ҚАЗАҚСТАН ХАЛЫҚ БАНКІ

HALYK BANK

НАРОДНЫЙ БАНК КАЗАХСТАНА

Annual report

2014

AT A GLANCE

Financial highlights

Key figures at year-end	2014		2013	
	KZT mln	US$ mln*	KZT mln	US$ mln*
Loans to customers	1,648,013	9,038	1,482,245	9,621
Total assets	2,809,782	15,406	2,506,414	16,269
Amounts due to customers	1,848,213	10,136	1,766,648	11,467
Debt securities issued	311,009	1,706	189,515	1,230
Amounts due to credit institutions	107,192	588	107,395	697
Total equity	475,221	2,606	392,179	2,546

Key figures	2014		2013	
	KZT mln	US$ mln**	KZT mln	US$ mln**
Net interest income	125,748	702	80,610	530
Fees and commissions, net	50,079	279	44,267	291
Operating expenses	(62,410)	(349)	(54,820)	(360)
Net income	114,377	638	72,409	476

Key ratios	2014	2013
Return on average common equity	27.1%	20.8%
Return on average assets	4.1%	2.9%
Net interest margin	5.8%	4.9%
Net interest spread	5.7%	4.8%
Cost-to-income	29.6%	31.4%
Cost-to-assets	2.2%	2.2%
Tier 1 capital adequacy ratio (BIS guidelines)	20.4%	17.2%
Total capital adequacy ratio (BIS guidelines)	21.0%	18.5%

* Calculated using the official National Bank of Kazakhstan rate on the corresponding date
** Calculated using the official National Bank of Kazakhstan rate for the corresponding period

Number of customers/accounts at year-end

Key figures	2014	2013
Retail accounts, mln	8.8	8.8
Corporate clients	1,521	1,488
SME clients	58,432	61,235
Payment cards, mln	4.7	4.3
Retail loans, mln	0.55	0.55
Mortgage loans	20,623	20,336
Consumer loans issued as part of payroll programmes, mln	0.52	0.52
Other consumer loans	12,982	12,984
Plastic cards of payroll programme customers (individuals), mln	2.4	2.1
Payroll programme customers (legal entities, including public organisations)	22,483	20,255
Internet banking users		
- individuals	442,439	194,000
- legal entities	14,074	11,999

Distribution network

Halyk Bank	**537 outlets, including:**
	22 regional branches
	122 local branches
	54 personal service centres
	4 VIP centres
	335 cash settlement units
	2,270 ATMs
	16,982 POS terminals
	584 multi-service kiosks

Kazakhinstrakh	18 branches
	231 points of sale
Halyk-Life	16 branches
Halyk Leasing	1 branch
Halyk Inkassatsiya	18 branch, 36 outlets
Altyn Bank	**7 outlets, including:**
	4 branches
	3 cash settlement units
Halyk Bank Kyrgyzstan	9 branches, 17 outlets
	8 cash settlement units
Halyk Bank Georgia	5 branches
NBK Bank	1 branch

As of 31 December 2014, Halyk Group had 10,984 full-time equivalent employees.

Structure of Halyk Group*

Halyk Bank

- NBK Bank, Russia — 100%
- Halyk Bank Kyrgyzstan — 100%
- Halyk Bank Georgia — 100%
- Altyn Bank — 100%
- Halyk Leasing (leasing) — 100%
- Halyk Life (life insurance) — 100%
- Kazakhinstrakh (insurance) — 100%
- Halyk Finance (brokerage and asset management) — 100%
- Kazteleport (telecommunications) — 100%
- Halyk Inkassatsiya (cash collection services) — 100%
- Halyk-Project (distressed asset management) — 100%
- Halyk Pension Fund (undergoing liquidation)* — 100%

* (1) On 31 December 2014, the Board of Directors of Halyk Bank voted to voluntarily liquidate the subsidiary Halyk Pension Fund, registered at 96/98 Zheltoksan Street, Almaty.

(2) Following the decision by the Board of Directors of Halyk Bank on 30 September 2014 to voluntarily liquidate the subsidiary HSBK (Europe) B.V., in the Netherlands, on 23 December 2014, HSBK (Europe) B.V. was removed from the Trade Register of the Netherlands Chamber of Commerce (the liquidation process took place from 9 October 2014 to 23 December 2014).

International Credit Ratings of Halyk Bank as of 1 January 2015

Agency	Long-term rating	Outlook
Moody's Investor Services	Ba2	Stable
Fitch Ratings	BB	Stable
Standard & Poor's	BB+	Stable

Shareholders of Halyk Bank with at least 5% of shares issued as of 31 December 2014[1]

No	Name	Total shares	Proportion of total shares in circulation	Common shares	Proportion of common shares in circulation	Preferred shares	Proportion of preferred shares in circulation
1	Holding Group ALMEX	8,024,149,068	72.3%	8,003,381,500	73.4%	20,767,568	11.0%
2	Single Accumulated Pension Fund	869,738,261	7.8%	710,233,299	6.5%	159,504,962	84.3%
3	GDRs (ISIN: US46627J3023, US46627J2033)	1,848,929,480	16.7%	1,848,929,480	17.0%	-	-
4	Total shares issued	11,518,603,103	-	11,128,518,451	-	390,084,652	-
5	Shares bought back by the Bank	(413,594,260)	-	(217,361,861)	-	(196,232,399)	-
6	Shares retained by companies in the Group	(5,947,785)	-	(1,257,877)	-	(4,689,908)	-
7	Total shares in circulation (consolidated basis, EPS)	11,099,061,058	-	10,909,898,713	-	189,162,345	-

"Holding Group ALMEX" ("ALMEX") is a holding company that, in addition to its controlling interest in the Bank, has an interest in "Insurance broker AON Kazakhstan".

The Single Accumulated Pension Fund ("SAPF") collects obligatory pension payments, obligatory professional pension payments and voluntary pension payments and disburses pension payments and is one of the leading institutional investors on the Kazakhstan stock market. Its assets are held, accounted and managed by the National Bank of the Republic of Kazakhstan.

The sole shareholder of the SAPF is the State Property and Privatisation Committee of the Ministry of Finance of Kazakhstan (100%).

In line with the national pension reform, whereby the SAPF assumed responsibility for managing pensions in Kazakhstan, the assets and liabilities of accumulation pension funds were transferred in accordance with the timeframe and procedures stipulated in the corresponding legislation.

[1] Shares of the Bank have been listed on the Kazakhstan Stock Exchange since 1998 and common shares in the form of global depositary receipts on the London Stock Exchange since 2006.

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ

HALYK BANK

НАРОДНЫЙ БАНК КАЗАХСТАНА

BUSINESS MODEL

Solid financial position

- High level of capitalisation (according to BIS guidelines): Tier 1 capital adequacy ratio of 20.4% and total capital adequacy ratio of 21.0%
- Sufficient liquidity: liquid assets to total assets ratio of 25.6%
- High-quality funding base: loans to deposits ratio of 89.2%
- Sufficient provisioning: the share of non-performing loans (overdue by 90 days or more) has been reduced to 11.9% and the provision coverage ratio is 114.6%
- Highest long-term credit ratings among second-tier Kazakh banks with no major overseas shareholders:

— Moody's Investor Services – Ba2
— Fitch Ratings – BB
— Standard & Poor's – BB+

Systemically important financial group in Kazakhstan with a strong market position

- High-quality assets, rising profitability, high level of capitalisation
- Kazakhstan's leading universal financial group, with the largest client base and branch network in the country
- The leader in terms of total equity, retail deposits, retail current accounts, net income, payment cards, portfolio of letters of credit and guarantees, and payroll programmes
- Active participant in government business-support programmes

Market share

- Largest branch network, with 537 outlets, 2,270 ATMs and 16,982 POS terminals
- Market share among second-tier banks is 20.4% of retail deposits, 19.1% of term deposits and 32.7% of demand deposits
- Share of the retail lending market is 13.2%
- Share of total cards issued is 47.6%

Solid and low-cost funding base

- 'Safe haven' for deposits during a crisis
- One of the lowest deposit rates among second-tier banks
- 79.2% of the funding base consists of deposits, of which 38.0% pay 0% interest
- 13.3% of total liabilities are debt securities on which no major repayments are due until 2017

Diversified sources of income and high cost efficiency ratio

- High profitability is supported by diversified stream of commission income, which generated 22.0% of total revenues in 2014
- Strict control of operating expenses: cost to income ratio of 29.6%

CHAIRMAN OF THE BOARD'S STATEMENT

Dear shareholders,

In 2014, a whole host of events affected the market in Kazakhstan, including structural imbalances in the global economy, the situation in Ukraine, the sanctions relating to Russia, and the devaluation of the Russian ruble. There was also the tenge devaluation in February and the fall in prices for traditional exports that generate revenues for Kazakhstan's budget: oil dropped below US$50 a barrel and prices of nonferrous and ferrous metals declined. The National Bank's fixed rate for the tenge partly added to the losses of Kazakh producers, given the deteriorating trading conditions and sectoral sanctions against Russia.

The fiscal policy was more countercyclical. Thanks to the National Fund, the government was able to adjust the budget for 2015-17, smoothing the effect of expected lower fiscal revenues. Amid falling demand, despite the tenge devaluation early in the year, inflation remained in the target range, at 7.4%. Loan growth slowed markedly, to 7.2%, or 1.4% taking into account the devaluation. While pressure on the national currency caused funding conditions to deteriorate, it also acted as a catalyst for changes in monetary policy, whereby new instruments for stabilising interest rates appeared. In 2014 overall, national GDP growth decelerated to 4.3%.

During 2014, the transfer of pension assets into the Single Accumulation Pension Fund was completed, a new “Concept for Developing the Financial Sector of Kazakhstan Through 2030” was devised, and consolidation intensified in the banking sector.

Halyk Bank was involved in this process. In 2014, we completed the acquisition of the Kazakh subsidiary of HSBC Bank plc, rebranding it with a new name, Altyn Bank. The transaction was unique, marking the first time that a Kazakh bank had concluded such a deal with a high-profile international bank.

Overall, despite the external environment, the Group delivered solid results for 2014. We increased our loan portfolio and improved our indicators for non-performing loans (NPLs). Over the year, we reduced the share of NPLs overdue by 90 days or more (NPL 90+) from 16.3% to 11.9%, in accordance with the recommendations of the National Bank of Kazakhstan. Halyk-Project, a subsidiary that specialises in working with problem loans, came into full force. Particular emphasis was placed on providing a personal service to each problem borrower. As matters stand, there is no cause for concern about the quality of our loan portfolio, as it is well provisioned.

Thanks to the successful work of the management team, the Group made significant achievements in many areas of the business; reported net income of more than KZT114 billion (some US$636 million), which is unprecedented for Kazakhstan’s banking sector; and reinforced its market positions. Halyk Bank remains the sector leader in terms of net income, retail current accounts and deposits, and total equity. We are the largest provider of foreign currency banknotes nationwide and the only second-tier bank that does so in some regions.

In 2014, the Group remained actively involved in various government business-support programmes. At the year-end, our portfolio of loans to our clients participating in such programmes totalled more than KZT177 billion.

Over the year, we moved to expand our network considerably, opening a new regional branch in Pavlodar and beginning construction of a new office in Southern Kazakhstan.

In addition, we began an international project with UnionPay International (UPI, China) to launch co-branded payment cards: Altyn UnionPay and Altyn UnionPay Gold. They are unique in uniting the brands of local and international payment systems, Altyn and UnionPay. The cards can be used in all ATMs of Kazakh and overseas banks that are part of the UPI system.

Two developments of particular significance were the decisions by rating agencies Fitch Ratings and Standard & Poor's to raise Halyk Bank's ratings, confirming the success of the Group's strategy.

The strong net income and the solid results of 2014 in general enabled the Bank to fulfil its pledge to shareholders and adhere to the dividend policy approved by the Board of Directors.

From 2015, amid growing competition in the banking sector, second-tier banks face increasing capital adequacy and various other requirements in accordance with the Basel III guidelines. We will need to adapt to and operate in these conditions, while maintaining our ambitious strategic objectives for the future.

Our main aims for this year are to take concrete steps to strengthen the balance sheet and ensure loan growth in all areas of our business – including the corporate, SME and retail segments – of at least 10% a year. The Bank will remain active in government programmes to support SMEs. In retail, we will focus on developing and expanding remote sales channels and rolling out a new branch format that takes into account the various business segments and client types.

Customers have ever-greater needs for high-quality service, standards and high-tech financial services, and this shapes the objectives and targets that we are setting for our subsidiaries.

In 2015, we aim to approve a Group-wide development strategy for 2016-18 and to begin preparations for implementing it. As the leading universal bank in Kazakhstan, the expansion of each of the Group's business divisions is vital.

The priority for the new addition to the Group, Altyn Bank, is to retain and attract clients used to Western-style banking. Given the existing client base, the subsidiary will focus on private and internet banking and will pilot new, innovative banking technologies and services, which will then be rolled out across the Group.

Despite the difficult market environment, we will channel our efforts into expanding our subsidiaries in Russia, Georgia and Kyrgyzstan, which reported decent results for 2014, including net income. Given the ongoing integration of the Eurasian Economic Union, we will focus particularly closely on developing our business in Russia and Kyrgyzstan.

In 2014, the insurance market awaited major legislative changes. In 2015, the Group will undertake efforts to develop its insurance subsidiaries: Kazakhinstrakh, which will continue to expand its retail business, and Halyk Life, which will concentrate on savings life insurance products.

As a leader of Kazakhstan's investment banking sector, Halyk Finance will play an active role in expanding its range of services on the stock market, including brokerage, asset management, market research and analysis, consulting and underwriting.

We intend to exploit the capabilities of the Kazteleport subsidiary, which provides financial automation and telecommunications services. We are also expanding the facilities and resources of Halyk Inkassatsiya to focus on developing the core business, primarily by attracting third-party clients and providing secure cash transportation services.

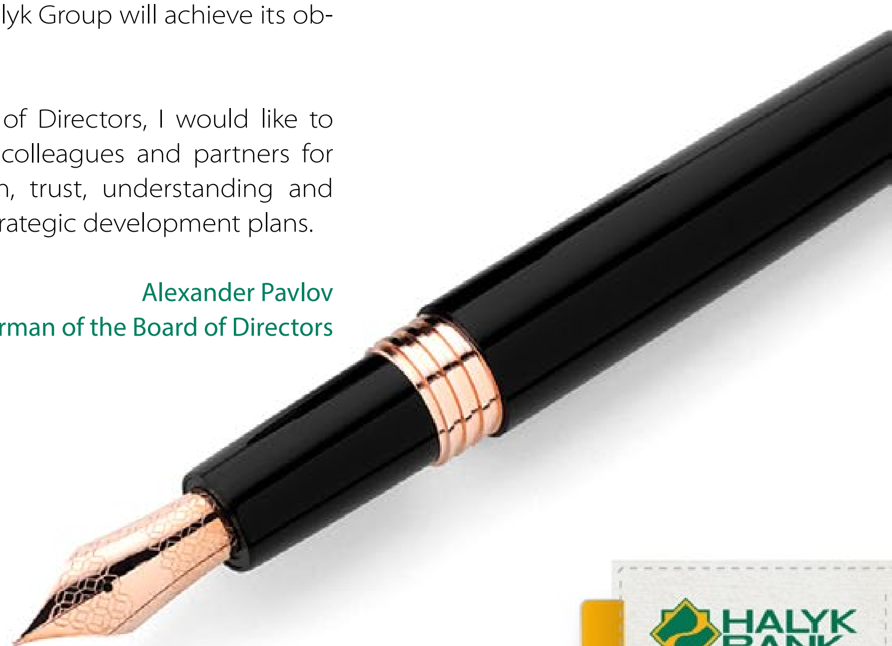
Overall, the Group will invest more in employee development, training and education, the development and upgrade of its facilities, and the refinement and rearrangement of its branch network. These measures will drive business growth and enhance service quality across all of our subsidiaries.

The Group will remain committed to supporting a wide range of social responsibility initiatives. Last year alone, we allocated more than KZT570 million for various social projects. The funds helped to support sponsored orphanages, specialist organisations, talented students, and veterans' and health care organisations, as well as to promote culture, business and sport among the population. In particular, we sponsored the Atameken Startup business-ideas competition, the Dos Mukasan music group, the Astana Opera theatre, the Ayala fund, and many others.

Through the management team's efforts, and the close and productive relationships with shareholders, investors, rating agencies, analysts and clients, I have every confidence that Halyk Group will achieve its objectives successfully.

On behalf of the Board of Directors, I would like to thank our shareholders, colleagues and partners for their fruitful cooperation, trust, understanding and support of the Group's strategic development plans.

Alexander Pavlov
Chairman of the Board of Directors



ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

CHAIRPERSON OF THE MANAGEMENT BOARD'S REVIEW

Dear shareholders, investors and partners,

I am pleased to present Halyk Group's annual report for 2014.

Last year was one of many challenges. The tenge devaluation in February had a significant impact on the market. After the merger of pension assets into the Single Accumulated Pension Fund was completed, trading on the Kazakh stock market declined, as the institutional investor pool had shrunk substantially. In addition, consolidation in the banking sector continued, there was turbulence on global markets, and sanctions were imposed on Russia, Kazakhstan's main trading partner in the Eurasian Economic Union (EEU). Together with the slump in prices of our traditional exports and a poor harvest, all of these factors affected Kazakhstan's GDP growth and financial system.

In this difficult external environment, and amid the ongoing contraction and monopolisation in some segments of Kazakhstan's financial market, Halyk Group again proved its ability to perform. Concentrating our efforts on the objectives laid out in our medium-term development strategy, we delivered outstanding results.

The Group made two outstanding achievements in 2014. The first was the acquisition of 100% of HSBC Bank plc's Kazakh subsidiary, which we rebranded as Altyn Bank. This complex transaction involved a great deal of effort by a specially created internal team of experts in line with international standards. The second achievement was to strengthen the partnership with UnionPayInternational (UPI), the international division of the China Union Pay (CUP) transaction system, which led to the launch of co-branded payment cards, Altyn Union Pay and Altyn Union Pay Gold.

Throughout the year, Halyk Bank continued lending actively in the SME segment as part of joint business-support programmes with the government. We made available in full and on time all of the funds allocated through the government scheme to support SMEs in the processing industry, becoming the leading participant in terms of projects financed. We signed a memorandum of cooperation with the National Chamber of Entrepreneurs of Kazakhstan. Over six months, we organised various regional events to raise awareness in the business community about the wealth of possibilities presented by the government SME programmes and the ease of accessing them. Overall, at the year-end, our portfolio of loans to private businesses involved in such programmes exceeded KZT 177 billion. Thanks to a clearly defined strategy, considered and realistic objectives, and the professional work of the whole team, Halyk Group generated net income of more than KZT114 billion (some US$636 million), a record in the Kazakh banking sector.

The Bank's achievements last year received recognition from more than one international rating agency. In January, Fitch Ratings upgraded its long-term issuer default rating to 'BB'. In July, Standard & Poor's also upgraded its long-term credit rating from 'BB' to 'BB+'. Currently, these are among the highest ratings awarded to second-tier banks (with no major overseas shareholders) in Kazakhstan. They reconfirm our leadership in the domestic banking sector and underscore our solid positions and stability amid various external factors.

At the same time, we fully understand that our achievements are not grounds for resting on our laurels. Like any other commercial financial organisation, we are operating in rapidly changing macroeconomic conditions, particularly given the somewhat unfavourable outlook for the Kazakh economy this year. For 2015, the European Bank for Reconstruction and Development forecasts GDP growth of just 1.5%.

In this light, while pursuing its business this year, the Group will need to take into account Kazakhstan's EEU membership, the low oil prices, the tenge liquidity shortage, and the growing pressure from the Russia sanctions.

As a major business pursuing stable growth, we understand clearly the need to adapt as we expand. As the leading financial group in Kazakhstan, we intend to offer our clients a comprehensive range of banking and other financial products and services, as well as develop new ones based on cutting-edge IT solutions. Given our new flexible and modern strategies, existing base, underlying strength and capitalisation, I believe that we can achieve this goal.

By pursuing all of our plans, and with the support of our clients, partners and shareholders, I am confident that the Bank will succeed in meeting all of its objectives and reconfirm its vast capabilities and reputation as the leader of Kazakhstan's financial industry.

Umut Shayakhmetova
Chairperson of the Management Board

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HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

BOARD OF DIRECTORS

Alexander Pavlov (b. 1953)

Chairman, Independent Director

Mr. Pavlov was appointed Chairman of the Board in March 2004. Between 1994 and 2000, he was Minister of Finance, then Deputy Prime Minister, and finally First Deputy Prime Minister of the Republic of Kazakhstan. From 2000 to 2002, he was Vice Chairman of the Management Board and Vice Chairman of the Board of Directors of copper mining company Kazakhmys. Between 2002 and 2004, he was First Deputy Prime Minister of the Republic of Kazakhstan. From 2006 to 2008, Mr. Pavlov was a member of the Board of Directors of Kazakhstan Holding for Management of State Assets "Samruk". Mr. Pavlov is a graduate of the Belarus State Institute of People's Economy, where he specialised in economics and of Academy for social sciences at the Central Committee of the Communist Party of the USSR where he specialised in political sciences. He is an honorary professor at Karaganda State University.

Ulf Wokurka (b. 1962)

Independent Director

Mr. Wokurka was appointed to the Board in April 2011. Between 1990 and 1999, he held various positions both in the head office and foreign offices of Deutsche Bank. From 2006 to 2008, Mr. Wokurka was Deputy CEO and CFO of Kazakhstan Holding for Management of State Assets "Samruk" and Chairman of the Board of Directors of Kazpochta. From 2007, Mr. Wokurka has been a member of the Board of Directors and Independent Director of Kazyna Capital Management, as well as a member of the Kazakhstan Independent Directors Association. From 2008 to 2010, he served as Managing Director of Metzler Asset Management, Frankfurt-am-Main, and Independent Director of the Board of Directors of BTA Bank. In 2010, Mr. Wokurka was appointed a Managing Director of Deutsche Bank, Frankfurt-am-Main and head of Deutsche Bank's representative office in Kazakhstan; in the same year, he was elected a member of the Board of Directors of Sekerbank T.A.S., Turkey. Since June 2012, Mr. Wokurka has been Independent Director of National Investment Corporation of the National Bank of Kazakhstan. He graduated from Martin Luther University (Germany) and Moscow State Institute of International Relations.

Arman Dunaev (b. 1966)

Independent Director

Mr. Dunaev was appointed to the Board in September 2013. From June 2003 to March 2004, he was the Chairman of the Management Board of National Innovation Fund. From March 2004 to April 2004, he was the First Deputy Minister of Finance of the Republic of Kazakhstan. From April 2004 to January 2006, he was the Minister of Finance of the Republic of Kazakhstan. From January 2006 to January 2008, he was the Chairman of the Agency of the Republic of Kazakhstan for Regulation and Supervision of the Financial Market and Financial Organisations. From January 2008 to October 2008, he was the Chairman of the Board of Sustainable Development Fund Kazyna. From November 2008 to May 2011, he was the Deputy CEO of Sovereign Wealth Fund Samruk-Kazyna. From December 2011 to February 2012, he was the Adviser to the CEO of Sovereign Wealth Fund Samruk-Kazyna. From November 2014, Mr. Dunaev was appointed the Chairman of the Board of Altyn Bank. Mr. Dunaev is a graduate of Kazakh State University named after S. Kirov with a degree in political economy and Moscow State University named after M. Lomonosov with a Ph.D. degree.

Franciscus Cornelis Wilhelmus (Frank) Kuijlaars (b. 1958)

Independent Director

Mr. Kuijlaars was appointed to the Board in April 2009. From 1990 to 2007, Mr. Kuijlaars served at ABN AMRO Bank and later at RBS as a Head of Corporate and Investment Banking in Belgium, Regional Manager in Brazil and Country Manager in Russia and Argentina. Mr. Kuijlaars was a Member of the Supervisory Board in Russia, Kazakhstan and Uzbekistan. After his appointment as Corporate Executive Vice President in 2001, in addition to supervision of global energy issues, he was a member of the Executive Committees of the countries of Europe, Central and Eastern Europe, the Middle East and Africa, as well as a member of the Corporate and Investment Banking Committee. He is an adviser to several international organisations, and for a long time was a member of the Foreign Investor Council of the President of the Republic of Kazakhstan. Since 2006, Mr. Kuijlaars has been an Independent Director and member of the Board of Directors and from March 2014, Chairman of the Board of Directors of National Company KazMunayGas. Mr. Kuijlaars received a Masters degree in Law from Erasmus University, Rotterdam, the Netherlands. He studied at the Dutch Institute of Banks and Insurance Companies and studied in a number of postgraduate programs in such international institutions as the Fontainebleau (France), Cambridge (UK) and Harvard Business School (US).

Mazhit Yessenbayev (b. 1949)

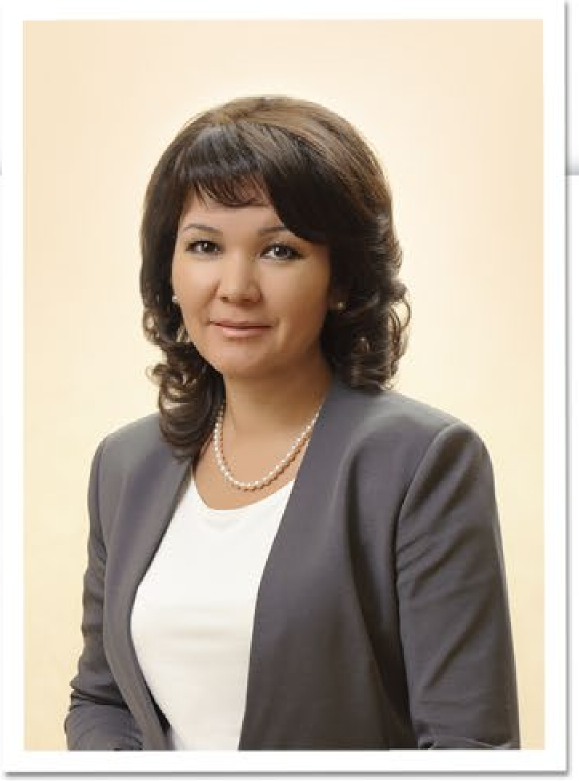
Member of the Board of Directors, Representative of Holding Group ALMEX

Mr. Yessenbayev was appointed to the Board in April 2014. From October 1972 to November 1975, he was an economist at the Economic Research Institute, part of the State Planning Committee of the Kazakh SSR. From January 1979 to September 1981, he held various positions at Karaganda Pedagogical Institute. Mr. Yessenbayev served in various positions on the Karaganda Regional Executive Committee from August 1989 to February 1992 and then Karaganda Regional Administration from February 1992 to December 1994. From December 1994 to July 1997 he held various positions in State tax authorities. From July 1997 to October 1999, he served as the Governor of Karaganda Region. From October 1999 to January 2002, he was Minister of Finance of the Republic of Kazakhstan. From November 1999 to September 2002, he was a Director for Kazakhstan at the Islamic Development Bank. From November 1999 to September 2002, he was a Member of the Board of the National Bank of Kazakhstan. From January to August 2002, he served as Minister of Economy and Trade of the Republic of Kazakhstan; and from August 2002 to March 2004, as Minister of Industry and Trade of the Republic of Kazakhstan. From July 2003 to March 2004, Mr. Yessenbayev was an Adviser to the President of the Republic of Kazakhstan. From March 2004 to January 2008, he was the Governor of Akmola Region. From January 2008 to February 2012, he was Chairman of the Agency for Protection of Competition of the Republic of Kazakhstan. From February 2012 to September 2013, he served as Chairman of the Customs Control Committee of the Ministry of Finance of the Republic of Kazakhstan. From November 2013 to February 2014, he was Adviser to the Chairman of the Board of Directors and General Representative of Halyk Bank. In February 2014, he became Chairman of the Management Board and a Member of the Board of Directors of Holding Group ALMEX. Mr. Yessenbayev graduated from the Kazakh Polytechnic Institute named after V.I. Lenin with a degree in Economics and Mining Industry.

Christof Ruehl (b. 1958)

Independent Director

Mr. Ruehl was appointed to the Board in June 2007. He previously worked at the University of California, Los Angeles, where he was an Assistant Professor of Economics. From 1998 to 2005, he worked for the World Bank Group, as Senior Economist in Washington from 1998 to 2001, Chief Economist in Moscow from 2001 to 2004, and Lead Economist and Sector Leader in Brazil from 2004 to 2005. In 2005, he became Deputy Chief Economist of British Petroleum and in 2007 he became Group Chief Economist and Vice President of British Petroleum. In 2008, he became Chairman of the British Institute of Energy Economics, London. In July 2014, Mr. Ruehl was appointed First Global Head of Research by Abu Dhabi Investment Authority. He holds an MBA from the University of Bremen, Germany.



Umut Shayakhmetova (b. 1969)

Member of the Board of Directors, Chairperson of the Management Board

Ms. Shayakhmetova was elected CEO of Halyk Bank in January 2009 and a member of the Board of Directors in April 2009. In 1997, she began working at ABN AMRO Bank Kazakhstan, where she held a number of positions in structured finance before becoming Chairperson of the Management Board of ABN AMRO Asset Management in 1998 and, in 2000, Deputy Chairperson of the Management Board of ABN AMRO Bank Kazakhstan. She became Deputy Chairman of Halyk Bank in November 2004. Ms. Shayakhmetova is an economics graduate of the University of People's Friendship, Moscow, and holds an MBA from Rutgers University, New Jersey, US.

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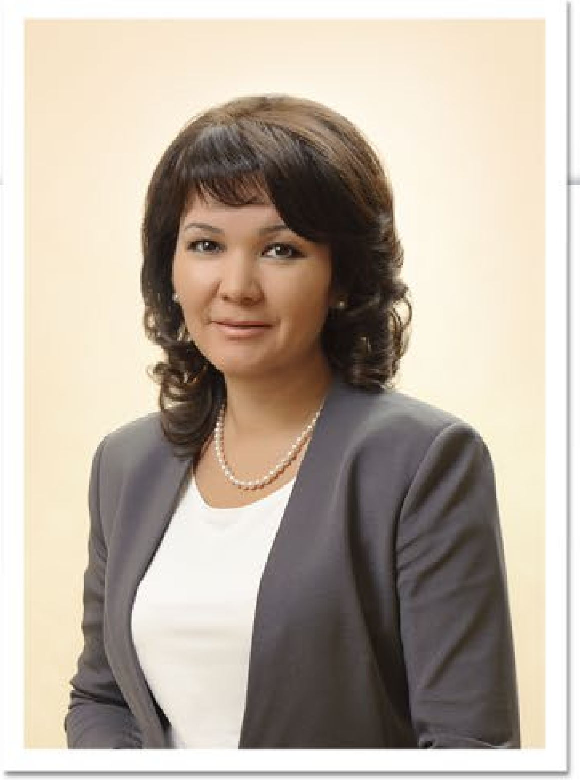
HALYK BANK

НАРОДНЫЙ БАНК КАЗАХСТАНА

MANAGEMENT BOARD



Umut Shayakhmetova (b. 1969)

Chairperson of the Management Board
See above

Marat Almenov (b. 1976)

Deputy Chairman: Retail Banking

Mr. Almenov started his career at Halyk Bank in 1997 as a corporate lending banker. He then held the positions of Risk Manager and Head of the Retail unit in the Credit Risk Department. In 2003, he served as Deputy Director responsible for retail banking in the Astana regional branch of the Bank. Between 2004 and 2009, he was Deputy Director of the Retail Sales Department, Director of the Retail Sales Support Department and Director of the Banking Products and Agency Services Department. In 2009, he was appointed Director of the Almaty regional branch of the Bank. In June 2010, Mr. Almenov was appointed Deputy Chairman. He is an economics graduate of the Kazakh State Academy of Management.

Dauren Karabayev (b. 1978)

Deputy Chairman: International Activities, Treasury and Subsidiaries

Mr. Karabayev was appointed Deputy Chairman on 1 March 2007. He has been working at the Bank since 2004 and has held the positions of Managing Director – Director of the Investment Banking and International departments. He previously held a number of positions in credit analysis and project finance at ABN AMRO Bank Kazakhstan from 2001 to 2004. Mr. Karabayev is an economics graduate of the Kazakh State Academy of Management and holds an MBA from the University of Texas (US).

Aliya Karpykova (b. 1970)

Deputy Chairperson: Finance, Accounting and Property

Ms. Karpykova has worked in the Kazakh banking system since 1992. She held various positions in the Operational Division and Accounting and Budget Department of the National State Bank of the Republic of Kazakhstan and later became Deputy Head of the division for reform in second-tier banks. From 1996 to 1997, Ms. Karpykova worked in Barents Group as an adviser on a USAID project on accounting reform in the Kazakh banking system. From 1998 to 2001, she was Chief Accountant of Citibank Kazakhstan. From 2001 to 2004, she was Managing Director and then First Deputy Chairman of the Management Board of Nauryz Bank Kazakhstan. In 2004, she became Managing Director responsible for risk management at Halyk Bank, before becoming Head of Risk Management and then Finance Director of Halyk Bank. On 15 October 2011, she was appointed as Deputy Chairperson of Halyk Bank. Ms. Karpykova is a graduate of Al-Farabi Kazakh National University, where she specialised in political economy.

Murat Koshenov (b. 1973)

Deputy Chairman: Corporate Banking

Mr. Koshenov joined Halyk Bank in January 2010 as Chief Risk Officer and then became Compliance Controller. On 8 September 2014, he was appointed as Deputy Chairman in charge of Corporate Banking.

Mr. Koshenov has been working in the banking sector since 2000. Between 2000 and 2002, he was Head of Broker-Dealer Operations at ABN AMRO Asset Management. From 2002 to 2010, he worked at SB ABN AMRO Bank Kazakhstan (later SB RBS (Kazakhstan)), first as Risk Manager, then as Head of the Risk Management Division, before becoming Deputy Chairman of the Management Board.

In 1996, Mr. Koshenov graduated from the Al-Farabi Kazakh National University with a degree in Physics. In 1998, he obtained an MBA from the Kazakhstan Institute of Economics, Management and Strategic Research.

Stanislav Kosobokov (b. 1978)

Deputy Chairman: SME Banking

Mr. Kosobokov started his career in 2000 in the Operational Division of the Almaty branch of Kazkommertsbank. In 2002, he joined Halyk Bank and worked as a manager and then senior manager of the Retail Sales Department and as Deputy Director – Head of Coordination of the Sales Channels Division of the Retail Sales Department. In 2006, he became Director of the Retail Sales Department. He was appointed Deputy Chairman in June 2010. Mr. Kosobokov is an economics graduate of the Kazakh State Academy of Management.

Askar Smagulov (b. 1975)

Deputy Chairman: Operations and IT

Mr. Smagulov started his career at ABN AMRO Bank Kazakhstan in 1998 and served as a Treasury Dealer, Head Dealer, Director of the Trade Division of the Treasury, and Director of the Treasury. In 2005, Mr. Smagulov joined Halyk Bank as Director of the Treasury. In September 2007, he became Deputy Chairman of the Management Board. In November 2014, Mr. Smagulov was appointed a Chairman of the Management Board and was elected a member of the Management Board of Altyn Bank. Mr. Smagulov graduated from Al-Farabi Kazakh National University with a degree in economics. In 1998, he received an MBA from the William Simon School of Business, University of Rochester (US).

Kozhamurat Uskimbayev (b. 1954)

Deputy Chairman: Security and Problem Loans

Major General Uskimbayev graduated from the Almaty School of Militia of the Ministry of Internal Affairs (MIA) of the USSR in 1980, from Karaganda High School of the MIA of the USSR in 1986, and from the Academy of the MIA of the USSR in 1991. In 1994, he was appointed Deputy Head of the Internal Affairs Department of Almaty. From 1995 to 2002, Major General Uskimbayev served in various positions in the MIA of the Republic of Kazakhstan. In 2002, he was appointed Head of the Internal Affairs Department of Aktobe Region. He has held the rank of Major General since 2003. That year, Major General Uskimbayev became Deputy Minister of Internal Affairs of the Republic of Kazakhstan. He has been Deputy Chairman of Halyk Bank since September 2007.

Zhannat Satubaldina (b. 1961)

Deputy Chairperson: Interactions with Large Companies

Ms. Satubaldina was appointed Deputy Chairperson of Halyk Bank on 1 July 2014. She started her career in 1982 as a Junior Associate in the Research Institute of Planning and Governance Process Automation, part of the State Planning Committee of the Kazakh SSR. From 1983 to 1986, she worked as a research assistant at Moscow State University. From 1987 to 1993, she worked in different positions at the Kazakh State Academy of Management (formerly Alma-Ata Institute of National Economy). From 1993 to 1994, Ms. Satubaldina was Head of the Planning Department and of the Depositary of Kazmetalbank. From 1994 to 1999, she held various positions at Metalinvest, investment privatisation fund. From 1999 to 2001, she worked at the National Securities Commission of the Republic of Kazakhstan as Executive Director and Member of the Committee, and Head of Licensing and Supervision. From 2001 to 2002, Ms. Satubaldina was Deputy Director of the Department of Securities Market Regulation of the National Bank of Kazakhstan. From 2002 to 2006, she held numerous positions at Kazakhstan Temir Zholy, the national railways operator, namely Finance Managing Director, Vice President and Chief Accountant. From 2006 to 2007, she was Deputy CEO for Economics and Finance at KazTransOil, as well as a Member of the Board of Directors of Halyk Bank's Accumulation Pension Fund and of North-West Pipeline Company MunaiTas. From 2007 to 2009, she served as Managing Director of National Company KazMunayGas and a Member of the Board of Directors of Exploration and Production KazMunayGas and KazTransOil. From 2009 to 2014, Ms. Satubaldina was Deputy Finance Director and Deputy Director of KMG-Kashagan B.V. She is a graduate from Almaty Institute of People's Economy and Moscow State University named after M. Lomonosov with Ph.D. degree.

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ

HALYK BANK

НАРОДНЫЙ БАНК КАЗАХСТАНА

KEY EVENTS 2014

January

- Fitch Ratings upgraded its long-term issuer default rating for Halyk Bank from 'BB-' to 'BB', the outlook 'stable'.
- Expert RA Kazakhstan confirmed its credit rating for Kazakhinstrakh at A++ 'Superior'.
- As part of measures by Halyk Project, a subsidiary that specialises in managing distressed assets, to resuscitate some problem assets owned by Halyk Bank, a retail complex was opened in Almaty. This marked the subsidiary's debut project to improve the quality of the Bank's loan portfolio.
- A new Halyk Bank branch was opened at 144/99 Muratbayeva Street in Almaty. Members of the Management Board, clients and local people attended the ceremony.

March

- Halyk Bank began a campaign to attract deposits for education as part of the Government Education Savings System.
- Halyk Bank signed a memorandum of cooperation with the Court Funding Department of the Supreme Court of the Republic of Kazakhstan. It details a plan for implementing the "Self-service Payment Network" project, as part of which a system for collecting administrative, state and other such fines through payment terminals will be launched in 2014-18.

April

- A.M. Best Europe - Rating Services Limited confirmed its financial strength rating of 'B++' (Good) and issuer credit rating of 'bbb' for Kazakhinstrakh.
- Halyk Bank, other second-tier banks and the Damu Entrepreneurship Development Fund signed an agreement to allocate funds for subsequent lending to SMEs in the processing industry under the Damu Ondiris II programme.
- With the Board of Directors of the Bank reaching the end of its term, the Annual General Meeting of Shareholders elected Arman Dunayev, Mazhit Yessenbayev, Christof Ruehl, Alexander Pavlov, Ulf Wokurka, Franciscus Cornelis Wilhelmus (Frank) Kuijlaars and Umut Shayakhmetova to the Board for three years.

June

- Halyk Bank announced that it had reduced the share of non-performing loans overdue by 90 days or more (NPL 90+) from 16.5% of the overall loan portfolio on 1 May 2014 to 14.8% on 1 June 2014. This made Halyk Bank one of the first major Kazakh banks to reduce its NPL 90+ to less than 15%.
- Halyk Bank and the National Chamber of Entrepreneurs of Kazakhstan signed a memorandum of cooperation on providing consultancy services to SMEs.

July

- Zhannat Satubaldina was elected a Member of the Management Board of Halyk Bank.
- Standard & Poor's upgraded its long-term credit rating for Halyk Bank from 'BB' to 'BB+', the outlook 'stable'.
- Fitch Ratings awarded Halyk Finance a long-term credit rating (foreign and national currency) of 'BB', the outlook 'stable', and a short-term credit rating of 'B-3', making it the first investment bank in Kazakhstan to receive an international credit rating.
- Halyk Bank opened a new building in its regional branch in Pavlodar.

September

- A new point of sale, Personal Service Centre 12, was opened in the Dostyk Plaza retail and entertainment complex in Almaty.
- A new point of sale, Personal Service Centre 13, was opened in the Mega Park Alma-Ata retail and entertainment complex in Almaty.

- Saule Kishkimbayeva voluntarily tendered her resignation as Deputy Chairperson of the Management Board.

- Murat Koshenov was elected a Member of the Management Board, effective 8 September.

October

- Halyk Bank and Kazakhstan Temir Zholy, the national railways operator, signed a memorandum on exchanging experience and knowledge in their sectors and providing organisational and IT support when carrying out joint projects.

- A new branch of Halyk Bank Georgia, named Gldani, was opened in Tbilisi.

- Halyk Bank Georgia announced the purchase of premises in Batumi.

November

- On 18 November, Halyk Bank placed its seventh bond issue, totalling KZT100 billion, within the framework of its third bond programme.

- Halyk Bank and UnionPay International (UPI, China) began a joint project to launch unique co-branded payment cards, Altyn UnionPay and Altyn UnionPay Gold.

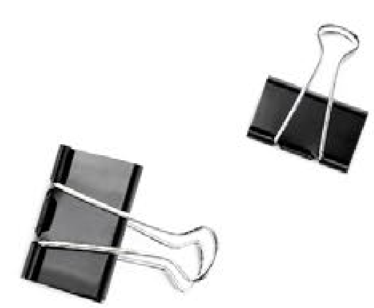
- Halyk Bank completed the transaction to acquire 100% of SB HSBC Bank Kazakhstan, HSBC Bank plc's subsidiary in the country.

December

- HSBK (Europe) B.V. was removed from the Trade Register of the Netherlands Chamber of Commerce due to its voluntary liquidation.

- In accordance with the minutes of the Extraordinary General Meeting of Shareholders no. 35 of 5 December 2014, changes were made to the Charter, Corporate Governance Code and Regulations on the Board of Directors to align them with the requirements given in the Decree no. 29 of the National Bank of Kazakhstan, "On Approving the Rules for Creating a Risk Management and Internal Control System for Second-Tier Banks", of 26 February 2014.

- On 31 December, the Board of Directors voted to voluntarily liquidate the subsidiary Accumulation Pension Fund of Halyk Bank of Kazakhstan. The period set was from 31 December to the full completion of all liquidation procedures, in accordance with Kazakh legislation.



ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

AWARDS

January

- Halyk Bank won the "Best Local Bank 2013 Kazakhstan" nomination in the annual awards held by Global Financial Market Review, an international financial news portal.

- Halyk Finance came first in two prestigious Cbonds rankings of underwriters in 2013:

— For Eurobonds, following its four issues totalling US$1.2 billion in 2013

— For investment banks that underwrite corporate bonds, following its eight issues totalling KZT66.8 billion in 2013.

- In international consultancy Brand Finance's annual Banking 500 rating, Halyk Bank finished in 231st place, up from 334th place in the previous year, which confirms that it has reinforced its position as the leader of Kazakhstan's banking sector in terms of business value.

February

- Halyk Finance won the "Best Corporate Bond in EMEA" category of international magazine EMEA Finance's 2013 Achievement Awards.

- In awards held by the Damu Entrepreneurship Development Fund, Halyk Bank won "Best Bank" in two nominations:

— for outstanding results in its subsidy programmes

— for outstanding results in its loan guarantee programmes.

- Based on the results of a 2014 survey by international financial publication Global Finance, Halyk Finance won the "Best Investment Bank in Kazakhstan 2014" nomination, the third time that it has done so.

April

- Halyk Finance won the "Best Investment Bank in Kazakhstan" nomination in the "Europe Banking Awards 2013", organised by EMEA Finance. This marked the fourth time in a row that it has won the title.

June

- In the Kazakhstan Stock Exchange (KASE) annual awards, Halyk Bank received an award for "Efforts to Ensure Transparency" in the "Listed Companies in the Financial Sector" category, as the leading financial group in Kazakhstan, for its positive reputation among international investors and experts, and for building its business in accordance with principles of transparency.

July

- In the Cbonds ranking of underwriters in the first half of 2014, Halyk Finance came first in the "corporate sector" category for its four issues totalling KZT13.7 billion.

- In the Cbonds ranking of Eurobond organisers in the first half of 2014, Halyk Finance finished in the top 20, following its three issues totalling US$144 million, making it the only Kazakh investment bank to place in the ranking.

August

- In awards held by international financial publication Asian Banking & Finance, Halyk Bank won "Best Retail Bank in Kazakhstan in 2014".

September

- In awards organised by Global Brands, Halyk Bank won "Best Leading Bank in Kazakhstan in 2014".

October

- In a global report by international publication Nilson Report called "Largest Payment Card Issuers and Merchant Acquirers", Halyk Bank was again named the leading card issuer in Kazakhstan.

