JSC HALYK BANK

Separate Financial Statements and Independent Auditor's Report
For the Year Ended 31 December 2014

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JSC HALYK BANK

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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

In preparing the separate 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 Bank's separate financial position and financial performance; and
- Making an assessment of the Bank'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 Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the separate financial position of the Bank, and which enable them to ensure that the separate financial statements of the Bank 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 Bank; and
- Preventing and detecting fraud and other irregularities.

These separate financial statements of the Bank for the year ended 31 December 2014 were approved by the Management Board on 18 March 2015.

On behalf of the Management Board:

Umut B. Shayakhmetova	**Pavel A. Cheussov**
Chairperson of the Board	**Chief Accountant**
18 March 2015	18 March 2015
Almaty, Kazakhstan	Almaty, Kazakhstan

Deloitte.

Deloitte, LLP
36 Al Farabi Ave.,
Almaty, 050059,
Republic of Kazakhstan

Tel: +7 (727) 258 13 40
Fax: +7 (727) 258 13 41
almaty@deloitte.kz
www.deloitte.kz

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying separate financial statements of JSC Halyk Bank (the "Bank"), which comprise the statement of financial position as at 31 December 2014, statement of profit or loss, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the separate financial statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the separate 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 separate financial statements.

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

Opinion

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

Other matters

As described in Note 2 to the separate financial statements, the Bank also prepares consolidated financial statements. These separate financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2014, which were authorized for issue by the Management Board on 13 March 2015.

Deloitte, LLP

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

Nurlan Bekenov
Qualified auditor
of the Republic of Kazakhstan
Qualification certificate No. 0082
dated 13 June 1994
General Director
Deloitte, LLP

18 March 2015
Almaty, Kazakhstan

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014
(Millions of Kazakhstani Tenge)

	Notes	31 December 2014	31 December 2013
ASSETS			
Cash and cash equivalents	5, 34	457,484	477,741
Obligatory reserves	6	43,761	43,692
Financial assets at fair value through profit or loss	7	11,921	395
Amounts due from credit institutions	8, 34	36,958	31,729
Available-for-sale investment securities	9	323,152	284,818
Investments in subsidiaries	10, 34	86,320	58,304
Precious metals		1,385	16,857
Loans to customers	11, 34	1,577,466	1,459,368
Property and equipment	12	69,727	52,041
Assets held for sale	14	8,312	3,299
Intangible assets	13	5,006	5,138
Other assets	15, 34	11,989	8,467
TOTAL ASSETS		2,633,481	2,441,849
LIABILITIES AND EQUITY			
LIABILITIES			
Amounts due to customers	16, 34	1,736,395	1,763,492
Amounts due to credit institutions	17, 34	101,976	104,814
Financial liabilities at fair value through profit or loss	7	2,826	69
Debt securities issued	18, 34	312,286	190,003
Provisions	19	-	4,151
Deferred tax liability	20	10,015	4,184
Other liabilities	21	11,825	9,615
Total liabilities		2,175,323	2,076,328
EQUITY			
Share capital	22	147,358	147,358
Share premium reserve		1,984	1,986
Treasury shares		(82,432)	(80,972)
Retained earnings and other reserves	22	391,248	297,149
Total equity		458,158	365,521
TOTAL LIABILITIES AND EQUITY		2,633,481	2,441,849

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

18 March 2015
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

18 March 2015
Almaty, Kazakhstan

The notes on pages 11 to 82 form an integral part of these separate financial statements.

STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2014
(Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
Interest income	24, 34	200,147	173,746
Interest expense	24, 34	(77,014)	(75,752)
NET INTEREST INCOME BEFORE IMPAIRMENT CHARGE	24	123,133	97,994
Impairment charge	19	(5,657)	(25,371)
NET INTEREST INCOME		117,476	72,623
Fee and commission income	25, 34	44,007	39,395
Fee and commission expense	25, 34	(8,011)	(6,299)
Fees and commissions, net		35,996	33,096
Net gain from financial assets and liabilities at fair value through profit or loss	26	7,520	141
Net realized gain from available-for-sale investment securities		235	1,306
Net gain on foreign exchange operations	27	5,843	9,266
Dividends received from subsidiaries	34	20,842	24,532
Other income		1,856	1,068
OTHER NON-INTEREST INCOME		36,296	36,313
Operating expenses	28, 34	(51,177)	(43,471)
Impairment loss on assets held for sale	13	(102)	-
Recoveries of provisions	19	4,073	200
NON-INTEREST EXPENSES		(47,206)	(43,271)
INCOME BEFORE INCOME TAX EXPENSE		142,562	98,761
Income tax expense	20	(23,166)	(13,855)
NET INCOME		119,396	84,906
Attributable to:			
Common shareholders		117,312	83,377
Preferred shareholders		2,084	1,529
		119,396	84,906

