Tsesnabank JSC

Unconsolidated Financial Statements

for the year ended 31 December 2014

Contents

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Independent Auditors' Report

To the Board of Directors of Tsesnabank JSC

We have audited the accompanying unconsolidated financial statements of Tsesnabank JSC (the "Bank"), which comprise the unconsolidated statement of financial position as at 31 December 2014, and the unconsolidated 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 Unconsolidated Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the unconsolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the unconsolidated 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 unconsolidated 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 unconsolidated 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 unconsolidated financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Assel Urdabayeva
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No. МФ-0000096 of 27 August 2012

Ashley Clarke
Audit Partner

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

19 March 2015

	Note	2014 KZT'000	2013 KZT'000
Interest income	4	111,321,266	78,842,108
Interest expense	4	(54,918,667)	(40,963,614)
Net interest income		**56,402,599**	**37,878,494**
Fee and commission income	5	9,851,705	9,052,019
Fee and commission expense	6	(1,059,105)	(949,716)
Net fee and commission income		**8,792,600**	**8,102,303**
Net gain (loss) on financial instruments at fair value through profit or loss	7	296,610	(41,482)
Net foreign exchange gain	8	8,005,287	3,447,659
Other income		94,314	82,189
Other operating income		**8,396,211**	**3,488,366**
Impairment losses	9	(22,718,065)	(9,099,437)
Personnel expenses	10	(13,097,848)	(9,785,221)
Other general administrative expenses	11	(17,468,437)	(11,194,210)
Other operating expenses		**(53,284,350)**	**(30,078,868)**
Profit before income tax		**20,307,060**	**19,390,295**
Income tax expense	12	(4,798,148)	(3,629,888)
Profit for the year		**15,508,912**	**15,760,407**
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		16,029	-
- Net change in fair value transferred to profit or loss		-	22,923
Total items that are or may be reclassified subsequently to profit or loss		*16,029*	*22,923*
Other comprehensive income for the year		**16,029**	**22,923**
Total comprehensive income for the year		**15,524,941**	**15,783,330**

The unconsolidated financial statements as set out on pages 5 to 78 were approved by the Management Board on 19 March 2015 and were signed on its behalf by:

Zhaksybek D.A.
Chairman of the Management Board

Bagautdinova N.M.
Chief Accountant

The unconsolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the unconsolidated financial statements.

	Note	31 December 2014 KZT'000	31 December 2013 KZT'000
ASSETS			
Cash and cash equivalents	13	141,951,966	95,147,517
Deposits and balances with banks and other financial institutions	14	9,126,619	4,936,335
Financial instruments at fair value through profit or loss			
- Held by the Bank	15	7,665,606	9,611,042
- Pledged under sale and repurchase agreements	15	-	10,900,232
Available-for-sale financial assets	16	6,382,748	3,309,137
Loans to customers	17	1,060,248,934	674,158,351
Held-to-maturity investments			
- Held by the Bank	18	31,798,063	21,054,537
- Pledged under sale and repurchase agreements	18	-	5,913,997
Property, equipment and intangible assets	19	25,798,568	20,212,044
Investment in subsidiaries	20	11,438,540	7,209,167
Current tax asset		158,707	2,548,665
Other assets	21	21,909,445	22,633,842
Total assets		**1,316,479,196**	**877,634,866**
LIABILITIES			
Loans from state company	22	23,526,969	-
Deposits and balances from banks and other financial institutions	23	62,876,779	23,307,412
Current accounts and deposits from customers	24	1,010,450,102	695,222,650
Debt securities issued	25	46,784,145	21,249,110
Subordinated debt	26	58,593,213	44,651,537
Deferred tax liability	12	3,900,592	2,593,242
Amounts payable under repurchase agreements	27	-	15,945,917
Other liabilities	28	4,108,946	4,345,705
Total liabilities		**1,210,240,746**	**807,315,573**
EQUITY	29		
Share capital		59,239,830	38,840,000
Additional paid-in capital		1,770	1,770
Revaluation reserve for available-for-sale financial assets		16,029	-
Reserve for general banking risks		11,982,676	11,982,676
Dynamic reserve		16,631,209	16,631,209
Retained earnings		18,366,936	2,863,638
Total equity		**106,238,450**	**70,319,293**
Total liabilities and equity		**1,316,479,196**	**877,634,866**

The unconsolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the unconsolidated financial statements.

	2014 KZT'000	**2013 KZT'000**
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	108,813,044	65,297,704
Interest payments	(50,507,014)	(38,677,607)
Fee and commission receipts	9,849,910	8,353,613
Fee and commission payments	(1,059,013)	(949,882)
Net (payments) receipts from financial instruments at fair value through profit or loss	(3,352,434)	16,312
Net receipts from foreign exchange	8,824,991	3,534,401
Other income receipts	94,314	82,189
Personnel and other general administrative expenses	(27,843,776)	(18,860,302)
(Increase) decrease in operating assets		
Deposits and balances with banks and other financial institutions	(3,693,723)	3,033,466
Financial instruments at fair value through profit or loss	16,300,425	10,146,730
Loans to customers	(360,067,621)	(184,410,560)
Other assets	216,533	(778,944)
Increase (decrease) in operating liabilities		
Loans from state company	23,478,203	-
Deposits and balances from banks and other financial institutions	37,875,078	15,305,494
Current accounts and deposits from customers	264,657,178	170,476,771
Amounts payable under repurchase agreements	(15,944,006)	15,944,006
Other liabilities	(1,058,371)	1,437,022
Net cash from operating activities before income tax paid	**6,583,718**	**49,950,413**
Income tax paid	(1,562,500)	(3,750,000)
Net cash flows from operating activities	**5,021,218**	**46,200,413**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale financial assets	(2,999,841)	-
Sale and repayment of available-for-sale financial assets	-	450,064
Purchases of held-to-maturity investments	(7,943,535)	(19,088,551)
Redemption of held-to-maturity investments	3,027,694	9,515,385
Contributions to share capital of subsidiaries	(4,012,661)	(3,382,050)
Purchases of property, equipment and intangible assets	(8,448,953)	(13,637,406)
Proceeds from sales of property and equipment and investment property	202	1,297,331
Advance consideration	-	(978,213)
Net cash flows used in investing activities	**(20,377,094)**	**(25,823,440)**

The unconsolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the unconsolidated financial statements.

	2014 KZT'000	2013 KZT'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Placement of subordinated debt	16,319,257	15,336,898
Repayment of subordinated debt	(3,001,860)	(1,432,851)
Placement of debt securities issued	31,125,417	12,054,715
Redemption of debt securities	(6,019,138)	-
Proceeds from issuance of share capital	20,399,830	6,300,000
Net cash flows from financing activities	**58,823,506**	**32,258,762**
Net increase in cash and cash equivalents	**43,467,630**	**52,635,735**
Effect of changes in exchange rates on cash and cash equivalents	3,336,819	454,102
Cash and cash equivalents as at the beginning of the year	95,147,517	42,057,680
Cash and cash equivalents as at the end of the year (Note 13)	**141,951,966**	**95,147,517**

The unconsolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the unconsolidated financial statements.

	Attributable to equity holders of the Bank						
KZT'000	**Share capital**	**Additional paid-in capital**	**Revaluation reserve for available-for-sale financial assets**	**Reserve for general banking risks**	**Dynamic reserve**	**Retained earnings**	**Total equity**
Balance as at 1 January 2014	38,840,000	1,770	-	11,982,676	16,631,209	2,863,638	70,319,293
Total comprehensive income							
Profit for the year	-	-	-	-	-	15,508,912	15,508,912
Other comprehensive income							
Items that are or may be reclassified subsequently to profit or loss:							
Net change in fair value of the available-for-sale financial assets	-	-	16,029	-	-	-	16,029
Total items that are or may be reclassified subsequently to profit or loss	-	-	*16,029*	-	-	-	*16,029*
Total other comprehensive income	-	-	16,029	-	-	-	16,029
Total comprehensive income for the year	**-**	**-**	**16,029**	**-**	**-**	**15,508,912**	**15,524,941**
Transactions with owners, recorded directly in equity							
Shares issued	20,399,830	-	-	-	-	-	20,399,830
Total transactions with owners	**20,399,830**	**-**	**-**	**-**	**-**	**-**	**20,399,830**
Reversal of revaluation reserve for land and buildings (Note19)	**-**	**-**	**-**	-	-	(5,614)	**(5,614)**
Balance as at 31 December 2014	**59,239,830**	**1,770**	**16,029**	**11,982,676**	**16,631,209**	**18,366,936**	**106,238,450**

The unconsolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the unconsolidated financial statements.

	Attributable to equity holders of the Bank						
KZT'000	**Share capital**	**Additional paid-in capital**	**Revaluation reserve for available-for-sale financial assets**	**Reserve for general banking risks**	**Dynamic reserve**	**Retained earnings**	**Total equity**
Balance as at 1 January 2013	32,540,000	1,770	(22,923)	6,989,704	-	8,727,412	48,235,963
Total comprehensive income							
Profit for the year	-	-	-	-	-	15,760,407	15,760,407
Other comprehensive income							
Items that are or may be reclassified subsequently to profit or loss:							
Net change in fair value of the available-for-sale financial assets transferred to profit or loss	-	-	22,923	-	-	-	22,923
Total items that are or may be reclassified subsequently to profit or loss	-	-	*22,923*	-	-	-	22,923
Total other comprehensive income	-	-	22,923	-	-	-	22,923
Total comprehensive income for the year	**-**	**-**	**22,923**	-	-	**15,760,407**	**15,783,330**
Transactions with owners, recorded directly in equity							
Shares issued	6,300,000	-	-	-	-	-	6,300,000
Total transactions with owners	**6,300,000**	**-**	**-**	**-**	**-**	**-**	**6,300,000**
Transfer to mandatory reserve (Note 29(b))	-	-	-	4,992,972	-	(4,992,972)	-
Transfer to dynamic reserve (Note 29(b))	-	-	-	-	16,631,209	(16,631,209)	-
Balance as at 31 December 2013	**38,840,000**	**1,770**	**-**	**11,982,676**	**16,631,209**	**2,863,638**	**70,319,293**

The unconsolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the unconsolidated financial statements.

1 Background

(a) Organisation and operations

Tsesnabank JSC (the "Bank") was established in the Republic of Kazakhstan as an open joint stock company under the laws of the Republic of Kazakhstan on 17 January 1992. Due to a change in legislation introduced in 2003, the Bank was re-registered as a joint stock company on 26 December 2003.

The Bank operates based on general license #1.2.74/74/29 for banking operations and activities on securities market granted on 8 September 2014 by the National Bank of the Republic of Kazakhstan (the "NBRK"). The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by NBRK. The Bank has a general banking license, and is a member of the state deposit insurance system in Kazakhstan.

As at 31 December 2014 the Bank has 22 branches (31 December 2013: 22) and 144 sub-branches (31 December 2013: 130) from which it conducts business throughout the Republic of Kazakhstan. The registered address of the head office is 24 Syganak Street, Astana, Republic of Kazakhstan. On 19 May 2014, the head office of the Bank changed its legal address and the Charter of the Bank was updated accordingly. The majority of the Bank's assets and liabilities are located in Kazakhstan.

At 31 December 2014, Financial Holding Tsesna JSC, Tsesna Corporation JSC, APPARATKZ LLC, KINESIOKZ LLC and United Accumulated Pension Fund JSC owned 39.94%, 10.98%, 7.61%, 7.38% and 6.64% of the outstanding common shares of the Bank, respectively (31 December 2013: Financial Holding Tsesna JSC, Tsesna Corporation JSC and United Accumulated Pension Fund JSC owned 43.98%, 14.29% and 8.28%). Other shareholders have less than 5% of the outstanding shares each.

(b) Business environment

The Bank's operations are primarily located in Kazakhstan. Consequently, the Bank 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 unconsolidated financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

The accompanying unconsolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

The Bank also prepares consolidated financial statements for the year ended 31 December 2014 in accordance with IFRS that can be obtained from the Bank's registered office.

(b) Basis of measurement

The unconsolidated 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.

2 Basis for preparation, continued

(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 KZT is also the presentation currency for the purposes of these unconsolidated financial statements.

Financial information presented in KZT is rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of unconsolidated 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 year in which the estimates are revised and in any future years affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- loan impairment estimates - Note 17
- impairment of held-to-maturity investments – Note 18
- estimates of fair value of financial instruments – Note 37.

(e) Changes in accounting policies

In 2014 the Bank changed its accounting policy for land and buildings. For the year ended 31 December 2013, land and buildings were measured at revalued amounts, and in 2014 land and buildings will be measured at cost less accumulated depreciation and impairment losses. The reason for this change is that management considers it provides more reliable information. The impact of the change is not significant.

New amendments to IFRS became effective from 1 January 2014 and have been adopted by the Bank since that date. These changes did not have a significant effect on the unconsolidated 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 of the entity and of the counterparties.

(f) Changes in presentation – prior year reclassification

During the preparation of the Bank's unconsolidated financial statements for the year ended 31 December 2014, management made certain reclassifications affecting the corresponding figures to conform to the presentation of unconsolidated financial statements for the year ended 31 December 2014.

