amounts to KZT should not be construed as a representation that RUB amounts have been, could be, or will be in the future, convertible into KZT at the exchange rate shown, or at any other exchange rate.

(d) Use of estimates and judgments

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- insurance agent services income – Note 5
- loan impairment estimates – Note 16
- estimates of fair value of financial instruments – Note 36.

2 Basis of preparation, continued

(e) Changes in accounting policies and presentation

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- IFRS 10 *Consolidated Financial statements* (see (i))
- IFRS 13 *Fair Value Measurements* (see (ii))
- *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1) (see (iii))
- *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7) (see (iv)).

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

(i) Subsidiaries, including structured entities

As a result of adoption of IFRS 10, the Group changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that is applicable to all investees, including structured entities. See notes 3 (a) (ii) and (iii).

In accordance with the transitional provisions of IFRS 10, the Group reassessed the control conclusion for its investees as at 1 January 2013. The Group determined that its consolidated group structure remained unchanged under IFRS 10, and as a result, the consolidated financial statements are unaffected.

(ii) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 *Financial Instruments: Disclosures* (see Note 36).

As a result, the Group adopted a new definition of fair value, as set out in Note 3(d) (v). The change had no significant impact on the measurements of assets and liabilities. However, the Group included new disclosures in the consolidated financial statements that are required under IFRS 13 and provided comparative information for new disclosures.

(iii) Presentation of items of other comprehensive income

As a result of the amendments to IAS 1, the Group modified the presentation of items of other comprehensive income in its consolidated statement of profit or loss and other comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be. Comparative information is also re-presented accordingly.

The adoption of the amendment to IAS 1 has no impact on the recognised assets, liabilities or comprehensive income.

(iv) Financial instruments: Disclosures – Offsetting financial assets and financial liabilities

Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* introduced new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements.

The Group included new disclosures in the consolidated financial statements that are required under amendments to IFRS 7 and provided comparative information for new disclosures.

2 Basis of preparation, continued

(f) Changes in presentation – prior period reclassification

Comparative information is reclassified to conform to changes in presentation in the current period

During the preparation of the Group's consolidated financial statements for the year ended 31 December 2013, management made certain reclassifications affecting the corresponding figures to conform to the presentation of the consolidated financial statements for the year ended 31 December 2013.

In the consolidated statement of financial position as at 31 December 2012 mandatory reserve with the NBRK of KZT 4,702,477 thousand was reclassified from loans and advances to banks to cash and cash equivalents. Management believes that this presentation is more appropriate presentation in accordance with IFRS and provides a clearer view of the consolidated financial position of the Group. The effect of reclassifications on the corresponding figures can be summarised as follows:

KZT'000	As reclassified	Effect of reclassifications	As previously reported
Consolidated statement of financial position as at 31 December 2012			
Cash and cash equivalents	59,622,754	4,702,477	54,920,277
Loans and advances to banks	3,485,413	(4,702,477)	8,187,890
Consolidated statement of cash flows for the year ended 31 December 2012			
Mandatory reserve	(24,055)	(3,501,164)	3,477,109
Loans and advances to banks	(2,401,493)	(41,435)	(2,360,058)
Net cash provided from operating activities before income tax paid	(3,232,322)	(3,542,599)	310,277
Cash flows provided from operating activities	(5,247,478)	(3,542,599)	(1,704,879)
Net increase in cash and cash equivalents	9,858,884	(3,542,599)	13,401,483
Cash and cash equivalents as at the beginning of the year	48,771,001	8,245,076	40,525,925
Cash and cash equivalents as at the end of the year	59,622,754	4,702,477	54,920,277

The above reclassifications do not impact the Group's results or equity.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements, and are applied consistently by Group entities, except as explained in Note 2 (e), which addresses changes in accounting policies.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

3 Significant accounting policies, continued

(a) Basis of consolidation, continued

(ii) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular the Group consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(iv) Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill is allocated to cash-generating units for impairment testing purposes and is stated at cost less impairment losses.

(b) Foreign currency

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

(c) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the NBRK, the Central Bank of the Russian Federation (the “CBRF”) and other banks and deposits with banks with original maturities of less than three months. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

3 Significant accounting policies, continued

(d) Financial instruments

(i) Classification

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

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

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

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

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

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

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

- 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 Group has the positive intention and ability to hold to maturity, other than those that:

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

Available-for-sale financial assets are those non-derivative 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.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(ii) Recognition

Financial assets and liabilities are recognised in the consolidated statement of financial position when the Group 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 that are measured at amortised cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

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

(iv) Amortised cost

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

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference is credited or charged to profit or loss as gains or losses on origination of financial instruments at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortisation of the gains/losses on origination and the related income/expense is recorded in interest income/expense within profit or loss using the effective interest method.

(v) Fair value measurement principles

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

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

3 Significant accounting policies, continued

(d) Financial instruments, continued

(v) Fair value measurement principles, continued

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

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

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

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell the net long position (or paid to transfer the net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Group recognises transfers between the levels of the fair value hierarchy as of the end of the end of the reporting period during which the change has occurred.

(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 on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest method.

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

3 Significant accounting policies, continued

(d) Financial instruments, continued

(vii) Derecognition

The Group 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 Group 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 Group is recognised as a separate asset or liability in the statement of financial position. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its consolidated 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 Group 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 Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

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

The Group writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

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

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

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

(ix) Offsetting

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

3 Significant accounting policies, continued

(e) Property and equipment

(i) Owned assets

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

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

(ii) Depreciation

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

- Buildings	25 to 40 years
- Computer and banking equipment	3 to 8 years
- Vehicles	7 years
- Furniture	8 to 10 years
- Leasehold improvements	5 years

(f) Intangible assets

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

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

- Trademark	10 years
- Computer software and other intangibles	5 to 7 years

In 2012 the Group changed its assessment of useful life of the trademark from 3 to 10 years.

(g) Impairment

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

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

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

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

3 Significant accounting policies, continued

(g) Impairment, continued

(i) Financial assets carried at amortised cost

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

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable 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 Group uses its experience and judgment to estimate the amount of any impairment loss.

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

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

(ii) Financial assets carried at cost

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

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

3 Significant accounting policies, continued

(g) Impairment, continued

(iii) Available-for-sale financial assets

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

If, in a subsequent period, the fair value of an impaired 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.

(iv) Non financial assets

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

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount.

Any impairment loss reversed is only reversed to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

(h) Provisions

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

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

3 Significant accounting policies, continued

(i) Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

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

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

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

Loan commitments are not recognised, except for the following:

- loan commitments that the Group designates as financial liabilities at fair value through profit or loss

- if the Group has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments

- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument

- commitments to provide a loan at a below-market interest rate.

(j) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Kazakhstan legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(k) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3 Significant accounting policies, continued

(k) Taxation, continued

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(l) Income and expense recognition

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

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

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided. The Group acts as an agent for insurance providers offering their insurance products to consumer loan borrowers. Commission income from insurance represents commissions for such agency services received by the Group from such partners. It is not considered to be integral to the overall profitability of consumer loans because it is determined and recognised based on the Group's contractual arrangements with the insurance provider rather than with the borrower, the borrowers have a choice whether to purchase the policy, the interest rates for customers with and without the insurance are the same. The Group does not participate on the insurance risk, which is entirely borne by the partner. Commission income from insurance is recognised in profit or loss when the Group provides the agency service to the insurance company.

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

(m) Segment reporting

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(n) 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 2013, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Group plans to adopt these pronouncements when they become effective.

3 Significant accounting policies, continued

(n) New standards and interpretations not yet adopted, continued

The Group has not yet analysed the likely impact of new standards on its financial position or 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 phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The third phase was issued in November 2013 and relates to general hedge accounting. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the consolidated 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 Group does not intend to adopt this standard early.

- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.

- Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2014. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2013 KZT'000	**2012 KZT'000**
Interest income		
Loans to customers	67,884,137	49,627,673
Held-to-maturity investments	806,711	331,222
Available-for-sale financial assets	330,057	214,197
Loans and advances to banks	140,970	62,374
Financial instruments at fair value through profit or loss	73,291	107,705
Cash and cash equivalents	40,837	23,049
Amounts receivable under reverse repurchase agreements	26,873	21,331
	69,302,876	**50,387,551**
Interest expense		
Current accounts and deposits from customers	(21,046,296)	(15,668,593)
Debt securities issued	(3,007,092)	(3,235,774)
Subordinated debt securities issued	(2,746,103)	(2,717,540)
Other borrowed funds	(1,599,620)	(1,258,031)
Deposits and balances from banks	(651,237)	(475,192)
Amounts payable under repurchase agreements	(438,855)	(95,754)
	(29,489,203)	**(23,450,884)**
	39,813,673	**26,936,667**

4 Net interest income, continued

Included within various line items under interest income for the year ended 31 December 2013 is a total of KZT 1,533,986 thousand (2012: KZT 790,849 thousand) accrued on individually impaired financial assets.

5 Fee and commission income

	2013 KZT'000	2012 KZT'000
Agent services	7,782,122	4,713,829
Settlement	1,413,558	1,403,707
Cash withdrawal	969,944	1,011,892
Guarantee and letter of credit issuance	589,893	1,034,157
Payment card maintenance fees	568,979	432,417
Custodian services	59,557	64,464
Cash delivery	51,213	46,805
Other	252,581	248,452
	11,687,847	**8,955,723**

In December 2011 the Group signed an agreement with Life Insurance Company Kazkommerce-Life JSC to provide insurance agent services. The Group offers life insurance policies of this insurance company for its point of sale of retail loans and is paid an agency fee proportionate to premiums subscribed. Acquisition of a life insurance policy is voluntary and is not a condition to obtain a loan, nor does it affect the interest rate on the loan.

6 Fee and commission expense

	2013 KZT'000	2012 KZT'000
Agent services	1,243,778	521,838
Settlement	372,131	265,277
Cash withdrawal	247,436	168,252
Payment card maintenance fees	85,904	52,262
Custodian services	22,442	14,510
Other	14,815	9,267
	1,986,506	**1,031,406**

7 Net foreign exchange gain

	2013 KZT'000	2012 KZT'000
Dealing, net	2,546,000	4,207,360
Translation differences, net	96,196	(102,354)
	2,642,196	**4,105,006**

8 Impairment losses

	2013 KZT'000	2012 KZT'000
Loans to customers (Note 16)	8,256,601	3,806,849
Other assets (Note 19)	(37,271)	346,593
Provision for contingent liabilities	28,434	-
	8,247,764	**4,153,442**

9 Personnel expenses

	2013 KZT'000	2012 KZT'000
Wages, salaries, bonuses and related taxes	14,494,614	11,524,037
Other employee costs	576,247	447,379
	15,070,861	**11,971,416**

10 Other general administrative expenses

	2013 KZT'000	2012 KZT'000
Depreciation and amortisation	2,641,592	1,927,270
Operating lease expense	1,438,042	1,056,044
Communications and information services	1,183,161	1,044,676
Advertising and marketing	1,070,994	1,027,568
Taxes other than on income	1,034,195	804,283
Insurance of car loans	992,740	-
Security	701,332	466,817
Repairs and maintenance	486,404	536,046
Travel expenses	300,966	304,602
Professional services	293,324	145,539
Services of State Center for pension payments	222,672	159,920
Loan servicing	157,020	647,005
Cash delivery services	129,482	68,718
Insurance	125,918	85,749
Stationery and office supplies	63,664	188,353
Transportation	59,419	56,725
Payment cards production	37,506	29,357
Trainings	26,237	48,329
Representation expenses	13,411	30,298
Other	961,992	608,750
	11,940,071	**9,236,049**

Loan servicing fee of KZT 157,020 thousand was paid in 2013 (2012: KZT 647,005 thousand) to a service organisation, LLP MKO Prosto Kredit, under the general agreement for loan collection services, call-center services, credit files administration services, re-billed bank fees and other expenses incurred by the service organisation.

11 Income tax expense

	2013 KZT'000	2012 KZT'000
Current tax expense		
Current period	3,916,381	1,685,407
Under provided in prior periods	-	42,248
Deferred tax expense		
Origination and reversal of temporary differences	215,970	1,526,596
Total income tax expense	**4,132,351**	**3,254,251**

In 2013 the applicable tax rate for current and deferred tax is 20% (2012: 20%).

Reconciliation of effective tax rate for the period ended 31 December:

	2013 KZT'000	%	2012 KZT'000	%
Profit before income tax	**17,278,532**	**100.00**	**13,086,304**	**100.00**
Income tax at the applicable tax rate	3,455,706	20.00	2,617,261	20.00
Under provided in prior years	-	-	42,248	0.32
Tax-exempt income on securities	(218,405)	(1.26)	(87,358)	(0.67)
Non-deductible expenses	895,050	5.18	682,100	5.21
	4,132,351	**23.92**	**3,254,251**	**24.86**

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to a net deferred tax liability as at 31 December 2013 and as at 31 December 2012. This deferred tax liability has been recognised in these consolidated financial statements.

The deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the years ended 31 December 2013 and 2012 are as follows.

KZT'000	Balance 1 January 2013	Recognised in profit or loss	Balance 31 December 2013
Loans to customers	192,954	(1,284,247)	(1,091,293)
Property and equipment	(687,139)	(144,132)	(831,271)
Other assets	232,247	(109,357)	122,890
Financial instruments at fair value through profit or loss	3,896	(6,360)	(2,464)
Interest payable on deposits and balances from banks	-	82,321	82,321
Interest payable on current accounts and deposits from customers	-	928,392	928,392
Interest payable on repurchase agreements	-	456	456
Interest payable on debt securities issued	-	154,418	154,418
Interest payable on subordinated debt	-	89,369	89,369
Other liabilities	216,470	73,170	289,640
	(41,572)	**(215,970)**	**(257,542)**

KZT'000	Balance 1 January 2012	Recognised in profit or loss	Balance 31 December 2012
Loans to customers	326,687	(133,733)	192,954
Property and equipment	(635,224)	(51,915)	(687,139)
Other assets	288,176	(55,929)	232,247
Financial instruments at fair value through profit or loss	(11,745)	15,641	3,896
Other liabilities	181,278	35,192	216,470
Tax losses carried-forward	1,335,852	(1,335,852)	-
	1,485,024	**(1,526,596)**	**(41,572)**

12 Cash and cash equivalents

	2013 KZT'000	2012 KZT'000
Cash on hand	**20,248,246**	**14,897,932**
Nostro accounts with the NBRK and the CBRF	**30,333,937**	**29,961,292**
Nostro accounts with other banks		
- rated from AA- to AA+	50,422	68,981
- rated from A- to A+	26,338,051	6,379,350
- rated from BBB- to BBB+	283,288	377,354
- rated from BB- to BB+	582,973	702,906
- rated below B+	331,135	17,963
- not rated	82,610	51,878
Total nostro accounts with other banks	**27,668,479**	**7,598,432**
Term deposits with other banks		
- rated from BBB- to BBB+	936,000	1,141,210
- rated from BB- to BB+	-	3,237,258
- rated below B+	2,418,731	2,786,630
- not rated	1,540,985	-
Total term deposits with other banks	**4,895,716**	**7,165,098**
Total cash and cash equivalents	**83,146,378**	**59,622,754**

The credit ratings are presented by standards of Fitch credit ratings agency.

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

As at 31 December 2013 the Group has 2 banks (2012: 1 bank), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2013 is KZT 53,462,403 thousand (2012: KZT 28,072,720 thousand).

Minimum reserve requirements

Minimum reserve requirements are calculated in accordance with regulations issued by the NBRK and should be maintained as average of cash on hand and balances on current account with the NBRK for the two week period calculated as certain minimum level of residents' and non-residents' customer deposits and current accounts balances as well as other bank liabilities. As at 31 December 2013 the minimum reserve is KZT 6,694,173 thousand (31 December 2012: KZT 4,702,477 thousand).

13 Financial instruments at fair value through profit or loss

	2013 KZT'000	2012 KZT'000
ASSETS		
Held by the Group		
Debt and other fixed-income instruments		
- Government bonds		
Russian Government Federal bonds (OFZ)	1,139,628	1,259,771
Total government bonds	**1,139,628**	**1,259,771**
Derivative financial instruments		
Foreign currency contracts	-	3,102
	1,139,628	**1,262,873**
LIABILITIES		
Derivative financial instruments		
Foreign currency contracts	2,278	1,123
	2,278	**1,123**

No financial assets at fair value through profit or loss are past due or impaired.

13 Financial instruments at fair value through profit or loss, continued

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of forward exchange contracts outstanding at 31 December 2013 and 2012 with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

Type of instrument	Notional amount	Maturity	Amounts payable by Group	Amounts receivable by Group	Fair value Asset KZT'000	Fair value Liability KZT'000
31 December 2013						
Foreign currency swap	EUR 4,000,000	09/01/2014	EUR 4,000,000	RUB'000 180,325	-	2,278
					-	**2,278**

Type of instrument	Notional amount	Maturity	Amounts payable by Group	Amounts receivable by Group	Fair value Asset KZT'000	Fair value Liability KZT'000
31 December 2012						
Foreign currency swap	USD 2,000,000	03/01/2013	USD 2,000,000	KZT'000 301,300	724	-
Foreign currency swap	USD 2,000,000	04/01/2013	USD 2,000,000	KZT'000 300,860	189	-
Foreign currency forward	USD 750,000	15/03/2013	USD 750,000	KZT'000 115,928	2,189	-
Foreign currency forward	USD 1,700,000	09/01/2013	RUB'000 51,901	USD 1,700,000	-	1,123
					3,102	**1,123**

Approach to derivative transactions

The Group may enter into swap agreements and other types of over-the-counter transactions with broker-dealers or other financial institutions for hedging purposes. A swap involves the exchange by the Group with another party of their respective commitments to pay or receive cash flows, e.g. an exchange of floating rate payments for fixed-rate payments.

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

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

14 Available-for-sale financial assets

	2013 KZT'000	2012 KZT'000
Held by the Group		
Debt and other fixed-income instruments		
- Government bonds		
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	10,965,674	2,432,074
Notes of the NBRK	-	15,977,527
Total government bonds	**10,965,674**	**18,409,601**
Equity investments		
- Corporate shares	14,198	13,945
	10,979,872	**18,423,546**

Available-for-sale investments stated at cost comprise unquoted equity securities with a carrying value of KZT 14,198 thousand (2012: KZT 13,945 thousand). There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value. No notes and bonds are overdue or impaired as at 31 December 2013 (2012: nil).

15 Loans and advances to banks

	2013 KZT'000	2012 KZT'000
Mandatory reserves with the CBRF	**323,523**	**128,334**
Term deposits		
- rated from A- to A+	-	477,135
- rated from BBB- to BBB+	-	1,095
- rated from BB- to BB+	507,944	785,419
- rated below B+	1,260	1,513,080
- not rated	2,089,646	580,350
Total term deposits	**2,598,850**	**3,357,079**
Total loans and advances to banks	**2,922,373**	**3,485,413**

The credit ratings are presented by standards of Fitch credit ratings agency.

No loans and advances to banks are overdue or impaired as at 31 December 2013 (2012: nil).

(a) Concentration of loans and advances to banks

As at 31 December 2013 no banks (2012: nil) have balances that exceed 10% of equity.

(b) Mandatory reserves with the CBRF

Under legislation of the Russian Federation, the Group subsidiary is required to maintain certain mandatory reserve. The mandatory reserve deposit is a non-interest bearing deposit calculated in accordance with regulations issued by the CBRF and whose withdrawability is restricted.

16 Loans to customers

	2013 KZT'000	2012 KZT'000
Loans to corporate customers		
Loans to large corporate	193,915,808	176,841,374
Loans to small and medium size companies	35,784,153	36,773,851
Total loans to corporate customers	**229,699,961**	**213,615,225**
Loans to retail customers		
Car loans	76,369,442	28,902,541
Mortgage loans	17,943,436	33,831,716
Small business loans	16,664,846	18,629,432
Loans collaterised by cash	171,172	528,559
Private banking loans	150,894	-
Uncollateralised consumer loans	127,099,793	88,011,821
Total loans to retail customers	**238,399,583**	**169,904,069**
Gross loans to customers	**468,099,544**	**383,519,294**
Impairment allowance	(35,570,458)	(28,877,007)
Net loans to customers	**432,529,086**	**354,642,287**

Movements in the loan impairment allowance by classes of loans to customers for the period ended 31 December 2013 are as follows:

	Loans to corporate customers KZT'000	Loans to retail customers KZT'000	Total KZT'000
Balance at the beginning of the year	13,585,773	15,291,234	28,877,007
Net charge	1,478,460	6,778,141	8,256,601
Write-offs	(1,302,333)	(396,376)	(1,698,709)
Effect of foreign currency translation	83,787	51,772	135,559
Balance at the end of the year	**13,845,687**	**21,724,771**	**35,570,458**

Movements in the loan impairment allowance by classes of loans to customers for the period ended 31 December 2012 are as follows:

	Loans to corporate customers KZT'000	Loans to retail customers KZT'000	Total KZT'000
Balance at the beginning of the year	13,025,391	12,185,757	25,211,148
Net charge	637,863	3,168,986	3,806,849
Write-offs	(137,645)	(98,125)	(235,770)
Effect of foreign currency translation	60,164	34,616	94,780
Balance at the end of the year	**13,585,773**	**15,291,234**	**28,877,007**

16 Loans to customers, continued

The following table provides information by types of loan products as at 31 December 2013:

	Gross amount KZT'000	Impairment allowance KZT'000	Carrying amount KZT'000
Loans to corporate customers			
Loans to large corporate	193,915,808	(10,639,263)	183,276,545
Loans to small and medium size companies	35,784,153	(3,206,424)	32,577,729
Loans to retail customers			
Car loans	76,369,442	(709,679)	75,659,763
Mortgage loans	17,943,436	(2,257,456)	15,685,980
Small business loans	16,664,846	(5,055,072)	11,609,774
Loans collaterised by cash	171,172	(481)	170,691
Private banking loans	150,894	(597)	150,297
Uncollateralised consumer loans	127,099,793	(13,701,486)	113,398,307
Balance at the end of the year	**468,099,544**	**(35,570,458)**	**432,529,086**

The following table provides information by types of loan products as at 31 December 2012:

	Gross amount KZT'000	Impairment allowance KZT'000	Carrying amount KZT'000
Loans to corporate customers			
Loans to large corporate	176,841,374	(11,007,093)	165,834,281
Loans to small and medium size companies	36,773,851	(2,578,680)	34,195,171
Loans to retail customers			
Mortgage loans	33,831,716	(4,238,987)	29,592,729
Car loans	28,902,541	(716,521)	28,186,020
Small business loans	18,629,432	(5,546,373)	13,083,059
Loans collaterised by cash	528,559	-	528,559
Uncollateralised consumer loans	88,011,821	(4,789,353)	83,222,468
Balance at the end of the year	**383,519,294**	**(28,877,007)**	**354,642,287**

16 Loans to customers, continued

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2013:

	Gross loans KZT'000	Impairment allowance KZT'000	Net loans KZT'000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans to large corporate				
Loans without individual signs of impairment				
Standard not overdue loans	175,374,898	(2,455,874)	172,919,024	1.40
Overdue loans:				
- overdue 30-89 days	62,998	(246)	62,752	0.39
- overdue 90-179days	474,453	(1,850)	472,603	0.39
- overdue more than 360 days	590,841	(1,927)	588,914	0.33
Total loans without individual signs of impairment	176,503,190	(2,459,897)	174,043,293	1.39
Loans with individual signs of impairment:				
- not overdue	5,332,330	(4,267,956)	1,064,374	80.04
- overdue less than 90 days	1,562,520	(749,940)	812,580	48.00
- overdue more than 90 days and less than 1 year	6,798,337	(607,146)	6,191,191	8.93
- overdue more than 1 year	3,719,431	(2,554,324)	1,165,107	68.68
Total loans with individual signs of impairment	17,412,618	(8,179,366)	9,233,252	46.97
Total loans to large corporate	**193,915,808**	**(10,639,263)**	**183,276,545**	**5.49**
Loans to small and medium size companies				
Loans without individual signs of impairment				
Standard not overdue loans	26,904,371	(124,464)	26,779,907	0.46
Overdue loans:				
- overdue less than 30 days	505,370	(1,971)	503,399	0.39
- overdue 30-89 days	371,260	(1,448)	369,812	0.39
- overdue 90-179 days	17,891	(70)	17,821	0.39
- overdue 180-360 days	280,732	(1,095)	279,637	0.39
- overdue more than 360 days	265,412	(1,035)	264,377	0.39
Total loans without individual signs of impairment	28,345,036	(130,083)	28,214,953	0.46
Loans with individual signs of impairment:				
- not overdue	4,800	(1,155)	3,645	24.06
- overdue less than 90 days	2,737,364	(502,345)	2,235,019	18.35
- overdue more than 90 days and less than 1 year	1,059,221	(138,398)	920,823	13.07
- overdue more than 1 year	3,637,732	(2,434,443)	1,203,289	66.92
Total loans with individual signs of impairment	7,439,117	(3,076,341)	4,362,776	41.35
Total loans to small and medium size companies	**35,784,153**	**(3,206,424)**	**32,577,729**	**8.96**
Total loans to corporate customers	**229,699,961**	**(13,845,687)**	**215,854,274**	**6.03**