December

- In the second "Annual Report: Leaders' Experiences and New Standards" conference organised by Expert RA Kazakhstan, Halyk Bank received a laureate diploma in the "Best Annual Report in the Financial Sector" nomination.

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ

HALYK BANK

НАРОДНЫЙ БАНК КАЗАХСТАНА

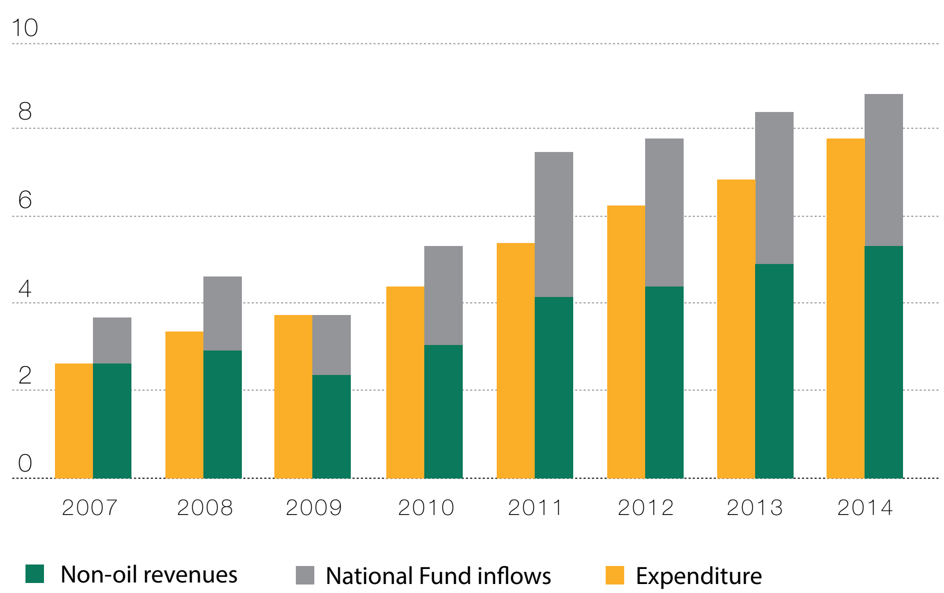
MACROECONOMIC AND BANKING REVIEW

Kazakhstan's economy

The external environment for the Kazakh economy was turbulent in 2014: the outlook for the global economy deteriorated, geopolitical tension increased in the CIS, oil prices fell, the ruble devalued and the dollar strengthened.

As a result, Kazakhstan's GDP grew by 4.3% in 2014, compared with 5.0-7.5% in 2010-13. The country produced 80.8 million tonnes of oil in the year, and Kashagan is now expected to come on stream in 2017.

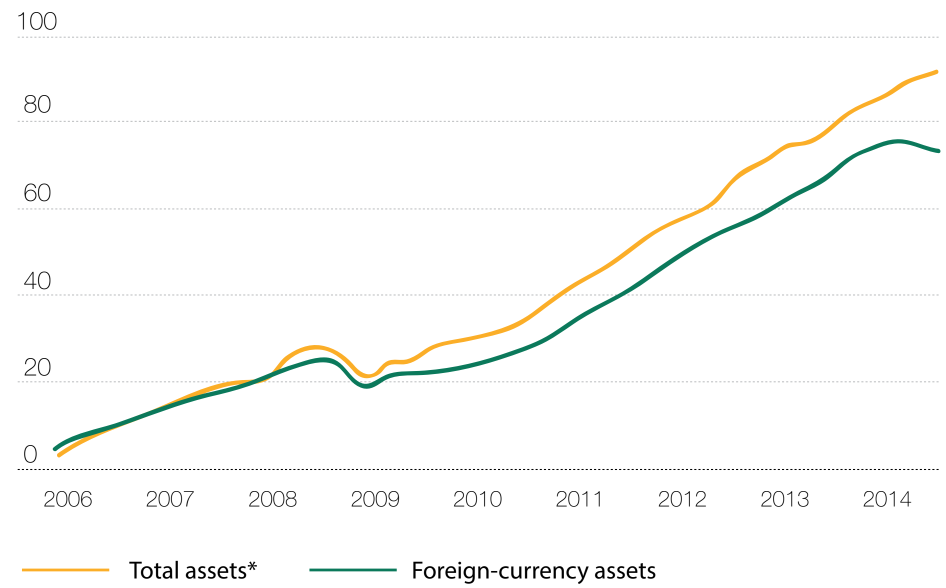
Kazakhstan's fiscal policy in 2014, % of GDP



Source: Ministry of Finance, HF estimates

In late 2014, the foreign-currency assets of the National Fund, which acts as a fiscal saving mechanism, began to decline, as oil revenues fell and more emergency withdrawals from the National Fund were made. During 2014, government bodies and development institutions allocated some KZT1.5 trillion for supporting economic growth.

Assets of the National Fund, US$ bln



*Including assets in tenge
Source: Ministry of Finance, National Bank of Kazakhstan, Bloomberg, HF estimates

In 2014, Kazakhstan's external debt rose slightly overall. After falling early in the year as Alliance Bank was restructured again, the country's debt increased as the government, state-controlled companies and Eurasian Bank issued Eurobonds. In the autumn, the government sector placed US$4.0 billion in Eurobonds, including US$2.5 billion in sovereign Eurobonds. By the year-end, Kazakhstan's external debt equalled US$7.9 billion.

The budget had a deficit of KZT471 billion (1.2% of GDP), while internal and external government debt amounted to KZT31 billion (14.6% of GDP).

In February, the National Bank of Kazakhstan devalued the tenge by 19% to support the competitiveness of the Kazakh economy. Over the year, it made available non-market tenge funding instruments to banks. These included long-term currency swaps, backed by its own balance sheet, to transform foreign currency funding into tenge funding, tenge deposit auctions, and purchases of tenge bonds by the Single Accumulated Pension Fund (SAPF), managed by the National Bank of Kazakhstan.

In 2014, the National Bank of Kazakhstan’s gold and foreign-exchange reserves increased. Inflation reached 7.5%, higher than the 4.8% in 2013, but within the range set by the National Bank. Inflation accelerated following the tenge devaluation in February and the resulting pay rises in the public sector.

In 2015, the National Bank of Kazakhstan began actively making rates on the one-day repo and foreign-currency swap markets, stabilising them at 15%. This was a clearly positive development in terms of monetary policy.

Kazakhstan's banking sector

Last year was one of consolidation for Kazakhstan's banking sector. Halyk Bank completed the acquisition of HSBC Bank's local subsidiary. Kazkommertsbank concluded the purchase of BTA Bank and began to consolidate it. Forte Bank also began to consolidate Alliance Bank and Temir Bank under its brand.

In 2014, the banking sector expanded by 18%. Loans rose by 23% and liquid assets by 18%. Liabilities increased by 19%, driven mainly by deposits, which climbed by 15%, including those of legal entities, up 17%, and individuals, up 12%. Client deposits account for the majority of overall liabilities of second-tier banks, at 71.5%.

Total equity in the sector grew by 14% in 2014. The market share of the five largest banks in terms of assets, loan portfolio and client deposits declined by 3% on average.

The share of foreign-currency deposits held by individuals rose from 44% to 67% over the year, while for legal entities the figure increased from 33% to 52%.

To provide tenge liquidity and maintain the country's foreign-exchange reserves, the government introduced requirements to repatriate assets from overseas; exhorted state-controlled companies to hold deposits in tenge; increased the spread on marginal rates for retail deposits; and made long-term tenge funding available to banks in the form of deposits, swaps and bond purchases. In particular, the National Bank of Kazakhstan began to offer foreign-currency swaps, providing US$1.8 billion in tenge liquidity in doing so. The SAPF, which the National Bank manages, provided KZT 750 billion in long-term funds, two thirds of which were placed at auctions of 10-year deposits and the remainder was invested in bonds of second-tier banks.

In December, the government and the National Bank announced a plan to increase the role of the tenge in the economy. It included raising the coverage of Kazakhstan Deposit Insurance Fund guarantees from KZT5 million to KZT10 million and reducing rates on guaranteed dollar deposits for individuals from 4% to 3%.

While corporate lending rose as the regulator made more long-term funding available, borrowers continued to use it to finance working capital. Retail lending slowed considerably amid regulatory restrictions. Consumer lending increased by 19.0%, significantly less than in 2013, due to the same reason. Mortgage lending also decelerated, and its share in banks' loan portfolios continued to decline. Towards the year-end, as the risk of further devaluation increased and the funding situation deteriorated, the dollarisation of loan portfolios resumed. The share of tenge loans issued in December 2014 equalled 46%, compared with an average of 79% for the preceding months of the year.

Profitability rose and loan quality improved substantially due to write-offs and transfers of non-performing loans (NPLs) off balance sheet. Following the write-off of around KZT847 billion in NPLs, we estimate that their share fell by 7.9% to 23.5%. Profitability in the banking sector increased due to a record share of high-margin consumer lending in loan portfolios and a reduction in provisions. Excluding BTA Bank and Alliance Bank, return on equity in the sector reached 15.7%, compared with 13.1% in 2013 and 8.6% in 2012.

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ

HALYK BANK

НАРОДНЫЙ БАНК КАЗАХСТАНА

FINANCIAL REVIEW

Consolidated statement of profit or loss review

Interest income increased by 15.4% for year-on-year mainly due to increase in average balances of net loans to customers by 10.9% and in average interest rate on net loans to customers to 12.1% p.a. for 12m 2014 from 11.7% p.a. for 12m 2013. Interest expense increased by 2.0% for year-on-year mainly due to increase in average balances of FX term deposits. The increase in interest expense was partially offset by decrease in average balances of KZT term deposits and debt securities issued as well as decrease of average interest rates on debt securities issued to 7.5% p.a. for 12m 2014 from 8.1% p.a. for 12m 2013. As a result, net interest income before impairment charge increased by 24.9% to KZT133.1 billion for year-on-year.

Interest income increased by 12.0% for 4Q 2014 compared with 4Q 2013 mainly due to increase in average balances of net loans to customers by 7.0% and in average interest rate on net loans to customers to 12.3% p.a. for 4Q 2014 from 11.7% p.a. for 4Q 2013. Interest expense decreased by 0.4% for 4Q 2014 compared with 4Q 2013 mainly due to decrease in average interest rate on term deposits to 2.7% p.a. from 3.3% p.a. The decrease in interest expense was partially offset by increase in average balances of FX term deposits and debt securities issued. As a result, net interest income before impairment charge increased by 19.9% to KZT35.4 for 4Q 2014 compared with 4Q 2013.

Impairment charge decreased by 71.6% for year-on-year, mainly due to repayment of indebtedness overdue by some corporate clients in the first three quarters of 2014. During 3Q 2014 and 2Q 2014 the Bank wrote-off (transferred off balance sheet) fully provisioned non-performing loans for KZT14.3billion and KZT57.8 billion, respectively, without legally forgiving claims on the borrowers. As a result, allowances for loan impairment decreased by 11.5% compared with 31 December 2013, whereas provisioning level decreased to 14.8% as at 31 December 2014 compared with 17.9% as at 31 December 2013. The Bank will continue collection of these written-off loans in accordance with its normal business procedures.

Impairment charge for 4Q 2014 increased to KZT7.0 billion compared to KZT0.9 billion provision recovery for 3Q 2014 mostly due to impairment revaluation for one of the corporate borrowers. Allowances for loan impairment increased by 3.4% compared with 30 September 2014, whereas provisioning level decreased to 14.8% as at 31 December 2014 compared with 15.4% as at 30 September 2014.

Provisions against letters of credit and guarantees recovered by KZT4.2 billion as at 31 December 2014 mainly due to expiry of several large-ticket LCs and guarantees during 1Q 2014.

Fee and commission income from transactional banking (i.e. excluding pension fund and asset management) increased by 11.7% for year-on-year as a result of growing volumes of transactional banking business.

Net pension fund and asset management fees increased by 24.4% for year-on-year mainly due to revaluation gains on FX-denominated pension assets as a result of one-off devaluation of KZT in February 2014. On 26 of March 2014 JSC "APF of Halyk Bank of Kazakhstan" completed transfer of assets under management to the JSC "Single Accumulative Pension Fund". Starting from 26 March the Bank does not earn any income from managing pension assets.

Other non-interest income (excluding insurance) increased by 52.2% for year-on-year mainly as a result of increase in net gain from financial assets and liabilities at fair value through profit or loss and increase in other income. Decrease in net gain on foreign exchange operations was offset by an increase in net gain on derivative operations in 4Q 2014 which was mainly attributable to increased volumes of FX swaps with the National Bank of Kazakhstan and positive revaluation gain on those as a result of change in KZT exchange rate in Q4 2014. Growth in other income from KZT1.8 billion for 12m 2013 to KZT5.4 billion for 12m 2014 was mainly attributable to growing volumes of business at one of the Bank's subsidiaries.

Insurance underwriting income (net of reinsurance) increased by 6.5% for year-on-year mainly due to the launch of a new life insurance product in 2Q 2014 and increased volumes of pension annuity in 2H 2014 after release of earlier imposed regulatory restrictions on pension annuity contracts underwriting. The increase in insurance underwriting income was partially offset by several contracts in general insurance made in 2013 and not extended in 2014. Insurance expense (the sum of insurance payments, insurance reserves and commissions to agents) increased by 16.2% for year-on-year mainly as a result of increase in agency fees during 3Q 2014 and 2Q 2014 in life insurance due to the launch of a new life insurance product in May 2014. As a result, insurance underwriting income, less insurance expense, decreased by 18.2% for 12m 2014 compared with 12m 2013.

Operating expenses increased by 13.8% for year-on-year mainly due to increase in salaries of the Bank's employees starting from 1 July 2014, as well as incentive bonuses paid to the Bank's employees in 4Q 2014. The increase in operating expenses was partially offset by 12.6% decrease in depreciation and amortisation expenses due to increase of amortisation period for some classes of fixed assets.

The Bank's cost-to-income ratio decreased to 29.6% for 12m 2014 compared with 31.4% for 12m 2013 and increased to 34.2% for 4Q 2014 from 30.3% for 4Q 2013.

Consolidated statement of financial position review

Total assets increased by 12.1% compared with year-end 2013 mainly in property and equipment (25.1%), loans to customers (11.2%), cash and cash equivalents (11.2%) and available-for-sale investment securities (10.2%).

Loans to customers increased by 7.1% on a gross basis and by 11.2% on a net basis compared with year-end 2013. Gross loan portfolio increase was in corporate loans (3.6%) and retail loans (23.1%), partially off-set by decrease in loans to SME (-1.9%).

Loans to customers increased by 7.9% on a gross basis and by 8.7% on a net basis compared with 30 September 2014. Gross loan portfolio growth was attributable to increase in loans across all types of businesses: corporate loans by 8.4%, SME loans by 2.8% and retail loans by 9.3%.

90-day NPL ratio decreased to 12.9% as at 31 December 2014 compared with 14.1% as at 30 September 2014. The decrease in 90-day NPL ratio was mainly due to repayment of several delinquencies in October and December 2014. The Bank's IFRS provisions covered 90-day NPLs by 114.6% as at 31 December 2014.

Term deposits of legal entities decreased by 31.6% and current accounts of legal entities increased by 32.6% compared with year-end 2013, mainly as a result of partial transfer of KZT funds into FX by the Bank's corporate clients as a result of turbulence on financial markets.

Terms deposits and current accounts of individuals increased by 18.6% and by 4.6%, respectively, compared with year-end 2013 mainly as a result of turbulence on financial markets and flight to quality.

Amounts due to credit institutions remained almost flat compared with year-end 2013 and decreased by 17.6% compared with 30 September 2014 due to decrease in REPO-transactions with the Kazakhstan Stock Exchange and partial withdrawal of funds by financial institutions in the normal course of their business activities. In 3Q 2014 the Bank drew KZT51.5 billion loan from JSC National management holding "KazAgro" to improve loan quality of the borrowers operating in agricultural sector through refinancing existing loans at lower interest rates. In 2Q 2014 the Bank drew KZT20 billion loan from JSC Entrepreneurship Development Fund "Damu" to support small and medium businesses operating in processing industries.

Debt securities issued increased by 64.1% compared with year-end 2013 mainly due to KZT100 billion 7.5% coupon rate senior unsubordinated local bonds issued by the Bank on 18 November 2014 maturing in November 2024, as well as recalculation of USD-denominated Eurobond issues at new KZT exchange rate after KZT devaluation in February 2014.

On 12 February 2015 and on 3 March 2015, the Bank placed with JSC Single Accumulated Pension Fund two other tranches of senior unsubordinated local bonds for KZT21.1 billion and KZT30.0, respectively, both bearing 7.5% coupon rate and maturing in February 2025.

Total equity increased by 21.2% compared with year-end 2013 mainly on the back of net profit earned during 12m2014, partially offset by payment of dividends in amount of KZT18,547 million to common shareholders (or KZT1.70 per common share) and dividends in amount of KZT1,757 million to preferred shareholders (or KZT9.28 per preferred share).

Regulatory Tier 1 capital adequacy ratios k1-1 and k1-2 and total capital adequacy ratio k2 were at 12.4%, 15.0% and 21.2%, respectively as at 31 December 2014 compared with 11.8%, 15.0% and 20.3%, respectively, as at 30 September 2014 and compared with 9.5%, 11.2% and 18.2%, respectively, as at 31 December 2013. Basel Tier 1 capital adequacy ratio and total capital adequacy ratio were at 20.4% and 21.1%, respectively, as at 31 December 2014 compared with 19.8% and 21.0%, respectively, as at 30 September 2014 and 17.2% and 18.5%, respectively, as at 31 December 2013.

ACQUISITION OF A SUBSIDIARY IN KAZAKHSTAN

On 26 February 2014, Halyk Bank concluded an agreement with HSBC Bank to buy 100% of its subsidiary in Kazakhstan, Subsidiary Bank "HSBC Bank Kazakhstan" ("the transaction"). This followed all of the necessary regulatory approvals and the fulfilment of certain conditions (including a successful data migration).

In September, Halyk Bank received approval from the National Bank of Kazakhstan to purchase the subsidiary and acquire the status of a bank holding. Permission from the Agency for Protection of Competition was received in May.

On 28 November 2014, the transaction was completed: the Single Registrar of Securities registered the purchase and sale of common shares in HSBC Bank Kazakhstan between Halyk Bank and HSBC Bank. As a result, Halyk Bank acquired 100% of the 70,500 common shares issued.

On 27 November 2014, the Ministry of Justice re-registered the subsidiary following a change in its name to Altyn Bank.

The transaction totalled KZT30.9 billion. The plan is that Altyn Bank will exist as a separate legal entity.

Over three non-working days, Halyk Bank replaced Altyn Bank's IT and transaction platforms, which belonged to HSBC and could not be transferred to the new owner. The move had been preceded by months of joint preparatory work by the IT and transaction teams at Halyk Bank and HSBC and external developers. Various tests and trial migrations were conducted. The full transfer of Altyn Bank to Halyk Bank's IT and transaction platforms makes the transaction unique for the Kazakh market.

As of 31 December 2014, Altyn Bank had assets of KZT136.7 billion, liabilities of KZT109.3 billion and total equity of KZT27.4 billion. The quality of its loan portfolio is high: at the year-end, its NPL 90+ was 5.5%.

Altyn Bank is a universal bank, providing a wide range of goods and services to retail and corporate clients. Its main areas of focus are corporate banking, retail banking, treasury operations and global markets.

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HALYK BANK
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BUSINESS REVIEW

Halyk Bank's core business focuses on retail, corporate and SME banking. Through subsidiaries, the Bank also provides insurance, leasing, asset management and brokerage services.

Retail banking

Retail deposits

Halyk Bank continues to hold leading positions on Kazakhstan's retail deposit market. At the end of 2014, its share of deposits held by second-tier banks was 20.4%, compared with 20.3% a year earlier. Its share of term deposits was 19.1%, compared with 18.6% at the end of 2013, while the figure for demand deposits was 32.7%, compared with 33.0% at the end of 2013.

The Bank remains the leader among second-tier banks in terms of absolute growth of its retail portfolio, which expanded by KZT105.5 billion in 2014.

Halyk Bank is actively involved in government and social programmes. Within the framework of a property legalisation programme it has established a special savings deposit, "Halyk-Legalisation-2014" (Law "On an Amnesty for Citizens of the Republic of Kazakhstan, Repatriates and People with Residency Permits Regarding the Legalisation of Property"), and promotes it on its website and in branches. As part of its work to financially support charities, within the government educational savings system, the Bank and the "Bobek" private fund opened around 7,000 accounts for young people who have grown up in orphanages, and transferred money from Bobek to them.

Retail lending

The retail loan portfolio of Halyk Bank grew by 14.3% in 2014. In the meantime, overall retail lending in the sector decreased due to regulatory restrictions imposed on consumer lending by second-tier banks. The main driver of retail lending, including last year, has been consumer lending, which accounted for more than 70% of overall loan portfolio growth in 2013 and 2014.

In 2014, the Bank's share of the retail lending market was 13.2%, while the amount of retail loans issued exceeded KZT238 billion, higher than in 2013.

Payment cards

As of the year-end, Halyk Bank remained the leader in the Kazakh banking sector in terms of payment card services. The number of active payment cards issued by second-tier banks was 7,219 thousand, of which the Bank accounted for 47.6% (3,437 thousand).

In November 2014, Halyk Bank and UnionPay International, the global payment system, began a project to launch unique co-branded payment cards, Altyn UnionPay and Altyn UnionPay Gold, which offer greater security during transactions.

One of the Bank's main strategic services is payroll programmes. In 2014, the volume of payroll transfers increased by 13.6% year-on-year, while the number of active cards in circulation rose by 14.3%.

To offer the best possible service, the Bank is expanding its payment card network (ATMs, POS terminals and multi-kiosks) and developing its services in this area.

In 2014, Halyk Bank continued to develop its Pay-me mobile POS terminal project. At the year-end, more than 4,800 merchants had joined the network. Over the year, more than 20,000 transactions exceeding KZT241 million had been made using Pay-me terminals, while the number of POS and mobile POS terminals rose by 53.4% compared with 2013.

At the year-end, Halyk Bank accounted for 6.4% of the banking kiosks and payment terminals, 27.4% of the POS terminals and 25.6% of the ATMs in Kazakhstan.

In addition, there were more than 8,600 Visa PayWave contactless payment cards in circulation nationwide. In 2014, around 2,500 transactions totalling some KZT23 million were conducted with Visa PayWave cards through the Bank's network, while 199 POS terminals that accept contactless cards were installed. By the end of 2015, the plan is to have up to 5,000 such terminals in place. PayWave contactless technology is now in use at payment collection points on the Astana-Shchuchinsk toll road and in many other retail and service outlets.

Social payments

As one of the main financial institutions that disburse social payments in Kazakhstan since 1996, Halyk Bank serves more than 1.5 million pensioners and recipients of benefits. It accounts for 56.0% of social payments in Kazakhstan.

Payments

The Bank has extensive experience of handling utility, tax and other payments from individuals, and it is systematically developing IT, telecommunications, terminals and software products. One of the main drives to improve customer service quality in this area involves offering payment services through remote sales channels. In 2014, the number of payments made through these rose to 2,018 thousand, up 16.8%, while the overall amount reached KZT6.2 billion, up 29.3%.

Remote services for individuals

Internet banking for individuals

In May 2014, the Bank made it possible to manage the SMS Banking service (add or remove mobile phone numbers, change service packages and activate the Midlet mobile application).

In 2014, the number of service providers increased by 393 to more than 1,000, while the number of users soared by 127% to 442 thousand customers. Over the year, the internet banking service handled more than 2.7 million payments and transfers.

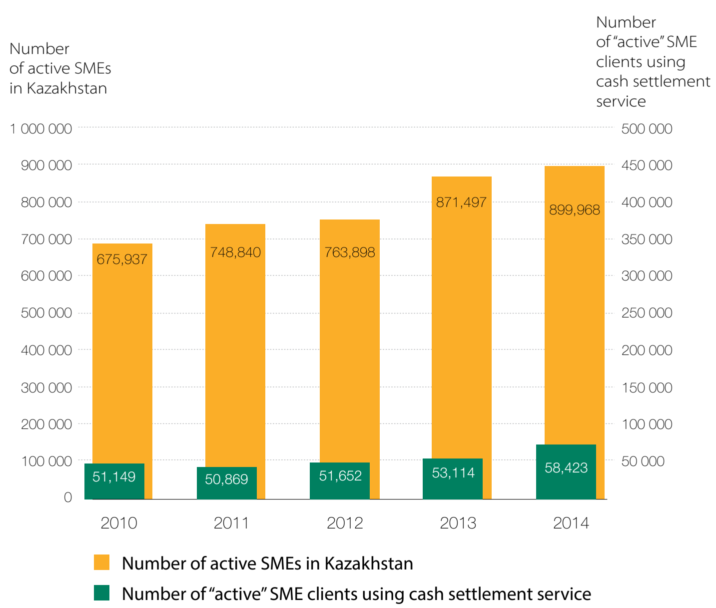
Over the year, the number of users of the SMS Banking service increased to 1,289 thousand, up 45.3% year-on-year.

Payment terminals

In 2014, Halyk Bank bought another 141 payment terminals, taking the total to 289 across its 22 regional branches. More than 150 service providers were added to the network. The number of payments handled exceeded 766 thousand, up 99.2% year-on-year.

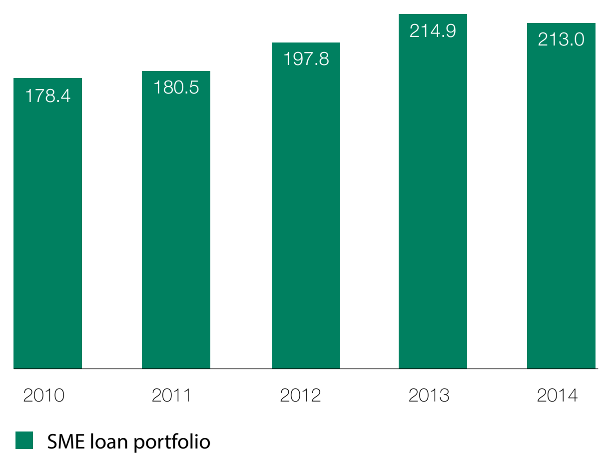
SME banking

Halyk Bank's SME services include lending, transactional banking, leasing, insurance, plastic card issuance and trade finance. Although the Bank does not treat its SME business as a separate segment for accounting purposes, a separate dedicated division, the SME Sales Department, oversees it.



At the year-end, the Bank had 58,432 active SME clients, including 6,564 borrowers, and had issued 17,185 SME loans. In addition, there were 58,432 active SME clients using its cash settlement services, of which:

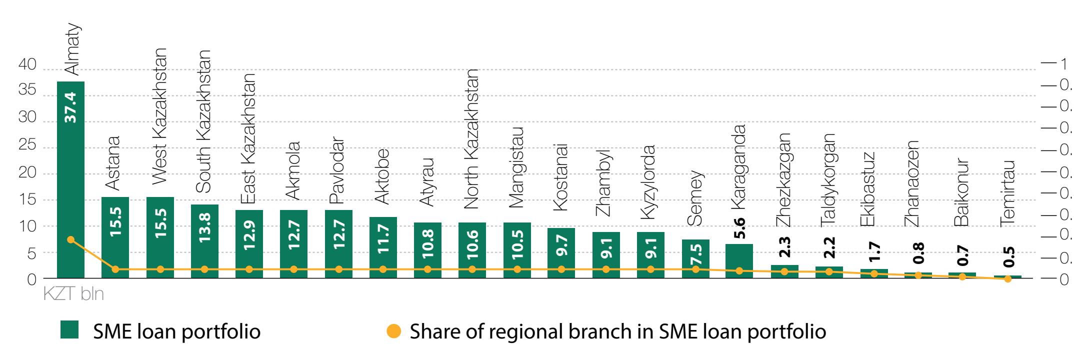
- 14,879 were using more than one product[1], up 12.5%
- 12,569 were using more than two products, up 11.7%
- 2,310 were using more than three products, up 16.9%



The following trends were visible in SME lending:

- Loans to medium-sized businesses increased monthly, totalling around KZT 208.9 billion in 2014, up 5.7% from the KZT197.6 billion in 2013;
- Loans to small businesses rose by 5.5% year-on-year, in line with the 5.2% target in the SME development strategy for 2013-15.

At the year-end, the breakdown of the SME loan portfolio by regional branch was as follows:



[1]Cash settlement services, loans, payroll programmes, acquiring, corporate cards and internet banking
* The SME loan portfolio shrank due to KZT17.6 billion in loans being transferred from the SME to the corporate business.

The largest shares were 17.5% for Almaty Region, 7.3% for each of Astana and West Kazakhstan regions, and 6.5% for South Kazakhstan Region.

Halyk Bank remains actively involved in government programmes to support business in the country. As of the end of 2014, it was the leading second-tier bank in the "Business Roadmap – 2020" programme in terms of loan portfolio and number of borrowers which received loan approvals under the initiative. Halyk Bank's portfolio of loans under the initiative equals KZT150.7 billion, or 14.6% of overall loans from second-tier banks in the programme, placing it second. Of the 5,168 participants in the programme, the Bank works with 14.7%, or 760 borrowers (projects). The Bank has signed 142 deeds of guarantee for its guarantee projects, or 17.5% of the 811 applications approved by the DAMU fund. In addition, the overall amount of guarantees allocated to the Bank by the DAMU fund was KZT2,498 billion, or 14.9% of the overall volume of guarantees provided by the fund to second-tier banks. For each of these indicators and overall, the Bank ranks second in the programme.

In addition to "Business Roadmap – 2020", Halyk Bank is involved in numerous other joint programmes to finance private business with the Damu fund. As of the year-end, as part of the ongoing Damu-Ondiris programme, established in 2009, the Bank had allocated more than KZT2.97 billion to 12 projects.

Halyk Bank also secured the full amount of funding made available under the government programme to support SMEs in the processing industry. The Bank is the undisputed leader among second-tier banks in the programme, having financed 104 projects, or 24% of the total. It has allocated KZT20 billion to these, while approval has been received for 110 projects exceeding KZT21.5 billion. The Bank is among the top three in terms of allocated and disbursed funds.

There is also a programme whereby second-tier banks and other financial organisations provide conditional funding for subsequent lending to joint private businesses in the city of Zhanaozen. As part of this, Halyk Bank has financed eight projects totalling KZT292.2 million. Through the overall programme to develop mono-cities over 2012-20, the Bank has channelled KZT1.4 billion into 72 projects.

In March 2014, Halyk Bank signed an agreement on providing KZT800 million in conditional funding for further lending to female entrepreneurs. This initiative focuses on women who have registered as individual entrepreneurs or established legal entities. By the year-end, 60 projects had received KZT438 million.

In 2014, to increase lending to SMEs, Halyk Bank conducted a three-stage marketing campaign to raise awareness about the financing available to such businesses. As a result, the volume of SME loans that it issued rose by 20.2% year-on-year.

Corporate banking

Halyk Bank's Corporate Banking division offers clients traditional financing, payroll, cash settlement, trade finance, foreign-exchange risk hedging and investment banking services (in conjunction with the Bank's subsidiary). The Bank continues to focus closely on developing remote service technologies, adding new features to its internet banking. For most corporate clients, the features of the system have been customised to specific needs. Cash flow management services, including an overdraft facility, are being introduced for groups of companies.

Halyk Bank's corporate clients include large national enterprises, as well as large and medium-sized companies that hold leading positions in their industries or specific niches. In terms of its scope, corporate banking remains one of the Bank's core activities. Halyk Bank supports and develops partnerships with corporate clients in various industries, focusing on attracting and servicing first-tier clients.

As of 2011, the Bank began concentrating on establishing and maintaining long-term relationships with such clients, strengthening partnerships with existing clients and attracting large companies to join the Bank. The Bank offers its clients a range of solutions that cover almost all financial matters faced by large companies of various types. This approach to corporate clients is based on partnership and was chosen to maintain the Bank's image, as well as to meet large companies' demands for customised solutions to certain problems. Halyk Bank carefully examines customers' needs, taking into account their activities, seeking a deep understanding of the specifics of their businesses, and looking to improve the structure and content of the products and services provided. As a result of this work in 2014, the Bank signed several new co-operation agreements with well known large foreign companies operating in Kazakhstan that did not have accounts in local banks.

Halyk Bank has maintained its share of the financing of domestic companies operating in non-resource sectors. In 2014, the Bank's clients operating in the trade sector continued to increase sales volumes. In the reporting year, the quality of the Bank's loan portfolio in this sector increased significantly, as it divested some borrowers' assets and large-ticket repayments were made early.

After restarting lending for commercial property construction in the previous year, Halyk Bank successfully completed two large-scale projects in 2014. They are expected to have full occupancy in the near future. Some of its corporate borrowers are also working on major transport infrastructure projects. The Bank continues to exercise caution when participating in transactions for new properties, focusing on those with a competitive advantage and engaging reliable developers that are well established, have a good reputation and are sufficiently stable.

Unfortunately, the low quality of the harvest in 2013 and the poor weather during the harvest in 2014 affected the quantity and quality of the grain collected. This impacted the whole of Kazakhstan's agricultural sector, including some of the Bank's borrowers. In general, companies in this market are working on ways to recover, including through instruments of state support.

Many of Halyk Bank's clients are already feeling the effect of state support and continue to recover due to participation in such initiatives as Business Road Map 2020 and the Post-Crisis Recovery Programme. In addition, given the limited tenge liquidity and change in the cost of tenge funding, the National Fund provided substantial financial support to enterprises in the processing industry.

In the reporting period, the number of corporate borrowers participating in various programmes increased to 47, while subsidised debt rose to KZT196 billion and the "Agrobusiness-2020" agriculture business support programme was launched. This year, there are plans to increase the number of projects under such initiatives further.

The Bank is carrying out individual work with all distressed borrowers to improve their financial position. In the reporting year, these financial rehabilitation measures yielded good results, as in 2013. At the end of 2014, Halyk Bank's NPL 90+ portfolio equalled KZT86.7 billion, down by KZT73 billion from a year earlier, including KZT48.2 billion in write-offs of bad debt without legally forgiving claims against the borrowers.

Change in Halyk Bank's corporate portfolio (KZT bln)

The Corporate Business delivered solid results overall in 2014. We retained all major corporate clients, attracted new, reliable borrowers and increased the loan portfolio by over 10%. By the year-end, our corporate client base had reached 1,521 corporate clients, including 220 borrowers. Amid fierce competition, we maintained our market share in the corporate business by offering the most comprehensive range of services, providing an extensive regional network and maintaining strong relationships with our clients.

Subsidiaries

Insurance

Kazakhinstrakh and Halyk-Life

Kazakhinstrakh is a non-life insurance company that provides a comprehensive range of insurance services to all types of legal entities and individuals in numerous sectors.

At the end of 2014, Kazakhinstrakh was one of the largest insurance companies in Kazakhstan, with a share of gross premiums of 13.6%, according to National Bank of Kazakhstan statistics.

As of 31 December 2014, Kazakhinstrakh had total assets of KZT43.5 billion, while its net income for the year was KZT3.1 billion. At the year-end, it had 231 points of sale.

Halyk Life offers various types of personal insurance products, including life, annuity and accident and medical insurance products. As of 31 December 2014, Halyk Life had total assets of KZT22.3 billion. In 2014, it generated net income of KZT171 million. At the year-end, its share of insurance premiums was 16.9%, according to the National Bank of Kazakhstan.

Banking

Altyn Bank

Altyn Bank is a universal bank that offers a wide range of products and services to both retail customers and corporate clients. It focuses mainly on corporate banking, retail and treasury services. As of 31 December 2014, it had four branches and three cash settlement units in Almaty, Astana, Aktau and Atyrau.

At the year-end, Altyn Bank had assets of KZT136.7 billion, liabilities of KZT109.3 billion and total equity of KZT27 billion.

Overseas banks

The Bank provides banking services in Georgia, Kyrgyzstan and Russia through subsidiaries.

Halyk Bank Georgia

Halyk Bank Georgia is a commercial bank incorporated in Georgia that focuses on corporate and SME banking. As of 31 December 2014, it had total assets of GEL 179 million (KZT17.5 billion), a gross loan portfolio of GEL 121 million (KZT11,869 million) and total equity of GEL 42.6 million (KZT1.2 billion). In 2014, it generated net income of GEL 1.8 million (KZT186 million). Last year, there were two significant events for Halyk Bank Georgia: it bought its own office for the Batumi branch and opened the new Gldani branch, its fifth, close to a metro station in the densely populated district of the same name in Tbilisi.

Halyk Bank Kyrgyzstan

Halyk Bank Kyrgyzstan is a commercial bank incorporated in Kyrgyzstan that positions itself as a universal bank. As of 31 December 2014, it had total assets of

SOM3.6 billion (KZT11.2 billion), SOM878.5 million (KZT 2,723 million) higher than a year earlier, while its total equity was SOM1.2 billion (KZT3.6 million). In 2014, it reported net income of SOM87 million (KZT70.5 million) according to Kyrgyz accounting standards and SOM 164 million (KZT508 million) in its IFRS unaudited financial statements.

Among the banks in Kyrgyzstan, Halyk Bank Kyrgyzstan ranks 13th in terms of assets and 10th in terms of loan portfolio (as of 1 October 2014).

NBK Bank

NBK Bank is a regional Russian bank with its head office in Moscow and one office in the Chelyabinsk industrial region. As of 31 December 2014, it had total assets of RUB 6.3 billion (KZT19.6 billion) and total equity of RUB 1.2 billion (KZT3.6 billion). In 2014, its gross loan portfolio increased by 20% year-on-year to RUB2.9 billion (KZT9.0 billion).

Leasing

Halyk Leasing

In 2014, Halyk Leasing financed projects totalling KZT15.8 million in Kazakhstan and RUB40.6 million (KZT192.5 million based on the average RUB/KZT rate of 4.74 in 2014) in Russia.

At present, Halyk Leasing operates in Russia through its branch in Chelyabinsk. As of 31 December 2014, the subsidiary had total assets of KZT6,717 million.

Investment banking

Halyk Finance

Halyk Finance provides a full range of investment banking and asset management services, including sales and trading (with market-making on the KASE), investment portfolio management, consulting, underwriting, M&A advisory, debt restructuring and research. As of 31 December 2014, Halyk Finance had total assets of KZT24,117 million. Its net income in 2014 was KZT2,246 million.

As of 31 December 2014, the total securities portfolio of clients who have brokerage service agreements with Halyk Finance was KZT143.8 billion.

Halyk Finance is the market leader by the number of listed instruments (68). In 2014, it was assigned market-maker status on instruments of the following issuers: KEGOC, Kcell, Kazakhmys, Halyk Bank, ATF Bank, Eurasian Development Bank, Eurasian Bank, Home Credit and Finance Bank, VTB Bank, Food Contract Corporation, Kazakhtelecom, KazMunayGas, Agrarian Credit Corporation, Kazakhstan Engineering, Kazakhstan Mortgage Company and Zhaikmunai.

In 2014, Halyk Finance won the following awards:

- "Best Investment Bank in Kazakhstan 2015" (Global Finance)
- "Best Investment Bank in Kazakhstan 2014" (EMEA Finance)
- "Best Privatization IPO" — JSC KEGOC (EMEA Finance Achievement Awards 2014)
- "Best Swiss Franc Bond" — JSC Kazakhstan Temir Zholy (EMEA Finance Achievement Awards 2014)
- "Best Supranational Bond" — Eurasian Development Bank (EMEA Finance Achievement Awards 2014)
- "Dealmaker of the Year" — Mr. Arnat Abzhanov (EMEA Finance Achievement Awards 2014)
- "Best Investment Bank in Kazakhstan 2014" (Global Finance)
- "Best Investment Bank in Kazakhstan 2013" (EMEA Finance)
- "Best Corporate Bond in EMEA" — JSC KazMunaiGas (EMEA Finance Achievement Awards 2013)
- "Best Investment Bank in Kazakhstan 2014" (Cbonds)
- "Ranking Leader among Underwriters of Corporate Bonds in Kazakhstan 2014" (Cbonds)

In 2014, Halyk Finance became the first and only investment bank in Kazakhstan to receive an international issuer default credit rating (foreign and national currency) of 'BB', the outlook 'stable', and a short-term issuer default credit rating of 'B-3' with support rating affirmed at "3" from Fitch Ratings.

In 2014, in a rating by Cbonds, Halyk Finance was the leading investment bank that underwrote tenge corporate bonds in Kazakhstan in terms of both number and overall volume of placements. According to information from Cbonds, in the year, Halyk Finance placed 10 issues totalling KZT158 billion, or 23.0% of the total number and 41.0% of the overall nominal value of tenge corporate bonds placed on the primary market through the KASE's platform. The overall volume of primary bond placements made by Kazakh underwriters on the KASE in 2014 was KZT389.7 billion.

In addition, in another rating by Cbonds for 2014, Halyk Finance was the leading investment bank that acted as a bookrunner for tenge corporate bonds and foreign-currency Eurobonds in Kazakhstan in terms of both number and overall volume of placements. According to information from the rating, in the year, Halyk Finance placed 13 issues totalling the equivalent of US$1.1 billion, or 28.3% of the total number and 16.8% of the overall nominal value of corporate bonds placed on the market.

Telecommunications

Kazteleport

Kazteleport provides a wide range of telecommunication services for automating the activity of Halyk Bank and its subsidiaries, processing services and services to route authorisation requests among banks connected to Kazteleport through an H2H channel. Kazteleport is the main provider of connection channels to the Kazakhstan Interbank Settlement Centre, KASE and the First Credit Bureau in Kazakhstan.

In addition, in 2014, Kazteleport expanded in various areas:

- data processing centre services using JSC Kazteleport equipment;
- IP telephony services for the Group;
- technical support for the Colvir RS banking system (Halyk Bank Georgia and NBK Bank);
- technical support in the connection and maintenance of the Bank's POS terminals;
- installation of a video surveillance system, fire protection system and structured cabling system;
- supply of consumables for printing equipment.

As of 31 December 2014, Kazteleport had total assets of KZT1,599 million. Its net income in 2014 was KZT304 million.

Cash collection

Halyk Inkassatsiya

Halyk Inkassatsiya provides collection services for banknotes, coins and valuables. While it is positioned in Halyk Group as a subsidiary providing services independently, its activity is closely related to the core business in that it provides cash to sales channels of the Bank — retail banking, which is the financial and consolidating centre of Halyk Group.

Halyk Inkassatsiya is the market leader in various aspects of cash collection in Kazakhstan. In 2014, its fleet of 283 vehicles were all fully armoured. To track their movement, a GPS monitoring system was launched in the year.

As of 31 December 2014, Halyk Inkassatsiya had total assets of KZT2,683 million. Its net income for 2014 was KZT1,322 million. As of the year-end, its branch network included a City cash collection division (in Almaty), 18 branches and 36 outlets.

Pensions

Halyk Pension Fund

As a result of the national pension reforms, on 31 December 2014, the Board of Directors of Halyk Bank voted to voluntarily liquidate Halyk Pension Fund. This was done in accordance with the procedures stipulated in the corresponding legislation. The liquidation period shall be from 31 December 2014 until the full completion of the process.

Specialist organisations

Halyk Project

According to Resolution No. 308 of the National Bank of Kazakhstan dated 21 September 2012, Halyk Bank has been granted Permit No. 1 dated 4 October 2012 to establish a subsidiary to manage distressed assets, Halyk Project.

Halyk Project was established in accordance with the Concept on Improving the Quality of Second-Tier Bank Assets, approved by a resolution of Kazakhstan's Council for Financial Stability and Development of the Financial Market.

On 12 October 2012, Halyk Project was registered with the authorised body of the Ministry of Justice of Kazakhstan and founding documents were received. Halyk Bank was the first second-tier bank in Kazakhstan to receive the regulator's permission to establish a subsidiary to manage doubtful and bad assets.

Halyk Project's main objective is to deal with the distressed assets in Halyk Bank's loan portfolio. It aims to do this by acquiring them from Halyk Bank using borrowed funds and seeking to turn them around before selling them and repaying its loan to Halyk Bank.

As of 31 December 2014, Halyk Project had assets of KZT9.7 billion. In the year, it undertook a major project to resuscitate distressed assets of both the Head Office and regional branches.

HSBK (Europe) B.V.

Following the decision by the Board of Directors of Halyk Bank on 30 September 2014 to voluntarily liquidate the subsidiary HSBK (Europe) B.V., in the Netherlands, on 23 December 2014, HSBK (Europe) B.V. was removed from the Trade Register of the Netherlands Chamber of Commerce (the liquidation process took place from 9 October 2014 to 23 December 2014).

RISK MANAGEMENT

Introduction

Halyk Bank's risk management policy is focused on creating an integrated risk management system in line with the scope and scale of Halyk Group's activity and accepted risk profile, as well as on supporting its business development requirements. Halyk Group continuously develops its risk management system and implements measures to improve its risk identification methods, as well as risk management, assessment and control.

Credit risk management

To ensure effective credit risk management, the Bank has implemented a risk management system and business processes that take into account the segregation of the sales and risk management functions. It has also created an organisational structure that facilitates credit risk management, including collegiate bodies and subdivisions that take part in the credit risk management process.

The Bank manages credit risk by:

- adhering to the principle of "three lines of defence", namely initial analysis of credit risk by the primary subdivision, analysis by the risk management function, and monitoring by the internal audit function;
- setting limits for counterparts depending on the type of (credit) transactions or products;
- diversifying the loan portfolio with a view to mitigating an concentration of risk related to any one borrower, sector or geographical area;
- monitoring the loan portfolio to identify any deterioration in quality at an early stage;
- maintaining adequate provisioning to cover potential losses.