In the unconsolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2013 commission expenses for brokerage services in the amount of KZT 175,769 thousand and insurance expenses related to car loans in the amount of KZT 367,430 thousand were reclassified from other general administrative expenses to fee and commission expense and interest income, respectively. Consequently, in the unconsolidated statement of cash flows for the year ended 31 December 2013 the same reclassifications were made in cash flows from operating activities. Management believes that this presentation is more appropriate presentation in accordance with IFRS and provides a clearer view of the unconsolidated financial position and performance of the Bank.

2 Basis for preparation, continued

(f) Changes in presentation – prior year reclassification, continued

The effect of reclassifications on the corresponding figures can be summarised as follows:

KZT'000	As reclassified	Effect of reclassifications	As previously reported
Unconsolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2013			
Interest income	78,842,108	(367,430)	79,209,538
Fee and commission expense	(949,716)	(175,769)	(773,947)
Other general and administrative expenses	(11,194,210)	543,199	(11,737,409)
Unconsolidated statement of cash flows for the year ended 31 December 2013			
Interest receipts	65,297,704	(367,430)	65,665,134
Fee and commission payments	(949,882)	(175,769)	(774,113)
Personnel and other general and administrative expenses	(18.860,302)	543,199	(19,403,501)

The above reclassifications do not impact the Bank's results or equity.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these unconsolidated financial statements, and are applied consistently by the Bank, except as explained in note 2(e), which addresses changes in accounting policies.

(a) Accounting for investments in subsidiaries in unconsolidated financial statements

Subsidiaries are investees controlled by the Bank. The Bank 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. Subsidiaries are accounted for at cost in these unconsolidated financial statements.

(b) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Bank 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 rate 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.

3 Significant accounting policies, continued

(c) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the NBRK and other banks, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the unconsolidated statement of financial position.

(d) Financial instruments

(i) Classification

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

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

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

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

All trading derivative financial instruments in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivative financial instruments 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 Bank:

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

3 Significant accounting policies, continued

(d) Financial instruments, continued

(i) Classification, continued

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

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

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.

(ii) Recognition

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

(iii) Measurement

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

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

- loans and receivables which are measured at amortised cost using the effective interest method
- 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.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(v) Financial assets or liabilities originated at interest rates different from market rates

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.

(vi) 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 these circumstances.

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

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

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 levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(vii) 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.

(viii) Derecognition

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

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

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

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

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

The Bank writes off assets deemed to be uncollectible.

(ix) 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 unconsolidated 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.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(ix) Repurchase and reverse repurchase agreements, continued

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.

(x) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

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

Changes in the fair value of derivative financial instruments are recognised immediately in profit or loss.

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

Although the Bank trades in derivative financial instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

(xi) Offsetting

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

(e) 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.

3 Significant accounting policies, continued

(e) Property and equipment, continued

(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 first day of the month following the acquisition date or, in respect of internally constructed assets, on the first day of the month following the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

- Buildings	25 to 100 years
- Computer equipment	5 to 10 years
- Motor vehicles	7 years
- Other	2 to 20 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 life is from 2 to 30 years.

(g) Impairment

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Bank determines the amount of any impairment loss.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

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

(i) Financial assets carried at amortised cost

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

The Bank first assesses whether objective evidence of impairment exists individually for 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.

3 Significant accounting policies, continued

(g) Impairment, continued

(i) Financial assets carried at amortised cost, continued

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

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data related 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.

(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.

(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.

3 Significant accounting policies, continued

(g) Impairment, continued

(iv) Non financial assets, continued

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 unconsolidated statement of financial position when the Bank 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 Bank 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.

(i) Credit related commitments

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

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

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

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

Loan commitments are not recognised, except for the following:

- loan commitments that the Bank designates as financial liabilities at fair value through profit or loss
- if the Bank 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.

3 Significant accounting policies, continued

(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) Cumulative non-redeemable preference shares

The component of the cumulative non-redeemable preference shares that exhibits characteristics of a liability is recognised as a liability in the unconsolidated statement of financial position, net of transaction costs. The corresponding cumulative dividends on those shares are charged as interest expense in the unconsolidated statement of profit or loss and other comprehensive income. On issuance of the cumulative non-redeemable preference shares, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long-term liability on the amortised cost basis until extinguished on redemption.

(iii) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

(iv) Dividends

The ability of the Bank 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.

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 Bank 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.

3 Significant accounting policies, continued

(l) Income and expense recognition

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

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss.

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

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

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

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

(m) Segment reporting

The Bank’s operations are highly integrated and constitute a single operating business segments for the purposes of IFRS 8 *Operating Segments*. Assets are concentrated primarily in the Republic of Kazakhstan, and the majority of revenues and net income are derived from operations in, and connected with, the Republic of Kazakhstan. The Chief Operating Decision Maker, in the case of the Bank, the Chairman of the Management Board, only receives and reviews the information on the Bank as a whole.

(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 2014, and are not applied in preparing these unconsolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective. The Bank has not yet analysed the likely impact of the new standards on its financial position or performance.

- IFRS 9 *Financial Instruments* published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Bank recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The Bank has not analysed the impact of these changes yet. The Bank does not intend to adopt this standard early. The standard will be effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.
- Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2015. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2014 KZT'000	2013 KZT'000
Interest income		
Loans to customers	107,764,729	76,077,001
Held-to-maturity investments	1,387,697	1,276,300
Deposits and balances with banks and other financial institutions	682,518	572,571
Cash and cash equivalents	529,024	3,043
Amount receivable under reverse repurchase agreements	483,034	28,325
Financial instruments at fair value through profit or loss	420,129	879,968
Available-for-sale financial assets	54,135	4,900
	111,321,266	**78,842,108**
Interest expense		
Current accounts and deposits from customers	(45,280,218)	(35,204,179)
Subordinated debt	(4,400,486)	(3,482,913)
Debt securities issued	(2,353,939)	(1,134,858)
Deposits and balances from banks and other financial institutions	(2,235,507)	(934,048)
Loans from state company	(546,504)	-
Amounts payable under repurchase agreements	(102,013)	(207,616)
	(54,918,667)	**(40,963,614)**
	56,402,599	**37,878,494**

Included within various line items under interest income for the year ended 31 December 2014 is a total of KZT 5,517,515 thousand (31 December 2013: KZT 2,139,336 thousand) accrued on individually impaired financial assets.

Included in interest income on financial instruments at fair value through profit or loss for the year ended 31 December 2014 is a total of KZT 420,129 thousand (31 December 2013: KZT 879,968 thousand) recognised on financial assets at fair value through profit or loss held for trading.

Interest income and expense calculated using the effective interest method and relating to financial assets or liabilities not carried at fair value through profit of loss is KZT 110,901,137 thousand (2013: KZT 77,962,140 thousand) and KZT 54,918,667 thousand (2013: KZT 40,963,614 thousand), respectively.

5 Fee and commission income

	2014 KZT'000	2013 KZT'000
Transfer operations	2,658,391	2,284,587
Guarantee and letter of credit issuance fees	2,394,572	2,304,964
Cash withdrawal fees	1,865,291	1,622,738
Foreign exchange fees	1,129,500	818,929
Settlement fees	1,102,308	830,993
Cash collection fees	53,672	35,607
Early repayment fees on loans	10,194	424,227
Other	637,777	729,974
	9,851,705	**9,052,019**

6 Fee and commission expense

	2014 KZT'000	2013 KZT'000
Client card account maintenance fees	311,573	266,204
Brokers' and insurance agents' services	349,464	190,413
Transfer operations	137,102	128,663
Commission expense on received deposits	78,987	225,341
Commission expenses on guarantees issued	61,705	58,001
Commission expenses on credit letters	30,747	50,209
Other	89,527	30,885
	1,059,105	**949,716**

7 Net gain (loss) on financial instruments at fair value through profit or loss

	2014 KZT'000	2013 KZT'000
Derivatives	316,163	-
Debt financial instruments	(19,371)	(40,223)
Equity financial instruments	(182)	(1,259)
	296,610	**(41,482)**

Included in net gain (loss) on financial instruments at fair value through profit or loss for the year ended 31 December 2014 is a total gain of KZT 296,610 thousand (2013: loss of KZT 41,482 thousand) recognised on financial assets held for trading.

8 Net foreign exchange gain

	2014 KZT'000	2013 KZT'000
Gain on spot transactions and derivatives	8,812,315	3,488,032
Loss from revaluation of financial assets and liabilities	(807,028)	(40,373)
	8,005,287	**3,447,659**

9 Impairment losses

	2014 KZT'000	2013 KZT'000
Loans to customers (Note 17)	21,371,113	8,691,046
Held-to-maturity investments (Note 18)	-	384,321
Assets available-for-sale (Note 16)	-	10,000
Commitments	-	(1,079)
Other assets (Note 21)	1,346,952	15,149
	22,718,065	**9,099,437**

10 Personnel expenses

	2014 KZT'000	2013 KZT'000
Employee compensation	11,911,756	8,897,830
Social contributions and payroll related taxes	1,186,092	887,391
	13,097,848	**9,785,221**

11 Other general administrative expenses

	2014 KZT'000	2013 KZT'000
Occupancy	3,465,654	3,340,168
Contributions to deposit guarantee fund	2,069,360	842,502
Depreciation and amortisation	1,948,013	1,324,287
Taxes other than on income	1,220,839	913,628
Advertising and marketing	1,162,985	887,723
Repairs and maintenance	1,058,278	1,028,557
Travel expenses	1,032,684	254,694
Security	650,508	473,016
Transportation	480,642	457,738
Communications and information services	438,736	337,545
Stationery and office equipment supplies	363,769	273,952
Insurance	231,596	116,901
Encashment expenses	189,869	140,543
Professional services	136,672	69,612
Post and courier services	59,209	40,658
Recruiting and training expenses	40,509	31,374
Other	2,919,114	661,312
	17,468,437	**11,194,210**

12 Income tax expense

	2014 KZT'000	2013 KZT'000
Current tax expense		
Current year	(4,255,252)	(1,566,373)
Effect of retrospective changes in tax legislation	1,097,368	-
(Under-)/overprovided in prior periods	(332,914)	188,423
	(3,490,798)	**(1,377,950)**
Deferred tax expense		
Origination and reversal of temporary differences	(1,307,350)	(2,251,938)
Total income tax expense	**(4,798,148)**	**(3,629,888)**

In 2014, the applicable tax rate for current and deferred tax is 20% (2013: 20%).

Reconciliation of effective tax rate for the year ended 31 December:

	2014 KZT'000	%	2013 KZT'000	%
Profit before income tax	**20,307,060**	**100.0**	**19,390,295**	**100.0**
Income tax at the applicable tax rate	(4,061,412)	(20.0)	(3,878,059)	(20.0)
(Under-)/overprovided in prior periods	(332,914)	(1.6)	188,423	1.0
(Non-deductible expense) non-taxable income	(403,822)	(2.0)	59,748	0.3
	(4,798,148)	**(23.6)**	**(3,629,888)**	**(18.7)**

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 net deferred tax liabilities as at 31 December 2014 and 2013. Deferred tax assets in respect of tax losses carried forward are recognised in these unconsolidated financial statements. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Bank's ability to claim the deductions in future periods.

These deductible temporary differences do not expire under current tax legislation. The tax losses carried forward expire in ten years after the date of origination.

12 Income tax expense, continued

Deferred tax asset and liability, continued

Movements in temporary differences during the years ended 31 December 2014 and 2013 are as follows.

KZT'000	Balance 1 January 2014	Recognised in profit or loss	Balance 31 December 2014
Property, equipment and intangible assets	(605,996)	(396,898)	(1,002,894)
Loans to customers	(3,326,242)	-	(3,326,242)
Interest payable on deposits and balances from banks and other financial institutions	56,657	66,292	122,949
Interest payable on current accounts and deposits from customers	850,284	(810,233)	40,051
Interest payable on repurchase agreements	382	(382)	-
Interest payable on debt securities issued	72,045	(72,045)	-
Interest payable on subordinated debt	197,186	(197,186)	-
Other liabilities	104,673	104,080	208,753
Tax losses carried forward	57,769	(978)	56,791
	(2,593,242)	**(1,307,350)**	**(3,900,592)**

KZT'000	Balance 1 January 2013	Recognised in profit or loss	Balance 31 December 2013
Property, equipment and intangible assets	(270)	(605,726)	(605,996)
Loans to customers	(65,753)	(3,260,489)	(3,326,242)
Interest payable on deposits and balances from banks and other financial institutions	-	56,657	56,657
Interest payable on current accounts and deposits from customers	-	850,284	850,284
Interest payable on repurchase agreements	-	382	382
Interest payable on debt securities issued	-	72,045	72,045
Interest payable on subordinated debt	-	197,186	197,186
Other assets	(301,763)	301,763	-
Other liabilities	(31,287)	135,960	104,673
Tax losses carried forward	57,769	-	57,769
	(341,304)	**(2,251,938)**	**(2,593,242)**

13 Cash and cash equivalents

	2014 KZT'000	2013 KZT'000
Cash on hand	**32,410,904**	**15,456,825**
Nostro accounts with the NBRK	**64,928,468**	**10,621,684**
Nostro accounts with other banks		
- rated AA- to AA+	29,422,285	30,985,851
- rated A- to A+	2,711,122	37,510,906
- rated from BBB- to BBB+	592,892	191,736
- rated from BB- to BB+	358,246	73,640
- rated below from B- to B+	456,737	113,079
- not rated	208,996	193,796
Total nostro accounts with other banks	**33,750,278**	**69,069,008**
Term deposits with other banks		
- rated from B- to B+	10,862,316	-
Total term deposits with other banks	**10,862,316**	**-**
Total cash and cash equivalents	**141,951,966**	**95,147,517**

The credit ratings are presented by reference to the credit ratings of Fitch's credit ratings agency or analogues of similar international agencies.