16 Loans to customers, continued

(a) Credit quality of loans to customers, continued

	Gross loans KZT'000	Impairment allowance KZT'000	Net loans KZT'000	Impairment allowance to gross loans, %
Loans to retail customers				
Car loans				
- not overdue	72,403,428	(90,359)	72,313,069	0.12
- overdue less than 30 days	1,497,963	(2,509)	1,495,454	0.17
- overdue 30-89 days	773,138	(1,754)	771,384	0.23
- overdue 90-179 days	494,662	(119,074)	375,588	24.07
- overdue 180-360 days	387,834	(111,237)	276,597	28.68
- overdue more than 360 days	812,417	(384,746)	427,671	47.36
Total car loans	**76,369,442**	**(709,679)**	**75,659,763**	**0.93**
Mortgage loans				
- not overdue	11,453,483	(299,334)	11,154,149	2.61
- overdue less than 30 days	1,343,731	(10,903)	1,332,828	0.81
- overdue 30-89 days	552,563	(7,197)	545,366	1.30
- overdue 90-179 days	353,485	(21,188)	332,297	5.99
- overdue 180-360 days	369,221	(61,009)	308,212	16.52
- overdue more than 360 days	3,870,953	(1,857,825)	2,013,128	47.99
Total mortgage loans	**17,943,436**	**(2,257,456)**	**15,685,980**	**12.58**
Small business loans				
- not overdue	8,449,223	(169,777)	8,279,446	2.01
- overdue less than 30 days	76,626	(2,313)	74,313	3.02
- overdue 30-89 days	1,366,019	(585,911)	780,108	42.89
- overdue 90-179 days	107,943	(32,578)	75,365	30.18
- overdue 180-360 days	760,303	(154,853)	605,450	20.37
- overdue more than 360 days	5,904,732	(4,109,640)	1,795,092	69.60
Total small business loans	**16,664,846**	**(5,055,072)**	**11,609,774**	**30.33**
Loans collaterised by cash				
- not overdue	171,172	(481)	170,691	0.28
Total loans collateralised by cash	**171,172**	**(481)**	**170,691**	**0.28**
Private banking loans				
- not overdue	150,894	(597)	150,297	0.40
Total Private banking loans	**150,894**	**(597)**	**150,297**	**0.40**
Uncollateralised consumer loans				
- not overdue	100,481,680	(858,552)	99,623,128	0.85
- overdue less than 30 days	4,724,230	(46,890)	4,677,340	0.99
- overdue 30-89 days	3,769,471	(39,829)	3,729,642	1.06
- overdue 90-179 days	3,939,109	(2,228,514)	1,710,595	56.57
- overdue 180-360 days	6,206,142	(4,135,909)	2,070,233	66.64
- overdue more than 360 days	7,979,161	(6,391,792)	1,587,369	80.11
Total uncollateralised consumer loans	**127,099,793**	**(13,701,486)**	**113,398,307**	**10.78**
Total loans to retail customers	**238,399,583**	**(21,724,771)**	**216,674,812**	**9.11**
Total loans to customers	**468,099,544**	**(35,570,458)**	**432,529,086**	**7.60**

16 Loans to customers, continued

(a) Credit quality of loans to customers, continued

The following table provides information on the credit quality of loans to customers as at 31 December 2012:

	Gross loans KZT'000	Impairment allowance KZT'000	Net loans KZT'000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans to large corporate				
Loans without individual signs of impairment				
Standard not overdue loans	164,505,859	(2,557,345)	161,948,514	1.55
Overdue loans:			-	
- overdue less than 30 days	208,897	(41,382)	167,515	19.81
- overdue 180-360 days	163,065	(717)	162,348	0.44
- overdue more than 360 days	1,108,067	(63,822)	1,044,245	5.76
Total loans without individual signs of impairment	165,985,888	(2,663,266)	163,322,622	1.60
Loans with individual signs of impairment:				
- not overdue	6,844,306	(5,787,648)	1,056,658	84.56
- overdue more than 90 days and less than 1 year	627,354	(420,101)	207,253	66.96
- overdue more than 1 year	3,383,826	(2,136,078)	1,247,748	63.13
Total loans with individual signs of impairment	10,855,486	(8,343,827)	2,511,659	76.86
Total loans to large corporate	**176,841,374**	**(11,007,093)**	**165,834,281**	**6.22**
Loans to small and medium size companies				
Loans without individual signs of impairment				
Standard not overdue loans	29,669,136	(125,925)	29,543,211	0.42
Overdue loans:				
- overdue less than 30 days	2,662,004	(11,710)	2,650,294	0.44
- overdue 30-89 days	78,022	(343)	77,679	0.44
- overdue 90-179 days	87,765	(382)	87,383	0.44
- overdue 180-360 days	28,097	(124)	27,973	0.44
- overdue more than 360 days	423,788	(16,972)	406,816	4.00
Total loans without individual signs of impairment	32,948,812	(155,456)	32,793,356	0.47
Loans with individual signs of impairment:				
- not overdue	161,558	(104,871)	56,687	64.91
- overdue less than 90 days	161,975	(69,809)	92,166	43.10
- overdue more than 90 days and less than 1 year	302,958	(132,224)	170,734	43.64
- overdue more than 1 year	3,198,548	(2,116,320)	1,082,228	66.17
Total loans with individual signs of impairment	3,825,039	(2,423,224)	1,401,815	63.35
Total loans to small and medium size companies	**36,773,851**	**(2,578,680)**	**34,195,171**	**7.01**
Total loans to corporate customers	**213,615,225**	**(13,585,773)**	**200,029,452**	**6.36**

16 Loans to customers, continued

(a) Credit quality of loans to customers, continued

	Gross loans KZT'000	Impairment allowance KZT'000	Net loans KZT'000	Impairment allowance to gross loans, %
Loans to retail customers				
Mortgage loans				
- not overdue	27,197,245	(839,862)	26,357,383	3.09
- overdue less than 30 days	972,083	(171,886)	800,197	17.68
- overdue 30-89 days	567,668	(158,018)	409,650	27.84
- overdue 90-179 days	1,377,968	(803,144)	574,824	58.28
- overdue 180-360 days	1,029,328	(722,415)	306,913	70.18
- overdue more than 360 days	2,687,424	(1,543,662)	1,143,762	57.44
Total mortgage loans	**33,831,716**	**(4,238,987)**	**29,592,729**	**12.53**
Car loans				
- not overdue	27,351,661	(354,629)	26,997,032	1.30
- overdue less than 30 days	569,815	(39,698)	530,117	6.97
- overdue 30-89 days	194,081	(18,750)	175,331	9.66
- overdue 90-179 days	128,516	(29,437)	99,079	22.91
- overdue 180-360 days	222,700	(76,984)	145,716	34.57
- overdue more than 360 days	435,768	(197,023)	238,745	45.21
Total car loans	**28,902,541**	**(716,521)**	**28,186,020**	**2.48**
Small business loans				
- not overdue	10,986,878	(725,339)	10,261,539	6.60
- overdue less than 30 days	202,157	(44,561)	157,596	22.04
- overdue 30-89 days	182,291	(92,696)	89,595	50.85
- overdue 90-179 days	679,917	(257,604)	422,313	37.89
- overdue 180-360 days	466,508	(252,078)	214,430	54.04
- overdue more than 360 days	6,111,681	(4,174,095)	1,937,586	68.30
Total small business loans	**18,629,432**	**(5,546,373)**	**13,083,059**	**29.77**
Loans collateralised by cash				
- not overdue	501,949	-	501,949	-
- overdue 30-89 days	26,610	-	26,610	-
Total loans collateralised by cash	**528,559**	**-**	**528,559**	**-**
Uncollateralised consumer loans				
- not overdue	76,200,669	(1,048,616)	75,152,053	1.38
- overdue less than 30 days	4,035,739	(53,675)	3,982,064	1.33
- overdue 30-89 days	2,011,008	(25,785)	1,985,223	1.28
- overdue 90-179 days	1,599,564	(836,521)	763,043	52.30
- overdue 180-360 days	2,585,348	(1,664,720)	920,628	64.39
- overdue more than 360 days	1,579,493	(1,160,036)	419,457	73.44
Total uncollateralised consumer loans	**88,011,821**	**(4,789,353)**	**83,222,468**	**5.44**
Total loans to retail customers	**169,904,069**	**(15,291,234)**	**154,612,835**	**9.00**
Total loans to customers	**383,519,294**	**(28,877,007)**	**354,642,287**	**7.53**

16 Loans to customers, continued

(b) Key assumptions and judgments for estimating the loan impairment

(i) Loans to corporate customers

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for loans to corporate customers include the following:

- overdue payments under the loan agreement
- significant difficulties in the financial conditions of the borrower
- deterioration in business environment or negative changes in the borrower's markets
- negative force-majeure events.

The Group estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

In determining the impairment allowance for loans to corporate customers, management makes the following key assumptions:

- historic annual loss rate of 0.46-1.40%
- a discount of between 15% and 50% to the originally appraised value if the property pledged is sold
- a delay of 12 to 36 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to corporate customers as at 31 December 2013 would be KZT 2,158,543 thousand lower/higher (2012: KZT 2,000,295 thousand lower/higher).

(ii) Loans to retail customers

The Group estimates loan impairment for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers include:

- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 2-6 years
- recovery rates for uncollateralised loans are estimated based on historical cash recovery rates for the past 2-6 years
- a discount of between 15% and 50% to the annually appraised value if the property pledged is sold
- a delay of 12 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the impairment allowance on loans to retail customers as at 31 December 2013 would be KZT 6,500,244 thousand lower/higher (2012: KZT 4,638,385 thousand lower/higher).

16 Loans to customers, continued

(c) Analysis of collateral

(i) Loans to corporate customers

The following table provides information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral:

31 December 2013 KZT'000	**Loans to customers, carrying amount**	**Fair value of collateral - for collateral assessed as at reporting date**	**Fair value of collateral - for collateral assessed as at loan inception date**	**Fair value of collateral not determined**
Loans without individual signs of impairment				
Real estate	48,467,604	35,463,008	13,004,596	-
Future contract revenues	32,941,117	-	-	32,941,117
Insurance	31,877,015	-	-	31,877,015
Grain	22,042,993	22,042,993	-	-
Equipment	11,256,861	9,669,174	1,587,687	-
Construction in progress	9,311,377	9,311,377	-	-
Motor vehicles	7,456,973	6,471,473	985,500	-
Guarantees	2,522,224	-	-	2,522,224
Cash and deposits	2,151,523	-	2,151,523	-
Goods in turnover	1,800,649	849,582	951,067	-
Subsoil use	45,171	45,171	-	-
Other	3,282,610	3,277,130	5,480	-
No collateral or other credit enhancement	29,102,129	-	-	29,102,129
Total loans without individual signs of impairment	202,258,246	87,129,908	18,685,853	96,442,485
Overdue or impaired loans				
Real estate	5,632,792	3,509,482	2,123,310	-
Future contract revenues	1,792,788	-	-	1,792,788
Goods in turnover	1,981,429	1,728,460	252,969	-
Insurance	854,400	-	-	854,400
Equipment	510,837	-	510,837	-
Motor vehicles	337,360	227,427	109,933	-
Cash and deposits	160,324	-	160,324	-
Guarantees	5,032	-	-	5,032
No collateral or other credit enhancement	2,321,066	-	-	2,321,066
Total overdue or impaired loans	13,596,028	5,465,369	3,157,373	4,973,286
Total loans to corporate customers	**215,854,274**	**92,595,277**	**21,843,226**	**101,415,771**

16 Loans to customers, continued

(c) Analysis of collateral, continued

(i) Loans to corporate customers, continued

31 December 2012 KZT'000	**Loans to customers, carrying amount**	**Fair value of collateral - for collateral assessed as at reporting date**	**Fair value of collateral – for collateral assessed as at loan inception date**	**Fair value of collateral not determined**
Loans without individual signs of impairment				
Real estate	41,049,402	19,118,262	21,931,140	-
Future contract revenues	38,026,405	-	-	38,026,405
Insurance	19,161,368	-	-	19,161,368
Grain	16,790,647	16,790,647	-	-
Construction in progress	10,603,557	10,470,684	132,873	-
Equipment	8,453,048	7,238,210	1,214,838	-
Goods in turnover	5,556,981	4,890,524	666,457	-
Cash and deposits	4,731,021	-	4,731,021	-
Motor vehicles	2,512,088	473,727	2,038,361	-
Other	3,321,563	3,195,463	126,100	-
Guarantees	5,090,806	-	-	5,090,806
No collateral or other credit enhancement	40,819,092	-	-	40,819,092
Total loans without individual signs of impairment	196,115,978	62,177,517	30,840,790	103,097,671
Overdue or impaired loans				
Real estate	3,439,841	1,094,763	2,345,078	-
Motor vehicles	196,136	-	196,136	-
Construction in progress	13,041	-	13,041	-
Equipment	10,620	-	10,620	-
Goods in turnover	6,872	-	6,872	-
Cash and deposits	5,789	-	5,789	-
Guarantees	76,659	-	-	76,659
No collateral or other credit enhancement	164,516	-	-	164,516
Total overdue or impaired loans	3,913,474	1,094,763	2,577,536	241,175
Total loans to corporate customers	**200,029,452**	**63,272,280**	**33,418,326**	**103,338,846**

The tables above exclude overcollateralisation.

The Group has loans, for which fair value of collateral was assessed at the loan inception date and it was not updated for further changes, and loans for which fair value of collateral is not determined. For certain loans the fair value of collateral is updated as at the reporting date. Information on valuation of collateral is based on when this estimate was made, if any.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Guarantees and sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date.

16 Loans to customers, continued

(c) Analysis of collateral, continued

(i) Loans to corporate customers, continued

Collateral obtained

During the year ended 31 December 2013, the Group did not obtain assets by taking possession of collateral for loans to corporate customers (2012: nil).

(ii) Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. Small business loans are secured by real estate and movable property. Car loans are secured by the underlying cars. Cash loans are collateralised by cash. Uncollateralised consumer loans are not secured.

Mortgage loans

Included in mortgage loans are loans with a net carrying amount of KZT 3,965,038 thousand (2012: KZT 5,085,883 thousand), which are secured by collateral with a fair value of less than the net carrying amount of the individual loans. The fair value of collateral for these loans amounts to KZT 2,399,554 thousand (2012: KZT 4,060,617 thousand).

For mortgage loans with a net carrying amount of KZT 11,720,942 thousand (2012: KZT 24,506,846 thousand) management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

The Group updates the appraised values of collateral at inception of the loans to the current values considering the approximate changes in property values. The Group obtains specific individual valuation of collateral once a half-year in case there are indications of impairment.

For mortgage loans with a net carrying amount of KZT 13,224,261 thousand (2012: KZT 21,273,406 thousand) the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

Car loans

The Group does not assess the value of collateral for the car loans portfolio when determining the impairment allowance due to the fact that it is impracticable to determine the fair value of collateral. Recoverable amounts of car loans are determined based on actual historical cash recovery rates calculated on a portfolio basis. The Group’s policy is to issue auto loans with a loan-to-value of a maximum of 80%.

Small business loans

Included in small business loans are loans with a net carrying amount of KZT 2,657,990 thousand (2012: KZT 3,949,638 thousand), which are secured by collateral with a fair value of less than the net carrying amount of the individual loans. The fair value of collateral for these loans amounts to KZT 2,644,668 thousand (2012: KZT 3,524,632 thousand).

For small business loans with a net carrying amount of KZT 8,951,784 thousand (2012: KZT 9,133,421 thousand) management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

The Group updates the appraised values of collateral at inception of the loans to the current values considering the approximate changes in property values. The Group obtains specific individual valuation of collateral once a half-year in case there are indications of impairment.

For small business loans with a net carrying amount of KZT 7,104,027 thousand (2012: KZT 2,332,507 thousand) the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

Collateral obtained

During the year ended 31 December 2013, the Group did not obtain assets by taking possession of collateral for loans to retail customers (2012: nil).

16 Loans to customers, continued

(d) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Republic of Kazakhstan, except for loans to customers issued by the Russian subsidiary bank, who operate in the following economic sectors:

	2013 KZT'000	2012 KZT'000
Loans to corporate customers		
Wholesale trade	68,650,164	54,460,389
Agriculture, forestry and timber	33,685,073	30,098,595
Construction	28,950,432	25,948,505
Transport	14,587,091	17,864,121
Mining/metallurgy	13,751,948	16,370,651
Retail trade	13,081,639	10,569,052
Services	12,250,035	8,030,071
Manufacturing	11,250,637	5,522,765
Lease, rental and leasing	6,585,798	6,676,845
Foods production	5,962,130	15,683,238
Energy production and supply	3,574,595	4,311,954
Research and activities	3,407,717	4,820,585
Financial intermediary	3,073,755	3,870,388
Medical and social care	1,942,913	1,679,524
Real estate	1,336,098	1,922,944
Machinery production	848,764	35,396
Entertainment	584,241	630,457
Publishing	396,656	343,921
Other	5,780,275	4,775,824
Loans to retail customers		
Car loans	76,369,442	28,902,541
Mortgage loans	17,943,436	33,831,716
Small business loans	16,664,846	18,629,432
Loans collaterised by cash	171,172	528,559
Private banking loans	150,894	-
Uncollateralised consumer loans	127,099,793	88,011,821
	468,099,544	**383,519,294**
Impairment allowance	(35,570,458)	(28,877,007)
	432,529,086	**354,642,287**

(e) Significant credit exposures

As at 31 December 2013 the Group has 7 borrowers or groups of connected borrowers (2012: 8), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2013 is KZT 56,119,420 thousand (2012: KZT 50,108,373 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in Note 30 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

16 Loans to customers, continued

(g) Transfers of financial assets

In December 2013, the Group sold to a third party a portfolio of mortgage loans with a carrying value of KZT 12,509,133 thousand for KZT 13,242,692 thousand and provided a guarantee to the buyer that it will repurchase individual loans back or exchange them for other individual loans if loans become delinquent for more than sixty days. The amount that will be repurchased or exchanged is limited to 20% of transferred financial assets at the date of the sale. The net gain recognised in the consolidated statement of profit or loss and other comprehensive income at the date of transfer amounted to KZT 707,582 thousand.

The Group has determined that it has transferred some but not substantially all of the risks and rewards to the transferee, accordingly the Group retains control and continues to recognise the loans to the extent of its continuing involvement in that mortgages. The Group's continuing involvement with such transferred portfolio is recorded in the consolidated statement of financial position in other assets (Note 19) of KZT 4,235,721 thousand with corresponding liability on continuing involvement included in other liabilities of KZT 3,905,380 thousand (Note 26) and the guarantee with the fair value of KZT 102,707 thousand recognised in other liabilities. This asset includes also an interest strip receivable of KZT 1,090,077 thousand which represents the right to withhold from the loan buyer a portion of interest receivable on mortgage loan portfolio sold. The Group has a right to receive 1.7% p.a. of the mortgage loan portfolio sold on a monthly basis.

17 Held-to-maturity investments

	2013 KZT'000	2012 KZT'000
Held by the Group		
Government bonds		
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	14,074,495	10,049,199
Russian Government Federal bonds (OFZ)	-	277,993
Total government bonds	**14,074,495**	**10,327,192**
Pledged under sale and repurchase agreements		
Government bonds		
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	9,387,811	-
Total government bonds	**9,387,811**	**-**
	23,462,306	**10,327,192**

No notes or bonds are overdue or impaired as at 31 December 2013 (2012: nil)

18 Property, equipment and intangible assets

KZT'000	Land and buildings	Computer and banking equipment	Vehicles	Furniture	Construction in progress and equipment to be installed	Leasehold improvements	Trademark	Computer software and other intangibles	Total
Cost									
Balance at 1 January 2013	9,716,037	7,434,665	556,324	573,374	82,091	300,143	1,075,716	3,641,628	23,379,978
Additions	772,740	3,457,638	149,859	155,008	925	252,224	-	869,617	5,658,011
Disposals	-	(180,691)	(4,797)	(6,606)	-	(4,636)	-	-	(196,730)
Effect of foreign currency translation	-	(1,469)	(939)	(1,934)	-	-	-	(2,671)	(7,013)
Balance at 31 December 2013	**10,488,777**	**10,710,143**	**700,447**	**719,842**	**83,016**	**547,731**	**1,075,716**	**4,508,574**	**28,834,246**
Depreciation and amortisation									
Balance at 1 January 2013	(955,350)	(3,296,973)	(295,003)	(152,107)	-	(245,661)	(143,429)	(1,530,857)	(6,619,380)
Depreciation and amortisation for the year	(235,521)	(1,341,019)	(65,298)	(63,019)	-	(41,694)	(105,145)	(789,896)	(2,641,592)
Disposals	-	166,245	4,797	6,871	-	4,636	-	-	182,549
Effect of foreign currency translation	-	1,279	510	70	-	-	-	909	2,768
Balance at 31 December 2013	**(1,190,871)**	**(4,470,468)**	**(354,994)**	**(208,185)**	**-**	**(282,719)**	**(248,574)**	**(2,319,844)**	**(9,075,655)**
Carrying amount									
At 31 December 2013	**9,297,906**	**6,239,675**	**345,453**	**511,657**	**83,016**	**265,012**	**827,142**	**2,188,730**	**19,758,591**

18 Property, equipment and intangible assets, continued

KZT'000	Land and buildings	Computer and banking equipment	Vehicles	Furniture	Construction in progress and equipment to be installed	Leasehold improvements	Trademark	Computer software and other intangibles	Total
Cost									
Balance at 1 January 2012	9,373,374	4,944,135	461,052	315,872	226,897	281,205	1,075,716	2,339,420	19,017,671
Additions	342,663	2,385,196	112,159	260,253	1,135	21,896	-	1,293,452	4,416,754
Disposals	-	(50,265)	(21,460)	(4,685)	-	(2,958)	-	(918)	(80,286)
Transfers	-	143,877	-	-	(145,941)	-	-	2,064	-
Effect of foreign currency translation	-	11,722	4,573	1,934	-	-	-	7,610	25,839
Balance at 31 December 2012	**9,716,037**	**7,434,665**	**556,324**	**573,374**	**82,091**	**300,143**	**1,075,716**	**3,641,628**	**23,379,978**
Depreciation and amortisation									
Balance at 1 January 2012	(732,656)	(2,435,782)	(250,296)	(119,433)	-	(217,436)	-	(983,025)	(4,738,628)
Depreciation and amortisation for the year	(222,694)	(895,564)	(58,829)	(34,469)	-	(30,856)	(143,429)	(541,429)	(1,927,270)
Disposals	-	46,844	18,695	3,700	-	2,631	-	487	72,357
Effect of foreign currency translation	-	(12,471)	(4,573)	(1,905)	-	-	-	(6,890)	(25,839)
Balance at 31 December 2012	**(955,350)**	**(3,296,973)**	**(295,003)**	**(152,107)**	**-**	**(245,661)**	**(143,429)**	**(1,530,857)**	**(6,619,380)**
Carrying amount									
At 31 December 2012	**8,760,687**	**4,137,692**	**261,321**	**421,267**	**82,091**	**54,482**	**932,287**	**2,110,771**	**16,760,598**

19 Other assets

	2013 KZT'000	2012 KZT'000
Asset from continuing involvement (Note 16(g))	4,235,721	-
Debtors on letters of credit	3,265,562	21,906
Accrued commission income	1,158,797	1,270,018
Debtors on loan operations	852,089	931,164
Payment cards settlements	525,003	119,668
Receivables from insurance company	174,710	300,415
Due from American Express for travel cheques accepted	-	72,528
Other	751,683	299,912
Impairment allowance	(548,429)	(403,949)
Total other financial assets	**10,415,136**	**2,611,662**
Advances for capital expenditures	2,416,402	1,875,568
Taxes prepaid other than on income tax	221,916	147,879
Materials and supplies	201,075	202,106
Prepayments	130,487	227,043
Other	25,880	36,497
Total other non-financial assets	**2,995,760**	**2,489,093**
Total other assets	**13,410,896**	**5,100,755**

Asset from continuing involvement in amount KZT 4,235,721 thousand arose as a result of loans sale to mortgage company in December 2013.

Analysis of movements in the impairment allowance

Movements in the impairment allowance for the years ended 31 December are as follows:

	2013 KZT'000	2012 KZT'000
Balance at the beginning of the year	403,949	64,759
Net (recovery)/charge	(37,271)	346,593
Recoveries/(write-offs)	177,217	(8,332)
Effect of foreign currency translation	4,534	929
Balance at the end of the year	**548,429**	**403,949**

As at 31 December 2013, included in other assets are overdue receivables of KZT 18,081 thousand (2012: KZT 2,802 thousand), of which KZT 5,661 thousand (2012: nil) are overdue for more than 90 days but less than one year and KZT 7,077 thousand are overdue for more than one year (2012: KZT 2,787 thousand).

20 Deposits and balances from banks

	2013 KZT'000	2012 KZT'000
Term deposits	13,458,364	21,157,779
Vostro accounts	658,269	70,797
	14,116,633	**21,228,576**

As at 31 December 2013 the Group has no banks whose balances exceed 10% of equity (2012: 1). The gross value of these balances as at 31 December 2012 is KZT 10,335,556 thousand.

21 Amounts payable under repurchase agreements

Securities pledged

As at 31 December 2013 the Group has pledged certain securities as collateral under repurchase agreements (Note 17). As at 31 December 2012 the Group has no pledged securities as collateral under repurchase agreements.

22 Current accounts and deposits from customers

	2013 KZT'000	2012 KZT'000
Current accounts and demand deposits		
- Retail	15,210,807	14,390,311
- Corporate	50,526,171	56,794,967
Term deposits		
- Retail	125,445,122	84,624,820
- Corporate	213,491,686	158,910,300
	404,673,786	**314,720,398**

As at 31 December 2013, the Group maintains customer deposit balances of KZT 3,095,332 thousand (2012: KZT 3,843,703 thousand) that serve as collateral for loans and unrecognised credit instruments granted by the Group.

As at 31 December 2013, the Group has 11 customers (2012: 8 customers), whose balances exceed 10% of equity. These balances as at 31 December 2013 are KZT 137,200,872 thousand (2012: KZT 83,179,091 thousand).

