“Associated Bank “Kazakhstan – Ziraat International Bank” Joint Stock Company”

Financial statements

Year ended 31 December 2014
together with independent auditor’s report

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Independent auditor's report

To the Shareholders and Board of Directors of "Associated Bank "Kazakhstan - Ziraat International Bank" Joint Stock Company"

We have audited the accompanying financial statements of "Associated Bank "Kazakhstan - Ziraat International Bank" Joint Stock Company" (hereinafter - the "Bank"), which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these financial statements based on our audit.

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

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

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

Building a better working world

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of "Associated Bank "Kazakhstan - Ziraat International Bank" Joint Stock Company" as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Evgeny Zhemaletdinov
Auditor / General Director
Ernst and Young LLP

State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

31 March 2015

STATEMENT OF FINANCIAL POSITION

At 31 December 2014

(In thousands of tenge)

	Notes	*2014*	*2013*
Assets			
Cash and cash equivalents	6	**5,287,604**	5,664,342
Investment securities:			
- available-for-sale	7	**1,687,205**	–
- held-to-maturity	7	**–**	2,129,703
Loans to customers	8	**23,029,516**	16,735,597
Property and equipment	9	**1,142,231**	642,594
Intangible assets	10	**159,298**	191,624
Other assets	11	**1,802,692**	808,979
Total assets		**33,108,546**	26,172,839
Liabilities			
Amounts due to other banks	12	**1,361,519**	309,594
Amounts due to customers	13	**12,228,919**	7,633,431
Current corporate income tax liabilities	14	**94,591**	–
Deferred corporate income tax liabilities	14	**229,925**	167,719
Other liabilities	15	**46,892**	51,301
Total liabilities		**13,961,846**	8,162,045
Equity			
Charter capital	16	**15,000,000**	15,000,000
Retained earnings		**1,799,203**	911,022
Reserve capital	16	**1,750,542**	1,901,851
Revaluation reserve for property and equipment		**596,955**	197,921
Total equity		**19,146,700**	18,010,794
Total liabilities and equity		**33,108,546**	26,172,839

Signed and authorised for release on behalf of the Management Board of the Bank

A. Zeki Arifioglu — Chairman of the Management Board

Akmoldir Omarova — Chief Accountant

31 March 2015

The accompanying notes on pages 5 to 41 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

(In thousands of tenge)

	Notes	*2014*	*2013*
Interest income	17	**2,351,071**	1,579,574
Interest expense	17	**(147,547)**	(1,213)
Net interest income		**2,203,524**	1,578,361
Allowance for loan impairment	8	**(40,397)**	(208,133)
Net interest income after allowance for loan impairment		**2,163,127**	1,370,228
Net commission income	18	**656,829**	583,816
Net gains/(losses) from foreign currencies:			
- dealing		**351,610**	258,348
- translation differences		**(11,855)**	(13,432)
Other operating income		**21,502**	53,567
Administrative and other operating expenses	19	**(1,142,530)**	(878,895)
Profit before corporate income tax expense		**2,038,683**	1,373,632
Corporate income tax expense	14	**(401,811)**	(242,082)
Profit for the year		**1,636,872**	1,131,550
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in the subsequent periods:			
Revaluation of property and equipment	9	**498,793**	(5,800)
Corporate income tax relating to components of other comprehensive income	14	**(99,759)**	1,160
Other comprehensive income/(loss) for the year, net of tax		**399,034**	(4,640)
Total comprehensive income for the year		**2,035,906**	1,126,910

The accompanying notes on pages 5 to 41 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

(In thousands of tenge)

	Charter capital	*Revaluation reserve for property and equipment*	*Reserve capital*	*Retained earnings*	*Total equity*
At 31 December 2012	15,000,000	209,902	1,084,434	737,972	17,032,308
Profit for the year	–	–		1,131,550	1,131,550
Other comprehensive loss for the year	–	(4,640)	–	–	(4,640)
Total comprehensive (loss)/ income for the year	–	(4,640)	–	1,131,550	1,126,910
Dividends paid to shareholders of the Bank *(Note 16)*	–	–	–	(148,424)	(148,424)
Transfer of positive revaluation of buildings to retained earnings	–	(7,341)	–	7,341	–
Increase of general banking reserve	–	–	555,663	(555,663)	–
Increase of dynamic reserves	–	–	261,754	(261,754)	–
At 31 December 2013	15,000,000	197,921	1,901,851	911,022	18,010,794
Profit for the year	–	–	–	**1,636,872**	**1,636,872**
Other comprehensive income for the year	–	**399,034**	–	–	**399,034**
Total comprehensive income for the year	–	**399,034**	–	**1,636,872**	**2,035,906**
Dividends paid to shareholders of the Bank *(Note 16)*	–	–	–	**(900,000)**	**(900,000)**
Decrease of dynamic reserves *(Note 16)*	–	–	**(151,309)**	**151,309**	–
At 31 December 2014	**15,000,000**	**596,955**	**1,750,542**	**1,799,203**	**19,146,700**

STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

(In thousands of tenge)

	Notes	2014	2013
Cash flows from operating activities			
Interest received		**2,339,729**	1,592,865
Interest paid		**(104,837)**	(943)
Fees and commissions received		**650,425**	595,321
Fees and commissions paid		**(24,769)**	(24,159)
Net gains from dealing in foreign currencies		**351,610**	258,348
Other operating income received		**15,282**	–
Personnel expenses paid		**(637,443)**	(530,319)
Other administrative and operating expenses paid		**(402,184)**	(284,944)
Cash flows from operating activities before changes in operating assets and liabilities		**2,187,813**	1,606,169
Net (increase)/decrease in operating assets			
Amounts due from other banks		–	301,731
Loans to customers		**(6,275,970)**	(7,141,208)
Accounts receivable under repo agreements		–	3,947,949
Other assets		**(63,846)**	(23,709)
Net increase/(decrease) in operating liabilities			
Amounts due to other banks		**1,022,632**	308,260
Amounts due to customers		**3,603,750**	2,167,657
Other liabilities		**(37,563)**	22,283
Net cash flows from operating activities before corporate income tax		**436,816**	1,189,132
Corporate income tax paid		**(344,773)**	(194,716)
Net cash flow from operating activities		**92,043**	994,416
Cash flows from investing activities			
Purchase of property and equipment and intangible assets	9, 10	**(72,789)**	(102,872)
Proceeds from redemption of held-to-maturity investment securities		–	1,018,775
Proceeds from sale of available-for-sale investment securities		**438,101**	–
Proceeds from disposal of property and equipment and intangible assets		–	70,500
Net cash flow from investing activities		**365,312**	986,403
Cash flows from financing activities			
Dividends paid to shareholders of the Bank	16	**(900,000)**	(148,424)
Net cash flows used in financing activities		**(900,000)**	(148,424)
Effect of exchange rate changes on cash and cash equivalents		**65,907**	(13,432)
Net (decrease)/increase in cash and cash equivalents		**(376,738)**	1,818,963
Cash and cash equivalents as at 1 January	6	**5,664,342**	3,845,379
Cash and cash equivalents as at 31 December	6	**5,287,604**	5,664,342

The accompanying notes on pages 5 to 41 are an integral part of these financial statements.

(In thousands of tenge unless otherwise indicated)

1. Principal activities

Associated Bank "Kazakhstan – Ziraat International Bank" Joint Stock Company" (hereinafter – the "Bank") was registered in 1993 in accordance with legislation of the Republic of Kazakhstan. The Bank operates under a general banking license No. 163 issued by the National Bank of the Republic of Kazakhstan (hereinafter – the "NBRK") on 29 December 2007. The Bank's activity is regulated by the NBRK.

The Bank accepts deposits from the public and extends credit, transfers payments in Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers.

The Bank is a member of the obligatory deposit insurance system. The system operates under the Law of the Republic of Kazakhstan on "Obligatory insurance of second tier banks deposits" dated 7 July 2006 and is governed by the NBRK. Insurance covers the Bank's liabilities to individual depositors for amounts up to five million tenge for each individual in the event of business failure and revocation of the NBRK banking licence. Starting from 1993 the Bank is a member of foreign exchange market of the Kazakhstan Stock Exchange (hereinafter – the "KASE").

As at 31 December 2014, the Bank's branch network comprises 3 branches located in the Republic of Kazakhstan (as at 31 December 2013: 3).

Registered address of the Bank's head office is: Republic of Kazakhstan, Almaty, 132, Klochkov Str.