For the purposes of integrated credit risk assessment of corporate borrowers, the Bank uses an internal rating model based on quantitative (financial ratios of the borrower) and qualitative indicators, including the borrowers' business assessment, industry and management quality.

To assess its exposure to adverse changes in foreign and domestic macroeconomic conditions and determine the effect of stress scenarios (level of provisions, migration of credit ratings, ratio of non-performing loans), the Bank conducts regular stress tests on its loan portfolio, including annual bottom-up stress tests required by the regulator.

To ensure effective risk control and monitoring in the retail and SME segments, the Bank relies on an approach based on comprehensive and systematic monitoring of lending programmes. This includes analysis of loan portfolio quality and financing parameters, as well as adjustment of lending models to current changes in the competitive/social and economic environment or in exposure to specific groups of borrowers.

The Bank's system of making lending decisions is based on the delegation of certain powers by the Board of Directors to appropriate collegiate bodies and the establishment of credit limits for each body. For corporate borrowers, loan applications are reviewed by the Head Office Credit Committee. Loan applications that exceed the limits set for the Head Office Credit Committee, as well as transactions with related parties, require further approval by the Board of Directors. For SME borrowers, lending powers are delegated to Credit Committees in the braches and the Credit Committee of the branch network, while retail banking decisions are delegated to the Centre for Decision-Making and the Retail Credit Committee of the Head Office (hereinafter referred to as "RCC"). Standard loans under unsecured retail lending programmes are approved automatically after being reviewed by the programme module, while applications for non-standard unsecured lending are subject to credit approval by the RCC.

In 2014, as part of the RCC's development, the Bank continued to automate the procedures for making lending decisions. As a result, it strengthened control over decision making and reduced operational risks while accelerating the turnaround of loan applications.

To reduce the risk of power concentration and improve the objectivity of lending limits, the Bank has implemented a limit setting and revision methodology for SME loans in branches. The methodology is based on balanced qualitative and quantitative analysis of branch operations, including the development potential of the region, experience of key managers and quality of the branch's loan portfolio.

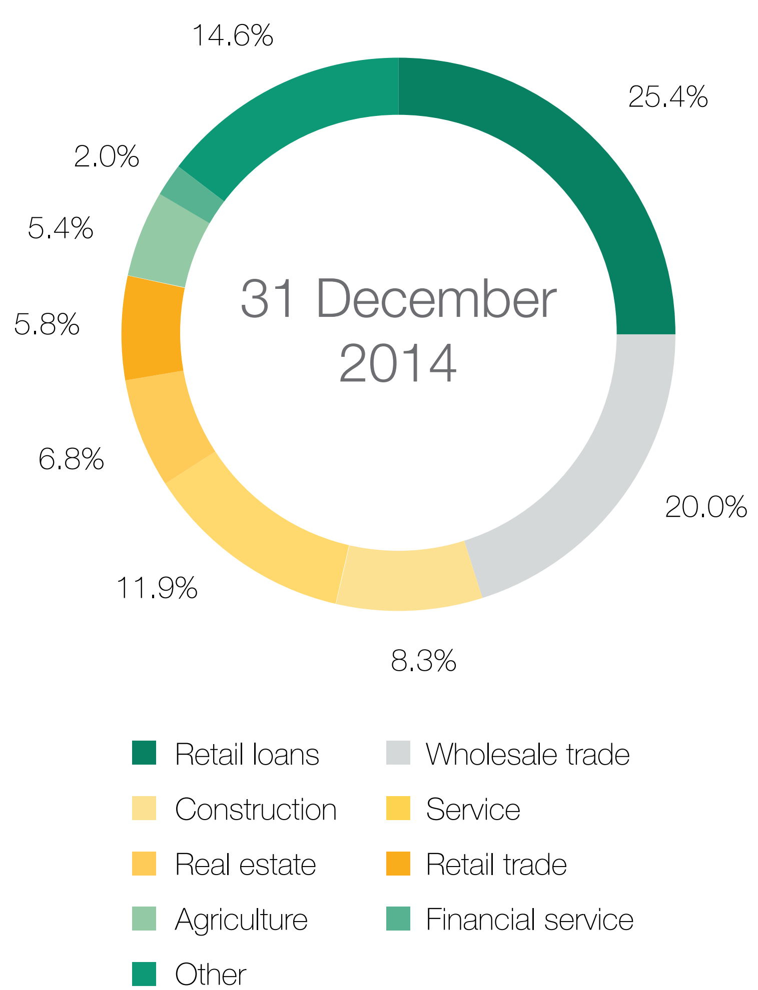
Credit committees of subsidiary banks are also authorised to make lending decisions within specific limits. Loan applications exceeding these are referred to an appropriate body of the Bank. The Bank regularly monitors independent decision-making limits and the authority of the credit committees in subsidiary banks and revises the limits, if necessary.

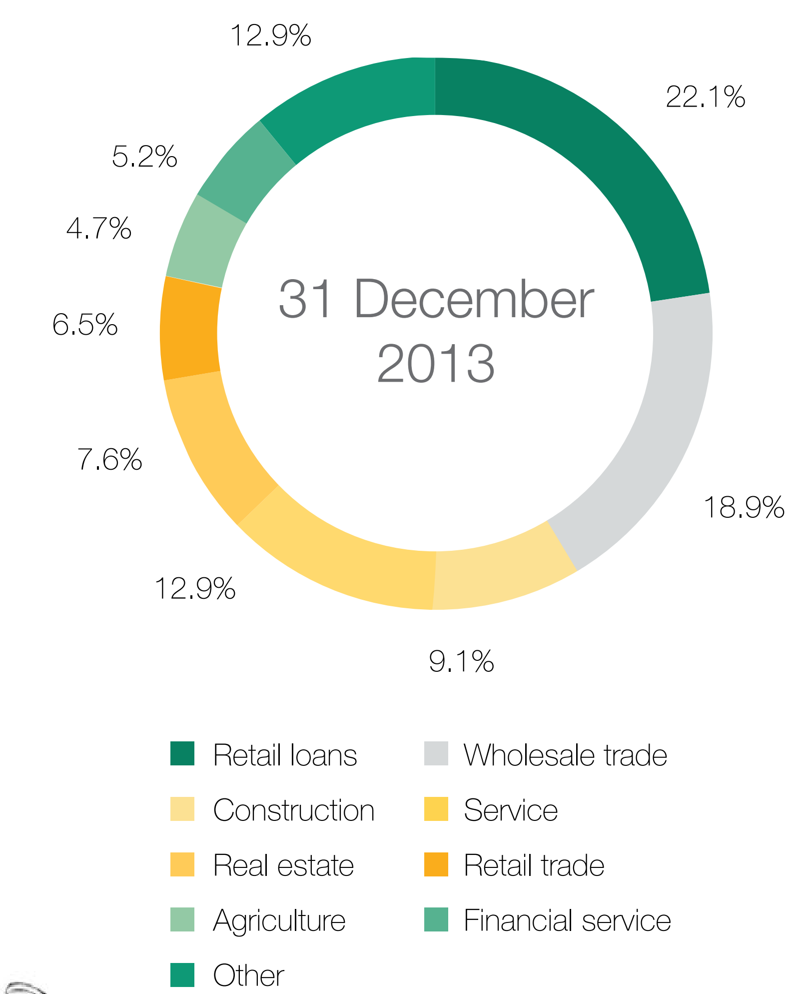
The Bank places great emphasis on developing the risk management system in the Group. Its efforts focus on the monitoring, detection and elimination of weaknesses in existing risk management procedures and internal controls, as well as on the professional development of personnel in its subsidiaries and branches.
Halyk Bank continues its work to improve the quality of its loan portfolio by supporting borrowers under programmes stipulated by the government, which undertook various initiative to help businesses in 2014: "Female Entrepreneurship", "Support for Businesses in the Agricultural Sector" and "Damu Ondyrys 2".

In 2014, the Bank wrote off KZT67.2 billion in NPLs (without forgiving claims) using accumulated provisions, which reduced the volume of overdue loans and improved the quality of the loan portfolio.

As of 31 December 2014, retail loans represented a significant share of the loan portfolio (25.4%), with consumer and mortgage loans accounting for 18.2% and 7.2%, respectively. In terms of industry breakdown, the largest segments were wholesale trade (20.0%), services (11.9%), construction (8.3%), and real estate (6.8%).

Breakdown of the Bank's loan portfolio by sector, %



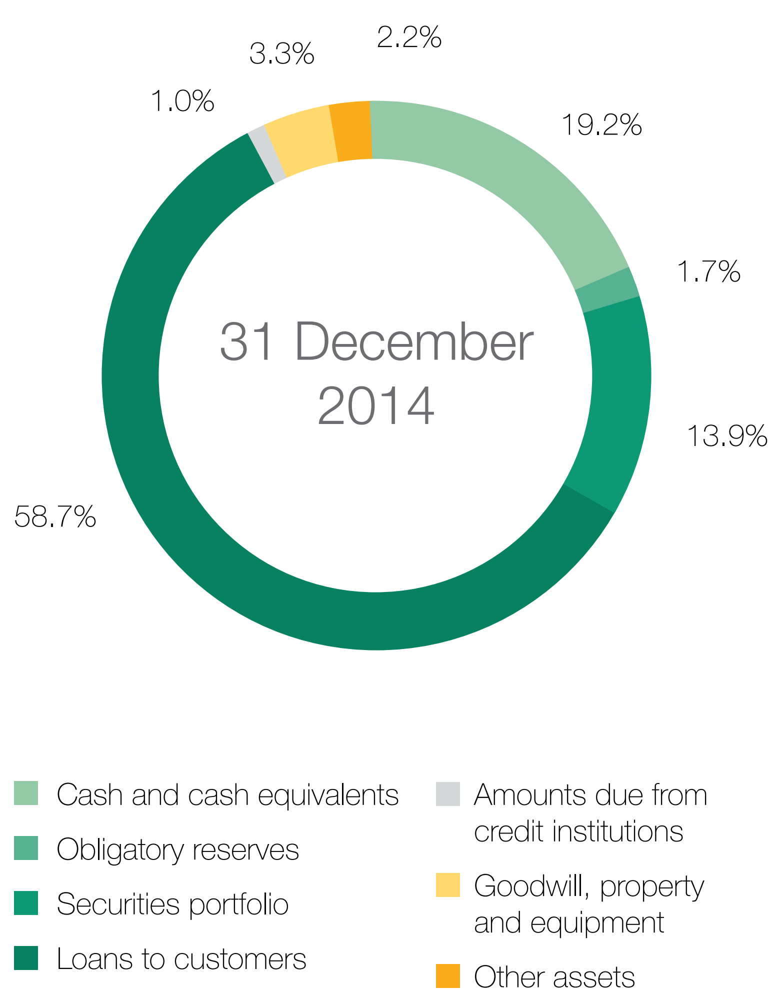


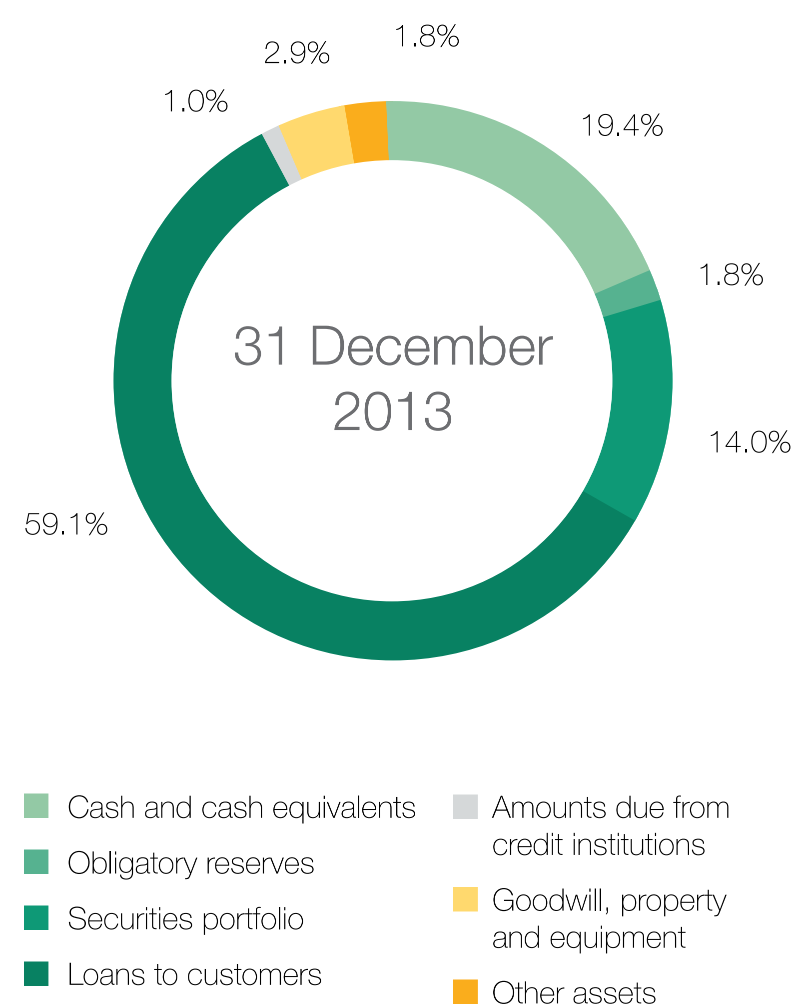
Asset/liability management

To create an optimal structure of bank assets that ensures a balanced approach to managing the risk-return ratio, the Group invests in a spread of domestic and overseas assets, diversified in terms of banking products, industry, currency and maturity.

In 2014, the breakdown of the Group's assets changed insignificantly and was as follows:

Breakdown of the Bank's assets, %





In 2014, the Group's total assets increased by 12.1%. This was mainly due to the tenge devaluation in February, which caused the tenge value of the Group's assets denominated in foreign currency to soar. Another key factor was the major increase in the loan portfolio, which rose by KZT165.8 billion (up 12.4%) in absolute terms. As a result, the loan portfolio remains the largest item among the Bank's assets: as of 31 December 2014, it accounted for 58.7% of the total.

Other key assets are cash and equivalents (up 11.2%) and investments in securities (up 11.0%). The increase in the former was due to changes in Kazakh banking regulations, which obligated banks to place some of their funds (capital) domestically to boost lending in the country. As a result, Halyk Bank took steps that changed the composition of its balance sheet, notably increasing its correspondent account funds in the National Bank of Kazakhstan and reducing its funds placed with overseas financial institutions. This was also done to enable Halyk Bank to meet the greater demand for foreign currency following the tenge devaluation and expectations of another similar move.

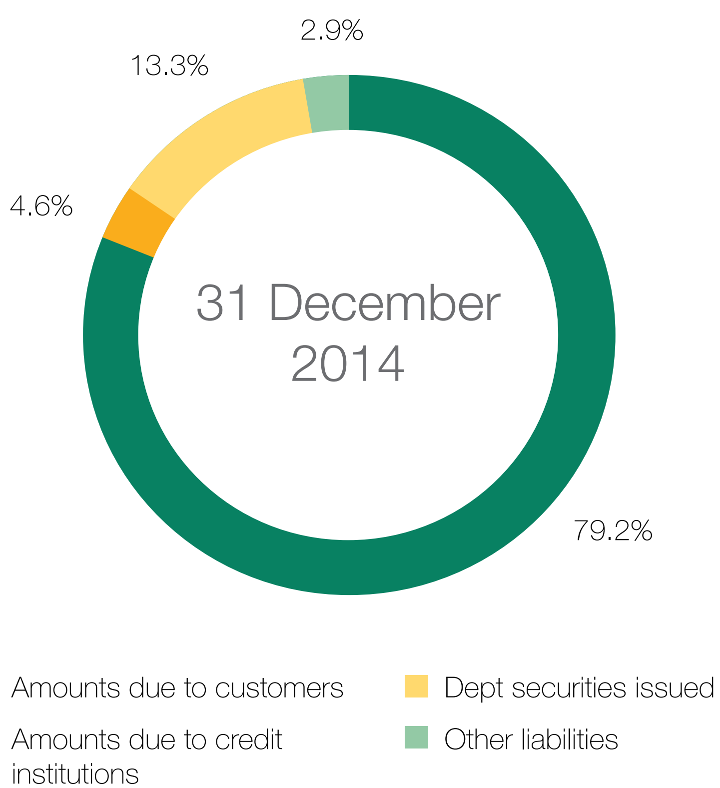
In 2014, investments in securities rose by KZT38.6 billion (up 11.0%) due to the Bank's purchases of Eurobonds placed by mainly Kazakh issuers. Property and equipment also increased by KZT20.9 billion (up 28.9%), which was mainly related to the purchase of a land plot with an unfinished construction project.

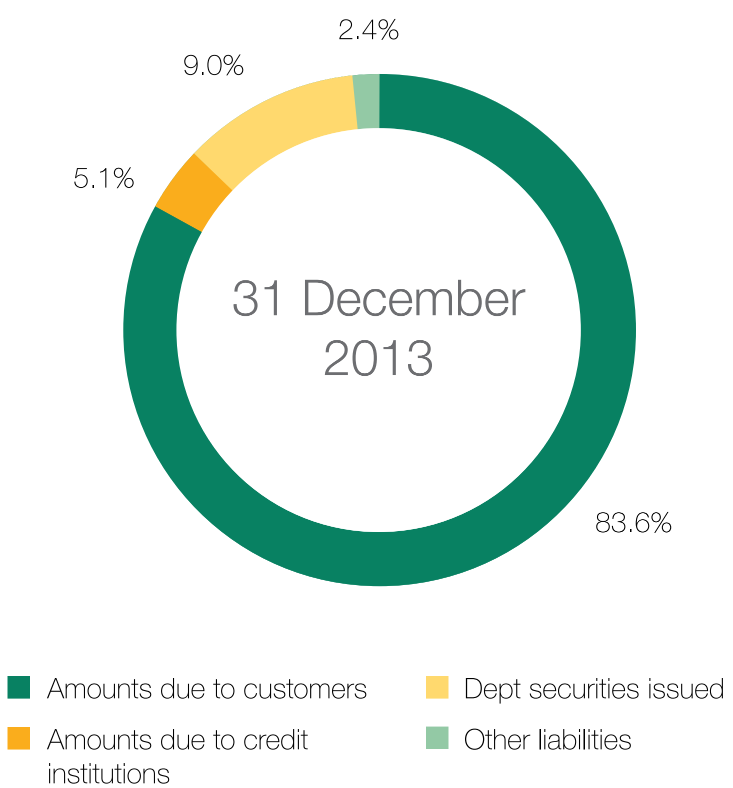
The Group regularly checks its limits for counterparty banks for consistency with its risk appetite. Whenever the Group identifies any negative factors affecting the operations of its counterparty banks and/or their countries of operation, relevant adjustments are made immediately to reduce the amount and term of such limits.

For liquidity management purposes, the Bank maintained a stable and diversified structure of liabilities, which consisted of borrowings and deposits with fixed maturities and liabilities payable on demand.

The breakdown of the Bank's liabilities in 2014 and 2013 was as follows:

Breakdown of the Bank's liabilities, %





In 2014, the main items that changed in the breakdown of liabilities were debt securities issued and amounts due to customers. In particular, in November, the Bank placed a KZT100 billion, 10-year bond carrying a fixed biannual coupon of 7.5%.

In 2014, the main sources of funding included deposits and current accounts from legal entities and individuals. At the year-end, amounts due to customers had increased by KZT81.6 billion (up 4.6%) in absolute terms and remained the largest liability item, accounting for 79.2% of total liabilities in 2014, compared with 83.6% in 2013.

At the same time, the breakdown of the deposit base changed significantly, as the share of current accounts of legal entities and retail deposits increased. In particular, term deposits decreased by 4.7%, while current accounts grew by 24.4%. Overall, the main change was in amounts due to legal entities, while the positive trend in retail deposits amid growing current accounts, seen in 2013, continued in the year.

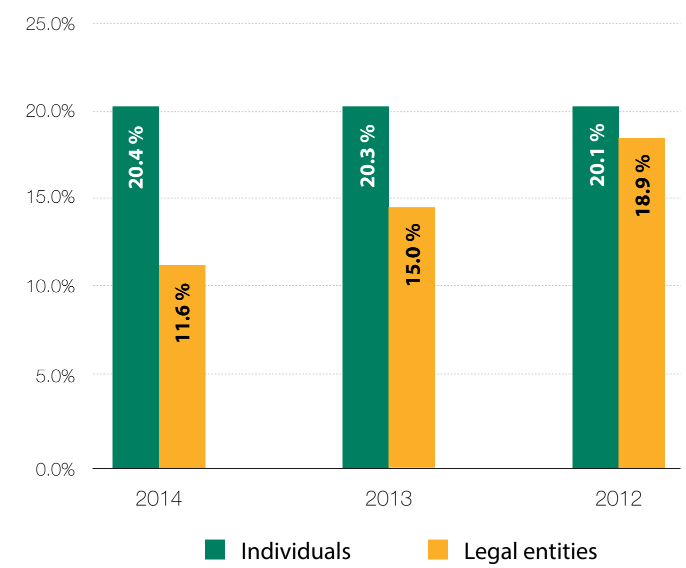
In 2014, amounts due to individuals increased by KZT127.8 billion (up 15.8%), while amounts due to legal entities decreased by KZT46.2 billion (down 4.8%). These changes reduced the concentration of major sources of funding and, consequently, the liquidity risk.

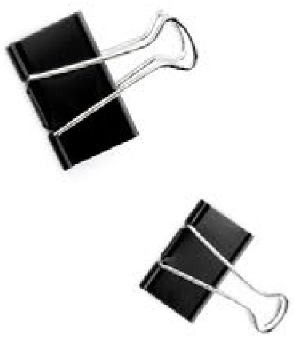
The Bank's focus on raising funds in the domestic market helped it to maintain the leading positions in the customer account market. For example, the Bank is the market leader in terms of retail deposits with a market share of 20.4% as of 31 December 2014 (compared with 20.3% a year earlier).

To assess its exposure to liquidity risk, the Bank conducts regular stress tests showing the impact of the outflow of customers with the highest concentration on the Bank's liquidity position, as well as annual bottom-up stress tests as required by the regulator.

Amounts due to customers, KZT bln

Market share by amounts due to customers, %





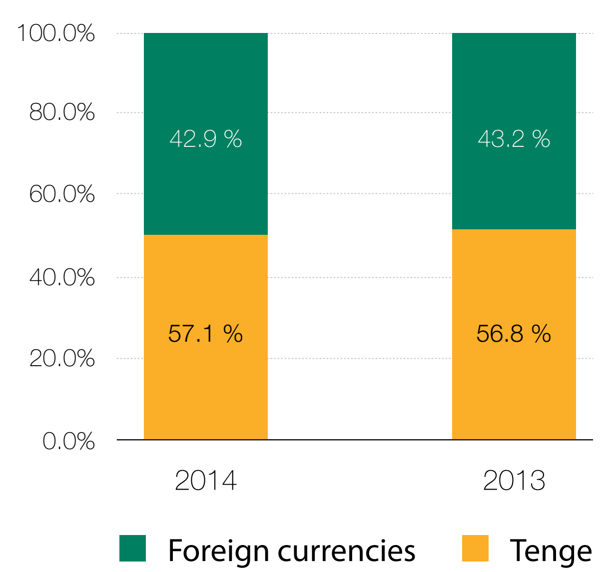
Market risk management

In 2014, the Bank adhered to its conservative policy on currency position management, maintaining neutral positions in all currencies, except for US dollars.

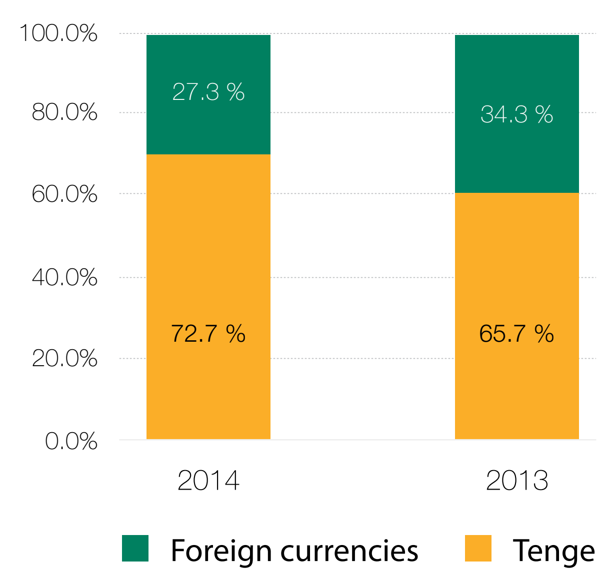
In 2014, the breakdown of assets by currency changed insignificantly. By running its business and managing risk effectively, the Bank was able not merely to preserve its assets in local currency, but also to increase them (by 12.4%). Among other factors, this was made possible by the Bank's use of instruments offered by the National Bank of Kazakhstan to support long-term tenge liquidity. Thus, tenge assets accounted for 57.1% of total financial assets, while the share of tenge loans rose from 65.7% to 72.7%.

Following the tenge devaluation in February and given expectations of another similar move, the Group's deposits in foreign currency, particularly the US dollar, swelled by 53.9%, while those in tenge shrank by 34.5%.

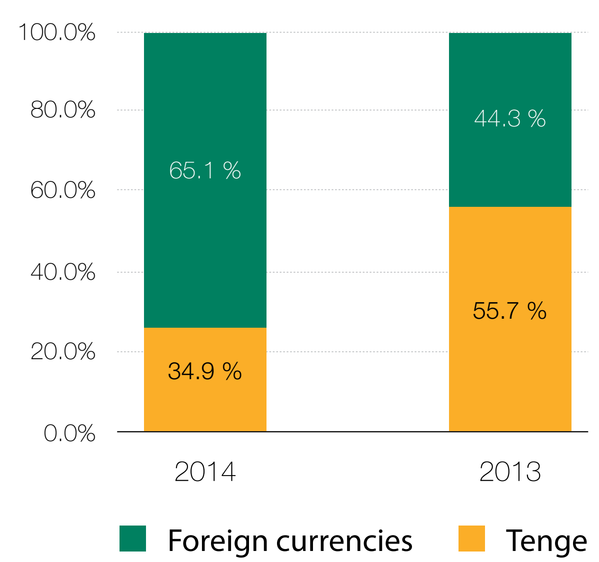
Breakdown of assets by currency, %



Breakdown of net loans by currency, %



Breakdown of amounts due to customers by currency, %



The Group has identified the following sources of interest rate risk: interest rate risk on securities portfolios and interest rate risk resulting from the mismatch of maturities (interest rate re-pricing) of assets and liabilities sensitive to interest rate changes (risk of interest rate changes). The Group manages the risks of changes in interest rates and market risk by adjusting its interest rate position and maintaining a positive interest margin.

Internal limits that restrict the level of market risk (currency, interest rate, price risks) include the stop-loss limit, expected shortfall and DVBP, and are monitored daily. The limits are regularly reviewed for relevance and correlation with market conditions and the Group's risk appetite.

Operational risk management

In the normal course of its business, the Bank is exposed to operational risk. The operational risk is defined as the risk of losses resulting from inadequate internal processes, systems, human factors or external events. These include legal risk (and exclude strategic and reputational risk) and:

- risk related to uncertain inadequate organisational structure, including allocation of responsibility, reporting lines and management;
- risk related to ineffective IT strategies, policies and/or standards and software deficiencies;
- risk related to insufficient information or improper use of information;
- risk related to improper management of personnel and/or insufficiently qualified employees;
- risk related to ineffective business processes or weak supervision of internal documents and rules;
- risk related to unforeseen or uncontrollable external factors impacting the Bank's operations;
- risk related to internal documents not complying with legislative requirements;
- risk related to employees' actions that might impact the Bank's activities and fraud.

The operational risk management unit within the risk management function of the Bank has developed and implemented various operational risk management tools, such as:

- The Bank performs operational risk assessments when launching new products/services, systems and business processes, or implementing major changes thereto, and also when there are significant changes in the organisational structure. ORAP is a fully functional and widely used tool, and it covers the most significant areas of the Bank's operations. In 2014, the above projects covered such business areas as remote banking, retail lending, retail deposits, etc.

- Assessments of existing risk management practices and systems were conducted at two subsidiaries. As a result, appropriate risk-mitigating measures have been developed to improve the efficiency of controls over the most significant risks.

- The Bank regularly collects and analyses operational risk events, which are registered and classified as appropriate in a special database. The information collected is used to generate management reports on operational risks to support decision about approving corrective actions to minimise overall operating losses.

- The Bank continues to develop an operational risk management tool, Key Risk Indicators (KRI). They and their levels are subject to periodic review/updating and represent an integral part of management reports on operational risks.

- The Bank has developed and approved a method for identifying and calculating acceptable operational risk and evaluating the effectiveness of its operational risk management. It enables acceptable levels to be calculated for various divisions with a view to minimising the impact of any operational risks.

- The operational risk management unit is a permanent member of working groups on various projects at the Bank, as well as focusing on fraud elimination, investigating the causes of damage to the Bank, and creating commissions to analyse problems and risk areas with a view to developing appropriate mitigation measures.

Business continuity management

To ensure that it can respond rapidly and effectively to emergency situations, the Bank maintains systems and resources to manage and support business continuity, which include legal documents, infrastructure, competent employees and other items.

The core of the Bank's business continuity management infrastructure consists of a Disaster Recovery site in Astana and two backup facilities in Almaty, which feature all of the necessary equipment and technology for dealing with incidents. In addition, following the results of an impact analysis on the Bank's activities in 2014, the Management Board decided to open a regional data processing centre in the Pavlodar regional branch and transfer all of the critical business processes there. It also decided to launch a new embossing centre in Astana as part of measures to ensure continuity in issuing bank cards.

The Bank seeks to maintain a high level of business continuity management skills and knowledge among employees through training sessions. In particular, in 2014, to raise awareness of business continuity among managers, the Bank and Ernst & Young organised a joint two-day training seminar on the subject.

To identify and develop the skills needed during incidents, the Bank regularly conducts exercises and tests under its business continuity and recovery plan and its separate elements, whereby employees who are the members of special recovery teams relocate to the backup facilities. In addition, the Bank tests its ability to switch critical information systems to its backup servers. In 2014, more than 10 types of business continuity management drills and tests were conducted.

Compliance risk management

The Bank defines compliance risk as existing and potential threats of adverse consequences for its business. These include expenses (losses), reputational impact, implications arising from violations of or non-compliance with Kazakh legislation, rules, regulatory requirements, prescribed practices, internal procedures and policies of the Bank and ethical standards. These in turn include, but are not restricted to, standards of conduct on the market, resolution of conflicts of interest, honest customer service, and a high quality of customer consulting.

To ensure an effective system of corporate governance and internal control, and to evaluate and monitor compliance risk, the Bank has established a Compliance Service. It consists of the Compliance controller, who reports to and is elected by the Board of Directors, and other units whose daily work focuses on minimising compliance risks (compliance participants) and which report to the Compliance controller regarding the function's performance. All communication between the Compliance controller and participants is coordinated by the Compliance Division. The work of the Compliance Service is governed by the principle of independence, based on four interrelated pillars:

1. The Compliance controller coordinates the work of the Compliance Service;

2. There are no conflicts of interests;

3. Free access to any information and employees is assured (as part of their work responsibilities);

4. Official status is assured.

The Bank manages compliance risk by:

1. Continuously monitoring Kazakh legislation;

2. Monitoring the compliance of authorised persons and employees of the Bank with Kazakh legislative requirements;

3. Ensuring that employees and subdivisions correctly understand and apply Kazakh legislation and the Bank's internal documents;

4. Identifying, evaluating, monitoring and mitigating compliance risks, including when developing and structuring new banking products and services, introducing new business processes and technologies, and so on;

5. Ensuring that mandatory requirements of the regulator and other official bodies are met on time and to the required standard;

6. Organising compliance monitoring (checks) of subdivisions' activities by appropriate compliance staff;

7. Controlling access to insider information and preventing potentially illegal use of such information by insiders, including by keeping up to date a list of people with access to such information;

8. Ensuring that it complies with measures to combat money laundering and the financing of terrorism (AML/CFT);

9. Ensuring that employees comply with the internal requirements on the prevention of conflicts of interest, etc.

When carrying out its duties as the main compliance channel, to minimise and prevent potential compliance risks, the Compliance Division:

1. Organises and coordinates self-assessments by subdivisions of their compliance with Kazakh legislation and the Bank's internal documents. Self-assessment compliance risk reports are submitted to the Management Board for review. Based on the findings, action plans to mitigate the risks identified are prepared and the Compliance Division oversees their implementation.

2. Identifies and evaluates the level of compliance risk faced by the Bank, appraises the effectiveness of the Bank's control system, and evaluates the residual compliance risk. The results are sent to the Management Board and the Board of Directors. To enhance control and mitigate residual compliance risks, an action plan is prepared and overseen by the Compliance Division.

3. Organises regular compliance training for the Bank's employees, including in AML/CFT. New recruits and existing employees in the subdivisions responsible undergo annual training. In 2014, both face-to-face and e-learning courses were held, in accordance with the approved training plan. Their aim was to raise awareness among the employees responsible about compliance and AML/CFT procedures, which also helps to minimise compliance risk.

In addition, one of the Compliance Division's main objectives is to ensure that the Bank complies with Kazakh legislation on AML/CFT, for which the following procedures have been established:

1. Before entering into a commercial relationship with a client, the appropriate checks are conducted (know-your-client, or KYC), including politically exposed person (PEP) and anti-terrorism checks. If such checks cannot be completed satisfactorily, a commercial relationship will not be established.

2. In accordance with Kazakh AML/CFT legislation, the Bank has a duty to inform the relevant official bodies about client transactions that are subject to financial monitoring (threshold and suspicious). The Bank has implemented all of the necessary information systems to recognise transactions that are subject to financial monitoring, based on various identified types, schemes and scenarios, and to send the respective data to the authorised body. In addition, there are subdivisions responsible for identifying suspicious non-automated transactions, based on certain criteria.

Capital management

In 2014, the Bank continued to manage its capital to ensure the business continuity of all Group companies and optimise its debt-to-equity ratio. In the reporting period, the Bank ensured compliance with the capital requirements set by regulatory standards and Basel Accords.

From 2015 to 2019, banks are expected to implement a gradual capital reform under Basel III, driven by higher capital adequacy requirements for banks. The Basel III capital adequacy regime is risk-based and implies a reform of the banks' capital. The Bank believes that the transition to new standards will not require an additional capitalisation of the Bank.

To assess its exposure to the risk of adverse changes in the macroeconomic situation, the Bank runs regular stress tests to test the sensitivity of capital adequacy ratios to changes in various macroeconomic factors, including annual bottom-up stress tests required by the regulator.

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ

HALYK BANK

НАРОДНЫЙ БАНК КАЗАХСТАНА

SOCIAL REPORT

As a systemically important financial institution in Kazakhstan, Halyk Bank adheres to the principles of business being actively involved in solving social issues. In particular, it promotes traditional social values, the country's cultural heritage, education, sport and medicine and supports disadvantaged social groups.

Halyk Bank places a special emphasis on sponsorship and charity. Accordingly, in April 2012, the Bank established a Social Responsibility Committee under the Board of Directors, which controls and evaluates corporate social responsibility policies. Proposals developed by the Committee are of an advisory nature. The Committee monitors the compliance of the Bank's operations with legislative requirements regarding corporate social responsibility, and prepares recommendations to the Board of Directors for decisions on issues within the Committee's jurisdiction. Since its establishment, the Committee has had four meetings to hear reports and approve action plans for the next year.

Over the last 13 years, the Bank has established a key objective in its social policy: to provide support to disadvantaged social groups (orphans, disabled people, veterans, and children with disabilities). The Bank has been following the above policy and recognises that it underpins the main social responsibility principles of a large financial institution that is working to increase the welfare and prosperity of Kazakh society.

Caring for the country's future

One of the main objectives in the Bank social policy is to support orphans, children from disadvantaged families and children in care. Young people represent the future of Kazakhstan, so the Bank actively supports charitable projects that provide assistance to medical and social facilities for children.

1. Ayala Charity Fund projects

Halyk Bank has been a partner of the Ayala Charity Fund since 2008. Since 2011, all clients and employees of Halyk Bank have been able to make donations to the fund through the internet banking system for individuals.

In December 2012, the Bank signed a five-year memorandum on cooperation with the fund. The main objective is to develop cooperation in the implementation of the fund's social projects to support children's medical and educational institutions in Kazakhstan.

Since then, the Bank has participated in several large-scale projects of the fund, namely:

- *Health of a Nation Starts From Birth* – a project to supply phototherapy equipment for the treatment of neonatal icterus in maternity hospitals and maternity units of central district hospitals in Almaty Region.

- *'I Also Want to Live'* – a project to develop children's cardio surgery in Kazakhstan. Under the project, the Syzganov National Surgery Research Centre was given medical equipment for the surgical wing and the intensive care unit.

- *'Breathe, Baby'* – a project to supply medical equipment for intensive care units in maternity hospitals and perinatal centres across Kazakhstan.

- *'Breathe the Life'* – a project to supply medical equipment for the Akmola regional children's hospital and the Uralsk regional children's multi-purpose hospital.

In 2014, the Bank took part in various projects organised by the fund, including:

- the installation of a children's playground at the Alatau children's clinical sanatorium (more than KZT2 million)

- the *"Saving Children's Sight"* project (more than KZT12.5 million)

In late 2014, Halyk Bank and the Ayala fund organised another "Letter to Father Christmas" charitable project in the reception of the Bank's Head Office. As part of this, a Christmas tree was put up for children to hang their letters on. Employees could take an envelope, read a child's letter to Father Christmas and make their wish come true by depositing an envelope with money in a special box.

Overall, the Bank has allocated more than KZT520 million to Ayala fund projects including KZT163 million in 2014.

2. Sabi Charity Fund projects

In 2012, the Bank signed a five-year memorandum on cooperation with the Sabi Charity Fund to assist it with social projects to support children's medical and educational institutions in Kazakhstan.

Projects include the "Educational Project", "Alem Programme to Support Young Talent", the construction of the "Children's Family Tree" in Astana, the construction of sports and children's facilities, the Invo Taxi, and others.

Overall, the Bank has invested more than KZT440 million in the fund's projects. In 2014 alone, it allocated KZT148 million.

3. Bobek private fund projects

Since 2012, the Bank has been helping to implement various projects organised by the Bobek private fund. In 2014, it donated KZT20 million to provide social help and training for children who are gifted, living in care, or from a large or disadvantaged family. To date, the Bank has allocated more than KZT40 million to Bobek.

4. Projects to sponsor children's homes

Through its branches, the Bank provides as sistance to 35 orphanages, boarding schools and specialised children's homes across the republic. Regular assistance includes the improvement of material and technical conditions: the purchase of furniture, equipment, clothes and office supplies; and the organisation of holidays, sports activities and educational events.

To stimulate the creative initiative of children from these facilities, the Bank has introduced a Children's Arts page on its corporate web site. Halyk Bank assists the sponsored facilities with selling handcraft items made by children and purchasing materials for lessons. In 2014, the Bank and the children's facilities that it sponsors conducted various events for Nauryz (the spring equinox), Children's Day, Knowledge Day and New Year. The Bank's employees were particularly active in helping to organise events and collect clothes, books, toys and donations, which were used to buy vital goods for the children facilities in Almaty and Almaty Region.

Nurturing the tree of knowledge

Halyk Bank has traditionally helped children from children's homes receive a higher education and proudly establish their own independent life.

Halyk Students (Narodniye Studenty), a project for graduates of sponsored children's homes

Another large social project that Halyk Bank continued to sponsor in 2014 was the Halyk Students Programme, launched in September 2007. This special charity initiative was designed for young people from sponsored children's homes from different regions of Kazakhstan. It provides them with the opportunity to receive a higher education and receive a Kozhakhan Abenov scholarship, established by Halyk Bank.

In August 2014, the Bank organised the fourth traditional meeting with former participants of the Halyk Students Programme who had graduated from Kazakh universities. The programme has helped 39 young people from sponsored children's homes and boarding schools to receive a university education, while 14 graduates were employed by the Bank. At present, 6 children participate in the programme. They have the unique opportunity of pursuing a career at Halyk Bank and other Halyk Group companies.

Overall, the Bank had invested more than KZT45 million in the Halyk Students Programme and around KZT2.5 million in 2014-15 alone.

Encouraging creative potential

For several years, Halyk Bank has been providing various types of support to promote the culture and art of Kazakhstan a key part of its heritage.

- In recent years, the Bank has helped to support opera and ballet, and it acted as the general sponsor of the second theatrical season at the Astana Opera Theatre in 2014-15, pledging KZT85.9 million.
- The Bank also supported a concert by the legendary music group Dos Mukasan in Almaty, acting as the general sponsor, while Almaty Television and Radio organised the event. The amount donated was KZT10.4 million.
- In another contribution to developing the country's culture, the Bank donated KZT 2 million towards publishing the photo album "Assy: the Silver Valley".

Conquering the heights of sport

Halyk Bank plays an active role in sponsoring Kazakh sportspeople who represent their country at international events, sportspeople with disabilities and participants from children's homes. It also supports sporting events and helps to develop sport within the country where possible, as part of one of the main priorities in its social policy.

"Halyk League (Narodnaya Liga)"

1. Established in 2005, Halyk League is a social sport project to promote healthy lifestyle and support an active basketball movement involving young people from sponsored children's homes and boarding schools. The project promotes passion for the sport and helps to organise children's free time. Given the growing level of team training and desire of children to participate in the Hope Cup Basketball Championship of Kazakhstan, in 2012, the Championship was reorganised into the official Basketball Championship of Kazakhstan among children's homes and boarding schools, with the support of the National Basketball Federation of Kazakhstan.

   In April 2014, the Bank successfully organised the second leg of the 2013-14 Championship, supported by the National Basketball Federation of Kazakhstan. Eighteen children's homes and boarding schools participate in the project; more than 500 children from orphanages take part in training annually. Over the nine years of the project, the Bank has invested over KZT 237.6 million in it. In 2014, the Bank pledged around KZT30 million towards developing the project.

2. Since 2011, the Bank has been sponsoring the Gymnastics Federation of Kazakhstan and has donated more than KZT55 million in that time. In 2014, the Bank pledged KZT20 million. The funds have helped professional gymnasts to excel at international level: at the second Youth Sport Games, the Kazakh team won the maximum number of medals.

3. Another major sports project aimed at promoting healthy lifestyle in 2014 was the third Courage to Win marathon in Almaty, of which Halyk Bank was an Honorary partner for the second year in a row. The event was organised with Sport Center, and as part of an official agreement KZT15.4 million in sponsorship was donated. The two parties also organised the Astana Motors Sprint Race, a cycling competition. An Honorary partner in the event, Halyk Bank gave KZT7.3 million in sponsorship.

4. The Bank also supports regional sports organisations. In 2014, it sponsored the OzenMunayGas football club, pledging KZT10 million.

5. In 2014, Halyk Bank continued to support the Paralympian movement, giving financial aid to the Special Olympics Public Association. The Bank donated KZT1 million in 2014, bringing the total for the last three years to KZT2.5 million.

Honouring the heroes

The Bank seeks to support veterans of World War II through various initiatives, in recognition of their heroic deeds.

1. Victory Marathon is a traditional event organised by Halyk Bank on Victory Day each year. As part of the event, the Bank provides charitable assistance to key veteran organisations in Almaty every year. Regional branches of the Bank arrange food baskets for World War II veterans who are their customers.

   Over the last six years, the Bank has donated more than KZT56 million to World War II veterans and veteran organisations under the event. In 2014 alone, veteran organisations of Almaty, Astana and Talgar received more than KZT.8 million in charity aid. The amount includes KZT6.1 million spent by regional branches on food baskets for World War II veterans who are customers of the Bank.

2. In recognition of the achievements and heroic deeds of Kazakhstan's veterans, the Bank sponsored the publication of a three-volume book, Through the Flames of War, which is dedicated to the Kazakhs who served and worked on the front. The Bank spent KZT2.8 million on the project. The book provides a poignant insight into the hardships of the war years.

Laying the foundations of a successful business

As the leading financial institution in Kazakhstan, Halyk Bank recognises the importance of contributing to economic development and entrepreneurship in the country.

As part of this, in 2014, the Bank was an official sponsor of the Atameken Startup business ideas competition. Held in 12 cities in Kazakhstan, it aims to promote entrepreneurship among young people. The Bank gave KZT10 million in sponsorship funds.

In 2014, the Bank also spent KZT4 million on other social projects.

Halyk Bank's HR system

The Bank's HR system is governed by the Kazakh Labour Code, Tax Code, and Law On Banks and Banking Activities in the Republic of Kazakhstan.

Between 2007 and 2014, the Bank conducted a project to optimise and automate its business processes, which resulted in a 9% optimisation in headcount and greater labour productivity.

In 2014, the Bank continued to implement software that standardises IT access for cash and settlement employees, rolling it out in district divisions and some units of the Operation Department. Various sales channels were moved to the Akmola, Astana, Zhezkazgan and Karaganda regional branches. As part of cost-cutting measures, the Bank transferred various divisions to regional branches: a Card Issuance Division was established in Astana; the Soft Collection Division was moved from the Almaty regional branch to Pavlodar; and preparations began to relocate the Head Office Call Centre from Almaty to Pavlodar.