23 Debt securities issued

	2013 KZT'000	2012 KZT'000
Par value	31,820,649	32,943,090
Premium	124,195	637,256
Accrued interest	841,512	861,418
	32,786,356	**34,441,764**

A summary of bond issues at 31 December 2013 and 2012 is presented below:

					Carrying amount	
	Issue registration date	**Maturity**	**Coupon rate**	**Effective rate**	**2013 KZT'000**	**2012 KZT'000**
Bonds of the fifth issue	09-Jul-08	01-Sep-23	inflation +1%	8.26%	7,595,067	7,519,653
Bonds of the seventh issue	24-Sep-08	21-Jan-19	inflation +1%	8.52%	1,404,906	1,402,812
Bonds of the ninth issue	15-Oct-08	15-Oct-15	13.00%	9.94%	21,484,606	23,229,746
Bonds of the tenth issue	13-Jul-11	13-Jul-14	7.00%	7.60%	2,301,777	2,289,553
					32,786,356	**34,441,764**

Embedded derivatives represented by inflation-indexed coupon payments are considered to be closely related to the host debt instruments as the inflation index is commonly used for this purpose in the tenge economic environment and it is not leveraged.

24 Subordinated debt securities issued

	2013 KZT'000	2012 KZT'000
Par value	40,000,000	29,391,180
Discount	(4,959,365)	(2,106,655)
Accrued interest	628,653	586,979
	35,669,288	**27,871,504**

As at 31 December 2013 subordinated debt securities issued comprise unsecured obligations of the Group. In case of bankruptcy, the repayment of the subordinated debt securities would be made after repayment in full of all other liabilities of the Group.

A summary of subordinated debt issues at 31 December 2013 and 2012 is presented below:

					Carrying amount	
	Issue registration date	**Maturity**	**Coupon rate**	**Effective rate**	**2013 KZT'000**	**2012 KZT'000**
Bonds of the third issue	30-Jan-06	05-Apr-13	inflation +1%	8.64%	-	10,112,631
Bonds of the fourth issue	29-Jun-07	04-Sep-14	inflation +1%	11.34%	9,938,138	9,525,235
Bonds of the sixth issue	04-Aug-08	01-Sep-15	11.00%	10.96%	5,183,652	5,185,740
Bonds of the eighth issue	15-Oct-08	15-Oct-23	inflation +1%	12.14%	10,832,008	3,047,898
Bonds of the eleventh issue	20-Nov-12	26-Dec-19	8.00%	8.64%	9,715,490	-
					35,669,288	**27,871,504**

Embedded derivatives represented by inflation-indexed coupon payments are considered to be closely related to the host debt instruments as the inflation index is commonly used for this purpose in the tenge economic environment and it is not leveraged.

25 Other borrowed funds

	2013 KZT'000	2012 KZT'000
Loans from state financial institutions	17,783,211	15,332,623
Loans from the Ministry of Finance of the Republic of Kazakhstan	1,344,023	1,470,631
Loans from banks	2,283,115	1,758,902
	21,410,349	**18,562,156**

As at 31 December 2013, the terms and conditions of the loans outstanding are as follows:

	Currency	Average interest rate	Year of maturity	Carrying amount KZT'000
Damu Entrepreneurship Development Fund JSC	KZT	5.50-8.62%	2014-2020	17,783,211
The Ministry of Finance of the Republic of Kazakhstan	KZT	NBRK refinancing rate	2024-2026	1,009,017
The Ministry of Finance of the Republic of Kazakhstan	USD	Libor +1%	2024-2025	335,006
Foreign banks	EUR	6.47%	2014	139,366
Foreign banks	USD	4.00-4.53%	2014	2,143,749
				21,410,349

25 Other borrowed funds, continued

As at 31 December 2012, the terms and conditions of the loans outstanding are as follows:

	Currency	**Average interest rate**	**Year of maturity**	**Carrying amount KZT'000**
Damu Entrepreneurship Development Fund JSC	KZT	5.50-8.62%	2013-2019	15,332,623
The Ministry of Finance of the Republic of Kazakhstan	KZT	NBRK refinancing rate	2024-2026	1,109,919
The Ministry of Finance of the Republic of Kazakhstan	USD	Libor +1%	2024-2025	360,712
Foreign banks	EUR	4.58-8.72%	2013	1,758,902
				18,562,156

26 Other liabilities

	2013 KZT'000	**2012 KZT'000**
Prepayments for loans	4,070,655	2,550,892
Liability from continuing involvement (Note 16(g))	3,905,380	-
Accrued administrative expenses	342,707	350,716
Payment cards settlements	281,062	-
Capital expenditures payables	257,152	478,098
Payables to borrowers on lending operations	233,836	910,793
Payables to obligatory deposit insurance fund	153,528	3,328
Payables to insurance company	135,315	-
Other financial liabilities	517,039	244,822
Total other financial liabilities	**9,896,674**	**4,538,649**
Amounts payable to employees	924,031	537,050
Vacation reserve	554,191	430,111
Deferred income	390,787	235,367
Other taxes payable	327,518	117,390
Other non-financial liabilities	2,326	696
Total other non-financial liabilities	**2,198,853**	**1,320,614**
Total other liabilities	**12,095,527**	**5,859,263**

Prepayments for loans comprise payments made by retail borrowers ahead of schedule. These payments are settled against the loan balance at the date the instalments fall due.

27 Share capital

(a) Issued capital and share premium

The authorised share capital comprises 33,000,000 ordinary shares (2012: 33,000,000) and 3,000,000 non-redeemable cumulative preference shares (2012: 3,000,000).

Issued and outstanding share capital as at 31 December comprised of the following fully paid ordinary shares:

	2013 Shares	2012 Shares
Issued at KZT 955.98	8,368,300	8,368,300
Issued at KZT 1,523.90	2,631,500	2,631,500
Issued at KZT 1,092.00	2,930,452	2,930,452
Issued at KZT 6,532.60	2,280,881	2,280,881
Total issued and outstanding shares	**16,211,133**	**16,211,133**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

(b) Dividends

In accordance with Kazakhstan legislation and the Bank's charter documents, distributable reserves are subject to the rules and regulations of the Republic of Kazakhstan.

During the year ended 31 December 2013 dividends of KZT 2,000,129 thousand or KZT 123,38 per share were declared and paid (year ended 31 December 2012:nil).

(c) Book value per share

Under the listing rules of the Kazakh Stock Exchange the Group should present book value per share in its consolidated financial statements. The book value per share is calculated dividing net assets less intangible assets by number of outstanding ordinary shares. As at 31 December 2013 the book value per share was KZT 3,442.23 (2012: KZT 2,759.90).

(d) Nature and purpose of reserves

Reserves for general banking risks

Until 2013, in accordance with amendments to the Resolution #196 On Establishment of Minimum Limit on Reserve Capital of Second-Tier Banks issued by the FMSC introduced on 31 January 2011 (which ceased to be in force during 2013), the Bank had to establish reserve capital by transferring an amount from retained earnings to a non-distributable reserve. The amount to be transferred each year was calculated as the net profit for the preceding year before distribution of dividends attributable to ordinary shareholders, multiplied by the percentage increase in Classified Assets and Contingent Liabilities (as defined in Resolution #296 On Approval of the Rules of Classification of Assets, Contingent Liabilities and Creation of Provisions (Reserves) against Assets and Contingent Liabilities issued by the FMSC on 25 December 2006 (which ceased to be in force during 2013) during the preceding year. Such percentage increase should have been not less than 10% and not more than 100%.

Transfer from retained earnings to the reserve for general banking risks in the amount of KZT 1,584,658 thousand was made for the year ended 31 December 2013 (2012: KZT 1,268,809 thousand).

In accordance with the amendments to the Resolution # 358 "On approval of the Instruction of normative coefficients and methods of calculation of prudential norms for the second tier banks" issued on 25 December 2013 the statutory reserve capital is non-distributable.

27 Share capital, continued

(d) Nature and purpose of reserves, continued

Dynamic reserve

In accordance with Resolution of the National Bank of the Republic of Kazakhstan #137 dated 27 May 2013 On Approval of Rules on Forming Dynamic Reserves by Second-Tier Banks and Establishment of Minimum Size of Dynamic Reserves and Expected Loss, the Group has established a dynamic reserve calculated using a formula determined in the Rules. In accordance with the Rules, dynamic reserve cannot be less than zero and shall be calculated as the difference between expected losses and actual charge on deductible for tax purposes impairment losses recognised during the reporting quarter in accordance with IFRS net of income from recovery of provisions. Expected losses are estimated based on the increase of loans to customers during the reporting quarter multiplied by certain coefficients. The Resolution has been effective from 1 January 2013.

As at 31 December 2013 the non-distributable dynamic reserve of the Group is KZT 6,733,233 thousand.

28 Earnings per share

The calculation of earnings per share is based on the net profit, and a weighted average number of ordinary shares outstanding during the period, calculated as shown below. The Group has no dilutive potential ordinary shares.

	2013 KZT'000	**2012 KZT'000**
Net profit	13,146,181	9,832,053
Weighted average number of ordinary shares	16,211,133	15,816,619
Earnings per ordinary share, in KZT	**810.94**	**621.63**

29 Analysis by segment

The Group has five reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the chief operating decision maker, the Chairman of the Management Board (the "Chairman"), reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments.

- Retail banking – includes loans, deposits and other transactions with retail customers;
- Corporate banking – includes loans, deposits and other transactions with corporate customers;
- Small and medium size companies banking - includes loans, deposits and other transactions with small and medium size companies;
- Assets and Liabilities management – includes maintaining of liquid assets portfolio (cash, nostro accounts with the NBRK and other banks, interbank financing (up to 1 month), investments into liquid assets and bonds issue management;
- Treasury – includes group financing via interbank borrowings and using derivatives for hedging market risks and investments into liquid securities (corporate bonds).

29 Analysis by segment, continued

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit after income tax as included in the internal management reports that are reviewed by the Chairman. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm's length basis.

	2013 KZT'000	2012 KZT'000
ASSETS		
Retail banking	199,704,943	143,636,011
Corporate banking	177,625,586	163,797,053
Assets and liabilities management	100,214,047	74,162,188
Small and medium size companies banking	44,099,466	48,097,028
Treasury	4,384,929	4,412,384
Unallocated assets	61,403,133	31,833,347
Total assets	**587,432,104**	**465,938,011**
LIABILITIES		
Corporate banking	224,544,900	178,891,857
Retail banking	136,239,660	98,464,545
Assets and liabilities management	94,851,933	75,316,939
Small and medium size companies banking	41,782,949	56,765,887
Treasury	-	363,249
Unallocated liabilities	31,242,480	8,348,239
Total liabilities	**528,661,922**	**418,150,716**

Reconciliations of reportable segment total assets and total liabilities:

	2013 KZT'000	2012 KZT'000
Reportable segment total assets	587,432,104	465,938,011
Consolidation effect	4,364,118	10,177,001
Other adjustments	(3,162,814)	(5,604,453)
Total assets	**588,633,408**	**470,510,559**

	2013 KZT'000	2012 KZT'000
Reportable segment total liabilities	528,661,922	418,150,716
Consolidation effect	4,312,611	10,182,230
Other adjustments	(3,159,489)	(5,606,590)
Total liabilities	**529,815,044**	**422,726,356**

29 Analysis by segment, continued

Segment information for the main reportable segments for the year ended 31 December 2013 is set out below:

KZT'000	Corporate banking	Small and medium size companies banking	Retail banking	Treasury	Assets and liabilities management	Unallocated	Total
Interest income	18,567,552	6,142,194	36,219,214	159,772	1,077,999	51,915	62,218,646
Fee and commission income	2,045,590	1,519,068	13,292,143	-	-	391,655	17,248,456
Net gain on securities, dealing and translation differences	875,604	318,519	570,232	515,926	(136,558)	2,704	2,146,427
Other income	343,263	155,019	1,535,946	-	-	-	2,034,228
Funds transfer pricing	16,438,708	1,465,734	9,484,967	-	16,773,799	114,610	44,277,818
Revenue	**38,270,717**	**9,600,534**	**61,102,502**	**675,698**	**17,715,240**	**560,884**	**127,925,575**
Interest expense	(10,965,913)	(1,658,956)	(8,601,018)	-	(7,396,254)	(76,030)	(28,698,171)
Fee and commission expense	(91,959)	(33,424)	(2,248,357)	(7,289)	(92,644)	(137,340)	(2,611,013)
Impairment losses	(947,111)	(185,623)	(7,007,638)	-	(4,290)	2,956	(8,141,706)
Funds transfer pricing	(12,964,502)	(3,636,932)	(20,456,334)	(199,055)	(6,861,868)	(159,127)	(44,277,818)
Operational costs (direct)	(1,156,987)	(1,429,003)	(11,854,831)	(61,117)	(812,890)	(84,695)	(15,399,523)
Operational costs (indirect)	(2,566,013)	(1,492,716)	(6,933,368)	(66,759)	(599,750)	(145,104)	(11,803,710)
Corporate income tax	(1,777,571)	(432,737)	(1,793,142)	(63,341)	-	(6,432)	(4,073,223)
Segment result	**7,800,661**	**731,143**	**2,207,814**	**278,137**	**1,947,544**	**(44,888)**	**12,920,411**
Other segment items							
Additions of property and equipment	-	-	147,351	-	-	5,510,660	5,658,011
Depreciation and amortisation	(166,824)	(300,367)	(1,894,808)	(15,548)	(193,596)	(58,130)	(2,629,273)

29 Analysis by segment, continued

Segment information for the main reportable segments for the nine months ended 31 December 2012 is set out below:

KZT'000	Corporate banking	Small and medium size companies banking	Retail banking	Treasury	Assets and liabilities management	Unallocated	Total
Interest income	18,562,350	6,081,978	20,615,560	19,074	579,858	2,714	45,861,534
Fee and commission income	2,393,933	1,633,412	7,347,697	-	3	589,764	11,964,809
Net gain on securities, dealing and translation differences	1,414,454	338,499	439,493	1,843,923	(336,218)	4,924	3,705,075
Other income	91,356	118,518	497,967	-	-	-	707,841
Funds transfer pricing	12,524,915	679,708	6,671,190	-	8,155,314	76,781	28,107,908
Revenue	**34,987,008**	**8,852,115**	**35,571,907**	**1,862,997**	**8,398,957**	**674,183**	**90,347,167**
Interest expense	(8,309,467)	(1,676,518)	(6,218,117)	-	(6,533,935)	(32,175)	(22,770,212)
Fee and commission expense	(223,665)	(24,682)	(1,442,599)	(7,218)	(80,611)	(67,703)	(1,846,478)
Impairment losses	(450,028)	68,750	(3,269,186)	-	2	(2,956)	(3,653,418)
Funds transfer pricing	(11,231,201)	(3,083,959)	(10,554,604)	(68,862)	(3,094,166)	(75,116)	(28,107,908)
Operational costs (direct)	(1,379,385)	(1,160,375)	(8,331,864)	(123,978)	(428,491)	(134,357)	(11,558,450)
Operational costs (indirect)	(2,897,823)	(1,297,652)	(4,190,422)	(58,363)	(583,567)	(239,167)	(9,266,994)
Corporate income tax	(1,631,939)	(439,102)	(938,880)	(217,278)	-	(3,555)	(3,230,754)
Segment result	**8,863,500**	**1,238,577**	**626,235**	**1,387,298**	**(2,321,811)**	**119,154**	**9,912,953**
Other segment items							
Additions of property and equipment	-	-	220,026	-	-	4,196,728	4,416,754
Depreciation and amortisation	(262,828)	(183,882)	(1,369,878)	(6,867)	(66,331)	(30,792)	(1,920,578)

29 Analysis by segment, continued

Reconciliations of reportable segment revenues and profit or loss:

	2013 KZT'000	2012 KZT'000
Reportable segment revenue	127,925,575	90,347,167
Funds transfer pricing	(44,277,818)	(28,107,908)
Other adjustments	(1,297,423)	(2,643)
Consolidation effect	1,282,585	1,211,664
Total revenue	**83,632,919**	**63,448,280**
Reportable segment profit	12,920,411	9,912,953
Difference in impairment losses	(106,153)	(506,350)
Other adjustments	100,691	212,988
Consolidation effect	231,232	212,462
Total profit	**13,146,181**	**9,832,053**

Consolidation effect. Consolidation effect occurs due to the fact that the Chairman reviews internal management reports on a stand-alone basis.

Other adjustments. These adjustments mostly represent netting of other assets and other liabilities. Other adjustments occur due to the fact that the Chairman reviews internal management reports prepared on a gross-up basis whereas for IFRS financial statements purposes netting is made for certain other assets/liabilities included in unallocated assets/liabilities.

Funds transfer pricing. For the purpose of internal management reporting transfer pricing represents the allocation of income and expense between segments that attract cash resources and to segments that create interest income generating assets using cash resources.

Information about major customers and geographical areas

For the year ended 31 December 2013, there are no corporate customers revenues from which individually exceed 10% of total revenue.

The majority of revenues from external customers relate to residents of the Republic of Kazakhstan. The majority of non-current assets are located in the Republic of Kazakhstan.

30 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Group's operations. The major risks faced by the Group are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

30 Risk management, continued

(a) Risk management policies and procedures, continued

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Chief Risk Officer ("CRO") is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman and indirectly to the Board of Directors.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee ("ALCO"). In order to facilitate efficient and effective decision-making, the Group established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

Overall authority for market risk is vested in the ALCO, which is chaired by the Management Board member of the Group. Market risk limits are approved by ALCO based on recommendations of the Risk Management Department.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Management Board.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Group include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

The management of interest rate risk by monitoring interest rate gap is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate scenarios.
The Bank also utilises Value-at-Risk ("VaR") methodology to monitor market risk of its trading positions.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

30 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position as at 31 December 2013 and 2012 for major financial instruments is as follows:

KZT'000	**Less than 3 months**	**3-6 months**	**6-12 months**	**1-5 years**	**More than 5 years**	**Non-interest bearing**	**Carrying amount**
31 December 2013							
ASSETS							
Cash and cash equivalents	28,754,022	-	-	-	-	54,392,356	83,146,378
Financial instruments at fair value through profit or loss	1,139,628	-	-	-	-	-	1,139,628
Available-for-sale financial assets	8,531,885	11,672	995	2,421,122	-	14,198	10,979,872
Loans and advances to banks	-	-	1,004,645	-	-	1,917,728	2,922,373
Loans to customers	67,998,777	13,970,083	81,924,075	219,635,903	48,973,249	26,999	432,529,086
Held-to-maturity investments	12,019,283	2,425,890	1,017,294	7,999,839	-	-	23,462,306
	118,443,595	**16,407,645**	**83,947,009**	**230,056,864**	**48,973,249**	**56,351,281**	**554,179,643**
LIABILITIES							
Financial instruments at fair value through profit or loss	-	-	-	-	-	2,278	2,278
Deposits and balances from banks	10,121,543	-	3,318,039	234,000	-	443,051	14,116,633
Amounts payable under repurchase agreements	8,803,285	-	-	-	-	-	8,803,285
Current accounts and deposits from customers	41,579,752	44,677,113	161,607,696	94,437,988	11,726,765	50,644,472	404,673,786
Debt securities issued	1,662,962	540,864	9,638,788	20,943,742	-	-	32,786,356
Subordinated debt securities issued	404,139	224,514	20,332,188	5,001,847	9,706,600	-	35,669,288
Other borrowed funds	3,578,391	1,571,497	2,571,278	9,369,350	4,319,833	-	21,410,349
	66,150,072	**47,013,988**	**197,467,989**	**129,986,927**	**25,753,198**	**51,089,801**	**517,461,975**
	52,293,523	**(30,606,343)**	**(113,520,980)**	**100,069,937**	**23,220,051**	**5,261,480**	**36,717,668**

30 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2012							
ASSETS							
Cash and cash equivalents	10,300,601	-	-	-	-	49,322,153	59,622,754
Financial instruments at fair value through profit or loss	1,259,771	-	-	-	-	3,102	1,262,873
Available-for-sale financial assets	16,006,281	11,672	787	2,390,854	7	13,945	18,423,546
Loans and advances to banks	1,846,719	-	1,510,190	-	170	128,334	3,485,413
Loans to customers	52,721,139	9,094,147	29,580,608	204,394,102	58,852,291	-	354,642,287
Held-to-maturity investments	323,426	20,472	1,983,962	5,999,677	1,999,655	-	10,327,192
	82,457,937	**9,126,291**	**33,075,547**	**212,784,633**	**60,852,123**	**49,467,534**	**447,764,065**
LIABILITIES							
Financial instruments at fair value through profit or loss	-	-	-	-	-	1,123	1,123
Deposits and balances from banks	8,793,545	507,195	11,842,047	-	-	85,789	21,228,576
Current accounts and deposits from customers	47,399,946	32,929,224	105,014,912	69,537,994	9,617,443	50,220,879	314,720,398
Debt securities issued	1,633,992	571,263	7,361,088	24,875,421	-	-	34,441,764
Subordinated debt securities issued	371,917	10,164,776	12,330,876	5,003,935	-	-	27,871,504
Other borrowed funds	3,733,214	1,643,585	2,554,759	9,320,960	1,309,638	-	18,562,156
	61,932,614	**45,816,043**	**139,103,682**	**108,738,310**	**10,927,081**	**50,307,791**	**416,825,521**
	20,525,323	**(36,689,752)**	**(106,028,135)**	**104,046,323**	**49,925,042**	**(840,257)**	**30,938,544**

30 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2013 and 2012. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2013 Average effective interest rate, %			2012 Average effective interest rate, %		
	KZT	**USD**	**Other currencies**	**KZT**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	-	0.79	2.03	6.00	0.50	4.12
Financial instruments at fair value through profit or loss	-	-	7.00	-	-	6.80
Available-for-sale financial assets	3.16	-	-	4.17	-	-
Loans and advances to banks	-	2.99	0.10	0.02	2.91	-
Loans to customers	17.67	11.76	12.44	18.83	10.57	12.29
Held-to-maturity investments	3.60	-	-	4.54	3.74	12.00
Interest bearing liabilities						
Deposits and balances from banks						
- Term deposits	5.48	1.98	2.84	7.74	1.45	-
Amounts payable under repurchase agreements	3.30	-	-	-	-	-
Current accounts and deposits from customers						
- Corporate customers	7.38	4.45	2.55	6.88	3.25	5.38
- Retail customers	8.90	5.60	3.36	9.18	6.12	4.07
Debt securities issued	9.28	-	-	8.70	-	-
Subordinated debt securities issued	10.92	-	-	9.51	-	-
Other borrowed funds						
- Loans from financial institutions	7.79	-	-	7.48	-	-
- Loans from banks	-	4.23	6.47	-	-	6.86
- Loans from the Ministry of Finance of the Republic of Kazakhstan	5.50	1.93	-	5.50	2.25	-

30 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical rise or fall in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2013 and 2012 is as follows:

	2013		**2012**	
	Profit or loss KZT'000	**Equity KZT'000**	**Profit or loss KZT'000**	**Equity KZT'000**
100 bp parallel fall	14,019	14,019	251,828	251,828
100 bp parallel rise	(14,019)	(14,019)	(251,828)	(251,828)

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value through profit or loss and available-for-sale financial assets due to changes in the interest rates based on positions existing as at 31 December 2013 and 2012 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2013		**2012**	
	Profit or loss KZT'000	**Equity KZT'000**	**Profit or loss KZT'000**	**Equity KZT'000**
100 bp parallel fall	11,405	381,454	5,715	109,197
100 bp parallel rise	(11,405)	(381,454)	(5,715)	(109,197)

(ii) Currency risk

The Group has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Group hedges its exposure to currency risk; such activities do not qualify as hedging relationships in accordance with IFRS. The Group manages its foreign currency position through the limits established for each currency and net foreign currency position limits.

30 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2013:

	USD KZT'000	RUB* KZT'000	EUR KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS					
Cash and cash equivalents	58,100,807	2,720,034	5,633,259	251,592	66,705,692
Financial instruments at fair value through profit or loss	-	1,139,628	-	-	1,139,628
Loans and advances to banks	2,594,099	323,523	-	-	2,917,622
Loans to customers	67,071,004	4,731,898	1,409,494	-	73,212,396
Other financial assets	4,169,214	1,115	472,063	-	4,642,392
Total assets	**131,935,124**	**8,916,198**	**7,514,816**	**251,592**	**148,617,730**
LIABILITIES					
Deposits and balances from banks	1,967,845	468,072	1,810,830	16	4,246,763
Current accounts and deposits from customers	127,216,497	3,908,507	4,644,754	200,469	135,970,227
Other borrowed funds	2,478,755	-	139,366	-	2,618,121
Other financial liabilities	281,486	8,256	14,852	364	304,958
Total liabilities	**131,944,583**	**4,384,835**	**6,609,802**	**200,849**	**143,140,069**
Net position as at 31 December 2013	**(9,459)**	**4,531,363**	**905,014**	**50,743**	**5,477,661**
The effect of derivatives held for risk management	-	843,922	(843,922)	-	-
Net position with the effect of derivatives held for risk management as at 31 December 2013	**(9,459)**	**5,375,285**	**61,092**	**50,743**	**5,477,661**

30 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2012:

	USD KZT'000	RUB * KZT'000	EUR KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS					
Cash and cash equivalents	22,874,087	7,342,416	6,160,532	485,444	36,862,479
Financial instruments at fair value through profit or loss	913	1,259,771	-	-	1,260,684
Loans and advances to banks	3,352,492	128,334	-	-	3,480,826
Loans to customers	42,616,874	3,055,249	2,385,609	-	48,057,732
Held-to-maturity investments	-	277,993	-	-	277,993
Other financial assets	1,370,796	27	154,251	-	1,525,074
Total assets	**70,215,162**	**12,063,790**	**8,700,392**	**485,444**	**91,464,788**
LIABILITIES					
Deposits and balances from banks	8,222,238	2	2,086	15	8,224,341
Current accounts and deposits from customers	61,098,671	8,794,259	6,796,498	454,192	77,143,620
Other borrowed funds	360,712	-	1,758,902	-	2,119,614
Other financial liabilities	175,762	17,062	1,223	168	194,215
Total liabilities	**69,857,383**	**8,811,323**	**8,558,709**	**454,375**	**87,681,790**
Net position as at 31 December 2012	**357,779**	**3,252,467**	**141,683**	**31,069**	**3,782,998**
The effect of derivatives held for risk management	(460,659)	(257,429)	-	-	(718,088)
Net position with the effect of derivatives held for risk management as at 31 December 2012	**(102,880)**	**2,995,038**	**141,683**	**31,069**	**3,064,910**

*A portion of the net RUB position equivalent to KZT 3,084,025 thousand (2012: KZT 3,016,984 thousand) is not subject to direct currency risk exposure as it represents net assets of the subsidiary that are remeasured through cumulative translation reserve.