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

18 March 2015
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

18 March 2015
Almaty, Kazakhstan

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STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

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

	Year ended 31 December 2014	Year ended 31 December 2013
Net income	119,396	84,906
Other comprehensive income/(loss), net of tax		
Items that will not be subsequently reclassified to profit or loss:		
Gain resulting on revaluation of property and equipment (2014, 2013– KZT 868 million, KZT Nil)	2,899	-
Items that may be subsequently reclassified to profit or loss:		
Loss on revaluation of available-for-sale investment securities (2014, 2013 – net of tax – KZT Nil)	(7,613)	(7,447)
Reclassification adjustment relating to available-for-sale investment securities disposed of in the year (2014, 2013 – net of tax – KZT Nil)	(235)	(1,306)
Other comprehensive loss for the year	(4,949)	(8,753)
Total comprehensive income for the year	114,447	76,153
Attributable to:		
Common shareholders	112,449	74,781
Preferred shareholders	1,998	1,372
	114,447	76,153

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

18 March 2015
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

18 March 2015
Almaty, Kazakhstan

The notes on pages 11 to 82 form an integral part of these separate financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014
(Millions of Kazakhstani Tenge)

	Share capital				Treasury shares					
	Common shares	Non-convertible preferred shares	Convertible preferred shares	Share premium reserve	common shares	preferred shares	Revaluation reserve of available-for-sale investment securities*	Property and equipment revaluation reserve*	Retained earnings*	Total
31 December 2013	83,627	50,494	13,237	1,986	(39,918)	(41,054)	920	12,400	283,829	365,521
Net income	-	-	-	-	-	-	-	-	119,396	119,396
Other comprehensive (loss)/income	-	-	-	-	-	-	(7,848)	2,899	-	(4,949)
Total comprehensive (loss)/income	-	-	-	-	-	-	(7,848)	2,899	119,396	114,447
Treasury shares purchase (Note 22)	-	-	-	(2)	-	(1,460)	-	-	-	(1,462)
Dividends – preferred shares	-	-	-	-	-	-	-	-	(1,799)	(1,799)
Dividends – common shares	-	-	-	-	-	-	-	-	(18,549)	(18,549)
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	-	-	-	(561)	561	-
31 December 2014	83,627	50,494	13,237	1,984	(39,918)	(42,514)	(6,928)	14,738	383,438	458,158

STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014
(Millions of Kazakhstani Tenge)

	Share capital				Treasury shares					
	Common shares	Non-convertible preferred shares	Convertible preferred shares	Share premium reserve	common shares	preferred shares	Revaluation reserve of available-for-sale investment securities*	Property and equipment revaluation reserve*	Retained earnings*	Total
31 December 2012	83,627	50,494	13,237	1,986	(39,918)	(41,054)	9,673	12,813	212,972	303,830
Net income	-	-	-	-	-	-	-	-	84,906	84,906
Other comprehensive loss	-	-	-	-	-	-	(8,753)		-	(8,753)
Total comprehensive income/(loss)	-	-	-	-	-	-	(8,753)	-	84,906	76,153
Dividends – preferred shares	-	-	-	-	-	-	-	-	(2,241)	(2,241)
Dividends – common shares	-	-	-	-	-	-		-	(12,221)	(12,221)
Release of property and equipment revaluation reserve on depreciation and disposal of previously revalued assets	-	-	-	-	-	-	-	(413)	413	-
31 December 2013	83,627	50,494	13,237	1,986	(39,918)	(41,054)	920	12,400	283,829	365,521

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

On behalf of the Management Board:

Umut B. Shayakhmetova
Chairperson of the Board

18 March 2015
Almaty, Kazakhstan

Pavel A. Cheussov
Chief Accountant

18 March 2015
Almaty, Kazakhstan

The notes on pages 11 to 82 form an integral part of these separate financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014
(Millions of Kazakhstani Tenge)