Staff recruitment is governed by the Bank's Staff Search and Recruitment Rules. To increase the efficiency and quality of its recruitment process, the Bank is constantly looking for new and updating its existing internationally recognised personality tests and individual questionnaires.

The Bank has an active professional development and motivation programme for key employees. In accordance with the programme, the most experienced employees are included in the Talent Pool ready to meet the Bank's requirements for management personnel and quickly fill other key positions in the Bank's units, as well as to improve the quality of staff required for the Bank to achieve its strategic goals. Members of the Talent Pool are entitled to financial support from the Bank for MBA and Masters degree programmes. In 2014, 372 employees were added to the Talent Pool, 48% of vacancies were filled from it, and 82% of open positions were filled internally.

Headcount by business area at the year-end

Business area	2007	2008	2009	2010	2011	2012	2013	2014	Difference 2014/2007	
Branches	8,253	8,306	7,792	7,725	7,470	7,394	7,395	7,308	(11%)	(945)
Head Office	1,554	1,602	1,522	1,463	1,491	1,496	1,534	1,638	5%	84
Total	**9,806**	**9,907**	**9,314**	**9,188**	**8,962**	**8,890**	**8,928**	**8,946**	**(9%)**	**861**
Difference	687	101	(594)	(126)	(226)	(72)	38	18		
% branches	5%	1%	(6%)	(1%)	(3%)	(1%)	0%	(1%)		
% Head Office	23%	3%	(5%)	(3.9%)	2%	0.3%	2.5%	1%		
Total	**8%**	**1%**	**(6%)**	**(1%)**	**(2%)**	**(1%)**	**0.4%**	**0.2%**		

Staff motivation and loyalty

To reward staff for their achievements, the Bank has developed a system of employee motivation, which includes the following:

1. Regular salary revisions to reflect changes in the labour market.

2. Bonus payments for annual performance based on reviews.

3. A one-off bonus for Tenge National Currency Day.

4. A one-off bonus for Independence Day in Kazakhstan.

5. Monthly performance-based bonuses for cash and settlement unit employees.

6. Benefits and compensations:

- Various types of insurance, including health and life cover;
- Financial assistance in connection with certain personal events;
- Additional paid leave in connection with certain personal events;
- Seniority bonuses;
- Compensations for employment/transfer to other regional offices of the Bank and its subsidiaries;
- Sport and recreational activities for employees: gym membership, organisation of various sporting events at the local and national levels;
- Employee achievement recognition programme;
- Support for unemployed retirees of the Bank, holiday events, and financial assistance in connection with holidays and certain personal events;
- Organisation of corporate activities on Nauryz, International Women's Day, family summer outings, Tenge National Currency Day, New Year's Eve;
- Initiative development programme;
- Parking spaces for managers of the Bank;
- Benefits for maternity leave;
- Subsidised mortgages for employees.

7. Regular induction days for new recruits.

8. To improve staff loyalty, the Bank has developed and implemented an action plan to promote its business strategy and corporate values. The plan includes regular meetings of senior managers and employees to explain the strategy, as well as various contests.

9. Continuous communication regarding the Bank's operations, achievements, strategy and values to employees via meetings, virtual data rooms, conference calls, Q&A sessions with the Chairperson of the Management Board and personal addresses by senior managers.

10. Continuous communication of the Bank's events and news to employees via an intranet (Halyk Info) and a quarterly internal corporate newspaper (Halyk Janalyk)

11. The Bank holds a variety of contests to foster team spirit and corporate morale among employees.

12. Throughout the year, the Bank holds charitable events for orphans and children with disabilities, World War II veterans, labour veterans, and other disadvantaged people.

13. The Bank has developed and implemented a non-financial recognition plan aimed at increasing the corporate morale and loyalty of employees.

14. A quarterly internal employee engagement survey.

15. A wider one-off employee engagement survey to identify what motivates and encourages staff.

Personnel development

As part of professional development and training, the Bank focuses on corporate training for Halyk Group employees to develop their abilities to cross-sell the full range of Halyk Group services, client-oriented operations and high-quality professional growth of employees and middle management. In 2014, which was declared the Year of Customer Service Quality, an emphasis was placed on customer service training for employees in the Retail and SME divisions.

To ensure a systematic approach to training and personnel development, since 2006, the Bank's Personnel Development Unit has been organising training sessions with professional business coaches and professors of banking and finance, as well as training facilities (including specialised computer classes) in Head Office and the branches.

The Personnel Development Unit is responsible for systematic personnel training, including professional tests and exams; training programmes adapted to the technologies and practices in place at the Bank; and programmes to develop business skills and improve banking and financial knowledge across all branches.

Available through the Bank's corporate IT network is a system of remote training, which allows employees of city, suburban and regional branches to enrol on training and development programmes.

Each area of corporate training is based on a staged approach, while learning material is structured by information complexity and depth of detail. The approach ensures a continuous improvement of professional knowledge and practical skills.

Separate sets of learning materials and programmes have been produced for the professional development of employees across all business areas, as well as for key personnel categories within each of those.

The Bank provides obligatory training and certification for certain personnel categories as required by applicable regulations. Employees undergo professional training, professional certification and MBA programmes, and programmes related to new technologies. If necessary, the Bank can arrange training for employees in other divisions. Bank employees often participate in local and international forums, congresses and conferences.

Corporate training is provided in the following key areas:

- Basic skills for line managers;
- Sales and effective customer service skills;
- Products offered by the Bank and its subsidiaries;
- Internal rules and standards;
- Financial analysis.

In addition, employees with work experience of more than 6 months are entitled to external training and professional certification in Kazakhstan and abroad, with all training, travel and accommodation expenses covered by the Bank.

In 2014, 511 employees participated in external training and professional certification programmes in Kazakhstan and abroad (including compulsory training on health and safety in the workplace), while 1,778 employees underwent corporate professional development programmes in-house.

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ

HALYK BANK

НАРОДНЫЙ БАНК КАЗАХСТАНА

CORPORATE GOVERNANCE

The Bank recognises that high standards of corporate governance are vital for its success on a free and competitive market. The Bank seeks to maintain an effective system of corporate governance that regulates interaction among the Board of Directors, the Management Board and shareholders, increases its capitalisation, and generates returns for investors.

Since the initial public offering (IPO) on the London Stock Exchange in 2006, the Bank has placed particular importance on these principles. The IPO was more than simply a way of raising finance: it was also an indication of the Bank's commitment to pursuing the standards expected of a modern financial institution of international standing.

The Bank develops and streamlines its corporate governance system based on:

- New Kazakh legislative requirements relating to the risk management systems of second-tier banks;
- New risks that financial organisations might encounter in the current environment due to the slower economic growth in both Kazakhstan and the other member countries of the Eurasian Economic Union;
- Its ongoing efforts to build an efficient, transparent, stable and innovative financial institution that adheres to the best practices in corporate governance observed in OECD countries.

UK Corporate Governance Code Compliance

This section has been prepared in accordance with section DTR 7.2. of the UK Financial Conduct Authority's Disclosure and Transparency Rules (corporate governance statements).

As a foreign company with global depository receipts admitted to the Official List of the London Stock Exchange, the Bank is not required to comply with the UK Corporate Governance Code published by the Financial Reporting Council – the independent regulator of the United Kingdom – in May 2010 and amended in April 2012. However, in accordance with DTR 7.2, the Bank is obliged to disclose information about its compliance with both the Kazakh Code of Corporate Governance and the existing corporate governance principles to which it adheres above those stipulated in Kazakh legislation.

The Bank considers the UK Corporate Governance Code a guideline for further development of corporate governance.

The Bank's existing Corporate Governance Code differs from the UK Corporate Governance Code, as disclosed below. These differences are partly caused by requirements of the Kazakh Code of Corporate Governance, legal requirements and rules of the Kazakh regulator – the National Bank of Kazakhstan – and partly by the domestic environment of the Bank's activities.

The Bank's Code of Corporate Governance and the UK Corporate Governance Code

The Bank's Code of Corporate Governance includes several distinctions from the UK Corporate Governance Code. Below are the main differences:

- The Bank's Code of Corporate Governance does not require a regular re-election of the Board. Instead, the scope of the General Shareholder Meeting covers determining the Board's term of authority.

The General Shareholder Meeting of 25 April 2014 set a three-year term for the current Board. This approach does not contradict the UK Corporate Governance Code, which stipulates a maximum three-year term for the re-election of Directors.

- The UK Corporate Governance Code provides for the appointment of one of the independent non-executive directors as the senior independent director.

The Bank's Board has not appointed a senior independent director. This issue will be considered in the future.

- The UK Corporate Governance Code provides for meetings of non-executive directors at least annually, in particular, to appraise the chairman's performance.

In 2014, non-executive directors held informal meetings, also attended by the corporate secretary, to discuss strategic issues, ways to improve corporate governance processes, the Board's activities, and to assess the work of the corporate secretary.

- The UK Corporate Governance Code stipulates that at least half of the Board, excluding the chairman, consist of independent non-executive directors.

The Bank's Code of Corporate Governance does not directly require this due to Kazakh legal requirements, which state that at least one third of the Board's members must be independent directors. However, the composition of the Board, as appointed by the General Shareholder Meeting on 25 April 2014, includes four independent non-executive directors out of seven (excluding the Chairman).

- The UK Corporate Governance Code stipulates that non-executive directors should carefully analyse to what extent the Management Board's work fulfils the aims and objectives set, monitor its activities, and check that financial information published is complete and that financial controls and the risk management system are effective and reliable.

Under the Bank's Code of Corporate Governance, all members of the Board of Directors are responsible for this.

Kazakh Code of Corporate Governance and the Bank's Code of Corporate Governance

The Kazakh Code of Corporate Governance means the Code of Corporate Governance approved by the Issuers Board in February 2005 and by the Council of the Financial Institutions' Association of Kazakhstan in March 2005 (amended in July 2007). When developing the Kazakh Code of Corporate Governance, extensive international and Kazakhstan experience was considered. This Code is typical for Kazakh companies.

The Bank's Code of Corporate Governance was developed taking into consideration the Kazakh Code of Corporate Governance, legal requirements, recommendations of the Kazakh regulator, ethical norms and other factors. Therefore, the Bank's Code of Corporate Governance includes more extended provisions compared with the Kazakh Code of Corporate Governance, which promotes improvement of corporate governance practice.

In addition, the Bank implements similar corporate governance practices in other companies of Halyk Group, and believes that this also helps to improve and foster a common understanding of corporate governance principles throughout the Group.

The major differences between the Bank's Code of Corporate Governance and the Kazakh Code of Corporate Governance are:

- Added restrictive criteria for candidates for the Board of Directors and Management Board in accordance with recommendations of the Kazakh regulator intended to raise the quality of the Bank bodies and prevent conflicts of interest;
- Added principles of responsibility for Directors and the Management Board;
- Description of how the activities of the Board of Directors and Management Board are organised with a clear segregation of duties;
- Principles for consideration in determining the remuneration of the Directors and the Management Board.

The Bank's Code of Corporate Governance can be found on the corporate website: www.halykbank.kz/en/corporate-governance

Corporate governance events in 2014

- There were changes in the composition of the Board of Directors and the Management Board;
- A new Chairman of the Board of Directors was elected;
- The transaction to acquire 100% of HSBC Bank Kazakhstan was completed (the entity was subsequently renamed Altyn Bank).
- Changes were made to the Bank's Charter, Code of Corporate Governance and Regulations on the Board of Directors to bring them into line with the requirements in the Decree of the Management Board of the National Bank of Kazakhstan no. 29, "On Approving the Rules for Creating A Risk Management and Internal Control System for Second-Tier Banks", of 26 February 2014.

Corporate governance structure

Halyk Bank adheres to the following principles of corporate governance:

- giving shareholders a real opportunity to execute their right to participate in managing the Bank;
- giving shareholders a real opportunity to take part in distributing the net profits of the Bank (obtaining dividends);
- ensuring timely and full disclosure of reliable information to shareholders regarding the financial position of the Bank, economic indicators, performance results and management structure, to ensure that sound decisions are taken by the Bank's shareholders and investors;
- ensuring that all categories of shareholders are treated equally;
- ensuring maximum transparency in the activities of Bank officials;
- ensuring that the Board of Directors carries out the strategic management of the Bank and controls the activities of the executive body effectively, and that the Directors are accountable to shareholders;
- ensuring that the Management Board duly carries out effective routine management of the Bank, and that the Management Board is accountable to the Board of Directors and shareholders;
- common ethical norms in the Bank;
- ensuring that the Bank's system of internal control is efficient and makes objective assessments.

The diagram below shows the structure of accountability in the corporate governance system.

The Board of Directors has several Committees: Strategic Planning Committee, Audit Committee, Nomination and Remuneration Committee and Social Responsibilities Committee. For more details on their work, please proceed to the respective subsection below.

The Management Board has created numerous working bodies: directorates, committees and working groups. This allows it to consider major issues in detail in separate segments. Where necessary and if required by the law, decisions made by the working bodies are brought to the Management Board or Board of Directors for approval.

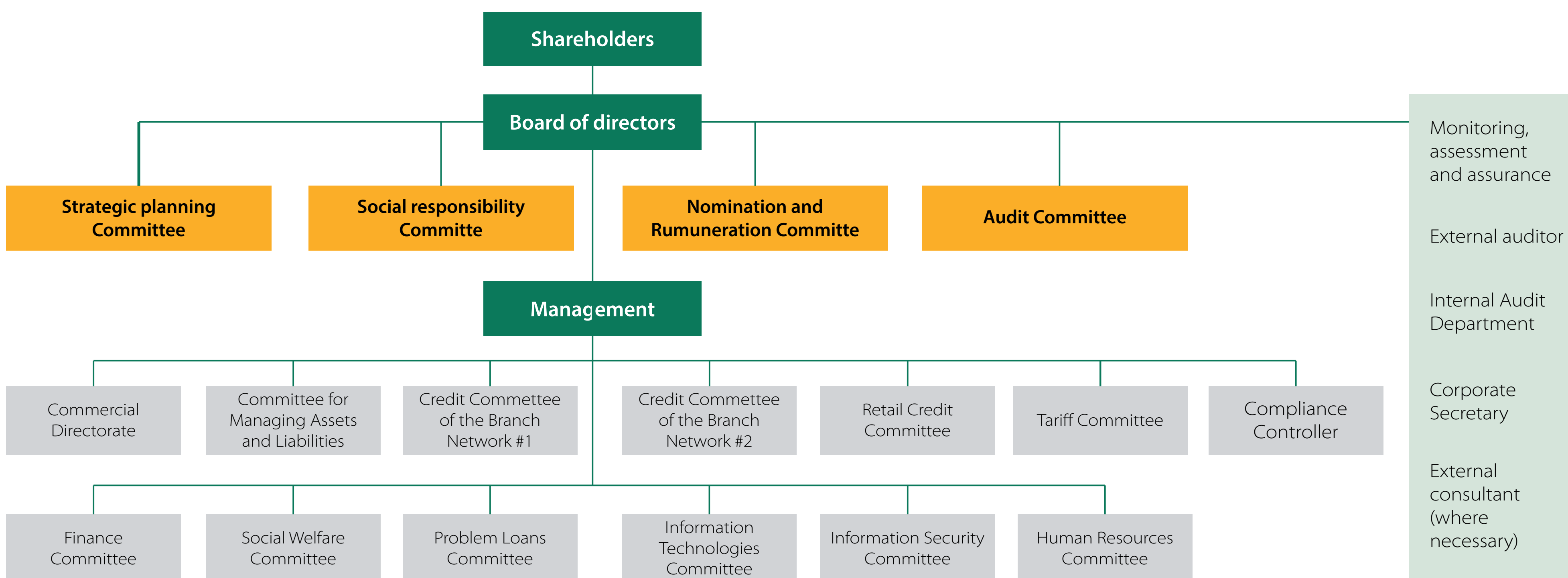
To ensure best practice in corporate governance, the Board is assisted by internal and external auditors, a compliance controller (who is at the same time the chief risk officer), a corporate secretary, and others.

For instance, the Bank carries out internal auditing, risk management and compliance control services (the Bank's activities in these areas are described in more detail in the subsection "Risk Management and Internal Control" below), while the institution of corporate secretary regulates issues of conflicts of corporate interest, among other matters.

The Bank engages 'Big 4' professional services firms to audit the financial statements of Halyk Group. In 2014, this was carried out by Deloitte.

Functions between the Board of Directors and the Management Board are allocated in accordance with Kazakh law. For instance, the Board of Directors is responsible for the following important issues:

- defining the priority areas of the Bank's activity; approving the Development Strategy; approving a development plan in situations stipulated in Kazakh legislation; as part of approving the Development Strategy, setting and approving acceptable levels of risk; overseeing the fulfilment of the Development Strategy and evaluating its suitability based on current market and economic conditions, the Bank's risk profile and financial potential, and Kazakh legislation; reviewing appraisals of acceptable risk levels and comparing them with existing risks;
- ensuring that the Bank's Charter complies with Kazakh legislation and keeping it up to date;
- preliminarily approving annual financial reports;
- monitoring, controlling and evaluating the activities of the Management Board;
- approving the Bank's organisational structure and ensuring that it corresponds to the size, structure, character and complexity of the Bank's activities;
- approving the Bank's budget for the corresponding year and overseeing its execution;
- establishing a transparent and efficient system of criteria and procedures for nominating Management Board members and employees reporting to the Board of Directors, and determining their remuneration;
- ensuring effective risk management and internal control systems, including by: approving the corresponding internal documents defined by Kazakh legislation; reviewing information and reports on monitoring and control of risk management issues; auditing; ensuring compliance with Kazakh legislation and internal documents in cases stipulated by regulations on creating a system of risk management and internal control, and compliance thereto;
- creating a system to identify and resolve conflicts of interest;
- analysing and evaluating applications for loans exceeding 5% of the Bank's total equity;
- approving large and related-party transactions;



- approving acquisitions of 10% or more of shares in other legal entities;
- maintaining an ongoing dialogue with the Bank's shareholders;
- creating authorised collegiate bodies, in accordance with the law, to oversee the creation of a system of risk management and internal control; and approving internal documents governing their activities;
- ensuring that regulatory reports are submitted in full, accurately and on time.

The Management Board is responsible for managing the Bank's day-to-day operations, including:

- implementing strategic decisions made by the Board of Directors;
- developing draft strategic documents for consideration by the Board of Directors;
- determining limits for loans, guarantees and commitments that do not constitute large transactions;
- appointing directors to the Bank's branches;
- interacting with subsidiaries, branches and representative offices of the Bank;
- implementing internal control and risk management mechanisms in accordance with the strategy adopted by the Board of Directors;
- approving the structure and personnel of the Bank.

Structure of the Board of Directors

In 2014, the Annual General Shareholder Meeting approved the composition of the Board of seven people.

In April 2014, Mr. Zh. Nurabayev exited the Board of Directors on his own initiative.

In April 2014, the Annual General Shareholder Meeting elected Mr. M. Yessenbayev to the Board of Directors a representative of Holding Group ALMEX.

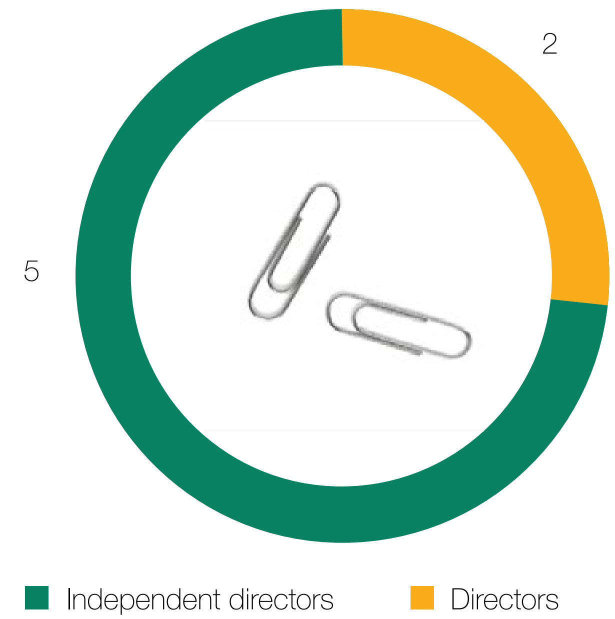
Correspondingly, at the end of 2014, the composition of the Board of Directors was as follows:

Composition of the Board of Directors

Name	Position
Alexander Pavlov	Chairman, Independent non-executive director
Ulf Wokurka	Strategic Planning Committee Chairman, Independent non-executive director
Arman Dunaev	Independent non-executive director
Frank Kuijlaars	Nomination and Remuneration Committee Chairman, Chairman of Social Responsibilities Committee, Independent non-executive director
Mazhit Yessenbayev	Director, Representative of Holding Group ALMEX
Christof Ruehl	Audit Committee Chairman, Independent non-executive director
Umut Shayakhmetova	Chairperson of the Management Board
Total	7 Directors

When determining the independence of the Directors, the Board of Directors uses the criteria stipulated by Kazakh law.

Composition of the Board of Directors



Skills and experience of the Directors

Halyk Bank seeks the best balance of experience, skills and vision in its Directors. The presence of a variety of views when discussing issues allows the Board of Directors to exercise its duties and represent the interests of shareholders most effectively.

Independent Directors contribute international experience, strategic vision, insight into the largest industries where the Bank operates, corporate governance and risk management.

At the same time, all Directors possess knowledge of banking activities, finance in general, and human resources management, including issues of remunerations.

Information on the skills and experience of the Board of Directors is summarised below:

Skills and experience of the Board of Directors

Industry	Number of directors
Banking	6
Oil and gas and mining	4
Other industries in the real economy	5
Finance	7
Leadership	7
Risk management	4
International experience	5
Strategic vision	7
Corporate governance	7
Human resources management	7
Total number of Directors	7

Structure of the Management Board

In 2014, there were several changes in the Management Board. In July, Ms. Zh. Satubaldina was elected to the Management Board. In September, Ms. S. Kishkimbayeva exited on her own initiative and Mr. M. Koshenov was elected. The composition of the Management Board is as follows:

Composition of the Management Board

Name	Position
Umut Shayakhmetova	Chairperson of the Management Board
Marat Almenov	Deputy Chairman Retail Banking
Dauren Karabayev	Deputy Chairman International Activities, Treasury and Subsidiaries
Aliya Karpykova	Deputy Chairperson Finance, Accounting and Property
Murat Koshenov	Deputy Chairman Corporate Banking
Stanislav Kosobokov	Deputy Chairman SME Banking
Zhannat Satubaldina	Deputy Chairperson Interactions with Large Companies
Askar Smagulov	Deputy Chairman Operations and Information Technologies
Kozhamurat Uskimbayev	Deputy Chairman Security and Problem Loans
Total	**9 members**

Board's activities

In general, the Board of Directors and its Committees work in accordance with the plans for respective periods.

In 2014, the Board of Directors held 430 meetings, including six in person and 424 in absentia.

At the meetings in person, the Board of Directors discussed the most important strategic issues, such as:

- Results of the Group Strategy for 2013-14;
- Major projects of the Bank;
- 2013 financial statements (preliminary approval) and quarterly performance reports of the Management Board;
- Stress-testing the loan portfolio;
- Approaches to tariffs policy;
- Analysis of loan portfolio quality;
- Internal audit issues;
- Analysis of related-party and other transactions and others.

Absentee voting was conducted for routine issues that are legally included in the Board of Directors' duties, and most urgent issues that could not wait until the next ordinary meeting in person.

Detailed reports of Committees

General provisions

The Committees of the Board of Directors are consulting and advisory bodies to the Board of Directors. All of their suggestions are recommendations that are made for the Board of Directors' consideration.

Under Kazakh law, Committee members are Board of Directors' members and experts. More detailed information on the composition of the Committees is provided below in the subsections on the activities of the respective Committees.

All Committees act in accordance with their Statutes.

Audit Committee

The Audit Committee was established in July 2005. The Committee consists of three Directors who are elected by a majority of Board of Directors' votes. At least two of them should be independent non-executive directors. The members of the Committee are:

Christof Ruehl
Chairman, Independent non-executive director;

Alexander Pavlov
Member, Independent non-executive director;

Arman Dunaev
Member, Independent non-executive director.

All members of the Committee are independent non-executive directors and knowledgeable and experienced in accounting and tax accounting, internal and external auditing, and risk management.

Committee functions

The Committee assists the Board of Directors on issues of the completeness and authenticity of financial reports, compliance of the Bank and its subsidiaries with legal requirements and internal documents (compliance control), selection and independence of the external auditor, adequacy and efficiency of internal control and risk management systems, and coordination of internal audit activities.

Committee activities

In 2014, the Committee held three meetings in person (nine items considered) and 58 in absentia (64 items considered).

To ensure the completeness and reliability of financial statements, the Committee considered interim (quarterly) reports of the external auditor and management letters to the Bank and subsidiaries in this respect, and approved and submitted the 2013 annual financial statements for consideration by the Board of Directors. As part of this work, among other things, the Committee discussed principles of important accounting judgments, policies and procedures with the external auditor and the Bank's financial division.

In 2014, internal audits were conducted regarding various business processes and in various divisions of the Bank and its subsidiaries, and the results were reviewed by the Committee. In addition, the Committee regularly reviews reports on implementation of internal audit recommendations by the Management Board and by the Bank's subsidiaries.

The Committee reviewed the report on the self-assessment of the Internal Audit Department's compliance with international best practices in internal audit, as defined by the Institute of Internal Auditors, for 2013.

The Committee also reviewed the report on the effectiveness of the internal control system in place at the Bank and subsidiaries over the first half of 2014.

When considering the work plan for internal audits for the next year and the long-term working plan for 2016-18, the Committee assessed the resources of the Internal Audit Department. The Committee discussed a number of issues with the Internal Audit Director separately from the executive body. In particular, the Committee was satisfied that the Internal Audit Department was granted access to all of the necessary information. The Committee reviewed a report from the Compliance controller on the effectiveness of the compliance risk management system over the first half of 2014.

In 2014, the Committee reviewed quarterly reports on the quality of the loan portfolio from the risk management team.

The Committee also reviewed the report on the scheduled comprehensive audit of the Bank by the Financial Market and Financial Organisations Committee as of 1 February 2013, and declared that the subsequent action plan had been fulfilled.

The Committee also approved numerous methodological regulations for internal audit and risk management services for further approval by the Board of Directors. The aim was to bring internal documents in line with Decree no. 29 of the National Bank of Kazakhstan, "On Approving the Rules for Creating a Risk Management and Internal Control System for Second-Tier Banks", of 26 February 2014.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee was established in September 2007.

The Committee consists of three Directors who are elected by a majority of the Board of Directors' votes. At least two of them should be independent non-executive directors. The members of the Committee are:

Frank Kuijlaars
Chairman, Independent non-executive director;

Alexander Pavlov
Member, Independent non-executive director;

Umut Shayakhmetova
Member, Chairperson of the Management Board.

The majority of the Committee is independent non-executive directors, and all Committee members have extensive experience in human resources management, including issues of remunerations.

Committee functions

The Committee makes recommendations to the Board of Directors regarding candidates for the Board of Directors, the Management Board and the boards of directors of the Bank's subsidiaries, on the remunerations system for Board of Directors members and the Management Board, and on salaries of the boards of directors and executive bodies of subsidiaries.

Committee activities

In 2014, the Committee held 13 meetings in absentia (21 items considered) and none in person.

Recommendations were made to the Board of Directors on the system of compensation for the Chairman of the Board of Directors, members of the Board of Directors and the Management Board, Internal Audit Department and Corporate Secretary, as well as managers of the Bank's subsidiaries.

The Board's remuneration for 2014 was KZT 1.1 billion.

The Management Board remuneration is based on the following criteria:

- The estimate of a job position, its importance for the company, as well as the Member's of the Management Board contribution to the Bank's operating results;
- Remuneration of similar positions on the job market region-wide;
- The estimate of the Member's of the Management Board working results, according to which annual bonuses are paid.

The Committee also made recommendations to the Board of Directors regarding the changes in the Management Board's composition in July 2014 (the appointment of Ms. Zh. Satubaldina) and September 2014 (the departure of Ms. S. Kishkimbayeva and the appointment of Mr. M. Koshenov). The Committee also considered members of the Talent Pool for executive positions for 2014.

Strategic Planning Committee

The Strategic Planning Committee was established in April 2012.

The Committee consists of eight Directors who are elected by a majority of the Board of Directors' votes. The members of the Committee are:

Ulf Wokurka
Chairman, Independent non-executive director;

Arman Dunaev
Member, Independent non-executive director;

Alexander Pavlov
Member, Independent non-executive director;

Frank Kuijlaars
Member, Independent non-executive director;

Mazhit Yessenbayev
Member, Director;

Christof Ruehl
Member, Independent non-executive director;

Umut Shayakhmetova
Member, Chairperson of the Management Board;

Dauren Karabayev
member of the Management Board, expert (silent member).

Committee functions

The Committee provides assistance to the Board of Directors in matters regarding Halyk Group's Strategy, analyses strategy implementation reports and monitors the external environment and its impact on the Group's strategic plans.

Committee activities

In 2014, the Committee held three meetings in person (five items considered).

The Committee reviewed the results of the implementation of Halyk Group's Strategy for 2013-15 in 2013. Analysis showed that the goals set had been achieved satisfactorily. It also reviewed amendments to the Group's Strategy for 2013-15 and made amendments to the Regulations on the Strategic Planning Committee of the Board of Directors.

The Committee also reviewed the results of the implementation of Halyk Group's Strategy for 2013-15 in the first and the second half of 2014.

The Committee also analyses changes in the external environment (regulatory, economic, financial, etc.) and assesses their impact on the Group's Strategy.

Social Responsibility Committee

The Social Responsibility Committee was established in April 2012.

The Committee consists of three Directors, who are elected by a majority of the Board of Directors' votes, and one expert, a Management Board member supervising issues of sponsorship and charity.

All of the Members, apart from the expert, are independent non-executive directors.

Frank Kuijlaars
Chairman, Independent non-executive director;

Ulf Wokurka
Member, Independent non-executive director;

Christof Ruehl
Member, Independent non-executive director;

Stanislav Kosobokov
Member of Management Board, expert (silent member).

Committee functions

The Committee assists the Board of Directors in issues of Bank policy on corporate social responsibility and sustainable development; Bank compliance with legislative requirements regarding corporate social responsibility; potential risks in corporate social responsibility and the minimisation thereof; the preparation and publication of the report on corporate social responsibility; and preliminary consideration of the social expenses budget for the respective period.

Committee activities

In 2014, the Committee held two meetings in person (three items considered).

The Committee approved plans to optimise corporate social responsibility performance in 2015. It also adopted the Bank's draft budget for sponsorship and charity for 2015.

The Committee reviewed and approved the Bank's report on corporate social responsibility for 2014.

Relations with minority shareholders

The Bank strives to continuously improve its system for dealing with minority shareholders, which allows them to ask questions and receive the necessary information conveniently (in writing and/or by email). Communications from minority shareholders and their wishes are regularly analysed, after which existing channels are improved or new ones introduced where necessary. The Bank informs shareholders of all substantial news and planned events via its website and the websites of stock exchanges.

Results of 2014:

- The Bank organised and convened the Annual General Shareholders' Meeting on 25 April 2014, at which 13 resolutions were passed on issues under consideration, including information about shareholder responses to actions of the Bank and its officials;
- The Bank also organised and held an Extraordinary General Shareholders' Meeting on 5 December 2014, where three resolutions were passed on issues under consideration;
- Where necessary, employees of the Head Office provide consultations to employees of the branches on shareholder relations and to Bank shareholders on queries about accrued dividends, changes in banking details, and other matters;
- In May 2014, the Bank paid dividends on preferred shares and convertible preferred shares to shareholders as of the year-end 2013 totalling KZT1,799 million, or KZT9.28 per preferred share and convertible preferred share, to 40 shareholders;
- The Bank is paying dividends on common shares for 2013 of KZT1.70 per share, or KZT18,549 million in total. As of 1 January 2015, 7.1 thousand shareholders had received KZT18,504 million, or 99.8% of the accrued amount.
- The Bank considered 13 inquiries from shareholders regarding dividend payments, social welfare benefits, the share buy-back procedure, other issues regarding the Bank's activities, and securities law provisions.

Dividend policy

Shareholders' rights to dividends and the procedure for the payment thereof are stipulated by the Bank's Charter and the Code of Corporate Governance approved by General Shareholder Meetings.

In September 2012, the Board of Directors approved the Dividend Policy of Halyk Bank. The resolution was based on the strategic plans of the Bank for 2013-2015 regarding payment of dividends on common shares for a long-term period and the creation of a clear and transparent mechanism for dividend payment, and because of the need for a separate, flexible internal regulatory document.

The main purpose of the Bank's Dividend Policy is to establish a transparent mechanism for dividend payments, considering the following limitations:

- maintaining (retaining) the Bank's international credit ratings;
- the maximum size of dividends on preferred shares;
- growth of the Bank's RWA in the medium term and its corresponding need for capital;
- average sector indicators for the capitalisation of banks in Kazakhstan and in the regions;
- compliance with covenants.

Concerning existing limitations on payments of dividends on common shares (covenants), the Eurobond prospectus states the following:

- not more than 50% of net profits (as determined by audited IFRS statements) for the period for which the payment is made;
- not more frequently than once per calendar year;
- payment of dividends is restricted if the Bank is in default, or if such a payment may lead to a default on the Bank's liabilities.

The documents are available on the Bank's corporate website: www.halykbank.kz.

Shareholders owning common, preferred and convertible preferred shares are entitled to dividends. The frequency of dividend payments and size of the dividend per preferred share are established in the Bank's Charter and Prospectus.

In accordance with the Bank's Charter, dividends on common shares may be paid to shareholders annually from net profits. Decisions on the frequency and the size of dividend payments are made by the General Shareholder Meeting at the suggestion of the Board of Directors.

Dividends paid for previous financial years are as follows:

	2014 (for 2013)	2013 (for 2012)	2012 (for 2011)	2011 (for 2010)
Per preferred share	1.80	2.24	5.24	5.49
Per common share	18.55	12.22	-	-
Total	20.35	14.46	5.24	5.49

Director awareness and training

New members of the Board of Directors are provided with an introductory package with basic information about the history and current positions of the Bank and Halyk Group, an organisational chart of the Bank, a Director's responsibilities, and the main reports from the consolidated financial statements as of the most recent reporting date.

Members of the Board of Directors are also given information about the main changes in banking law.

The Bank intends to further develop and improve the knowledge and qualifications of Board of Directors' members.

Risk management and internal control

Roles and responsibilities

For risk management and internal control, functions within the Bank are distributed as follows:

- The Board of Directors carries out strategic governance on internal control and risk management, and approves and periodically revises risk management policies. The working body of the Board of Directors for risk management and internal controls is the Audit Committee.

- The Board of Directors also considers large transactions of the Bank, transactions where the Bank has an interest, and related-party transactions, including with respect to an absence of preferential conditions.

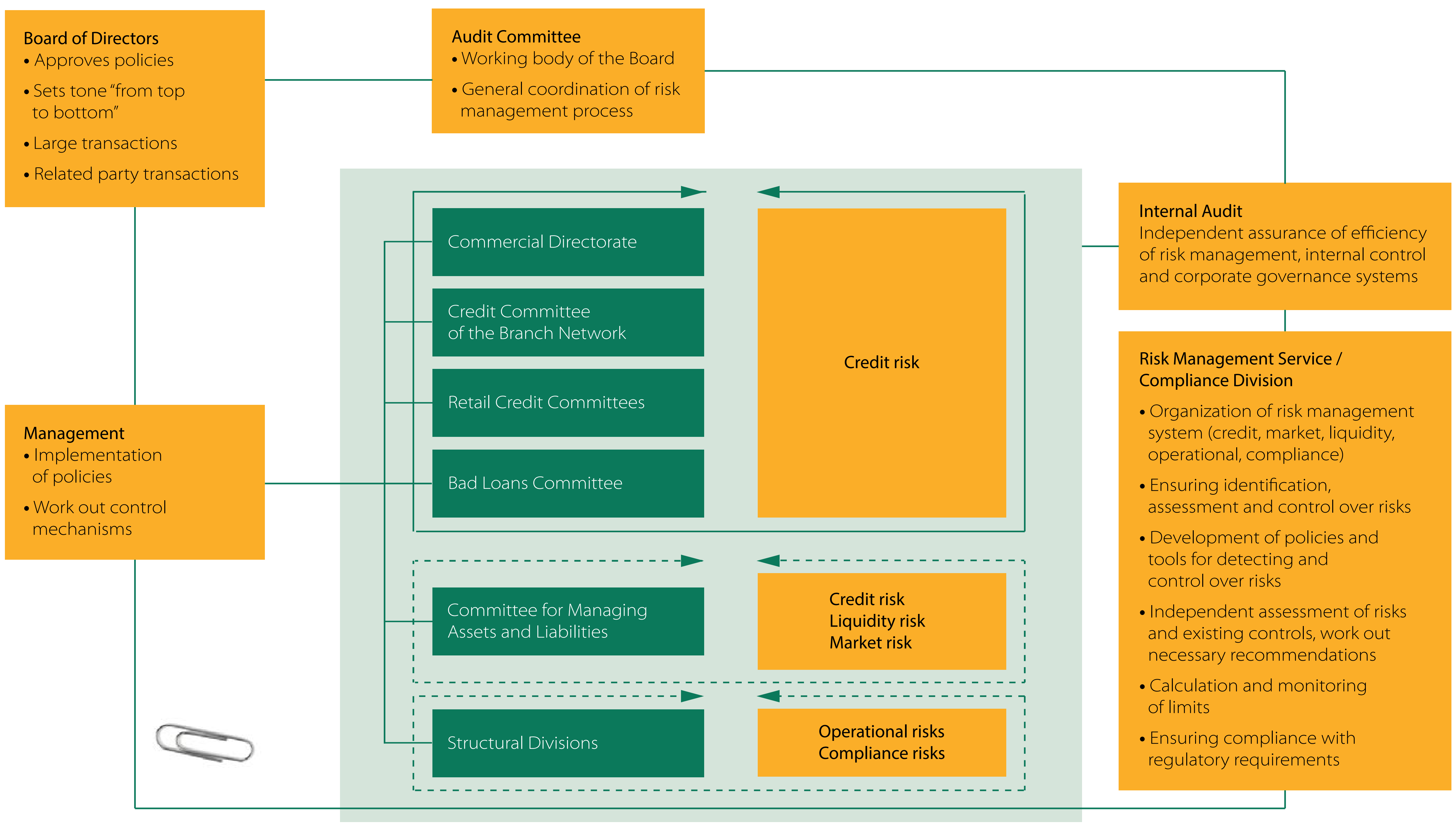
- The Management Board is responsible for the implementation of risk management policies. The Bank has the following key committees, reporting to the Management Board, that carry out various risk management and control functions: credit committees (Commercial Directorate (Credit Committee of the Head Office), Credit Committee of the Branch Network, Retail Credit Committee, Bad Loans Committee, Committee for Managing Assets and Liabilities (ALCO).

- Structural divisions of the Bank are directly responsible for identifying and assessing inherent risks, the adequacy of controls and business continuity.

- Independent risk management and compliance services are responsible for organising the risk management system, which ensures identification, assessment, control and monitoring of credit, operational, market, compliance and liquidity risks. The risk management and compliance functions are headed by the Chief Risk Officer, the Compliance Controller, who reports to the Chairperson of the Management Board and is entitled to report directly to the Board of Directors.

- The internal audit service (Department) provides independent and objective guarantees and consultations aimed at improving Halyk Group's performance. The internal audit service helps to achieve the goals set for the Group using a systematic and consistent approach to assessing and improving the efficiency of risk management, control and corporate governance processes.

- The diagram below shows the most active bodies and committees of the Bank that participate in risk management and internal control processes.


Board of Directors
• Approves policies
• Sets tone "from top to bottom"
• Large transactions
• Related party transactions
Audit Committee
• Working body of the Board
• General coordination of risk management process
Internal Audit
Independent assurance of efficiency of risk management, internal control and corporate governance systems
Commercial Directorate
Credit Committee of the Branch Network
Retail Credit Committees
Bad Loans Committee
Credit risk
Management
• Implementation of policies
• Work out control mechanisms
Committee for Managing Assets and Liabilities
Credit risk
Liquidity risk
Market risk
Structural Divisions
Operational risks
Compliance risks
Risk Management Service / Compliance Division
• Organization of risk management system (credit, market, liquidity, operational, compliance)
• Ensuring identification, assessment and control over risks
• Development of policies and tools for detecting and control over risks
• Independent assessment of risks and existing controls, work out necessary recommendations
• Calculation and monitoring of limits
• Ensuring compliance with regulatory requirements

'Three lines of defence' risk management system

Risk management in the Bank is based on the 'three lines of defence' system. The first includes the top management and structural divisions, the second – risk management committees/risk management teams and Compliance, and the third – internal audit.

- The first line of defence represents the controls developed to ensure correct day-to-day operations by various business divisions of the Bank. The controls are developed by the business divisions and are an integral part of business processes. Clearly delineated controls help to ensure an adequate level of risk minimisation and compliance with internal regulations, as well as compliance with external regulatory requirements. Management and monitoring of the controls is carried out by the divisions themselves, enabling them to detect risks, weaknesses of business processes and possible unforeseen events, and to react to them in a timely manner.

- The second line of defence is represented by risk management committees, the risk management function and Compliance. The committees and risk management function are responsible for managing risks within the set risk appetite. The main chain loop of the second line of defence is the risk management function. To ensure an adequate level of control, the risk management team determines procedures for assessing risks (credit, financial, operational), and risk monitoring. The risk management team carries out regular independent monitoring of risks, develops control methods for efficient risk management on the first line of defence and, along with the Compliance Division, assists business divisions with regulatory requirements compliance in the respective areas.

- The third line of defence represents the function of independent assurance regarding internal control efficiency. The third line of defence is represented by the internal audit function. It carries out checks of the internal control system based on the audit plan, which is, in turn, based on the risk level inherent in various divisions. The audit plan covers both the first and second lines of defence, ensuring an efficiency assessment of the Bank's overall internal control system.

The Bank acknowledges that it is impossible to totally exclude risks inherent to banking operations. However, the Bank is confident that its risk management system enables them to be minimised significantly.

Code of Conduct

The Bank builds relations with employees and clients according to the principles of law, mutual respect and trust.

In 2013, the Bank approved Rules of Corporate Ethics, which aim to:

1. secure the mission, values, principles and standards of business ethics and behaviour;
2. develop a uniform corporate culture based on high ethical standards, support an atmosphere of trust, mutual respect and decency;
3. increase and maintain trust in the Bank from shareholders, clients, business partners, public authorities, the public and other interested parties; and strengthen its reputation as an open and honest player on the financial market;
4. assist in interacting effectively with stakeholders;
5. prevent violations of the current laws of Kazakhstan by Bank employees.

These rules cover the professional behaviour of officials and employees of the Bank in discharging their duties, and in relationships with each other and shareholders, clients, business partners, public authorities, the public and other interested parties entering into relations with the Bank.

Bank executives seek to set a personal example of commitment to the Bank. They allocate time to create a talent pool for the Bank, consult and coach, and gather into the team employees united by a common mission, values and principles.

Every employee is obliged to maintain the image and business reputation of the Bank at a high level.

Internal audit

To ensure the independence and objectivity of the internal audit, the Internal Audit Department functionally reports to the Board of Directors. Working interaction with the Directors is carried out via the Audit Committee and directly.

Selection of subjects for an audit plan is made in accordance with international standards and the requirements of the Kazakh regulator based on risk assessment. The work plan of the Internal Audit Department is considered by the Audit Committee and approved by the Board of Directors. Where necessary, unscheduled audits may be undertaken.

The Internal Audit Department performs audits and consultations. Assessment of the efficiency of internal control, risk management and corporate governance systems is made during audits.

The results of audits and consultations and corresponding recommendations are presented to the Management Board, Audit Committee and Board of Directors.

In addition, for each audit task, the Department makes recommendations on eliminating issues, which the Bank takes into account when undertaking appropriate measures.

The Internal Audit Department periodically reports to the Audit Committee and the Board of Directors about the implementation of action plans.

The Internal Audit Department also presents other reports to the Audit Committee and the Board of Directors as required by the regulator and the international standards of professional internal audit practice of the Institute of Internal Auditors.

The Department periodically undergoes an external evaluation of compliance with the International Internal Audit Standards developed by the Institute of Internal Auditors.

Nomination and contracting of Directors (general information on procedures)

When nominated, Directors are subject to approval by the Kazakh regulator in accordance with the Rules for Granting Assent to the Appointment (Election) of Managing Persons of Financial Institutions and Bank and Insurance Holdings.

Contracts are concluded with Directors in accordance with the Bank's Policy on Management Personnel Remunerations and Reimbursements and Creating Annual Performance Results Bonus Awards Reserve.

Decisions on payments and individual amounts of Directors' remunerations (apart from the Chairman and the Chairperson of the Management Board) are made by the Chairman based on recommendations of the Board of Directors' Nomination and Remuneration Committee.

Contracts with Directors, setting individual amounts, the frequency and the conditions for payment of remunerations and withholding of respective taxes in accordance with Kazakh law, (apart from that of the Chairperson of the Management Board) are concluded by the Chairperson of the Management Board on behalf of the Bank.

Insurance of fiduciary liability

The Board of Directors and the Management Board understand the risks arising from incorrect or mistaken management decisions or actions.