As at 31 December 2014 and 2013, the controlling shareholder of the Bank is T.C. Ziraat Bankasi A.S. (Turkey) (hereinafter – the "Parent" or "Controlling shareholder").

As at 31 December 2014 and 2013, the Bank's shareholders were:

Shareholder	***2014, %***	***2013, %***
T.C. Ziraat Bankasi A.S.	**99.58**	99.58
Emlak Pazarlama Insaat Proje Yonetimi ve Ticaret A.S.	**0.25**	0.25
T. Emlak Bankasi A.S. Munzam Sosyal Guvenlik Ve Yardim Vakfi	**0.17**	0.17
Total	**100.00**	100.00

2. Basis of preparation

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

The financial statements are prepared under the historical cost convention except as mentioned in Summary of significant accounting policies. For example, investment securities available-for-sale are measured at fair value.

These financial statements are presented in thousands of Kazakh Tenge ("tenge" or "KZT"), unless otherwise is stated.

3. Summary of significant accounting policies

Changes in accounting policy

The Bank adopted the following revised IFRSs and interpretations effective for annual reporting periods beginning on or after 1 January 2014:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

Amendments provide for an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments did not have an influence on the Bank, since the Bank does not qualify to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. The amendments did not have an impact on the Bank.

(In thousands of tenge unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

IFRIC 21 did not have an impact on the Bank's financial statements as during the previous years the Bank followed the recognition principles established by IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which meet the requirements of IFRIC 21.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments did not affect the Bank, since in the current reporting period the Bank has not novated its derivatives.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the period. These amendments had no impact on the Bank's financial position or performance.

Fair value measurement

The Bank measures such financial instruments as investment securities available-for-sale and such non-financial assets as buildings and land at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in *Note 22*.

The fair value is a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or;
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

In the event of assets and liabilities recognized in the financial statements on a regular basis, the Bank determines the fact of transfer between levels of hierarchy sources by analysing the classification once again (based on initial data of the lowest level that are significant for fair value evaluation in whole) at the end of each reporting period.

(In thousands of tenge unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in the profit or loss when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial assets available-for-sale

Available-for-sale financial assets represent non-derivative financial assets that are classified as available-for-sale. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired. At which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to income or loss. However, interest calculated using the effective interest method is recognised in profit or loss.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available-for-sale or held-to-maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Gains and expenses recognized in the statement of comprehensive income are not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBRK and amounts due from other banks that mature within ninety days of the date of origination and are free from contractual encumbrances.

(In thousands of tenge unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to other banks and amounts due to customers. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the profit or loss when the instruments are derecognised, as well as through the amortisation process.

Lease

Operating – Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

Measurement of financial instruments at initial recognition

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Bank determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Bank recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Bank recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognised.

Offsetting of financial assets

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- the normal course of business;
- in case of default; and
- in case of insolvency or bankruptcy of an entity or any counteragent.

This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(In thousands of tenge unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Amounts due from other banks and loans to customers

For amounts due from other banks and loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that considers asset type, industry, type of security, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investment

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to profit or loss.

Financial investments available-for-sale

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss.

(In thousands of tenge unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Financial investments available-for-sale (continued)

Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income is recognised in profit or loss. If, in a subsequent year, the fair value of a debt instrument 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 through profit or loss.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- If the currency of a loan has been changed the old loan is derecognised and the new loan is recognized in the statement of financial position;
- If the loan restructuring is not caused by the financial difficulties of the borrower the Bank uses the same approach as for financial liabilities described below;
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Bank recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value. In this case the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(In thousands of tenge unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Financial guarantee contracts

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit and guarantees. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of: the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of comprehensive income. The premium received is recognised in the statement of comprehensive income on a straight-line basis over the life of the guarantee.

Taxation

The current corporate income tax expense is calculated in accordance with the regulations of the Republic of Kazakhstan.

Deferred corporate income tax assets and liabilities are calculated in respect of all temporary differences using the liability method. Deferred corporate income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

A deferred corporate income tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred corporate income tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Kazakhstan also has various operating taxes that are assessed on the Bank's activities. These taxes are recorded within administrative and other operating expenses in the statement of comprehensive income.

Property and equipment

Property and equipment, except for land, buildings and constructions, are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Following initial recognition at cost, buildings and land are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation of buildings and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

The Bank uses the accounting method based on which revaluation surplus is not transferred to retained earnings as the asset is used.

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives.

	Years
Buildings	50
Office equipment and computer hardware	3-5
Vehicles	5
Other property and equipment	3-10

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 3 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments. These expenses are charged in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

Charter capital

Charter capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Segment reporting

The Bank's segmental reporting is based on the following operating segments: Corporate banking operations and Retail banking operations.

(In thousands of tenge unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Contingent assets and liabilities

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Revenue and expense recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Bank and the amount of revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expenses

For all financial instruments measured at amortised cost and interest bearing securities classified as available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fee and commission income obtained for rendering the services during a certain period of time are accrued during this period. These fees include commission income and fees for issuance of guarantees and letters of credit. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

- *Commission income from providing transaction services*

Fees arising from settlement transactions, transactions with cash and other services are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Foreign currency translation

The financial statements are presented in tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate established by the KASE and published by the NBRK ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income as net gains from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the official exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the official KASE exchange rate on the date of the transaction are included in net gains from dealing in foreign currencies. The KASE market exchange rates at 31 December 2014 and 2013, were 182.35 KZT and 154.06 KZT to 1 USD, respectively.

(In thousands of tenge unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. The Bank intends, if necessary, to adopt these standards when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IFRS Board published the final version of IFRS 9 *Financial Instruments*, which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* as well as all previous versions of IFRS 9. The standard introduces new requirements to classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. Retrospective application is required but presentation of comparative information is not mandatory. Earlier application of previous versions of IFRS 9 is permitted if the date of initial application is 1 February 2015 or earlier. Application of IFRS 9 will have an impact on classification and measurement of the Bank's financial assets and will not have an impact on classification and measurement of its financial liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 published in May 2014 establishes a new five-step model, which is applied to revenue from contracts with clients. Revenue arising from lease contracts within the scope of IAS 17 *Leases*, insurance contracts within the scope of IFRS 4 *Insurance Contracts* and financial instruments and other contractual rights and obligations within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (or IFRS 9 *Financial Instruments*, if early adopted) is out of IFRS 15 Scope and is Dealt by Respective Standards.

Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual reporting periods beginning on or after 1 January 2016. The standard has no impact on the Bank, since the Bank is an existing IFRS preparer.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. These amendments become effective for annual periods beginning on or after 1 July 2014. It is not expected that these amendments would be relevant to the Bank, since the Bank does not have defined benefit plans with contributions from employees or third parties.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

(In thousands of tenge unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests (continued)

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016. Early application is permitted. These amendments are not expected to have any impact to the Bank.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016. Earlier application is permitted. These amendments are not expected to have any impact to the Bank given that the Bank has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted. These amendments will not have any impact on the Bank's financial statements.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognised only to the extent of unrelated investors' interests in that former subsidiary. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Earlier application is permitted.

Annual IFRS improvements: 2010-2012 cycle

These improvements are effective from 1 July 2014. These amendments are not expected to have a significant impact on the Bank. They include the following amendments:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- A performance condition may be a market or non-market condition;
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

(In thousands of tenge unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Annual IFRS improvements: 2010-2012 cycle (continued)

IFRS 8 Operating Segments

Amendments are applied on a retrospective basis and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IFRS 13 Short-term Receivables and Payables – Amendments to IFRS 13

This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.

IAS 16 Property and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual IFRS improvements: 2011-2013 cycle

These improvements are effective from 1 July 2014. These amendments are not expected to have a significant impact on the Bank. They include the following amendments:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

Meaning of effective IFRSs – Amendments to IFRS 1

The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. The standard has no impact on the Bank, since the Bank is an existing IFRS preparer.

(In thousands of tenge unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Annual IFRS improvements: 2012-2014 cycle

These improvements are effective on or after 1 January 2016. These amendments are not expected to have a significant impact on the Bank. They include the following amendments:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment must be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016. Earlier application is permitted.

IFRS 7 Financial Instruments Disclosures – servicing contracts

IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs B30 and 42C IFRS 7 in order to assess whether the disclosures are required. The amendment becomes effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

IFRS 7 Financial Instruments: Disclosures – applicability of the offsetting disclosures to interim financial statements

In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that "An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. However, the interim disclosure standard, IAS 34, does not reflect this requirement. It is not clear whether those disclosures are required in the condensed interim financial statements.