	Year ended 31 December 2014	Year ended 31 December 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received from cash equivalents and amounts due from credit institutions	4,081	3,021
Interest received on available-for-sale investment securities	16,132	13,993
Interest received from loans to customers	175,622	137,299
Interest paid on amounts due to customers	(62,026)	(54,037)
Interest paid on amounts due to credit institutions	(2,430)	(821)
Interest paid on debt securities issued	(18,363)	(22,319)
Fee and commission received	44,026	39,287
Fee and commission paid	(8,011)	(6,299)
Other income received	6,435	4,013
Operating expenses paid	(51,277)	(38,564)
Cash flows from operating activities before changes in net operating assets	104,189	75,573
Changes in operating assets and liabilities:		
(Increase)/decrease in operating assets:		
Obligatory reserves	(69)	4,775
Financial assets at fair value through profit or loss	(10,316)	273
Amounts due from credit institutions	(3,893)	(155)
Precious metals	15,472	(17,487)
Loans to customers	(65,040)	(145,177)
Assets held for sale	(5,115)	(3,200)
Other assets	(2,731)	(2,046)
Increase/(decrease) in operating liabilities:		
Amounts due to customers	(32,855)	53,551
Amounts due to credit institutions	1,561	91,074
Financial liabilities at fair value through profit or loss	2,755	(185)
Other liabilities	156	4,582
Cash inflow from operating activities before income tax	4,114	61,578
Income tax paid	(16,222)	(17,284)
Net cash (outflow)/inflow from operating activities	(12,108)	44,294
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase and prepayments for property and equipment and intangible assets	(14,436)	(4,838)
Proceeds on sale of property and equipment	1,532	1,495
Proceeds on sale of available-for-sale investment securities	129,843	87,073
Purchase of available-for-sale investment securities	(144,310)	(80,915)
Proceeds from maturity of investments held to maturity	-	5
Investments to share capital of subsidiaries	(28,016)	-
Dividends received from subsidiaries	20,842	24,532
Net cash (outflow)/inflow from investing activities	(34,545)	27,352

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

(Millions of Kazakhstani Tenge)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
CASH FLOWS FROM FINANCING ACTIVITIES:			
Purchase of treasury shares		(1,462)	-
Dividends paid – preferred shares		(1,799)	(2,241)
Dividends paid – common shares		(18,549)	(12,221)
Proceeds on debt securities issued		89,602	-
Redemption and repayment of debt securities issued		(4,075)	(116,136)
Net cash inflow/(outflow) from financing activities		63,717	(130,598)
Effect of changes in foreign exchange rate on cash and cash equivalents		(37,321)	10,733
Net change in cash and cash equivalents		(20,257)	48,219
CASH AND CASH EQUIVALENTS, beginning of the year	5	477,741	525,960
CASH AND CASH EQUIVALENTS, end of the year	5	457,484	477,741

On behalf of the Management Board:

Umut B. Shayakhmetova	**Pavel A. Cheussov**
Chairperson of the Board	**Chief Accountant**
18 March 2015	18 March 2015
Almaty, Kazakhstan	Almaty, Kazakhstan

The notes on pages 11 to 82 form an integral part of these separate financial statements.

1. PRINCIPAL ACTIVITIES

JSC Halyk Bank (the "Bank") provides retail and corporate banking 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 (hereinafter – "NBRK") on 6 August 2008. The Bank is a member of the obligatory deposit insurance system provided by JSC Kazakhstan Fund for Deposits Guarantee.

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.

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 declined significantly during 2014. Management is unable to reliably estimate the effects of any further price fluctuations on the Bank's financial position.

Legal proceedings

From time to time and in the normal course of business, claims against the Bank 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 separate financial statements.

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 has also allocated Global Depository Receipts ("GDRs") through a listing 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 KZT 26,951 million and 196,232,499 non-convertible preferred shares of the Bank for KZT 33,049 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 KZT 126.8 per share for KZT 12,867 million and immediately exercised the option and repurchased 213,000,000 of its own common shares from Samruk-Kazyna for KZT 27,008 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 KZT 179.94 per share for KZT 7,114 million. In June 2012 the Bank partially exercised the option and repurchased 150,000,000 of its own preferred shares from Samruk-Kazyna for KZT 26,991 million.