To safeguard shareholders from potential damage from such events, the Bank insures the liability of its Directors and officials.

The key areas for improving corporate governance at the Bank are as follows:

Acknowledging the need to further develop and streamline corporate governance, the Group has identified key areas for improvement over 2015-20:

To improve interactions and the exchange of information between the Board of Directors and the Management Board, it is necessary to:

- streamline the format and volume of material presented for review by the Board of Directors by providing brief overviews that summarise the issue;
- develop more detailed material that retains the current format for the Board of Directors, including opinions of key subdivisions about risks that could be linked and (or) arise as a result of decisions made by the Board of Directors regarding the issue under consideration and, where necessary, include in an appendix.

Expand the rights and responsibilities of the corporate secretary:

- Develop the institution of corporate secretaries within Halyk Group in a high-quality way by reviewing their roles in the organisation and encouraging them to seek additional qualifications;
- Create an integrated corporate secretarial function for all companies within Halyk Group;
- Create a talent pool and a register of corporate secretaries within Halyk Group;
- Coordinate the work of Halyk Group companies to develop the institution of corporate secretaries.

Introduce international best practices in corporate governance to ensure the effective functioning of the Board of Directors:

- Automate the corporate governance process in the Bank using the latest IT solutions;
- Develop and install a single database on corporate events in the Bank and Halyk Group companies.

Additional actions to develop corporate governance at the Bank:

- Develop the institution of corporate social responsibility in the Group;
- Conduct periodic appraisals of the effectiveness of the Bank's dividend policy;
- The Board of Directors needs to evaluate the effectiveness of the Management Board's work to ensure that the executive body is meeting legal requirements regarding creating a risk management and internal control system;
- Develop the practice of insuring Directors against fiduciary liability.

RESPONSIBILITY STATEMENT

We herewith confirm that, to the best of our knowledge

— the consolidated financial statements in this annual report are prepared in accordance with International Financial Reporting Standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of Halyk Bank and its subsidiaries included in the consolidated financial statements and taken as a whole; and

— the annual report includes a fair review of the development and performance of the business and the position of Halyk Bank and its subsidiaries included in the consolidated financial statements and taken as a whole and the principal risks and uncertainties Halyk Bank faces.

Umut Shayakhmetova
Chairperson of the Management Board

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ

HALYK BANK

НАРОДНЫЙ БАНК КАЗАХСТАНА

OUTLOOK

Halyk Bank and its subsidiaries ("Halyk Group") is the leading universal financial services group of Kazakhstan and has significant potential for development in the majority of financial market segments for both banking and associated services. Halyk Group's key competitive advantages are its stable financial performance, significant and stable client base, wide range of financial products including cross selling, extensive infrastructure, and business reputation, associated mainly with the utmost confidence of all types of clients.

The core of the Group is Halyk Bank, which has successfully navigated unfavourable external conditions and has the highest international ratings among second-tier banks in Kazakhstan with no major overseas shareholders.

The key priorities for the Bank in 2015 are as follows:

- implement concrete measures to reinforce the balance sheet and drive loan growth across all types of businesses, including the corporate, SME and retail segments, of at least 10% a year;
- play an active role in government programmes to support SMEs;
- launch and expand remote sales channels in the retail business and reconfigure branches so that they take into account the specifics of various business segments and client types.

In 2015, Halyk Group intends to approve a development strategy for all of its companies for 2016-18 and prepare to implement it.

Halyk Group's strategic objective for the coming year will be to retain and reinforce its leading positions in all segments of the financial services market and, as the result, deliver higher growth rates in priority business areas than the Bank's main peers.

The key priorities of Halyk Group's strategy for 2013-15 are as follows:

Banking activities – "#1 Bank in Kazakhstan"

- *Financial performance* – maximise the Bank's profit, maintain return on equity (ROE) and cost efficiency (cost/income ratio) at the optimal level, stabilise the net interest margin (NIM), ensure maximum interest income growth, and increase fee and commission income and gains on foreign exchange operations for the Bank's clients.
- *Growth of shareholder value* – increase shareholder capital value by maximising profit, which will ensure targeted business growth rates and strengthening of key positions on the main financial markets. In addition, the Bank intends to comply with the capital requirements set by the regulator and Basel capital guidelines, to ensure business continuity, and to concentrate on capital optimisation in order to increase return on equity.
- *Growth of loans to customers* – increase lending annually and the share of the gross loan portfolio to 70% of the Bank's total assets.
- *Improvement of asset quality* – decrease the share of non-performing loans through restructuring, sales of pledged collateral and debt write-offs; ensure efficient performance of a company managing distressed assets and cooperation with the Distressed Asset Fund.
- *Development of new products* – promote banking and financial non-credit products that increase opportunities for clients and are risk-acceptable, primarily cash management, card business and foreign-exchange operations for the Bank's clients with rapid individual conversion rates and tariffs tailored to clients' needs.
- *Expansion of sales channels* – focus on developing and expanding remote sales channels as high-tech, efficient and easily scalable processes that better satisfy clients' growing needs for banking services.
- *Dividend policy* – ensure dividend payments on common shares, in the absence of legislative limitations on dividend payments and subject to maintaining international credit ratings and capital adequacy ratios at no less than minimum required standards.
- *High ratings* – maintain the best international ratings among Kazakh banks to promote the corporate image and business reputation of the Bank as the most stable financial institution in the country, reliable for clients and creditors, and operating in accordance with international standards, as proved by the success of its chosen business strategy.

Subsidiaries – "Leading players in their markets"

- *Retention and strengthening of market positions* – achieve leading positions in terms of all main indicators in insurance, broker-dealer, investment banking, leasing and cash transportation services, regardless of market growth dynamics and greater competition.
- *Expansion of the range of services* – maximise the ability to provide the widest range of financial products and services through the wide branch network; develop services that fully satisfy the needs of major client segments and ensure profitability growth in general.

For 2015, the following objectives, if fulfilled, should provide a basis for achieving the Bank's strategic goals:

- Increase sales volumes and profits generated by both the corporate and SME segments by providing competitive terms of financing and services, promoting new products, providing a full range of the Group's existing services to its customers, and attracting potential customers with stable financial positions.
- Retain leading positions in the retail sector in terms of the main retail products regardless of market growth dynamics and increased competition by pursuing an aggressive policy and concentrating on payroll projects, credit cards and improving the product line; improving service quality; and increasing branch network efficiency with a focus on alternative (remote) sales channels.

- Retain the Bank's number one position in retail deposits. Continue to focus on term deposits and current accounts of corporate clients and individuals given the volatility on international capital markets.

- Retain leading positions on the payment card market and increase market share by number of active cards in circulation; retain market share in foreign-exchange operations.

- Play an active role in government programmes aimed at growing of entrepreneurial businesses and improving their financial positions to support existing customers and their interests, as well as to attract new borrowers.

- Expand the geography of product sales by providing financial products and services through the Bank's wide branch network and its international subsidiaries; ensure business development by streamlining management systems, continuing to introduce modern technology that makes processes more efficient and increases profitability of the main operational activities, boosting labour productivity and cutting costs.

- Further develop common corporate governance principles throughout the Group, including issues of transparency and provision of timely and full information to shareholders and the Board of Directors; risk management; internal control and internal audit; effective interaction with shareholders, including minorities; and uniformity in approaches and procedures across the Group.

- Establish control over the Group's total risks by developing an integrated risk management system; improve the monitoring of existing risks and forecasting of new ones; develop a system of formalised risk assessment.

- Improve the unified operating model by establishing, unifying, standardising and automating large-scale industrial processes; locate these processes in peripheral processing centres to ensure sufficient business continuity in case of force-majeure disaster and decrease operating expenses.

- Implement measures to establish a process-oriented management system aimed at decreasing production costs, reducing the duration of the client service cycle, eliminating excess structural parts, detecting and eliminating zones of irresponsibility or overlaps in responsibilities, and eliminating excess operations and breaks in information and technological chains.

- Implement and develop modern information technologies; modernise and fine-tune the main banking transactional systems to meet the requirements of the Group's clients; develop CRM, internet banking, the card system and the internal database; automate key business processes to reduce the time for document processing and errors; ensure the transparency of procedures and creation on this basis of a single information environment for the Group that ensures the reliability, feasibility and continuous operation of all systems and applications.

- Develop the Group's personnel, including by improving the system of motivation and remuneration, developing corporate values, decreasing staff turnover, working with the talent pool to fill the Bank's key positions with highly qualified professionals, managing headcount (optimisation and reallocation of staff), further specialising employees for greater labour efficiency, and training personnel, focusing on the Group's strategic tasks.

Mission and values

Group mission

The Group's mission continues to be to provide services in all segments of the financial market (banking, insurance, securities and leasing) in Kazakhstan and some other countries according to international standards, thus ensuring the retention, efficient allocation and growth of clients' and shareholders' funds.

Group values

Client focus: The Group understands the needs of its clients and commits to using all its resources to offer clients the most efficient solutions to help them achieve and even exceed their goals.

Reliability: The Group will rigorously comply with the general principles and norms of international law, Kazakh legislation, legislation of other countries where it operates, and its internal provisions and regulations. The Group will strive towards international standards of corporate governance and follow a policy of maximum openness and transparency for shareholders, clients, business partners, government authorities and employees. Reliability is the key factor for preserving the most valuable asset: the Group's business reputation.

Leadership: The Group will seek leading positions in serving all groups of clients in all market segments. Managers at all organisational levels will set an example of enthusiasm, energy and devotion to their tasks. Managers will set the direction, encourage innovation and inspire the organisation to fulfil the Group's mission.

Social responsibility: Focusing on the needs and interests of all strata of population will be one of the main principles of the Group's activities. The Group will strive to contribute to developing society, resolving social issues and being a responsible corporate citizen. Integrity: The Group will strive toward the utmost honesty in business operations in all areas, always and everywhere. The Group will adhere to principles of transparency in internal processes, building mutually respectful and trusting relationships with clients, and encouraging an honest attitude in employees towards business and compliance with corporate ethics.

Professionalism: The Group will strive towards the highest professional standards and be receptive to innovation and new ideas. The main goal is to deliver a professional service in an honest and timely manner to clients, which will ensure strong and long-lasting relationships with them.

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2014, 2013 AND 2012

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of JSC Halyk Bank ("the Bank") and its subsidiaries (collectively – "the Group") as at 31 December 2014, 2013 and 2012, and the results of its operations, cash flows and changes in equity for the years then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining accounting records in compliance with the Republic of Kazakhstan legislation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the years ended 31 December 2014, 2013 and 2012 were approved by the Management Board on 13 March 2015.

On behalf of the Management Board:

Umut B. Shayakhmetova Chairperson of the Board	Pavel A. Cheussov Chief Accountant
13 March 2015 Almaty, Kazakhstan	13 March 2015 Almaty, Kazakhstan

Independent Auditor's report

To the Shareholders and the Board of Directors of JSC Halyk Bank:

We have audited the accompanying consolidated financial statements of JSC Halyk Bank and its subsidiaries (collectively – "the Group"), which comprise the consolidated statements of financial position as at 31 December 2014, 2013 and 2012, and the consolidated statements of profit or loss, consolidated statements of other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

Nurlan Bekenov

Engagement Partner
Qualified auditor of the Republic of Kazakhstan

Qualification certificate No. 0082
dated 13 June 1994

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC Halyk Bank and its subsidiaries as at 31 December 2014, 2013 and 2012, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte, LLP
State license on auditing in the Republic of Kazakhstan
Number 0000015, type MFU-2, given by
the Ministry of Finance of Kazakhstan
dated 13 September 2006

General Director
Deloitte,LLP

13 March 2015
Almaty, Kazakhstan

Consolidated statements of financial position

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2014, 2013 AND 2012

(Millions of Kazakhstani Tenge)

ASSETS	Notes	31 December 2014	31 December 2013	31 December 2012
Cash and cash equivalents	6	540,537	486,313	533,499
Obligatory reserves	7	48,225	44,276	49,037
Financial assets at fair value through profit or loss	8	15,727	1,334	1,271
Amounts due from credit institutions	9	27,095	25,808	32,799
Available-for-sale investment securities	10	386,423	350,552	334,362
Investments held to maturity	11	-	-	25,766
Precious metals		1,385	16,857	1,646
Loans to customers	12, 38	1,648,013	1,482,245	1,319,208
Investment property	13	5,684	906	-
Property and equipment	14	79,564	63,614	65,005
Assets held for sale	16	8,798	2,912	7,434
Goodwill	5	4,954	3,085	3,085
Intangible assets	15	8,664	5,617	5,594
Insurance assets	17	20,320	13,379	14,923
Other assets	18	14,393	9,516	14,369
TOTAL ASSETS		2,809,782	2,506,414	2,407,998
LIABILITIES AND EQUITY				
LIABILITIES				
Amounts due to customers	19, 38	1,848,213	1,766,648	1,699,182
Amounts due to credit institutions	20	107,192	107,395	15,202
Financial liabilities at fair value through profit or loss	8	3,131	69	439
Debt securities issued	21	311,009	189,515	301,919
Provisions	22	407	4,163	4,385
Deferred tax liability	23	10,673	4,520	7,907
Insurance liabilities	17	38,807	29,715	25,201
Other liabilities	24	15,129	12,210	14,124
TOTAL LIABILITIES		2,334,561	2,114,235	2,068,359
EQUITY				
Share capital	25	143,695	143,695	143,695
Share premium reserve		1,439	1,415	1,496
Treasury shares		(78,994)	(77,534)	(81,028)
Retained earnings and other reserves	25	409,081	323,670	273,835
		475,221	391,246	337,998
Non-controlling interest		-	933	1,641
TOTAL EQUITY		475,221	392,179	339,639
TOTAL LIABILITIES AND EQUITY		2,809,782	2,506,414	2,407,998

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

13 March 2015
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

13 March 2015
Almaty, Kazakhstan

The notes on pages 12 to 105 form an integral part of these consolidated financial statements.

Consolidated statements of profit or loss

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR THE YEARS ENDED 31 DECEMBER 2014, 2013 AND 2012

(Millions of Kazakhstani Tenge, except for earnings per share which is in Tenge)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Interest income	27, 38	210,593	182,563	160,994
Interest expense	27, 38	(77,458)	(75,932)	(69,934)
NET INTEREST INCOME BEFORE IMPAIRMENT CHARGE	27	133,135	106,631	91,060
Impairment charge	22	(7,387)	(26,021)	(15,362)
NET INTEREST INCOME		125,748	80,610	75,698
Fee and commission income	28	58,638	51,406	51,082
Fee and commission expense	28	(8,559)	(7,139)	(5,991)
Fees and commissions, net		50,079	44,267	45,091
Net gain from financial assets and liabilities at fair value through profit or loss	29	7,842	261	169
Net realized (loss)/gain from available-for-sale investment securities		(230)	1,884	1,626
Net foreign exchange gain	30	7,086	9,261	9,053
Insurance underwriting income	31	20,678	19,411	17,764
Share in net loss of associate		-	-	(1)
Other income		5,366	1,780	2,935
OTHER NON-INTEREST INCOME		40,742	32,597	31,546
Operating expenses	32	(62,410)	(54,820)	(51,811)
Impairment loss of assets held for sale	16	(102)	-	(2,100)
Recoveries of provisions/(provisions)	22	4,036	210	(962)
Insurance claims incurred, net of reinsurance	17, 31	(16,195)	(13,933)	(12,733)
NON-INTEREST EXPENSES		(74,671)	(68,543)	(67,606)
INCOME BEFORE INCOME TAX EXPENSE		141,898	88,931	84,729
Income tax expense	23	(27,521)	(16,522)	(14,768)
NET INCOME		114,377	72,409	69,961
Attributable to:				
Common shareholders		112,406	70,903	67,837
Preferred shareholders		1,971	1,234	1,680
Non-controlling interest		-	272	444
		114,377	72,409	69,961
Basic earnings per share (in Kazakhstani Tenge)	33	10.32	6.41	5.93
Diluted earnings per share (in Kazakhstani Tenge)	33	9.40	5.50	4.99

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

13 March 2015
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

13 March 2015
Almaty, Kazakhstan

The notes on pages 12 to 105 form an integral part of these consolidated financial statements.

Consolidated statements of other comprehensive income

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2014, 2013 AND 2012

(Millions of Kazakhstani Tenge)

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Net income	114,377	72,409	69,961
Other comprehensive income/(loss), net of tax			
Items that will not be subsequently reclassified to profit or loss:			
Gain/(loss) resulting on revaluation of property and equipment (2014, 2013, 2012 – net of tax – KZT1,168 million, KZT127 million, Nil)	4,170	(518)	(240)
Items that may be subsequently reclassified to profit or loss:			
(Loss)/gain on revaluation of available-for-sale investment securities (2014, 2013, 2012 – net of tax –KZT Nil)	(12,125)	(7,037)	7,059
Difference between carrying amount and fair value of investments held-to-maturity at the reclassification date (2013 – net of tax KZT443 million)	-	1,744	-
Reclassification adjustment relating to available-for-sale investment securities disposed of in the year (2014, 2013, 2012 – net of tax – KZT Nil)	230	(1,884)	(1,626)
Reclassification adjustment relating to available-for-sale investment securities impaired during the year (2014, 2013, 2012 – net of tax – KZT Nil)	813	41	(99)
Exchange differences on translating foreign operations (2014, 2013, 2012 – net of tax – KZT Nil)	(1,447)	(520)	(101)
Other comprehensive (loss)/income for the year	(8,359)	(8,174)	4,993
Total comprehensive income for the year	106,018	64,235	74,954
Attributable to:			
Non-controlling interest	-	263	445
Preferred shareholders	1,599	1,094	1,801
Common shareholders	104,419	62,878	72,708
	106,018	64,235	74,954

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

13 March 2015
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

13 March 2015
Almaty, Kazakhstan

The notes on pages 12 to 105 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2014, 2013 AND 2012

(Millions of Kazakhstani Tenge)

	Share capital				Treasury shares								
	Common shares	Non-convertible preferred shares	Convertible preferred shares	Share premium reserve	Common shares	Preferred shares	Cumulative translation reserve*	Revaluation reserve of available-for-sale investment securities*	Property revaluation reserve*	Retained earnings*	Total	Non-controlling interest	Total equity
31 December 2013	83,571	46,891	13,233	1,415	(39,974)	(37,560)	602	1,790	13,808	307,470	391,246	933	392,179
Net income	-	-	-	-	-	-	-	-	-	114,377	114,377	-	114,377
Other comprehensive loss/(income)	-	-	-	-	-	-	(1,447)	(11,082)	4,170	-	(8,359)	-	(8,359)
Total comprehensive (loss)/income	-	-	-	-	-	-	(1,447)	(11,082)	4,170	114,377	106,018	-	106,018
Treasury shares purchased	-	-	-	(273)	(7)	(1,461)	-	-	-	-	(1,741)	-	(1,741)
Treasury shares sold	-	-	-	297	8	-	-	-	-	-	305	-	305
Dividends – preferred shares	-	-	-	-	-	-	-	-	-	(1,757)	(1,757)	-	(1,757)
Dividends – common shares	-	-	-	-	-	-	-	-	-	(18,547)	(18,547)	-	(18,547)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(530)	(530)
Decrease in non-controlling interest due to buy-back of JSC Accumulated Pension Fund of Halyk Bank of Kazakhstan shares	-	-	-	-	-	-	-	-	-	-	-	(403)	(403)
Loss from buy-back of JSC Accumulated Pension Fund of Halyk Bank of Kazakhstan shares	-	-	-	-	-	-	-	-	-	(303)	(303)	-	(303)
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	-	-	-	-	(637)	637	-	-	-
31 December 2014	83,571	46,891	13,233	1,439	(39,973)	(39,021)	(845)	(9,292)	17,341	401,877	475,221	-	475,221

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2014, 2013 and 2012

(Millions of Kazakhstani Tenge)

	Share capital				Treasury shares								
	Common shares	Non-convertible preferred shares	Convertible preferred shares	Share premium reserve	Common shares	Preferred shares	Cumulative translation reserve*	Revaluation reserve of available-for-sale investment securities*	Property revaluation reserve*	Retained earnings*	Total	Non-controlling interest	Total equity
31 December 2012	83,571	46,891	13,233	1,496	(39,974)	(41,054)	1,122	8,926	14,754	249,033	337,998	1,641	339,639
Net income	-	-	-	-	-	-	-	-	-	72,137	72,137	272	72,409
Other comprehensive loss	-	-	-	-	-	-	(520)	(7,136)	(509)	-	(8,165)	(9)	(8,174)
Total comprehensive (loss)/income	-	-	-	-	-	-	(520)	(7,136)	(509)	72,137	63,972	263	64,235
Treasury shares purchased	-	-	-	(423)	(11)	-	-	-	-	-	(434)	-	(434)
Treasury shares sold	-	-	-	342	11	3,494	-	-	-	-	3,847	-	3,847
Dividends – preferred shares	-	-	-	-	-	-	-	-	-	(2,197)	(2,197)	-	(2,197)
Dividends – common shares	-	-	-	-	-	-	-	-	-	(12,215)	(12,215)		(12,215)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(971)	(971)
Difference on exit from subsidiary	-	-	-	-	-	-	-	-	-	275	275		275
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	-	-	-	-	(437)	437	-	-	-
31 December 2013	83,571	46,891	13,233	1,415	(39,974)	(37,560)	602	1,790	13,808	307,470	391,246	933	392,179

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

13 March 2015
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

13 March 2015
Almaty, Kazakhstan

The notes on pages 12 to 105 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2014, 2013 and 2012

(Millions of Kazakhstani Tenge)

	Share capital				Treasury shares								
	Common shares	Non-convertible preferred shares	Convertible preferred shares	Share premium reserve	Common shares	Preferred shares	Cumulative translation reserve*	Revaluation reserve of available-for-sale investment securities*	Property revaluation reserve*	Retained earnings*	Total	Non-controlling interest	Total equity
31 December 2011	83,571	46,891	13,233	1,156	(39,960)	-	1,223	3,593	15,487	183,937	309,131	1,196	310,327
Net income	-	-	-	-	-	-	-	-	-	69,517	69,517	444	69,961
Other comprehensive (loss)/income	-	-	-	-	-	-	(101)	5,333	(240)	-	4,992	1	4,993
Total comprehensive (loss)/income	-	-	-	-	-	-	(101)	5,333	(240)	69,517	74,509	445	74,954
Treasury shares purchased	-	-	-	(227)	(45)	(41,054)	-	-	-	-	(41,326)	-	(41,326)
Treasury shares sold	-	-	-	567	31	-	-	-	-	-	598	-	598
Dividends – preferred shares	-	-	-	-	-	-	-	-	-	(4,914)	(4,914)	-	(4,914)
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	-	-	-	-	(493)	493	-	-	-
31 December 2012	83,571	46,891	13,233	1,496	(39,974)	(41,054)	1,122	8,926	14,754	249,033	337,998	1,641	339,639

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

13 March 2015
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

13 March 2015
Almaty, Kazakhstan

* These amounts are included within Retained earnings and other reserves in the consolidated statement of financial position.

The notes on pages 12 to 105 form an integral part of these consolidated financial statements.

Consolidated statements of cash flows

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2014, 2013 and 2012

(Millions of Kazakhstani Tenge)

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received from financial assets at fair value through profit or loss	55	36	26
Interest received from cash equivalents and amounts due from credit institutions	5,426	3,686	2,799
Interest received on available-for-sale investment securities	18,862	16,320	14,342
Interest received on investments held to maturity	-	2,464	1,518
Interest received from loans to customers	179,127	140,159	135,305
Interest paid on amounts due to customers	(62,332)	(54,190)	(46,146)
Interest paid on amounts due to credit institutions	(2,284)	(865)	(633)
Interest paid on debt securities issued	(15,377)	(22,280)	(24,743)
Fee and commission received	59,822	52,331	49,203
Fee and commission paid	(8,559)	(7,139)	(5,991)
Insurance underwriting income received	16,369	32,500	27,711
Ceded reinsurance share paid	(2,996)	(15,066)	(9,525)
Other income received	3,385	8,550	10,202
Operating expenses paid	(65,766)	(49,004)	(45,643)
Insurance claims paid	(9,745)	(8,706)	(10,867)
Reimbursement of losses received from reinsurers	-	459	942
Cash flows from operating activities before changes in net operating assets	115,987	99,255	98,500
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets:			
Obligatory reserves	(3,949)	4,761	3,879
Financial assets at fair value through profit or loss	(12,966)	65	2,011
Amounts due from credit institutions	(344)	7,123	(12,097)
Precious metals	16,203	(17,488)	281
Loans to customers	(50,608)	(153,973)	(139,588)
Assets held for sale	(6,121)	4,522	(2,066)
Insurance assets	(4,909)	2,258	(2,240)
Other assets	(5,578)	(607)	(1,264)
Increase/(decrease) in operating liabilities:			
Amounts due to customers	(51,950)	54,108	138,303
Amounts due to credit institutions	(4,600)	91,584	(26,715)
Financial liabilities at fair value through profit or loss	3,060	(378)	(2,109)
Insurance liabilities	7,915	93	(219)
Other liabilities	4,469	(1,017)	(2,725)
Cash inflow from operating activities before income tax	6,609	90,306	53,951
Income tax paid	(22,586)	(20,016)	(11,836)
Net cash (outflow)/inflow from operating activities	(15,977)	70,290	42,115

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2014, 2013 and 2012
(Millions of Kazakhstani Tenge)

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase and prepayments for property and equipment and intangible assets	(16,441)	(6,269)	(8,453)
Proceeds on sale of property and equipment	4,292	290	85
Proceeds on sale of available-for-sale investment securities	139,125	122,240	129,146
Purchase of available-for-sale investment securities	(153,026)	(125,356)	(149,171)
Proceeds from maturity of investments held to maturity	-	2,599	114,429
Proceeds from sale of investments held to maturity	-	10,541	-
Purchase of investments held to maturity	-	(1,609)	(59,531)
Net cash (outflow)/inflow from investing activities	(26,050)	2,436	26,505

	Notes	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds on sale of treasury shares		305	3,847	598
Purchase of treasury shares		(1,741)	(434)	(41,326)
Dividends paid – preferred shares		(1,757)	(2,197)	(4,914)
Dividends paid – common shares		(18,547)	(12,215)	-
Dividends paid – subsidiaries		(530)	(971)	-
Buy-back of non-controlling interest's shares		(706)	-	-
Proceeds on debt securities issued		89,602	-	-
Redemption and repayment of debt securities issued		(4,075)	(116,136)	(13,111)
Net cash inflow/(outflow) from financing activities		62,551	(128,106)	(58,753)
Effect of changes in foreign exchange rate on cash and cash equivalents		33,700	8,194	4,024
Net change in cash and cash equivalents		54,224	(47,186)	13,891
CASH AND CASH EQUIVALENTS, beginning of the year	6	486,313	533,499	519,608
CASH AND CASH EQUIVALENTS, end of the year	6	540,537	486,313	533,499

The notes on pages 12 to 105 form an integral part of these consolidated financial statements.

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

13 March 2015
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

13 March 2015
Almaty, Kazakhstan

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2014, 2013 AND 2012
(Millions of Kazakhstani Tenge)

1. Principal activities

JSC Halyk Bank ("the Bank") and its subsidiaries (collectively, "the Group") provide retail and corporate banking services principally in Kazakhstan, Russia, Kyrgyzstan and Georgia, leasing services in Kazakhstan and Russia, as well as asset management, insurance and brokerage services in Kazakhstan. The primary state registration of the Bank with the authorities of justice of Kazakhstan was made on 20 January 1994. The Bank operates under the license No. 10 for carrying out of banking and other operations and activities on the securities market, renewed by the National Bank of the Republic of Kazakhstan ("NBK") on 6 August 2008. The Bank is a member of the obligatory deposit insurance system provided by JSC Kazakhstan Deposit Insurance Fund.

The Bank's primary business includes originating loans and guarantees, collecting deposits, trading in securities and foreign currencies, executing transfers, cash and payment card operations as well as rendering other banking services to its customers. In addition, the Bank acts as a non-exclusive agent of the Government of the Republic of Kazakhstan in channelling various budgetary payments and pensions through its nationwide branch network.

Trust activities

In the normal course of its business, the Group enters into agreements with customers to manage the customers' assets with limited decision making rights and in accordance with specific criteria established by the customers. The Group may only be liable for losses or actions aimed at appropriation of the customers' funds if such funds or securities are not returned to the customer. The maximum potential financial risk of the Group on any date is equal to the volume of the customers' funds, net of any unrealized income/loss on the customer's position. The balance of the customers' funds under the management of the Group, as at 31 December 2014 is KZT Nil (31 December 2013 – KZT1,234 billion; 31 December 2012 – KZT1,060 billion).

Legal proceedings

From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Operating environment

Emerging markets such as the Republic of Kazakhstan are subject to different risks more than developed markets, including economic, political, social, legal and legislative risks. Laws and regulations affecting businesses in the Republic of Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of the Republic of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because the Republic of Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market, which decreased significantly during 2014. Management is unable to reliably estimate the effects of any further price fluctuations on the Group's financial position.

The Bank has a primary listing with Kazakhstan Stock Exchange ("KASE"). In addition, the Bank's Eurobonds issued are primarily listed on the Luxembourg and London Stock Exchanges. The Bank also allocated Global Depository Receipts ("GDRs") on the London Stock Exchange.

In 2009, JSC "Sovereign Wealth Fund "Samruk-Kazyna" ("Samruk-Kazyna"), an entity controlled by the Government of the Republic of Kazakhstan, acquired 259,064,909 common shares of the Bank for KZT26,951 million and 196,232,499 non-convertible preferred shares of the Bank for KZT33,049 million.

In 2011, the Bank acquired from JSC Almex Holding Group (hereafter – "the parent") a call option to purchase 213,000,000 of the Bank's common shares from Samruk-Kazyna at a fixed strike price of KZT126.8 per share for KZT12,867 million and immediately exercised the option and repurchased 213,000,000 of its own common shares from Samruk-Kazyna for KZT27,008 million.

In 2012, the Bank acquired from the parent a call option to purchase 196,232,499 of the Bank's preferred shares from Samruk-Kazyna at a fixed strike price of KZT179.94 per share for KZT7,114 million with maturity of the option in May 2014. In June 2012 the Bank partially exercised the option and repurchased 190,000,000 of its own preferred shares from Samruk-Kazyna for KZT26,991 million.

On 5 July 2012, the Bank repurchased 40,000,000 of its own preferred shares from Samruk-Kazyna at a price of KZT180.21 per share for KZT7,208 million. As a result, the Group has recorded KZT41,054 million as a cost of acquired treasury shares (see Note 25). After the repurchase, Samruk-Kazyna continues owning 6,232,499 preferred shares of the Bank.

On 28 April 2014, the Bank repurchased 6,232,399 of its own preferred shares from Samruk-Kazyna at a price of KZT200.28 per share for KZT1,248 million. As a result, the Group has recorded KZT42,515 million as a cost of acquired treasury (see Note 25). After the repurchase, Samruk-Kazyna continues owning 100 preferred shares of the Bank.

The Group is ultimately controlled by Timur Kulibayev and his wife Dinara Kulibayeva.

As at 31 December 2014, 2013 and 2012, the Group was owned by the following shareholders, which own individually more than 5% of the issued shares of the Group:

31 December 2014	Total shares	Stake in total shares in circulation	Common shares	Stake in common shares in circulation	Convertible and non-convertible preferred shares	Stake in convertible and non-convertible preferred shares in circulation
JSC HG Almex	8,024,149,068	72.3%	8,003,381,500	73.4%	20,767,568	11.0%
JSC Single Accumulated Pension Fund*	869,738,261	7.8%	710,233,299	6.5%	159,504,962	84.3%
GDR	1,848,929,480	16.7%	1,848,929,480	16.9%	-	0.0%
Other	356,244,249	3.2%	347,354,434	3.2%	8,889,815	4.7%
Total shares in circulation (on consolidated basis)	11,099,061,058	100%	10,909,898,713	100%	189,162,345	100%

31 December 2013	Total shares	Stake in total shares in circulation	Common shares	Stake in common shares in circulation	Convertible and non-convertible preferred shares	Stake in convertible and non-convertible preferred shares in circulation
JSC HG Almex	8,024,149,068	72.3%	8,003,381,500	73.4%	20,767,568	10.6%
JSC Accumulation Pension Fund of Halyk Bank of Kazakhstan **	758,082,743	6.8%	661,367,710	6.1%	96,715,033	49.5%
GDR	2,093,909,040	18.9%	2,093,909,040	19.2%	-	-
Other	228,090,752	2.0%	150,042,269	1.3%	78,048,483	39.9%
Total shares in circulation (on consolidated basis)	11,104,231,603	100%	10,908,700,519	100%	195,531,084	100%

31 December 2012	Total shares	Stake in total shares in circulation	Common shares	Stake in common shares in circulation	Convertible and non-convertible preferred shares	Stake in convertible and non-convertible preferred shares in circulation
JSC HG Almex	7,559,973,820	68.2%	7,559,973,820	69.3%	-	-
JSC Accumulation Pension Fund of Halyk Bank of Kazakhstan **	758,082,743	6.8%	661,367,710	6.1%	96,715,033	55.1%
GDR	2,510,925,720	22.7%	2,510,925,720	23.0%	-	-
Other	254,416,525	2.3%	175,694,405	1.6%	78,722,120	44.9%
Total shares in circulation (on consolidated basis)	11,083,398,808	100.0%	10,907,961,655	100.0%	175,437,153	100.0%

* The transfer of all pension assets under management of the private accumulative pension funds to the JSC Single Accumulated Pension Fund (hereinafter – SAPF) was conducted in accordance with the schedule and order approved by the Decree of the Chairman of the National Bank of the Republic of Kazakhstan No. 356 dated 24 September 2013. As a result, as at 31 December 2014 SAPF held 7.8% of the Bank's shares outstanding on behalf of its clients.

** Common and preferred shares owned by JSC Accumulation Pension Fund of Halyk Bank of Kazakhstan are not eliminated as those shares were purchased on clients' funds and are owned by the clients.

On 14 December 2012 the Bank performed share split of its common shares in proportion of one common share to ten common shares as described in Note 25.

As at 31 December 2014, the Bank operated through its head office in Almaty and its 22 regional branches, 122 sub-regional offices sand 393 cash settlement units (31 December 2013 – 22, 122, 400, respectively; 31 December 2012 - 22,122 and 410, respectively) located throughout Kazakhstan. The address of the Bank's registered office is: 109 V Abai Avenue, Almaty, 050008, Republic of Kazakhstan.

As at 31 December 2014, the number of the Group's full-time equivalent employees was 10,984 (31 December 2013 - 11,198, 31 December 2012 - 12,149).

The consolidated financial statements of the Group for the years ended 31 December 2014, 2013 and 2012 were authorised for issue by the Management Board on 13 March 2015.

2. Basis of presentation

Statement of compliance

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

These consolidated financial statements have been prepared assuming that the Group is a going concern and will continue operation for the foreseeable future.

These consolidated financial statements are presented in millions of Kazakhstani Tenge ("KZT" or "Tenge"), except for earnings per share amounts and unless otherwise indicated.

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are accounted for at fair value and insurance liabilities which are accounted for based on actuarial calculations and certain property and equipment which are carried at revalued cost less depreciation and impairment as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the date of consolidated statement of financial position (current) and more than 12 months after the date of consolidated statement of financial position (non-current) is presented in Note 34.

Functional currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary of the economic environment in which the entity operates ("the functional currency"). The functional currency of the Bank is KZT. The presentation currency of the consolidated financial statements is KZT.

Consolidated subsidiaries

These consolidated financial statements include the following subsidiaries:

Subsidiaries	Holding, %			Country	Industry
	31 December 2014	31 December 2013	31 December 2012		
JSC Halyk Leasing	100	100	100	Kazakhstan	Leasing
JSC Kazteleport	100	100	100	Kazakhstan	Telecommunications
HSBK (Europe) B.V.*	N/a	100	100	Netherlands	Issue and placement of Eurobonds, attracting of syndicated loans
OJSC Halyk Bank Kyrgyzstan	100	100	100	Kyrgyzstan	Banking
JSC Halyk Finance	100	100	100	Kazakhstan	Broker and dealer activities
LLP Halyk Inkassatsiya	100	100	100	Kazakhstan	Cash collection services
JSC Halyk Life	100	100	100	Kazakhstan	Life insurance
LLP NBK-Finance**	N/a	N/a	100	Russia	Broker and dealer activities
JSC Kazakhinstrakh	100	100	100	Kazakhstan	Insurance
JSC Accumulation Pension fund of Halyk Bank of Kazakhstan ("APF")***	100	96	96	Kazakhstan	Pension assets accumulation and management
JSC NBK Bank	100	100	100	Russia	Banking
JSC Halyk Bank Georgia	100	100	100	Georgia	Banking
LLC Halyk Project	100	100	100	Kazakhstan	Management of doubtful and loss assets
JSC Altyn-Bank (Subsidiary Bank of JSC Halyk Bank Kazakhstan) (JSC "Altyn Bank")****	100	N/a	N/a	Kazakhstan	Banking

* On 30 September 2014 the Board of Directors of the Bank made a decision on voluntary liquidation of HSBK (Europe) B.V. in Netherlands, the subsidiary of the Bank. On 23 December 2014 HSBK (Europe) B.V. was removed from the register of Chamber of Commerce of Netherlands.

** In accordance with the Decision of the Board of Directors of the Bank dated 3 July 2013, the Bank exited from partnership in LLP NBK-Finance by transferring its partnership share to a third party. The actual withdrawal was performed on 11 November 2013. As at 11 November 2013, net assets of LLP NBK-Finance amounted to KZT Nil.

*** During the third quarter 2014 APF performed the buy-back of its shares. Holding percentage of the Bank in APF changed accordingly.

**** On 23 November 2014 the Integrated Securities Registrar registered the purchase and sale transaction of ordinary shares of Subsidiary Bank JSC "HSBC Bank Kazakhstan" (hereinafter – "Subsidiary bank") between the Bank and HSBC Bank Plc. As a result, the Bank acquired 100% of the outstanding common shares of Subsidiary Bank in amount 70,500 shares. State registration was made on 27 November 2014 as
JSC Altyn Bank.

Basis of presentation

JSC Processing Center was the associate, which provided data processing services in Kazakhstan. It was classified within other assets and accounted for under the equity method:

As at 31 December 2012 and for the year then ended					
Holding, %	Share in net loss	Total assets	Total liabilities	Equity	Total revenue
25.14	(4)	11	-	11	1

In accordance with the Decision No.1/2013 dated 9 July 2013 of the extraordinary General Shareholders Meeting of of JSC Processing Centre and Certificate of NBK on cancellation of share issues No. A4528 dated 13 September 2013 JSC Processing Center ceased it activity due to its voluntary liquidation

3. Significant accounting policies

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interest

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Group.

Non-controlling interests are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amounts by which the non-controlling interests are adjusted is recognised directly in equity.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by the applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under International Accounting Standard ("IAS") 39 "Financial Instruments: Recognition and Measurement", when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 Income Taxes;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interest that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interest are measured at fair value or, when applicable, on the basis specified in another IFRS.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see above) less accumulated impairment losses, if any.

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting.

Investments in associates are carried in the consolidated statement of financial position at cost as adjusted for goodwill and for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognized unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition is recognized as goodwill. The goodwill is included in the carrying amount of the investment and is assessed for impairment as part of the investment.

Where a Group company transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances on correspondent accounts and amounts due from credit institutions and reverse repo agreements with original maturities within three months. For purposes of determining cash flows, the obligatory reserve required by the National Bank of Kazakhstan ("NBK") is not included as a cash and cash equivalent due to restrictions on its availability.

Obligatory reserves

Obligatory reserves represent funds in correspondent accounts with the NBK and cash which are not available to finance the Group's day to day operations and, hence, are not considered as part of cash and cash equivalents for the purpose of the consolidated cash flow statement.

Precious metals

Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange rates, using the KZT/USD exchange rate effective at the date. Changes in the bid prices are recorded in net gain/(loss) on foreign exchange operations.

Amounts due from credit institutions

In the normal course of business, the Group maintains current accounts or deposits for various periods of time with other banks. Amounts due from credit institutions with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for impairment.

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities on its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Where regular way purchases of financial instruments will be subsequently measured at fair value, the Group accounts for any change in the fair value of the asset between trade date and settlement date in the same way it accounts for acquired instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Financial assets

Financial assets in the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are classified as either financial assets at fair value through profit or loss, loans and receivables, investments held to maturity or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets depending on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets or financial liabilities at fair value through profit or loss

Financial assets or financial liabilities are classified as at fair value through profit or loss where the financial asset or financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial asset or financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset or financial liability other than a financial asset or financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset or financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instru-

- ments: Recognition and Measurement" ("IAS 39") permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in "Net gain from financial assets and liabilities at fair value through profit or loss". Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in "Other income" when the right to receive the payment has been established.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans to customers granted by the Group are initially recognized at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Loans and receivables are included within loans to customers, amounts due from credit institutions and other assets in the consolidated statement of financial position.

Collateral

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Investments held to maturity

Investments held to maturity are debt securities with determinable or fixed payments. The Group has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost using the effective interest method, less any allowance for impairment. Amortized discounts and premiums are recognized in interest income over the period to maturity using the effective interest method.

Available-for-sale investment securities

Available-for-sale investment securities are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables or investments held to maturity, or are not held for trading and are not designated at fair value through profit or loss on initial recognition. Available-for-sale investment securities are initially recorded at fair value. After initial recognition available-for sale investment securities are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement. However, interest calculated using the effective interest method and foreign exchange movements for debt securities are recognized in the consolidated income statement. Dividends declared are included in "Other income" in the consolidated income statement.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market prices at the close of business on the reporting date.

Reclassification of financial assets

Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be classified out of the fair value through profit or loss category in the following circumstances:

- Financial assets that would have met the definition of loans and receivables at initial recognition (if the financial asset had not been required to be classified as held for trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity; and
- Financial assets (except financial assets that would have met the definition of loans and receivables at initial recognition) may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

When the financial asset is reclassified as described in the above circumstances, the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in the income statement is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Effective from 1 July 2009, the Group was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the "Held for trading" category and into the "Available-for-sale", "Loans and receivables", or "Held to maturity" categories. From this date it was also permitted to reclassify, in certain circumstances, financial instruments out of the "Available-for-sale" category and into the "Loans and receivables" category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost. Reclassification is at the election of management, and is determined on an instrument by instrument basis.

Repurchase and reverse repurchase agreements and securities lending

The Group enters into financial assets sale and purchase back agreements ("repos") and financial assets purchase and sale back agreements ("reverse repos") in the normal course of its business. Repos and reverse repos are utilized by the Group as an element of its treasury management.

Repos are treated as secured financing transactions. Securities sold under repos are retained in the consolidated statement of financial position and, in case the transferee has the right, by contract or custom, to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers.

Securities purchased under reverse repos are recorded as amounts due from credit institutions, loans to customers or cash and cash equivalents as appropriate. The difference between the sale and repurchase prices is treated as interest and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within "Net gain from financial assets and liabilities at fair value through profit and loss" in the consolidated income statement. The obligation to return securities borrowed is recorded at fair value as a trading liability.

The Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in Kazakhstan and other CIS states, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability. Income and expense is not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the consolidated statement of financial position. Gains and losses resulting from these instruments are included in "Net gain from financial assets and liabilities at fair value through profit or loss" in the consolidated income statement.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in the consolidated income statement. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract, with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. Over–the–counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position. Additionally, derivative instruments expose the Group to counterparty non-performance risk. Certain instruments also pose liquidity risk due to absence of net-settlement provisions between counterparties.

Forwards

Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements The Group has credit exposure to the counterparties of forward contracts. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Group with other financial institutions in which the Group either receives or pays a floating interest rate in return for paying or receiving, respectively, a fixed interest rate. The payment flows are usually netted against each other, with the difference being paid by one party to the other. In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. The Group's currency swaps are mostly gross-settled.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group purchases and sells options through regulated exchanges and in the over-the-counter markets. Options purchased by the Group provide the Group with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value. Options written by the Group provide the purchaser the opportunity to purchase from or sell to the Group the underlying asset at an agreed-upon value either on or before the expiration of the option.

The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market, credit, and liquidity risks (see also Note 34).

Amounts due to customers and credit institutions

Amounts due to customers and credit institutions are initially recognized at the fair value of the consideration received less directly attributable transaction costs. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognized in the consolidated income statement.

Debt securities issued

Debt securities issued represent bonds issued by the Group, which are accounted for according to the same principles used for amounts due to customers and credit institutions. Any difference between proceeds received, net of debt issuance costs, and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Allowances for impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on financial assets carried at amortized cost 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 (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the impairment loss is recognized in the consolidated income statement.

The factors the Group evaluates in determining the presence of objective evidence of an occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets.

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 the foreclosure is probable.

The allowances are based on the Group's own loss experience and management's judgment as to the level of losses that will probably be recognized from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Financial assets are written off against the allowance for impairment losses where such items are determined to be uncollectible, including through repossession of collateral. The Group requires collateral to support credit-related financial instruments when deemed necessary. Collateral held may include deposits held in the banks, government securities and other assets. When the borrowers do not repay as scheduled, the Group can take possession of the collateral pledged. Financial assets are written off after management has exercised all possibilities available to collect amounts due to the Group, and after the Group has sold all available collateral. The decision to write off bad debt against the allowance for impairment losses for all major, preferential, unsecured and insider assets are confirmed with a procedural document from judicial or notary bodies. This document certifies that at the time of the decision to write off the bad debt, the amount could not be repaid (or partially repaid) with the debtor's funds. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated income statement.