The amendment removes the phrase 'and interim periods within those annual periods', clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment becomes effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted.

IAS 19 Employee Benefits – regional market issue regarding discount rate

The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment becomes effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted.

IAS 34 Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment becomes effective on a retrospective basis for annual periods beginning on or after 1 January 2016. Earlier application is permitted.

(In thousands of tenge unless otherwise indicated)

4. Significant accounting judgements and estimates

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

Allowance for impairment of loans

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its subjective judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Taxation

The Republic of Kazakhstan currently has a single Tax Code that regulates main taxation matters. The existing taxes include value added tax, corporate income tax, social and other taxes. Implementing regulations are often unclear or nonexistent and insignificant amount of precedents has been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and forfeits. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Bank is in compliance with the tax laws of the Republic of Kazakhstan regulating its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive tax issues.

5. Segment information

Operating segments are components of the company that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker and for which discrete financial information is available. The operating decision makers of the Bank are the Management Board of the Bank.

Description of products and services from which each reportable segment derives its revenue

The Bank was organised on the basis of one main business segment – corporate banking which represents direct debit facilities, current accounts, deposits, overdrafts, loans and other credit facilities and currency products. The Bank also has retail banking which represents private banking services, private customer current accounts, savings, deposits and consumer loans.

Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended 31 December 2014 is set out below:

	Corporate banking operations	*Retail banking operations*	*Total*
Assets			
Cash and cash equivalents	5,287,604	–	5,287,604
Loans to customers	18,354,679	4,674,837	23,029,516
Investment securities available-for-sale	1,687,205	–	1,687,205
Total reportable segment assets	25,329,488	4,674,837	30,004,325
Amounts due to other banks	1,361,519	–	1,361,519
Amounts due to customers	9,273,834	2,955,085	12,228,919
Total liabilities of reportable segments	10,635,353	2,955,085	13,590,438

(In thousands of tenge unless otherwise indicated)

5. Segment information (continued)

Information about reportable segment profit or loss, assets and liabilities (continued)

	Corporate banking operations	*Retail banking operations*	*Total*
Interest income	**1,688,047**	**663,024**	**2,351,071**
Interest expense	**(139,284)**	**(8,263)**	**(147,547)**
Net interest income	**1,548,763**	**654,761**	**2,203,524**
Allowance for loan impairment	**(87,236)**	**46,839**	**(40,397)**
Net interest income after allowance for loan impairment	**1,461,527**	**701,600**	**2,163,127**
Fee and commission income	**655,433**	**26,165**	**681,598**
Fee and commission expense	**(24,769)**	**–**	**(24,769)**
Net gains from foreign currencies:			
- dealing	**351,610**	**–**	**351,610**
- translation difference	**(11,855)**	**–**	**(11,855)**
Other operating income	**21,502**	**–**	**21,502**
Administrative and other operating expenses	**(1,146,113)**	**3,583**	**(1,142,530)**
Segment results	**1,307,335**	**731,348**	**2,038,683**

Segment information for the reportable segments for the year ended 31 December 2013 is set out below:

	Corporate banking operations	*Retail banking operations*	*Total*
Assets			
Cash and cash equivalents	5,664,342	–	5,664,342
Loans to customers	12,958,740	3,776,857	16,735,597
Investment securities held-to-maturity	2,129,703	–	2,129,703
Total reportable segment assets	20,752,785	3,776,857	24,529,642
Liabilities			
Amounts due to other banks	309,594	–	309,594
Amounts due to customers	5,562,237	2,071,194	7,633,431
Total liabilities of reportable segments	5,871,831	2,071,194	7,943,025

	Corporate banking operations	*Retail banking operations*	*Total*
Interest income	1,150,244	429,330	1,579,574
Interest expense	(793)	(420)	(1,213)
Net interest income	1,149,451	428,910	1,578,361
Allowance for loan impairment	(204,221)	(3,912)	(208,133)
Net interest income after allowance for loan impairment	945,230	424,998	1,370,228
Fee and commission income	384,147	223,828	607,975
Fee and commission expense	(24,159)	–	(24,159)
Net gains/(losses) from foreign currencies:			
- dealing	258,348	–	258,348
- translation differences	(13,432)	–	(13,432)
Other operating income	53,567	–	53,567
Administrative and other operating expenses	(878,895)	–	(878,895)
Segment results	724,806	648,826	1,373,632

(In thousands of tenge unless otherwise indicated)

5. Segment information (continued)

Information about reportable segment profit or loss, assets and liabilities (continued)

A reconciliation of income and expenses, assets and liabilities for reportable segments with the data recognised in the financial statements is set out below:

	2014	*2013*
Total reportable segment assets	**30,004,325**	24,529,642
Property and equipment and intangible assets	**1,301,529**	834,218
Other assets	**1,802,692**	808,979
Total assets	**33,108,546**	26,172,839
Total liabilities of reportable segments	**13,590,438**	7,943,025
Current corporate income tax liabilities	**94,591**	–
Deferred corporate income tax liabilities	**229,925**	167,719
Other liabilities	**46,892**	51,301
Total liabilities	**13,961,846**	8,162,045

	2014	*2013*
Total segment results	**2,038,683**	1,373,632
Corporate income tax expenses	**(401,811)**	(242,082)
Total income	**1,636,872**	1,131,550

The Bank's income is generated in Kazakhstan. Geographical areas of operations of the Bank are reported in *Note 21* to these financial statements based on the ultimate domicile of the counterparty, i.e. based on economic risk rather than legal risk of the counterparty. The Bank has no customers which represent ten percent or more of the total revenues generated in 2014 and 2013.

6. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2014	*2013*
Cash on hand	**1,324,625**	909,117
Correspondent accounts with the NBRK	**3,041,092**	2,141,106
Correspondent accounts with other banks	**921,887**	2,614,119
Cash and cash equivalents	**5,287,604**	5,664,342

Under Kazakh legislation, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held on the current account with the NBRK or physical cash computed based on average monthly balances of the aggregate of cash balances on current account with the NBRK or physical cash in national and hard currencies during the period of reserve creation. As at 31 December 2014, obligatory reserves amounted to KZT 450,119 thousand (as at 31 December 2013: KZT 287,589 thousand).

7. Investments securities

In 2014, the Bank reclassified investment securities held-to-maturity to investment securities available-for-sale as the result of change in the Bank's intention to hold these securities until maturity. As the result of reclassification, the Bank does not have a right to classify any financial assets as held-to-maturity in the next two years.

Investment securities available-for-sale as at 31 December 2014, and investment securities held-to-maturity as at 31 December 2013, that are owned by the Bank are represented by bonds of the Ministry of Finance of the Republic of Kazakhstan.

(In thousands of tenge unless otherwise indicated)

8. Loans to customers

Loans to customers comprise:

	2014	*2013*
Loans to large customers	**15,167,400**	11,358,477
Loans to small and medium enterprises	**3,769,018**	2,089,897
Consumer loans	**3,163,181**	2,970,150
Mortgage loans	**2,005,085**	1,308,012
Total gross loans to customers before allowance for loan impairment	**24,104,684**	17,726,536
Less: allowance for loan impairment	**(1,075,168)**	(990,939)
Loans to customers	**23,029,516**	16,735,597

The Bank classifies loans to borrowers having annual average total assets of more than 60,000 minimum calculation index as "loans to large customers". Monthly calculation index as at 31 December 2014 was KZT 1,852 (as at 31 December 2013: KZT 1,731).