On 5 July 2012, the Bank repurchased 40,000,000 of its own preferred shares from Samruk-Kazyna at a price of KZT 180.21 per share for KZT 7,208 million. As a result, the Bank has recorded KZT 41,054 million as a cost of acquired treasury shares. 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 KZT 200.28 per share for KZT 1,248 million. As a result, the Bank has recorded KZT 42,515 million as a cost of acquired treasury (see Note 22). After the repurchase, Samruk-Kazyna continues owning 100 preferred shares of the Bank.

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

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

31 December 2014	Total shares owned	Stake in total shares in circulation	Common shares owned	Stake in common shares in circulation	Convertible and non-convertible preferred shares owned	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%	-	-
JSC Single Accumulation Pension Fund *	869,738,261	7.8%	710,233,299	6.5%	159,504,962	82.28%
GDR	1,848,929,480	16.6%	1,848,929,480	16.9%	-	-
Other	362,192,034	3.3%	348,612,311	3.2%	34,347,291	17.72%
Total shares in circulation (on unconsolidated basis)	**11,105,008,843**	**100.0%**	**10,911,156,590**	**100.0%**	**193,852,253**	**100%**

31 December 2013	Total shares owned	Stake in total shares in circulation	Common shares owned	Stake in common shares in circulation	Convertible and non-convertible preferred shares owned	Stake in convertible and non-convertible preferred shares in circulation
JSC HG Almex	8,024,149,068	72.2%	8,003,381,500	73.3%	-	-
JSC Accumulation Pension Fund of Halyk Bank of Kazakhstan **	758,082,743	6.8%	661,367,710	6.1%	96,715,033	48.3%
GDR	2,095,109,040	18.9%	2,095,109,040	19.2%	-	-
Other	233,968,791	2.1%	151,366,740	1.4%	103,369,619	51.7%
Total shares in circulation (on unconsolidated basis)	**11,111,309,642**	**100.0%**	**10,911,224,990**	**100.0%**	**200,084,652**	**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 regulator. 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 shares that were purchased on clients' funds and are owned by the clients.

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

Number of employees of the Bank as at 31 December 2014 was 8,557 full-time equivalent employees (31 December 2013 – 8,347).

The separate financial statements of the Bank for the year ended 31 December 2014 were authorised for issue by the Management Board on 18 March 2015.

2. BASIS OF PRESENTATION

Accounting basis

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

These separate financial statements are the separate financial statements of JSC Halyk Bank. The subsidiaries are not consolidated in these separate financial statements. Investments in subsidiaries were accounted for at cost. These separate financial statements should be read in conjunction with the consolidated financial statements which were authorized for the issue by Management Board of the Bank on 13 March 2015.

The consolidated financial statements that comply with IFRS have been produced for public use by JSC Halyk Bank, the entity incorporated under the laws of the Republic of Kazakhstan. The consolidated financial statements are available at the head office of JSC Halyk Bank, registered at the following address: 109V Abai avenue, Almaty, 050008, the Republic of Kazakhstan.

These separate financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future.

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

The separate financial statements have been prepared under the historical cost convention except for certain financial instruments that are accounted for at fair value and certain property and equipment which are carried at revalued cost less depreciation and impairment as described 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 Bank 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 separate 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 Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 30.

Functional currency

Items included in the separate financial statements are measured using the currency of the primary of the economic environment in which the Bank operates ("the functional currency"). The functional currency of the Bank is KZT. The presentation currency of the separate financial statements is KZT.

3. SIGNIFICANT ACCOUNTING POLICIES

Investments in subsidiaries

A subsidiary is an entity, including an unincorporated entity such as a partnership that is controlled by the Bank. Investments in subsidiaries are recorded in these separate financial statements at cost less impairment loss, if any.

Investments in associates

An associate is an entity over which the Bank 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 separate financial statements using the equity method of accounting.

Investments in associates are carried in the statement of financial position at cost as adjusted for goodwill and for post-acquisition changes in the Bank'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 Bank's interest in those associates are not recognized unless the Bank has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Bank'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 the parent company transacts with an associate of the Bank, unrealised profits and losses are eliminated to the extent of the Bank'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 NBRK 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 NBRK and cash which are not available to finance the Bank's day to day operations and, hence, are not considered as part of cash and cash equivalents for the purpose of the 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 Bank 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 Bank recognizes financial assets and liabilities on its 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 Bank 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 Bank determines the classification of its financial assets upon 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 Bank 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 Bank'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 Instruments: 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 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 Bank 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 statement of financial position.

Collateral

The Bank 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 Bank a claim on these assets for both existing and future customer liabilities.