Loans and receivables are assessed individually for impairment, except for insignificant loans and receivables that have been assessed collectively. Loans and receivables that have been assessed individually and found not to be impaired and all individually insignificant loans and receivables are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether impairment should be recognized due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, loan utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

The impairment loss on loans and receivables is disclosed in more detail in Notes 12, 22 and 34.

Available-for-sale investment securities

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. If an available-for-sale investment security is impaired, a consolidated amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognized in the consolidated income statement, is transferred from equity to the consolidated income statement. In respect to AFS equity securities, impairment losses previously recognized in the consolidated income statement are not reversed through the consolidated income statement. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income and are accumulated under the heading of investment revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Renegotiated loans

Where possible, the Group 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. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously monitors renegotiated loans to ensure that they are performing 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 effective interest rate. Renegotiated term is evidence of impairment for loans assessed for impairment on an individual basis, for which deterioration of the financial position is observed.

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated income statement in the period of recovery.

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 derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group 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 Group 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.

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Group either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the consolidated statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not is has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Group has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities

A financial liability is derecognized when the obligation is discharged, cancelled, or expires.

On the redemption or settlement of debt securities (including subordinated liabilities) issued by the Group, the Group derecognises the debt instrument and records a gain or loss being the difference between the debt's carrying amount and the cost of redemption or settlement. The same treatment applies where the debt is exchanged for a new debt issue that has terms substantially different from those of the existing debt. The assessment of whether the terms of the new debt instrument are substantially different takes into account qualitative and quantitative characteristics including a comparison of the discounted present value of the cash flows under the new terms with the discounted present value of the remaining cash flows of the original debt issue.

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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

Taxation

The current income tax expense is calculated in accordance with the regulations of Kazakhstan and other countries where the Group operates.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred 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, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred 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 utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also charged or credited directly to other comprehensive income or equity.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset and reported net in the consolidated statement of financial position if:

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Kazakhstan and other countries where the Group operates also have various operating taxes that are assessed on the Group's activities. These taxes are recorded as taxes other than income tax.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment except for the buildings and constructions which are carried at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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 and constructions	20-100
Vehicles	5-7
Computers and banking equipment	5-10
Other	7-10

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

The carrying amounts of property and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment loss is recognized in the respective period and is included in operating expenses.

Buildings and constructions held for use in supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such buildings and constructions is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings and constructions is charged as an expense to the extent that it exceeds the balance, if any, held in the property and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings and constructions is charged to the consolidated income statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property and equipment revaluation reserve is transferred directly to retained earnings.

Construction in progress is carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such construction in progress is classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately.

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. Intangible assets with indefinite useful lives are not subject to amortization.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Amortisation is recognised on a straight-line basis over their estimated useful lives.

	Years
Customer deposit intangibles	5
Software	10
Licensing agreements for the right to use the software	10
Other	10

Assets held for sale

A non-current asset and the liability directly associated with non-current assets are classified as held for sale ("disposal group") if it is highly probable that the net asset's carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification of an asset as held for sale.

Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the consolidated income statement as loss from assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Provisions

Provisions are recognized when the Group 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 obligation can be made. Recorded amounts as at the consolidated statement of financial position date represent the Group's best estimate of the expenditure required to settle the liability. The expense relating to any provision is presented in the consolidated income statement net of any recoveries.

Retirement and other benefit obligations

The Group does not have any pension arrangements separate from the state pension system of Kazakhstan and other countries where the Group operates, which requires current withholdings by the employer calculated as a percentage from current gross salary payments; such expense is charged in the period the related salaries are earned and included in operating expenses in the consolidated income statement. The Group contributes social tax to the budget of Kazakhstan and other countries where the Group operates for its employees. In addition, the Group has no post-retirement benefits.

Equity

The Group classifies a financial instrument that it issues as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms. An instrument is classified as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities. The components of a compound financial instrument issued by the Group are classified and accounted for separately as financial assets, financial liabilities or equity as appropriate.

Share capital

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. Prior to 13 May 2003, any excess of the fair value of consideration received over the nominal value of shares issued was recognized as share premium reserve. Effective 13 May 2003, upon change in law concerning "Joint Stock Companies", the nominal amount concept was restricted to placement of shares only between the founders of an entity. For all other investors, share capital is recorded at placement value being the consideration received by an entity for its shares.

Treasury shares

When the Group acquires its own share capital, the amount of the consideration paid, including directly attributable costs, net of any related tax benefit, is recognised as a change in equity. Shares repurchased by the Group are cancelled. Repurchased shares are classified as treasury shares and are held at cost. These shares are treated as a deduction from the issued and weighted average number of shares, and the cost price of the shares is presented as a deduction from total equity. The par value of the shares is presented as a deduction from ordinary share capital and the remainder of the cost is presented as a deduction from ordinary share premium. Dividends received on treasury shares are eliminated on consolidation.

Dividends

Dividends are recognized as a liability and deducted from equity on the date they are declared. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorized for issue.

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Group's consolidated statement of financial position include:

- Available-for-sale reserve which comprises changes in fair value of available-for-sale investment securities;
- Foreign currency translation reserve which is used to record exchange differences arising from the translation of the net investment in foreign operations;
- Property revaluation reserve which comprises revaluation reserve of land and building.

Contingencies

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

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation recognised in accordance with IAS 18 Revenue.

Trust activities

Assets accepted and liabilities incurred under the trust activities are not included in the Group's consolidated financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loan origination fees for loans issued to customers are (together with related direct costs) recognized as an adjustment to the effective yield of the loans. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry.

Fees, commissions, including pension asset management fees, and other income and expense items are generally recorded on an accrual basis when the service has been provided.

Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Custody services that are continuously provided over an extended period of time are recorded over the period the service is provided.

Foreign currency translation

The consolidated financial statements are presented in KZT, which is the functional currency of the Bank and each of its subsidiaries, except for foreign subsidiaries. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the currency rate of exchange as quoted by KASE as at the reporting date. Gains and losses resulting from the translation of foreign currency transactions into functional currency are recognized in the consolidated income statement as net gain or loss on foreign exchange operations. 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 exchange rates at the date when the fair value was determined.

As at the reporting date, the assets and liabilities of overseas subsidiaries are translated into the Group's presentation currency at the exchange rates as at the consolidated statement of financial position date, and their income statements are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign subsidiary, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the consolidated income statement.

Differences between the contractual exchange rate of a transaction in a foreign currency and the market exchange rate on the date of the transaction are included in net gain on foreign exchange operations. The market exchange rate at 31 December 2014 was KZT182.35 to USD 1 (31 December 2013 – KZT153.61; 31 December 2012 – KZT150.74).

Insurance

Insurance contracts are those contracts which transfer significant insurance risk from another party by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. The Group utilizes accounting policies determined by NBK for insurance companies of Kazakhstan.

The Group offers various insurance products in property and casualty, liability, personal, and life insurance.

Underwriting income

Underwriting income includes net written insurance premiums and commissions earned on ceded reinsurance reduced by the net change in the unearned premium reserve.

Upon inception of a contract, premiums are recorded as written and are earned on a pro rata basis over the term of the related policy coverage. The unearned insurance premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage and is included within reserve for insurance claims in the consolidated statement of financial position.

Losses and loss adjustments are charged to income statement as incurred through the reassessment of the reserve for claims and loss adjustment expenses, and included within insurance claims incurred in the consolidated income statement.

Commissions earned on ceded reinsurance contracts are recorded as income at the date the reinsurance contract is written and deemed enforceable.

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are capitalized and recorded in the accompanying consolidated statements of financial position within insurance assets. The asset related to deferred acquisition costs is subsequently amortized over the period in which the related written premiums are earned and is reviewed for impairment in circumstances where its carrying amount may not be recoverable. If the asset is greater than the recoverable amount it is written down immediately. All other costs are recognized as expenses when incurred.

Reserve for insurance losses and loss adjustment expenses

The reserve for insurance losses and loss adjustment expenses is included in the consolidated statement of financial position and is based on the estimated amount payable on claims reported prior to the reporting date, which have not yet been settled, and an estimate of incurred but not reported claims relating to the reporting period.

The incurred but not reported reserve ("IBNR") for motor, hull and liability insurance is actuarially determined and is based upon statistical claim data for the period typical for loss development of the classes and sub-classes of business and the Group's previous experience.

Due to the lack of historical company specific data and comparable industry data for other lines of business, the reserve for IBNR claims is determined by applying current government guidance as provided by NBK. Under this guidance, the IBNR reserve is calculated in the amount of 5% of insurance premium written during the last twelve months preceding the settlement date in this class of insurance.

The methods for determining such estimates and establishing the resulting reserves are continuously reviewed and updated. Resulting adjustments are reflected in the consolidated income statement in the period in which they are determined.

Reinsurance

In the ordinary course of business, the Group cedes reinsurance risk to reinsurers. Such reinsurance arrangements provide for greater diversification of risks, allow management to control exposure to potential losses arising from insured risks and provide additional capacity for growth.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from re-insurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Payables to reinsurers for ceded premium are recorded gross when due unless a right of offset exists against commission receivable from the reinsurer and are included in the consolidated statement of financial position within insurance assets.

Reinsurance contracts are assessed to ensure that underwriting risk, defined as the reasonable possibility of significant loss, and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, are both transferred by the Group to the re-insurer.

The Group regularly assesses its reinsurance assets for impairment. A reinsurance asset is impaired if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Application of new and revised International Financial Reporting Standards (IFRSs)

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities;
- Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities;
- Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets;
- Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting;
- IFRIC 21 Levies.

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities

The amendments to IFRS 10 introduce an exception from the requirement to consolidate subsidiaries for an investment entity. Instead, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. The exception does not apply to subsidiaries of investment entities that provide services that relate to the investment entity's investment activities.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

These amendments do not have any effect on the Group's consolidated financial statements as the Company is not an investment entity.

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

There is no effect of these amendments on the consolidated financial statements as the Group does not have any financial assets and financial liabilities that qualify for offset.

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

The amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or a cash-generating unit to periods in which an impairment loss has been recognized or reversed. In addition, they expand and clarify the disclosure requirements applicable to when recoverable amount of an asset or a cash-generating unit has been determined on the basis of fair value less costs of disposal. The new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

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

These amendments allow the continuation of hedge accounting when a derivative is novated to a clearing counterparty and certain conditions are met. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

There is no effect of these amendments on these financial statements as the Group does not apply hedge accounting.

IFRIC 21 Levies

The interpretation is applicable to all payments imposed by governments under legislation, other than income taxes that are within the scope of IAS 12 and fines and penalties for breaches of legislation. The interpretation clarifies that a liability to pay a levy should only be recognised when an obligating event has occurred and provides guidance on how to determine whether a liability should be recognized progressively over specific period or in full at a specific date.

There was no effect of the interpretation on these financial statements.

The Group did not early adopt any other standard, amendment or interpretation that has been issued and is not yet effective.

New and revised IFRSs in issue but not yet effective.

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- Amendments to IAS 19 - Defined Benefit Plans: Employee contributions 1;
- Annual Improvements to IFRSs 2010-2012 Cycle 1;
- Annual Improvements to IFRSs 2011-2013 Cycle 1;
- Annual Improvements to IFRSs 2012-2014 Cycle 2;
- IFRS 14 Regulatory Deferral Accounts 2;
- Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation 2;
- Amendments to IAS 27 - Equity Method in Separate Financial Statements 2;
- Amendments to IAS 16 and IAS 41 - Agriculture: Bearer Plants 2;
- Amendments to IFRS 11 - Accounting for Acquisition of Interests in Joint Operations 2;
- Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture 2;
- IFRS 15 Revenue from Contracts with Customers 3;
- IFRS 9 Financial Instruments 4.

1 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

2 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

3 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

4 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

Amendments to IAS 19 – Defined Benefit Plans: Employee contributions.

The amendments to IAS 19 Employee Benefits clarify the requirements related to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, amendments permit a practical expedient if the amount of the contributions is independent of the number of years of service, such contributions, can, but are not required, to be recognised as a reduction in the service cost in the period in which the related service is rendered.

The Group's management does not expect any impact of these amendments on the financial statements as the Group's defined benefit plans do not stipulate contributions from employees.

IFRS 15 Revenue from Contracts with Customers.

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied,
i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

The management of the Group anticipates that the application of IFRS 15 in the future may have a significant impact on amount and timing of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in
November 2013 to include the new requirements for general hedge accounting. In July 2014 IASB issued a finalised version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements for financial assets.
IFRS 9 is aiming at replacing IAS 39 Financial Instruments: Recognition and Measurement.

The key requirements of IFRS 9 are:

- Classification and measurement of financial assets. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Specifically, debt instruments that are held within the business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost after initial recognition. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for debt instruments held within the business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding which are measured at fair value through other comprehensive income after initial recognition. All other debt and equity investments are measured at their fair values. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- Classification and measurement of financial liabilities. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial

- liability's credit risk are not subsequently reclassified to profit or loss.

- Impairment. The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before a credit loss is recognized.

- Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principal of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

- Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The standard is effective from 1 January 2018 with early application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

The Management of the Group anticipates that the application of IFRS 9 in the future will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

Annual Improvements to IFRSs 2010-2012 Cycle

The Annual Improvements to IFRSs 2010-2012 Cycle include a number of amendments to various IFRSs, which are summarized below.

The amendments to IFRS 2 change the definition of 'vesting condition' and 'market condition' and add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'.

The amendments to IFRS 3 clarify that contingent consideration that is classified as an asset or liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IAS 39 or IFRS 9 or a non-financial asset or liability.

The amendments to IFRS 8 require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments and clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. These amendments are considered to be effective immediately.

The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/ amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/ amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The Management of the Group does not anticipate that the application of these amendments will have a significant effect on the consolidated financial statements.

Annual Improvements to IFRSs 2011-2013 Cycle

The Annual Improvements to IFRSs 2011-2013 Cycle include the following amendments to various IFRSs.

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of a financial assets or financial liabilities within IAS 32.

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether the property meets the definition of investment property in terms of IAS 40, and whether the transaction meets the definition of a business combination under IFRS 3.

The Management of the Group does not anticipate that the application of these amendments will have a significant effect on the consolidated financial statements.

Annual Improvements to IFRSs 2012–2014 Cycle.

The Annual Improvements to IFRSs 2012–2014 Cycle include the following amendments to various IFRSs.

The amendments to IFRS 5 clarify that reclassification of an asset or a disposal group from held for sale to held to distribution to owners or vice versa should
be considered changes to a plan of sale or a plar
distribution to owners and that the classification, p
sentation and measurement requirements applica
to the new method of disposal should be applied
addition, amendments clarify that assets that no l
ger meet the criteria for held for distribution to owners and do not meet the criteria for held for sale should be treated in the same way as assets that cease to be classified as held for sale. The amendments should be applied prospectively.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purposes of the disclosures required in relation to transferred assets. In addition, amendments to IFRS 7 were made to clarify that the disclosure requirements on offsetting financial assets and financial liabilities are not explicitly required to be included in the condensed interim financial statements for all interim periods, however, the disclosures may need to be included in condensed interim financial statements to comply with IAS 34. The amendments should be applied retrospectively.

The amendments to IAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are fist applied.

The amendments to IAS 34 clarify that information required by IAS 34 that is provided elsewhere within the interim financial report but outside the interim financial statements should be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The Management of the Group does not anticipate that the application of these amendments will have a significant effect on the consolidated financial statements.

4. Significant accounting estimates

The preparation of the Group's consolidated financial statements requires management to make estimates and judgments that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Management evaluates its estimates and judgements on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Group's financial condition.

Allowance for impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables as a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses will require the Group to make provisions which, if significantly different, could have a material impact on its future consolidated statement of profit or loss and its consolidated statement of financial position.

The Group uses management's judgement to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behaviour, observable data indicating an adverse change in the payment status of borrowers in a group, and 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.

Historical loss experience is adjusted, on the basis of observable data, to reflect current conditions not affecting the period of historical experience.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

The carrying amount of the allowance for impairment losses of loans to customers as at 31 December 2014 is KZT 286,018 million (31 December 2013: KZT 323,311 million; 31 December 2012: KZT 302,926 million).

Valuation of financial instruments

As described in Note 37, the Group uses valuation techniques that include inputs that are not based on observable market date to estimate the fair value of certain types of financial instruments. Note 37 provide detailed information about the key assumptions used in the determination of the fair value of financial instruments. The Group management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Property and equipment carried at revalued amounts

Buildings and construction are measured at revalued amounts. The latest appraisal was in November 2014. Details of the valuation techniques used are set out in Note 14.

Taxation

Kazakhstan tax, currency and customs legislations are subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and state authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar periods preceding the year of review.

As at 31 December 2014, Management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained. Significant additional actual taxes, penalties and interest may be assessed following any challenges by the relevant authorities, which could have a material impact on the Group's reported net income.

Claims liability and reserves arising from insurance contracts

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of incurred but not reported reserves ("IBNR") claims at the reporting date. For certain lines of business, IBNR claims form the majority of the statement of financial position claims provision. It can take a significant period of time before the ultimate claims cost can be established with certainty. For hull, property, accident and liability insurance, the Group actuarially determines the liability using past claim settlement trends to predict future claims settlement amounts. In estimating the cost of reported and IBNR claims for certain other lines of business, management applies current government guidance as provided by NBK, due to the absence of sufficient historical data. Under this guidance, the IBNR reserve is calculated using the expected loss ratio for each line of business, less the cumulative losses actually reported. General insurance claims provisions are not discounted for the time value of money.

The gross reserves for claims and the related receivables for reinsurance recoveries are based on information available to management and the ultimate amounts may vary as a result of subsequent information and events and may result in adjustments to the amounts recovered. Actual claims experience may differ from the historical pattern on which the estimate is based and the cost of settling individual claims may differ from costs previously estimated. Any adjustments to the amount of reserves will be reflected in the consolidated financial statements in the period in which the necessary adjustments become known and estimable.

Goodwill

Goodwill is the excess cost of an acquisition over the fair value of its net assets. The determination of fair value of assets and liabilities of businesses acquired requires the exercise of management's judgement; for example those financial assets and liabilities for which there are no quoted prices, and those non-financial assets where valuations reflect estimates of market conditions. Difference in fair values would result in changes to the goodwill arising and to the post-acquisition performance of the acquisition. Goodwill is not amortized but is tested annually or more frequently for impairment if events or changes in circumstances indicated that it might be impaired.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units or groups of cash-generating units expected to benefit from the combination. Goodwill impairment testing involves the comparison of the carrying value of a cash-generating unit or group of cash generating units with its recoverable amount. The recoverable amount is the higher of the unit's fair value and its value in use. Value in use is the present value of expected future cash flows from the cash-generating unit or group of cash-generating units. Fair value is the amount obtainable for the sale of the cash-generating unit in an arm's length transaction between knowledgeable and willing parties.

Impairment testing inherently involves a number of judgmental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of cash-generating units; and the valuation of the separable assets of each business whose goodwill is being reviewed.

5. Acquisitions

The Group acquired the following subsidiary during the year ended 31 December 2014:

	Principal activity	Acquisition date	Proportion of shares acquired (%)	Consideration transferred
JSC Altyn Bank	Banking	28 November 2014	100%	31,869

JSC Altyn Bank is consolidated from 28 November 2014 on which date the control was transferred to the Group. The assets and liabilities of JSC Altyn Bank were recognised at fair value. The income statement of JSC Altyn Bank up to acquisition date was not recognised.

Assets acquired and liabilities recognized at the date of acquisition:

	28 November 2014
Assets	**Fair value**
Cash and cash equivalents	98,319
Trading securities	2,483
Loans to customers	59,793
Other accounts receivables	934
Equipment and intangibles	587
Non-current assets held for sale	38
	162,154
Liabilities	
Amounts due to credit institutions	(3,792)
Amounts due to customers	(129,478)
Other accounts payables	(1,566)
	(134,836)
Net assets	27,318

Goodwill arising on acquisition:

	28 November 2014
	Fair value
Considerations transferred	31,869
Less: Fair value of identifiable net assets acquired	(27,318)
Less: Customer deposit intangible (hereinafter – "CDI") (Note 15)	(2,226)
Plus: Deferred tax on CDI	445
Less: Account receivable from HSBC Bank Plc.	(901)
Goodwill	1,869

Goodwill arising upon businesses acquisition is presented as follows:

	Carrying amount
31 December 2012 and 2013	3,085
Additions	1,869
31 December 2014	4,954
Including:	
JSC Kazakhinstrakh	3,055
OJSC Halyk Bank Kyrgyzstan	30
JSC Altyn Bank	1,869
	4,954

Net cash inflow on acquisition of subsidiaries

	2014
Consideration paid in cash	(31,869)
Plus: cash and cash equivalents acquired	98,319
	(66,450)

Impact of acquisitions on the results of the Group

Upon acquisition of Subsidiary Bank JSC "HSBC Bank Kazakhstan" the Bank has developed the price allocation model, based on which it determined the pro-forma net income. Had this acquisition been effected at 1 January 2014, net income of the Group for the year ended 31 December 2014 would have been KZT115,909 million. The Group management consider these pro-forma numbers to represent an approximate measure of the performance of the combined group on an annualized basis and to provide a reference point for comparison in future periods.

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2014	31 December 2013	31 December 2012
Cash on hand	130,413	80,752	64,256
Recorded as loans and receivables in accordance with IAS 39:			
Correspondent accounts with Organization for Economic Co-operation and Development countries (the "OECD") based banks	90,574	91,265	70,088
Overnight deposits with OECD based banks	31,000	59,122	-
Short-term deposits with OECD based banks	14,595	135,253	257,783
Correspondent accounts with National Bank of Republic of Kazakhstan (the "NBK")	260,070	83,769	114,175
Short-term deposits with Kazakhstan banks (loans under reverse repurchase agreements)	3,803	32,326	3,510
Correspondent accounts with non-OECD based banks	8,553	2,159	5,194
Short-term deposits with non-OECD based banks	1,529	1,643	3,437
Overnight deposits with non-OECD based banks	-	24	55
Short-term deposit with NBK	-	-	15,001
	540,537	486,313	533,499

Interest rates and currencies in which interest earning cash and cash equivalents are denominated are presented as follows:

	31 December 2014		31 December 2013		31 December 2012	
	KZT	Foreign currencies	KZT	Foreign currencies	KZT	Foreign currencies
Overnight deposits with OECD based banks	-	0.08%	-	0.02% - 0.1%	-	-
Short-term deposits with OECD based banks	-	0.3%	6.9%	0.1%- 0.2%	-	0.2%-0.6%
Short-term deposits with Kazakhstan banks	30%	-	2.0%- 6.0%	-	0.7%- 1.5%	-
Short-term deposits with non-OECD based bank		2.0%- 3.3%	-	1.0% - 4.5%	-	3.0%-8.5%
Overnight deposits with non-OECD based banks	-	-	-	2.3%	-	3.8%
Short-term deposits with NBK	-	-	-	-	0.5%	-

Fair value of assets pledged and carrying amounts of loans under reverse repurchase agreements as at 31 December 2014, 2013 and 2012, are presented as follows:

	31 December 2014		31 December 2013		31 December 2012	
	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral	Carrying amount of loans	Fair value of collateral
Treasury bills of the Ministry of Finance of Kazakhstan	3,803	4,103	32,279	48,936	3,459	3,721
Equity securities of Kazakhstan banks	-	-	47	47	51	51
	3,803	4,103	32,326	48,983	3,510	3,772

As at 31 December 2014, 2013 and 2012, maturities of loans under reverse repurchase agreements are less than 1 month.

7. Obligatory reserves

Obligatory reserves comprise:

	31 December 2014	31 December 2013	31 December 2012
Recorded as loans and receivables in accordance with IAS 39:			
Cash and due from banks allocated to obligatory reserves	48,225	44,276	49,037
	48,225	44,276	49,037

The obligatory reserves represent the minimum reserve deposits and cash on hand balances required by the National Banks of Kazakhstan, Kyrgyzstan, Georgia and Central Bank of Russian Federation and are used for calculation of the minimum reserve requirement. As at 31 December 2014 obligatory reserves of JSC Altyn Bank, OJSC Halyk Bank Kyrgyzstan, OJSC NBK Bank and JSC Halyk Bank Georgia comprised KZT4,464 million (31 December 2013 – KZT583 million, 31 December 2012 – KZT570 million).

During 2012 the NBK amended the Regulation on minimum reserve requirements. In accordance with the amendment certain long-term liabilities with maturities greater than 1 year are now not included into the calculation of the minimum reserve level thus resulting in decrease of obligatory reserves.

8. Financial assets and liabilities at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	31 December 2014	31 December 2013	31 December 2012
Financial assets held for trading:			
Derivative financial instruments	12,094	391	733
Treasury bills of the Ministry of Finance of Kazakhstan	2,026	-	-
Corporate bonds	751	402	277
Equity securities of Kazakhstan corporations	261	20	85
Bonds of foreign organizations	174	184	144
Bonds of Kazakhstan banks	164	119	-
Bonds of JSC Development Bank of Kazakhstan	152	139	32
Equity securities of foreign organizations	56	18	-
Equity securities of Kazakhstan banks	49	61	-
	15,727	1,334	1,271

Financial liabilities at fair value through profit or loss comprise:

	31 December 2014	31 December 2013	31 December 2012
Financial liabilities held for trading:			
Derivative financial instruments	3,131	69	439

Interest rates of financial assets at fair value through profit or loss are presented in the table below. Interest rates in the table below are calculated as weighted average of the effective interest rates for the respective financial assets:

	31 December 2014	31 December 2013	31 December 2012
Treasury bills of the Ministry of Finance of Kazakhstan	4.4%	-	-
Corporate bonds	6.3%	5.3%	7.6%
Bonds of foreign organizations	6.3%	10.0%	13.8%
Bonds of Kazakhstan banks	11.4%	12.3%	-
Bonds of JSC Development Bank of Kazakhstan	5.2%	5.3%	5.5%

Derivative financial instruments comprise:

	31 December 2014			31 December 2013			31 December 2012		
	Notional amount	Fair value		Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability		Asset	Liability
Foreign currency contracts									
Swaps	305,163	9,380	2,232	53,401	122	69	40,321	395	388
Forwards	63,716	2,714	899	15,116	18	-	32,159	83	51
Options	-	-	-	3,961	251	-	7,231	255	-
		12,094	3,131		391	69		733	439

As at 31 December 2014, 2013 and 2012, the Group used quoted market prices from independent information sources for all of its financial assets recorded at fair value through profit or loss, with the except for derivative financial instruments, which are valued using valuation models based on observable market data.

During 2014 the Group concluded swaps and non-deliverable forwards with the NBK under the NBK arrangements on tenge liquidity.

9. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2014	31 December 2013	31 December 2012
Recorded as loans and receivables in accordance with IAS 39:			
Loans to credit institutions	14,303	14,322	15,931
Term deposits	10,058	8,593	15,765
Deposit pledged as collateral for derivative financial instruments	2,734	2,898	1,105
	27,095	25,813	32,801
Less - Allowance for loan impairment (Note 22)	-	(5)	(2)
	27,095	25,808	32,799

Interest rates and maturities of amounts due from credit institutions are presented as follows:

	31 December 2014		31 December 2013		31 December 2012	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Loans to credit institutions	8.2%	2017	8.2%-17.0%	2015-2020	8.2%-17.0%	2017
Term deposits	1.0%-9.0%	2015-2017	0.5%-9.0%	2014-2015	0.5%-9.0%	2013-2014
Deposit pledged as collateral for derivative financial instruments	0.2%-1.8%	2015	0.2%-1.8%	2014	0.2%-1.8%	2013

10. Available-for-sale investment securities

Available-for-sale investment securities comprise:

	31 December 2014	31 December 2013	31 December 2012
Treasury bills of the Ministry of Finance of Kazakhstan	149,640	98,932	110,878
Corporate bonds	120,780	91,971	88,657
Bonds of foreign organizations	48,968	72,795	84,719
Bonds of JSC Development Bank of Kazakhstan	18,209	19,363	20,839
Treasury bills of Republic of Poland	17,536	14,767	-
Bonds of Kazakhstan banks	12,422	13,958	8,349
Treasury bills of the Russian Federation	6,618	28,909	11,254
Equity securities of Kazakhstan corporations	5,000	3,075	2,529
Local municipal bonds	3,913	4,019	3,997
Equity securities of foreign corporations	1,713	1,683	136
Treasury bills of Georgia	1,562	562	-
Equity securities of Kazakhstan banks	62	156	188
Treasury bills of the Kyrgyz Republic	-	340	-
Mutual investment funds shares	-	22	1,927
NBK notes	-	-	889
	386,423	350,552	334,362

During 2013 the Group reclassified securities from Held-to-Maturity to Available-for-sale category. As at 31 December 2014, the fair value of the investments reclassified to investments available-for-sale amounted to KZT12,640 million (see Note 11).

As at 31 December 2014, 2013 and 2012, investments available-for-sale included NBK notes, Treasury bills of the Ministry of Finance of Kazakhstan and equity securities of KZT12,575 million, KZT73,110 million and KZT3,369 million, respectively, were pledged under repurchase agreements with the other banks (see Note 20). All repurchase agreements as at 31 December 2014, 2013 and 2012 mature before 5 January 2015, 8 January 2014, and 23 January 2013, respectively.

Interest rates and maturities of available-for-sale investment securities are presented in the table below. Interest rates in the table below are calculated as weighted average of the effective interest rates for the respective securities.

	31 December 2014		31 December 2013		31 December 2012	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Treasury bills of the Ministry of Finance of Kazakhstan	5.5%	2015-2031	4.9%	2014-2027	4.5%	2013-2027
Corporate bonds	7.0%	2015-2023	7.0%	2014-2021	7.2%	2013-2021
Bonds of foreign organizations	4.0%	2015-2022	3.9%	2014-2021	3.8%	2013-2020
Bonds of JSC Development Bank of Kazakhstan	4.7%	2022-2026	4.9%	2015-2026	5.6%	2015-2026
Treasury bills of Republic of Poland	2.2%	2019	2.2%	2019	-	-
Bonds of Kazakhstan banks	10.5%	2015-2023	9.3%	2014-2030	8.3%	2013-2022
Treasury bills of the Russian Federation	2.7%	2018-2021	2.7%	2015-2018	3.4%	2015-2021
Local municipal bonds	4.9%	2015	4.9%	2015	4.9%	2015
Treasury bills of Georgia	11.9%	2016-2024	12.8%	2016-2017	-	-
Treasury bills of the Kyrgyz Republic	-	-	8.9%	2014	-	-
NBK notes	-	-	-	-	1.0%	2013

11. Investments held to maturity

During December 2013 APF sold its investments held to maturity in order to pay dividends announced on 29 November 2013. As a result, on 13 December 2013 when a substantial part of its investments held to maturity was sold, the Group classified the remaining investments held to maturity to available-for-sale investment securities. The gain resulting from the remeasurement from amortized cost to fair value on financial assets reclassified from held to maturity to available-for-sale of KZT2,187 million was recognized in other comprehensive income net of income tax of KZT443 million. Gain on disposal of investments held to maturity recognized in the statement of profit or loss amounted to KZT78 million. As at 31 December 2014, the fair value of the investments reclassified to available-for-sale investment securities amounted to KZT12,640 million. The Group will not classify any financial assets as investments held to maturity for two financial years following the year of reclassification.

Investments held to maturity comprise:

	31 December 2012
Treasury bills of the Ministry of Finance of Kazakhstan	12,437
Corporate bonds	8,237
Bonds of Kazakhstan banks	3,065
Bonds of foreign organizations	996
Notes of National Bank of Georgia	579
Treasury bills of Kyrgyz Republic	225
Notes of National Bank of Kyrgyz Republic	222
NBK notes	5
	25,766

Interest rates and maturities of investments held to maturity are presented in the table below. Interest rates in the table below are calculated as the weighted average of the effective interest rates for the respective securities.

	31 December 2012	
	Interest rate, %	Maturity, year
Corporate bonds	12.6%	2015-2020
Bonds of Kazakhstan banks	9.7%	2013-2016
Treasury bills of the Ministry of Finance of Kazakhstan	5.1%	2013-2030
Bonds of foreign organizations	14.6%	2014-2016
Notes of National Bank of Georgia	13.2%	2016-2017
Treasury bills of Kyrgyz Republic	14.1%	2013
Notes of National bank of Kyrgyz Republic	2.3%	2013
NBK notes	1.5%	2013

12. Loans to customers

Loans to customers comprise:

	31 December 2014	31 December 2013	31 December 2012
Recorded as loans and receivables in accordance with IAS 39:			
Originated loans to customers	1,931,218	1,803,471	1,619,850
Overdrafts	2,813	2,085	2,284
	1,934,031	1,805,556	1,622,134
Less – Allowance for loan impairment losses (Note 22)	(286,018)	(323,311)	(302,926)
Loans to customers	1,648,013	1,482,245	1,319,208

Average interest rate on loans to customers is calculated as interest income from loans to customers divided by monthly average balances of loans to customers. For the year ended 31 December 2014 average interest rate on loans was 12.1% (for the year ended 31 December 2013 – 11.7%, for the year ended 31 December 2012 – 12.1%).

As at 31 December 2014, the Group's loan concentration to the ten largest borrowers was KZT356,266 million which comprised 18% of the Group's total gross loan portfolio (31 December 2013 – KZT367,782 million, 20%; 31 December 2012 – KZT331,012 million, 20%) and 75% of the Group's total equity (31 December 2013 – 94%, 31 December 2012 – 97%).

As at 31 December 2014, an allowance for impairment amounting to KZT58,214 million was made against these loans (31 December 2013 – KZT51,189 million, 31 December 2012 – KZT45,966 million).

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

	31 December 2014	31 December 2013	31 December 2012
Loans collateralized by pledge of real estate or rights thereon	738,450	707,582	787,676
Loans collateralized by guarantees	414,847	378,311	296,346
Consumer loans issued within the framework of payroll projects	330,158	273,248	195,422
Loans collateralized by cash	162,195	123,875	47,333
Loans collateralized by pledge of corporate shares	115,320	117,658	96,595
Loans collateralized by pledge of inventories	51,501	31,046	17,320
Loans collateralized by pledge of vehicles	28,958	24,747	16,303
Loans collateralized by mixed types of collateral	12,279	61,113	48,938
Loans collateralized by pledge of equipment	9,834	15,984	20,755
Loans collateralized by pledge of agricultural products	1,502	26,458	72,000
Unsecured loans	68,987	45,534	23,446
	1,934,031	1,805,556	1,622,134
Less - Allowance for loan impairment losses (Note 22)	(286,018)	(323,311)	(302,926)
Loans to customers	1,648,013	1,482,245	1,319,208

Loans are granted to the following sectors:

	31 December 2014	%	31 December 2013	%	31 December 2012	%
Retail loans:						
- consumer loans	352,028	18%	291,471	16%	219,809	14%
- mortgage loans	138,615	7%	107,062	6%	110,141	7%
	490,643		398,533		329,950	
Wholesale trade	386,201	20%	341,489	19%	287,126	18%
Services	229,741	12%	233,492	13%	157,560	9%
Construction	154,817	8%	163,615	9%	168,244	10%
Real estate	148,830	8%	137,200	8%	120,038	7%
Retail trade	112,497	7%	117,816	7%	104,408	6%
Agriculture	108,995	6%	84,934	5%	116,467	7%
Transportation	68,799	4%	40,145	2%	39,885	3%
Mining	39,782	2%	38,050	2%	36,143	2%
Hotel industry	29,969	2%	31,549	2%	32,668	2%
Food industry	28,327	1%	33,929	2%	37,414	2%
Communication	27,959	1%	339	0%	1,642	0%
Metallurgy	22,026	1%	39,276	2%	36,851	2%
Financial services	16,997	1%	94,702	5%	66,250	4%
Energy	9,264	0%	3,403	0%	7,906	1%
Oil and gas	9,059	0%	6,005	0%	10,836	1%
Chemical industry	8,793	0%	10,604	1%	41,127	3%
Machinery	5,250	0%	7,878	0%	9,416	1%
Light industry	4,171	0%	4,503	0%	4,553	0%
Other	31,911	2%	18,094	1%	13,650	1%
	1,934,031	100%	1,805,556	100%	1,622,134	100%

As at 31 December 2014, the amount of accrued interest on loans comprised KZT103,757 million (31 December 2013 – KZT114,178 million, 31 December 2012 – KZT103,278 million).

During the years ended 31 December 2014, 2013 and 2012 the Group received financial and non-financial assets by taking possession of collateral it held as security. As at 31 December 31 2014, 2013 and 2012 such assets in amount of KZT8,029 million, KZT2,728 million, and KZT7,142 million, respectively, are included in assets held for sale.

As at 31 December 2014, 2013 and 2012 loans to customers included loans amounted to KZT169 million, KZT124 million and KZT148 million, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

13. Investment property

	2014	2013
As at 1 January	906	-
Additions	1,912	437
Disposals	-	(17)
Transferred from property and equipment	2,129	-
Transferred from non-current assets held for sale	235	486
Capitalized expenses	141	-
Gain on revaluation of investment property	361	-
As at 31 December	5,684	906

As at 31 December 2014 and 2013, there was no investment property that was pledged as collateral for liabilities.

Included into other income is investment property rental income for the years ended 31 December 2014 and 2013 ended amounted to KZT175 million and KZT14 million, respectively.

Operating expenses arising from the investment property that generated rental income during the years ended 31 December 2014 and 2013 amounted to KZT3 million and KZT5 million, respectively.

Investment property owned by the Group was revalued by independent appraisers as at 31 December 2014. The following methods were used for the estimation of its fair value: income approach and comparative approach. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year. This revaluation resulted in recognition of revaluation profit in the consolidated statements of profit or loss amounting to KZT361 million.

As at 31 December 2014 and 2013, the fair value measurements of the Group's investment property are categorized into Level 2 in amount of KZT5,684 million and KZT906 million, respectively (description of measurement hierarchy is disclosed in Note 37).

14. Property and equipment

The movements in property and equipment are presented as follows:

	Buildings and construction	Vehicles	Computers and banking equipment	Construction in progress	Other	Total
Revalued/initial cost:						
31 December 2013	51,903	2,531	22,471	1,107	13,489	91,501
Additions	883	347	2,898	13,722	773	18,623
Disposals	(3,567)	(263)	(2,750)	(578)	(442)	(7,600)
Additions through acquisition of subsidiary	-	9	75	-	473	557
Transfers	1,740	-	114	(1,655)	(199)	-
Write-off at revaluation	(1,654)	-	-	-	-	(1,654)
Revaluation	6,676	-	-	-	-	6,676
Impairment	(831)	(64)	(150)	-	(96)	(1,141)
Translation differences	(776)	(3)	(10)	-	(8)	(797)
31 December 2014	54,374	2,557	22,648	12,596	13,990	106,165
Accumulated depreciation:						
31 December 2013	1,265	1,386	17,326	-	7,910	27,887
Charge	809	330	1,335	-	1,256	3,730
Disposals	(12)	(294)	(2,212)	-	(790)	(3,308)
Write-off at revaluation	(1,654)	-	-	-	-	(1,654)
Translation differences	(26)	(3)	(15)	-	(10)	(54)
31 December 2014	382	1,419	16,434	-	8,366	26,601
Net book value:						
31 December 2014	53,992	1,138	6,214	12,596	5,624	79,564

	Buildings and construction	Vehicles	Computers and banking equipment	Construction in progress	Other	Total
Revalued/initial cost:						
31 December 2012	51,813	2,363	21,307	684	13,109	89,276
Additions	740	327	1,617	1,770	889	5,343
Disposals	(689)	(157)	(608)	(14)	(635)	(2,103)
Transfers	1,038	-	161	(1,330)	131	-
Revaluation	(636)	-	-	-	-	(636)
Impairment	(175)	-	-	-	-	(175)
Translation differences	(188)	(2)	(6)	(3)	(5)	(204)
31 December 2013	51,903	2,531	22,471	1,107	13,489	91,501
Accumulated depreciation:						
31 December 2012	652	1,236	15,715	-	6,668	24,271
Charge	825	305	2,150	-	1,565	4,845
Disposals	(202)	(153)	(538)	-	(321)	(1,214)
Write-off at revaluation	(1)	-	-	-		(1)
Translation differences	(9)	(2)	(1)	-	(2)	(14)
31 December 2013	1,265	1,386	17,326	-	7,910	27,887
Net book value:						
31 December 2013	50,638	1,145	5,145	1,107	5,579	63,614

	Buildings and construction	Vehicles	Computers and banking equipment	Construction in progress	Other	Total
Revalued/initial cost:						
31 December 2011	47,866	1,882	19,433	1,617	14,190	84,988
Additions	4,083	661	1,996	1,568	706	9,014
Disposals	(334)	(181)	(442)	(109)	(1,896)	(2,962)
Transfers	1,976	-	315	(2,396)	105	-
Revaluation	(1,352)	-	-	-	-	(1,352)
Impairment	(457)	-	-	-	-	(457)
Translation differences	31	1	5	4	4	45
31 December 2012	51,813	2,363	21,307	684	13,109	89,276
Accumulated depreciation:						
31 December 2011	1,175	1,164	13,012	-	6,122	21,473
Charge	1,645	245	3,062	-	922	5,874
Disposals	(8)	(180)	(361)	-	(377)	(926)
Write-off at revaluation	(2,170)	-	-	-	-	(2,170)
Translation differences	10	7	2	-	1	20
31 December 2012	652	1,236	15,715	-	6,668	24,271
Net book value:						
31 December 2012	51,161	1,127	5,592	684	6,441	65,005

The Group's revaluation policy requires the entire asset class of buildings and construction to be revalued every three years. In the event of specific market or property indicators the Group may opt to perform revaluations more regularly.

The Group had its buildings and properties revalued during 2014 by an independent appraiser, Business Partner Consult LLP. The independent appraiser used three approaches to identify the fair value of the property and equipment – the income approach with the income capitalization method and the comparative approach, using market information to identify the fair value of buildings and structures under active market conditions, and the cost approach when no active market existed for items subject to revaluation.

As at 31 December 2014, the fair value measurements of the Group's buildings and constructions, are categorized into Level 2 and Level 3, in amount of KZT53,917 million and KZT75 million, respectively (description of measurement hierarchy is disclosed in Note 37).

As at 31 December 2014 total amount of fair value of buildings and construction was KZT53,992 million. As at 31 December 2014 the carrying amount of property and equipment that would have been recognized had the assets been carried under the cost model is KZT48,575 million.

15. Intangible Assets

The movements in intangible assets are presented as follows:

Cost	Customer deposit intangible	Software	Licensing agreements for the right to use the software	Other intangible assets	Total
31 December 2011	-	8,219	2,419	560	11,198
Additions	-	2,295	309	84	2,688
Disposals	-	(1,732)	(186)	(267)	(2,185)
31 December 2012	-	8,782	2,542	377	11,701
Additions	-	749	561	96	1,406
Disposals	-	(856)	(120)	(350)	(1,326)
31 December 2013	-	8,675	2,983	123	11,781
Additions	-	1,296	765	254	2,315
Additions through acquisition of subsidiary	2,226	30	-	-	2,256
Disposals	-	(281)	(4)	(178)	(463)
31 December 2014	2,226	9,720	3,744	199	15,889
Accumulated depreciation					
31 December 2011	-	4,059	1,221	4	5,284
Charge	-	889	271	2	1,162
Disposals	-	(176)	(160)	(3)	(339)
31 December 2012	-	4,772	1,332	3	6,107
Charge	-	734	164	4	902
Disposals	-	(774)	(71)	-	(845)
31 December 2013	-	4,732	1,425	7	6,164
Charge	41	997	252	3	1,293
Disposals	-	(229)	(3)	-	(232)
31 December 2014	41	5,500	1,674	10	7,225
Net book value					
31 December 2012	-	4,010	1,210	374	5,594
31 December 2013	-	3,943	1,558	116	5,617
31 December 2014	2,186	4,220	2,070	189	8,664

Customer deposit intangibles originated from acquisition of subsidiary and were calculated based on stable level of deposits.

16. Assets held for sale

During 2010 and 2009, after the default of certain counterparties on loans to customers, the Group recognized the property pledged as collateral for the loans as assets held for sale at fair value. The assets have been subsequently measured at the lower of fair value less cost to dispose or the carrying value, as the appropriate level of management committed to a plan to sell the assets and an active programme to locate a buyer and complete the plan was initiated. The type of assets recognized was land, buildings and constructions. In June 2012 the Group performed an independent valuation of its assets held for sale and based on the result of the valuation the Group recognized an impairment loss of KZT2,100 million. In November 2014 the Group performed an independent valuation of its assets held for sale and based on the results the Group has recognized an impairment loss of KZT102 million.

Despite the assets being actively marketed for sale, the majority have not been sold within a short timeframe. However, management remains committed to the sale of these assets. As the assets are carried at a price not in excess of the current fair value less costs to sell, they continue to be classified as held for sale at the end of 2014 and 2013.

As at 31 December 2014, the fair value measurement of the Group's assets held for sale is categorized into Level 2 and Level 3, in amount of KZT8,688 million and KZT110 million, respectively (description of measurement hierarchy is disclosed in Note 37).