Allowance for loan impairment

The movements in allowance for impairment of loans to customers in 2014 is as follows:

	Loans to large customers	*Loans to small and medium enterprises*	*Consumer loans*	*Mortgage loans*	*Total*
At 31 December 2013	89,112	400,522	449,506	51,799	990,939
Charge/(reversal) for the year	**16,806**	**68,690**	**(130,504)**	**85,405**	**40,397**
Translation difference	**–**	**6,609**	**33,783**	**3,440**	**43,832**
At 31 December 2014	**105,918**	**475,821**	**352,785**	**140,644**	**1,075,168**
Individual impairment	**(89,112)**	**(187,530)**	**(116,839)**	**–**	**(393,481)**
Collective impairment	**(16,806)**	**(288,291)**	**(235,946)**	**(140,644)**	**(681,687)**
	(105,918)	**(475,821)**	**(352,785)**	**(140,644)**	**(1,075,168)**
Total amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**89,112**	**187,530**	**132,751**	**–**	**409,393**

The movements in allowance for impairment of loans to customers in 2013 is as follows:

	Loans to large customers	*Loans to small and medium enterprises*	*Consumer loans*	*Mortgage loans*	*Total*
At 31 December 2012	86,193	290,549	171,319	–	548,061
(Reversal)/charge for the year	(86,200)	90,112	156,939	47,282	208,133
Recoveries of assets previously written-off	89,112	19,565	117,404	4,076	230,157
Translation difference	7	296	3,844	441	4,588
At 31 December 2013	89,112	400,522	449,506	51,799	990,939
Individual impairment	(89,112)	(184,126)	(143,323)	–	(416,561)
Collective impairment	–	(216,396)	(306,183)	(51,799)	(574,378)
	(89,112)	(400,522)	(449,506)	(51,799)	(990,939)
Total amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	89,112	210,076	223,227	–	522,415

(In thousands of tenge unless otherwise indicated)

8. Loans to customers (continued)

Allowance for loan impairment (continued)

In 2013, the Bank recovered loans previously written-off to the off-balance sheet accounts in the amount of KZT 230,157 thousand together with the existing allowance for impairement of such loans. The management of the Bank believes that it will be able to receive cash flows from recovered loans.

Interest income accrued on loans, individually determined as impaired, for the year ended 31 December 2014, amounted to KZT 7,161 thousand (in 2013: KZT 9,559 thousand).

Collateral and other credit enhancements

The following table shows an analysis of loans to customers by type of collateral as at 31 December 2014:

	Loans to large customers	*Loans to small and medium enterprises*	*Consumer loans*	*Mortgage loans*	*Total*
Loans secured by:					
- real estate	**14,272,513**	**3,194,449**	**2,668,274**	**1,970,812**	**22,106,048**
- other	**123,331**	**162,593**	**191,539**	**15,945**	**493,408**
Loans secured by guarantees of third parties	**771,556**	**212,876**	**290,004**	**18,328**	**1,292,763**
Unsecured loans	**–**	**199,100**	**13,364**	**–**	**212,465**
Total gross loans to customers before allowance for loan impairment	**15,167,400**	**3,769,018**	**3,163,181**	**2,005,085**	**24,104,684**

The following table shows an analysis of loans to customers by type of collateral as at 31 December 2013:

	Loans to large customers	*Loans to small and medium enterprises*	*Consumer loans*	*Mortgage loans*	*Total*
Loans secured by:					
- real estate	10,401,416	1,910,305	2,490,907	1,291,127	16,093,755
- other	92,914	139,304	117,722	16,885	366,825
Loans secured by guarantees of third parties	864,147	40,288	352,938	–	1,257,373
Unsecured loans	–	–	8,583	–	8,583
Total gross loans to customers before allowance for loan impairment	11,358,477	2,089,897	2,970,150	1,308,012	17,726,536

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of allowance for impairment.

Concentration of loans to customers

As at 31 December 2014, the Bank had ten major borrowers, which accounted for 50% (as at 31 December 2013: 52%) of the total amount of loans to customers before allowance for impairment. The total gross amount of these loans was KZT 12,111,673 thousand (as at 31 December 2013: KZT 9,157,262 thousand).

(In thousands of tenge unless otherwise indicated)

8. Loans to customers (continued)

Concentration of loans to customers (continued)

The structure of the loan portfolio by industries is as follows:

	2014		2013	
	Amount	%	Amount	%
Trade	**7,679,619**	**31.9%**	4,928,726	27.8%
Hospitality	**6,881,930**	**28.6%**	5,426,399	30.6%
Individuals	**5,168,266**	**21.4%**	4,278,162	24.2%
Manufacturing	**1,992,631**	**8.3%**	1,161,065	6.5%
Construction	**1,474,890**	**6.1%**	469,704	2.6%
Mining industry/metallurgy	**88,688**	**0.4%**	42,511	0.2%
Real estate	**33,281**	**0.1%**	950,646	5.4%
Transportation and communication	**18,915**	**0.1%**	4,886	0.0%
Education	**18,051**	**0.0%**	28,730	0.2%
Printing industry	**–**	**0.0%**	35,363	0.2%
Other	**748,413**	**3.1%**	400,344	2.3%
Total gross loans to customers before allowance for loan impairment	**24,104,684**	**100.0%**	17,726,536	100.0%

9. Property and equipment

The movements in property and equipment were as follows:

	Land	Buildings	Construction-in-progress	Office equipment and computer hardware	Vehicles	Other	Total
Cost							
At 31 December 2012	268,431	349,326	4,005	72,546	35,052	107,251	836,611
Additions	–	–	–	25,601	–	13,189	38,790
Disposals	(10,802)	(25,000)	–	–	–	–	(35,802)
At 31 December 2013	257,629	324,326	4,005	98,147	35,052	120,440	839,599
Additions	**–**	**–**	**–**	**20,489**	**27,684**	**13,170**	**61,343**
Disposals	**–**	**(200)**	**(4,005)**	**(59,806)**	**–**	**(25,039)**	**(89,050)**
Effect of revaluation	**383,950**	**98,933**	**–**	**–**	**–**	**–**	**482,883**
At 31 December 2014	**641,579**	**423,059**	**–**	**58,830**	**62,736**	**108,571**	**1,294,775**
Accumulated depreciation							
At 31 December 2012	–	(32,638)	–	(28,540)	(21,234)	(53,533)	(135,945)
Charge for the year	–	(13,399)	–	(25,705)	(4,135)	(17,821)	(61,060)
At 31 December 2013	–	(46,037)	–	(54,245)	(25,369)	(71,354)	(197,005)
Charge for the year	**–**	**(5,106)**	**–**	**(24,450)**	**(7,060)**	**(19,878)**	**(56,494)**
Disposals	**–**	**200**	**–**	**59,806**	**–**	**25,039**	**85,045**
Effect of revaluation	**–**	**15,910**	**–**	**–**	**–**	**–**	**15,910**
At 31 December 2014	**–**	**(35,033)**	**–**	**(18,889)**	**(32,429)**	**(66,193)**	**(152,544)**
Net book value							
At 31 December 2012	268,431	316,688	4,005	44,006	13,818	53,718	700,666
At 31 December 2013	257,629	278,289	4,005	43,902	9,683	49,086	642,594
At 31 December 2014	**641,579**	**388,026**	**–**	**39,941**	**30,307**	**42,378**	**1,142,231**

The Bank attracted independent appraiser to determine fair value of land and buildings owned by the Bank. Fair value of land and buildings was estimated based on the comparative approach. Date of revaluation – 24 December 2014. See *Note 22* for more details with respect to fair value of land and buildings.

(In thousands of tenge unless otherwise indicated)

9. Property and equipment (continued)

If the land and buildings were accounted for at historical cost less impairment and accumulated depreciation for buildings, their carrying value would be KZT 45,080 thousand and KZT 192,425 thousand, respectively (as at 31 December 2013: KZT 45,080 thousand and KZT 197,118 thousand, respectively).

Revaluation surplus of land and buildings in 2014, in the amount of KZT 498,793 thousand was included within other comprehensive income.

10. Intangible assets

The movements of intangible assets were as follows:

	Licenses and software	*Construction in progress*	*Total*
Cost			
At 31 December 2012	66,530	101,507	168,037
Additions	64,082	–	64,082
Disposals	(2,048)	–	(2,048)
Transfers	101,507	(101,507)	–
At 31 December 2013	230,071	–	230,071
Additions	**11,446**	**–**	**11,446**
Disposals	**(13,393)**	**–**	**(13,393)**
At 31 December 2014	**228,124**	**–**	**228,124**
Accumulated amortisation			
At 31 December 2012	(30,741)	–	(30,741)
Charge for the year	(7,706)	–	(7,706)
At 31 December 2013	(38,447)	–	(38,447)
Charge for the year	**(43,772)**	**–**	**(43,772)**
Disposals	**13,393**	**–**	**13,393**
At 31 December 2014	**(68,826)**	**–**	**(68,826)**
Net book value			
At 31 December 2012	35,789	101,507	137,296
At 31 December 2013	191,624	–	191,624
At 31 December 2014	**159,298**	**–**	**159,298**

Construction in progress is represented by ABIS software acquired from Colvir Software Solution LTD (Great Britain). As at 31 December 2013, modules of the software were completed and this software was reclassified from construction in progress to licenses and software licenses.