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 statement of profit or loss. However, interest calculated using the effective interest method and foreign exchange movements for debt securities are recognized in the statement of profit or loss. Dividends declared are included in "Other income" in the statement of profit or loss. 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.

Repurchase and reverse repurchase agreements and securities lending

The Bank 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 Bank as an element of its treasury management.

Repos are treated as secured financing transactions. Securities sold under repos are retained in the 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 statement of financial position. Securities borrowed are not recorded in the 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 statement of profit or loss. The obligation to return securities borrowed is recorded at fair value as a trading liability.

The Bank 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.

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.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the 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 Bank does not offset the transferred asset and the associated liability. Income and expense is not offset in the statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Derivative financial instruments

In the normal course of business, the Bank 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 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 statement of profit or loss.

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 statement of profit or loss. 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 Bank to the risks associated with the absence of an exchange market on which to close out an open position. Additionally, derivative instruments expose the Bank to counterparty non-performance risk. Certain instruments also pose liquidity risk due to absence of net-settlement provisions between counterparties.

Forwards

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future and are customised contracts transacted in the over-the-counter market. The Bank 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 Bank with other financial institutions in which the Bank 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 Bank pays a specified amount in one currency and receives a specified amount in another currency. The Bank'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 Bank purchases and sells options through regulated exchanges and in the over-the-counter markets. Options purchased by the Bank provide the Bank 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 Bank 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 Bank provide the purchaser the opportunity to purchase from or sell to the Bank the underlying asset at an agreed-upon value either on or before the expiration of the option.

The Bank's exposure under derivative contracts is closely monitored as part of the overall management of the Bank's market, credit, and liquidity risks (see also Note 30).

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 statement of profit or loss over the period of the borrowings using the effective interest method.

Debt securities issued

Debt securities issued represent bonds issued by the Bank, 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 statement of profit or loss over the period of the borrowings using the effective interest method.

Allowances for impairment of financial assets

The Bank 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 statement of profit or loss.

The factors the Bank 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 Bank'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 statement of profit or loss, 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 Bank 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 Bank 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 Bank, and after the Bank 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 statement of profit or loss.

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, 19 and 30.

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 income statement, is transferred from equity to the income statement. In respect to AFS equity securities, impairment losses previously recognized in the income statement are not reversed through the 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 Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. 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.

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

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Bank 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 Bank 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 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 Bank assesses whether or not is has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Bank 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 Bank, the Bank 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 statement of profit or loss.

Taxation

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

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

- The Bank 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 has various operating taxes that are assessed on the Bank'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 construction 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 construction	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 construction held for use in supply of services, or for administrative purposes, are stated in the 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 construction 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 statement of profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings and construction 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 construction is charged to the statement of profit or loss. 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 Bank'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 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.

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

	Years
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 statement of profit or loss 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.

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. Recorded amounts as at the statement of financial position date represent the Bank's best estimate of the expenditure required to settle the liability. The expense relating to any provision is presented in the statement of profit or loss net of any recoveries.

Retirement and other benefit obligations

The Bank does not have any pension arrangements from the state pension system of Kazakhstan, 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 statement of profit or loss. The Bank contributes social tax to the budget of Kazakhstan for its employees. In addition, the Bank has no post-retirement benefits.

Equity

The Bank 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 Bank after the deduction of liabilities. The components of a compound financial instrument issued by the Bank 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 Bank 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 Bank 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

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 separate financial statements are authorized for issue.

Equity reserves

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

- Available-for-sale reserve which comprises changes in fair value of available-for-sale investment securities;
- Property revaluation reserve which comprises revaluation reserve of land and building.

Contingencies

Contingent liabilities are not recognized in the 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 statement of financial position but disclosed when an inflow of economic benefits is probable.

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 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 separate financial statements are presented in KZT, which is the functional currency of the Bank. 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 statement of profit or loss 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.

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 KZT 182.35 to USD 1 (31 December 2013 – KZT 153.61).

Segment reporting

A segment is a distinguishable component of the Bank 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 Bank 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 separate 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 Bank's separate financial statements as the Bank 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 separate financial statements as the Bank 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.

There is no effect of these amendments on these separate financial statements

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 separate financial statements as the Bank 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 separate financial statements.