17. Insurance assets and liabilities

Insurance assets comprised the following:

	31 December 2014	31 December 2013	31 December 2012
Reinsurance premium unearned	10,420	7,424	7,065
Reinsurance amounts recoverable	2,221	3,185	5,003
	12,641	0,609	2,068
Premiums receivable	7,679	2,770	2,855
Insurance assets	20,320	13,379	14,923

Insurance liabilities comprised the following:

	31 December 2014	31 December 2013	31 December 2012
Reserves for insurance claims	18,360	16,209	13,108
Gross unearned insurance premium reserve	15,105	10,796	9,908
	33,465	27,005	23,016
Payables to reinsurers and agents	5,342	2,710	2,185
Insurance liabilities	38,807	29,715	25,201

Insurance risk

Insurance risk is the risk of fluctuations in the timing, frequency or severity of insured events, relative to the expectations of the Group at the time of underwriting. The insurance risk is concentrated in the Republic of Kazakhstan.

Underwriting and pricing risk

The Group manages underwriting and pricing risk through the use of underwriting guidelines which detail the class, nature and type of business that may be accepted; pricing policies by product line and by brand; and centralized control of policy wordings and any subsequent changes.

Claims management risk

The risk that claims are handled or paid inappropriately is managed using a range of IT system controls and manual processes conducted by experienced staff. These, together with a range of detailed policies and procedures ensure that all claims are handled in a timely, appropriate and accurate manner.

Reinsurance risk

Reinsurance is used to protect against the impact of major catastrophic events or unforeseen volumes of, or adverse trends in, large individual claims and to transfer risk that is outside the Group's current risk appetite.

Reinsurance of risk above the Group's appetite is only effective if the reinsurance premium is economic and the counterparty is financially secure. Acceptable reinsurers are rated A- or better unless specifically authorized.

Reserving risk

Reserving risk relates to both premiums and claims. It is the risk that reserves are assessed incorrectly such that insufficient funds have been remained to pay or handle claims as the amounts fall due. Claims development data provides information on the historical pattern of reserving risk.

Reserves for insurance claims have been established on the basis of information currently available, including potential outstanding loss notifications, and experience with similar claims.

The movements on claims reserves for the years ended 31 December 2014, 2013 and 2012, were as follows:

	2014	2013	2012
Reserves for claims, beginning of the year	16,209	13,108	8,146
Reserves for claims, reinsurance share, beginning of the year	(3,185)	(5,003)	(1,744)
Net reserves for claims, beginning of the year	13,024	8,105	6,402
Plus claims incurred	16,195	13,933	12,733
Less claims paid	(13,080)	(9,014)	(11,030)
Net reserves for claims, end of the year	16,139	13,024	8,105
Reserves for claims, reinsurance share, end of the year	2,221	3,185	5,003
Reserves for claims, end of the year	18,360	16,209	13,108

The movements on unearned insurance premium reserve for the years ended 31 December 2014, 2013 and 2012, were as follows:

	2014	2013	2012
Gross unearned insurance premium reserve, beginning of the year	10,796	9,908	12,129
Unearned insurance premium reserve, reinsurance share, beginning of the year	(7,424)	(7,065)	(8,582)
Net unearned insurance premium reserve, beginning of the year	3,372	2,843	3,547
Change in unearned insurance premium reserve	4,309	888	(2,221)
Change in unearned insurance premium reserve, reinsurance share	(2,996)	(359)	1,517
Change in unearned insurance premium reserve, net	1,313	529	(704)
Net unearned insurance premium reserve, end of the year	4,685	3,372	2,843
Unearned insurance premium reserve, reinsurance share, end of the year	10,420	7,424	7,065
Gross unearned insurance premium reserve, end of the year	15,105	10,796	9,908

18. Other assets

Other assets comprise:

	31 December 2014	31 December 2013	31 December 2012
Other financial assets recorded as loans and receivables in accordance with IAS 39:			
Debtors on banking activities	9,788	6,293	5,429
Debtors on non-banking activities	2,204	891	1,076
Accrued other commission income	778	758	647
Accrued commission for managing pension assets	-	1,204	2,239
Other	20	9	3
	12,790	9,155	9,394
Less – Allowance for impairment (Note 22)	(4,297)	(5,176)	(2,389)
	8,493	3,979	7,005
Other non financial assets:			
Prepayments for property and equipment	1,682	1,009	1,153
Inventory	1,161	1,367	1,442
Advances for taxes other than income tax	615	623	1,222
Corporate income tax prepaid	530	1,344	1,835
Deferred income tax asset (Note 23)	447	301	1,091
Investments in associates	30	24	53
Other	1,435	868	568
	5,900	5,537	7,364
Less - Allowance for impairment (Note 22)	-	-	-
	5,900	5,537	7,364
	14,393	9,516	14,369

19. Amounts due to customers

Amounts due to customers include the following:

Recorded at amortized cost:	31 December 2014	31 December 2013	31 December 2012
Term deposits:			
Individuals	764,935	644,732	543,591
Legal entities	380,810	557,059	401,705
	1,145,745	1,201,791	945,296
Current accounts:			
Legal entities	529,204	399,153	603,249
Individuals	173,264	165,704	150,637
	702,468	564,857	753,886
	1,848,213	1,766,648	1,699,182

As at 31 December 2014, the Group's ten largest groups of related customers accounted for approximately 26% of the total amounts due to customers (31 December 2013 – 32%; 31 December 2012 – 42%), where each group of related customers represents customers related to each other within that group.

Management believes that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realize its liquid assets to enable repayment.

An analysis of customer accounts by sector is as follows:

	31 December 2014	%	31 December 2013	%	31 December 2012	%
Individuals and entrepreneurs	938,199	51%	810,436	46%	694,228	41%
Oil and gas	296,546	16%	306,889	17%	312,023	18%
Transportation	108,663	6%	80,322	5%	58,308	3%
Wholesale trade	77,060	4%	83,703	5%	107,014	6%
Other consumer services	72,918	4%	148,380	8%	77,579	5%
Construction	66,379	4%	69,094	4%	68,627	4%
Financial sector	43,796	2%	52,624	3%	123,951	7%
Healthcare and social services	31,213	2%	7,771	0%	8,858	0%
Metallurgy	29,383	2%	13,949	1%	29,862	2%
Government	25,139	1%	36,686	2%	78,316	5%
Insurance and pension funds activity	22,284	1%	31,176	2%	11,187	1%
Education	18,291	1%	17,332	1%	13,862	1%
Communication	15,045	1%	11,376	1%	28,675	2%
Energy	14,195	1%	9,751	0%	12,577	1%
Other	89,102	4%	87,159	5%	74,115	4%
	1,848,213	100%	1,766,648	100%	1,699,182	100%

20. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 December 2014	31 December 2013	31 December 2012
Recorded at amortized cost:			
Loans from JSC National Managing Holding KazAgro	47,846	-	-
Loans and deposits from Kazakhstan banks	25,687	81,786	4,784
Loans from JSC Entrepreneurship Development Fund DAMU	21,127	-	-
Correspondent accounts	5,646	2,628	2,529
Loans and deposits from OECD based banks	3,963	3,831	5,403
Loans and deposits from non-OECD based banks	1,749	8,623	944
Loans from other financial institutions	1,174	1,916	1,542
Overnight deposits	-	8,611	-
	107,192	107,395	15,202

As at 31 December 2014, loans from JSC National Managing Holding KazAgro ("KazAgro") included a long-term loan in the amount of KZT47,846 million at 3.0% interest rate maturing in 2023. The loan was received for restructuring/refinancing of loan/leasing debts of the Bank's borrowers operating in agricultural sector, originated before 1 January 2014 in connection with working capital loans, loans for the purchase of fixed assets, loans for construction-and-assembling works and loans for leasing of agriculture and technology equipment. Restructuring/refinancing of loan/leasing obligations is provided at 6.0% - 7.0% interest rate for the period not later than 1 January 2023.

As at 31 December 2014, loans from JSC Entrepreneurship Development Fund DAMU ("DAMU") included a long-term loan in the amount of KZT 20,000 million at 2.0% interest rate maturing in 2034 with an early recall option. The loan was received in accordance with the Government program ("the Program") to finance small and medium enterprises ("SME") operating in certain industries. According to the loan agreement between DAMU and the Group, the Group is responsible to extend loans to SME borrowers, eligible to participate in the Program, up to 10 years at 6.0% interest rate.

The Management of the Group believes that there are no other similar financial instruments and due to its specific nature, the loans from DAMU and KazAgro represent separate segments in SME lending. As a result, the loans from DAMU and KazAgro were received in an orderly transaction and as such have been recorded at fair value at the recognition date.

Interest rates and maturities of amounts due to credit institutions are presented as follows:

	31 December 2014		31 December 2013		31 December 2012	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, Year	Interest rate, %	Maturity, year
Loans from JSC National Managing Holding KazAgro	3.0%	2019-2023	-	-	-	-
Loans and deposits from Kazakhstan banks	2.0%-3.5%	2015-2034	0.5%-5.0%	2014	3.0%	2013
Loans from JSC Entrepreneurship Development Fund DAMU	2.0%	2015-2034	-	-	-	-
Loans and deposits from OECD based banks	0.9%-6.5%	2016-2023	1.0%-6.5%	2016-2023	0.8%-6.5%	2013-2023
Loans and deposits from non-OECD based banks	0.7%-7.0%	2015-2017	0.6%-4.5%	2014	5.5%	2013
Loans from other financial institutions	4.8%-6.2%	2015-2016	2.6%-6.0%	2014-2018	2.8%-5.2%	2014-2016
Overnight deposits	-	-	0.5%-3.5%	2014	-	-

Fair value of assets pledged (Notes 10) and carrying value of loans included in loans and deposits from Kazakhstan banks under repurchase agreements as at 31 December 2014, 2013 and 2012, are presented as follows:

	31 December 2014		31 December 2013		31 December 2012	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Treasury bills of the Ministry of Finance of Kazakhstan	12,575	12,017	73,110	67,804	2,943	2,791
Equity securities of Kazakhstan banks	-	-	-	-	426	300
	12,575	12,017	73,110	67,804	3,369	3,091

Details of transferred financial assets that are not derecognised in their entirety as at 31 December 2014, 2013 and 2012 are disclosed below:

Loans under repurchase agreements used by the Group as collateral for the current cash flows in KZT within the Group's operations. The Group regularly uses this type of instruments to attract short-term liquidity and plans to continue raining funds through loans under repurchase agreements when the need arise.

The Group has determined that it retains substantially all the risks and rewards of these securities, which include credit risk and market risk, and therefore it has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

	Investments available-for-sale (Note 10)
As at 31 December 2014:	
Carrying amount of transferred assets	12,575
Carrying amount of associated liabilities	12,017
As at 31 December 2013:	
Carrying amount of transferred assets	73,110
Carrying amount of associated liabilities	67,804
As at 31 December 2012:	
Carrying amount of transferred assets	3,369
Carrying amount of associated liabilities	3,091

In accordance with the contractual terms of the loans from certain OECD based banks, the Group is required to maintain certain financial ratios, particularly with regard to capital adequacy. Certain of the Group's outstanding financing agreements include covenants restricting the Group's ability to create security interests over its assets. Should the Group default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Group's other financing arrangements.

The Group's management believes that as at 31 December 2014, 2013 and 2012, the Group was in compliance with the covenants of the agreements the Group has with the trustees and holders of the notes.

21. Debt securities issued

Debt securities issued comprise:

Recorded at amortized cost:	31 December 2014	31 December 2013	31 December 2012
Subordinated debt securities issued:			
Fixed rate KZT denominated bonds	7,815	11,755	11,725
Reverse inflation indexed KZT denominated bonds	8,470	8,489	8,455
Inflation indexed KZT denominated bonds	3,944	3,941	3,926
Total subordinated debt securities outstanding	20,229	24,185	24,106
Unsubordinated debt securities issued:			
USD denominated bonds	195,255	165,330	277,813
KZT denominated bonds	95,525	-	-
Total unsubordinated debt securities outstanding	290,780	165,330	277,813
Total debt securities outstanding	311,009	189,515	301,919

On 18 November 2014, the Bank has placed KZT100 billion 7.5% bonds with maturity in November 2024 at a price of 94.6354%, issued as per Kazakhstan legislation.

The coupon rates and maturities of these debt securities issued follow:

	31 December 2014		31 December 2013		31 December 2012	
	Coupon rate, %	Maturity, year	Coupon rate, %	Maturity, year	Coupon rate, %	Maturity, year
Subordinated debt securities issued:						
Fixed rate KZT denominated bonds	7.5%-13.0%	2015-2018	7.5%-13.0%	2014-2018	7.5%-13.0%	2014-2018
Reverse inflation indexed KZT denominated bonds	15% less inflation rate	2015-2016	15% less inflation rate	2015-2016	15% less inflation rate	2015-2016
Inflation indexed KZT denominated bonds	inflation rate plus 1%	2015	inflation rate plus 1%	2015	inflation rate plus 1%	2015
Unsubordinated debt securities issued:						
USD denominated bonds	7.3%	2017-2021	7.3%	2017-2021	7.3%-9.3%	2013-2021
KZT denominated bonds	7.5%	2024	-	-	-	-

As at 31 December 2014 the amount of accrued interest on debt securities issued was KZT4,829 million (as at 31 December 2013 – KZT3,321 million, as at 31 December 2012 – KZT5,095 million).

Subordinated securities are unsecured obligations of the Group and are subordinated in right of payments to all present and future senior indebtedness and certain other obligations of the Group. Interest on debt securities issued is payable on a semi-annual and annual basis.

In accordance with the terms of the USD denominated bonds, the Group is required to maintain certain financial covenants particularly with regard to its capital adequacy, limitations on transactions at less than fair market value and payment of dividends. Furthermore, the terms of the USD denominated bonds include covenants restricting the Group's ability to create security interests over its assets. Should the Group default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Group's other financing arrangements. The Group's management believes that as at 31 December 2014, 2013 and 2012, the Group was in compliance with the covenants of the agreements the Group has with trustees and holders of the notes.

22. Allowances for impairment losses and provisions

The movements in accumulated impairment of available-for-sale investment securities, the allowances for impairment of interest earning and other assets were as follows:

	Loans to customers (Note 12)	Amounts due from credit institutions (Note 9)	Available-for-sale investment securities (Note 10)	Other Assets (Note 18)	Total
31 December 2011	(291,303)	(2)	(1,098)	(2,225)	(294,628)
Additional provisions recognized	(136,367)	(2)	-	(11,228)	(147,597)
Recoveries of provisions	121,344	1	99	10,791	132,235
Write-offs	5,500	-	-	271	5,771
Foreign exchange differences	(2,100)	1	-	2	(2,097)
31 December 2012	(302,926)	(2)	(999)	(2,389)	(306,316)
Additional provisions recognized	(141,915)	(4)	(41)	(14,096)	(156,056)
Recoveries of provisions	118,919	1	-	11,115	130,035
Write-offs	4,819	-	-	159	4,978
Foreign exchange differences	(2,208)	-	-	35	(2,173)
31 December 2013	(323,311)	(5)	(1,040)	(5,176)	(329,532)
Additional provisions recognized	(253,896)	-	(842)	(13,975)	(268,713)
Recoveries of provisions	246,672	-	29	14,625	261,326
Write-offs	73,028	-	-	189	73,217
Foreign exchange differences	(28,511)	5	(14)	40	(28,480)
31 December 2014	(286,018)	-	(1,867)	(4,297)	292,182

During the year ended 31 December 2014, the Group has written off loans in the amount of KZT73,217 million. Changes introduced to the Tax Code of Kazakhstan as at 1 January 2014 allow the write-off of loans without being considered forgiveness of the loan for tax purposes and are therefore not subject to corporate income tax.

Provision represents provisions against letters of credit and guarantees issued. The movements in provisions were as follows:

	2014	2013	2012
At the beginning of the year	(4,163)	(4,385)	(3,388)
Provisions	(172)	(5,564)	(8,778)
Recoveries of provisions	4,208	5,774	7,816
Additions through the acquisition of subsidiary	(353)	-	-
Foreign exchange differences	73	12	(35)
At the end of the year	(407)	(4,163)	(4,385)

23. Taxation

The Bank and its subsidiaries, other than HSBK (Europe) B.V., JSC NBK Bank, OJSC Halyk Bank Kyrgyzstan and JSC Halyk Bank Georgia are subject to taxation in Kazakhstan. HSBK (Europe) B.V. is subject to income tax in the Netherlands. JSC NBK Bank is subject to income tax in the Russian Federation. OJSC Halyk Bank Kyrgyzstan is subject to income tax in the Republic of Kyrgyzstan. JSC Halyk Bank Georgia is subject to income tax in Georgia.

The income tax expense comprises:

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Current tax charge	20,791	19,435	16,231
Deferred income tax expense/(benefit) relating to origination and reversal of temporary differences	3,942	(2,913)	(1,463)
Adjustments recognised in the current period for deferred tax of prior periods	2,788	-	-
Income tax expense	27,521	16,522	14,768

During the year ended 31 December 2014, due to the changes in the Tax Code related to the deduction of accrued interest expense, the Group adjusted its deferred tax assets correspondingly.

The tax rate for Kazakhstan companies was 20% during the years ended 31 December 2014, 2013 and 2012. Income on state and other qualifying securities is tax exempt. Certain changes were made to the Tax Code of the Republic of Kazakhstan effective starting 1 January 2013. Major of those changes refer to introduction of dynamic provisions and deduction of interest expense. Interest expenses are deductible only to the extent of the amount of the interest repaid while remaining amount of accrued interest expense represents temporary difference.

The tax rates in the Netherlands, the Russian Federation, the Republic of Kyrgyzstan and Georgia are 20%, 20%, 10% and 15%, respectively.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on Kazakhstan statutory rate of 20% with the reported income tax expense is as follows:

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Income before income tax expense	141,898	88,931	84,729
Statutory tax rate	20%	20%	20%
Income tax expense at the statutory rate	28,380	17,786	16,946
Tax-exempt interest income and other related income on state and other qualifying securities	(2,370)	(3,086)	(3,047)
Income on dividends taxed at emitter	(105)	(75)	(446)
Income of subsidiaries taxed at different rates	(45)	(55)	(43)
Tax-exempt interest income on financial lease	(161)	(287)	(485)
Non-deductible expenditures:			
- general and administrative expenses	150	131	186
- other provisions	130	596	75
- charity	114	112	-
Other	1,428	1,400	1,582
Income tax expense	27,521	16,522	14,768

Deferred tax assets and liabilities comprise:

Tax effect of deductible temporary differences:	31 December 2014	31 December 2013	31 December 2012
Bonuses accrued	1,453	1,122	1,069
Vacation pay accrual	265	241	151
Interest accrued, but not paid	-	2,788	-
Fair value of derivatives	-	82	51
Insurance premium reserves	-	-	917
Other	162	94	557
Deferred tax asset	1,880	4,327	2,745
Tax effect of taxable temporary differences:			
Dynamic provisions (2012: loans to customers, allowance for impairment provisions)	(3,769)	(3,115)	(5,056)
Property and equipment, accrued depreciation	(5,725)	(4,681)	(4,400)
Core deposit intangible	(445)	-	-
Fair value of derivatives and investments available-for-sale	(578)	(475)	(105)
Other	(1,589)	(275)	-
Deferred tax liability	(12,106)	(8,546)	(9,561)
Net deferred tax liability	(10,226)	(4,219)	(6,816)

The Group has offset deferred tax assets and liabilities on the consolidated statement of financial position where a right of offset existed. The amounts presented after offset comprise:

	31 December 2014	31 December 2013	31 December 2012
Deferred tax asset (Note 18)	447	301	1,091
Deferred tax liability	(10,673)	(4,520)	(7,907)
Net deferred tax liability	(10,226)	(4,219)	(6,816)

Kazakhstan and other countries where the Group operates currently have a number of laws related to various taxes imposed by both state and regional governmental authorities. Applicable taxes include value added tax, income tax, social taxes, and others. Implementing regulations are often unclear or nonexistent and few precedents have 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 interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Commercial legislation of the countries where the Group operates, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on Management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

In Kazakhstan tax years remain open to review by the tax authorities for five years. However, tax authorities may perform additional reviews, if considered necessary. In accordance with judicial rulings, the period of review can be altered, if the court acknowledges the fact of interdiction to conducting the tax review by the tax authorities.

Management believes that the Group is in compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

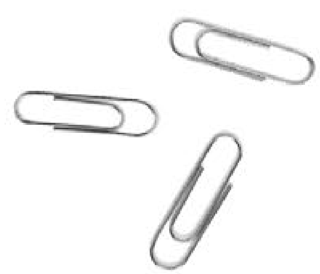
Movements in net deferred tax liability:

	2014	2013	2012
Net deferred tax liability at the beginning of the year	4,219	6,816	8,279
Deferred tax expense/(benefit)	3,942	(2,913)	(1,463)
Adjustments recognised in the current period for deferred tax of prior periods	2,788	-	-
Deferred tax expense on core deposit intangible	445	-	-
Deferred tax (benefit)/expense through other comprehensive income on revaluation due to reclassification of investments held to maturity into available-for-sale	-	443	-
Credited to other comprehensive income at the date of property and equipment revaluation	(1,168)	(127)	-
Net deferred tax liability at the end of the year	10,226	4,219	6,816

24. Other liabilities

Other liabilities comprise:

	31 December 2014	31 December 2013	31 December 2012
Other financial liabilities:			
Salary payable	8,263	6,274	6,033
Creditors on bank activities	822	602	1,720
Payable for general and administrative expenses	489	608	243
Creditors on non-banking activities	282	696	644
Other	497	68	44
	10,353	8,248	8,684
Other non financial liabilities:			
Current income tax payable	2,444	2,257	3,329
Taxes payable other than income tax	1,413	1,361	1,351
Other prepayments received	919	344	760
	4,776	3,962	5,440
	15,129	12,210	14,124



25. Equity

Authorized, issued and fully paid number of shares as at 31 December 2014, 2013 and 2012, were as follows:

31 December 2014	Share capital authorized	Share capital authorized and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
Common	24,000,000,000	(12,871,481,549)	11,128,518,451	(218,619,738)	10,909,898,713
Non-convertible preferred	600,000,000	(290,140,570)	309,859,430	(200,558,485)	109,300,945
Convertible preferred	80,225,222	-	80,225,222	(363,822)	79,861,400

31 December 2013	Share capital authorized	Share capital authorized and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
Common	24,000,000,000	(12,871,481,549)	11,128,518,451	(219,817,932)	10,908,700,519
Non-convertible preferred	600,000,000	(290,140,570)	309,859,430	(194,325,596)	115,533,834
Convertible preferred	80,225,222	-	80,225,222	(227,972)	79,997,250

31 December 2012	Share capital authorized	Share capital authorized and not issued	Fully paid and issued share capital	Share capital repurchased	Outstanding shares
Common	24,000,000,000	(12,871,481,549)	11,128,518,451	(220,556,796)	10,907,961,655
Non-convertible preferred	600,000,000	(290,140,570)	309,859,430	(214,146,931)	95,712,499
Convertible preferred	80,225,222	-	80,225,222	(500,568)	79,724,654

All shares are KZT denominated. Movements of shares outstanding are as follows:

	Number of shares			Nominal (placement) amount		
	Common	Non-convertible preferred	Convertible preferred	Common	Non-convertible preferred	Convertible preferred
31 December 2011	1,089,338,798	285,803,817	79,846,624	43,611	46,891	13,233
Increase in shares (split)	9,820,102,490	-	-	-	-	-
Purchase of treasury shares from Samruk-Kazyna (including the cost of the call option – see Note 1)	-	(190,000,000)	-	-	(41,054)	-
Purchase of treasury shares	(4,482,640)	(91,364)	(146,970)	(45)	-	-
Sale of treasury shares	3,003,007	46	25,000	31	-	-
31 December 2012	10,907,961,655	95,712,499	79,724,654	43,597	5,837	13,233
Purchase of treasury shares	(9,901,883)	(688,005)	(101,169)	(11)	-	-
Sale of treasury shares	10,640,747	20,509,340	373,765	11	3,494	-
31 December 2013	10,908,700,519	115,533,834	79,997,250	43,597	9,331	13,233
Purchase of treasury shares from Samruk-Kazyna (including the cost of the call option – see Note 1)	-	(6,232,399)	-	-	(1,461)	-
Purchase of treasury shares	(6,420,528)	(521)	(135,850)	(7)	-	-
Sale of treasury shares	7,618,722	31	-	8	-	-
31 December 2014	10,909,898,713	109,300,945	79,861,400	43,598	7,870	13,233

Common shares

In accordance with the Decision made on extraordinary shareholders meeting held on 6 December 2012, the Bank increased total amount of shares by performing a split of the common shares in proportion of one common share to ten common shares. The split was performed on 14 December 2012.

At 31 December 2014, the Group held 218,619,738 of the Group's common shares as treasury shares at KZT39,973 million (31 December 2013 – 219,817,932 at KZT39,974 million; 31 December 2012 – 220,556,796 at KZT39,974 million).

Each common share outstanding is entitled to one vote and dividends. Treasury shares are not entitled to any vote or dividend.

Preferred shares

In accordance with IAS 32 "Financial Instruments: Presentation", both the non-convertible and convertible preferred shares (together, the "Preferred Shares") are classified as compound instruments. Upon the return of capital in the case of liquidation, the assets of the Group available for distribution are applied to any amount equal to paid up share capital or credited as paid up share capital due to the holders of the Preferred Shares in priority to the holders of the Common shares.

The terms of the Preferred Shares require that the Group pay a nominal dividend amount of 0.01 KZT per share in order to comply with Kazakhstan legislation, which represents the liability component. This legislation requires joint stock companies to pay a certain guaranteed amount of dividends on Preferred shares. According to Kazakhstan legislation on Joint Stock Companies, dividend payments on the Preferred shares cannot be less than the dividends paid on common shares. Furthermore, the dividends on common shares will not be paid until dividends on Preferred shares are fully paid.

The payment of additional dividends on the Preferred Shares is determined based on a formula specified in the share prospectus and is based on the Group's profitability. Where the Group has net income no greater than KZT 160 times the quantity of issued Preferred Shares, multiplied by a factor of inflation as published by the NBK plus one per cent, the dividend per Preferred Share is determined as net income divided by the quantity of issued Preferred Shares. Where net income is greater than this, the dividend per Preferred Share is calculated as KZT 160 multiplied by a factor of inflation as published by the NBK plus one per cent. Inflation in either calculation will range between three and nine per cent. Dividends on the Preferred Shares are paid only after the Board of Directors approves payment terms of such dividends and the Annual General Shareholders Meeting approves distribution of net income received for the respective financial year. The Preferred Shares do not have any voting rights, unless the payment of preferred dividends has been delayed for three months or more from the date they became due.

Dividends paid for the previous financial years were as follows:

	Paid in 2014 for the year ended 31 December 2013	Paid in 2013 for the year ended 31 December 2012	Paid in 2012 for the year ended 31 December 2011
Dividend paid per one preferred share, (convertible and non-convertible), tenge	9.28	11.20	13.44
Dividend paid per one common share	1.70	1.12	-

Share premium reserve

Share premium reserve represents an excess of contributions received over the nominal value of shares issued.

Convertible preferred shares

Each convertible preferred share is convertible to one common share at the discretion of the Board of Directors. In addition, the Group will pay a compensation amount to each convertible preferred shareholder on conversion based on a formula specified in the share prospectus. This payment is calculated in a way that, if at the date of conversion, the value of the common shares received by the preferred shareholder is less than KZT 160 per share, the Group will reimburse the preferred shareholders for the difference in cash at the time of conversion.

Retained earnings

Up until September 2013 the Group calculated impairment provisions in accordance with the regulator's requirements. The difference between impairment provisions accrued in accordance with IFRS and impairment provisions presented in accordance with requirements of the regulator was recorded as a special reserve, which as at 31 December 2012 amounted to KZT34,594 million and was included into the retained earnings. This reserve is not distributable.

Due to amendments to Legal act of the NBK in 2013, the Bank ceased accruing impairment provisions in accordance with the previous requirements of the NBK and recognized dynamic reserves. Dynamic reserves represent reserves to absorb non-current expected losses on the Bank's loan portfolio during credit shocks should they arise. Dynamic reserves are calculated by multiplying the balance and changes in the balance of the Bank's loans to customers by certain indicators approved by the NBK. As at 31 December 2014 and 2013, dynamic provisions amounted to KZT19,568 million and were included into the Retained earnings on the consolidated statement of financial position.

26. Commitments and contingencies

Financial commitments and contingencies

The Group's financial commitments and contingencies comprised the following:

	31 December 2014	31 December 2013	31 December 2012
Guarantees issued	155,639	156,699	117,730
Commercial letters of credit	6,657	12,093	20,970
Commitments to extend credit	20,525	13,810	16,146
Financial commitments and contingencies	182,821	182,602	154,846
Less: cash collateral against letters of credit	(3,427)	(6,249)	(12,177)
Less: provisions (Note 22)	(407)	(4,163)	(4,385)
Financial commitments and contingencies, net	178,987	172,190	138,284

Guarantees issued represent bank guarantees issued by the Bank by order of its clients, and which are in effect as at the reporting date. As at 31 December 2014, the ten largest guarantees accounted for 76% of the Group's total financial guarantees (31 December 2013 – 83%; 31 December 2012 – 78%) and represented 25% of the Group's total equity (31 December 2013 – 33%; 31 December 2012 – 27%).

Commercial letters of credit represent letters of credit issued by the Bank by order of its clients, and under which as at the reporting date, the payment has not yet been made. As at 31 December 2014, the ten largest unsecured letters of credit accounted for 73% of the Group's total commercial letters of credit (31 December 2013 – 49%; 31 December 2012 –41%) and represented 1% of the Group's total equity (31 December 2013 – 1.5%; 31 December 2012 – 3%).

The Group requires collateral to support credit-related financial instruments when it is deemed necessary. The Group typically requires collateral support unless it is determined to be not necessary through review of the credit risk of the borrower or analysis of other deposit accounts held by the Group. Collateral held varies, but may include deposits held in the banks, government securities and other assets.

Capital commitments

The Group had no material commitments for capital expenditures outstanding as at 31 December 2014, 2013 and 2012.

Operating lease commitments

There was no material operating lease commitments under non-cancellable operating leases outstanding as at 31 December 2014, 2013 and 2012.

27. Net interest income

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Interest income comprises:			
Interest income on financial assets recorded at amortized cost:			
- interest income on unimpaired assets	100,088	93,711	70,680
- interest income on impaired assets	90,459	72,781	75,724
Interest income on available-for-sale investment securities	19,960	16,035	14,562
Interest income on financial assets at fair value through profit or loss	86	36	28
Total interest income	210,593	182,563	160,994
Interest income on cash and cash equivalents and amounts due from credit institutions	4,963	3,531	2,153
Interest income on investments held to maturity	-	2,402	3,215
Interest income on loans to customers	185,584	160,559	141,036
Total interest income on financial assets recorded at amortized cost	190,547	166,492	146,404
Interest income on financial assets at fair value through profit or loss:			
Interest income on financial assets held for trading	86	36	28
Total interest income on financial assets at fair value through profit or loss	86	36	28
Interest income on available-for-sale investment securities	19,960	16,035	14,562
Total interest income	210,593	182,563	160,994
Interest expense comprises:			
Interest expense on financial liabilities recorded at amortized cost	(77,458)	(75,932)	(69,934)
Total interest expense	(77,458)	(75,932)	(69,934)
Interest expense on financial liabilities recorded at amortized cost comprise:			
Interest expense on amounts due to customers	(57,799)	(53,954)	(44,945)
Interest expense on amounts due to credit institutions	(2,403)	(940)	(619)
Interest expense on debt securities issued	(17,256)	(21,038)	(24,370)
Total interest expense on financial liabilities recorded at amortized cost	(77,458)	(75,932)	(69,934)
Net interest income before impairment charge	133,135	106,631	91,060

28. Fees and commissions

Fee and commission income was derived from the following sources:

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Pension fund and asset management	11,865	9,537	15,915
Bank transfers - settlements	11,165	10,260	9,387
Cash operations	8,757	7,338	5,112
Payment cards maintenance	7,934	6,823	5,434
Bank transfers – salary projects	6,456	5,922	5,456
Servicing customers' pension payments	5,047	4,234	3,705
Letters of credit and guarantees issued	3,183	3,510	2,380
Maintenance of customer accounts	1,327	984	1,175
Other	2,904	2,798	2,518
	58,638	51,406	51,082

Fee and commission income from Pension fund and asset management was derived from the following:

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Investment income from management of pension assets	10,259	3,417	10,581
Income from administration of pension assets	1,606	6,120	5,334
	11,865	9,537	15,915

On 26 March 2014 APF transferred all pension assets to JSC SAPF. Subsequently the Group stopped carrying out pension asset management activities

Fee and commission expense comprised the following:

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Deposit insurance	(4,016)	(3,435)	(2,801)
Payment cards	(2,201)	(1,361)	(1,090)
Foreign currency operations	(778)	(368)	(243)
Commission paid to collectors	(495)	(614)	(685)
Bank transfers	(335)	(260)	(230)
Other	(734)	(1,101)	(942)
	(8,559)	(7,139)	(5,991)

29. Net gain from financial assets and liabilities at fair value through profit or loss

Net gain on financial assets and liabilities at fair value through profit or loss comprises:

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Net gain from operations with financial assets and liabilities classified as held for trading:			
Net gain from derivative operations	6,383	161	1,452
Unrealized net gain/(loss) on trading operations	1,291	113	(481)
Realized gain/(loss) on trading operations	168	(13)	(802)
Total net gain on operations with financial assets and liabilities classified as held for trading	7,842	261	169

30. Net foreign exchange gain

Net foreign exchange gain comprises:

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Dealing, net	10,527	6,667	7,021
Translation differences, net	(3,441)	2,594	2,032
Total net foreign exchange gain	7,086	9,261	9,053

31. Insurance underwriting income

Insurance underwriting income/expense comprised:

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Insurance premiums written, gross	38,887	34,331	27,952
Change in unearned insurance premiums, net	(1,869)	(734)	323
Ceded reinsurance share	(16,340)	(14,186)	(10,511)
	20,678	19,411	17,764
Insurance payments	8,528	8,457	10,419
Commissions to agents	4,332	443	374
Insurance reserves	3,335	5,033	1,940
	16,195	13,933	12,733
Total insurance underwriting income	4,483	5,478	5,031

32. Operating expenses

Operating expenses comprised:

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Salaries and other employee benefits	35,767	30,899	29,228
Depreciation and amortization expenses	5,023	5,747	7,036
Taxes other than income tax	2,734	2,443	1,960
Repair and maintenance	1,855	1,559	1,601
Communication	1,574	1,238	1,268
Security	1,494	1,436	1,430
Rent	1,379	1,248	1,244
Professional services	1,343	1,835	240
Information services	1,247	941	742
Write-off and impairment of property and equipment and intangible assets	1,141	175	457
Advertisement	1,154	1,138	1,028
Utilities	1,095	1,085	757
Business trip expenses	736	639	627
Insurance agents fees	700	717	862
Stationery and office supplies	620	599	633
Charity	577	564	423
Transportation	488	525	531
Impairment of investments in subsidiaries	367	-	-
Hospitality expenses	208	53	69
Social events	104	324	103
Other	2,804	1,655	1,572
	62,410	54,820	51,811

33. Earnings per share

Basic and diluted earnings per share are calculated by dividing the net income for the year attributable to equity holders of the parent by the weighted average number of participating shares outstanding during the year.

According to Kazakhstan legislation on Joint Stock Companies, and as described in Note 25, dividend payments per common share cannot exceed the dividends per share on preferred shares for the same period. Therefore, net profit for the period is allocated to the ordinary shares and the preference shares in accordance with their legal and contractual dividend rights to participate in undistributed earnings.

The following table presents basic and diluted earnings per share:

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Basic earnings per share			
Net income for the year attributable to equity holders of the parent	114,377	72,137	69,517
Less: Dividends paid on preferred shares	(1,757)	(2,197)	(4,914)
Earnings attributable to common shareholders	112,620	69,940	64,603
Weighted average number of common shares for the purposes of basic earnings per share	10,910,233,188	10,906,545,755	10,897,316,521
Basic earnings per share (in Kazakhstani Tenge)**	10.32	6.41	5.93
Diluted earnings per share			
Earnings used in the calculation of basic earnings per share	112,620	69,940	64,603
Add: Dividends paid on convertible preferred shares	744	899	1,073
Add: Additional dividends that would be paid on full distribution of profit to the convertible preferred shareholders*	N/A	N/A	N/A
Less: Amounts payable to convertible preferred shareholders upon conversion	(10,102)	(10,455)	(10,950)
Earnings used in the calculation of total diluted earnings per share	103,262	60,384	54,726
Weighted average number of common shares for the purposes of basic earnings per share	10,910,233,188	10,906,545,755	10,897,316,521
Weighted average number of common shares that would be issued for the convertible preferred shares	79,971,439	79,886,934	79,775,610
Weighted average number of common shares for the purposes of diluted earnings per share	10,990,204,627	10,986,432,689	10,977,092,131
Diluted earnings per share (in Kazakhstani Tenge)**	9.40	5.50	4.99

* The calculation of basic and diluted earnings per share includes only earnings attributable to holders of common shares because dividends already paid on preference shares are greater than that would be paid on full distribution of current period earnings.

** Basic and diluted earnings per share for the year ended 31 December 2012 were presented based on the new number of shares resulting from the share split on 14 December 2012 (see Note 25).

As required by KASE rules for listed companies the book value of one share per each class of shares as at 31 December 2014, 2013 and 2012, is disclosed as follows:

	31 December 2014		
Class of shares	Outstanding shares	Equity	Book value of one share, in KZT
Common	10,909,898,713	444,217	40.72
Non-convertible preferred	109,300,945	9,049	82.79
Convertible preferred	79,861,400	13,291	166.43
		466,557	

	31 December 2013		
Class of shares	Outstanding shares	Equity	Book value of one share, in KZT
Common	10,908,700,519	362,761	33.25
Non-convertible preferred	115,533,834	10,510	90.97
Convertible preferred	79,997,250	13,291	166.14
		386,562	

	31 December 2012		
Class of shares	Outstanding shares	Equity	Book value of one share, in KZT
Common	10,907,961,655	313,738	28.76
Non-convertible preferred	95,712,499	7,074	73.91
Convertible preferred	79,724,654	13,233	165.98
		334,045	

The amount of equity attributable to non-convertible preferred shares is calculated as the sum of non-convertible shares carrying amount and the share premium reserve attributable to non-convertible preferred shares. The amount of equity attributable to convertible preferred shares is calculated as carrying amount of convertible shares. The amount of equity attributable to common shares is calculated as the difference between the total equity, total net book value of intangible assets, and the amounts attributable to preferred shares.

The management of the Group believes that it fully complies with the requirement of KASE as at the reporting dates.

34. Financial risk management

Risk management is fundamental to the Group's banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to:

- Credit risk;
- Liquidity risk; and
- Market risk

The Group recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework, whose main purpose is to protect the Group from risk and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the following risks:

Credit risk

Credit risk is the risk of loss arising for the Group when counterparty is unable to meet its contractual obligations on time or in full.

Risk Management division plays an important role in managing and controlling the credit risk. This division is responsible for credit risk identification and evaluation and implementation of control and monitoring measures. The Risk Management division directly participates in credit decision-making processes and consideration of internal rules, regulations and loan programs. In addition, the division provides independent recommendations concerning credit exposure minimization measures, controls limits and monitors credit risks, provides relevant reporting to management and ensures compliance of the credit process with external laws/regulations as well as internal requirements and procedures.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower/counterparty, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk concentration by industry sector are approved and controlled by the Assets and Liabilities Management Committee (ALMC). Limits on credit risk exposure with respect to credit programmes (Small and medium enterprises (SME) and retail) are approved by the Management Board. The exposure to any one borrower, including banks and brokers, covers on and off-balance sheet exposures which are reviewed by the Credit Committees and ALMC. Actual exposures against limits are monitored daily.

The risk that the counterparty will not meet its obligations is restricted by the limits covering on and off-balance sheet exposure.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk for off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon counterparties maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the financial instruments recorded in the consolidated statement of financial position, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of off-balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Structure and authorities of credit committees

Credit committees, ALMC, the Management Board and the Board of Directors are credit authorities responsible for implementation of the Bank's Credit Policy and credit decision-making process.

Head Office Credit Committee (CC)

CC is the committee, the primary goal of which is implementation of the Bank's Credit Policy in terms of credit operations and credit applications from corporate customers.

Branch Credit Committee and Branch Network Credit Committee (BCC, BNCC)

BCC and BNCC are committees, the primary goal of which is implementation of the Bank's Credit Policy in terms of granting financial instruments via branches to the small and medium enterprises customers.

Delegated credit authority limits for BCC and BNCC are established by the Management Board.

BCC makes credit decisions within its limits. If the loan application exceeds the relevant credit limit or the authorities of the BCC, the final decision has to be taken by the BNCC. The procedure of the decision-making by the BNCC involves consideration of a package of documents, including complex analysis and assessments of the potential borrowers conducted by the Bank's experts.

Retail Branch Credit Committee of the Head Office and Decision Making Center (RCCHO and DMC)

RCCHO and DMC are credit decision authorities, the primary goal of which is implementation of the Bank's Credit Policy in terms of granting retail financial instruments via branches.

DMC comprises of credit underwriters with delegated credit authorities based on four eyes principle. DMC makes credit decisions within their authorities and limits established by the Management Board and RCCHO. RCCHO is authorized to consider loan applications that exceed relevant credit limits or the authorities of the DMC, as well as other matters within the authorities established by the Management Board.

Along with the process of decision-making via the credit decision authorities mentioned above, there is an automated approach of decision-making process for potential borrowers whose income can be confirmed by the Independent Government body. This approach takes into account risk-profile of the potential borrower and allows minimizing the credit risk exposure in the decision-making process.

Problem loans committee of the Head Office, branches

Are committees, the primary goal of which is implementation of the Bank's Credit Policy in terms of management, servicing and maintaining the repayment of the problem loans.

Authorized credit authorities of the Bank subsidiaries

Consideration and approval of the loan applications in the subsidiaries are performed by the Authorized credit authorities in accordance with the internal rules and regulations of the subsidiary. Loan applications exceeding the established limits and authorities have to be approved by the Board of Directors of the subsidiaries with the preliminary consideration by the relevant Credit committee according to the Bank's internal rules and regulations.

ALMC

ALMC is the committee, the primary goal of which is profit maximization and to limit the risks of banking activities related to raising and allocation of funds. The main tasks of the ALMC are: liquidity management, interest rate risk management, price risk and other banking risks management.

ALMC is also responsible for establishing country and counterparty-banks limits. ALMC reports to the Board of Directors.

The Management Board

For loan applications exceeding the authorities of the Head Office Credit Committee, Branch Network Credit Committee, Retail Credit Committee of the Head Office, or exceeding the relevant limits of Branch Network Credit Committee, Retail Credit Committee of the Head Office have to be considered by the Management Board.

The Board of Directors

If the loan applications exceed 5% of the Bank's equity capital or the potential borrower is a related party, such applications have to be considered by the Board of Directors.

Maximum Exposure

The Group's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market risks.

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on (Note 26). The collateral pledged is represented by the carrying amount of a financial instrument for which the collateral was received as security.

	31 December 2014			
	Maximum exposure	Offset	Net exposure after offset	Collateral pledged
Cash equivalents*	410,124	-	410,124	3,803
Obligatory reserves	48,225	-	48,225	-
Financial assets at fair value through profit or loss (less equity securities)	15,361	-	15,361	-
Amounts due from credit institutions	27,095	-	27,095	-
Available-for-sale investment securities (less equity securities)	379,648	-	379,648	-
Loans to customers	1,648,013	-	1,648,013	1,579,026
Other financial assets	8,493	-	8,493	-
	2,536,959	-	2,536,959	1,582,829
Commitments and contingencies	182,414	-	182,414	3,427

	31 December 2013			
	Maximum exposure	Offset	Net exposure after offset	Collateral Pledged
Cash equivalents*	405,561	-	405,561	32,326
Obligatory reserves	44,276	-	44,276	-
Financial assets at fair value through profit or loss (less equity securities)	1,235	-	1,235	-
Amounts due from credit institutions	25,808	-	25,808	-
Available-for-sale investment securities (less equity securities)	345,638	-	345,638	-
Loans to customers	1,482,245	-	1,482,245	1,436,711
Other financial assets	3,979	-	3,979	-
	2,308,742	-	2,308,742	1,469,037
Commitments and contingencies	178,439	-	178,439	6,249

	31 December 2012			
	Maximum exposure	Offset	Net exposure after offset	Collateral pledged
Cash equivalents*	469,243	-	469,243	3,510
Obligatory reserves	49,037	-	49,037	-
Financial assets at fair value through profit or loss (less equity securities)	1,186	-	1,186	-
Amounts due from credit institutions	32,799	-	32,799	-
Available-for-sale investment securities (less equity securities)	331,509	-	331,509	-
Investments held to maturity	25,766	-	25,766	-
Loans to customers	1,319,208	-	1,319,208	1,295,762
Other financial assets	7,005	-	7,005	-
	2,235,753	-	2,235,753	1,299,272
Commitments and contingencies	150,461	-	150,461	12,177

* Amount represents the short-term loans and deposits with original maturities of not more than 90 days, which are included within cash and cash equivalents.