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2013 and 2012 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2013 KZT'000		2012 KZT'000	
	Profit or loss KZT'000	**Equity KZT'000**	**Profit or loss KZT'000**	**Equity KZT'000**
20% appreciation of USD against KZT	(1,513)	(1,513)	(16,461)	(16,461)
10% appreciation of RUB against KZT	183,301	183,301	(1,756)	(1,756)
10% appreciation of EUR against KZT	4,887	4,887	11,335	11,335
10% appreciation of other currencies against KZT	4,059	4,059	2,486	2,486

A strengthening of the KZT against the above currencies at 31 December 2013 and 2012 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

30 Risk management, continued

(b) Market risk, continued

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Other price risk arises when the Group takes a long or short position in a financial instrument.

(iv) Value at Risk estimates

The Bank utilises VaR methodology to monitor market risk of its currency positions.

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The VAR model used by the Group is based upon a 99 percent confidence level and assumes a 1-day holding period depending on the type of positions. The VaR model used is mainly based on historical simulation. The model derives plausible future scenarios based on historical market rate time series, taking into account inter-relationships between different markets and rates. Potential movements in market prices are determined with reference to market data from at least the last 12 months.

Although VaR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets as follows:

- the use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those that are of an extreme nature
- a 1-day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period
- the use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR estimate
- VaR is only calculated on the end-of-day balances and does not necessarily reflect exposures that may arise on positions during the trading day
- the VaR measure is dependent upon the position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

The Group does not solely rely on its VaR calculations in its market risk measurement due to inherent risk of usage of VaR as described above. The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio, and gap analysis.

A summary of the VaR estimates in respect of foreign currency risk of the Group at 31 December is as follows:

	31 December 2013 KZT'000	**31 December 2012 KZT'000**
Foreign exchange risk	209,146	210,269

30 Risk management, continued

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Board of Directors.

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (corporate and retail)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Corporate Business Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer’s business and financial performance. The loan credit application and the report are then independently reviewed by the Credit Risk and Collateral Valuation Department and an opinion is given accompanied by verification that credit policy requirements are met. The Credit Committee makes decisions based on opinions of internal bank’s services. Individual transactions are also reviewed by the Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer’s most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. The current market value of collateral is regularly assessed by either independent appraisal companies or internal specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan credit applications are reviewed through the use of scoring models and application data verification procedures developed by the Retail Business Department together with the Risk Management Department.

Apart from individual customer analysis by the Credit Risk and Collateral Valuation Department, the credit portfolio is assessed also by the Risk Management Department with regard to credit concentration and market risks.

Loan approvals and credit card limits can be cancelled at anytime.

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

30 Risk management, continued

(c) Credit risk, continued

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

	2013 KZT'000	2012 KZT'000
ASSETS		
Cash and cash equivalents	62,898,132	44,724,822
Financial instruments at fair value through profit or loss	1,139,628	1,262,873
Available-for-sale financial assets	10,965,674	18,409,601
Loans and advances to banks	2,922,373	3,485,413
Loans to customers	432,529,086	354,642,287
Held-to-maturity investments	23,462,306	10,327,192
Other financial assets	10,415,136	2,611,662
Total maximum exposure	**544,332,335**	**435,463,850**

For the analysis of concentration of credit risk in respect of loans to customers refer to Note 16.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 32.

As at 31 December 2013 and 2012 the Group did not have debtors or groups of connected debtors, credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

Offsetting financial assets and financial liabilities

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

- are offset in the Group's statement of financial position, or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements.

The Group conducts derivative transactions that are not transacted on the exchange through a central counterparty. Management believes that such settlements are, in effect, equivalent to net settlement and that, the Group meets the net settlement criterion as this gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that the Group will process receivables and payables in a single settlement process or cycle.

The Group receives and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives
- sale and repurchase, and reverse sale and repurchase agreements, and
- securities lending and borrowing.

This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transitions upon the counterparty's failure to post collateral.

30 Risk management, continued

(c) Credit risk, continued

Offsetting financial assets and financial liabilities, continued

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

KZT'000

Types of financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Gross amount of recognised financial assets/liabilities offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position: Financial instruments	Related amounts not offset in the consolidated statement of financial position: Cash collateral received	Net amount
Held-to-maturity investments	9,387,811	-	9,387,811	(8,803,285)	-	584,526
Loans to customers	26,231,188	-	26,231,188	-	(2,483,019)	23,748,169
Total financial assets	**35,618,999**	**-**	**35,618,999**	**(8,803,285)**	**(2,483,019)**	**24,332,695**
Amounts payable under repurchase agreements	(8,803,285)	-	(8,803,285)	8,803,285	-	-
Current accounts and deposits from customers	(2,483,019)	-	(2,483,019)	-	2,483,019	-
Total financial liabilities	**(11,286,304)**	**-**	**(11,286,304)**	**8,803,285**	**2,483,019**	**-**

The securities pledged under repurchased agreements (Note 17) represent the transferred financial assets that are not derecognised in their entirety. The securities lent or sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. Because the Group sells the contractual rights to the cash flows of the securities it does not have the ability to use the transferred assets during the term of the agreement.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2012:

KZT'000

Types of financial assets/liabilities	Gross amounts of recognised financial assets/liabilities	Gross amount of recognised financial assets/liabilities offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position: Financial instruments	Related amounts not offset in the consolidated statement of financial position: Cash collateral received	Net amount
Loans to customers	29,462,114	-	29,462,114	-	(5,265,369)	24,196,745
Total financial assets	**29,462,114**	**-**	**29,462,114**	**-**	**(5,265,369)**	**24,196,745**
Current accounts and deposits of customers	(5,265,369)	-	(5,265,369)	-	5,265,369	-
Total financial liabilities	**(5,265,369)**	**-**	**(5,265,369)**	**-**	**5,265,369**	**-**

30 Risk management, continued

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board.

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

The Assets and Liabilities Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Assets and Liabilities Department together with the Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored by the Assets and Liabilities Department and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Risk Management Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the Assets and Liabilities Department.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial asset, liability or commitment.

30 Risk management, continued

(d) Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2013 is as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	7,305,394	4,341,639	-	2,442,639	323,968	14,413,640	14,116,633
Amounts payable under repurchase agreements	8,812,266	-	-	-	-	8,812,266	8,803,285
Current accounts and deposits from customers	70,291,911	22,243,345	54,525,051	166,510,124	119,969,886	433,540,317	404,673,786
Debt securities issued	126,486	281,200	1,298,073	3,941,959	37,676,168	43,323,886	32,786,356
Subordinated debt securities issued	-	620,000	917,500	11,537,500	43,865,000	56,940,000	35,669,288
Other borrowed funds	1,064,149	1,970,040	1,233,571	3,297,882	18,316,976	25,882,618	21,410,349
Other financial liabilities	5,735,783	250,061	6,106	-	3,904,724	9,896,674	9,896,674
Derivative liabilities							
- Inflow	(843,922)	-	-	-	-	(843,922)	-
- Outflow	846,200	-	-	-	-	846,200	2,278
Total liabilities	**93,338,267**	**29,706,285**	**57,980,301**	**187,730,104**	**224,056,722**	**592,811,679**	**527,358,649**
Credit related commitments	73,776,801	-	-	-	-	73,776,801	73,776,801

30 Risk management, continued

(d) Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2012 is as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	8,376,599	516,250	517,500	12,399,397	-	21,809,746	21,228,576
Current accounts and deposits from customers	80,153,778	19,508,094	36,862,727	109,926,114	92,699,350	339,150,063	314,720,398
Debt securities issued	145,032	239,848	1,371,031	1,755,911	44,115,121	47,626,943	34,441,764
Subordinated debt securities issued	-	570,000	10,470,149	695,149	23,584,153	35,319,451	27,871,504
Other borrowed funds	1,409,870	953,482	1,690,466	3,394,707	14,005,448	21,453,973	18,562,156
Other financial liabilities	4,059,729	570	262	478,088	-	4,538,649	4,538,649
Derivative liabilities							
- Inflow	(344,731)	(115,928)	-	-	-	(460,659)	(3,102)
- Outflow	344,941	113,739	-	-	-	458,680	1,123
Total liabilities	**94,145,218**	**21,786,055**	**50,912,135**	**128,649,366**	**174,404,072**	**469,896,846**	**421,361,068**
Credit related commitments	51,675,161	-	-	-	-	51,675,161	51,675,161

In accordance with Kazakhstan legislation, depositors can withdraw their term deposits at any time, losing in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates.

However management believes that in spite of this early withdrawal option and the fact that a substantial portion of customers accounts are on demand, diversification of these customer accounts and deposits by number and type of depositors, and the past experience of the Group indicates that these customers accounts provide a long-term and stable source of funding.

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms.

30 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position, excluding derivative instruments, as at 31 December 2013:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	80,651,043	2,495,335	-	-	-	-	-	83,146,378
Financial instruments at fair value through profit or loss	1,139,628	-	-	-	-	-	-	1,139,628
Available-for-sale financial assets	-	8,531,885	12,667	2,421,122	-	14,198	-	10,979,872
Loans and advances to banks	1,593,745	-	1,004,645	-	460	323,523	-	2,922,373
Loans to customers	15,403,906	36,224,310	89,642,362	213,282,785	48,166,933	-	29,808,790	432,529,086
Held-to-maturity investments	4,993,240	7,026,043	3,443,184	7,999,839	-	-	-	23,462,306
Current tax asset	1,284,278	-	-	-	-	-	-	1,284,278
Property, equipment and intangible assets	-	-	-	-	-	19,758,591	-	19,758,591
Other assets	3,535,866	375,767	4,495,024	481,909	4,303,445	200,804	18,081	13,410,896
Total assets	**108,601,706**	**54,653,340**	**98,597,882**	**224,185,655**	**52,470,838**	**20,297,116**	**29,826,871**	**588,633,408**
Non-derivative liabilities								
Deposits and balances from banks	7,298,607	3,265,986	3,318,040	234,000	-	-	-	14,116,633
Amounts payable under repurchase agreements	8,803,285	-	-	-	-	-	-	8,803,285
Current accounts and deposits from customers	68,402,068	18,672,190	209,511,861	95,860,663	12,227,004	-	-	404,673,786
Debt securities issued	115,208	188,635	2,770,026	20,943,742	8,768,745	-	-	32,786,356
Subordinated debt securities issued	-	404,139	9,940,319	5,001,847	20,322,983	-	-	35,669,288
Other borrowed funds	903,352	1,688,940	3,608,126	10,025,888	5,184,043	-	-	21,410,349
Deferred tax liability	-	-	-	-	-	257,542	-	257,542
Other liabilities	7,143,176	250,073	788,527	9,012	3,904,739	-	-	12,095,527
Total liabilities	**92,665,696**	**24,469,963**	**229,936,899**	**132,075,152**	**50,407,514**	**257,542**	**-**	**529,812,766**
Net position	**15,936,010**	**30,183,377**	**(131,339,017)**	**92,110,503**	**2,063,324**	**20,039,574**	**29,826,871**	**58,820,642**

30 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position, excluding derivative instruments, as at 31 December 2012:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	57,328,362	2,294,392	-	-	-	-	-	59,622,754
Financial instruments at fair value through profit or loss	1,259,771	-	-	-	-	-	-	1,259,771
Available-for-sale financial assets	6,996,829	9,009,452	12,459	2,390,854	7	13,945	-	18,423,546
Loans and advances to banks	1,846,573	145	1,510,190	-	171	128,334	-	3,485,413
Loans to customers	29,051,566	18,858,526	36,911,533	201,543,658	58,069,799	-	10,207,205	354,642,287
Held-to-maturity investments	-	323,426	2,004,434	5,999,677	1,999,655	-	-	10,327,192
Current tax asset	872,533	-	12,608	-	-	-	-	885,141
Property, equipment and intangible assets	-	-	-	-	-	16,760,598	-	16,760,598
Other assets	2,792,024	361,463	1,702,075	23,975	19,425	201,793	-	5,100,755
Total assets	**100,147,658**	**30,847,404**	**42,153,299**	**209,958,164**	**60,089,057**	**17,104,670**	**10,207,205**	**470,507,457**
Non-derivative liabilities								
Deposits and balances from banks	8,370,758	508,576	12,349,242	-	-	-	-	21,228,576
Current accounts and deposits from customers	78,811,161	16,938,914	138,405,488	70,556,216	10,008,619	-	-	314,720,398
Debt securities issued	131,590	158,567	571,263	24,875,421	8,704,923	-	-	34,441,764
Subordinated debt securities issued	-	371,917	10,164,776	14,339,059	2,995,752	-	-	27,871,504
Other borrowed funds	1,178,762	913,497	4,510,343	9,852,542	2,107,012	-	-	18,562,156
Deferred tax liability	-	-	-	-	-	41,572	-	41,572
Other liabilities	4,354,740	539,053	486,831	478,639	-	-	-	5,859,263
Total liabilities	**92,847,011**	**19,430,524**	**166,487,943**	**120,101,877**	**23,816,306**	**41,572**	**-**	**422,725,233**
Net position	**7,300,647**	**11,416,880**	**(124,334,644)**	**89,856,287**	**36,272,751**	**17,063,098**	**10,207,205**	**47,782,224**

30 Risk management, continued

(d) Liquidity risk, continued

Management believes that the following factors address the liquidity gap up to 1 year:

- Management's analysis of behaviour of holders of term deposits during the past three years indicates that offering of competitive interest rates provides for high level of renewals
- The balance of customer accounts and deposits from related parties, which is due up to 1 year, is KZT 38,939,577 thousand as at 31 December 2013. Management believes that the term deposits will be extended when they fall due and withdrawals of significant customer accounts, if required, will be coordinated with the Group's liquidity management objectives
- Management manages liquidity risk using VAR methodology for the assessment of current accounts stability index. Results of the management's daily monitoring of stability of the current accounts balance indicate sufficiency of the Group's current level of liquidity.

31 Capital management

FMSC sets and monitors capital requirements for the Bank. The Bank and its subsidiary are directly supervised by their respective local regulators. There are no external capital requirements imposed to the Group as a whole.

The Bank defines as capital the following items defined by statutory regulation as capital for banks:

- Tier 1 capital, which is comprised of ordinary share capital, share premium, prior periods' retained earnings/accumulated losses and reserves created thereof, qualifying perpetual debt less intangible assets and current year losses
- Total capital, which is the sum of tier 1 capital, tier 2 capital (in the amount not exceeding tier 1 capital) and tier 3 capital (in the amount not exceeding 250% of the portion of tier 1 capital attributed to cover market risk) less investments into equity or subordinated debt if their total exceeds 10% of the total of tier 1 and tier 2 capital.

Tier 2 capital is required for the purposes of calculation of total capital and is comprised of current year's income, revaluation reserves, qualifying subordinated liabilities and dynamic reserve in the amount not exceeding 1.25% of risk-weighted assets.

Tier 3 capital is required for the purposes of calculation of total capital and includes subordinated liabilities not included into tier 2 capital.

Various further limits and qualifying criteria are applied to the above elements of the capital base.

Under the current capital requirements set by the FMSC banks have to maintain:

- a ratio of tier 1 capital less investments to total assets less investments (k1.1)
- a ratio of tier 1 capital less investments to the sum of credit and market risk-weighted assets and contingent liabilities and a quantitative measure of operational risk (k1.2)
- a ratio of total capital to the sum of credit and market risk-weighted assets and contingent liabilities and a quantitative measure of operational risk (k2).

Investments for the purposes of calculation of the above ratios represent investments into equity or subordinated debt if their total exceeds 10% of the total of tier 1 and tier 2 capital. For this purpose the investments are adjusted in the proportion of tier 1 capital to the total of tier 1 capital and tier 2 capital (in the amount not exceeding tier 1 capital).

As at 31 December 2013 and 2012 the minimum level of ratios as applicable to the Bank are as follows:

- k1.1 – 5%
- k1.2 – 5%
- k2 – 10%.

31 Capital management, continued

The following table shows the composition of the Bank's capital position calculated in accordance with the requirements of the FMSC, as at 31 December:

	2013 KZT'000	2012 KZT'000
Tier 1 capital		
Share capital	30,110,207	30,110,207
Additional paid-in capital	2,025,632	2,025,632
Retained statutory income/(loss) of prior years	3,763,507	(2,564,659)
Reserves formed from statutory retained earnings of prior years	8,234,923	6,650,265
Intangible assets	(1,623,744)	(1,645,892)
Total tier 1 capital	**42,510,525**	**34,575,553**
Tier 2 capital		
Net statutory income for the year	7,954,333	9,912,953
Dynamic reserve subject to limitation of 1.25% of risk-weighed statutory assets	6,733,233	-
Deferred tax liability accrued in the current year	-	34,668
Revaluation reserve for available-for-sale financial asset	(51,653)	(114,258)
Unamortised portion of subordinated debt limited to 50% of tier 1 capital	21,255,263	11,722,105
Total tier 2 capital	**35,891,176**	**21,555,468**
Tier 3 capital	**21,212**	**-**
Total capital	**78,422,913**	**56,131,021**
Total statutory assets less uninvested funds, obtained under custody agreements	**587,093,072**	**462,151,667**
Risk-weighted statutory assets, contingent liabilities, operational and market risk		
Risk weighted statutory assets	437,737,884	391,449,772
Risk weighted statutory contingent assets and liabilities	37,759,839	28,592,500
Risk weighted statutory derivative financial instruments	11,566	10,986
Operational risk	18,520,841	10,567,236
Total statutory risk weighted assets, contingent liabilities, operational and market risk	**494,030,130**	**430,620,494**
k1.1 ratio	**7.2%**	**7.5%**
k1.2 ratio	**8.6%**	**8.0%**
k.2 ratio	**15.9%**	**13.0%**

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also considered and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

The Group also monitors its capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I.

32 Commitments

The Group has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Group applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2013 KZT'000	2012 KZT'000
Contracted amount		
Loan and credit line commitments	48,598,277	34,881,570
Guarantees	19,233,613	13,506,792
Letters of credit	5,944,911	3,286,799
	73,776,801	**51,675,161**

Management expects that loan and credit line commitments, to the extent demanded, will be funded from amounts collected from scheduled repayments of current loan portfolio.

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

As at 31 December 2013 the Group has 1 customer whose balances exceed 10% of total commitments (2012: 2 customers). The value of these commitments as at 31 December 2013 is KZT 7,394,880 thousand (2012: KZT 12,663,424 thousand).

33 Operating lease

Leases as lessee

Operating lease rentals as at 31 December are payable as follows:

	2013 KZT'000	2012 KZT'000
Less than 1 year	440,788	561,613
Between 1 and 5 years	972,618	375,678
	1,413,406	**937,291**

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During the current year KZT 1,438,042 thousand was recognised as an expense in profit or loss in respect of operating leases (2012: KZT 1,056,044 thousand).

34 Contingencies

(a) Insurance

The insurance industry in the Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial condition or the results of future operations.

(c) Taxation contingencies

The taxation system in the Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in the Kazakhstan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

35 Related party transactions

(a) Control relationships

The Group's parent company is Eurasian Financial Company JSC (the "Parent company"). The Parent company is controlled by the group of individuals, Mr. Mashkevich A.A., Mr. Shodiyev P.K., Ibragimov A.R., each of whom owns 33.3%. Publicly available financial statements are produced by the Group's Parent company.

(b) Transactions with the members of the Board of Directors, the Management Board and other key management personnel

Total remuneration included in personnel expenses for the year ended 31 December is as follows:

	2013 KZT'000	2012 KZT'000
Members of the Board of Directors	562,619	759,269
Members of the Management Board	383,337	608,207
Other key management personnel	1,157,130	684,102
	2,103,086	**2,051,578**

These amounts include non-cash benefits in respect of the members of the Board of Directors, the Management Board and other key management personnel.

The outstanding balances and average interest rates as at 31 December for transactions with the members of the Board of Directors, the Management Board and other key management personnel are as follows:

	2013 KZT'000	Average interest rate, %	2012 KZT'000	Average interest rate, %
Consolidated statement of financial position				
ASSETS				
Loans to customers	10,605	12.00	178	12.18
LIABILITIES				
Current accounts and deposits from customers	7,286,721	7.80	7,966,733	8.19

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors, the Management Board and other key management personnel for the year ended 31 December are as follows:

	2013 KZT'000	2012 KZT'000
Profit or loss		
Interest income	109,159	140
Interest expense	(628,906)	(585,397)

35 Related party transactions, continued

(c) Transactions with other related parties

The outstanding balances and the related average interest rates as at 31 December 2013 and related profit or loss amounts of transactions for the year ended 31 December 2013 with other related parties are as follows.

	Parent company		Other subsidiaries of the Parent company		Other related parties*		
	KZT'000	**Average interest rate, %**	**KZT'000**	**Average interest rate, %**	**KZT'000**	**Average interest rate, %**	**Total KZT'000**
Consolidated statement of financial position							
ASSETS							
Loans to customers (principal balance)							
- In KZT	-	-	-	-	4,353,179	13.05	4,353,179
- In USD	-	-	-	-	17,518,219	6.06	17,518,219
- In other currencies	-	-	-	-	128,271	10.65	128,271
Loans to customers (provision for impairment)	-	-	-	-	(143,894)	-	(143,894)
Other assets							
- In KZT	-	-	37,212	-	366	-	37,578

35 Related party transactions, continued

(c) Transactions with other related parties, continued

31 December 2013	**Parent company**		**Other subsidiaries of the Parent company**		**Other related parties***		
	KZT'000	**Average interest rate, %**	**KZT'000**	**Average interest rate, %**	**KZT'000**	**Average interest rate, %**	**Total KZT'000**
LIABILITIES							
Deposits and balances from customers							
- In KZT	1,655	-	3,098,834	2.93	17,071,717	1.27	20,172,206
- In USD	1,239,879	0.99	110,276	2.10	16,259,576	1.31	17,609,731
- In other currencies	-	-	229,520	0.37	3,469,034	0.54	3,698,554
Debt securities issued							
- In KZT	-	-	729,149	12.48	-	-	729,149
Subordinated debt securities issued							
- In KZT	-	-	51,600	7.39	-	-	51,600
Other liabilities							
- In KZT	-	-	152,631	-	808	-	153,439
Items not recognised in the consolidated statement of financial position							
Loans and credit line commitments	-		-		89,458		89,458
Guarantees issued	-		-		10,478		10,478
Guarantees received	-		-		406,442		406,442
Letters of credit	-		-		5,012,538		5,012,538
Profit (loss)							
Interest income	-		-		341,988		341,988
Interest expense	(6,605)		(406,618)		(1,223,153)		(1,636,376)
Fee and commission income	249		19,615		487,521		507,385
Other operating income/(expenses)	(18,577)		(149,085)		2,692		(164,970)
Reversal of impairment losses	-		-		137,369		137,369
Other general administrative expenses	-		(1,100,173)		(233,660)		(1,333,833)

35 Related party transactions, continued

(c) Transactions with other related parties, continued

The outstanding balances and the related average interest rates as at 31 December 2012 and related profit or loss amounts of transactions for the year ended 31 December 2012 with other related parties are as follows.

	Parent company		Other subsidiaries of the Parent company		Other related parties*		
	KZT'000	**Average interest rate, %**	**KZT'000**	**Average interest rate, %**	**KZT'000**	**Average interest rate, %**	**Total KZT'000**
Consolidated statement of financial position							
ASSETS							
Loans to customers (principal balance)							
- In KZT	-	-	-	-	4,493,708	13.34	4,493,708
- In USD	-	-	-	-	370,001	10.12	370,001
- In other currencies	-	-	-	-	62,695	14.00	62,695
Loans to customers (allowance for impairment)	-	-	-	-	(286,878)	-	(286,878)
Other assets:							
- In KZT	-	-	91,074	-	3,444	-	94,518

35 Related party transactions, continued

(c) Transactions with other related parties, continued

31 December 2012	Parent company		Other subsidiaries of the Parent company		Other related parties*		
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	Total KZT'000
LIABILITIES							
Deposits and balances from customers							
- In KZT	13,210	-	5,445,607	5.37	22,738,248	1.11	28,197,065
- In USD	-	-	53,500	-	11,007,876	1.33	11,061,376
- In other currencies	-	-	41,222	-	4,742,299	1.74	4,783,521
Debt securities issued							
- In KZT	-	-	710,098	12.69	-	-	710,098
Subordinated debt securities issued							
- In KZT	-	-	33,947	6.78	-	-	33,947
Other liabilities							
- In KZT	-	-	5,282	-	3,227	-	8,509
- In other currencies	-	-	-	-	41	-	41
Items not recognised in the consolidated statement of financial position							
Loans and credit line commitments	-		-		617,302		617,302
Guarantees issued	-		-		146,842		146,842
Guarantees received	-		-		296,650		296,650
Letters of credit	-		-		945,376		945,376
Profit (loss)							
Interest income	-		-		445,064		445,064
Interest expense	(22,267)		(476,899)		(893,177)		(1,392,343)
Fee and commission income	299		99,521		703,443		803,263
Other operating income/(expenses)	-		(31,012)		6		(31,006)
Reversal of impairment losses	-		-		367,856		367,856
Other general administrative expenses	-		(79,863)		(363)		(80,226)

*Other related parties are the entities that are controlled by the Parent company's shareholders.