The Bank 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 Bank 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 Bank's management does not expect any impact of these amendments on the separate financial statements as the Bank'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 Bank 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 Bank anticipates that the application of IFRS 9 in the future will have a significant impact on amounts reported in respect of the Bank'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 Bank does not anticipate that the application of these amendments will have a significant effect on the separate 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 Bank does not anticipate that the application of these amendments will have a significant effect on the separate 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 not be considered changes to a plan of sale or a plan of distribution to owners and that the classification, presentation and measurement requirements applicable to the new method of disposal should be applied. In addition, amendments clarify that assets that no longer 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 Bank does not anticipate that the application of these amendments will have a significant effect on the separate financial statements.

4. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Bank's separate financial statements requires management to make estimates and judgments that affect the reported amount of assets and liabilities at the date of the separate 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 Bank's financial condition.

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess for impairment. The Bank's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank 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 Bank's estimated losses and actual losses will require the Bank to make provisions which, if significantly different, could have a material impact on its future statement of profit or loss and its statement of financial position.

The Bank 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 Bank 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 separate financial statements have been determined on the basis of existing economic and political conditions. The Bank 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 280,433 million (31 December 2013 is KZT 321,309 million).

Valuation of financial instruments

As described in Note 33, the Bank 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 33 provide detailed information about the key assumptions used in the determination of the fair value of financial instruments. The Bank 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 12.

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 Bank 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 proceeding the year of review.

As at 31 December 2014, Management believes that its interpretation of the relevant legislation is appropriate and that the Bank'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 Bank's reported net income.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	31 December 2014	31 December 2013
Cash on hand	125,776	79,905
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	74,872	90,684
Overnight deposits with OECD based banks	31,000	59,122
Short-term deposits with OECD based banks	14,594	135,253
Correspondent accounts with NBRK	204,273	79,870
Short-term deposits with Kazakhstan banks	63	26,306
Correspondent accounts with non-OECD based banks	6,632	4,579
Short-term deposits with non-OECD based banks	274	2,022
	457,484	477,741

Interest rates and currencies in which interest earning cash and cash equivalents are denominated are presented as follows:

	31 December 2014		31 December 2013	
	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%
Short-term deposits with Kazakhstan banks	-	19.0%	-	2.0%-6.0%
Short-term deposits with non-OECD based bank	-	0.7%	-	1.0%-10.0%

Fair value of assets pledged and carrying amounts of loans under reverse repurchase agreements as at 31 December 2014 and 2013, are presented as follows:

	31 December 2014		31 December 2013	
	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	-	-	26,306	42,599
	-	-	26,306	42,599

6. OBLIGATORY RESERVES

Obligatory reserves comprise:

	31 December 2014	31 December 2013
Recorded as loans and receivables in accordance with IAS 39:		
Due from the NBRK allocated to obligatory reserves	43,761	43,692
	43,761	43,692

The obligatory reserves represent the minimum reserve deposits and cash on hand balances required by the NBRK and used for calculation of the minimum reserve requirement.

7. 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
Financial assets held for trading:		
Derivative financial instruments	11,872	334
Equity securities of Kazakhstan banks	49	61
	11,921	395

Financial liabilities at fair value through profit or loss comprise:

	31 December 2014	31 December 2013
Financial liabilities held for trading:		
Derivative financial instruments	2,826	69

Derivative financial instruments comprise:

	31 December 2014			31 December 2013		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Foreign currency contracts						
Swaps	298,033	9,318	2,215	53,401	120	69
Forwards	55,610	2,554	611	15,116	18	-
Options	-	-	-	1,212	196	-
		11,872	2,826		334	69

As at 31 December 2014 and 2013, the Bank used quoted market prices from independent information sources for all of its financial assets recorded at fair value through profit or loss, with the exception of derivative financial instruments, which are valued using valuation models based on observable market data.

During 2014 the Bank concluded swaps and non-deliverable forwards with the NBRK under the NBRK arrangements on tenge liquidity.