13 Cash and cash equivalents, continued

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

As at 31 December 2014 the Bank has three banks (31 December 2013: three banks), whose balance exceeds 10% of equity. The gross value of this balance as at 31 December 2014 is KZT 105,213,068 thousand (31 December 2013: KZT 77,713,867 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 2014 the minimum reserve is KZT 12,043,308 thousand (31 December 2013: KZT 11,198,521 thousand).

14 Deposits and balances with banks and other financial institutions

	2014 KZT'000	**2013 KZT'000**
Loans and deposits		
- conditional deposit with the NBRK	3,672,281	-
- rated from BB- to BB+	29,843	18,165
- rated below B+	128	168
- not rated	5,424,367	4,918,002
- defaulted	48,130	48,130
Total loans and deposits	**9,174,749**	**4,984,465**
Impairment allowance	(48,130)	(48,130)
Net deposits and balances with banks and other financial institutions	**9,126,619**	**4,936,335**

The credit ratings are presented by reference to the credit ratings of Fitch's credit ratings agency or analogues of similar international agencies.

Overdue or impaired deposits and balances with banks and other financial institutions comprise deposits and balances with banks and other financial institutions overdue for more than 360 days of KZT 48,130 thousand (31 December 2013: overdue for more than 360 days of KZT 48,130 thousand).

Conditional deposit with NBRK consists of funds of KZT 3,000,000 thousand received from Development Bank of Kazakhstan JSC ("DBK") in accordance with the loan agreement with DBK. Funds will be distributed to small and medium businesses on preferential terms. These funds may be withdrawn from the conditional deposit only after approval of DBK.

The amount of loans and deposits with not rated banks includes KZT 2,009,312 thousand of subordinated debt (31 December 2013: KZT 1,697,585 thousand).

Concentration of deposits and balances with banks and other financial institutions

As at 31 December 2014 the Bank has no banks (31 December 2013: no banks), whose balance exceeds 10% of equity.

15 Financial instruments at fair value through profit or loss

	2014 KZT'000	2013 KZT'000
Held by the Bank		
Debt and other fixed-income instruments		
- Government bonds		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	1,645,717	6,829,790
Total government bonds	**1,645,717**	**6,829,790**
- Corporate bonds		
rated from BBB- to BBB+	2,095,395	1,584,723
rated from BB- to BB+	245,741	1,195,917
Total corporate bonds	**2,341,136**	**2,780,640**
Equity investments		
- Corporate shares		
American and Global depository receipts	510	612
Total equity investments	**510**	**612**
Derivative financial instruments		
Foreign currency contracts	3,678,243	-
	7,665,606	**9,611,042**
Pledged under sale and repurchase agreements		
Debt and other fixed-income instruments		
-Government bonds		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	-	10,900,232
Total government bonds	**-**	**10,900,232**
Total	**7,665,606**	**20,511,274**

The credit ratings are presented by reference to the credit ratings of Fitch's credit ratings agency or analogues of similar international agencies.

At 31 December 2014 and 2013 financial instruments at fair value through profit or loss include financial instruments are held for trading.

No financial assets at fair value through profit or loss are past due.

The pledged trading assets presented in the table above are those financial assets that may be repledged or resold by counterparties. These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Bank acts as intermediary.

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of the foreign currency swap contracts outstanding at 31 December 2014 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 non-matured 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.

15 Financial instruments at fair value through profit or loss, continued

Foreign currency contracts, continued

	Notional amount 2014 KZT'000	Weighted average contractual exchange rates 2014
Buy USD sell KZT		
Less than 12 months	109,537,924	181.22
More than 12 months	11,111,150	182.15
Buy KZT sell USD		
Less than 3 months	1,042,960	186.24
Less than 12 months	444,934	182.35
More than 12 months	11,111,150	182.15

At 31 December 2014, derivative financial instruments include a currency swap agreements signed in 2014 with NBRK, under which the Bank should deliver KZT 120,649,074 thousand in 2015 and 2019 in exchange for USD 665,440 thousand. Under these agreements the Bank prepaid a premium of KZT 3,619,472 thousand, which equates to 3% per annum in KZT of the principal amount at inception. These agreements have an early withdrawal option for the NBRK. As at 31 December 2014 the fair value of the swaps amounted to KZT 3,678,243 thousand.

16 Available-for-sale financial assets

	2014 KZT'000	2013 KZT'000
Debt instruments		
-Government bonds		
- Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	3,073,611	-
Total government bonds	**3,073,611**	**-**
Equity instruments		
Corporate shares	3,309,137	3,319,137
Impairment allowance	-	(10,000)
	6,382,748	**3,309,137**

As at 31 December 2014 available-for-sale investments include unquoted equity securities stated at cost of KZT 10,743 thousand (31 December 2013: KZT 10,743 thousand). There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows.

17 Loans to customers

	2014 KZT'000	2013 KZT'000
Loans to corporate customers		
Loans to large corporates	278,946,761	192,307,150
Loans to small and medium size companies	670,138,838	389,584,575
Total loans to corporate customers	**949,085,599**	**581,891,725**
Loans to retail customers		
Car loans	82,305,774	42,303,694
Mortgage loans	45,615,991	47,750,621
Consumer loans	27,761,012	27,704,088
Express loans	4,908,812	2,638,825
Credit cards	111,980	109,133
Total loans to retail customers	**160,703,569**	**120,506,361**
Gross loans to customers	**1,109,789,168**	**702,398,086**
Impairment allowance	(49,540,234)	(28,239,735)
Net loans to customers	**1,060,248,934**	**674,158,351**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 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 year	24,474,211	3,765,524	28,239,735
Net charge	16,957,270	4,413,843	21,371,113
Foreign exchange effect	141,924	47,785	189,709
Write-offs	(169,194)	(91,129)	(260,323)
Balance at the end of the year	**41,404,211**	**8,136,023**	**49,540,234**

Movements in the loan impairment allowance by classes of loans to customers for year 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	13,080,721	4,906,058	17,986,779
Net charge	10,452,271	(1,761,225)	8,691,046
Foreign exchange effect	45,857	7,076	52,933
Write-offs	(7,756)	(23,309)	(31,065)
Recovery of previously written-off balances	903,118	636,924	1,540,042
Balance at the end of the year	**24,474,211**	**3,765,524**	**28,239,735**

17 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 2014:

	2014 KZT'000	2013 KZT'000
Loans to corporate customers		
Loans to large corporates		
Loans without individual signs of impairment	271,080,226	178,171,336
Impaired or overdue loans:		
- not overdue	-	8,518,563
- overdue more than 90 days and less than 1 year	2,250,247	5,109,306
- overdue more than 1 year	5,616,288	507,945
Total impaired or overdue loans	7,866,535	14,135,814
Total loans to large corporates	**278,946,761**	**192,307,150**
Impairment allowance on loans to large corporates	(7,187,574)	(7,471,318)
Total loans to large corporates, net of impairment allowance	**271,759,187**	**184,835,832**
Loans to small and medium size companies		
Loans without individual signs of impairment	590,273,671	353,825,839
Impaired or overdue loans:		
- not overdue	52,026,217	22,820,536
- overdue less than 90 days	6,525,968	1,203,448
- overdue more than 90 days and less than 1 year	5,910,865	2,293,152
- overdue more than 1 year	15,402,117	9,441,600
Total impaired or overdue loans	79,865,167	35,758,736
Total loans to small and medium size companies	**670,138,838**	**389,584,575**
Impairment allowance on loans to small and medium size companies	(34,216,637)	(17,002,893)
Total loans to small and medium size companies, net of impairment allowance	**635,922,201**	**372,581,682**
Total loans to corporate customers	**949,085,599**	**581,891,725**
Impairment allowance on loans corporate customers	(41,404,211)	(24,474,211)
Total loans to corporate customers, net of impairment allowance	**907,681,388**	**557,417,514**

17 Loans to customers, continued

(b) Credit quality of loans to customers, continued

	2014 KZT'000	2013 KZT'000
Loans to retail customers		
Car loans		
- not overdue	70,624,097	39,556,716
- overdue less than 30 days	2,605,687	1,188,345
- overdue 30-89 days	1,909,962	1,107,886
- overdue 90-179 days	2,045,418	242,154
- overdue more than 180 days	5,120,610	208,593
Total car loans	**82,305,774**	**42,303,694**
Impairment allowance on car loans	(1,770,825)	(774,768)
Total car loans, net of impairment allowance	**80,534,949**	**41,528,926**
Mortgage loans		
- not overdue	38,361,409	40,489,941
- overdue less than 30 days	701,716	664,830
- overdue 30-89 days	521,246	424,539
- overdue 90-179 days	353,842	391,764
- overdue more than 180 days	5,677,778	5,779,547
Total mortgage loans	**45,615,991**	**47,750,621**
Impairment allowance on mortgage loans	(3,120,138)	(1,841,388)
Total mortgage loans, net of impairment allowance	**42,495,853**	**45,909,233**
Consumer loans		
- not overdue	23,157,410	23,215,313
- overdue less than 30 days	550,196	435,647
- overdue 30-89 days	391,451	286,430
- overdue 90-179 days	303,107	322,762
- overdue more than 180 days	3,358,848	3,443,936
Total consumer loans	**27,761,012**	**27,704,088**
Impairment allowance on consumer loans	(1,238,283)	(773,023)
Total consumer loans, net of impairment allowance	**26,522,729**	**26,931,065**
Express loans		
- not overdue	4,252,030	2,226,979
- overdue less than 30 days	65,556	16,478
- overdue 30-89 days	61,180	32,442
- overdue 90-179 days	55,257	16,541
- overdue more than 180 days	474,789	346,385
Total express loans	**4,908,812**	**2,638,825**
Impairment allowance on express loans	(1,975,532)	(344,045)
Total express loans, net of impairment allowance	**2,933,280**	**2,294,780**
Credit cards		
- not overdue	33,836	66,440
- overdue less than 30 days	42,651	6,114
- overdue 30-89 days	-	1,070
- overdue 90-179 days	127	195
- overdue more than 180 days	35,366	35,314
Total credit cards	**111,980**	**109,133**
Impairment allowance on credit cards	(31,245)	(32,300)
Total credit cards, net of impairment allowance	**80,735**	**76,833**
Total loans to retail customers	**160,703,569**	**120,506,361**
Impairment allowance on loans to retail customers	(8,136,023)	(3,765,524)
Total loans to retail customers, net of impairment allowance	**152,567,546**	**116,740,837**
Total loans to customers	**1,109,789,168**	**702,398,086**
Impairment allowance on loans to customers	**(49,540,234)**	**(28,239,735)**
Total loans to customers, net of impairment allowance	**1,060,248,934**	**674,158,351**

17 Loans to customers, continued

(c) Key assumptions and judgments for estimating loan impairment

(i) Loans to corporate customers

The Bank estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for loans with individual signs of impairment and based on its past loss experience for portfolios of loans for which no individual signs of impairment has been identified.

In determining the impairment allowance for loans to corporate customers, management makes the following key assumptions:

- quarterly loss rates are based on historic loss experience of 0.77%-0.80% and an emergence period of 3 months
- migration rates for loans to small and medium size companies are constant and can be estimated based on historic loss migration pattern for the past 12 months
- a discount of between 10% and 20% to the originally appraised value if the property pledged is sold
- a delay of 6 to 24 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 2014 would be KZT 9,076,814 thousand lower/higher (2013: KZT 5,574,175 thousand lower/higher).

(ii) Loans to retail customers

The Bank 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 12 months
- a discount of between 10% and 30% 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 2014 would be KZT 4,577,026 thousand lower/higher (31 December 2013: KZT 3,502,225 thousand).

17 Loans to customers, continued

(d) Analysis of collateral and other credit enhancements

(i) Loans to corporate customers

Loans to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Bank generally requests corporate borrowers to provide it.