As at 31 December 2013 loans to customers in the amount of KZT 33,464,209 thousand were insured by an insurance company under common control (31 December 2012: KZT 22,128,022 thousand).

36 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2013:

KZT'000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	83,146,378	-	-	83,146,378	83,146,378
Financial instruments at fair value through profit or loss	1,139,628	-	-	-	-	1,139,628	1,139,628
Available-for-sale financial assets	-	-	-	10,979,872	-	10,979,872	10,979,872
Loans and advances to banks	-	-	2,922,373	-	-	2,922,373	2,922,373
Loans to customers							
Loans to corporate customers	-	-	215,854,274	-	-	215,854,274	222,632,209
Loans to retail customers	-	-	216,674,812	-	-	216,674,812	214,169,567
Held-to-maturity investments	-	23,462,306	-	-	-	23,462,306	23,454,919
Other financial assets	-	-	10,415,136	-	-	10,415,136	10,415,136
	1,139,628	**23,462,306**	**529,012,973**	**10,979,872**	**-**	**564,594,779**	**568,860,082**
Financial instruments at fair value through profit or loss	2,278	-	-	-	-	2,278	2,278
Deposits and balances from banks	-	-	-	-	14,116,633	14,116,633	14,116,633
Amounts payable under repurchase agreements	-	-	-	-	8,803,285	8,803,285	8,803,285
Current accounts and deposits from customers	-	-	-	-	404,673,786	404,673,786	406,857,673
Debt securities issued	-	-	-	-	32,786,356	32,786,356	29,935,291
Subordinated debt securities issued	-	-	-	-	35,669,288	35,669,288	35,439,121
Other borrowed funds	-	-	-	-	21,410,349	21,410,349	21,410,349
Other financial liabilities	-	-	-	-	9,896,674	9,896,674	9,896,674
	2,278	**-**	**-**	**-**	**527,356,371**	**527,358,649**	**526,461,304**

36 Financial assets and liabilities: fair values and accounting classifications, continued

(a) Accounting classifications and fair values, continued

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2012:

KZT'000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	59,622,754	-	-	59,622,754	59,622,754
Financial instruments at fair value through profit or loss	1,262,873	-	-	-	-	1,262,873	1,262,873
Available-for-sale financial assets	-	-	-	18,423,546	-	18,423,546	18,423,546
Loans and advances to banks	-	-	3,485,413	-	-	3,485,413	3,485,413
Loans to customers							
Loans to corporate customers	-	-	200,029,452	-	-	200,029,452	206,221,920
Loans to retail customers	-	-	154,612,835	-	-	154,612,835	153,717,435
Held-to-maturity investments	-	10,327,192	-	-	-	10,327,192	10,300,736
Other financial assets	-	-	2,611,662	-	-	2,611,662	2,611,662
	1,262,873	**10,327,192**	**420,362,116**	**18,423,546**	**-**	**450,375,727**	**455,646,339**
Financial instruments at fair value through profit or loss	1,123	-	-	-	-	1,123	1,123
Deposits and balances from banks	-	-	-	-	21,228,576	21,228,576	21,228,576
Current accounts and deposits from customers	-	-	-	-	314,720,398	314,720,398	316,678,100
Debt securities issued	-	-	-	-	34,441,764	34,441,764	33,206,182
Subordinated debt securities issued	-	-	-	-	27,871,504	27,871,504	24,790,278
Other borrowed funds	-	-	-	-	18,562,156	18,562,156	18,562,156
Other financial liabilities	-	-	-	-	4,538,649	4,538,649	4,538,649
	1,123	**-**	**-**	**-**	**421,363,047**	**421,364,170**	**419,005,064**

36 Financial assets and liabilities: fair values and accounting classifications, continued

(a) Accounting classifications and fair values, continued

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

Fair values 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 Group determines fair values using other valuation techniques.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

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

The Group uses widely recognised valuation models for determining the fair value of common and simpler financial instruments. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

For more complex instruments, the Group uses proprietary valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs includes certain loans and securities for which there is no active market.

As disclosed in Note 14, the fair value of unquoted equity securities available-for-sale with a carrying value of KZT 14,198 thousand (2012: KZT 13,945 thousand) cannot be determined.

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 4.3 – 11.3% and 7.6 – 22.2% are used for discounting future cash flows from loans to corporate customers and loans to retail customers, respectively;
- discount rates of 0.5 – 6.7% and 0.8 – 8.3% are used for discounting future cash flows from current accounts and deposits of corporate and retail customers, respectively;
- quoted market prices are used for determination of fair value of debt securities issued.

(b) Fair value hierarchy

The Group measures fair values for financial instruments recorded on the consolidated statement of financial position 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: Valuation techniques based on observable inputs, 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 identical or 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.

36 Financial assets and liabilities: fair values and accounting classifications, continued

(b) Fair value hierarchy, continued

- Level 3: Valuation techniques using significant unobservable inputs. 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.

The table below analyses financial instruments measured at fair value at 31 December 2013, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KZT'000	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss			
- Debt and other fixed income instruments	1,139,628	-	1,139,628
- Derivative liabilities	-	2,278	2,278
Available-for-sale financial assets			
- Debt and other fixed income instruments	-	10,965,674	10,965,674
	1,139,628	**10,967,952**	**12,107,580**

The table below analyses financial instruments measured at fair value at 31 December 2012, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KZT'000	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss			
- Debt instruments	1,259,771	-	1,259,771
- Derivative assets	-	3,102	3,102
- Derivative liabilities	-	(1,123)	(1,123)
Available-for-sale financial assets			
- Debt and other fixed income instruments	-	18,409,601	18,409,601
	1,259,771	**18,411,580**	**19,671,351**

Due to low market liquidity, management consider that quoted prices in active markets are not available, including for government securities listed on the Kazakhstan Stock Exchange. Accordingly, as at 31 December 2013 and 2012 the estimated fair value of these financial instruments is based on the results of valuation techniques involving the use of observable market inputs.

As at 31 December 2013 and 2012 the Group does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market inputs.

36 Financial assets and liabilities: fair values and accounting classifications, continued

(b) Fair value hierarchy, continued

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2013:

KZT'000	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	83,146,378	-	83,146,378	83,146,378
Loans and advances to banks	2,922,373	-	2,922,373	2,922,373
Loans to customers	411,449,826	25,351,950	436,801,776	432,529,086
Held-to-maturity investments	23,454,919	-	23,454,919	23,462,306
Liabilities				
Deposits and balances from banks	14,116,633	-	14,116,633	14,116,633
Amounts payable under repurchase agreements	8,803,285	-	8,803,285	8,803,285
Current accounts and deposits from customers	406,857,673	-	406,857,673	404,673,786
Debt securities issued	29,935,291	-	29,935,291	32,786,356
Subordinated debt securities issued	35,439,121	-	35,439,121	35,669,288
Other borrowed funds	21,410,349	-	21,410,349	21,410,349

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2012:

KZT'000	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	59,622,754	-	59,622,754	59,622,754
Loans and advances to banks	3,485,413	-	3,485,413	3,485,413
Loans to customers	348,839,385	11,099,970	359,939,355	354,642,287
Held-to-maturity investments	10,300,736	-	10,300,736	10,327,192
Liabilities				
Deposits and balances from banks	21,228,576	-	21,228,576	21,228,576
Current accounts and deposits from customers	316,678,100	-	316,678,100	314,720,398
Debt securities issued	33,206,182	-	33,206,182	34,441,764
Subordinated debt securities issued	24,790,278	-	24,790,278	27,871,504
Other borrowed funds	18,562,156	-	18,562,156	18,562,156

37 Subsequent events

(a) Devaluation

On 11 February 2014, the NBRK announced that it was devaluing the KZT. The NBRK said in its statement that the currency will now trade at KZT 185 per USD, with a range of 3 KZT on either side. The KZT closed at 184.55 per USD after the announcement, down approximately 19% from the previous day's close of KZT 155.63 per USD. As the devaluation occurred after the reporting date, these consolidated financial statements have not been adjusted for the rate change.

Management is still in the process of evaluating the effects of the devaluation on the Group but does not expect the operational impact to be significant. See Note 30(b) for details of the Group's exposure to foreign currency risk at the reporting date. Management's current assessment is that the devaluation will not affect the Group's ability to comply with its NBRK prudential requirements and meet its existing contractual obligations.

Eurasian Bank JSC

Unaudited Consolidated Interim
Condensed Financial Statements
for the six-month period ended
30 June 2014

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Independent Auditors' Report on Review of Consolidated Interim Condensed Financial Information

To the Board of Directors and Management Board of Eurasian Bank JSC

Introduction

We have reviewed the accompanying consolidated condensed statement of financial position of Eurasian Bank JSC and its subsidiary (the "Group") as at 30 June 2014, and the related consolidated 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 to the consolidated interim condensed financial information (the "consolidated interim condensed financial information"). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of consolidated interim condensed 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 consolidated interim condensed financial information as at 30 June 2014 and for the six-month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standards IAS 34 *Interim Financial Reporting*.

Other Matter

The corresponding figures for the six-month period ended 30 June 2013 are not reviewed.

KPMG Audit LLC

KPMG Audit LLC

10 October 2014

	Note	Unaudited Six-month period ended 30 June 2014 KZT'000	Unaudited Six-month period ended 30 June 2013 KZT'000
Interest income	4	37,235,859	31,254,597
Interest expense	4	(18,314,033)	(13,986,035)
Net interest income		**18,921,826**	**17,268,562**
Fee and commission income	5	4,918,569	6,210,794
Fee and commission expense		(1,162,277)	(748,922)
Net fee and commission income		**3,756,292**	**5,461,872**
Net (loss)/gain on financial instruments at fair value through profit or loss		(10,198)	7,631
Net foreign exchange gain		1,988,959	1,334,708
Net gain/(loss) on available-for-sale financial assets		345	(274)
Gain from sale of mortgage loans		16,352	-
Other operating income/(expense)		129,969	(35,301)
Operating income		**24,803,545**	**24,037,198**
Impairment losses	6	(6,181,610)	(3,714,345)
Personnel expenses		(8,255,208)	(7,317,496)
Other general administrative expenses	7	(6,223,722)	(4,874,372)
Profit before income tax		**4,143,005**	**8,130,985**
Income tax expense		(923,941)	(1,867,113)
Profit for the period		**3,219,064**	**6,263,872**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		28,751	81,556
- Net change in fair value transferred to profit or loss		(345)	274
Foreign currency translation differences for foreign operations		685,405	(206,549)
Total items that are or may be reclassified subsequently to profit or loss:		_713,811_	_(124,719)_
Total other comprehensive income for the period		**713,811**	**(124,719)**
Total comprehensive income for the period		**3,932,875**	**6,139,153**
Earnings per ordinary share, in KZT	16	198.57	386.39

The consolidated interim condensed financial statements as set out on pages 4 to 53 were approved by management on 10 October 2014 and were signed on its behalf by:

Еуразиялық Банк

Eggleton M.
Chairman

Nelina L.N.
Chief Accountant

The consolidated interim condensed statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements.

	Note	Unaudited 30 June 2014 KZT'000	31 December 2013 KZT'000
ASSETS			
Cash and cash equivalents	8	75,341,981	83,146,378
Financial instruments at fair value through profit or loss		918,310	1,139,628
Available-for-sale financial assets	9	14,285,471	10,979,872
Loans and advances to banks	10	6,760,656	2,922,373
Loans to customers	11	521,615,635	432,529,086
Held-to-maturity investments	12	16,895,183	23,462,306
Current tax asset		1,555,024	1,284,278
Property, equipment and intangible assets		21,025,798	19,758,591
Other assets		14,057,071	13,410,896
Total assets		**672,455,129**	**588,633,408**
LIABILITIES			
Financial instruments at fair value through profit or loss		-	2,278
Deposits and balances from banks	13	18,374,265	14,116,633
Amounts payable under repurchase agreements		26,287,106	8,803,285
Current accounts and deposits from customers	14	464,431,910	404,673,786
Debt securities issued		32,560,038	32,786,356
Subordinated debt securities issued		35,847,954	35,669,288
Other borrowed funds		21,575,459	21,410,349
Deferred tax liability		13,333	257,542
Other liabilities		12,113,841	12,095,527
Total liabilities		**611,203,906**	**529,815,044**
EQUITY			
Share capital	15	30,110,207	30,110,207
Share premium		25,632	25,632
Reserve for general banking risks		8,234,923	8,234,923
Dynamic reserve		6,733,233	6,733,233
Revaluation reserve for available-for-sale financial assets		(23,247)	(51,653)
Cumulative translation reserve		503,154	(182,251)
Retained earnings		15,667,321	13,948,273
Total equity		**61,251,223**	**58,818,364**
Total liabilities and equity		**672,455,129**	**588,633,408**

The consolidated interim condensed statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements.

	Unaudited Six-month period ended 30 June 2014 KZT'000	Unaudited Six-month period ended 30 June 2013 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	33,139,525	28,477,959
Interest payments	(16,342,544)	(11,096,810)
Fee and commission receipts	4,749,321	6,288,795
Fee and commission payments	(1,162,277)	(748,922)
Net payments from financial instruments at fair value through profit or loss	(14,837)	(10,311)
Net receipts from foreign exchange	2,809,757	1,314,344
Other receipts/(payments)	129,285	(35,306)
Personnel expenses payments	(8,828,437)	(6,748,269)
Other general administrative expenses payments	(4,893,994)	(3,826,409)
(Increase)/decrease in operating assets		
Financial instruments at fair value through profit or loss	224,601	108,401
Mandatory reserve	123,102	27,730
Loans and advances to banks	(3,911,981)	305,541
Loans to customers	(104,157,703)	(57,981,388)
Other assets	(434,492)	(1,942,871)
Increase/(decrease) in operating liabilities		
Deposits and balances from banks	3,877,748	(8,185,594)
Amounts payable under repurchase agreements	17,474,021	6,000,001
Current accounts and deposits from customers	58,679,698	61,388,992
Other liabilities	814,963	1,412,606
Net cash (used in)/from operating activities before income tax paid	**(17,724,244)**	**14,748,489**
Income tax paid	(1,438,896)	(798,535)
Cash flows (used in)/from operating activities	**(19,163,140)**	**13,949,954**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale financial assets	(16,802,832)	(8,279,954)
Sale and redemption of available-for-sale financial assets	13,518,940	16,000,027
Purchases of held-to-maturity investments	(7,666,814)	(19,002,659)
Redemption of held-to-maturity investments	14,419,634	5,277,993
Purchases of property and equipment and intangible assets	(2,798,478)	(1,760,566)
Sales of property and equipment and intangible assets	4,999	3,921
Advances for capital expenditures	(132,412)	(715,519)
Cash flows from/(used in) investing activities	**543,037**	**(8,476,757)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of debt securities issued	(9,374)	(1,295,789)
Receipts from subordinated debt securities issued	-	3,792,620
Repayment of subordinated debt securities issued	-	(10,000,000)
Repurchase of subordinated debt securities issued	(558,692)	-
Receipts of other borrowed funds	3,566,133	7,174,323
Repayment of other borrowed funds	(3,683,222)	(3,384,954)
Dividends paid	(1,500,016)	(88,000)
Cash used in financing activities	**(2,185,171)**	**(3,801,800)**
Net (decrease)/increase in cash and cash equivalents	**(20,805,274)**	**1,671,397**
Effect of changes in exchange rates on cash and cash equivalents	13,000,877	(239,935)
Cash and cash equivalents as at the beginning of the period	83,146,378	59,622,754
Cash and cash equivalents as at the end of the period (Note 8)	**75,341,981**	**61,054,216**

The consolidated interim condensed statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements.

KZT'000	**Share capital**	**Share premium**	**Reserve for general banking risks**	**Revaluation reserve for available-for-sale financial assets**	**Cumulative translation reserve**	**Retained earnings**	**Total**
Balance as at 1 January 2013	30,110,207	25,632	6,650,265	(114,258)	(7,755)	11,120,112	47,784,203
Total comprehensive income, unaudited							
Profit for the period, unaudited	-	-	-	-	-	6,263,872	6,263,872
Other comprehensive income, unaudited							
Items that are or may be reclassified subsequently to profit or loss:							
Net change in fair value of available-for-sale financial assets, unaudited	-	-	-	81,556	-	-	81,556
Net change in fair value of available-for-sale financial assets transferred to profit or loss, unaudited	-	-	-	274	-	-	274
Foreign currency translation differences for foreign operations, unaudited	-	-	-	-	(206,549)	-	(206,549)
Total items that are or may be reclassified subsequently to profit or loss:	-	-	-	*81,830*	*(206,549)*	-	*(124,719)*
Total other comprehensive income, unaudited	-	-	-	81,830	(206,549)	-	(124,719)
Total comprehensive income for the period, unaudited	**-**	**-**	**-**	**81,830**	**(206,549)**	**6,263,872**	**6,139,153**
Transactions with owners, recorded directly in equity, unaudited							
Dividends declared, unaudited	-	-	-	-	-	(2,000,129)	(2,000,129)
Other movements in equity, unaudited							
Increase in reserve for general banking risks, unaudited	-	-	1,584,658	-	-	(1,584,658)	-
Balance as at 30 June 2013, unaudited	**30,110,207**	**25,632**	**8,234,923**	**(32,428)**	**(214,304)**	**13,799,197**	**51,923,227**

The consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements.

KZT'00	**Share capital**	**Share premium**	**Reserve for general banking risks**	**Dynamic reserve**	**Revaluation reserve for available-for-sale financial assets**	**Cumulative translation reserve**	**Retained earnings**	**Total**
Balance as at 1 January 2014	30,110,207	25,632	8,234,923	6,733,233	(51,653)	(182,251)	13,948,273	58,818,364
Total comprehensive income, unaudited								
Profit for the period, unaudited	-	-	-	-	-	-	3,219,064	3,219,064
Other comprehensive income, unaudited								
Items that are or may be reclassified subsequently to profit or loss:								
Net change in fair value of available-for-sale financial assets, unaudited	-	-	-	-	28,751	-	-	28,751
Net change in fair value of available-for-sale financial assets transferred to profit or loss, unaudited	-	-	-	-	(345)	-	-	(345)
Foreign currency translation differences for foreign operations, unaudited	-	-	-	-	-	685,405	-	685,405
Total items that are or may be reclassified subsequently to profit or loss:	-	-	-	-	*28,406*	*685,405*	-	*713,811*
Total other comprehensive income, unaudited	-	-	-	-	28,406	685,405	-	713,811
Total comprehensive income for the period, unaudited	**-**	**-**	**-**	**-**	**28,406**	**685,405**	**3,219,064**	**3,932,875**
Transactions with owners, recorded directly in equity, unaudited								
Dividends declared, unaudited	-	-	-	-	-	-	(1,500,016)	(1,500,016)
Balance as at 30 June 2014, unaudited	**30,110,207**	**25,632**	**8,234,923**	**6,733,233**	**(23,247)**	**503,154**	**15,667,321**	**61,251,223**

The consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements.

1 Background

(a) Organisation and operations

These consolidated interim condensed financial statements include the financial statements of Eurasian Bank JSC (the "Bank") and its subsidiary, Eurasian Bank OJSC (together referred to as the "Group").

The Bank was established in 1994 in the Republic of Kazakhstan as a closed joint-stock company under the laws of the Republic of Kazakhstan. Due to a change in legislation introduced in 2003, the Bank was re-registered as a joint-stock company on 2 September 2003. The Bank operates based on general banking licence number 237 granted on 28 December 2007. The Bank also possesses licences number 0401100623 and number 0407100189 for brokerage, dealing and custodian activities. The principal activities of the Bank are deposit taking and customer account maintenance, lending and issuing guarantees, custodian services, cash and settlement operations, operations with securities and foreign exchange.

The activities of the Bank are regulated by the National Bank of the Republic of Kazakhstan (the "NBRK").

As at 30 June 2014 the Group has 20 regional branches (31 December 2013: 20) and 145 cash settlement centers (31 December 2013: 143) from which it conducts business throughout the Republic of Kazakhstan and Russian Federation.

The registered address of the Bank's head office is 56 Kunayev str., Almaty, Republic of Kazakhstan. The majority of the Group's assets and liabilities are located in Kazakhstan.

(b) Shareholders

As at 30 June 2014 Eurasian Financial Company JSC (hereafter, EFC) is the Bank's Parent company, which owns 100.00% of the Bank's shares (31 December 2013: EFC owned 100.00%).

(c) Business environment

The Group's operations are primarily located in Kazakhstan. Consequently, the Group is exposed to the economic and financial markets of Kazakhstan which display characteristics of an emerging market. 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 Kazakhstan. The consolidated interim condensed financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

The consolidated interim condensed financial statements are prepared in accordance with International Accounting Standard 34 _Interim Financial Reporting_ ("IAS 34"). Accordingly, certain information and disclosures normally required to be included in the notes to the annual consolidated financial statements have been omitted or condensed. The consolidated interim condensed financial statements should be read in conjunction with the consolidated financial statements and with selected notes to the consolidated financial statements of the Group for the year ended 31 December 2013.

(b) Basis of measurement

The consolidated interim condensed financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Bank is the Kazakhstan tenge ("KZT") as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to the Bank.

The functional currency of the Bank's subsidiary is the Russian Rouble ("RUB") as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to the subsidiary.

The KZT is the presentation currency for the purposes of these consolidated interim condensed financial statements.

In translating to the KZT, assets and liabilities of the Bank's subsidiary that are included in the statement of financial position are translated at the foreign exchange rate ruling at the reporting date. All income and expense and equity items are translated at approximating rates at the dates of the transactions. The resulting exchange difference is recorded in the cumulative translation reserve.

Financial information presented in KZT is rounded to the nearest thousand.

Any conversion of RUB amounts to KZT should not be construed as a representation that RUB amounts have been, could be, or will be in the future, convertible into KZT at the exchange rate applied, or at any other exchange rate.

(d) Use of estimates and judgments

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

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

In preparing these consolidated interim condensed financial statements the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those that applied to the Group's consolidated financial statements for the year ended 31 December 2013.

2 Basis of preparation, continued

(e) Changes in presentation – prior period reclassification

Comparative information is reclassified to conform to changes in presentation in the current period.

During the preparation of the Group's consolidated interim condensed financial statements, management made certain reclassifications affecting the corresponding figures to conform to the presentation of the consolidated interim condensed financial statements.

In the consolidated interim condensed statement of cash flow for the six-month period ended 30 June 2013 mandatory reserve with the NBRK of KZT 6,176,485 thousand was reclassified from loans and advances to banks to cash and cash equivalents. Management believes that this presentation is more appropriate presentation in accordance with IFRS and provides a clearer view of the consolidated financial position of the Group. The effect of reclassifications on the corresponding figures can be summarised as follows:

KZT'000	**Unaudited As reclassified**	**Unaudited Effect of reclassifications**	**Unaudited As previously reported**
Consolidated interim condensed statement of cash flows for the six-month period ended 30 June 2013			
Mandatory reserve	27,730	1,474,008	(1,446,278)
Net cash provided from operating activities before income tax paid	14,748,489	1,474,008	13,274,481
Cash flows provided from operating activities	13,949,954	1,474,008	12,475,946
Net increase in cash and cash equivalents	1,671,397	1,474,008	197,389
Cash and cash equivalents as at the beginning of the period	59,622,754	4,702,477	54,920,277
Cash and cash equivalents as at the end of the period	**61,054,216**	**6,176,485**	**54,877,731**

The above reclassifications do not impact the Group's results or equity.

3 Significant accounting policies

Except for the adoption of the new amendments to IFRS effective as of 1 January 2014, the accounting policies applied by the Group in these consolidated interim condensed financial statements are consistent with those applied by the Group in the consolidated financial statements for the year ended 31 December 2013.

Certain new standards and improvements to IFRS became effective from 1 January 2014 and have been adopted by the Group since that date. These changes do not have a significant effect on the consolidated interim condensed financial statements.

- Amendments to IAS 32 *Financial Instruments, Disclosure and Presentation* further clarify the definition of a legally enforceable right to set off the financial assets and liabilities conditional on the fact that the right is not contingent on a future event; and enforceable in the normal course of business, and in the event of default, insolvency or bankruptcy if the entity and of the counterparties.