11. Other assets

As at 31 December 2014 and 2013 other assets comprise:

	2014	*2013*
Commissions receivable	**33,737**	2,564
Shares	**7,001**	7,001
Other debtors on banking activities	**5,059**	27,110
Other financial assets	**45,797**	36,675
Inventories	**1,617,440**	718,746
Prepaid taxes	**91,238**	18,314
Prepayment for utilities	**41,512**	9,126
Prepayment for services	**6,705**	5,020
Other	**–**	21,098
Other non-financial assets	**1,756,895**	772,304
Other assets	**1,802,692**	808,979

As at 31 December 2014 and 2013, inventories represent property received by the Bank as a result of settlement of loan obligations by borrowers. The Bank expects to realise these assets in the foreseeable future.

(In thousands of tenge unless otherwise indicated)

12. Amounts due to other banks

As at 31 December 2014, amounts due to other banks comprise a short-term deposit placed by T.C. Ziraat Bank, London of KZT 1,360,448 thousand and deposits placed by other banks totalling KZT 1,071 thousand. The deposit of T.C. Ziraat Bank, London was placed in USD with maturity of 6 months and interest rate of 5.46% p.a.

As at 31 December 2013, amounts due to other banks comprised a short-term deposit placed by Azur-Turk Bank OJSB of KZT 308,428 thousand, and deposits placed by other banks totalling KZT 1,166 thousand. The deposit of Azur-Turk Bank OJSB was placed in USD with maturity of 6 months and interest rate of 4.5% p.a.

13. Amounts due to customers

	2014	*2013*
Current accounts	**7,749,397**	7,502,582
Time deposits	**4,479,522**	130,849
Amounts due to customers	**12,228,919**	7,633,431
Held as security against letters of credit	**122,808**	16,263
Held as security against guarantees	**2,701,003**	1,101,168

As at 31 December 2014, the Bank had ten major customers, which accounted for 44% of the total balance of current accounts and deposits of customers (as at 31 December 2013: 39%). The aggregate amount due to such customers as at 31 December 2014 was KZT 5,387,991 thousand (as at 31 December 2013: KZT 2,982,853 thousand).

Included in time deposits are deposits of individuals in the amount of KZT 803,865 thousand (as at 31 December 2013: KZT 30,849 thousand). In accordance with the Civil Code of the Republic of Kazakhstan, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest is not paid or paid at a considerably lower interest rate depending on the terms specified in the agreement.

As at 31 December amounts due to customers comprise:

	2014	*2013*
Current accounts		
Legal entities	**5,360,032**	5,227,602
Individuals	**2,151,220**	2,040,345
State and public organisations	**238,145**	234,635
Time deposits		
Legal entities	**3,675,657**	100,000
Individuals	**803,865**	30,849
Amounts due to customers	**12,228,919**	7,633,431

Below is the breakdown of amounts due to customers by industry sectors:

	2014		*2013*	
	Amount	*%*	*Amount*	*%*
Trading and services	**2,978,702**	**24.4%**	1,062,867	13.9%
Individuals	**2,955,085**	**24.2%**	2,071,194	27.1%
Production of metallic ores	**2,749,014**	**22.5%**	–	–
Construction	**1,803,157**	**14.7%**	2,200,424	28.8%
Manufacturing	**1,014,432**	**8.3%**	1,049,747	13.8%
State and public organisations	**238,145**	**1.9%**	234,635	3.1%
Transportation and communication	**57,423**	**0.5%**	64,671	0.8%
Sport and tourism	**8,639**	**0.1%**	3,462	0.1%
Professional services	**55**	**0.0%**	692,242	9.1%
Other	**424,267**	**3.4%**	254,189	3.3%
Amounts due to customers	12,228,919	**100.0%**	**7,633,431**	**100.0%**

(In thousands of tenge unless otherwise indicated)

14. Taxation

The corporate income tax expense comprise:

	2014	*2013*
Current corporate income tax expense	**439,364**	194,709
Deferred corporate income tax (benefit)/expense – origination and reversal of temporary differences	**(37,553)**	47,373
Corporate income tax expense	**401,811**	242,082

The Republic of Kazakhstan was only one tax jurisdiction in which the Bank's income is taxable. In accordance with tax legislation the applied corporate income tax rate is 20.0% in 2014 and 2013.

The reconciliation between the corporate income tax expense in the accompanying financial statements and profit before corporate income tax multiplied by the statutory tax rate for the years ended 31 December is as follows:

	2014	*2013*
Profit before corporate income tax expense	**2,038,683**	1,373,632
Statutory tax rate	**20%**	20%
Theoretical corporate income tax expense at the statutory rate	**407,737**	274,726
Non-taxable income from state securities and securities included in the KASE official listing	**(11,804)**	(16,441)
Non taxable income from reversal of provisions	**–**	(4,869)
Other permanent differences	**5,878**	(11,334)
Corporate income tax expense	**401,811**	242,082

As at 31 December 2014, current corporate income tax liabilities comprised KZT 94,591 thousand (as at 31 December 2013: nil).

Deferred corporate income tax assets and liabilities as of 31 December and their movements for the respective years comprise:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	2012	*In profit or loss*	*In other comprehensive income*	*2013*	*In profit or loss*	*In other comprehensive income*	*2014*
Tax effect of deductible temporary differences							
Other liabilities	1,128	272	–	1,400	5,553	–	**6,953**
Deferred corporate income tax assets	1,128	272	–	1,400	5,553	–	**6,953**
Tax effect of taxable temporary differences							
Loans to customers	(87,930)	(57,979)	–	(145,909)	30,262	–	**(115,647)**
Property and equipment and intangible assets	(34,704)	10,334	1,160	(23,210)	1,738	(99,759)	**(121,231)**
Deferred corporate income tax liabilities	(122,634)	(47,645)	1,160	(169,119)	32,000	(99,759)	**(236,878)**
Net deferred corporate income tax assets/ (liabilities)	(121,506)	(47,373)	1,160	(167,719)	37,553	(99,759)	**(229,925)**

(In thousands of tenge unless otherwise indicated)

15. Other liabilities

As at 31 December other liabilities comprise:

	2014	*2013*
Amounts payable in non-operating activity	**33,990**	7,788
Obligations on issued guarantees	**9,897**	7,322
Other financial liabilities	**43,887**	15,110
Taxes other than corporate income tax payable	**2,996**	36,126
Accrual for unused vacations	**9**	6
Other prepayment	**–**	59
Other non-financial liabilities	**3,005**	36,191
Other liabilities	**46,892**	51,301

16. Charter capital

As at 31 December 2014 and 2013, the total amount of authorized, issued and fully paid common shares of the Bank comprised 15,000,000 shares. The placement value was KZT 1,000 per one common share.

Shareholders have the right to receive dividends and allocate capital in tenge. In accordance to the decision of the general meeting of Shareholders of the Bank dated 12 May 2014, in 2014 the Bank declared and paid dividends in the amount of KZT 900,000 thousand for the year ended 31 December 2013 (in 2013: KZT 148,424 thousand for the year ended 31 December 2012).

As at 31 December 2014, the Bank had a general bank reserve to cover unforeseen risks and future losses in the amount of KZT 1,177,175 thousand (as at 31 December 2013: KZT 1,177,175 thousand). The funds from the general banking reserve could be allocated only upon the shareholders' official authorization.

In accordance with the Resolution of the NBRK No. 137 dated 27 May 2013 (hereinafter – the "Resolution"), since 30 September 2013 the Bank calculates dynamic reserves. As at 31 December 2014, dynamic reserves calculated in accordance with the Resolution amounts to KZT 573,367 thousand (as at 31 December 2013: KZT 724,676 thousand).