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral:

31 December 2014 KZT'000	Loans to customers, carrying amount	Fair value of collateral - for collateral assessed as of reporting date	Fair value of collateral – for collateral as of date of loan issue	Fair value of collateral not determined
Loans without individual signs of impairment				
Cash and deposits	19,820,064	19,820,064	-	-
Trading securities	19,041,460	19,041,460	-	-
Real estate	349,645,322	340,108,365	9,536,957	-
Grain	63,986,649	63,986,649	-	-
Goods in turnover	77,838,579	77,749,748	88,831	-
Motor vehicles	2,987,524	2,726,036	261,488	-
Equipment	11,224,173	11,163,640	60,533	-
Other	795,630	795,630	-	-
Corporate guarantees (unrated) and guarantees of individuals	141,118,941	-	-	141,118,941
No collateral or other credit enhancement	142,265,193	-	-	142,265,193
Other collateral registered subsequently after reporting date	28,678,293	28,678,293	-	-
Total loans without individual signs of impairment	**857,401,828**	**564,069,885**	**9,947,809**	**283,384,134**
Overdue or impaired loans				
Cash and deposits	61,790	61,790	-	-
Trading securities	1,428,842	1,428,842	-	-
Real estate	33,561,510	31,993,577	1,567,933	-
Goods in turnover	2,762,213	2,638,806	123,407	-
Motor vehicles	370,738	182,207	188,531	-
Equipment	177,537	88,194	89,343	-
Guarantees	9,606,335	-	-	9,606,335
Other	63	33	30	-
No collateral or other credit enhancement	2,310,532	-	-	2,310,532
Total overdue or impaired loans	**50,279,560**	**36,393,449**	**1,969,244**	**11,916,867**
Total loans to corporate customers	**907,681,388**	**600,463,334**	**11,917,053**	**295,301,001**

17 Loans to customers, continued

(d) Analysis of collateral and other credit enhancements, 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 of reporting date	Fair value of collateral – for collateral as of date of loan issue	Fair value of collateral not determined
Loans without individual signs of impairment				
Cash and deposits	13,250,135	13,250,135	-	-
Trading securities	20,228,918	20,228,918	-	-
Real estate	230,578,457	212,609,716	17,968,741	-
Grain	23,808,899	23,808,899	-	-
Goods in turnover	60,261,337	60,212,632	48,705	-
Motor vehicles	3,632,158	2,933,317	698,841	-
Equipment	10,437,367	10,250,636	186,731	-
Other	313,334	313,334	-	-
Corporate guarantees (unrated) and guarantees of individuals	78,727,103	-	-	78,727,103
No collateral or other credit enhancement	78,142,295	-	-	78,142,295
Other collateral registered subsequently after reporting date	8,454,304	-	-	8,454,304
Total loans without individual signs of impairment	**527,834,307**	**343,607,587**	**18,903,018**	**165,323,702**
Overdue or impaired loans				
Cash and deposits	43,930	43,930	-	-
Real estate	22,083,713	18,506,036	3,577,677	-
Goods in turnover	1,902,441	1,759,314	143,127	-
Motor vehicles	351,218	14,227	336,991	-
Equipment	46,457	-	46,457	-
Other	63	63	-	-
Guarantees	2,700,697	-	-	2,700,697
No collateral or other credit enhancement	2,454,688	-	-	2,454,688
Total overdue or impaired loans	**29,583,207**	**20,323,570**	**4,104,252**	**5,155,385**
Total loans to corporate customers	**557,417,514**	**363,931,157**	**23,007,270**	**170,479,087**

The tables above exclude the effect of overcollateralisation.

The amount disclosed in the table above within "No collateral or other credit enhancement" line includes uncollateralised loans and portions of loans without full collateral coverage. As at 31 December 2014, the net carrying value of uncollateralised corporate loans is KZT 16,832,789 thousand or 1.85% of the corporate loan portfolio (31 December 2013: KZT 13,426,543 thousand or 2.41% of corporate loan portfolio).

The Bank 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, and corporate guarantees received from unrated local companies are not considered for impairment assessment purposes.

17 Loans to customers, continued

(d) Analysis of collateral and other credit enhancements, 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 Bank does not necessarily update the valuation of collateral as at each reporting date.

(ii) Loans to retail customers

Mortgage loans are secured by underlying housing real estate. The Bank's policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 85%. Car loans are secured by cars. The Bank's policy is to issue car loans with a loan-to-value ratio of a maximum of 90%. Consumer loans are generally secured by properties and in certain cases by assets including vehicles, cash deposits and guarantees.

Management estimates that the impairment allowance would have been higher by KZT 3,082,333 thousand (31 December 2013: KZT 3,452,011 thousand) for mortgage loans, by KZT 2,218,581 thousand (31 December 2013: KZT 2,511,207 thousand) for consumer loans and by KZT 4,270,097 thousand (31 December 2013: KZT 1,237,592 thousand) for car loans if collateral was not taken into account.

(e) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Republic of Kazakhstan who operate in the following economic sectors:

	2014 KZT'000	2013 KZT'000
Trade	239,747,689	173,470,788
Agriculture	186,725,453	64,238,190
Production	140,503,823	90,910,243
Services	115,064,241	93,805,296
Construction	110,013,084	83,070,524
Transportation	92,460,031	27,227,574
Finance and insurance	55,831,894	39,075,069
Education	2,720,573	2,672,982
Public authority companies	31,677	40,437
Other	5,987,134	7,380,622
Total loans to corporate customers	**949,085,599**	**581,891,725**
Loans issued to retail customers		
Car loans	82,305,774	42,303,694
Mortgage loans	45,615,991	47,750,621
Consumer loans	27,761,012	27,704,088
Express loans	4,908,812	2,638,825
Credit cards	111,980	109,133
Total retail loans	**160,703,569**	**120,506,361**
Gross loans to customers	**1,109,789,168**	**702,398,086**
Impairment allowance	(49,540,234)	(28,239,735)
	1,060,248,934	**674,158,351**

(f) Significant credit exposures

As at 31 December 2014 the Bank has 22 borrowers or groups of connected borrowers (31 December 2013: 19), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2014 is KZT 323,432,109 thousand (2013: KZT 186,311,191 thousand).

17 Loans to customers, continued

(g) Loan maturities

The maturity of the loan portfolio is presented in Note 31 which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Bank, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than that based on contractual terms.

18 Held-to-maturity investments

	2014 KZT'000	2013 KZT'000
Held by the Bank		
Government bonds		
- Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	31,798,063	20,917,198
Total government bonds	**31,798,063**	**20,917,198**
Corporate bonds		
- rated from BB- to BB+	-	137,339
- not rated	1,883,357	1,883,357
Total corporate bonds	**1,883,357**	**2,020,696**
Impairment allowance	(1,883,357)	(1,883,357)
Total net corporate bonds	**-**	**137,339**
	31,798,063	**21,054,537**
Pledged under sale and repurchase agreements		
Government bonds		
- Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	-	5,913,997
Total government bonds	**-**	**5,913,997**
Total	**31,798,063**	**26,968,534**

Analysis of movements in the impairment allowance

	2014 KZT'000	2013 KZT'000
Balance at the beginning of the year	1,883,357	1,499,036
Net charge	-	384,321
Balance at the end of the year	**1,883,357**	**1,883,357**

The credit ratings are presented by reference to the credit ratings of Fitch's credit ratings agency or analogues of similar international agencies.

Corporate bonds are interest-bearing securities, issued by local companies and banks. These securities are freely tradable on the Kazakhstan Stock Exchange ("KASE"), except for the bonds of Astana-Nedvizhimost JSC ("Astana-Nedvizhimost"). Astana-Nedvizhimost bonds were excluded from trading at KASE in July 2011. As at 31 December 2014 and 2013 the Bank provided 100% impairment allowance on these bonds in the amount of KZT 1,883,357 thousand.

19 Property, equipment and intangible assets

KZT'000	Land and buildings	Computer equipment	Motor vehicles	Construction in progress	Other	Intangible assets	Total
Cost							
Balance at 1 January 2014	13,692,063	3,395,095	403,620	759,531	4,061,039	2,046,146	24,357,494
Additions	3,285,395	2,002,082	74,506	489,707	1,274,165	425,187	7,551,042
Disposals	(2,158)	(92,710)	-	-	(96,178)	(70,771)	(261,817)
Reversal of revaluation reserve for land and buildings	(5,614)	-	-	-	-	-	(5,614)
Transfers	199,956	-	114,077	(634,318)	320,285	-	-
Balance at 31 December 2014	**17,169,642**	**5,304,467**	**592,203**	**614,920**	**5,559,311**	**2,400,562**	**31,641,105**
Depreciation and amortisation							
Balance at 1 January 2014	170,039	1,185,831	101,989	-	1,619,417	1,068,174	4,145,450
Depreciation and amortisation for the year	156,078	789,557	63,667	-	695,138	243,573	1,948,013
Disposals	-	(91,358)	-	-	(88,797)	(70,771)	(250,926)
Balance at 31 December 2014	**326,117**	**1,884,030**	**165,656**	**-**	**2,225,758**	**1,240,976**	**5,842,537**
Carrying amount							
At 31 December 2014	**16,843,525**	**3,420,437**	**426,547**	**614,920**	**3,333,553**	**1,159,586**	**25,798,568**

19 Property, equipment and intangible assets, continued

KZT'000	Land and buildings	Computer equipment	Motor vehicles	Construction in progress	Other	Intangible assets	Total
Cost							
Balance at 1 January 2013	6,206,510	2,163,532	106,971	426,701	2,978,064	1,715,380	13,597,158
Additions	7,422,616	1,250,566	296,649	599,338	1,031,002	330,361	10,930,532
Disposals	(26,519)	(49,911)	-	(12,468)	(81,298)	-	(170,196)
Transfers	89,456	30,908	-	(254,040)	133,271	405	-
Balance at 31 December 2013	**13,692,063**	**3,395,095**	**403,620**	**759,531**	**4,061,039**	**2,046,146**	**24,357,494**
Depreciation and amortisation							
Balance at 1 January 2013	94,934	809,705	75,351	-	1,228,780	739,234	2,948,004
Depreciation and amortisation for the year	81,755	425,723	26,638	-	461,231	328,940	1,324,287
Disposals	(6,650)	(49,597)	-	-	(70,594)	-	(126,841)
Balance at 31 December 2013	**170,039**	**1,185,831**	**101,989**	**-**	**1,619,417**	**1,068,174**	**4,145,450**
Carrying amount							
At 31 December 2013	**13,522,024**	**2,209,264**	**301,631**	**759,531**	**2,441,622**	**977,972**	**20,212,044**

There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during 2014 and 2013.

20 Investment in subsidiaries

On 3 January 2007 the Bank established a subsidiary, Tsesna International B.V., which is a special purpose entity intended to raise funds on international capital markets and make these funds available to the Bank. As at 31 December 2014 and 2013, the Bank owned 100% of the share capital of Tsesna International B.V.

In accordance with the resolutions of the Agency of the Republic of Kazakhstan on the Regulation and Supervision of Financial Markets and Financial Organisations (the "FMSA") #65 and #66 dated 18 May 2010 the Bank was given permission to purchase a subsidiary, Subsidiary Company of Tsesnabank JSC Insurance Company Tsesna Garant JSC ("Tsesna Garant"). The primary business activity of Tsesna Garant is mandatory and voluntary insurance and re-insurer's services in accordance with the licence #2.1.49 granted on 14 June 2012 by the Committee on the Regulation and Supervision of Financial Markets and Financial Organisations of the NBRK (the "FMSC"). On 22 April 2014, the Tsesna Garant changed its legal address and its Charter was updated accordingly.

During the year ended 31 December 2011, the Bank obtained control over Tsesna Capital JSC ("Tsesna Capital"). As at 31 December 2012 the share of ownership of the Bank in Tsesna Capital comprises 76.80% of share capital. In 2013 the Bank acquired the remaining portion of 23.20% of the share capital of Tsesna Capital. Tsesna Capital possesses licences #0001201383 for brokerage and dealing activities in the securities market with the right to manage clients' accounts as a nominal holder and #0003200615 for investment portfolio management activities without the right to attract voluntary pension contributions granted by the NBRK on 24 October 2014. On 30 September 2014, Tsesna Capital changed its legal address and its Charter was updated accordingly.

In accordance with the resolutions of the NBRK #329 dated 29 October 2012 the Bank was given permission to establish a subsidiary, Subsidiary organisation of Tsesnabank JSC OMAD Tsesna LLC ("OMAD Tsesna").

The principal subsidiaries are as follows:

Name	**Country of incorporation**	**Principal activities**	**Ownership interest, % 2014**	**Carrying amount KZT'000 2014**	**Ownership interest, % 2013**	**Carrying amount KZT'000 2013**
Tsesna Garant	Kazakhstan	Insurance activity	100%	8,050,000	100%	6,050,000
Tsesna Capital	Kazakhstan	Brokerage and dealing activity	100%	3,005,681	100%	1,005,681
OMAD Tsesna	Kazakhstan	Debt collection	100%	366,712	100%	150,000
Tsesna International B.V.	Netherlands	Raising funds on international capital markets and making these funds available to the Bank	100%	16,147	100%	3,486
				11,438,540		**7,209,167**

21 Other assets

	2014 KZT'000	2013 KZT'000
Other receivables	9,920,307	10,833,460
Amount due from local commercial bank	210,035	210,035
Commissions receivable	26,312	24,517
Impairment allowance	(2,111,617)	(851,759)
Total other financial assets	**8,045,037**	**10,216,253**
Advance consideration*	7,430,877	7,585,784
Prepayments for office buildings	3,367,183	2,832,609
Prepayments	1,500,937	1,405,349
Materials and supplies	1,438,817	588,934
Other	226,295	27,450
Impairment allowance	(99,701)	(22,537)
Total other non-financial assets	**13,864,408**	**12,417,589**
Total other assets	**21,909,445**	**22,633,842**

* On 10 April 2013 the Bank entered into an agreement with the shareholders of Plus Bank OJSC to increase the Bank's shareholding of 19% up to 91.09%, subject to Kazakhstan and Russian Federation regulatory approval. Prior to 31 December 2012, the Bank acquired certain assets for KZT 6,744,543 thousand which will be used as consideration for the completion of the transaction.