Financial assets are graded according to the current credit rating they have been issued by an international rating agency or in accordance with the Group's internal rating system. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of financial assets held by the Group, before any impairment losses:

	AA	AA-	A	BBB	<BBB	Not rated	31 December 2014 Total
Cash equivalents*	7,743	43,135	85,484	265,090	6,184	2,488	410,124
Obligatory reserves	-	-	-	47,335	561	329	48,225
Financial assets at fair value through profit or loss	-	1	554	14,418	408	346	15,727
Amounts due from credit institutions	-	-	2,501	24,222	48	324	27,095
Available-for-sale investment securities	9,576	20	33,567	246,433	82,053	16,641	388,290
Other financial assets	-	-	-	-	-	12,790	12,790
Commitments and contingencies	-	-	-	-	-	182,821	182,821

	AA	AA-	A	BBB	<BBB	Not Rated	31 December 2013 Total
Cash equivalents*	10,104	27,246	248,914	117,087	1,856	354	405,561
Obligatory reserves	-	-	-	43,755	-	521	44,276
Financial assets at fair value through profit or loss	-	-	161	714	298	161	1,334
Amounts due from credit institutions	-	-	2,010	15,891	7,678	234	25,813
Available-for-sale investment securities	7,918		29,548	283,998	25,786	4,342	351,592
Other financial assets	-	-	-	-	-	9,155	9,155
Commitments and contingencies	-	-	-	-	-	182,602	182,602

	AA	AA-	A	BBB	<BBB	Not Rated	31 December 2012 Total
Cash equivalents*	21,272	180,231	78,188	185,375	1,655	2,522	469,243
Obligatory reserves	-	-	-	49,037	-	-	49,037
Financial assets at fair value through profit or loss	-	-	297	492	222	260	1,271
Amounts due from credit institutions	-	-	309	15,809	16,376	307	32,801
Available-for-sale investment securities	-	20	42,427	249,218	37,041	6,655	335,361
Investments held to maturity	-	5	-	16,346	8,968	447	25,766
Other financial assets	-	-	-	-	-	9,394	9,394
Commitments and contingencies	-	-	-	-	-	154,846	154,846

* Amount represents the short-term loans and deposits with original maturities of not more than 90 days, which are included within cash and cash equivalents.

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Group is concentrated within the Republic of Kazakhstan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

Loans to customers are classified based on internal assessments and other analytical procedures. The respective business units classify loans according to their risk and the exposure that they potentially present to the Group, and this classification is verified by the Risk Management function.

The Group is considering the following impairment indicators:

- Overdue for more than 90 days;
- Default rating calculated based on rating model described below;
- Restructuring because of deterioration of financial position of the borrower; and

The Group is using an internal rating model to classify loans in different risk categories.

After the occurrence of an impairment event, the model assists in estimating the allowance for loan loss based on a borrowers' financial performance, credit history, quality of accounts receivable, liquidity of the borrower, market risks relating to the borrower, industry of the borrower and other factors. Periodically the required information is inputted into the model by credit analysts. Information input into the system and the estimate of the allowance for loan loss is verified by the Risk management department.

The following classifications are used by the rating model:

- Rating score 1 – superior loan rating, minimal credit risk;
- Rating score 2 – very high quality of loan, very low credit risk;
- Rating score 3 – high quality of loan, low credit risk;
- Rating score 4 – satisfactory quality of loan, insignificant risk;
- Rating score 5 – credit risk can increase at economic variation;
- Rating score 6 – high risk at economic variation;
- Rating score 7 – high risk of default, paying capacity of the borrower depends on favourable economic circumstances;
- Rating score 8 – very high risk of default;
- Rating score 9 – procedure of bankruptcy is initiated but repayments are still made by the borrower;
- Rating score 10 – default.

Pools of homogeneous loans – loans to customers are included in groups of loans with similar credit risk characteristics (i.e. the characteristics include sector of the economy, borrower activities, type of loan program, level of defaults, internal ratings and other factors). Pools of homogeneous loans include assets that had been assessed collectively.

Rating score	31 December 2014	31 December 2013	31 December 2012
1	-	-	-
2	-	-	-
3	8,984	2,091	33,943
4	198,407	93,919	82,088
5	191,679	398,582	233,258
6	340,418	96,218	248,848
7	200,867	256,419	178,505
8	130,205	110,285	89,263
9	2,567	4,864	28,011
10	90,743	193,005	166,755
Loans to corporate customers that are individually assessed for impairment	1,163,870	1,155,383	1,060,671
Loans to SME customers that are individually assessed for impairment	98,674	172,118	152,058
Loans to customers that are collectively assessed for impairment	671,487	478,055	409,405
	1,934,031	1,805,556	1,622,134
Less – Allowance for loan impairment (Note 22)	(286,018)	(323,311)	(302,926)
Loans to customers	1,648,013	1,482,245	1,319,208

The following table details the carrying value of assets that are impaired and for those that are past due but not impaired:

	Financial assets that have been individually assessed for impairment				Financial assets that have been collectively assessed for impairment		31 December 2014 Total
	Unimpaired financial assets that have been individually assessed for impairment		Impaired financial assets that have been individually assessed for impairment				
	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses	
Amounts due from credit institutions	27,095	-	-	-	-	-	27,095
Available-for-sale investment securities	386,423	-	1,858	(1,858)	-	-	386,423
Loans to customers	840,065	(9,235)	422,479	(197,942)	671,487	(78,841)	1,648,013
Other financial assets	6,611	-	6,179	(4,297)	-	-	8,493

	Financial assets that have been individually assessed for impairment				Financial assets that have been collectively assessed for impairment		31 December 2013 Total
	Unimpaired financial assets that have been individually assessed for impairment		Impaired financial assets that have been individually assessed for impairment				
	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses	
Amounts due from credit institutions	25,813	(5)	-	-	-	-	25,808
Available-for-sale investment securities	350,522	-	1,040	(1,040)	-	-	350,552
Loans to customers	776,471	(39,454)	551,030	(226,935)	478,055	(56,922)	1,482,245
Other financial assets	3,490	-	5,665	(5,176)	-	-	3,979

	Financial assets that have been individually assessed for impairment				Financial assets that have been collectively assessed for impairment		31 December 2012 Total
	Unimpaired financial assets that have been individually assessed for impairment		Impaired financial assets that have been individually assessed for impairment				
	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses	Carrying amount of assets	Amount of allowance for impairment losses	
Amounts due from credit institutions	32,801	(2)	-	-	-	-	32,799
Available-for-sale investment securities	334,362	-	999	(999)	-	-	334,362
Investments held to maturity	25,766	-	-	-	-	-	25,766
Loans to customers	654,809	(29,509)	557,920	(217,437)	409,405	(55,980)	1,319,208
Other financial assets	6,580	-	2,814	(2,389)	-	-	7,005

As at 31 December 2014 the carrying amount of unimpaired overdue loans was KZT1,528 million (31 December 2013 – KZT1,118 million; 31 December 2012 – KZT990 million). Maturities of these overdue loans are not greater than 90 days.

Liquidity risk

Liquidity risk is the risk resulting from the inability of the Group to provide funds for repayment of its obligations in a due time. The Group's liquidity risk arises when terms of assets on active operations and maturity dates of obligations do not match.

Short-term liquidity needs are managed by the Group's Treasury function collecting daily customers' cash inflow/outflow forecasts. Long-term liquidity management is performed by ALMC by analyzing longer term liquidity positions and making decisions on managing significant gaps through various available means.

In order to manage liquidity risk, the Group analyzes the financial assets and liabilities, and obligatory reserves taking into account payment schedules for loans issued to customers. The following tables provide an analysis of financial assets and liabilities grouped on the basis of the remaining period from the reporting date to the earliest of the contractual maturity date or available maturity date, except for financial assets at fair value through profit or loss which are included in the column "Less than 1 month" as they are available to meet the Group's short-term liquidity needs.

	31 December 2014					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
FINANCIAL ASSETS:						
Cash and cash equivalents	537,252	3,285	-	-	-	540,537
Obligatory reserves	26,799	3,353	12,141	3,320	2,612	48,225
Financial assets at fair value through profit or loss	7,951	-	2,064	5,712	-	15,727
Amounts due from credit institutions	2,734	8,279	1,773	14,309	-	27,095
Available-for-sale investment securities	6,007	2,878	52,498	196,413	128,627	386,423
Loans to customers	154,159	172,535	1,011,360	235,171	74,788	1,648,013
Other financial assets	7,909	389	142	15	38	8,493
	742,811	190,719	1,079,978	454,940	206,065	2,674,513
FINANCIAL LIABILITIES:						
Amounts due to customers	995,765	215,470	489,419	104,434	43,125	1,848,213
Amounts due to credit institutions	24,908	-	274	3,837	78,173	107,192
Financial liabilities at fair value through profit or loss	3,131	-	-	-	-	3,131
Debt securities issued	2,797	-	13,754	113,869	180,589	311,009
Other financial liabilities	9,310	237	729	74	3	10,353
	1,035,911	215,707	504,176	222,214	301,890	2,279,898
Net position	(293,100)	(24,988)	575,802	232,726	(95,825)	
Accumulated gap	(293,100)	(318,088)	257,714	490,440	394,615	

	31 December 2013					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
FINANCIAL ASSETS:						
Cash and cash equivalents	462,744	23,569	-	-	-	486,313
Obligatory reserves	25,666	3,095	11,145	2,360	2,010	44,276
Financial assets at fair value through profit or loss	1,334	-	-	-	-	1,334
Amounts due from credit institutions	2,784	1,539	5,183	16,297	5	25,808
Available-for-sale investment securities	11,292	20,090	31,346	221,720	66,104	350,552
Loans to customers	176,593	174,538	869,799	217,895	43,420	1,482,245
Other financial assets	3,499	217	64	140	59	3,979
	683,912	223,048	917,537	458,412	111,598	2,394,507
FINANCIAL LIABILITIES:						
Amounts due to customers	954,509	126,847	531,262	121,948	32,082	1,766,648
Amounts due to credit institutions	99,191	2,945	627	1,141	3,491	107,395
Financial liabilities at fair value through profit or loss	69	-	-	-	-	69
Debt securities issued	2,377	-	5,329	109,368	72,441	189,515
Other financial liabilities	6,571	307	1,232	138	-	8,248
	1,062,717	130,099	538,450	232,595	108,014	2,071,875
Net position	(378,805)	92,949	379,087	225,817	3,584	
Accumulated gap	(378,805)	(285,856)	93,231	319,048	322,632	

	31 December 2012					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
FINANCIAL ASSETS:						
Cash and cash equivalents	290,793	242,706	-	-	-	533,499
Obligatory reserves	28,587	3,298	12,270	2,633	2,249	49,037
Financial assets at fair value through profit or loss	1,271	-	-	-	-	1,271
Amounts due from credit institutions	48	6,557	8,094	17,799	301	32,799
Available-for-sale investment securities	3,125	17,403	57,373	189,484	66,977	334,362
Investments held to maturity	260	157	2,203	18,231	4,915	25,766
Loans to customers	185,647	159,602	627,777	287,899	58,283	1,319,208
Other financial assets	6,198	228	51	177	351	7,005
	515,929	429,951	707,768	516,223	133,076	2,302,947
FINANCIAL LIABILITIES:						
Amounts due to customers	1,032,288	131,690	421,072	85,479	28,653	1,699,182
Amounts due to credit institutions	8,903	26	1,208	1,307	3,758	15,202
Financial liabilities at fair value through profit or loss	366	41	32	-	-	439
Debt securities issued	109	-	116,592	107,847	77,371	301,919
Other financial liabilities	7,269	158	1,092	165	-	8,684
	1,048,935	131,915	539,996	194,798	109,782	2,025,426
Net position	(533,006)	298,036	167,772	321,425	23,294	
Accumulated gap	(533,006)	(234,970)	(67,198)	254,227	277,521	

Assets and liabilities are recorded on the basis of their contractual maturity and payment schedules. The Group possesses a right to unilaterally call back part of long-term loans provided to customers in ten months period after proper notification would be issued by the Group.

A significant portion of the Group's liabilities is represented by customer term deposits, current accounts of corporate and retail customers, and bonds.

Management believes that although a substantial portion of current accounts and customer deposits are on demand and mature in less than one month, diversification of these deposits by number and type of depositors, and the past experience of the Group indicate that these deposits provide a long-term and stable source of funding for the Group. Therefore an essential part of current accounts is considered as stable resources for the purposes of liquidity analysis and management.

A further analysis of the liquidity risk is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the consolidated statement of financial position as the presentation below includes a maturity analysis for financial liabilities and contingent liabilities based on the remaining contractual payments (including interest payments).

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2014 Total
Amounts due to customers	998,589	222,913	511,807	222,648	63,160	2,019,117
Amounts due to credit institutions	24,935	1	370	4,274	101,587	131,167
Debt securities issued	2,797	72	37,659	197,358	209,846	447,732
Other financial liabilities	9,310	237	729	74	3	10,353
Guarantees issued	155,639	-	-	-	-	155,639
Commercial letters of credit	6,657	-	-	-	-	6,657
Commitments to extend credit	20,525	-	-	-	-	20,525
	1,218,457	223,223	550,565	424,354	374,596	2,791,195
Derivative financial assets	78,612	92,682	-	182,350	-	353,644
Derivative financial liabilities	75,310	-	94,906	174,466	-	344,682

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2013 Total
Amounts due to customers	956,471	132,320	547,930	197,744	53,166	1,887,631
Amounts due to credit institutions	99,286	2,965	637	1,292	5,810	109,990
Debt securities issued	2,377	-	20,332	151,928	84,054	258,691
Other financial liabilities	6,571	307	1,232	138	-	8,248
Guarantees issued	156,699	-	-	-	-	156,699
Commercial letters of credit	12,093	-	-	-	-	12,093
Commitments to extend credit	13,810	-	-	-	-	13,810
	1,247,307	135,592	570,131	351,102	143,030	2,447,162
Derivative financial assets	68,517	-	1,212	-	-	69,729
Derivative financial liabilities	68,446	-	961	-	-	69,407

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2012 Total
Amounts due to customers	1,034,737	138,449	442,552	190,069	50,566	1,856,373
Amounts due to credit institutions	8,911	46	1,260	1,771	6,503	18,491
Debt securities issued	2,837	-	136,139	162,548	90,452	391,976
Other financial liabilities	7,269	158	1,092	165	-	8,684
Guarantees issued	117,730	-	-	-	-	117,730
Commercial letters of credit	20,970	-	-	-	-	20,970
Commitments to extend credit	16,146	-	-	-	-	16,146
	1,208,600	138,653	581,043	354,553	147,521	2,430,370
Derivative financial assets	33,728	4,307	-	-	-	38,035
Derivative financial liabilities	33,619	3,165	-	958	-	37,742

Market risk

Market risk is a risk that Group's earnings or equity or its ability to meet business objectives will be adversely affected by changes in market variables such as interest rates, foreign exchange rates, securities prices and other basic variables.

The Group is exposed to market risks which include the following components:

- Risk of changes in interest rates (interest rate risk);
- Risk of changes in foreign exchange rates (currency risk);
- Risk of changes in securities prices (price risk).

The objective of market risk management is to optimize risk/return, minimize losses in case of adverse events and decrease deviation of factual financial results from the expected one.

Market risk management includes security portfolio management and control of open positions on currencies, interest rates and derivatives. For these purposes ALMC fixes limits on security portfolios, open positions, stop-loss limits and other limitations. Market risk limits are subject to review at least on an annual basis and should be monitored continuously.

Interest rate risk

The Group is exposed to interest rate risk. Interest rate risk is defined as the risk of interest income decrease, interest expense increase or negative impact on equity resulting from adverse changes of market interest rates.

The Group determines two types of interest rate risk:

- Interest rate risk related to securities portfolios changes in fair value of which are reflected through equity;
- Interest rate risk resulting from assets and liabilities maturity dates (dates of interest rates repricing) mismatch that are sensitive to the interest rates changes (risk of interest rates changes).

ALMC manages interest rate risks and market risks through the management of the Group's position on interest rates to reach positive interest margins. Budgeting and Controlling Department monitors current results of the Group's financial activity, estimates the Group's sensitivity in relation to interest rates changes and influence on the Group's profits.

The Group manages interest rates by determining the Group's exposure to the interest rate risk using the approach described by the Basel Committee on the principles for the management and supervision of interest rate risk. This approach identifies the Group's exposure to the interest rate risk by testing the impact of a parallel movement in interest rates on assets and liabilities by 200 basis points.

Sensitivity analysis of interest rate risk

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The impact on profit before tax is the effect of the assumed changes in interest rate on the net interest income for one year, based on the floating rate financial assets and liabilities held as at 31 December 2014, 2013 and 2012, and the effect of revaluing instruments with fixed rates accounted at fair value. The management of the Group believes income tax not to have substantial effect for the purpose of interest rate risk management.

Impact on income before tax based on asset values as at 31 December 2014, 2013 and 2012:

	31 December 2014		31 December 2013			
	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%
FINANCIAL ASSETS:						
Loans to customers	359	(359)	336	(336)	24	(24)
FINANCIAL LIABILITIES:						
Amounts due to credit institutions	10	(10)	45	(45)	23	(23)
Net impact on income before tax	349	(349)	291	(291)	1	(1)

The impact on equity is the effect of the assumed changes in interest rate due to changes in retained earnings and the effect of revaluation of available-for-sale investment securities with fixed rates.

Impact on equity:

	31 December 2014		31 December 2013		31 December 2012	
	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%	Interest rate +2%	Interest rate -2%
FINANCIAL ASSETS:						
Loans to customers	359	(359)	336	(336)	24	(24)
Available-for-sale investment securities	(28,359)	28,359	(19,471)	19,471	(19,346)	19,346
FINANCIAL LIABILITIES:						
Amounts due to credit institutions	10	(10)	45	(45)	23	(23)
Net impact on equity	(29,010)	28,010	(19,180)	19,180	(19,345)	19,345

Currency Risk

The Group is exposed to currency risk. Currency risk arises from open positions in foreign currencies and adverse movements of market exchange rates that may have a negative impact on the financial performance of the Group.

ALMC controls currency risk by management of the open currency position based on the estimations of KZT devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations of national and foreign currencies.

The Treasury Department performs daily monitoring of the Group's open currency position with the aim to comply with the requirements of the regulatory authority.

The Group is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates (primarily USD) on its financial position, results of operations and cash flows, which are monitored daily. ALMC sets limits on the level of exposure by currencies within the authority approved by the Board of Directors. These limits also comply with the minimum requirements of the regulator authority.

The Group's principal cash flows are generated in KZT and USD. As a result, potential movements in the exchange rate between KZT and USD will affect the carrying values of the Group's USD denominated monetary assets and liabilities. Currency risk is assessed in relation to the consolidated statement of financial position and off-balance sheet positions. Current Group's sensitivity to fluctuations in exchange rates is acceptable due to the fact that the off balance sheet items significantly neutralize the statement of financial position.

The Group's exposure to foreign currency exchange rate risk follows:

	31 December 2014						
	USD	EURO	RUR	Other	TOTAL foreign currencies	KZT	TOTAL
FINANCIAL ASSETS:							
Cash and cash equivalents	399,727	44,879	9,395	13,434	467,435	73,102	540,537
Obligatory reserves	29,053	980	333	356	30,722	17,503	48,225
Financial assets at fair value through profit or loss	578	-	-	86	664	15,063	15,727
Amounts due from credit institutions	2,490	-	-	-	2,490	24,605	27,095
Available-for-sale investment securities	190,531	1,057	1,059	1,617	194,264	192,159	386,423
Loans to customers	427,775	4,289	8,208	9,011	449,283	1,198,730	1,648,013
Other financial assets	1,399	26	76	63	1,564	6,929	8,493
	1,051,553	51,231	19,071	24,567	1,146,422	1,528,091	2,674,513
FINANCIAL LIABILITIES							
Amounts due to customers	1,139,993	52,080	3,135	7,976	1,203,184	645,029	1,848,213
Amounts due to credit institutions	11,672	290	802	399	13,163	94,029	107,192
Financial liabilities at fair value through profit or loss	-	-	-	-	-	3,131	3,131
Debt securities issued	195,266		-	-	195,266	115,743	311,009
Other financial liabilities	199	118	32	173	522	9,831	10,353
	1,347,130	52,488	3,969	8,548	1,412,135	867,763	2,279,898
Net position – on balance	(295,577)	(1,257)	15,102	16,019	(265,713)	660,328	394,615
Net position – off-balance	318,777	(346)	(9,171)	(13,591)	295,669	(295,669)	
Net position	23,200	(1,603)	5,931	2,428	29,956	364,659	

	31 December 2013						
	USD	EURO	RUR	Other	TOTAL foreign currencies	KZT	TOTAL
FINANCIAL ASSETS:							
Cash and cash equivalents	288,851	22,138	8,086	6,858	325,933	160,380	486,313
Obligatory reserves	19,496	582	136	368	20,582	23,694	44,276
Financial assets at fair value through profit or loss	478	-	-	50	528	806	1,334
Amounts due from credit institutions	2,515	-	-	-	2,515	23,293	25,808
Available-for-sale investment securities	173,354	-	1,826	979	176,159	174,393	350,552
Loans to customers	493,463	3,056	7,103	5,017	508,639	973,606	1,482,245
Other financial assets	247	47	82	32	408	3,571	3,979
	978,404	25,823	17,233	13,304	1,034,764	1,359,743	2,394,507
FINANCIAL LIABILITIES							
Amounts due to customers	734,129	25,063	3,653	19,099	781,944	984,704	1,766,648
Amounts due to credit institutions	28,152	474	3	158	28,787	78,608	107,395
Financial liabilities at fair value through profit or loss	-	-	-	-	-	69	69
Debt securities issued	162,055	-	3,276	-	165,331	24,184	189,515
Other financial liabilities	25	58	14	100	197	8,051	8,248
	924,361	25,595	6,946	19,357	976,259	1,095,616	2,071,875
Net position – on balance	54,043	228	10,287	(6,053)	58,505	264,127	323,632
Net position – off-balance	(41,824)	36	(7,989)	(5,267)	(55,044)	55,044	
Net position	12,219	264	2,298	(11,320)	3,461	319,171	

	31 December 2012						
	USD	EURO	RUR	Other	TOTAL foreign currencies	KZT	TOTAL
FINANCIAL ASSETS:							
Cash and cash equivalents	443,586	8,154	5,463	5,103	462,306	71,193	533,499
Obligatory reserves	23,426	611	82	25	24,144	24,893	49,037
Financial assets at fair value through profit or loss	356	-	-	135	491	780	1,271
Amounts due from credit institutions	11,594	-	-	-	11,594	21,205	32,799
Available-for-sale investment securities	156,958	7	1,816	136	158,917	175,445	334,362
Investments held to maturity	5,721	-	-	1,025	6,746	19,020	25,766
Loans to customers	339,600	4,927	5,174	3,955	353,656	965,552	1,319,208
Other financial assets	250	41	78	64	433	6,572	7,005
	981,491	13,740	12,613	10,443	1,018,287	1,284,660	2,302,947
FINANCIAL LIABILITIES							
Amounts due to customers	635,055	26,909	4,240	2,677	668,881	1,030,301	1,699,182
Amounts due to credit institutions	8,680	862	3	275	9,820	5,382	15,202
Financial liabilities at fair value through profit or loss	151	20	15	-	186	253	439
Debt securities issued	277,943	-	-	-	277,943	23,976	301,919
Other financial liabilities	104	60	15	105	284	8,400	8,684
	921,933	27,851	4,273	3,057	957,114	1,068,312	2,025,426
Net position – on balance	59,558	(14,111)	8,340	7,386	61,173	216,348	277,521
Net position – off-balance	(40,356)	1,626	(3,944)	(6,709)	(49,384)	49,384	
Net position	19,202	(12,485)	4,396	677	11,789	265,732	

Sensitivity analysis of currency risk

The table below indicates the currencies in which the Group had significant exposure at 31 December 2014, 2013 and 2012, and its forecasted cash flows. The analysis calculates the effect of a reasonable possible movement of the currency rate with all other variables held constant on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated income statement, while a positive amount reflects a net potential increase. Sensitivity of currency risk is assessed based on balance sheet and off-balance open currency positions. The management of the Group believes income tax not to have substantial effect for the purpose of currency risk management.

Impact on income before tax based on asset values as at 31 December 2014, 2013 and 2012, calculated using currency rate fluctuations analysis:

	31 December 2014		31 December 2013		31 December 2012	
	+25% KZT/USD	-25% KZT/USD	+25% KZT/USD	-25% KZT/USD	+25% KZT/USD	-25% KZT/USD
Impact on income before tax	5,800	(5,800)	3,055	(3,055)	4,801	(4,801)

	31 December 2014		31 December 2013		31 December 2012	
	+25% KZT/EURO	-25% KZT/EURO	+25% KZT/EURO	-25% KZT/EURO	+25% KZT/EURO	-25% KZT/EURO
Impact on income before tax	(401)	401	66	(66)	(3,121)	3,121

	31 December 2014		31 December 2013		31 December 2012	
	+25% KZT/RUR	-25% KZT/RUR	+25% KZT/RUR	-25% KZT/RUR	-25% KZT/RUR	-25% KZT/RUR
Impact on income before tax	1,483	(1,483)	575	(575)	1,099	(1,099)

Impact on equity:

	31 December 2014		31 December 2013		31 December 2012	
	+25% KZT/USD	-25% KZT/USD	+25% KZT/USD	-25% KZT/USD	-25% KZT/USD	-25% KZT/USD
Impact on equity	5,800	(5,800)	3,055	(3,055)	4,801	(4,801)

	31 December 2014		31 December 2013		31 December 2012	
	+25% KZT/EURO	-25% KZT/EURO	+25% KZT/EURO	-25% KZT/EURO	-25% KZT/EURO	-25% KZT/EURO
Impact on equity	(401)	401	66	(66)	(3,121)	3,121

	31 December 2014		31 December 2013		31 December 2012	
	+25% KZT/RUR	-25% KZT/RUR	+25% KZT/RUR	-25% KZT/RUR	-25% KZT/RUR	-25% KZT/RUR
Impact on equity	1,483	(1,483)	575	(575)	1,099	(1,099)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors.

It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the consolidated statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, where those changes are caused by factors specific to the individual security, its issuer, or factors affecting all securities traded in the market. The Group is exposed to price risks of its products which are subject to general and specific market fluctuations.

To limit price risk the Group determines limits for maximum losses (stop-loss) on each security from trade portfolio to minimize potential losses of trade portfolio.

Price risk assessment is also made on the basis of VaR method through establishment of Expected Shortfall (ES) limits on the level of the expected losses, which the Bank is able to undertake within one day in situation when factual losses may exceed the level of VaR.

Calculation of VaR is based on the following parameters:

- Reporting period – 252 working days;
- Confidence interval – 95%;
- The method of measurement – historical simulation.

The Group estimates the price risk at 31 December 2014, 2013 and 2012, to be not material and therefore quantitative information is not disclosed.

35. Capital risk management

The Group's objectives when managing capital, which is a broader concept than the "equity" on the face of consolidated statement of financial position, are as follows:

- To comply with the capital requirements set by the NBK;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The required level of capital is determined by taking into account the above objectives during the process of preparing the annual budget, and is approved by the Management Board and the Board of Directors. The capital adequacy of the Group is controlled according to the principles, methods and coefficients employed by Basel Committee. There have been no changes as to the way the Group measures capital.

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, foreign currency translation and non-controlling interest less accrued dividends, net long position in own shares and goodwill. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt calculated based on remaining maturities and limited to 50% of Tier 1 capital and revaluation reserves.

The risk-weighted assets are measured based on a hierarchy of five risk weighting according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarizes the composition of regulatory capital and the ratios of the Group for the years ended 31 December 2014, 2013 and 2012. During those three years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject.

	31 December 2014	31 December 2013	31 December 2012
Composition of regulatory capital			
Tier 1			
Share capital, net of treasury shares	64,701	66,161	62,667
Share premium	1,439	1,415	1,496
Retained earnings and other reserves	409,081	323,670	273,835
Less: property and equipment and available-for-sale investment securities revaluation and translation reserves	(7,204)	(16,200)	(24,802)
Less: goodwill	(4,954)	(3,085)	(3,085)
Non-controlling interest	-	933	1,641
Total qualifying tier 1 capital	463,063	372,894	311,752
Tier 2			
Subordinated debt	7,760	12,557	16,363
Property and equipment and available-for-sale investment securities revaluation and translation reserves	7,204	16,200	24,802
Total qualifying tier 2 capital	14,964	28,757	41,165
Less: investments in associates	(30)	(24)	(53)
Total regulatory capital	477,997	401,627	352,864
Risk weighted assets	2,271,545	2,170,709	1,923,978
Tier 1 capital ratio	20.4%	17.2%	16.2%
Total capital adequacy ratio	21.0%	18.5%	18.3%

Basel standards set minimum capital adequacy ratio and tier 1 capital at 8% and 4%, respectively

36. Segment analysis

The Group is managed and reported on the basis of three main operating segments. The Group's segments are strategic business units that offer different products and services which are managed separately.

The products and services offered by each segment are:

Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages, cash and foreign currency related services to individuals.

Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and trade finance products to corporate clients and financial organizations.

Small and medium enterprises (hereinafter – SME) banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and trade finance products to small and medium enterprises and sole proprietors.

Other – representing capital market services.

Unallocated amounts are account balances and classes of transactions, which are not allocated to particular segment, not initiated by any business function and relate to the current activity of the Group. Unallocated assets include fixed assets, intangible assets, non-current assets held for sale, cash on hand and other unallocated assets. Unallocated liabilities include deferred tax liabilities and other unallocated liabilities. Unallocated income includes other income from main and nonoperating activities and insurance income. Unallocated expenses include provision on account receivables, operating overhead expenses, insurance expenses and income tax.

The segment information below is presented on the basis used by the Bank's Chairperson of the Management Board, who is the Group's chief operating decision maker, to evaluate performance, in accordance with IFRS 8. The Management of the Group reviews discrete financial information for each of its segments, including measures of operating results, assets and liabilities. The segments are managed primarily on the basis of their results, which excludes certain unallocated costs related to interest expense on debt securities issued and amounts due to credit institutions and operating expenses other than salaries and other employee benefits.

There were no transactions between business segments during the years ended 31 December 2014, 2013 and 2012.

Segment information for the main reportable business segments of the Group as at 31 December 2014, 2013 and 2012 and for the years then ended, is set out below:

	Retail banking	Corporate banking	SME banking	Other	Unallocated	Total
As at 31 December 2014 and for the year then ended						
External revenues	107,416	108,098	30,341	42,079	26,075	314,009
Total revenues	107,416	108,098	30,341	42,079	26,075	314,009
Total revenues comprise:						
Interest income	71,136	97,429	21,982	20,046	-	210,593
Fee and commission income	32,564	5,408	6,205	14,421	40	58,638
Net gain from financial assets and liabilities at fair value through profit or loss	-	-	-	7,842	-	7,842
Net realized loss from available-for-sale investment securities	-	-	-	(230)	-	(230)
Net gain on foreign exchange operations	3,716	1,533	1,837	-	-	7,086
Insurance underwriting income and other income	-	-	-	-	26,044	26,044
Recoveries of other provisions/(other provisions)	-	3,728	317	-	(9)	4,036
Total revenues	107,416	108,098	30,341	42,079	26,075	314,009
Interest expense	(42,278)	(32,693)	(2,487)	-	-	(77,458)
Impairment charge	(1,905)	(6,013)	1,111	-	(580)	(7,387)
Fee and commission expense	(7,600)	(162)	(190)	(536)	(71)	(8,559)
Operating expenses	(31,544)	(5,182)	(7,139)	(778)	(17,869)	(62,512)
Insurance claims incurred, net of reinsurance	-	-	-	-	(16,195)	(16,195)
Segment result	24,089	64,048	21,636	40,765	(8,640)	141,898
Income before income tax expense						141,898
Income tax expense					(27,521)	(27,521)
Net income						114,377
Total segment assets	441,336	1,508,888	215,783	391,306	252,469	2,809,782
Total segment liabilities	932,673	1,099,850	256,156	3,484	42,398	2,334,561
Other segment items:						
Capital expenditures	-	-	-	-	(16,441)	(16,441)
Depreciation and amortization	-	-	-	-	(5,023)	(5,023)

	Retail banking	Corporate banking	SME banking	Other	Unallocated	Total
As at 31 December 2013 and for the year then ended						
External revenues	90,709	96,031	26,055	32,765	21,216	266,776
Total revenues	90,709	96,031	26,055	32,765	21,216	266,776
Total revenues comprise:						
Interest income	59,862	86,241	17,918	18,542	-	182,563
Fee and commission income	28,444	5,429	5,426	12,078	29	51,406
Net gain from financial assets and liabilities at fair value through profit or loss	-	-	-	261	-	261
Net realized gain from available-for-sale investment securities	-	-	-	1,884	-	1,884
Net gain on foreign exchange operations	2,717	3,833	2,711	-	-	9,261
Insurance underwriting income and other income	-	-	-	-	21,191	21,191
(Other provisions)/recoveries of other provisions	(314)	528	-	-	(4)	210
Total revenues	90,709	96,031	26,055	32,765	21,216	266,776
Interest expense	(40,444)	(33,372)	(2,116)	-	-	(75,932)
Impairment charge	(2,557)	(16,652)	(3,746)	(80)	(2,986)	(26,021)
Fee and commission expense	(5,576)	(466)	(197)	(884)	(16)	(7,139)
Operating expenses	(27,845)	(5,087)	(6,220)	(489)	(15,179)	(54,820)
Insurance claims incurred, net of reinsurance	-	-	-	-	(13,933)	(13,933)
Segment result	14,287	40,454	13,776	31,312	(10,898)	88,931
Income before income tax expense						88,931
Income tax expense					(16,522)	(16,522)
Net income						72,409
Total segment assets	356,555	1,430,688	187,838	351,551	179,782	2,506,414
Total segment liabilities	803,122	968,238	274,878	-	67,997	2,114,235
Other segment items:						
Capital expenditures	-	-	-	-	(6,269)	(6,269)
Depreciation and amortization	-	-	-	-	(5,747)	(5,747)

	Retail banking	Corporate banking	SME banking	Other	Unallocated	Total
As at 31 December 2012 and for the year then ended						
External revenues	74,931	86,175	23,976	37,820	20,721	243,623
Total revenues	74,931	86,175	23,976	37,820	20,721	243,623
Total revenues comprise:						
Interest income	49,869	76,901	16,362	17,862	-	160,994
Fee and commission income	22,997	4,816	5,084	18,163	22	51,082
Net gain from financial assets and liabilities at fair value through profit or loss	-	-	-	169	-	169
Net realized gain from available-for-sale investment securities	-	-	-	1,626	-	1,626
Net gain on foreign exchange operations	2,065	4,458	2,530	-	-	9,053
Insurance underwriting income and other income	-	-	-	-	20,699	20,699
Total revenues	74,931	86,175	23,976	37,820	20,721	243,623
Interest expense	(32,596)	(35,851)	(1,469)		(18)	(69,934)
Impairment charge	(3,597)	(5,502)	(5,829)	(124)	(310)	(15,362)
Fee and commission expense	(4,177)	(768)	(187)	(846)	(13)	(5,991)
Operating expenses	(25,299)	(7,112)	(5,232)	(475)	(13,693)	(51,811)
(Other provisions)/recoveries of other provisions	18	(1,476)	496	-	-	(962)
Share in net loss of associates	-	(1)	-	-	-	(1)
Impairment loss on non-current assets held-for-sale	-	-	-	-	(2,100)	(2,100)
Insurance claims incurred, net of reinsurance	-	-	-	-	(12,733)	(12,733)
Segment result	9,280	35,465	11,755	36,375	(8,146)	84,729
Income before income tax expense						84,729
Income tax expense					(14,768)	(14,768)
Net income						69,961
Total segment assets	290,446	1,409,865	172,355	360,666	174,666	2,407,998
Total segment liabilities	689,155	1,034,015	291,623		53,566	2,068,359
Other segment items:						
Capital expenditures	-	-	-	-	(8,453)	(8,453)
Depreciation and amortization	-	-	-	-	(7,036)	(7,036)

Geographical information

Information for the main geographical areas of the Group is set out below as at 31 December 2014, 2013 and 2012, and for the years then ended.

	Kazakhstan	OECD	Non-OECD	Total
2014				
Total assets	2,547,344	185,108	77,330	2,809,782
External revenues	304,610	3,089	6,310	314,009
Capital expenditure	(16,441)	-	-	(16,441)
2013				
Total assets	2,071,205	333,259	101,950	2,506,414
External revenues	256,673	2,995	7,108	266,776
Capital expenditure	(6,269)	-	-	(6,269)
2012				
Total assets	1,947,751	404,924	55,323	2,407,998
External revenues	235,582	4,174	3,866	243,622
Capital expenditure	(8,453)	-	-	(8,453)

External revenues, assets and credit related commitments have generally been allocated based on domicile of the counterparty. Cash on hand, property and equipment and capital expenditure have been allocated based on the country in which they are physically held.

37. Fair values of financial instruments

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value of the Group's financial assets and financial liabilities measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. Management assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

The Group considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognising a change in the valuations would have on the assets reported on its consolidated statement of financial position as well as its profit/(loss) could be material.

The tables below summarises the Group's financial assets and liabilities held at fair value by valuation methodology at 31 December 2014, 2013 and 2012, before any allowances for impairment losses:

Financial Assets/Liabilities	Fair value at			Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31 December 2014	31 December 2013	31 December 2012				
Non-derivative financial assets at fair value through profit or loss (Note 8)	3,633	943	538	Level 1	Quoted bid prices in an active market.	Not applicable	Not applicable
Derivative financial assets at fair value through profit or loss excluding options (Note 8)	4,318	140	475	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period).	Not applicable	Not applicable
Derivative financial assets at fair value through profit or loss excluding options (Note 8)	7,776	-	3	Level 3	Future cash flows in USD discounted using LIBOR rate obtained from available sources. Future cash flows in KZT discounted using internal rate of return, which was calculated based on LIBOR and foreign exchange rates obtained from available sources. The difference between net present values of these discounted cash flows should be equal to zero at initial recognition.	KZT implied rate	The greater KZT implied rate – the smaller fair value
Derivative financial assets at fair value through profit or loss - options (Note 8)	-	251	255	Level 2	Binominal model with primary data based on average price without using maximum and minimum values from KASE.	Not applicable	Not applicable
Derivative financial liabilities at fair value through profit or loss excluding options (Note 8)	3,131	69	439	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period).	Not applicable	Not applicable
Non-derivative available-for-sale investment securities (Note 10)	384,327	348,498	301,304	Level 1	Quoted bid prices in an active market.	Not applicable	Not applicable
Non-derivative available-for-sale investment securities included in bonds of foreign organizations (Note 10)	172	931	31,816	Level 2	Discounted cash flows. Future cash flows discounted using LIBOR adjusted for credit risk of the issuer obtained from available sources	Not applicable	Not applicable
Non-derivative available-for-sale investment securities – unquoted equity securities (Note 10)	1,924	1,123	1,242	Level 3	Valuation model based on internal rating model	Percentage discount	The greater discount - the smaller fair value

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The following methods and assumptions are used by the Group to estimate the fair value of financial instruments not carried at fair value.

Amounts due from and to credit institutions

For assets and liabilities maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates.

Loans to customers

The estimate was made by discounting the scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as at the respective year-end.

Amounts due to customers

Interest rates charged to customers closely approximate market interest rates and accordingly, the carrying amounts approximate fair values.

Debt securities issued

Market values have been used to determine the fair value of debt securities traded on an active market. For other debt securities, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

The following table sets out the carrying amount and fair values of financial assets and liabilities not carried at their fair values:

	31 December 2014		31 December 2013		31 December 2012	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Amounts due from credit institutions	27,095	27,296	25,808	27,757	32,799	35,872
Loans to customers	1,648,013	1,742,664	1,482,245	1,582,638	1,319,208	1,351,271
Investments held-to-maturity	-	-	-	-	25,766	26,031
Financial liabilities						
Amounts due to customers	1,848,213	1,850,824	1,766,648	1,763,968	1,699,182	1,689,642
Amounts due to credit institutions	107,192	128,956	107,395	106,350	15,202	15,984
Debt securities issued	311,009	323,244	189,515	212,827	301,919	331,322

	31 December 2014			
	Level 1	Level 2	Level 3	Total
Financial assets				
Amounts due from credit institutions	-	27,296	-	27,296
Loans to customers	-	-	1,742,664	1,742,664
Financial liabilities				
Amounts due to customers	-	1,850,824	-	1,850,824
Amounts due to credit institutions	-	128,956	-	128,956
Debt securities issued	323,244	-	-	323,244

	31 December 2013			
	Level 1	Level 2	Level 3	Total
Financial assets				
Amounts due from credit institutions	-	27,757	-	27,757
Loans to customers	-	-	1,582,638	1,582,638
Financial liabilities				
Amounts due to customers	-	1,763,968	-	1,763,968
Amounts due to credit institutions	-	106,350	-	106,350
Debt securities issued	212,827	-	-	212,827

	31 December 2012			
	Level 1	Level 2	Level 3	Total
Financial assets				
Amounts due from credit institutions	-	35,872	-	35,872
Loans to customers	-	-	1,351,271	1,351,271
Investments held-to-maturity	-	26,031	-	26,031
Financial liabilities				
Amounts due to customers	-	1,689,642	-	1,689,642
Amounts due to credit institutions	-	15,984	-	15,984
Debt securities issued	331,322	-	-	331,322

The carrying amounts of cash and cash equivalents, obligatory reserves, other financial assets and other financial liabilities approximates fair value due to the short-term nature of such financial instruments.

38. Related party transactions

Related parties or transactions with related parties are assessed in accordance with IAS 24 "Related Party Disclosures". Related parties may enter into transactions which unrelated parties might not. Transactions between related parties are generally effected on the same terms, conditions and amounts as transactions between unrelated parties.

Considering each possible related party not only their legal status is taken into account but also the substance of the relationship between these arties.

The Group had the following transactions outstanding as at 31 December 2014, 2013 and 2012, with related parties:

	31 December 2014		31 December 2013		31 December 2012	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Loans to customers before allowance for impairment losses	4,597	1,934,031	6,852	1,805,556	8,221	1,622,134
- entities with joint control or significant influence over the entity	4,597		5,948		6,738	
- other related parties	-		904		1,483	
Allowance for impairment losses	(15)	(286,018)	(216)	(323,311)	(298)	(302,926)
- entities with joint control or significant influence over the entity	(15)		(202)		(298)	
- key management personnel of the entity or its parent	-		(14)		-	
Amounts due to customers	105,405	1,848,213	101,562	1,766,648	44,677	1,699,182
- the parent	73,757		60,184		36,457	
- entities with joint control or significant influence over the entity	8,086		33,546		558	
- associates	-		27		75	
- key management personnel of the entity or its parent	5,903		2,602		2,057	
- other related parties	17,659		5,203		5,529	

Included in the consolidated income statement for the years ended 31 December 2014, 2013 and 2012, are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2014		Year ended 31 December 2013		Year ended 31 December 2012	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	547	210,593	829	182,563	826	160,994
- entities with joint control or significant influence over the entity	547		749		684	
- other related parties	-		80		142	
Interest expense	(3,541)	(77,458)	(1,973)	(75,932)	(1,679)	(69,934)
- the parent	(3,073)		(1,792)		(1,410)	
- key management personnel of the entity or its parent	(250)		(111)		(125)	
- other related parties	(218)		(70)		(144)	
Key management personnel compensation	1,333	35,767	835	30,899	1,335	29,228
- Salaries and other employee benefits	1,333		835		1,335	

39. Subsequent events

On 12 February 2015, the Bank placed at KASE KZT21.1 billion (face value) at 94.6354%and on 3 March 2015 the Bank placed additional KZT30 billion (face value) at 94.6479%. Both issues are subject to Kazakhstan legislation, bear a coupon rate of 7.5% bonds and mature in February 2025. The Bank plans to utilize the raised funds for its liabilities diversification and lending to customers.

ҚАЗАҚСТАН ХАЛЫҚ БАНКІ
HALYK BANK
НАРОДНЫЙ БАНК КАЗАХСТАНА

INFORMATION FOR SHAREHOLDERS

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Fax	+ 7 727 259 0271
Website	www.halykbank.kz, http://www.halykbank.kz/ru/about/investors/reports

Registered with

The Ministry of Justice of the Republic of Kazakhstan

Registered number

3898-1900-AO

Date of re-registration

12 November 2003

Shareholder's enquiries

Holders of common and preferred shares:
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Contact information

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Regional branches

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Kostanay regional branch
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Fax: +7 7142 54 0803

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Northern Kazakhstan regional branch
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Semey regional branch
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Southern Kazakhstan regional branch
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Taldykorgan regional branch
22/1, Zhansugurov St., Taldykorgan, 040000
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Akmola regional branch
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Temirtau regional branch
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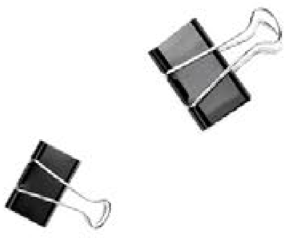

Subsidiaries

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Halyk Finance
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Useful links

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www.nationalbank.kz

Kazakhstan Stock Exchange (KASE)
www.kase.kz

London Stock Exchange (LSE)
www.londonstockexchange.com

Financial Conduct Authority (FCA)
www.fca.org.uk

Prudential Regulation Authority (PRA)
http://www.bankofengland.co.uk/pra