17. Interest income and expense

Interest income and interest expense comprise:

	2014	*2013*
Loans to customers	**2,246,648**	1,442,407
Investment securities	**59,022**	82,206
Amounts due from other banks	**45,401**	3,717
Receivables under repurchase agreements	**–**	49,125
Other	**–**	2,119
Interest income	**2,351,071**	1,579,574
Amounts due to customers	**(147,547)**	(1,213)
Interest expense	**(147,547)**	(1,213)
Net interest income	**2,203,524**	1,578,361

(In thousands of tenge unless otherwise indicated)

18. Net commission income

Net commission income comprises:

	2014	2013
Settlement transactions	**367,366**	348,463
Cash transactions	**196,009**	154,069
Issuance of guarantees and letters of credit	**52,955**	40,538
Transfer operations	**33,987**	30,863
Safe transactions	**5,223**	5,041
Other	**26,058**	29,001
Fee and commission income	**681,598**	607,975
Settlement transactions	**(21,371)**	(19,512)
Other	**(3,398)**	(4,647)
Fee and commission expense	**(24,769)**	(24,159)
Net commission income	**656,829**	583,816

19. Administrative and other operating expenses

Administrative and other operating expenses comprise:

	2014	2013
Salaries and bonuses	**579,840**	483,144
Security	**58,029**	52,926
Social security contribution	**57,603**	47,181
Depreciation of property and equipment	**56,494**	61,060
Amortisation of intangible assets	**43,772**	7,706
Technical support of software	**39,746**	3,239
Professional services	**33,772**	7,114
Communication and information services	**32,981**	30,349
Taxes other than income tax	**30,542**	37,080
Lease	**26,999**	25,656
Membership fees	**18,654**	9,857
Business trip expenses	**13,423**	8,766
Advertising and marketing	**13,308**	9,182
Maintenance of buildings	**12,872**	13,938
Insurance expenses	**10,619**	4,690
Deposit insurance expenses	**9,644**	5,459
Repair and maintenance	**9,311**	11,336
Fines and forfeits	**8,815**	2,926
Customer expenses	**5,869**	5,935
Cash collection	**5,533**	4,673
Transportation	**5,488**	4,190
Office supplies	**4,935**	4,706
Trainings	**4,751**	–
Sponsorships	**1,904**	40
Representation expenses	**553**	870
Loss on disposal of property and equipment	**–**	5,046
Other	**57,073**	31,826
Administrative and other operating expenses	**1,142,530**	878,895

(In thousands of tenge unless otherwise indicated)

20. Commitments and contingencies

Political and economic environment

The Republic of Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstani economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

In 2014, significant decline in crude oil prices and a significant KZT devaluation had a negative impact on the Kazakhstan economy. These factors resulted in a reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding further economic growth, which could negatively affect the Bank's future financial position, results of operations and business prospects. The management of the Bank believes that it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

Legal actions and claims

In the ordinary course of business, the Bank is subject to legal actions and complaints. The Bank believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or results of operations of the Bank.

The Bank assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated. No provision has been made in these financial statements for any of the above described contingent liabilities.

Tax contingencies

Various types of legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakh laws, decrees and related regulations is severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of generally 50% of the taxes unpaid.

The Bank believes that it has paid or accrued all taxes that are applicable. Where practice concerning tax application is unclear, the Bank has accrued tax liabilities based on management's best estimate. The Bank's policy is to recognise provisions in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and fines, if any, may be in excess of the amount expensed to date and accrued at 31 December 2014. Although such amounts are possible and may be material, it is the opinion of the Bank's management that these amounts are either not probable, not reasonably determinable, or both.

Financial commitments and contingencies

At 31 December the Bank's financial commitments and contingencies comprise the following:

	2014	*2013*
Credit related commitments		
Undrawn loan commitments	**7,446,515**	4,941,392
Guarantees	**2,802,190**	1,126,056
Letters of credit	**122,808**	16,263
	10,371,513	6,083,711
Operating lease commitments		
Less than 1 year	**43,854**	27,000
	43,854	27,000
Financial commitments and contingencies (before collateral)	**10,415,367**	6,110,711
Less: amounts held as security against guarantees and letters of credit *(Note 13)*	**(2,823,811)**	(1,117,431)
Financial commitments and contingencies	**7,591,556**	4,993,280

(In thousands of tenge unless otherwise indicated)

20. Commitments and contingencies (continued)

Financial commitments and contingencies (continued)

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

The undrawn loan commitment agreements stipulate the right of the Bank to unilaterally withdraw from the agreement should any conditions unfavourable to the Bank arise, including change of the refinance rate, inflation, exchange rates and other conditions.

Credit related commitments are denominated in the following currencies:

US dollars	**7,478,773**	4,843,381
KZT	**2,886,054**	1,240,330
Euro	**6,686**	–
	10,371,513	6,083,711

21. Risk management

Introduction

Risk is inherent in the Bank's activities. The Bank manages these risks through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. The Bank is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management process comprises identification, measuring, control and limitation of risks that are carried out by the Bank on a regular basis.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Bank.

Risk management

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

The main purpose of the Unit is generating and functioning of the Bank's effective risk management system providing application of methods of risk detection and control, ensuring effective determination, evaluation and limitation of the Bank's risks considering the type and scope of transactions conducted by the Bank. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Bank Treasury

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

(In thousands of tenge unless otherwise indicated)

21. Risk management (continued)

Introduction (continued)

Internal audit

Risk management processes throughout the Bank are audited annually by the internal Audit Department that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit Department discusses the results of all assessments with management, and reports its findings and recommendations to the Board of Directors.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries.

In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, Management Board, Asset and Liability Management Committee, Credit Committee, and the head of each business division. The report includes aggregate credit exposure, forecast credit indicators, hold limit exceptions, liquidity ratios, interest rate risk ratios and risk developments.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

The Bank's Management Board and other relevant employees of the Bank meetings are regularly held to discuss maintenance of established limits, investments, liquidity, and risk developments.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions.

The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and undertake corrective actions.

Credit-related commitments risks

The Bank makes available to its customers guarantees and letters of credit, which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the guarantee and letters of credit. They expose the Bank to risks similar to loans and these are mitigated by the same control processes and policies.

The carrying amount of components of the statement of financial position without the influence of risk mitigation through the use of master netting agreements and collateral agreements, most accurately reflects the maximum credit exposure on these components.

Where financial instruments are recorded at fair value, their carrying amounts represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

(In thousands of tenge unless otherwise indicated)

21. Risk management (continued)

Credit risk (continued)

Credit-related commitments risks (continued)

For more details on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is presented in *Note 8* Loans to customers and *Note 20* Contractual commitments and contingencies.

Credit quality per class of financial assets

The table below shows the credit quality by class of asset for statement of financial position lines, based on the Bank's credit rating system. Amounts are presented before deducting any allowance for impairment.

	2014			
	Neither past due nor impaired	***Past due but not impaired***	***Impaired***	***Total***
Cash and cash equivalents (excluding cash on hand)	**3,962,979**	**–**	**–**	**3,962,979**
Investment securities available-for-sale	**1,687,205**	**–**	**–**	**1,687,205**
Loans to customers	**20,812,421**	**2,246,205**	**1,046,058**	**24,104,684**
Other financial assets	**45,797**	**–**	**–**	**45,797**
Total	**26,508,402**	**2,246,205**	**1,046,058**	**29,800,665**

	2013			
	Neither past due nor impaired	***Past due but not impaired***	***Impaired***	***Total***
Cash and cash equivalents (excluding cash on hand)	4,755,225	–	–	4,755,225
Investment securities held-to-maturity	2,129,703	–	–	2,129,703
Loans to customers	15,708,350	855,618	1,162,568	17,726,536
Other financial assets	36,675	–	–	36,675
Total	22,629,953	855,618	1,162,568	24,648,139

Ageing analysis of past due but not impaired loans per class of financial assets:

	2014			
	Less than 30 days	***31-90 days***	***90-180 days***	***Total***
Loans to customers				
Loans to large customers	**1,004,424**	**–**	**–**	**1,004,424**
Loans to small and medium enterprises	**201,377**	**34,848**	**21,613**	**257,838**
Consumer loans	**602,623**	**53,293**	**42,747**	**698,663**
Mortgage loans	**211,814**	**23,402**	**50,064**	**285,280**
Total	**2,020,238**	**111,543**	**114,424**	**2,246,205**
Allowance for impairment of past due but not impaired loans	**(12,645)**	**(1,266)**	**(12,283)**	**(26,194)**

	2013			
	Less than 30 days	***31-90 days***	***90-180 days***	***Total***
Loans to customers				
Loans to large customers	312,644	231,578	34,275	578,497
Loans to small and medium enterprises	9,280	–	27,806	37,086
Consumer loans	23,312	16,678	130,230	170,220
Mortgage loans	–	55,696	14,119	69,815
Total	345,236	303,952	206,430	855,618
Allowance for impairment of past due but not impaired loans	(127)	(1,057)	(11,469)	(12,653)

See *Note 8 Loans to Customers* for more detailed information with respect to the allowance for impairment of loans to customers.