Analysis of movements in the impairment allowance

Movements in the impairment allowance for the year ended 31 December 2014 are as follows:

	Other financial assets KZT'000	Other non-financial assets KZT'000	Total KZT'000
Balance at the beginning of the year	851,759	22,537	874,296
Net charge	1,265,232	81,720	1,346,952
Write-offs	(12,223)	(4,556)	(16,779)
Foreign exchange effect	6,849	-	6,849
Balance at the end of the year	**2,111,617**	**99,701**	**2,211,318**

Movements in the impairment allowance for the year ended 31 December 2013 are as follows:

	Other financial assets KZT'000	Other non-financial assets KZT'000	Total KZT'000
Balance at the beginning of the year	827,793	6,305	834,098
Net charge	(1,083)	16,232	15,149
Write-offs	(31,915)	(4,556)	(36,471)
Recovery of previously written-off balances	56,417	4,556	60,973
Foreign exchange effect	547	-	547
Balance at the end of the year	**851,759**	**22,537**	**874,296**

As at 31 December 2014, included in other assets are overdue other receivables of gross KZT 1,103,775 thousand (2013: KZT 652,877 thousand), of which KZT 293,706 thousand are overdue for more than 90 days (2013: KZT 309,130 thousand).

22 Loans from state company

	Issue date	Maturity	Currency	Interest rate	Carrying value 31 December 2014 KZT'000
Loans from National Management Holding KazAgro JSC:					
Loan 1	29.08.2014	15.06.2023	KZT	3.00%	22,679,252
Loan 2	06.01.2014	04.12.2021	KZT	10.00%	847,717
					23,526,969

Loans from the National Management Holding KazAgro JSC (the "KazAgro") were received in accordance with KazAgro Rules of programme on financial recovery of companies operating in agriculture industry (the "Rules").

During 2014, in accordance with the Rules and based on an agreement between KazAgro and the Bank, KazAgro placed a fixed term deposit in the amount USD 541,076 thousand at 1% per annum interest rate with maturity in 2023 (Note 24). As at 31 December 2014 the deposit amounted to USD 531,012 thousand. According to the loan and deposit agreements between KazAgro and the Bank, the Bank is responsible to extend loans to companies operating in the agriculture industry to support their financial recovery. Management of the Bank believes that there are some other similar financial instruments such as loans from Entrepreneurship Development Fund DAMU JSC ("DAMU") and due to their specific nature, the loans and deposits from KazAgro and DAMU represent a separate segment of borrowings from state companies to support companies operating in certain industries. As a result, the loans from KazAgro were received in an "arm's length" transaction and, as such, the amount received under the loans represents the fair value of the loans on initial recognition.

23 Deposits and balances from banks and other financial institutions

	2014 KZT'000	2013 KZT'000
Loans and deposits from banks and other financial institutions	62,202,704	23,262,061
Vostro accounts	661,785	43,851
	62,864,489	**23,305,912**
Derivative financial instruments		
Foreign currency contracts	12,290	1,500
Total deposits and balances from banks and other financial institutions	**62,876,779**	**23,307,412**

As at 31 December 2014 the Bank has two financial institutions (31 December 2013: one financial institution), whose balances exceed 10% of equity. The gross value of this balance as at 31 December 2014 is KZT 57,005,366 thousand (31 December 2013: KZT 10,352,730 thousand).

As at 31 December 2014, deposits and balances from banks and other financial institutions include a long-term loan from DAMU in the amount of KZT 20,000,000 thousand at 2.0% per annum interest rate with maturity in 2034 and with an early repayment option. The loan was received in accordance with the Government program ("the Program") to finance small and medium enterprises ("SME"s) operating in certain industries. According to the loan agreement between DAMU and the Bank, the Bank is responsible to extend loans to SME borrowers, eligible to participate in the Program, with maximum maturity up to 10 years at 6% interest rate. The Management of the Bank believes that there are some other similar financial instruments and due to their specific nature, the loans from KazAgro (Note 22) and DAMU represent a separate segment of borrowings from state companies to support companies operating in certain industries. As a result, the loan from DAMU was received in an "arm's length" transaction and, as such, the amount received under the loans represents the fair value of the loans on initial recognition.

24 Current accounts and deposits from customers

	2014 KZT'000	2013 KZT'000
Current accounts and demand deposits		
- Corporate	128,723,574	107,354,331
- Retail	10,243,000	9,498,203
- Accrued interest	324,569	13,479
Term deposits		
- Corporate	606,007,527	372,304,570
- Retail	258,761,696	201,814,128
- Accrued interest	6,389,736	4,237,939
	1,010,450,102	**695,222,650**

As at 31 December 2014, the Bank maintained customer deposit balances of KZT 25,758,569 thousand (31 December 2013: KZT 17,081,727 thousand) that serve as collateral for loans and unrecognised credit instruments granted by the Bank.

As at 31 December 2014, the Bank has 14 customers (31 December 2013: 15 customers), whose balances exceed 10% of equity. These balances as at 31 December 2014 are KZT 469,563,445 thousand (31 December 2013: KZT 277,703,219 thousand).

Current accounts and deposits from customers include a fixed term deposit of KazAgro in the amount of USD 531,012 thousand at 1% per annum with maturity in 2023 on terms described in Note 22.

25 Debt securities issued

	2014 KZT'000	2013 KZT'000
Nominal	48,935,222	22,126,803
Discount	(2,657,861)	(1,237,920)
Accrued interest	506,784	360,227
	46,784,145	**21,249,110**

The summary of bond issues at 31 December 2014 and 31 December 2013 is presented below:

					Carrying amount	
	Issue date	**Maturity**	**Coupon rate**	**Effective rate**	**2014 KZT'000**	**2013 KZT'000**
KZT denominated bonds of the eighteenth issue *	4.06.2013	4.06.2016	8.0%	8.2%	10,059,964	5,478,940
KZT denominated bonds of the nineteenth issue *	04.06.2013	04.06.2018	8.0%	8.7%	9,913,382	4,682,530
KZT denominated bonds of the twenty fourth issue *	10.04.2014	10.04.2017	6.0%	6.9%	9,628,706	-
KZT denominated bonds of the twentieth issue *	10.04.2014	10.04.2021	Inflation index + 1%	8.0%	9,239,090	-
KZT denominated bonds of the twenty fifth issue *	10.04.2014	10.04.2019	8.0%	8.7%	2,897,941	-
KZT denominated bonds of the seventh issue *	11.07.2007	11.07.2027	7.5%	10.9%	2,633,335	2,633,357
KZT denominated bonds of the sixth issue *	14.12.2006	14.12.2015	Inflation index + 1%	10.8%	2,411,727	2,350,888
KZT denominated bonds of the ninth issue *	12.07.2011	12.07.2014	6.0%	6.9%	-	6,103,395
					46,784,145	**21,249,110**

* Quoted on KASE

26 Subordinated debt

	2014 KZT'000	2013 KZT'000
Subordinated bonds	55,843,213	41,901,537
Cumulative non-redeemable preferred shares	2,750,000	2,750,000
	58,593,213	**44,651,537**

As at 31 December 2014 and 2013 subordinated debt comprises quoted bonds and cumulative non-redeemable preferred shares. In case of bankruptcy, the repayment of the subordinated debt would be made after repayment in full of all other liabilities of the Bank but before repayment of the preferred shares.

(a) Subordinated bonds

The summary of subordinated bonds at 31 December 2014 and 2013 is presented below:

					Carrying amount	
	Issue date	**Maturity**	**Coupon rate**	**Effective rate**	**2014 KZT'000**	**2013 KZT'000**
KZT denominated bonds of the twenty first issue *	10.04.2014	10.04.2021	8.0%	9.7%	9,260,842	-
KZT denominated bonds of the thirteenth issue *	02.08.2012	02.08.2019	8.0%	9.7%	5,870,269	5,815,398
KZT denominated bonds of the eighth issue *	13.04.2011	13.04.2018	8.0%	8.1%	5,544,297	5,538,730
KZT denominated bonds of the eleventh issue *	01.02.2012	01.02.2019	8.0%	9.2%	4,991,784	4,959,119
KZT denominated bonds of the fourteenth issue *	04.06.2013	04.06.2020	8.0%	9.7%	4,717,842	4,675,535
KZT denominated bonds of the sixteenth issue *	04.06.2013	04.06.2028	9.0%	9.7%	4,686,042	4,674,042
KZT denominated bonds of the twenty second issue *	10.04.2014	10.04.2021	8.0%	9.7%	4,630,421	-
KZT denominated bonds of the fifteenth issue *	04.06.2013	04.06.2023	8.0%	9.7%	4,535,120	4,498,565
KZT denominated bonds of the tenth issue *	30.06.2011	30.06.2018	8.0%	10.7%	4,036,909	3,968,296
KZT denominated bonds of the twelfth issue *	02.08.2012	02.08.2019	8.0%	9.7%	3,908,368	3,871,809
KZT denominated bonds of the twenty third issue *	10.04.2014	10.04.2021	8.0%	9.7%	2,795,403	-
KZT denominated bonds *	19.03.2013	19.03.2020	8.0%	9.7%	865,916	858,149
KZT denominated bonds of the fifth issue *	28.06.2006	28.06.2014	Inflation index + 1%	8.81%	-	3,041,894
					55,843,213	**41,901,537**

* Quoted on KASE

(b) Cumulative non-redeemable preference shares

Holders of cumulative non-redeemable preference shares receive a minimum cumulative dividend of 10% per annum on the par value of their shareholding. The preference shares do not carry the right to vote unless the dividend is in arrears. All shares rank equally with regard to the Bank's residual assets, except that preference shareholders participate only to the extent of the face value of the shares adjusted for any dividends in arrears. All preference shares were issued and fully paid at their par value of KZT 1,000.

During the year ended 31 December 2014, the Bank accrued dividends on preference shares amounting to KZT 250,000 thousand (31 December 2013: KZT 250,000 thousand).

27 Amounts payable under repurchase agreements

	2014 KZT'000	2013 KZT'000
Amounts payable under repurchase agreements	-	15,945,917

Collateral provided as security for liabilities

As at 31 December 2013 amounts payable under repurchase agreements were collateralised by financial instruments at fair value through profit or loss with a fair value of KZT 10,900,232 thousand (Note 15) and held-to-maturity investments with amortised cost of KZT 5,913,997 thousand (Note 18).

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

28 Other liabilities

	2014 KZT'000	2013 KZT'000
Sundry creditors	832,332	479,469
Dividends payable	1,421	1,421
Total other financial liabilities	**833,753**	**480,890**
Deferred income for guarantees and letters of credit issued	1,554,475	2,601,138
Accrued vacation and other amounts due to employees	1,043,768	523,365
Other taxes payable	576,210	285,649
Other prepayments	73,938	450,375
Other non-financial liabilities	26,802	4,288
Total other non-financial liabilities	**3,275,193**	**3,864,815**
Total other liabilities	**4,108,946**	**4,345,705**

29 Share capital

(a) Issued capital

As at 31 December 2014, the authorised share capital comprises 77,500,000 ordinary shares and 2,500,000 non-redeemable cumulative preference shares (31 December 2013: 77,500,000 ordinary shares and 2,500,000 non-redeemable cumulative preference shares). Issued and outstanding share capital comprises 43,999,915 ordinary shares and 2,500,000 non-redeemable cumulative preference shares (31 December 2013: 33,800,000 ordinary shares and 2,500,000 non-redeemable cumulative preference shares). The shares do not have a par value. During the year ended 31 December 2014 10,199,915 ordinary shares were issued at KZT 2,000 per share (31 December 2013: 3,500,000 ordinary shares were issued at KZT 1,800 per share).

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.

29 Share capital, continued

(b) Nature and purpose of reserves

Reserves for general banking risks

Until 2013 year, in accordance with amendments to the Resolution #196 On Establishment of Minimum Limit on Reserve Capital of Second-Tier Banks issued by the FMSA 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 Committee on the Regulation and Supervision of Financial Markets and Financial Organisations of the National Bank of the Republic of Kazakhstan (the “FMSC”) on 25 December 2006 (which ceased to be in force during 2013) during the preceding year. Such percentage increase should not be less than 10% and not more than 100%.

A transfer from retained earnings to the reserve for general banking risks in the amount of KZT 4,992,972 thousand was made for the year ended 31 December 2013.

Dynamic reserve

In accordance with the NBRK Resolution #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 tax deductible 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.

In 2014 the dynamic reserve was temporarily fixed by the NBRK on the level recognised at 31 December 2013.

As at 31 December 2014 and 2013 the dynamic reserve is KZT 16,631,209 thousand.

Revaluation reserve for available-for-sale financial assets

Revaluation reserve for available-for-sale financial assets comprise accumulated net change in the fair value till the moment of assets derecognition or their impairment.

(c) 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.

At a general shareholders’ meeting held in April 2014, the Bank made a decision not to pay any dividends (2013: nil).

30 Earnings per share

Basic earnings per share

The calculation of basic earnings per share as at 31 December 2014 is based on the profit attributable to ordinary shareholders of KZT 15,508,912 thousand (2013: KZT 15,760,407 thousand), and a weighted average number of ordinary shares outstanding of 39,270,677 (2013: 32,235,068 ordinary shares) calculated as follows:

	2014	**2013**
Profit, in thousand of KZT	15,508,912	15,760,407
Issued ordinary shares at the beginning of the year	33,800,000	30,300,000
Effect of shares issued during the year	5,470,677	1,935,068
Weighted average number of ordinary shares	**39,270,677**	**32,235,068**
Basic earnings per share, in KZT	395	489

The Bank does not have any potentially dilutive securities.

31 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank 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 Bank, 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.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Heads of Risk Departments are 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. They are reportable to the member of Management Board who reports directly to the Chairman of the Management Board and indirectly to the Board of Directors.