4 Net interest income

	Unaudited Six-month period ended 30 June 2014 KZT'000	Unaudited Six-month period ended 30 June 2013 KZT'000
Interest income		
Loans to customers	36,517,996	30,513,506
Held-to-maturity investments	321,514	397,692
Available-for-sale financial assets	247,379	157,140
Loans and advances to banks	100,463	101,509
Financial instruments at fair value through profit or loss	30,683	34,481
Cash and cash equivalents	17,824	26,241
Amounts receivable under reverse repurchase agreements	-	24,028
	37,235,859	**31,254,597**
Interest expense		
Current accounts and deposits from customers	(12,960,122)	(9,987,091)
Subordinated debt securities issued	(1,874,857)	(1,238,240)
Debt securities issued	(1,498,146)	(1,508,851)
Other borrowed funds	(699,306)	(780,176)
Deposits and balances from banks	(692,368)	(464,432)
Amounts payable under repurchase agreements	(589,234)	(7,245)
	(18,314,033)	**(13,986,035)**
	18,921,826	**17,268,562**

5 Fee and commission income

	Unaudited Six-month period ended 30 June 2014 KZT'000	Unaudited Six-month period ended 30 June 2013 KZT'000
Agent services	3,033,790	4,394,682
Settlement	638,489	689,307
Cash withdrawal	496,539	439,722
Payment card maintenance fees	320,137	265,314
Guarantee and letter of credit issuance	246,514	234,356
Cash delivery	24,640	22,192
Custodian services	8,730	26,164
Other	149,730	139,057
	4,918,569	**6,210,794**

6 Impairment losses

	Unaudited Six-month period ended 30 June 2014 KZT'000	Unaudited Six-month period ended 30 June 2013 KZT'000
Loans to customers (Note 11)	6,129,861	3,734,503
Other assets	(28,854)	(20,158)
Provision for contingent liabilities	80,603	-
	6,181,610	**3,714,345**

7 Other general administrative expenses

	Unaudited Six-month period ended 30 June 2014 KZT'000	Unaudited Six-month period ended 30 June 2013 KZT'000
Depreciation and amortisation	1,534,867	1,275,298
Operating lease expense	834,972	655,586
Communications and information services	748,600	527,058
Advertising and marketing	602,507	468,325
Taxes other than on income	528,658	432,290
Security	411,486	319,699
Insurance of car loans	269,645	4,243
Travel expenses	149,344	135,814
Repairs and maintenance	138,462	143,459
Services of State Center for pension payments	102,057	121,025
Professional services	92,610	155,819
Cash delivery services	90,693	50,198
Insurance	62,454	37,382
Payment cards production	57,986	37,506
Transportation	33,552	28,021
Loan servicing	13,875	107,216
Stationery and office supplies	12,752	46,466
Trainings	11,706	7,328
Representation expenses	6,640	7,324
Other	520,856	314,315
	6,223,722	**4,874,372**

8 Cash and cash equivalents

	Unaudited 30 June 2014 KZT'000	31 December 2013 KZT'000
Cash on hand	**26,562,297**	**20,248,246**
Nostro accounts with the NBRK and the CBRF	**6,821,274**	**30,333,937**
Nostro accounts with other banks		
- rated from AA- to AA+	688,356	50,422
- rated from A- to A+	26,995,615	26,338,051
- rated from BBB- to BBB+	2,150,210	283,288
- rated from BB- to BB+	490,719	582,973
- rated below B+	19,418	331,135
- not rated	131,594	82,610
Total nostro accounts with other banks	**30,475,912**	**27,668,479**
Term deposits with other banks		
- rated from BBB- to BBB+	540,000	936,000
- rated below B+	1,102,282	2,418,731
- not rated	9,840,216	1,540,985
Total term deposits with other banks	**11,482,498**	**4,895,716**
Total cash and cash equivalents	**75,341,981**	**83,146,378**

The credit ratings are presented by standards of Fitch credit ratings agency.

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

As at 30 June 2014 the Group has 2 banks, unaudited, (2013: 2 banks) whose balances exceed 10% of equity. The gross value of these balances as at 30 June 2014 is KZT 31,711,485 thousand, unaudited (2013: KZT 53,462,403 thousand).

Minimum reserve requirements

Minimum reserve requirements are calculated in accordance with regulations issued by the NBRK and should be maintained as average of cash on hand and balances on current account with the NBRK for the two week period calculated as certain minimum level of residents' and non-residents' customer deposits and current accounts balances as well as other bank liabilities. As at 30 June 2014 the minimum reserve is KZT 8,177,936 thousand, unaudited (2013: KZT 6,694,173 thousand).

9 Available-for-sale financial assets

	Unaudited 30 June 2014 KZT'000	31 December 2013 KZT'000
Held by the Group		
Debt and other fixed-income instruments		
- Government bonds		
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	112,229	10,965,674
Notes of the NBRK	1,602,993	-
Total government bonds	**1,715,222**	**10,965,674**
Equity investments		
- Corporate shares	14,962	14,198
	1,730,184	**10,979,872**
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
- Government bonds		
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	10,165,623	-
Notes of the NBRK	2,389,664	-
Total government bonds	**12,555,287**	**-**
	14,285,471	**10,979,872**

10 Loans and advances to banks

	Unaudited 30 June 2014 KZT'000	31 December 2013 KZT'000
Mandatory reserves with the CBRF	**200,421**	**323,523**
Term deposits		
- rated from BB- to BB+	409,248	507,944
- rated below B+	1,310	1,260
- not rated	6,149,677	2,089,646
Total term deposits	**6,560,235**	**2,598,850**
Total loans and advances to banks	**6,760,656**	**2,922,373**

The credit ratings are presented by standards of Fitch credit ratings agency.

No loans and advances to banks are overdue or impaired as at 30 June 2014 (2013: nil).

(a) Concentration of loans and advances to banks

As at 30 June 2014 no banks (2013: nil) have balances that exceed 10% of equity.

(b) Mandatory reserves with the CBRF

Under legislation of the Russian Federation, the Group subsidiary is required to maintain certain mandatory reserve. The mandatory reserve deposit is a non-interest bearing deposit calculated in accordance with regulations issued by the CBRF and whose withdrawability is restricted.

11 Loans to customers

	Unaudited 30 June 2014 KZT'000	31 December 2013 KZT'000
Loans to corporate customers		
Loans to large corporates	258,101,820	193,915,808
Loans to small and medium size companies	27,727,007	35,784,153
Total loans to corporate customers	**285,828,827**	**229,699,961**
Loans to retail customers		
Uncollateralised consumer loans	135,373,815	127,099,793
Car loans	107,093,192	76,369,442
Mortgage loans	18,572,385	17,943,436
Small business loans	16,589,193	16,664,846
Private banking loans	151,352	150,894
Loans collateralised by cash	39,320	171,172
Total loans to retail customers	**277,819,257**	**238,399,583**
Gross loans to customers	**563,648,084**	**468,099,544**
Impairment allowance	(42,032,449)	(35,570,458)
Net loans to customers	**521,615,635**	**432,529,086**

Movements in the loan impairment allowance by classes of loans to customers for the six-month period ended 30 June 2014 are as follows:

	Loans to corporate customers KZT'000	Loans to retail customers KZT'000	Total KZT'000
Balance at the beginning of the period	13,845,687	21,724,771	35,570,458
Net charge, unaudited	552,828	5,577,033	6,129,861
Write-offs, unaudited	(179,773)	(372,859)	(552,632)
Effect of foreign currency translation, unaudited	644,737	240,025	884,762
Balance at the end of the period, unaudited	**14,863,479**	**27,168,970**	**42,032,449**

11 Loans to customers, continued

Movements in the loan impairment allowance by classes of loans to customers for the period ended 30 June 2013 are as follows:

	Loans to corporate customers KZT'000	Loans to retail customers KZT'000	Total KZT'000
Balance at the beginning of the period	13,585,773	15,291,234	28,877,007
Net charge, unaudited	35,686	3,698,817	3,734,503
Write-offs, unaudited	(10,949)	(360,561)	(371,510)
Effect of foreign currency translation, unaudited	19,359	12,982	32,341
Balance at the end of the period, unaudited	**13,629,869**	**18,642,472**	**32,272,341**

The following table provides information by types of loan products as at 30 June 2014:

	Unaudited Gross amount KZT'000	Unaudited Impairment allowance KZT'000	Unaudited Carrying amount KZT'000
Loans to corporate customers			
Loans to large corporates	258,101,820	(11,704,825)	246,396,995
Loans to small and medium size companies	27,727,007	(3,158,654)	24,568,353
Loans to retail customers			
Uncollateralised consumer loans	135,373,815	(18,431,435)	116,942,380
Car loans	107,093,192	(879,581)	106,213,611
Mortgage loans	18,572,385	(2,588,640)	15,983,745
Small business loans	16,589,193	(5,268,746)	11,320,447
Private banking loans	151,352	(568)	150,784
Loans collateralised by cash	39,320	-	39,320
Balance at the end of the period	**563,648,084**	**(42,032,449)**	**521,615,635**

The following table provides information by types of loan products as at 31 December 2013:

	Gross amount KZT'000	Impairment allowance KZT'000	Carrying amount KZT'000
Loans to corporate customers			
Loans to large corporates	193,915,808	(10,639,263)	183,276,545
Loans to small and medium size companies	35,784,153	(3,206,424)	32,577,729
Loans to retail customers			
Uncollateralised consumer loans	127,099,793	(13,701,486)	113,398,307
Car loans	76,369,442	(709,679)	75,659,763
Mortgage loans	17,943,436	(2,257,456)	15,685,980
Small business loans	16,664,846	(5,055,072)	11,609,774
Loans collateralised by cash	171,172	(481)	170,691
Private banking loans	150,894	(597)	150,297
Balance at the end of the year	**468,099,544**	**(35,570,458)**	**432,529,086**

11 Loans to customers, continued

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 30 June 2014:

	Unaudited Gross loans KZT'000	**Unaudited Impairment allowance KZT'000**	**Unaudited Net loans KZT'000**	**Unaudited Impairment allowance to gross loans, %**
Loans to corporate customers				
Loans to large corporates				
Loans without individual signs of impairment				
Standard not overdue loans	210,185,197	(2,841,919)	207,343,278	1.35
Overdue loans:				
- overdue less than 30 days	21,985,728	(81,347)	21,904,381	0.37
- overdue 30-89 days	6,716,629	(24,852)	6,691,777	0.37
- overdue 180-360 days	578,300	(2,140)	576,160	0.37
Total loans without individual signs of impairment	**239,465,854**	**(2,950,258)**	**236,515,596**	**1.23**
Loans with individual signs of impairment:				
- not overdue	6,835,971	(2,023,476)	4,812,495	29.60
- overdue less than 90 days	2,176,670	(2,105,795)	70,875	96.74
- overdue more than 90 days and less than 1 year	3,401,867	(1,423,636)	1,978,231	41.85
- overdue more than 1 year	6,221,458	(3,201,660)	3,019,798	51.46
Total loans with individual signs of impairment	**18,635,966**	**(8,754,567)**	**9,881,399**	**46.98**
Total loans to large corporates	**258,101,820**	**(11,704,825)**	**246,396,995**	**4.53**
Loans to small and medium size companies				
Loans without individual signs of impairment				
Standard not overdue loans	16,533,361	(64,843)	16,468,518	0.39
Overdue loans:				
- overdue less than 30 days	1,000,592	(3,702)	996,890	0.37
- overdue 30-89 days	666,190	(2,465)	663,725	0.37
- overdue 90-179 days	1,092,552	(4,042)	1,088,510	0.37
- overdue 180-360 days	444,960	(1,646)	443,314	0.37
- overdue more than 360 days	349,781	(5,056)	344,725	1.45
Total loans without individual signs of impairment	**20,087,436**	**(81,754)**	**20,005,682**	**0.41**
Loans with individual signs of impairment:				
- not overdue	2,462,287	(244,167)	2,218,120	9.92
- overdue less than 90 days	110,104	(26,903)	83,201	24.43
- overdue more than 90 days and less than 1 year	470,721	(330,703)	140,018	70.25
- overdue more than 1 year	4,596,459	(2,475,127)	2,121,332	53.85
Total loans with individual signs of impairment	**7,639,571**	**(3,076,900)**	**4,562,671**	**40.28**
Total loans to small and medium size companies	**27,727,007**	**(3,158,654)**	**24,568,353**	**11.39**
Total loans to corporate customers	**285,828,827**	**(14,863,479)**	**270,965,348**	**5.20**

11 Loans to customers, continued

(a) Credit quality of loans to customers, continued

	Unaudited Gross loans KZT'000	Unaudited Impairment allowance KZT'000	Unaudited Net loans KZT'000	Unaudited Impairment allowance to gross loans, %
Loans to retail customers				
Uncollateralised consumer loans				
- not overdue	99,270,943	(847,861)	98,423,082	0.85
- overdue less than 30 days	5,836,469	(76,489)	5,759,980	1.31
- overdue 30-89 days	4,096,122	(129,907)	3,966,215	3.17
- overdue 90-179 days	4,407,611	(2,032,957)	2,374,654	46.12
- overdue 180-360 days	7,965,797	(4,567,262)	3,398,535	57.34
- overdue more than 360 days	13,796,873	(10,776,959)	3,019,914	78.11
Total uncollateralised consumer loans	**135,373,815**	**(18,431,435)**	**116,942,380**	**13.62**
Car loans				
- not overdue	99,574,212	(122,707)	99,451,505	0.12
- overdue less than 30 days	2,664,156	(4,579)	2,659,577	0.17
- overdue 30-89 days	1,538,504	(6,699)	1,531,805	0.44
- overdue 90-179 days	1,171,607	(42,589)	1,129,018	3.64
- overdue 180-360 days	987,222	(101,317)	885,905	10.26
- overdue more than 360 days	1,157,491	(601,690)	555,801	51.98
Total car loans	**107,093,192**	**(879,581)**	**106,213,611**	**0.82**
Mortgage loans				
- not overdue	12,110,361	(278,831)	11,831,530	2.30
- overdue less than 30 days	866,055	(8,661)	857,394	1.00
- overdue 30-89 days	362,658	(3,627)	359,031	1.00
- overdue 90-179 days	300,815	(14,628)	286,187	4.86
- overdue 180-360 days	793,929	(27,361)	766,568	3.45
- overdue more than 360 days	4,138,567	(2,255,532)	1,883,035	54.50
Total mortgage loans	**18,572,385**	**(2,588,640)**	**15,983,745**	**13.94**
Small business loans				
- not overdue	7,928,333	(135,203)	7,793,130	1.71
- overdue less than 30 days	195,476	(6,546)	188,930	3.35
- overdue 30-89 days	188,374	(22,241)	166,133	11.81
- overdue 90-179 days	316,713	(84,116)	232,597	26.56
- overdue 180-360 days	1,392,639	(734,776)	657,863	52.76
- overdue more than 360 days	6,567,658	(4,285,864)	2,281,794	65.26
Total small business loans	**16,589,193**	**(5,268,746)**	**11,320,447**	**31.76**
Private banking loans				
- not overdue	151,352	(568)	150,784	0.38
Total loans private banking	**151,352**	**(568)**	**150,784**	**0.38**
Loans collateralised by cash				
- not overdue	35,277	-	35,277	-
- overdue 30-89 days	4,043	-	4,043	-
Total loans collateralised by cash	**39,320**	**-**	**39,320**	**-**
Total loans to retail customers	**277,819,257**	**(27,168,970)**	**250,650,287**	**9.78**
Total loans to customers	**563,648,084**	**(42,032,449)**	**521,615,635**	**7.46**

11 Loans to customers, continued

(a) Credit quality of loans to customers, continued

The following table provides information on the credit quality of loans to customers as at 31 December 2013:

	Gross loans KZT'000	Impairment allowance KZT'000	Net loans KZT'000	Impairment allowance to gross loans, %
Loans to corporate customers				
Loans to large corporates				
Loans without individual signs of impairment				
Standard not overdue loans	175,374,898	(2,455,874)	172,919,024	1.40
Overdue loans:				
- overdue 30-89 days	62,998	(246)	62,752	0.39
- overdue 90-179days	474,453	(1,850)	472,603	0.39
- overdue more than 360 days	590,841	(1,927)	588,914	0.33
Total loans without individual signs of impairment	**176,503,190**	**(2,459,897)**	**174,043,293**	**1.39**
Loans with individual signs of impairment:				
- not overdue	5,332,330	(4,267,956)	1,064,374	80.04
- overdue less than 90 days	1,562,520	(749,940)	812,580	48.00
- overdue more than 90 days and less than 1 year	6,798,337	(607,146)	6,191,191	8.93
- overdue more than 1 year	3,719,431	(2,554,324)	1,165,107	68.68
Total loans with individual signs of impairment	**17,412,618**	**(8,179,366)**	**9,233,252**	**46.97**
Total loans to large corporates	**193,915,808**	**(10,639,263)**	**183,276,545**	**5.49**
Loans to small and medium size companies				
Loans without individual signs of impairment				
Standard not overdue loans	26,904,371	(124,464)	26,779,907	0.46
Overdue loans:				
- overdue less than 30 days	505,370	(1,971)	503,399	0.39
- overdue 30-89 days	371,260	(1,448)	369,812	0.39
- overdue 90-179 days	17,891	(70)	17,821	0.39
- overdue 180-360 days	280,732	(1,095)	279,637	0.39
- overdue more than 360 days	265,412	(1,035)	264,377	0.39
Total loans without individual signs of impairment	**28,345,036**	**(130,083)**	**28,214,953**	**0.46**
Loans with individual signs of impairment:				
- not overdue	4,800	(1,155)	3,645	24.06
- overdue less than 90 days	2,737,364	(502,345)	2,235,019	18.35
- overdue more than 90 days and less than 1 year	1,059,221	(138,398)	920,823	13.07
- overdue more than 1 year	3,637,732	(2,434,443)	1,203,289	66.92
Total loans with individual signs of impairment	**7,439,117**	**(3,076,341)**	**4,362,776**	**41.35**
Total loans to small and medium size companies	**35,784,153**	**(3,206,424)**	**32,577,729**	**8.96**
Total loans to corporate customers	**229,699,961**	**(13,845,687)**	**215,854,274**	**6.03**

11 Loans to customers, continued

(a) Credit quality of loans to customers, continued

	Gross loans KZT'000	Impairment allowance KZT'000	Net loans KZT'000	Impairment allowance to gross loans, %
Loans to retail customers				
Uncollateralised consumer loans				
- not overdue	100,481,680	(858,552)	99,623,128	0.85
- overdue less than 30 days	4,724,230	(46,890)	4,677,340	0.99
- overdue 30-89 days	3,769,471	(39,829)	3,729,642	1.06
- overdue 90-179 days	3,939,109	(2,228,514)	1,710,595	56.57
- overdue 180-360 days	6,206,142	(4,135,909)	2,070,233	66.64
- overdue more than 360 days	7,979,161	(6,391,792)	1,587,369	80.11
Total uncollateralised consumer loans	**127,099,793**	**(13,701,486)**	**113,398,307**	**10.78**
Car loans				
- not overdue	72,403,428	(90,359)	72,313,069	0.12
- overdue less than 30 days	1,497,963	(2,509)	1,495,454	0.17
- overdue 30-89 days	773,138	(1,754)	771,384	0.23
- overdue 90-179 days	494,662	(119,074)	375,588	24.07
- overdue 180-360 days	387,834	(111,237)	276,597	28.68
- overdue more than 360 days	812,417	(384,746)	427,671	47.36
Total car loans	**76,369,442**	**(709,679)**	**75,659,763**	**0.93**
Mortgage loans				
- not overdue	11,453,483	(299,334)	11,154,149	2.61
- overdue less than 30 days	1,343,731	(10,903)	1,332,828	0.81
- overdue 30-89 days	552,563	(7,197)	545,366	1.30
- overdue 90-179 days	353,485	(21,188)	332,297	5.99
- overdue 180-360 days	369,221	(61,009)	308,212	16.52
- overdue more than 360 days	3,870,953	(1,857,825)	2,013,128	47.99
Total mortgage loans	**17,943,436**	**(2,257,456)**	**15,685,980**	**12.58**
Small business loans				
- not overdue	8,449,223	(169,777)	8,279,446	2.01
- overdue less than 30 days	76,626	(2,313)	74,313	3.02
- overdue 30-89 days	1,366,019	(585,911)	780,108	42.89
- overdue 90-179 days	107,943	(32,578)	75,365	30.18
- overdue 180-360 days	760,303	(154,853)	605,450	20.37
- overdue more than 360 days	5,904,732	(4,109,640)	1,795,092	69.60
Total small business loans	**16,664,846**	**(5,055,072)**	**11,609,774**	**30.33**
Loans collateralised by cash				
- not overdue	171,172	(481)	170,691	0.28
Total loans collateralised by cash	**171,172**	**(481)**	**170,691**	**0.28**
Private banking loans				
- not overdue	150,894	(597)	150,297	0.40
Total private banking loans	**150,894**	**(597)**	**150,297**	**0.40**
Total loans to retail customers	**238,399,583**	**(21,724,771)**	**216,674,812**	**9.11**
Total loans to customers	**468,099,544**	**(35,570,458)**	**432,529,086**	**7.60**

11 Loans to customers, continued

(b) Analysis of collateral

(i) Loans to corporate customers

The following table provides information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral:

Unaudited 30 June 2014 KZT'000	Loans to customers, carrying amount	Fair value of collateral - for collateral assessed as at reporting date	Fair value of collateral - for collateral assessed as at loan inception date	Fair value of collateral not determined
Loans without individual signs of impairment				
Future contract revenues	64,913,754	-	-	64,913,754
Real estate	51,378,628	46,014,212	5,364,416	-
Insurance	26,226,131	-	-	26,226,131
Grain	23,347,709	23,347,709	-	-
Guarantees	9,462,853	-	-	9,462,853
Motor vehicles	7,262,191	6,582,618	679,573	-
Subsoil use	6,729,778	6,729,778	-	-
Equipment	5,046,559	4,228,932	817,627	-
Construction in progress	3,048,724	3,048,724	-	-
Goods in turnover	2,660,102	1,116,517	1,543,585	-
Cash and deposits	921,989	-	921,989	-
Other	4,464,468	4,458,984	5,484	-
No collateral or other credit enhancement	51,058,392	-	-	51,058,392
Total loans without individual signs of impairment	**256,521,278**	**95,527,474**	**9,332,674**	**151,661,130**
Overdue or impaired loans				
Real estate	9,135,392	7,896,934	1,238,458	-
Guarantees	1,737,741	-	-	1,737,741
Equipment	893,804	746,764	147,040	-
Goods in turnover	690,748	690,748	-	-
Motor vehicles	150,875	150,230	645	-
Future contract revenues	143,009	-	-	143,009
Cash and deposits	12,927	-	12,927	-
No collateral or other credit enhancement	1,679,574	-	-	1,679,574
Total overdue or impaired loans	**14,444,070**	**9,484,676**	**1,399,070**	**3,560,324**
Total loans to corporate customers	**270,965,348**	**105,012,150**	**10,731,744**	**155,221,454**

11 Loans to customers, continued

(b) Analysis of collateral, continued

(i) Loans to corporate customers, continued

31 December 2013 KZT'000	Loans to customers, carrying amount	Fair value of collateral - for collateral assessed as at reporting date	Fair value of collateral - for collateral assessed as at loan inception date	Fair value of collateral not determined
Loans without individual signs of impairment				
Real estate	48,467,604	35,463,008	13,004,596	-
Future contract revenues	32,941,117	-	-	32,941,117
Insurance	31,877,015	-	-	31,877,015
Grain	22,042,993	22,042,993	-	-
Equipment	11,256,861	9,669,174	1,587,687	-
Construction in progress	9,311,377	9,311,377	-	-
Motor vehicles	7,456,973	6,471,473	985,500	-
Guarantees	2,522,224	-	-	2,522,224
Cash and deposits	2,151,523	-	2,151,523	-
Goods in turnover	1,800,649	849,582	951,067	-
Subsoil use	45,171	45,171	-	-
Other	3,282,610	3,277,130	5,480	-
No collateral or other credit enhancement	29,102,129	-	-	29,102,129
Total loans without individual signs of impairment	**202,258,246**	**87,129,908**	**18,685,853**	**96,442,485**
Overdue or impaired loans				
Real estate	5,632,792	3,509,482	2,123,310	-
Goods in turnover	1,981,429	1,728,460	252,969	-
Future contract revenues	1,792,788	-	-	1,792,788
Insurance	854,400	-	-	854,400
Equipment	510,837	-	510,837	-
Motor vehicles	337,360	227,427	109,933	-
Cash and deposits	160,324	-	160,324	-
Guarantees	5,032	-	-	5,032
No collateral or other credit enhancement	2,321,066	-	-	2,321,066
Total overdue or impaired loans	**13,596,028**	**5,465,369**	**3,157,373**	**4,973,286**
Total loans to corporate customers	**215,854,274**	**92,595,277**	**21,843,226**	**101,415,771**

The tables above exclude overcollateralisation.

The Group has loans, for which fair value of collateral was assessed at the loan inception date and it was not updated for further changes, and loans for which fair value of collateral is not determined. For certain loans the fair value of collateral is updated as at the reporting date. Information on valuation of collateral is based on when this estimate was made, if any.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Guarantees and sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

11 Loans to customers, continued

(b) Analysis of collateral, continued

(i) Loans to corporate customers, continued

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date.

(ii) Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. Small business loans are secured by real estate and movable property. Car loans are secured by the underlying cars. Cash loans are collateralised by cash. Uncollateralised consumer loans are not secured.

Mortgage loans

Included in mortgage loans are loans with a net carrying amount of KZT 2,563,444 thousand, unaudited, (31 December 2013: KZT 3,965,038 thousand), which are secured by collateral with a fair value of less than the net carrying amount of the individual loans. The fair value of collateral for these loans amounts to KZT 1,573,928 thousand, unaudited, (31 December 2013: KZT 2,399,554 thousand).

For mortgage loans with a net carrying amount of KZT 13,420,301 thousand, unaudited, (31 December 2013: KZT 11,720,942 thousand) management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

The Group updates the appraised values of collateral at inception of the loans to the current values considering the approximate changes in property values. The Group obtains specific individual valuation of collateral once a half-year in case there are indications of impairment.

For mortgage loans with a net carrying amount of KZT 13,775,200 thousand, unaudited, (31 December 2013: KZT 13,224,261 thousand) the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

Car loans

The Group does not assess the value of collateral for the car loans portfolio when determining the impairment allowance due to the fact that it is impracticable to determine the fair value of collateral. Recoverable amounts of car loans are determined based on actual historical cash recovery rates calculated on a portfolio basis. The Group's policy is to issue auto loans with a loan-to-value of a maximum of 80%.