(In thousands of tenge unless otherwise indicated)

21. Risk management (continued)

Credit risk (continued)

Impairment assessment

The main considerations for the loan impairment assessment comprise: whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include: the sustainability of the counterparty's business plan; its ability to improve performance once a financial difficulty has arisen; projected receipts and the expected dividend payout should bankruptcy ensue; the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, and expected receipts and recoveries once impaired.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Below is the geographical concentration of the Bank's monetary assets and liabilities as at 31 December 2014:

	Kazakhstan	*OECD countries*	*Non-OECD countries*	*Total*
Assets				
Cash and cash equivalents	**4,368,839**	**853,240**	**65,525**	**5,287,604**
Investment securities available-for-sale	**1,687,205**	–	–	**1,687,205**
Loans to customers	**23,029,516**	–	–	**23,029,516**
Other monetary assets	**45,797**	–	–	**45,797**
Total monetary assets	**29,131,357**	**853,240**	**65,525**	**30,050,122**
Liabilities				
Amounts due to other banks	–	**1,361,519**	–	**1,361,519**
Amounts due to customers	**10,501,718**	**1,630,451**	**96,750**	**12,228,919**
Other monetary liabilities	**43,887**	–	–	**43,887**
Total monetary liabilities	**10,545,605**	**2,991,970**	**96,750**	**13,634,325**
Net position	**18,585,752**	**(2,138,730)**	**(31,225)**	**16,415,797**

Below is the geographical concentration of the Bank's monetary assets and liabilities as at 31 December 2013:

	Kazakhstan	*OECD countries*	*Non-OECD countries*	*Total*
Assets				
Cash and cash equivalents	3,063,956	2,568,041	32,345	5,664,342
Investment securities held-to-maturity	2,129,703	–	–	2,129,703
Loans to customers	16,735,597	–	–	16,735,597
Other monetary assets	36,675	–	–	36,675
Total monetary assets	21,965,931	2,568,041	32,345	24,566,317
Liabilities				
Amounts due to other banks	309,594	–	–	309,594
Amounts due to customers	7,633,431	–	–	7,633,431
Other monetary liabilities	15,110	–	–	15,110
Total monetary liabilities	7,958,135	–	–	7,958,135
Net position	14,007,796	2,568,041	32,345	16,608,182

(In thousands of tenge unless otherwise indicated)

21. Risk management (continued)

Credit risk (continued)

Collectively assessed allowances (continued)

Credit related assets and liabilities have been allocated based on the country in which the counterparty is located. Cash on hand has been allocated based on the country in which they are physically held.

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. Also, it manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Banks monitors a number of internal liquidity indicators in a daily basis. The Bank's Treasury Department manages short-term liquidity on an on-going basis using cash position and portfolio of highly marketable securities.

The Bank is also obliged to comply with liquidity requirements established by the regulators including requirements of the NBRK represented by obligatory norms.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow.

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

	2014					
Financial liabilities	***On demand***	***Less than 3 months***	***From 3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to other banks	**1,071**	**1,366,525**	**–**	**–**	**–**	**1,367,596**
Amounts due to customers	**7,749,397**	**3,293,342**	**1,205,238**	**–**	**–**	**12,247,977**
Other financial liabilities	**33,995**	**4,028**	**4,184**	**1,680**	**–**	**43,887**
Total undiscounted financial liabilities	**7,784,463**	**4,663,895**	**1,209,422**	**1,680**	**–**	**13,659,460**

	2013					
Financial liabilities	***On demand***	***Less than 3 months***	***From 3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to other banks	1,474	–	314,792	–	–	316,266
Amounts due to customers	7,584,153	16,427	8,623	17,870	6,493	7,633,566
Other financial liabilities	7,884	1,352	2,406	3,468	–	15,110
Total undiscounted financial liabilities	7,593,511	17,779	325,821	21,338	6,493	7,964,942

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due on demand in the tables above.

Included in due to customers are term deposits of individuals. In accordance with the Civil Code of the Republic of Kazakhstan, the Bank is obliged to repay such deposits upon demand of a depositor (*Note 13 "Amounts due to customers"*).

(In thousands of tenge unless otherwise indicated)

21. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn commitment on lending is included in the time band containing the earliest date it can be drawn down. In the case of financial guarantee contracts the maximum amount of guarantee applies to the earliest period in which this guarantee may be called.

	On demand and less than 3 months	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
2014	**2,366,023**	**930,533**	**7,069,414**	**5,543**	**10,371,513**
2013	72,902	6,010,809	–	–	6,083,711

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices.

The Bank is exposed to market risk related to open currency positions, interest rate risk and securities portfolio subject to general and specific changes on the market. The management establishes limits with respect to minimum level of accepted risk and monitors the compliance with those limits on a daily basis.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Bank has no non-trading financial assets and liabilities with a floating interest rate at 31 December 2014 and 2013.

Currency risk

Currency risk is the risk of losses due to changes in foreign exchange rates when the Bank performs its ordinary activities. Risk of losses arises due to revaluation of Bank's position in foreign currencies in monetary terms. The management of the Bank establishes limits with respect to minimum level of accepted risk by currencies and monitors the compliance with those limits on a daily basis.

The table below indicates the currencies to which the Bank had significant exposure at 31 December on some monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against Tenge, with all other variables held constant on the income statement (due to the fair value of currency sensitive certain monetary assets and liabilities). All other variables are held constant. A negative amount in the table reflects a potential net reduction in the statement of comprehensive income, while a positive amount reflects a net potential increase.

	2014		*2013*	
Currency	*Change in currency rate, in %*	*Effect on profit before tax*	*Change in currency rate, in %*	*Effect on profit before tax*
USD	**+25%**	**(510,000)**	+20%	(15,973)
Euro	**+15%**	**(9,745)**	+15%	8,337
RUR	**+20%**	**9,016**	+20%	2,099

	2014		*2013*	
Currency	*Change in currency rate, in %*	*Effect on profit before tax*	*Change in currency rate, in %*	*Effect on profit before tax*
USD	**-25%**	**510,000**	-20%	15,973
Euro	**-15%**	**9,745**	-15%	(8,337)
RUR	**-20%**	**(9,016)**	-20%	(2,099)

(In thousands of tenge unless otherwise indicated)

21. Risk management (continued)

Market risk (continued)

Currency risk (continued)

During the year currency position had approximately equal values due to the fact that the Bank set limits on open foreign exchange positions and the position was within the set limit.

The currency position of the Bank as at 31 December 2014 is presented below:

	KZT	*USD*	*RUR*	*Euro*	*Other Currencies*	*Total*
Assets						
Cash and cash equivalents	2,285,808	2,646,215	66,221	214,591	74,769	5,287,604
Investment securities available-for-sale	1,687,205	–	–	–	–	1,687,205
Loans to customers	18,210,997	4,818,519	–	–	–	23,029,516
Other monetary assets	43,737	2,060	–	–	–	45,797
	22,227,747	7,466,794	66,221	214,591	74,769	30,050,122
Liabilities						
Amounts due to other banks	1,071	1,360,448	–	–	–	1,361,519
Amounts due to customers	3,784,829	8,142,566	21,139	279,458	927	12,228,919
Other monetary liabilities	41,999	1,789	–	99	–	43,887
	3,827,899	9,504,803	21,139	279,557	927	13,634,325
Net position	18,399,848	(2,038,009)	45,082	(64,966)	73,842	16,415,797

The currency position of the Bank as at 31 December 2013 is presented below:

	KZT	*USD*	*RUR*	*Euro*	*Other currencies*	*Total*
Assets						
Cash and cash equivalents	2,797,229	2,686,108	33,028	138,957	9,020	5,664,342
Investment securities held-to-maturity	2,129,703	–	–	–	–	2,129,703
Loans to customers	16,514,461	221,136	–	–	–	16,735,597
Other monetary assets	34,615	2,060	–	–	–	36,675
	21,476,008	2,909,304	33,028	138,957	9,020	24,566,317
Liabilities						
Amounts due to other banks	1,166	308,428	–	–	–	309,594
Amounts due to customers	4,915,922	2,602,576	28,828	83,379	2,726	7,633,431
Other monetary liabilities	11,181	3,929	–	–	–	15,110
	4,928,269	2,914,933	28,828	83,379	2,726	7,958,135
Net position	16,547,739	(5,629)	4,200	55,578	6,294	16,608,182

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access rights, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

22. Fair value measurement

The Investment Committee of the Bank determines the policies and procedures for both periodic measurement of fair value of securities and immovable property available for sale owned by the Bank.

External appraisers are engaged to assess fair value of buildings and land of the Bank. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

(In thousands of tenge unless otherwise indicated)

22. Fair value measurement (continued)

At each reporting date, management of the Bank analyses the movements in values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policy. For this analysis, management of the Bank verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. Management of the Bank, in conjunction with the Bank's external appraisers also compares each change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of disclosing the fair values, the Bank determined classes of assets and liabilities based on the assets and liabilities nature, characteristics and risks as well as the hierarchy of fair value sources.