31 Risk management, continued

(a) Risk management policies and procedures, continued

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled by Board of Directors and through a system of Credit Committees and the Business Directorate (BD). In order to facilitate efficient and effective decision-making, the Bank 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, market and liquidity risk analysis, the Risk Department monitors operational risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

The Bank on a daily basis calculates statutory ratios set by the NBRK. As at 31 December 2014 and 2013 the Bank was in compliance with set ratios.

(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 BD, which is chaired by the Chairman of the Management Board. Market risk limits are approved by BD based on recommendations of the Financial and Operational Risks Department.

The Bank 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.

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 Bank 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.

31 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 for major interest bearing financial instruments is as follows:

KZT'000	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2014							
ASSETS							
Cash and cash equivalents	41,010,689	-	-	-	-	100,941,277	141,951,966
Deposits and balances with banks and other financial institutions	3,704,252	-	2,413,055	3,009,312	-	-	9,126,619
Financial instruments at fair value through profit or loss	3,678,243	1,635,231	247,048	2,104,574	-	510	7,665,606
Available-for-sale financial assets	-	57,633	-	3,015,978	-	3,309,137	6,382,748
Loans to customers	133,166,722	92,485,767	312,957,711	374,441,684	147,197,050	-	1,060,248,934
Held-to-maturity investments	4,124,494	940,631	3,907,614	22,825,324	-	-	31,798,063
	185,684,400	**95,119,262**	**319,525,428**	**405,396,872**	**147,197,050**	**104,250,924**	**1,257,173,936**
LIABILITIES							
Loans from state company	51,190	45,753	257,214	14,189,034	8,983,778	-	23,526,969
Deposits and balances from banks and other financial institutions	3,103,134	706,410	2,015,843	24,976,609	32,074,783	-	62,876,779
Current accounts and deposits from customers	120,900,544	75,265,574	359,971,337	263,796,270	110,581,291	79,935,086	1,010,450,102
Debt securities issued	123,321	-	11,959,817	32,190,991	2,510,016	-	46,784,145
Subordinated debt	-	517,776	931,044	23,591,291	31,053,102	2,500,000	58,593,213
	124,178,189	**76,535,513**	**375,135,255**	**358,744,195**	**185,202,970**	**82,435,086**	**1,202,231,208**
	61,506,211	**18,583,749**	**(55,609,827)**	**46,652,677**	**(38,005,920)**	**21,815,838**	**54,942,728**

31 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2013							
ASSETS							
Cash and cash equivalents	36,697,369	-	-	-	-	58,450,148	95,147,517
Deposits and balances with banks and other financial institutions	18,333	-	-	4,918,002	-	-	4,936,335
Financial instruments at fair value through profit or loss	2,882,339	-	13,587,206	4,041,117	-	612	20,511,274
Available-for-sale financial assets	-	-	-	-	-	3,309,137	3,309,137
Loans to customers	97,632,289	55,748,220	227,653,257	237,397,455	55,727,130	-	674,158,351
Held-to-maturity investments	-	137,339	2,966,771	23,864,424	-	-	26,968,534
	137,230,330	**55,885,559**	**244,207,234**	**270,220,998**	**55,727,130**	**61,759,897**	**825,031,148**
LIABILITIES							
Deposits and balances from banks and other financial institutions	962,785	9,138,858	1,978,019	6,051,750	5,176,000	-	23,307,412
Current accounts and deposits from customers	54,096,164	35,163,756	278,039,588	240,907,596	9,419,085	77,596,461	695,222,650
Debt securities issued	292,124	-	8,540,581	9,906,369	2,510,036	-	21,249,110
Subordinated debt	-	517,776	3,648,649	9,244,021	28,741,091	2,500,000	44,651,537
Amounts payable under repurchase agreements	15,945,917	-	-	-	-	-	15,945,917
	71,296,990	**44,820,390**	**292,206,837**	**266,109,736**	**45,846,212**	**80,096,461**	**800,376,626**
	65,933,340	**11,065,169**	**(47,999,603)**	**4,111,262**	**9,880,918**	**(18,336,564)**	**24,654,522**

31 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 2014 and 2013. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	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	6.00	0.30	-	-	0.01	0.01
Deposits and balances with banks and other financial institutions	4.20	8.87	-	9.33	8.90	-
Financial instruments at fair value through profit or loss	5.02	-	-	3.34	-	-
Available-for-sale financial assets	5.27	-	-	-	-	-
Loans to customers	16.69	10.91	7.29	15.79	9.69	6.39
Held-to-maturity investments	5.33	-	-	4.82	-	-
Interest bearing liabilities						
Loans from state company	3.25	-	-	-	-	-
Deposits and balances from banks and other financial institutions						
- Term deposits	4.40	4.34	4.32	7.99	5.33	5.73
Current accounts and deposits from customers						
- Current accounts and demand deposits	1.61	1.47	3.17	2.04	-	-
- Term deposits	8.71	4.19	2.98	7.73	5.13	4.28
Debt securities issued	9.16	-	-	9.30	-	-
Subordinated debt	9.87	-	-	9.75	-	-
Amounts payable under repurchase agreements	-	-	-	2.91	-	-

31 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 rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities expected for the period of up to twelve months existing as at 31 December 2014 and 2013 is as follows:

	2014		2013	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
100 bp parallel fall	(428,610)	(428,610)	(435,258)	(435,258)
100 bp parallel rise	428,610	428,610	435,258	435,258

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 though profit or loss due to changes in the interest rates based on positions existing as at 31 December 2014 and 2013 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves using modified duration method is as follows:

	2014		2013	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
100 bp parallel fall	40,267	113,673	289,839	289,839
100 bp parallel rise	(40,267)	(113,673)	(289,839)	(289,839)

31 Risk management, continued

(b) Market risk, continued

(ii) Currency risk

The Bank 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 following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2014:

	KZT KZT'000	USD KZT'000	EUR KZT'000	RUB KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS						
Cash and cash equivalents	21,291,172	115,357,646	2,159,286	2,759,345	384,517	141,951,966
Deposits and balances with banks and other financial institutions	7,087,464	2,039,155	-	-	-	9,126,619
Financial instruments at fair value through profit or loss	7,665,096	510	-	-	-	7,665,606
Available-for-sale financial assets	6,382,748	-	-	-	-	6,382,748
Loans to customers	566,830,995	487,751,315	5,666,624	-	-	1,060,248,934
Held-to-maturity investments	31,798,063	-	-	-	-	31,798,063
Other financial assets	7,289,670	700,041	52,625	2,701	-	8,045,037
Total financial assets	**648,345,208**	**605,848,667**	**7,878,535**	**2,762,046**	**384,517**	**1,265,218,973**
LIABILITIES						
Loans from state company	23,526,969	-	-	-	-	23,526,969
Deposits and balances from banks and other financial institutions	59,787,944	2,964,838	119,087	4,910	-	62,876,779
Current accounts and deposits from customers	291,639,024	708,133,202	7,700,360	2,612,325	365,191	1,010,450,102
Debt securities issued	46,784,145	-	-	-	-	46,784,145
Subordinated debt	58,593,213	-	-	-	-	58,593,213
Other financial liabilities	830,655	2,767	222	-	109	833,753
Total financial liabilities	**481,161,950**	**711,100,807**	**7,819,669**	**2,617,235**	**365,300**	**1,203,064,961**
Net position as at 31 December 2014	**167,183,258**	**(105,252,140)**	**58,866**	**144,811**	**19,217**	**62,154,012**
The effect of off balance derivatives held for risk management	(108,050,030)	108,753,540	-	-	-	703,510
Net position after derivatives held for risk management purposes as at 31 December 2014	**59,133,228**	**3,501,400**	**58,866**	**144,811**	**19,217**	**62,857,522**

31 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

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

	KZT KZT'000	USD KZT'000	EUR KZT'000	RUB KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS						
Cash and cash equivalents	19,129,586	74,284,942	994,963	704,627	33,399	95,147,517
Deposits and balances with banks and other financial institutions	3,220,585	1,715,750	-	-	-	4,936,335
Financial instruments at fair value through profit or loss	20,510,662	612	-	-	-	20,511,274
Available-for-sale financial assets	3,309,137	-	-	-	-	3,309,137
Loans to customers	459,316,975	209,007,422	4,010,578	1,823,376	-	674,158,351
Held-to-maturity investments	26,968,534	-	-	-	-	26,968,534
Other financial assets	8,562,537	1,586,857	60,250	6,609	-	10,216,253
Total financial assets	**541,018,016**	**286,595,583**	**5,065,791**	**2,534,612**	**33,399**	**835,247,401**
LIABILITIES						
Deposits and balances from banks and other financial institutions	14,141,259	7,176,519	103,833	1,885,801	-	23,307,412
Current accounts and deposits from customers	455,036,492	234,453,795	5,356,874	372,232	3,257	695,222,650
Debt securities issued	21,249,110	-	-	-	-	21,249,110
Subordinated debt	44,651,537	-	-	-	-	44,651,537
Amounts payable under repurchase agreements	15,945,917	-	-	-	-	15,945,917
Other financial liabilities	476,165	4,279	243	-	203	480,890
Total financial liabilities	**551,500,480**	**241,634,593**	**5,460,950**	**2,258,033**	**3,460**	**800,857,516**
Net position as at 31 December 2013	**(10,482,464)**	**44,960,990**	**(395,159)**	**276,579**	**29,939**	**34,389,885**
The effect of derivatives held for risk management	45,446,200	(45,446,200)	-	-	-	-
Net position after derivatives held for risk management purposes as at 31 December 2013	**34,963,736**	**(485,210)**	**(395,159)**	**276,579**	**29,939**	**34,389,885**

31 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2014 and 2013 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on a net of tax basis and is based on foreign currency exchange rate variances that the Bank 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.

	2014		2013	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
10% appreciation of USD against KZT (2013: 20%)	280,112	280,112	(77,732)	(77,732)
10% appreciation of EUR against KZT	4,709	4,709	(31,613)	(31,613)
10% appreciation of RUB against KZT	11,585	11,585	22,126	22,126

A strengthening of the KZT against the above currencies at 31 December 2014 and 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.

(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 Bank takes a long or short position in an equity financial instrument.

An analysis of sensitivity of profit or loss and equity to changes in securities prices based on equity instrument positions existing as at 31 December 2014 and 2013 and a simplified scenario of a 10% change in all equity securities prices is as follows:

	2014		2013	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
10% increase in securities prices	51	330,965	61	330,914
10% decrease in securities prices	(51)	(330,965)	(61)	(330,914)

(c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. 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 credit policy is reviewed and approved by the Management Board.

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.

31 Risk management, continued

(c) Credit risk, continued

Corporate and SME loan credit applications are analysed by the Credit Analysis Department and SME lending divisions in branches, respectively, which are responsible for the analysis of issuing loans. Analysis reports made by the these departments 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 Risk Department and a second opinion is given accompanied by a verification that credit policy requirements are met. Before approval of independent transactions on issue of loans to corporate and SME customers by the Credit Committee, they are reviewed by the Legal and Collateral Departments and Security department on the basis of the risk specification. The Credit Committee reviews the loan credit application on the basis of documents submitted by the Credit Analysis Department, Risk Department, Legal Department, Collateral Department and Security Department.

The Bank 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 Bank. The current market value of collateral is regularly assessed by 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 by the Retail Lending Department through the use of scoring models and application data verification procedures developed together with the Standard Products Risk Department.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Departments with regard to credit concentration and market risks.

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

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

	2014 KZT'000	2013 KZT'000
ASSETS		
Cash equivalents and nostro accounts	109,541,062	79,690,692
Deposits and balances with banks and other financial institutions	9,126,619	4,936,335
Financial instruments at fair value through profit or loss	7,665,096	20,510,662
Loans to customers	1,060,248,934	674,158,351
Held-to-maturity investments	31,798,063	26,968,534
Available-for-sale financial assets	3,073,611	-
Other financial assets	8,045,037	10,216,253
Total maximum exposure	**1,229,498,422**	**816,480,827**

For the analysis of concentration of credit risk in respect of loans to customers refer to Note 17.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 33.

As at 31 December 2014 the Bank has no debtors or groups of connected debtors (31 December 2013: nil), credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

31 Risk management, continued

(c) Credit risk, continued

Offsetting financial assets and financial liabilities

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

- are offset in the Bank's statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements.

The Bank 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 Bank 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 Bank will process receivables and payables in a single settlement process or cycle.

The Bank receives and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

- loans to customers collateralised by cash on bank deposits and
- sale and repurchase agreements, and reverse sale and repurchase agreements.

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.

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

KZT'000				**Related amounts not offset in the unconsolidated statement of financial position**		
Types of financial assets/ liabilities	**Gross amounts of recognised financial asset/liability**	**Gross amounts of recognised financial liability/ asset offset in the unconsolidated statement of financial position**	**Net amount of financial asset/liability presented in the unconsolidated statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Loans to customers	24,733,673	-	24,733,673	-	(16,887,513)	7,846,160
Total financial assets	**24,733,673**	**-**	**24,733,673**	**-**	**(16,887,513)**	**7,846,160**
Current accounts and deposits from customers	16,887,513	-	16,887,513	(16,887,513)	-	-
Total financial liabilities	**16,887,513**	**-**	**16,887,513**	**(16,887,513)**	**-**	**-**

The securities pledged under repurchased agreements (Note 15 and Note 18) represent the transferred financial assets that are not derecognised in their entirety.