Small business loans

Included in small business loans are loans with a net carrying amount of KZT 680,260 thousand, unaudited, (31 December 2013: KZT 2,657,990 thousand), which are secured by collateral with a fair value of less than the net carrying amount of the individual loans. The fair value of collateral for these loans amounts to KZT 281,575 thousand, unaudited, (31 December 2013: KZT 2,644,668 thousand).

For small business loans with a net carrying amount of KZT 10,640,187 thousand, unaudited, (31 December 2013: KZT 8,951,784 thousand) management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

11 Loans to customers, continued

(b) Analysis of collateral, continued

(ii) Loans to retail customers, continued

Small business loans, continued

The Group updates the appraised values of collateral at inception of the loans to the current values considering the approximate changes in property values. The Group obtains specific individual valuation of collateral once a half-year in case there are indications of impairment.

For small business loans with a net carrying amount of KZT 6,713,012 thousand, unaudited, (31 December 2013: KZT 7,104,027 thousand) the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

(c) Industry and geographical analysis of the loan portfolio

Loans issued to customers outside of the Republic of Kazakhstan comprise 6.01% of the total carrying amount (31 December 2013: 2.3%). Loans to customers were issued primarily to customers located within the Republic of Kazakhstan who operate in the following economic sectors:

	Unaudited 30 June 2014 KZT'000	31 December 2013 KZT'000
Loans to corporate customers		
Wholesale trade	90,454,268	68,650,164
Transport	45,198,739	14,587,091
Construction	33,025,572	28,950,432
Agriculture, forestry and timber	31,663,520	33,685,073
Manufacturing	16,223,054	11,250,637
Services	13,140,950	12,250,035
Mining/metallurgy	10,841,703	13,751,948
Retail trade	10,694,838	13,081,639
Lease, rental and leasing	9,443,098	6,585,798
Foods production	5,657,033	5,962,130
Research and activities	3,339,250	3,407,717
Energy production and supply	3,046,663	3,574,595
Medical and social care	2,664,571	1,942,913
Financial intermediary	2,044,819	3,073,755
Real estate	1,080,614	1,336,098
Entertainment	618,879	584,241
Machinery production	612,751	848,764
Publishing	306,079	396,656
Other	5,772,426	5,780,275
Loans to retail customers		
Uncollateralised consumer loans	135,373,815	127,099,793
Car loans	107,093,192	76,369,442
Mortgage loans	18,572,385	17,943,436
Small business loans	16,589,193	16,664,846
Private banking loans	151,352	150,894
Loans collateralised by cash	39,320	171,172
	563,648,084	**468,099,544**
Impairment allowance	(42,032,449)	(35,570,458)
	521,615,635	**432,529,086**

11 Loans to customers, continued

(d) Significant credit exposures

As at 30 June 2014 the Group has 9 borrowers or groups of connected borrowers, unaudited, (2013: 7), whose loan balances exceed 10% of equity. The gross value of these loans as at 30 June 2014 is KZT 106,911,177 thousand, unaudited (2013: KZT 56,119,420 thousand).

(e) Loan maturities

The maturity of the loan portfolio is presented in Note 18 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

12 Held-to-maturity investments

	Unaudited 30 June 2014 KZT'000	31 December 2013 KZT'000
Held by the Group		
Government bonds		
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	560,377	14,074,495
Notes of the NBRK	265,033	-
Total government bonds	**825,410**	**14,074,495**
Corporate bonds		
- rated from BB- to BB+	175,540	-
Total corporate bonds	**175,540**	**-**
	1,000,950	**14,074,495**
Pledged under sale and repurchase agreements		
Government bonds		
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	8,581,600	9,387,811
Notes of the NBRK	4,727,055	-
Total government bonds	**13,308,655**	**9,387,811**
Corporate bonds		
- rated from BB- to BB+	2,585,578	-
Total corporate bonds	**2,585,578**	**-**
	15,894,233	**9,387,811**
	16,895,183	**23,462,306**

The credit ratings are presented by standards of Fitch credit ratings agency.

No notes or bonds are overdue or impaired as at 30 June 2014 (2013: nil).

13 Deposits and balances from banks

	Unaudited 30 June 2014 KZT'000	31 December 2013 KZT'000
Term deposits	17,960,492	13,458,364
Vostro accounts	413,773	658,269
	18,374,265	**14,116,633**

As at 30 June 2014 the Group has 1 bank whose balances exceed 10% of equity (2013: nil). The gross value of these balances as at 30 June 2014 is KZT 6,430,348 thousand, unaudited.

14 Current accounts and deposits from customers

	Unaudited 30 June 2014 KZT'000	31 December 2013 KZT'000
Current accounts and demand deposits		
- Retail	17,254,330	15,210,807
- Corporate	70,882,963	50,526,171
Term deposits		
- Retail	149,309,519	125,445,122
- Corporate	226,985,098	213,491,686
	464,431,910	**404,673,786**

As at 30 June 2014, the Group maintains customer deposit balances of KZT 2,822,723 thousand, unaudited, (2013: KZT 3,095,332 thousand) that serve as collateral for loans and unrecognised credit instruments granted by the Group.

As at 30 June 2014, the Group has 11 customers (2013: 11 customers), whose balances exceed 10% of equity. These balances as at 30 June 2014 are KZT 157,633,403 thousand, unaudited (2013: KZT 137,200,872 thousand).

15 Share capital

(a) Issued capital and share premium

The authorised share capital comprises 33,000,000 ordinary shares (2013: 33,000,000) and 3,000,000 non-redeemable cumulative preference shares (2013: 3,000,000).

Issued and outstanding share capital as at 30 June 2014 and 31 December 2013 comprised of the following fully paid ordinary shares:

	Unaudited 30 June 2014 Shares	31 December 2013 Shares
Issued at KZT 955.98	8,368,300	8,368,300
Issued at KZT 1,523.90	2,631,500	2,631,500
Issued at KZT 1,092.00	2,930,452	2,930,452
Issued at KZT 6,532.60	2,280,881	2,280,881
Total issued and outstanding shares	**16,211,133**	**16,211,133**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

(b) Dividends

In accordance with Kazakhstan legislation and the Bank's charter documents, distributable reserves are subject to the rules and regulations of the Republic of Kazakhstan.

During the six-month period ended 30 June 2014 dividends in amount of KZT 1,500,016 thousand or KZT 92.53 per share were declared (30 June 2013: KZT 2,000,129 thousand or KZT 123.38 per share).

15 Share capital, continued

(c) Book value per share

Under the listing rules of the Kazakh Stock Exchange the Group should present book value per share in its consolidated financial statements. The book value per share is calculated dividing net assets less intangible assets, by number of outstanding ordinary shares. As at 30 June 2014 the book value per share was KZT 3,566.01, unaudited (2013: KZT 3,442.23).

16 Earnings per share

The calculation of earnings per share is based on the net profit, and a weighted average number of ordinary shares outstanding during the period, calculated as shown below. The Group has no dilutive potential ordinary shares.

	Unaudited Six-month period ended 30 June 2014 KZT'000	**Unaudited Six-month period ended 30 June 2013 KZT'000**
Net profit	3,219,064	6,263,872
Weighted average number of ordinary shares	16,211,133	16,211,133
Earnings per ordinary share, in KZT	**198.57**	**386.39**

17 Analysis by segment

The Group has five reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the chief operating decision maker, the Chairman of the Management Board (the "Chairman"), reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments.

- Retail banking – includes loans, deposits and other transactions with retail customers;
- Corporate banking – includes loans, deposits and other transactions with corporate customers;
- Small and medium size companies banking - includes loans, deposits and other transactions with small and medium size companies;
- Assets and Liabilities management – includes maintaining of liquid assets portfolio (cash, nostro accounts with the NBRK and other banks, interbank financing (up to 1 month), investments into liquid assets and bonds issue management;
- Treasury – includes group financing via interbank borrowings and using derivatives for hedging market risks and investments into liquid securities (corporate bonds).

17 Analysis by segment, continued

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit after income tax as included in the internal management reports that are reviewed by the Chairman. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm's length basis.

	Unaudited 30 June 2014 KZT'000	31 December 2013 KZT'000
ASSETS		
Retail banking	265,942,338	199,704,943
Corporate banking	211,494,447	177,625,586
Assets and liabilities management	75,374,992	100,214,047
Small and medium size companies banking	35,898,558	44,099,466
Treasury	4,105,372	4,384,929
Unallocated assets	95,061,037	61,403,133
Total assets	**687,876,744**	**587,432,104**
LIABILITIES		
Corporate banking	254,248,588	224,544,900
Retail banking	162,940,655	136,239,660
Assets and liabilities management	109,610,383	94,851,933
Small and medium size companies banking	38,800,762	41,782,949
Unallocated liabilities	61,930,000	31,242,480
Total liabilities	**627,530,388**	**528,661,922**

Reconciliations of reportable segment total assets and total liabilities:

	Unaudited 30 June 2014 KZT'000	31 December 2013 KZT'000
Reportable segment total assets	687,876,744	587,432,104
Consolidation effect	5,443,631	4,364,118
Netting of outstanding spot transaction balances	(17,969,195)	(5,991,000)
Other adjustments	(2,896,051)	2,828,186
Total assets	**672,455,129**	**588,633,408**

	Unaudited 30 June 2014 KZT'000	31 December 2013 KZT'000
Reportable segment total liabilities	627,530,388	528,661,922
Consolidation effect	4,538,763	4,312,611
Netting of outstanding spot transaction balances	(17,969,195)	(5,991,000)
Other adjustments	(2,896,050)	2,831,511
Total liabilities	**611,203,906**	**529,815,044**

17 Analysis by segment, continued

Segment information for the main reportable segments for the six-month period ended 30 June 2014 is set below:

Unaudited KZT'000	**Corporate banking**	**Small and medium size companies banking**	**Retail banking**	**Treasury**	**Assets and liabilities management**	**Unallocated assets and liabilities**	**Total**
Interest income	9,918,211	2,001,995	20,028,931	66,350	598,111	593	32,614,191
Fee and commission income	917,584	745,202	6,538,695	-	-	189,186	8,390,667
Net gain on securities, dealing and translation differences	651,042	265,277	541,124	328,877	2,450	877	1,789,647
Other income	56,978	37,008	1,227,555	-	-	-	1,321,541
Funds transfer pricing	10,126,974	1,165,983	6,044,272	217	8,003,401	46,625	25,387,472
Revenue	**21,670,789**	**4,215,465**	**34,380,577**	**395,444**	**8,603,962**	**237,281**	**69,503,518**
Interest expense	(7,079,191)	(1,018,904)	(5,262,778)	(5,383)	(4,526,393)	(27,898)	(17,920,547)
Fee and commission expense	(61,874)	(18,951)	(1,297,894)	(3,945)	(54,872)	(102,026)	(1,539,562)
Impairment losses	(360,705)	(21,727)	(5,513,537)	-	-	-	(5,895,969)
Funds transfer pricing	(7,760,934)	(1,402,606)	(12,942,845)	(100,158)	(3,071,348)	(109,581)	(25,387,472)
Operational costs (direct)	(644,570)	(791,294)	(5,094,746)	(91,321)	(780,364)	(107,698)	(7,509,993)
Operational costs (indirect)	(796,975)	(555,813)	(5,727,594)	-	(119,417)	(92,586)	(7,292,385)
Corporate income tax	(225,235)	(76,792)	(597,182)	(10,521)	-	(75)	(909,805)
Segment result	**4,741,305**	**329,378**	**(2,055,999)**	**184,116**	**51,568**	**(202,583)**	**3,047,785**
Other segment items							
Additions of property and equipment	-	-	30,219	-	-	2,768,259	2,798,478
Depreciation and amortisation	(161,019)	(114,424)	(1,067,618)	(19,987)	(115,605)	(41,555)	(1,520,208)

17 Analysis by segment, continued

Segment information for the main reportable segments for the six-month period ended 30 June 2013 is set below:

Unaudited KZT'000	Corporate banking	Small and medium size companies banking	Retail banking	Treasury	Assets and liabilities management	Unallocated assets and liabilities	Total
Interest income	8,811,043	2,793,369	15,951,781	76,465	541,610	41,834	28,216,102
Fee and commission income	1,010,381	710,746	6,157,409	-	-	183,894	8,062,430
Net gain on securities, dealing and translation differences	438,727	155,919	219,191	282,853	30,151	1,585	1,128,426
Other income	152,928	79,189	632,819	-	-	-	864,936
Funds transfer pricing	7,780,810	536,505	4,643,133	-	7,537,156	53,556	20,551,160
Revenue	**18,193,889**	**4,275,728**	**27,604,333**	**359,318**	**8,108,917**	**280,869**	**58,823,054**
Interest expense	(5,156,996)	(741,517)	(4,186,063)	-	(3,503,539)	(8,844)	(13,596,959)
Fee and commission expense	(39,501)	(14,897)	(756,537)	(3,388)	(36,160)	(54,451)	(904,934)
Impairment losses	7,075	(19,964)	(3,664,961)	-	-	2,956	(3,674,894)
Funds transfer pricing	(6,309,204)	(1,812,737)	(8,990,278)	(97,781)	(3,237,034)	(104,126)	(20,551,160)
Operational costs (direct)	(474,044)	(642,541)	(5,071,053)	(28,045)	(277,763)	(49,262)	(6,542,708)
Operational costs (indirect)	(1,241,195)	(709,680)	(3,298,206)	(28,807)	(258,318)	(75,439)	(5,611,645)
Corporate income tax	(872,158)	(193,664)	(730,648)	(33,380)	(1,856)	(5,117)	(1,836,823)
Segment result	**4,107,866**	**140,728**	**906,587**	**167,917**	**794,247**	**(13,414)**	**6,103,931**
Other segment items							
Additions of property and equipment	-	-	60,807	-	-	1,702,708	1,763,515
Depreciation and amortisation	(125,864)	(109,892)	(890,558)	(18,557)	(99,420)	(26,973)	(1,271,264)

17 Analysis by segment, continued

Reconciliations of reportable segment revenues and profit or loss:

	Unaudited Six-month period ended 30 June 2014 KZT'000	Unaudited Six-month period ended 30 June 2013 KZT'000
Reportable segment revenue	69,503,518	58,823,054
Funds transfer pricing	(25,387,472)	(20,551,160)
Other adjustments	(690,885)	(178,311)
Consolidation effect	718,226	706,516
Total revenue	**44,143,387**	**38,800,099**
Reportable segment profit	3,047,785	6,103,931
Difference in impairment losses	(242,422)	(41,510)
Other adjustments	245,745	39,371
Consolidation effect	167,956	162,080
Total profit	**3,219,064**	**6,263,872**

Consolidation effect. Consolidation effect occurs due to the fact that the Chairman reviews internal management reports on a stand-alone basis.

Other adjustments. These adjustments mostly represent netting of other assets and other liabilities. Other adjustments occur due to the fact that the Chairman reviews internal management reports prepared on a gross-up basis whereas for IFRS financial statements purposes netting is made for certain other assets/liabilities included in unallocated assets/liabilities.

Funds transfer pricing. For the purpose of internal management reporting transfer pricing represents the allocation of income and expense between segments that attract cash resources and to segments that create interest income generating assets using cash resources.

Information about major customers and geographical areas

For the six-month period ended 30 June 2014, there are no corporate customers revenues from which individually exceed 10% of total revenue.

The majority of revenues from external customers relate to residents of the Republic of Kazakhstan. The majority of non-current assets are located in the Republic of Kazakhstan.

18 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Group’s operations. The major risks faced by the Group are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

There are no significant changes in risk management policies and procedures since 31 December 2013.

18 Risk management, continued

(b) Market risk

(i) Interest rate risk

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position as at 30 June 2014 and 31 December 2013 for major financial instruments is as follows:

Unaudited KZT'000	**Less than 3 months**	**3-6 months**	**6-12 months**	**1-5 years**	**More than 5 years**	**Non-interest bearing**	**Carrying amount**
30 June 2014							
ASSETS							
Cash and cash equivalents	36,644,058	-	-	-	-	38,697,923	75,341,981
Financial instruments at fair value through profit or loss	918,310	-	-	-	-	-	918,310
Available-for-sale financial assets	9,326,646	3,619	2,503,456	2,436,788	-	14,962	14,285,471
Loans and advances to banks	2,291,603	-	-	-	-	4,469,053	6,760,656
Loans to customers	81,596,873	62,745,359	60,532,013	252,251,573	64,489,817	-	521,615,635
Held-to-maturity investments	5,116,169	1,096,696	-	7,999,849	2,682,469	-	16,895,183
	135,893,659	**63,845,674**	**63,035,469**	**262,688,210**	**67,172,286**	**43,181,938**	**635,817,236**
LIABILITIES							
Deposits and balances from banks	12,048,492	1,047,250	2,918,318	1,925,625	18,352	416,228	18,374,265
Amounts payable under repurchase agreements	26,287,106	-	-	-	-	-	26,287,106
Current accounts and deposits from customers	120,648,817	68,887,786	115,768,775	94,931,845	10,706,862	53,487,825	464,431,910
Debt securities issued	9,921,507	540,864	1,410,954	20,686,713	-	-	32,560,038
Subordinated debt securities issued	10,188,038	10,938,173	-	5,000,802	9,720,941	-	35,847,954
Other borrowed funds	3,405,599	1,068,743	2,016,646	8,069,086	7,015,385	-	21,575,459
	182,499,559	**82,482,816**	**122,114,693**	**130,614,071**	**27,461,540**	**53,904,053**	**599,076,732**
	(46,605,900)	**(18,637,142)**	**(59,079,224)**	**132,074,139**	**39,710,746**	**(10,722,115)**	**36,740,504**

18 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2013							
ASSETS							
Cash and cash equivalents	28,754,022	-	-	-	-	54,392,356	83,146,378
Financial instruments at fair value through profit or loss	1,139,628	-	-	-	-	-	1,139,628
Available-for-sale financial assets	8,531,885	11,672	995	2,421,122	-	14,198	10,979,872
Loans and advances to banks	-	-	1,004,645	-	-	1,917,728	2,922,373
Loans to customers	67,998,777	13,970,083	81,924,075	219,635,903	48,973,249	26,999	432,529,086
Held-to-maturity investments	12,019,283	2,425,890	1,017,294	7,999,839	-	-	23,462,306
	118,443,595	**16,407,645**	**83,947,009**	**230,056,864**	**48,973,249**	**56,351,281**	**554,179,643**
LIABILITIES							
Financial instruments at fair value through profit or loss	-	-	-	-	-	2,278	2,278
Deposits and balances from banks	10,121,543	-	3,318,039	234,000	-	443,051	14,116,633
Amounts payable under repurchase agreements	8,803,285	-	-	-	-	-	8,803,285
Current accounts and deposits from customers	41,579,752	44,677,113	161,607,696	94,437,988	11,726,765	50,644,472	404,673,786
Debt securities issued	1,662,962	540,864	9,638,788	20,943,742	-	-	32,786,356
Subordinated debt securities issued	404,139	224,514	20,332,188	5,001,847	9,706,600	-	35,669,288
Other borrowed funds	3,578,391	1,571,497	2,571,278	9,369,350	4,319,833	-	21,410,349
	66,150,072	**47,013,988**	**197,467,989**	**129,986,927**	**25,753,198**	**51,089,801**	**517,461,975**
	52,293,523	**(30,606,343)**	**(113,520,980)**	**100,069,937**	**23,220,051**	**5,261,480**	**36,717,668**

18 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 30 June 2014 and 31 December 2013. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	Unaudited 2014 Average effective interest rate, %			2013 Average effective interest rate, %		
	KZT	**USD**	**Other currencies**	**KZT**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	-	0.50	2.00	-	0.79	2.03
Financial instruments at fair value through profit or loss	-	-	7.00	-	-	7.00
Available-for-sale financial assets	3.15	-	-	3.16	-	-
Loans and advances to banks	-	2.69	-	-	2.99	0.10
Loans to customers	19.65	9.55	10.63	20.50	10.95	11.27
Held-to-maturity investments	4.21	6.42	-	3.60	-	-
Interest bearing liabilities						
Deposits and balances from banks						
- Term deposits	6.85	-	1.00	5.48	1.98	2.84
Amounts payable under repurchase agreements	3.76	-	-	3.30	-	-
Current accounts and deposits from customers						
- Corporate customers	7.80	3.88	1.81	7.38	4.45	2.55
- Retail customers	8.84	5.34	2.95	8.90	5.60	3.36
Debt securities issued	9.25	-	-	9.28	-	-
Subordinated debt securities issued	10.93	-	-	10.92	-	-
Other borrowed funds						
- Loans from financial institutions	6.87	-	-	7.79	-	-
- Loans from banks	-	4.33	-	-	4.23	6.47
- Loans from the Ministry of Finance of the Republic of Kazakhstan	5.50	1.87	-	5.50	1.93	-

18 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical rise or fall in all yield curves and positions of interest-bearing assets and liabilities existing as at 30 June 2014 and 31 December 2013 is as follows:

	Unaudited 30 June 2014 KZT'000		**31 December 2013 KZT'000**	
	Profit or loss KZT'000	**Equity KZT'000**	**Profit or loss KZT'000**	**Equity KZT'000**
100 bp parallel fall	537,585	537,585	14,019	14,019
100 bp parallel rise	(537,585)	(537,585)	(14,019)	(14,019)

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value through profit or loss and available-for-sale financial assets due to changes in the interest rates based on positions existing as at 30 June 2014 and 31 December 2013 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	Unaudited 30 June 2014 KZT'000		**31 December 2013 KZT'000**	
	Profit or loss KZT'000	**Equity KZT'000**	**Profit or loss KZT'000**	**Equity KZT'000**
100 bp parallel fall	8,191	467,321	11,405	381,454
100 bp parallel rise	(8,191)	(467,321)	(11,405)	(381,454)

(ii) Currency risk

The Group has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Group hedges its exposure to currency risk; such activities do not qualify as hedging relationships in accordance with IFRS. The Group manages its foreign currency position through the limits established for each currency and net foreign currency position limits.

18 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 30 June 2014:

Unaudited	USD KZT'000	RUB KZT'000	EUR KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS					
Cash and cash equivalents	50,815,730	1,619,348	6,191,446	129,461	58,755,985
Financial instruments at fair value through profit or loss	-	918,310	-	-	918,310
Loans and advances to banks	3,989,835	200,421	-	-	4,190,256
Loans to customers	109,163,168	5,599,281	1,960,347	-	116,722,796
Held-to-maturity investments	2,761,118	-	-	-	2,761,118
Other financial assets	3,294,167	1,351	559,930	22	3,855,470
Total assets	**170,024,018**	**8,338,711**	**8,711,723**	**129,483**	**187,203,935**
LIABILITIES					
Deposits and balances from banks	1,419,299	272,303	2,231,459	20	3,923,081
Current accounts and deposits from customers	183,967,368	1,989,798	6,935,783	48,601	192,941,550
Other borrowed funds	1,195,506	-	-	-	1,195,506
Other financial liabilities	639,444	10,413	14,853	228	664,938
Total liabilities	**187,221,617**	**2,272,514**	**9,182,095**	**48,849**	**198,725,075**
Net position as at 30 June 2014	**(17,197,599)**	**6,066,197**	**(470,372)**	**80,634**	**(11,521,140)**
The effect of derivatives held for risk management	15,965,763	-	-	-	15,965,763
Net position with the effect of derivatives held for risk management as at 30 June 2014	**(1,231,836)**	**6,066,197**	**(470,372)**	**80,634**	**4,444,623**

18 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2013:

	USD KZT'000	RUB* KZT'000	EUR KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS					
Cash and cash equivalents	58,100,807	2,720,034	5,633,259	251,592	66,705,692
Financial instruments at fair value through profit or loss	-	1,139,628	-	-	1,139,628
Loans and advances to banks	2,594,099	323,523	-	-	2,917,622
Loans to customers	67,071,004	4,731,898	1,409,494	-	73,212,396
Other financial assets	4,169,214	1,115	472,063	-	4,642,392
Total assets	**131,935,124**	**8,916,198**	**7,514,816**	**251,592**	**148,617,730**
LIABILITIES					
Deposits and balances from banks	1,967,845	468,072	1,810,830	16	4,246,763
Current accounts and deposits from customers	127,216,497	3,908,507	4,644,754	200,469	135,970,227
Other borrowed funds	2,478,755	-	139,366	-	2,618,121
Other financial liabilities	281,486	8,256	14,852	364	304,958
Total liabilities	**131,944,583**	**4,384,835**	**6,609,802**	**200,849**	**143,140,069**
Net position as at 31 December 2013	**(9,459)**	**4,531,363**	**905,014**	**50,743**	**5,477,661**
The effect of derivatives held for risk management	-	843,922	(843,922)	-	-
Net position with the effect of derivatives held for risk management as at 31 December 2013	**(9,459)**	**5,375,285**	**61,092**	**50,743**	**5,477,661**

*A portion of the net RUB position equivalent to KZT 6,269,241 thousand, unaudited, (2013: KZT 3,084,025 thousand) is not subject to direct currency risk exposure as it represents net assets of the subsidiary that are remeasured through cumulative translation reserve.

18 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

A weakening of the KZT, as indicated below, against the following currencies at 30 June 2014 and 31 December 2013 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	Unaudited 30 June 2014 KZT'000		**31 December 2013 KZT'000**	
	Profit or loss KZT'000	**Equity KZT'000**	**Profit or loss KZT'000**	**Equity KZT'000**
20% appreciation of USD against KZT	(197,094)	(197,094)	(1,513)	(1,513)
10% appreciation of RUB against KZT	(16,244)	(16,244)	183,301	183,301
20% appreciation of EUR against KZT	(75,260)	(75,260)	9,774	9,774
10% appreciation of other currencies against KZT	6,451	6,451	4,059	4,059

A strengthening of the KZT against the above currencies at 30 June 2014 and 31 December 2013 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(c) Credit risk

There are no significant changes in net foreign currency position of the Group since December 2013.