		Fair value measurement with the use of			
2014	*Evaluation date*	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant non-obser-vable inputs (Level 3)*	*Total*
Assets measured at fair value					
Investment securities available-for-sale	31 December 2014	**1,687,205**	–	–	**1,687,205**
Property and equipment – land and buildings	24 December 2014	–	**1,029,605**		**1,029,605**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2014	**5,287,604**	–	–	**5,287,604**
Loans to customers	31 December 2014	–	–	**23,029,516**	**23,029,516**
Other financial assets	31 December 2014	–	–	**45,797**	**45,797**
Liabilities for which fair values are disclosed					
Amounts due to other banks	31 December 2014	–	–	**1,361,519**	**1,361,519**
Amounts due to customers	31 December 2014	–	–	**12,228,919**	**12,228,919**
Other financial liabilities	31 December 2014	–	–	**43,887**	**43,887**

		Fair value measurement with the use of			
2013	*Evaluation date*	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value					
Property and equipment – land and buildings	19 January 2013	–	535,918		535,918
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2013	5,664,342	–	–	5,664,342
Investment securities held-to-maturity	31 December 2013	2,129,703	–	–	2,129,703
Loans to customers	31 December 2013	–	–	16,735,597	16,735,597
Other financial assets	31 December 2013	–	–	36,675	36,675
Liabilities for which fair values are disclosed					
Amounts due to other banks	31 December 2013	–		309,594	309,594
Amounts due to customers	31 December 2013	–		7,633,431	7,633,431
Other financial liabilities	31 December 2013	–		15,110	15,110

There were no transfers among the levels of the fair value hierarchy during 2014 and 2013.

(In thousands of tenge unless otherwise indicated)

22. Fair value measurement (continued)

Property and equipment – land and buildings

Fair value of the real estate, owned by the Bank is based on valuation performed by an independent appraiser. Fair value of land and buildings of the Bank was determined by using the comparative approach. This means that appraisal performed by individual appraiser was based on market transactions prices adjusted with respect to differences in nature, location or condition of certain real estate item.

Financial instruments not carried at fair value in the statement of financial position

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position.

The table does not include the fair values of non-financial assets and non-financial liabilities.

	2014			2013		
	Carrying amount	*Fair value*	*Unrecognised gain/ (loss)*	*Carrying amount*	*Fair value*	*Unrecognised gain/ (loss)*
Financial assets						
Cash and cash equivalents	**5,287,604**	**5,287,604**	–	5,664,342	5,664,342	–
Loans to customers	**23,029,516**	**22,473,385**	**(556,131)**	16,735,597	16,547,631	(187,966)
Investment securities:						
- available-for-sale	**1,687,205**	**1,687,205**	–	–	–	–
- held-to-maturity	–	–		2,129,703	2,129,703	–
Other financial assets	**45,797**	**45,797**	–	36,675	36,675	–
Financial liabilities						
Amounts due to other banks	**1,361,519**	**1,361,519**	–	309,594	309,594	–
Amounts due to customers	**12,228,919**	**11,874,005**	**354,914**	7,633,431	7,633,431	–
Other financial liabilities	**43,887**	**43,887**	–	15,110	15,110	–
Total unrecognised change in unrealised fair value			**(201,217)**			(187,966)

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that their fair value approximates to the carrying amount. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Fixed rate financial instruments

Fair value of the quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans to customers, due to customers, due to other banks, other financial assets and obligations is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(In thousands of tenge unless otherwise indicated)

23. Maturity analysis of assets and liabilities

The table below shows the expected maturities of assets and liabilities as at 31 December 2014 and 2013. See *Note 21* "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2014			*2013*		
	Less than 12 months	*Over 12 months*	*Total*	*Less than 12 months*	*Over 12 months*	*Total*
Assets						
Cash and cash equivalents	5,287,604	–	5,287,604	5,664,342	–	5,664,342
Investment securities:						
- available-for-sale	25,983	1,661,222	1,687,205	–	–	–
- held-to-maturity	–	–	–	30,380	2,099,323	2,129,703
Loans to customers	3,955,071	19,074,445	23,029,516	799,396	15,936,201	16,735,597
Property and equipment	–	1,142,231	1,142,231	–	642,594	642,594
Intangible assets	–	159,298	159,298	–	191,624	191,624
Other assets	1,795,691	7,001	1,802,692	808,979	–	808,979
Total assets	11,064,349	22,044,197	33,108,546	7,303,097	18,869,742	26,172,839
Liabilities						
Amounts due to other banks	1,361,519	–	1,361,519	309,594	–	309,594
Amounts due to customers	12,228,919	–	12,228,919	7,609,068	24,363	7,633,431
Current corporate income tax liabilities	94,591	–	94,591	–	–	–
Deferred corporate income tax liabilities	–	229,925	229,925	–	167,719	167,719
Other liabilities	46,892	–	46,892	51,301	–	51,301
Total liabilities	13,731,921	229,925	13,961,846	7,969,963	192,082	8,162,045
Net position	(2,667,572)	21,814,272	19,146,700	(666,866)	18,677,660	18,010,794

24. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Related parties may enter into transactions which unrelated parties might not. Prices and terms of such transactions may differ from prices and terms of transactions between unrelated parties.

The amount of related party transactions and balances as of 31 December 2014 and 2013, as well as the respective amounts of income and expenses for the years than ended are as follows:

	2014			
	Controlling shareholder	*Key management personnel*	*Entities under common control*	*Total*
Assets				
Cash and cash equivalents	–	–	78,447	78,447
Loans to customers	–	112,994	–	112,994
Liabilities				
Amounts due to other banks	–	–	1,360,448	1,360,448
Amounts due to customers	–	5,327	–	5,327

(In thousands of tenge unless otherwise indicated)

24. Related party transactions (continued)

	2013			
	Controlling shareholder	*Key management personnel*	*Entities under common control*	*Total*
Assets				
Cash and cash equivalents	15,761	–	1,859	17,620
Loans to customers	–	119,232	–	119,232
Liabilities				
Amounts due to other banks	–	–	308,428	308,428
Amounts due to customers	–	3,727	–	3,727

The income and expense items on transactions with related parties for the years ended 31 December 2014 and 2013 were as follows:

	2014			
	Controlling shareholder	*Key management personnel*	*Entities under common control*	*Total*
Interest income	**–**	**68,583**	**–**	**68,583**
Interest expenses	**–**	**–**	**29,356**	**29,356**

	2013			
	Controlling shareholder	*Key management personnel*	*Entities under common control*	*Total*
Interest income	–	8,033	–	8,033

Below is the information on compensation to 11 members (in 2013: 10 members) of key management personnel:

	2014	*2013*
Salary and other short-term benefits	**84,112**	78,361
Social security contribution	**8,009**	6,010
Total	**92,121**	84,371

25. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the NBRK.

During 2014 and 2013, the Bank had complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the objectives, policies and processes from the previous years.

The NBRK requires second tier banks to maintain the capital adequacy ratio k1-1 at the level of no less than 5% of the total assets in accordance with the rules of the NBRK, k1-2 at the level of no less than 5% and k2 at the level of no less than 10% of assets, contingent liabilities, possible claims and liabilities and operational risks.

Calculation of capital adequacy ratios

- Capital adequacy ratio k1-1 is calculated as tier 1 capital to total assets under the NBRK rules;
- Capital adequacy ratio k1-2 is calculated as tier 1 capital to the sum of risk-weighted assets and contingent liabilities, potential claims and liabilities;
- Capital adequacy ratio k2 is calculated as total regulatory capital to the sum of risk-weighted assets and contingent liabilities, potential claims and liabilities.

(In thousands of tenge unless otherwise indicated)

25. Capital adequacy (continued)

Calculation of capital adequacy ratios (continued)

As at 31 December 2014 and 2013, the Bank's capital adequacy ratio, calculated in accordance with the requirements of the NBRK was as follows:

	2014	*2013*
Tier 1 capital	**16,749,414**	16,206,117
Tier 2 capital	**2,451,735**	1,349,661
Total statutory capital	**19,201,149**	17,555,778
Total assets as per the requirements of the NBRK	**33,108,546**	26,172,839
Risk weighted assets and liabilities, possible claims and liabilities	**32,853,677**	18,271,224
Capital adequacy ratio k1-1	**0.51**	0.62
Capital adequacy ratio k1-2	**0.51**	0.72
Capital adequacy ratio k2	**0.58**	0.78