31 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				**Related amounts not offset in the unconsolidated statement of financial position**		
Types of financial assets/ liabilities	**Gross amounts of recognised financial asset/liability**	**Gross amounts of recognised financial liability/ asset offset in the unconsolidated statement of financial position**	**Net amount of financial asset/liability presented in the unconsolidated statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Loans to customers	34,246,910	-	34,246,910	-	(12,830,457)	21,416,453
Securities pledged under repurchase agreements	16,814,229	-	16,814,229	(15,945,917)	-	868,312
Total financial assets	**51,061,139**	**-**	**51,061,139**	**(15,945,917)**	**(12,830,457)**	**22,284,765**
Current accounts and deposits from customers	12,830,457	-	12,830,457	(12,830,457)	-	-
Amounts payable under repurchase agreements	15,945,917	-	15,945,917	(15,945,917)	-	-
Total financial liabilities	**28,776,374**	**-**	**28,776,374**	**(28,776,374)**	**-**	**-**

(d) Liquidity risk

Liquidity risk is the risk that the Bank 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 Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board.

The Bank 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

31 Risk management, continued

(d) Liquidity risk, continued

- 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 Treasury 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 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, deposits and balances with banks and other financial institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury 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 BD and implemented by the Treasury Department.

The following tables show the undiscounted cash flows on financial liabilities and unrecognised credit related commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial assets, liability or credit related commitment.

31 Risk management, continued

(d) Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2014 is as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	No maturity	Total gross amount outflow	Carrying amount
Liabilities								
Loans from state company	51,342	46,024	264,080	15,704,109	12,181,340	-	28,246,895	23,526,969
Deposits and balances from banks and other financial institutions	3,117,333	712,875	2,098,857	29,090,827	49,686,281	-	84,706,173	62,876,779
Current accounts and deposits from customers	158,778,380	118,383,543	375,492,713	309,527,250	174,481,497	24,754	1,136,688,137	1,010,450,102
Debt securities issued	130,658	-	6,309,872	42,746,575	17,332,748	-	66,519,853	46,784,145
Subordinated debt	-	636,000	4,127,482	51,081,408	33,114,261	2,500,000	91,459,151	58,593,213
Other financial liabilities	746,855	26,572	18,755	-	-	41,571	833,753	833,753
Total liabilities	**162,824,568**	**119,805,014**	**388,311,759**	**448,150,169**	**286,796,127**	**2,566,325**	**1,408,453,962**	**1,203,064,961**
Credit related commitments	182,416,794	-	-	-	-	-	182,416,794	182,416,794

Future interest payments for non-redeemable cumulative preference shares, which are payable annually, are not included in the table above.

31 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 months to 1 year	From 1 to 5 years	More than 5 years	No maturity	Total gross amount outflow	Carrying amount
Liabilities								
Deposits and balances from banks and other financial institutions	968,883	6,053,077	5,432,481	7,431,607	9,109,925	-	28,995,973	23,307,412
Current accounts and deposits from customers	131,845,326	35,575,171	292,678,325	291,642,571	16,031,261	-	767,772,654	695,222,650
Debt securities issued	294,147	-	6,376,745	14,512,112	4,595,495	-	25,778,499	21,249,110
Subordinated debt	-	525,806	3,903,270	11,824,394	44,786,650	2,500,000	63,540,120	44,651,537
Amounts payable under repurchase agreements	15,952,616	-	-	-	-	-	15,952,616	15,945,917
Other financial liabilities	379,566	7,175	71,780	19,794	-	2,575	480,890	480,890
Total liabilities	**149,440,538**	**42,161,229**	**308,462,601**	**325,430,478**	**74,523,331**	**2,502,575**	**902,520,752**	**800,857,516**
Credit related commitments	182,535,544	-	-	-	-	-	182,535,544	182,535,544

The tables above show the undiscounted cash flows of non-derivative financial liabilities, including issued financial guarantee contracts, and unrecognised loan commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

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 Bank indicates that these customers accounts provide a long-term and stable source of funding.

31 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the unconsolidated statement of financial position as at 31 December 2014:

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	141,951,966	-	-	-	-	-	-	141,951,966
Deposits and balances with banks and other financial institutions	3,704,252	-	2,413,055	3,009,312	-	-	-	9,126,619
Financial instruments at fair value through profit or loss	3,678,243	1,635,231	247,048	2,104,574	-	510	-	7,665,606
Available-for-sale financial assets	-	57,633	-	3,015,978	-	3,309,137	-	6,382,748
Loans to customers	101,958,980	92,485,767	312,957,711	374,441,684	147,197,050	-	31,207,742	1,060,248,934
Held-to-maturity investments	4,124,494	940,631	3,907,614	22,825,324	-	-	-	31,798,063
Property, equipment and intangible assets	-	-	-	-	-	25,798,568	-	25,798,568
Investment in subsidiaries	-	-	-	-	-	11,438,540	-	11,438,540
Current tax asset	-	158,707	-	-	-	-	-	158,707
Other assets	1,487,648	422,004	7,880,768	1,829,750	67,293	9,118,207	1,103,775	21,909,445
Total assets	**256,905,583**	**95,699,973**	**327,406,196**	**407,226,622**	**147,264,343**	**49,664,962**	**32,311,517**	**1,316,479,196**
Non-derivative liabilities								
Loans from state company	51,190	45,753	257,214	14,189,034	8,983,778	-	-	23,526,969
Deposits and balances from banks and other financial institutions	3,103,134	706,410	2,015,843	24,976,609	32,074,783	-	-	62,876,779
Current accounts and deposits from customers	216,124,951	62,595,574	357,327,262	263,796,270	110,581,291	24,754	-	1,010,450,102
Debt securities issued	123,321	-	2,785,227	32,190,991	11,684,606	-	-	46,784,145
Subordinated debt	-	517,776	931,044	23,591,291	31,053,102	2,500,000	-	58,593,213
Deferred tax liability	-	-	3,900,592	-	-	-	-	3,900,592
Other liabilities	1,870,270	833,640	560,297	799,487	-	45,252	-	4,108,946
Total liabilities	**221,272,866**	**64,699,153**	**367,777,479**	**359,543,682**	**194,377,560**	**2,570,006**	**-**	**1,210,240,746**
Net position	**35,632,717**	**31,000,820**	**(40,371,283)**	**47,682,940**	**(47,113,217)**	**47,094,956**	**32,311,517**	**106,238,450**

31 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the unconsolidated statement of financial position 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	95,147,517	-	-	-	-	-	-	95,147,517
Deposits and balances with banks and other financial institutions	18,333	-	-	4,918,002	-	-	-	4,936,335
Financial instruments at fair value through profit or loss	2,882,339	-	13,587,206	4,041,117	-	612	-	20,511,274
Available-for-sale financial assets	-	-	-	-	-	3,309,137	-	3,309,137
Loans to customers	78,675,217	56,151,959	227,924,414	237,397,455	55,727,130	-	18,282,176	674,158,351
Held-to-maturity investments	-	137,339	2,966,771	23,864,424	-	-	-	26,968,534
Property, equipment and intangible assets	-	-	-	-	-	20,212,044	-	20,212,044
Investment in subsidiaries	-	-	-	-	-	7,209,167	-	7,209,167
Current tax asset	-	-	2,548,665	-	-	-	-	2,548,665
Other assets	919,167	976,880	5,031,890	6,819,990	58,320	8,174,718	652,877	22,633,842
Total assets	**177,642,573**	**57,266,178**	**252,058,946**	**277,040,988**	**55,785,450**	**38,905,678**	**18,935,053**	**877,634,866**
Non-derivative liabilities								
Deposits and balances from banks and other financial institutions	962,785	5,977,361	5,139,516	6,051,750	5,176,000	-	-	23,307,412
Current accounts and deposits from customers	131,685,520	35,163,756	278,039,588	240,907,596	9,419,085	7,105	-	695,222,650
Debt securities issued	292,124	-	6,002,695	12,444,255	2,510,036	-	-	21,249,110
Subordinated debt	-	517,776	3,648,649	9,244,021	28,741,091	2,500,000	-	44,651,537
Deferred tax liability	-	-	-	2,593,242	-	-	-	2,593,242
Amounts payable under repurchase agreements	15,945,917	-	-	-	-	-	-	15,945,917
Other liabilities	1,181,191	31,355	1,159,259	1,914,995	56,330	2,575	-	4,345,705
Total liabilities	**150,067,537**	**41,690,248**	**293,989,707**	**273,155,859**	**45,902,542**	**2,509,680**	**-**	**807,315,573**
Net position	**27,575,036**	**15,575,930**	**(41,930,761)**	**3,885,129**	**9,882,908**	**36,395,998**	**18,935,053**	**70,319,293**

32 Capital management

NBRK sets and monitors capital requirements for the Bank as a whole.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions.

- Tier 1 capital, which is comprised of ordinary and preference 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 includes the 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 statutory net income for the current year, revaluation reserves, qualifying subordinated liabilities and before 1 February 2014 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 NBRK 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 risk-weighted assets and contingent liabilities, market risk-weighted assets, contingent assets and liabilities, and a quantitative measure of operational risk (k1.2)
- a ratio of total capital to the sum of credit risk-weighted assets and contingent liabilities, market risk-weighted assets, contingent assets and 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.

As at 31 December 2014 and 2013 the minimum level of ratios as applicable to the Bank are as follows:

- k1.1 – not less than 0.05
- k1.2 - not less than 0.05
- k2 - not less than 0.1.

32 Capital management, continued

The following table shows the composition of the capital position calculated in accordance with the FMSA requirements established by the Rules # 358 dated 30 September, 2005 as at 31 December 2014 and 2013:

	2014 KZT'000	2013 KZT'000
Tier 1 capital		
Share capital	61,739,830	41,340,000
Additional paid-in capital	1,770	1,770
Statutory retained earnings of prior years	2,855,449	3,532,335
Reserves formed from statutory retained earnings of prior years	28,613,885	11,982,676
Intangible assets	(199,596)	(177,608)
Statutory loss of current year	-	(677,184)
Total tier 1 capital	**93,011,338**	**56,001,989**
Tier 2 capital		
Revaluation reserve of available-for-sale financial assets	24,218	8,487
Dynamic reserve subject to limitation of 1.25% of risk-weighed statutory assets less not invested funds accepted based on custody agreements	-	9,522,251
Subordinated debt subject to limitation of 50% from tier 1 capital less repurchased subordinated debt	46,505,669	28,000,994
Statutory net income for the current year	15,508,912	-
Total tier 2 capital	**62,038,799**	**37,531,732**
Total capital	**155,050,137**	**93,533,721**
Total statutory assets less not invested funds accepted based on custody agreements	**1,316,849,477**	**922,878,564**
Risk-weighted statutory assets, contingent liabilities, operational risk		
Credit risk weighted statutory assets	1,133,440,880	761,833,863
Credit risk weighted statutory contingent liabilities	55,226,278	70,182,478
Credit risk weighted derivative financial instruments	579,890	-
Market risk weighted statutory assets, contingent assets and liabilities	10,488,820	10,801,350
Operational risk	19,667,912	11,078,819
Total statutory risk weighted assets, contingent assets and liabilities, operational risk	**1,219,403,780**	**853,896,510**
k1.1 ratio	**0.071**	**0.061**
k1.2 ratio	**0.076**	**0.066**
k2 ratio	**0.127**	**0.110**

The Bank is also subject to minimum capital adequacy requirements calculated in accordance with NBRK established by covenants under borrowings of the Bank. The Bank complied with all externally imposed capital requirements as at 31 December 2014 and 2013.

33 Commitments

The Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank 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 Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The Bank 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.

	2014 KZT'000	2013 KZT'000
Contracted amount		
Loan and credit line commitments	122,532,863	116,873,581
Guarantees	53,464,123	62,932,738
Letters of credit	6,041,160	2,551,248
Credit card commitments	378,648	177,977
	182,416,794	**182,535,544**

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 2014 the Bank has outstanding contractual commitments that exceed 10% of capital to three clients for the total amount of KZT 40,448,877 thousand. Of these commitments, KZT 29,325,527 thousand are related to revocable loan and credit line commitments. The remaining amount of KZT 11,123,350 thousand related to the guarantees issued by the Bank.

34 Operating leases

Leases as lessee

Non-cancelable operating lease rentals as at 31 December are payable as follows:

	2014 KZT'000	2013 KZT'000
Less than 1 year	442,703	325,035

The Bank 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 period KZT 3,465,654 thousand was recognised as an expense in the unconsolidated statement of profit or loss and other comprehensive income in respect of operating leases (2013: KZT 3,340,168 thousand).

35 Contingencies

(a) Insurance

The insurance industry in the Republic of 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 Bank 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 Bank 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 Bank 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 Republic of Kazakhstan continues to evolve 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. Recent events within the Republic of Kazakhstan suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Republic of 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.

36 Related party transactions

(a) Control relationships

The party with ultimate control over the Bank is Mr. Jaxybekov A.R., who has transferred effective control to Mrs. Jaxybekova L.I. under a trust management agreement. No publicly available financial statements are produced by the Bank’s ultimate controlling party. The Bank’s parent Financial Holding Tsesna JSC (the “Parent company”) produce publicly available financial statements.