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

	Unaudited 30 June 2014 KZT'000	**31 December 2013 KZT'000**
ASSETS		
Cash and cash equivalents	48,779,684	62,898,132
Financial instruments at fair value through profit or loss	918,310	1,139,628
Available-for-sale financial assets	14,270,509	10,965,674
Loans and advances to banks	6,760,656	2,922,373
Loans to customers	521,615,635	432,529,086
Held-to-maturity investments	16,895,183	23,462,306
Other financial assets	10,400,127	10,415,136
Total maximum exposure	**619,640,104**	**544,332,335**

For the analysis of concentration of credit risk in respect of loans to customers refer to Note 11.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 19.

As at 30 June 2014 and 31 December 2013 the Group did not have debtors or groups of connected debtors, credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

(d) Liquidity risk

There were no significant changes in liquidity policies since 31 December 2013.

18 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position, excluding derivative instruments, as at 30 June 2014:

Unaudited KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	70,482,911	4,859,070	-	-	-	-	-	75,341,981
Financial instruments at fair value through profit or loss	918,310	-	-	-	-	-	-	918,310
Available-for-sale financial assets	-	9,326,646	2,507,075	2,436,788	-	14,962	-	14,285,471
Loans and advances to banks	4,268,172	2,291,603	-	-	460	200,421	-	6,760,656
Loans to customers	10,676,307	46,550,559	116,860,602	244,576,417	62,791,814	-	40,159,936	521,615,635
Held-to-maturity investments	5,070,736	45,433	1,096,696	7,999,849	2,682,469	-	-	16,895,183
Current tax asset	1,555,024	-	-	-	-	-	-	1,555,024
Property, equipment and intangible assets	-	-	-	-	-	21,025,798	-	21,025,798
Other assets	5,584,275	220,811	3,715,904	57,919	4,246,848	202,414	28,900	14,057,071
Total assets	**98,555,735**	**63,294,122**	**124,180,277**	**255,070,973**	**69,721,591**	**21,443,595**	**40,188,836**	**672,455,129**
Non-derivative liabilities								
Deposits and balances from banks	5,236,473	7,228,247	3,965,568	1,925,625	18,352	-	-	18,374,265
Amounts payable under repurchase agreements	26,287,106	-	-	-	-	-	-	26,287,106
Current accounts and deposits from customers	129,301,037	41,195,719	187,395,906	95,735,835	10,803,413	-	-	464,431,910
Debt securities issued	2,346,793	185,442	540,864	22,059,005	7,427,934	-	-	32,560,038
Subordinated debt securities issued	400,000	9,788,038	224,144	5,000,802	20,434,970	-	-	35,847,954
Other borrowed funds	1,258,275	1,188,758	2,853,902	8,629,111	7,645,413	-	-	21,575,459
Deferred tax liability	-	-	-	-	-	13,333	-	13,333
Other liabilities	7,904,414	22,599	931,670	9,652	3,245,506	-	-	12,113,841
Total liabilities	**172,734,098**	**59,608,803**	**195,912,054**	**133,360,030**	**49,575,588**	**13,333**	**-**	**611,203,906**
Net position	**(74,178,363)**	**3,685,319**	**(71,731,777)**	**121,710,943**	**20,146,003**	**21,430,262**	**40,188,836**	**61,251,223**

18 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position, excluding derivative instruments, as at 31 December 2013:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	80,651,043	2,495,335	-	-	-	-	-	83,146,378
Financial instruments at fair value through profit or loss	1,139,628	-	-	-	-	-	-	1,139,628
Available-for-sale financial assets	-	8,531,885	12,667	2,421,122	-	14,198	-	10,979,872
Loans and advances to banks	1,593,745	-	1,004,645	-	460	323,523	-	2,922,373
Loans to customers	15,403,906	36,224,310	89,642,362	213,282,785	48,166,933	-	29,808,790	432,529,086
Held-to-maturity investments	4,993,240	7,026,043	3,443,184	7,999,839	-	-	-	23,462,306
Current tax asset	1,284,278	-	-	-	-	-	-	1,284,278
Property, equipment and intangible assets	-	-	-	-	-	19,758,591	-	19,758,591
Other assets	3,535,866	375,767	4,495,024	481,909	4,303,445	200,804	18,081	13,410,896
Total assets	**108,601,706**	**54,653,340**	**98,597,882**	**224,185,655**	**52,470,838**	**20,297,116**	**29,826,871**	**588,633,408**
Non-derivative liabilities								
Deposits and balances from banks	7,298,607	3,265,986	3,318,040	234,000	-	-	-	14,116,633
Amounts payable under repurchase agreements	8,803,285	-	-	-	-	-	-	8,803,285
Current accounts and deposits from customers	68,402,068	18,672,190	209,511,861	95,860,663	12,227,004	-	-	404,673,786
Debt securities issued	115,208	188,635	2,770,026	20,943,742	8,768,745	-	-	32,786,356
Subordinated debt securities issued	-	404,139	9,940,319	5,001,847	20,322,983	-	-	35,669,288
Other borrowed funds	903,352	1,688,940	3,608,126	10,025,888	5,184,043	-	-	21,410,349
Deferred tax liability	-	-	-	-	-	257,542	-	257,542
Other liabilities	7,143,176	250,073	788,527	9,012	3,904,739	-	-	12,095,527
Total liabilities	**92,665,696**	**24,469,963**	**229,936,899**	**132,075,152**	**50,407,514**	**257,542**	**-**	**529,812,766**
Net position	**15,936,010**	**30,183,377**	**(131,339,017)**	**92,110,503**	**2,063,324**	**20,039,574**	**29,826,871**	**58,820,642**

18 Risk management, continued

(d) Liquidity risk, continued

Management believes that the following factors address the liquidity gap up to 1 year:

- Management's analysis of behaviour of holders of term deposits during the past three years indicates that offering of competitive interest rates provides for high level of renewals
- The balance of customer accounts and deposits from related parties, which is due up to 1 year, is KZT 43,581,481 thousand as at 30 June 2014, unaudited. Management believes that the term deposits will be extended when they fall due and withdrawals of significant customer accounts, if required, will be coordinated with the Group's liquidity management objectives
- Management manages liquidity risk using VAR methodology for the assessment of current accounts stability index. Results of the management's daily monitoring of stability of the current accounts balance indicate sufficiency of the Group's current level of liquidity.

19 Commitments

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	Unaudited 30 June 2014 KZT'000	31 December 2013 KZT'000
Contracted amount		
Loan and credit line commitments	45,150,488	48,598,277
Guarantees	21,508,217	19,233,613
Letters of credit	5,119,565	5,944,911
	71,778,270	**73,776,801**

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

As at 30 June 2014 the Group has 2 customers whose balances exceed 10% of total commitments (2013: 1 customer). The value of these commitments as at 30 June 2014 is KZT 16,883,119 thousand, unaudited (2013: KZT 7,394,880 thousand).

20 Capital management

FMSC sets and monitors capital requirements for the Bank. The Bank and its subsidiary are directly supervised by their respective local regulators. There are no external capital requirements imposed to the Group as a whole.

The Bank defines as capital the following items defined by statutory regulation as capital for banks:

- Tier 1 capital, which is comprised of ordinary share capital, share premium, prior periods' retained earnings/accumulated losses and reserves created thereof, qualifying perpetual debt less intangible assets and current year losses. Starting from 1 February 2014 Tier 1 capital also includes dynamic reserve.

- Total capital, which is the sum of tier 1 capital, tier 2 capital (in the amount not exceeding tier 1 capital) and tier 3 capital (in the amount not exceeding 250% of the portion of tier 1 capital attributed to cover market risk) less investments into equity or subordinated debt if their total exceeds 10% of the total of tier 1 and tier 2 capital.

Tier 2 capital is required for the purposes of calculation of total capital and is comprised of current year's income, revaluation reserves, qualifying subordinated liabilities and, prior to 1 February 2014, dynamic reserve in the amount not exceeding 1.25% of risk-weighted.

20 Capital management, continued

Tier 3 capital is required for the purposes of calculation of total capital and includes subordinated liabilities not included into tier 2 capital.

Various further limits and qualifying criteria are applied to the above elements of the capital base.

Under the current capital requirements set by the FMSC banks have to maintain:

- a ratio of tier 1 capital less investments to total assets less investments (k1.1)
- a ratio of tier 1 capital less investments to the sum of credit and market risk-weighted assets and contingent liabilities and a quantitative measure of operational risk (k1.2)
- a ratio of total capital to the sum of credit and market risk-weighted assets and contingent liabilities and a quantitative measure of operational risk (k2).

Investments for the purposes of calculation of the above ratios represent investments into equity or subordinated debt if their total exceeds 10% of the total of tier 1 and tier 2 capital. For this purpose the investments are adjusted in the proportion of tier 1 capital to the total of tier 1 capital and tier 2 capital (in the amount not exceeding tier 1 capital).

As at 30 June 2014 and 31 December 2013 the minimum level of ratios as applicable to the Bank are as follows:

- k1.1 – 5%
- k1.2 – 5%
- k2 – 10%.

The following table shows the composition of the Bank’s capital position calculated in accordance with the requirements of the FMSC, as at 30 June 2014 and 31 December 2013:

20 Capital management, continued

	Unaudited 30 June 2014 KZT'000	31 December 2013 KZT'000
Tier 1 capital		
Share capital	30,110,207	30,110,207
Additional paid-in capital	2,025,632	2,025,632
Retained statutory income of prior years	10,231,524	3,763,507
Reserves formed from statutory retained earnings of prior years	8,234,923	8,234,923
Dynamic reserve	6,719,532	-
Intangible assets	(1,577,263)	(1,623,744)
Total tier 1 capital	**55,744,555**	**42,510,525**
Tier 2 capital		
Net statutory income for the period	3,047,785	7,954,333
Dynamic reserve subject to limitation of 1.25% of risk-weighed statutory assets	-	6,733,233
Revaluation reserve for available-for-sale financial asset	(23,247)	(51,653)
Unamortised portion of subordinated debt limited to 50% of tier 1 capital	24,314,407	21,255,263
Total tier 2 capital	**27,338,945**	**35,891,176**
Tier 3 capital	**-**	**21,212**
Total capital	**83,083,500**	**78,422,913**
Total statutory assets less uninvested funds, obtained under custody agreements	**685,879,819**	**587,093,072**
Risk-weighted statutory assets, contingent liabilities, operational and market risk		
Risk weighted statutory assets	622,297,678	437,737,884
Risk weighted statutory contingent assets and liabilities	40,559,710	37,759,839
Risk weighted statutory derivative financial instruments	-	11,566
Operational risk	18,520,841	18,520,841
Total statutory risk weighted assets, contingent liabilities, operational and market risk	**681,378,229**	**494,030,130**
k1.1 ratio	**8.1%**	**7.2%**
k1.2 ratio	**8.2%**	**8.6%**
k.2 ratio	**12.1%**	**15.9%**

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also considered and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

The Group also monitors its capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I.

21 Contingencies

(a) Insurance

The insurance industry in the Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial condition or the results of future operations.

(c) Taxation contingencies

The taxation system in the Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in the Kazakhstan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

22 Related party transactions

(a) Control relationships

The Group's parent company is Eurasian Financial Company JSC (the "Parent company"). The Parent company is controlled by the group of individuals, Mr. Mashkevich A.A., Mr. Shodiyev P.K., Ibragimov A.R., each of whom owns 33.3%. Publicly available financial statements are produced by the Group's Parent company.

(b) Transactions with the members of the Board of Directors, the Management Board and other key management personnel

Total remuneration included in personnel expenses for the six-month periods ended 30 June 2014 and 2013 is as follows:

	Unaudited Six-month period ended 30 June 2014 KZT'000	Unaudited Six-month period ended 30 June 2013 KZT'000
Members of the Board of Directors	546,226	292,352
Members of the Management Board	237,713	306,897
	783,939	**599,249**

22 Related party transactions, continued

(b) Transactions with the members of the Board of Directors, the Management Board and other key management personnel, continued

These amounts include non-cash benefits in respect of the members of the Board of Directors, the Management Board and other key management personnel.

The outstanding balances and average interest rates as at 30 June 2014 and 31 December 2013 for transactions with the members of the Board of Directors, the Management Board and other key management personnel are as follows:

	Unaudited 30 June 2014 KZT'000	Average interest rate, %	31 December 2013 KZT'000	Average interest rate, %
Consolidated interim condensed statement of financial position				
ASSETS				
Loans to customers	647,633	6.00	10,605	12.00
LIABILITIES				
Current accounts and deposits from customers	9,723,574	7.99	7,286,721	7.80

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors, the Management Board and other key management personnel for the six months ended 30 June are as follows:

	Unaudited Six-month period ended 30 June 2014 KZT'000	Unaudited Six-month period ended 30 June 2013 KZT'000
Profit or loss		
Interest income	2,454	65,187
Interest expense	(329,156)	(322,153)

(c) Transactions with other related parties

The outstanding balances and the related average interest rates as at 30 June 2014 and related profit or loss amounts of transactions for the six-month period ended 30 June 2014 with other related parties are as follows.

	Parent company		Other subsidiaries of the Parent company		Other related parties*		
Unaudited	**KZT'000**	**Average interest rate, %**	**KZT'000**	**Average interest rate, %**	**KZT'000**	**Average interest rate, %**	**Total KZT'000**
Consolidated interim condensed statement of financial position							
ASSETS							
Loans to customers (principal balance)							
- In KZT	-	-	-	-	4,669,770	11.82	4,669,770
- In USD	-	-	-	-	25,819,668	6.06	25,819,668
- In other currencies	-	-	-	-	391,130	10.00	391,130
Loans to customers (allowance for impairment)	-	-	-	-	(222,912)	-	(222,912)
Other assets							
- In KZT	-	-	669,520	-	1,467	-	670,987

22 Related party transactions, continued

(c) Transactions with other related parties, continued

	Parent company		Other subsidiaries of the Parent company		Other related parties*		
Unaudited	**KZT'000**	**Average interest rate, %**	**KZT'000**	**Average interest rate, %**	**KZT'000**	**Average interest rate, %**	**Total KZT'000**
LIABILITIES							
Deposits and balances from customers							
- In KZT	15,479	4.36	1,406,247	1.54	23,564,386	5.40	24,986,112
- In USD	21,368	2.00	18,518	-	15,344,841	2.26	15,384,727
- In other currencies	-	-	931,327	2.11	2,475,542	1.92	3,406,869
Debt securities issued							
- In KZT	-	-	738,639	12.38	-	-	738,639
Subordinated debt securities issued							
- In KZT	-	-	40,278	8.16	-	-	40,278
Other liabilities							
- In KZT	-	-	76,929	-	8,610	-	85,539
- In other currencies	-	-	-	-	213	-	213
Items not recognised in the consolidated interim condensed statement of financial position							
Loans and credit line commitments	-	-	-	-	43,387	-	43,387
Guarantees issued	-	-	-	-	52,065	-	52,065
Guarantees received	-	-	-	-	749,808	-	749,808
Letters of credit	-	-	-	-	2,022,010	-	2,022,010
Profit (loss)							
Interest income	-	-	-	-	522,329	-	522,329
Interest expense	(7,305)	-	(120,690)	-	(806,224)	-	(934,219)
Fee and commission income	232	-	17,543	-	221,823	-	239,598
Other operating expenses	(245,492)	-	(66,704)	-	(60,129)	-	(372,325)
Impairment losses	-	-	-	-	(148,884)	-	(148,884)
Other general administrative expenses	-	-	(294,937)	-	(10,893)	-	(305,830)

22 Related party transactions, continued

(c) Transactions with other related parties, continued

The outstanding balances and the related average interest rates as at 31 December 2013 and related profit or loss amounts of transactions for the six-month period ended 30 June 2013 with other related parties are as follows.

	Parent company		Other subsidiaries of the Parent company		Other related parties*		
	KZT'000	**Average interest rate, %**	**KZT'000**	**Average interest rate, %**	**KZT'000**	**Average interest rate, %**	**Total KZT'000**
Consolidated statement of financial position							
ASSETS							
Loans to customers (principal balance)							
- In KZT	-	-	-	-	4,353,179	13.05	4,353,179
- In USD	-	-	-	-	17,518,219	6.06	17,518,219
- In other currencies	-	-	-	-	128,271	10.65	128,271
Loans to customers (provision for impairment)	-	-	-	-	(143,894)	-	(143,894)
Other assets							
- In KZT	-	-	37,212	-	366	-	37,578

22 Related party transactions, continued

(c) Transactions with other related parties, continued

31 December 2013	Parent company		Other subsidiaries of the Parent company		Other related parties*		
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	Total KZT'000
LIABILITIES							
Deposits and balances from customers							
- In KZT	1,655	-	3,098,834	2.93	17,071,717	1.27	20,172,206
- In USD	1,239,879	0.99	110,276	2.10	16,259,576	1.31	17,609,731
- In other currencies	-	-	229,520	0.37	3,469,034	0.54	3,698,554
Debt securities issued							
- In KZT	-	-	729,149	12.48	-	-	729,149
Subordinated debt securities issued							
- In KZT	-	-	51,600	7.39	-	-	51,600
Other liabilities							
- In KZT	-	-	152,631	-	808	-	153,439
Items not recognised in the consolidated statement of financial position							
Loans and credit line commitments	-	-	-	-	89,458	-	89,458
Guarantees issued	-	-	-	-	10,478	-	10,478
Guarantees received	-	-	-	-	406,442	-	406,442
Letters of credit	-	-	-	-	5,012,538	-	5,012,538
Profit (loss), unaudited							
Interest income, unaudited	-	-	-	-	251,933	-	251,933
Interest expense, unaudited	-	-	(271,005)	-	(535,927)	-	(806,932)
Fee and commission income, unaudited	117	-	7,988	-	229,511	-	237,616
Other operating (losses)/income, unaudited	-	-	(33,358)	-	2,777	-	(30,581)
Reversal of impairment losses, unaudited	-	-	-	-	233,275	-	233,275
Other general administrative expenses, unaudited	-	-	(27,742)	-	(110,391)	-	(138,133)

*Other related parties are the entities that are controlled by the Parent company's shareholders.

As at 30 June 2014 loans to customers in the amount of KZT 27,731,833 thousand, unaudited, were insured by an insurance company under common control (31 December 2013: KZT 33,464,209 thousand).

23 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 30 June 2014:

Unaudited KZT'000	**Trading**	**Held-to-maturity**	**Loans and receivables**	**Available-for-sale**	**Other amortised cost**	**Total carrying amount**	**Fair value**
Cash and cash equivalents	-	-	75,341,981	-	-	75,341,981	75,341,981
Financial instruments at fair value through profit or loss	918,310	-	-	-	-	918,310	918,310
Available-for-sale financial assets	-	-	-	14,285,471	-	14,285,471	14,285,471
Loans and advances to banks	-	-	6,760,656	-	-	6,760,656	6,777,977
Loans to customers							
Loans to corporate customers	-	-	270,965,348	-	-	270,965,348	277,788,557
Loans to retail customers	-	-	250,650,287	-	-	250,650,287	250,339,574
Held-to-maturity investments	-	16,895,183	-	-	-	16,895,183	16,895,183
Other financial assets	-	-	10,400,127	-	-	10,400,127	10,400,127
	918,310	**16,895,183**	**614,118,399**	**14,285,471**	**-**	**646,217,363**	**652,747,180**
Deposits and balances from banks	-	-	-	-	18,374,265	18,374,265	18,499,115
Amounts payable under repurchase agreements	-	-	-	-	26,287,106	26,287,106	26,287,106
Current accounts and deposits from customers	-	-	-	-	464,431,910	464,431,910	468,679,482
Debt securities issued	-	-	-	-	32,560,038	32,560,038	32,329,165
Subordinated debt securities issued	-	-	-	-	35,847,954	35,847,954	36,625,410
Other borrowed funds	-	-	-	-	21,575,459	21,575,459	18,300,338
Other financial liabilities	-	-	-	-	10,296,272	10,296,272	10,296,272
	-	**-**	**-**	**-**	**609,373,004**	**609,373,004**	**611,016,888**

23 Financial assets and liabilities: fair values and accounting classifications, continued

(a) Accounting classifications and fair values, continued

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2013:

KZT'000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	83,146,378	-	-	83,146,378	83,146,378
Financial instruments at fair value through profit or loss	1,139,628	-	-	-	-	1,139,628	1,139,628
Available-for-sale financial assets	-	-	-	10,979,872	-	10,979,872	10,979,872
Loans and advances to banks	-	-	2,922,373	-	-	2,922,373	2,922,373
Loans to customers							
Loans to corporate customers	-	-	215,854,274	-	-	215,854,274	222,632,209
Loans to retail customers	-	-	216,674,812	-	-	216,674,812	214,169,567
Held-to-maturity investments	-	23,462,306	-	-	-	23,462,306	23,454,919
Other financial assets	-	-	10,415,136	-	-	10,415,136	10,415,136
	1,139,628	**23,462,306**	**529,012,973**	**10,979,872**	**-**	**564,594,779**	**568,860,082**
Financial instruments at fair value through profit or loss	2,278	-	-	-	-	2,278	2,278
Deposits and balances from banks	-	-	-	-	14,116,633	14,116,633	14,116,633
Amounts payable under repurchase agreements	-	-	-	-	8,803,285	8,803,285	8,803,285
Current accounts and deposits from customers	-	-	-	-	404,673,786	404,673,786	406,857,673
Debt securities issued	-	-	-	-	32,786,356	32,786,356	29,935,291
Subordinated debt securities issued	-	-	-	-	35,669,288	35,669,288	35,439,121
Other borrowed funds	-	-	-	-	21,410,349	21,410,349	21,410,349
Other financial liabilities	-	-	-	-	9,896,674	9,896,674	9,896,674
	2,278	**-**	**-**	**-**	**527,356,371**	**527,358,649**	**526,461,304**

23 Financial assets and liabilities: fair values and accounting classifications, continued

(a) Accounting classifications and fair values, continued

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

Fair values 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 Group determines fair values using other valuation techniques.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

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

The Group uses widely recognised valuation models for determining the fair value of common and simpler financial instruments. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

For more complex instruments, the Group uses proprietary valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs includes certain loans and securities for which there is no active market.

The fair value of unquoted equity securities available-for-sale with a carrying value of KZT 14,962 thousand (2013: KZT 14,198 thousand) cannot be determined.

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 4.1 – 11.4% and 4.8 – 21.7% are used for discounting future cash flows from loans to corporate customers and loans to retail customers, respectively
- discount rates of 0.1 – 6.6% and 2.1 – 8.7% are used for discounting future cash flows from current accounts and deposits of corporate and retail customers, respectively
- quoted market prices are used for determination of fair value of debt securities issued.

(b) Fair value hierarchy

The Group measures fair values for financial instruments recorded on the consolidated statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

23 Financial assets and liabilities: fair values and accounting classifications, continued

(b) Fair value hierarchy, continued

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, 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 identical or 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: Valuation techniques using significant unobservable inputs. 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.

The table below analyses financial instruments measured at fair value at 30 June 2014, by the level in the fair value hierarchy into which the fair value measurement is categorised:

Unaudited **KZT'000**	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss			
- Debt and other fixed income instruments	918,310	-	918,310
Available-for-sale financial assets			
- Debt and other fixed income instruments	-	14,270,509	14,270,509
	918,310	**14,270,509**	**15,188,819**

The table below analyses financial instruments measured at fair value at 31 December 2013, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KZT'000	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss			
- Debt and other fixed income instruments	1,139,628	-	1,139,628
- Derivative liabilities	-	2,278	2,278
Available-for-sale financial assets			
- Debt and other fixed income instruments	-	10,965,674	10,965,674
	1,139,628	**10,967,952**	**12,107,580**

Due to low market liquidity, management consider that quoted prices in active markets are not available, including for government securities listed on the Kazakhstan Stock Exchange. Accordingly, as at 30 June 2014 and 31 December 2013 the estimated fair value of these financial instruments is based on the results of valuation techniques involving the use of observable market inputs./

As at 30 June 2014 and 31 December 2013 the Group does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market inputs.

23 Financial assets and liabilities: fair values and accounting classifications, continued

(b) Fair value hierarchy, continued

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 30 June 2014:

Unaudited KZT'000	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Assets				
Cash and cash equivalents	75,341,981	-	75,341,981	75,341,981
Loans and advances to banks	6,777,977	-	6,777,977	6,760,656
Loans to customers	487,968,195	40,159,936	528,128,131	521,615,635
Held-to-maturity investments	16,895,183	-	16,895,183	16,895,183
Liabilities				
Deposits and balances from banks	18,499,115	-	18,499,115	18,374,265
Amounts payable under repurchase agreements	26,287,106	-	26,287,106	26,287,106
Current accounts and deposits from customers	468,679,482	-	468,679,482	464,431,910
Debt securities issued	32,329,165	-	32,329,165	32,560,038
Subordinated debt securities issued	36,625,410	-	36,625,410	35,847,954
Other borrowed funds	18,300,338	-	18,300,338	21,575,459

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2013:

KZT'000	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Assets				
Cash and cash equivalents	83,146,378	-	83,146,378	83,146,378
Loans and advances to banks	2,922,373	-	2,922,373	2,922,373
Loans to customers	411,449,826	25,351,950	436,801,776	432,529,086
Held-to-maturity investments	23,454,919	-	23,454,919	23,462,306
Liabilities				
Deposits and balances from banks	14,116,633	-	14,116,633	14,116,633
Amounts payable under repurchase agreements	8,803,285	-	8,803,285	8,803,285
Current accounts and deposits from customers	406,857,673	-	406,857,673	404,673,786
Debt securities issued	29,935,291	-	29,935,291	32,786,356
Subordinated debt securities issued	35,439,121	-	35,439,121	35,669,288
Other borrowed funds	21,410,349	-	21,410,349	21,410,349

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