36 Related party transactions, continued

(b) Transactions with the members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses for the year ended 31 December is as follows:

	2014 KZT'000	2013 KZT'000
Members of the Board of Directors	33,511	30,326
Members of the Management Board	721,536	489,782
	755,047	**520,108**

The outstanding balances and average interest rates as at 31 December for transactions with the members of the Board of Directors and the Management Board are as follows:

	2014 KZT'000	Average interest rate %	2013 KZT'000	Average interest rate %
Unconsolidated statement of financial position				
ASSETS				
Loans to customers	93,673	10.42	137,635	10.59
Loan impairment allowance	(24)	-	(1,112)	-
Other assets	4	-	-	-
LIABILITIES				
Current accounts and deposits from customers	2,950,645	4.94	1,913,091	7.57
Other liabilities	17	-	17	-
Items not recognised in the unconsolidated statement of financial position				
Commitments	-	-	38,576	-

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Board are as follows:

	2014 KZT'000	2013 KZT'000
Profit or loss		
Interest income	10,581	11,347
Interest expense	(93,109)	(156,649)
	(82,528)	**(145,302)**

36 Related party transactions, continued

(c) Transactions with other related parties

Other related parties include the Parent company, ultimate parent company, fellow subsidiaries and other related entities. The outstanding balances and the related average interest rates as at 31 December 2014 and related profit or loss amounts of transactions for the year ended 31 December 2014 with other related parties are as follows.

	Parent company		Subsidiaries		Other subsidiaries of the Parent company		Other*		
	KZT'000	**Average interest rate, %**	**KZT'000**	**Average interest rate, %**	**KZT'000**	**Average interest rate, %**	**KZT'000**	**Average interest rate, %**	**Total KZT'000**
Unconsolidated statement of financial position									
ASSETS									
Loans to customers									
In KZT:									
Principal balance	-	-	-	-	-	-	9,166	11.27	9,166
Allowance for impairment	-	-	-	-	-	-	(2)	-	(2)
Investment in subsidiaries	-	-	11,438,540	-	-	-	-	-	11,438,540
Other assets	-	-	193,145	-	1,812,970	-	6	-	2,006,121
LIABILITIES									
Current accounts and deposits from customers									
In KZT	12,082	6.75	487,416	3.19	225,819	5.99	159,043	6.95	884,360
In USD	12,743,392	3.29	6,443	-	23,234,044	3.40	1,716,634	5.82	37,700,513
In other currency	-	-	1,302	-	-	-	445,745	1.00	447,047
Subordinated debt	-	-	409,096	-	-	-	-	-	409,096
Other liabilities	-	-	-	-	2,018	-	9	-	2,027
Items not recognised in the unconsolidated statement of financial position									
Guarantees received	-		-		-		22,000		22,000
Commitments	-		-		-		5,305		5,305
Unconsolidated statement of profit or loss and other comprehensive income									
Interest income	-		-		-		1,427		1,427
Interest expense	(55,676)		(16,397)		(191,593)		(111,155)		(374,821)
Fee and commission income	88		26,034		3,397		256		29,775
Other general administrative expenses	-		1		(771,048)		-		(771,047)

36 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 year ended 31 December 2013 with other related parties are as follows.

	Parent company		Subsidiaries		Other subsidiaries of the Parent company		Other*		
	KZT'000	**Average interest rate, %**	**KZT'000**	**Average interest rate, %**	**KZT'000**	**Average interest rate, %**	**KZT'000**	**Average interest rate, %**	**Total KZT'000**
Unconsolidated statement of financial position									
ASSETS									
Loans to customers									
In KZT:									
Principal balance	-	-	-	-	1,534,821	12.00	2,052,045	12.86	3,586,866
Allowance for impairment	-	-	-	-	(12,396)	-	(16,573)	-	(28,969)
In USD:									
Principal balance	-	-	-	-	-	-	820,912	0.50	820,912
Allowance for impairment	-	-	-	-	-	-	(6,630)	-	(6,630)
Investment in subsidiaries	-	-	7,209,167	-	-	-	-	-	7,209,167
Other assets	-	-	165,137	-	1,800,000	-	22	-	1,965,159
LIABILITIES									
Current accounts and deposits from customers									
In KZT	31,844	6.59	494,470	2.45	451,031	5.41	480,911	8.01	1,458,256
In USD	-	-	48,092	-	-	-	1,160,591	5.79	1,208,683
In other currency	-	-	-	-	1,721	-	430,196	1.05	431,917
Subordinated debt	-	-	163,915	-	220,000	-	-	-	383,915
Other liabilities	-	-	-	-	10	-	39	-	49
Items not recognised in the unconsolidated statement of financial position									
Guarantees received	-		-		-		22,000		22,000
Commitments	-		-		139,000		831,584		970,584
Unconsolidated statement of profit or loss and other comprehensive income									
Interest income	-		-		190,067		317,094		507,161
Interest expense	(5,693)		(21,251)		(27,831)		(77,595)		(132,370)
Fee and commission income	55		52,986		21,914		13,719		88,674
Other general administrative expenses	-		(241,244)		(960,396)		4		(1,201,636)

* Other related parties are the entities that are controlled by the ultimate controlling party.

37 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 2014:

KZT'000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	141,951,966	-	-	141,951,966	141,951,966
Deposits and balances with banks and other financial institutions	-	-	9,126,619	-	-	9,126,619	9,126,619
Financial instruments at fair value through profit or loss	7,665,606	-	-	-	-	7,665,606	7,665,606
Available-for-sale financial assets	-	-	-	6,382,748	-	6,382,748	6,382,748
Loans to customers	-	-	1,060,248,934	-	-	1,060,248,934	1,024,039,360
Held-to-maturity investments:							
Government bonds	-	31,798,063	-	-	-	31,798,063	32,127,400
Other financial assets	-	-	8,045,037	-	-	8,045,037	8,045,037
	7,665,606	**31,798,063**	**1,219,372,556**	**6,382,748**	**-**	**1,265,218,973**	**1,229,338,736**
Loans from state company	-	-	-	-	23,526,969	23,526,969	23,526,969
Deposits and balances from banks and other financial institutions	-	-	-	-	62,876,779	62,876,779	62,876,779
Current accounts and deposits from customers	-	-	-	-	1,010,450,102	1,010,450,102	1,018,098,643
Debt securities issued	-	-	-	-	46,784,145	46,784,145	48,705,812
Subordinated debt	-	-	-	-	58,593,213	58,593,213	55,565,663
Other financial liabilities	-	-	-	-	833,753	833,753	833,753
	-	-	-	-	**1,203,064,961**	**1,203,064,961**	**1,209,607,619**

37 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	-	-	95,147,517	-	-	95,147,517	95,147,517
Deposits and balances with banks and other financial institutions	-	-	4,936,335	-	-	4,936,335	4,936,335
Financial instruments at fair value through profit or loss	20,511,274	-	-	-	-	20,511,274	20,511,274
Available-for-sale financial assets	-	-	-	3,309,137	-	3,309,137	3,309,137
Loans to customers	-	-	674,158,351	-	-	674,158,351	674,779,029
Held-to-maturity investments:							
Government bonds	-	26,831,195	-	-	-	26,831,195	26,492,799
Corporate bonds	-	137,339	-	-	-	137,339	137,581
Other financial assets	-		10,216,253	-	-	10,216,253	10,216,253
	20,511,274	**26,968,534**	**784,458,456**	**3,309,137**	**-**	**835,247,401**	**835,529,925**
Deposits and balances from banks and other financial institutions	-	-	-	-	23,307,412	23,307,412	23,307,412
Current accounts and deposits from customers	-	-	-	-	695,222,650	695,222,650	700,977,273
Debt securities issued	-	-	-	-	21,249,110	21,249,110	21,400,684
Subordinated debt	-	-	-	-	44,651,537	44,651,537	42,978,051
Amounts payable under repurchase agreements	-	-	-	-	15,945,917	15,945,917	15,945,917
Other financial liabilities	-	-	-	-	480,890	480,890	480,890
	-	-	-	-	**800,857,516**	**800,857,516**	**805,090,227**

37 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 existing 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 Bank 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 Bank 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 Bank 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 securities for which there is no active market.

The fair value of unquoted equity securities available-for-sale with a carrying value of KZT 10,743 thousand (31 December 2013: KZT 10,743 thousand) cannot be determined (Note 16).

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 8.2% – 27.14% and 5.0% – 15.62% are used for discounting future cash flows from loans to corporate customers and loans to retail customers, respectively
- discount rates of 1.7% – 5.6% and 2.1% – 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.

37 Financial assets and liabilities: fair values and accounting classifications, continued

(b) Fair value hierarchy

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

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

The table below analyses financial instruments measured at fair value as at 31 December 2014, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the unconsolidated statement of financial position:

KZT’000	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial instruments at fair value through profit or loss	1,333,189	2,653,664	3,678,243	7,665,096
Available-for-sale financial assets:				
- Debt instruments	-	3,073,611	-	3,073,611
- Equity instruments	-	3,298,394	-	3,298,394
	1,333,189	**9,025,669**	**3,678,243**	**14,037,101**

Securities, which are listed on the KASE but which do not have an active market as at 31 December 2014, are classified as Level 2 in the fair value hierarchy. As at 31 December 2014 financial instruments categorised to Level 2 category include government securities of KZT 4,719,328 thousand.

The table below analyses financial instruments measured at fair value as at 31 December 2013, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the unconsolidated statement of financial position:

KZT’000	**Level 1**	**Level 2**	**Total**
Financial instruments at fair value through profit or loss	1,834,937	18,675,725	20,510,662
Available-for-sale financial assets:			
- Equity instruments	-	3,298,394	3,298,394
	1,834,937	**21,974,119**	**23,809,056**

Securities, which are listed on the KASE but which do not have an active market as at 31 December 2013, are classified as Level 2 in the fair value hierarchy. As at 31 December 2013 financial instruments categorised to Level 2 category include government securities of KZT 16,141,904 thousand.

37 Financial assets and liabilities: fair values and accounting classifications, continued

(b) Fair value hierarchy, continued

Unobservable valuation differences on initial recognition

The transaction price of the swap transactions with the NBRK is different from fair value of the swap instruments in the principal markets (Note 15). At initial recognition, the Bank estimates the fair values of the swaps transacted with the NBRK using valuation techniques.

In many cases all significant inputs into the valuation techniques are wholly observable, for example by reference to information from similar transactions in the currency market. In cases where all inputs are not observable, for example because there are no observable trades in a similar risk at the reporting date, the Bank uses valuation techniques that rely on unobservable inputs – e.g. volatilities of certain underlying, expectations on termination periods. When fair value at initial recognition is not evidenced by a quoted price in an active market or based on a valuation technique that uses data only from observable markets, any difference between the fair value at initial recognition and the transaction price is not recognised in profit or loss immediately, but is deferred (see Note 3).

The following table shows a reconciliation for the year ended 31 December 2014 for fair value measurements in Level 3 of the fair value hierarchy:

	Level 3	
	Financial instruments at fair value through profit or loss	
KZT'000	**Derivative assets**	**Total**
Balance at beginning of the year		
Net gain on financial instruments at fair value through profit or loss	316,163	316,163
Interest prepaid	3,619,472	3,619,472
Settlement	(257,392)	(257,392)
Balance at end of the year	**3,678,243**	**3,678,243**

To determine the fair value of the swaps, management assumed a risk free interest rate in KZT of 3.6% and a rate in USD of 0.36%. Management assumes that the early termination right will not be exercised by NBRK until maturity.

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value.

As at 31 December 2014 if the risk-free interest rate applied to KZT cash flows increased by 0.5% and in USD increased by 0.1%, the fair value of the currency swaps with the NBRK in Level 3 of the hierarchy would increase by KZT 372,480 thousand.

37 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 2014:

KZT'000	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Assets					
Cash and cash equivalents	-	141,951,966	-	141,951,966	141,951,966
Deposits and balances with banks and other financial institutions	-	9,126,619	-	9,126,619	9,126,619
Loans to customers	-	969,053,846	54,985,514	1,024,039,360	1,060,248,934
Held-to-maturity investments	9,784,458	22,342,942	-	32,127,400	31,798,063
Liabilities					
Loans from state company	-	23,526,969	-	23,526,969	23,526,969
Deposits and balances from banks and other financial institutions	-	62,876,779	-	62,876,779	62,876,779
Current accounts and deposits from customers	-	1,018,098,643	-	1,018,098,643	1,010,450,102
Debt securities issued	-	48,705,812	-	48,705,812	46,784,145
Subordinated debt	-	55,565,663	-	55,565,663	58,593,213

37 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 1	Level 2	Level 3	Total fair values	Total carrying amount
Assets					
Cash and cash equivalents	-	95,147,517	-	95,147,517	95,147,517
Deposits and balances with banks and other financial institutions	-	4,936,335	-	4,936,335	4,936,335
Loans to customers	-	633,557,910	41,221,119	674,779,029	674,158,351
Held-to-maturity investments	9,146,401	17,483,979	-	26,630,380	26,968,534
Liabilities					
Deposits and balances from banks and other financial institutions	-	23,307,412	-	23,307,412	23,307,412
Current accounts and deposits from customers	-	700,977,273	-	700,977,273	695,222,650
Debt securities issued	-	21,400,684	-	21,400,684	21,249,110
Subordinated debt	-	42,978,051	-	42,978,051	44,651,537
Amounts payable under repurchase agreements	-	15,945,917	-	15,945,917	15,945,917