8. AMOUNTS DUE FROM CREDIT INSTITUTIONS

Amounts due from credit institutions comprise:

	31 December 2014	31 December 2013
Recorded as loans and receivables in accordance with IAS 39:		
Term deposits	19,989	5,368
Loans to credit institutions	14,303	23,585
Deposit pledged as collateral for derivative financial instruments	2,666	2,781
	36,958	31,734
Less - Allowance for loan impairment (Note 19)	-	(5)
	36,958	31,729

Interest rates and maturities of amounts due from credit institutions are presented as follows:

	31 December 2014		31 December 2013	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Term deposits	1.0%-9.0%	2015-2017	7%-10%	2014-2018
Loans to credit institutions	8.2%	2017	2.8%-17.0%	2020
Deposit pledged as collateral for derivative financial instruments	0.2%-1.8%	2015	0.2%-1.8%	2014

9. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

Available-for-sale investment securities comprise:

	31 December 2014	31 December 2013
Treasury bills of the Ministry of Finance of Republic of Kazakhstan	144,366	93,284
Corporate bonds	89,364	60,382
Bonds of foreign organizations	43,498	65,529
Bonds of JSC Development Bank of Kazakhstan	18,209	19,363
Treasury Bills of Republic of Poland	17,536	14,767
Treasury bills of the Russian Federation	6,266	27,474
Local municipal bonds	3,913	4,019
	323,152	284,818

As at 31 December 2014 and 2013, investments available-for-sale included NBRK notes and Treasury bills of the Ministry of Finance of Republic of Kazakhstan of KZT 12,575 million and KZT 73,057 million, respectively, were pledged under repurchase agreements with the other banks (Note 17).

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	
	Interest rate, %	Maturity, year	Interest rate, %	Maturity, year
Treasury bills of the Ministry of Finance of Kazakhstan	5.3%	2015-2027	4.9%	2014-2027
Corporate bonds	6.6%	2015-2023	6.3%	2014-2020
Bonds of foreign organizations	3.9%	2015-2020	3.6%	2014-2020
Bonds of JSC Development Bank of Kazakhstan	4.9%	2022-2026	4.9%	2015-2026
Treasury bills of Republic of Poland	2.2%	2019	-	-
Treasury bills of the Russian Federation	2.1%	2018	2.5%	2015-2018
Local municipal bonds	4.9%	2015	4.9%	2015

10. INVESTMENTS IN SUBSIDIARIES

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

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

***On 28 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 the Subsidiary Bank in the amount of 70,500 shares. State registration was made on 27 November 2014 as JSC Altyn Bank.

Subsidiaries	31 December 2014	31 December 2013
JSC Altyn Bank	30,968	-
JSC Halyk Finance	11,240	11,240
JSC Kazakhinstrakh	10,668	10,592
JSC Halyk Leasing	9,258	9,231
JSC Accumulated Pension fund of Halyk Bank of Kazakhstan	7,312	11,105
JSC NBK Bank	5,095	5,095
JSC Halyk Bank Georgia	4,050	4,050
LLC Halyk Project*	2,065	2,455
JSC Halyk Life	3,082	2,065
OJSC Halyk Bank Kyrgyzstan	1,334	1,334
LLP Halyk Inkassaciya	670	569
JSC Kazteleport	578	556
HSBK (Europe) B.V.	-	12
	86,320	58,304

*During the year ended 31 December 2014 the Bank provided loans to LLC Halyk Project at the interest rate of 0.2%. At the same time the Bank sold its bad debts to Halyk Project. The summarized effect at initial recognition date was recognised as capital distribution to LLC Halyk Project.

11. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2014	31 December 2013
Recorded as loans and receivables in accordance with IAS 39:		
Originated loans to customers	1,857,223	1,778,629
Overdrafts	676	2,048
	1,857,899	1,780,677
Less – Allowance for loan impairment losses (Note 19)	(280,433)	(321,309)
Loans to customers	1,577,466	1,459,368

Average interest rate on loans to customers is calculated as interest income from loans to customers divided by 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 – 11.6%).

As at 31 December 2014, the Bank had a concentration of loans of KZT 356,266 million to the ten largest borrowers that comprised 19% of the Bank's total gross loan portfolio (31 December 2013 – KZT 367,782 million, 21%) and 78% of the Bank's total equity (31 December 2013 – 101%).

As at 31 December 2014, an allowance for impairment amounting to KZT 58,214 million was made against these loans (31 December 2013 – KZT 51,189 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
Loans collateralized by pledge of real estate or rights thereon	698,204	698,918
Loans collateralized by guarantees	408,401	374,656
Consumer loans issued within the framework of payroll projects	330,158	273,248
Loans collateralized by cash	174,459	123,572
Loans collateralized by pledge of corporate shares	109,233	117,658
Loans collateralized by pledge of inventories	50,170	30,343
Loans collateralized by pledge of vehicles	27,596	24,009
Loans collateralized by pledge of equipment	7,712	13,086
Loans collateralized by mixed types of collateral	2,151	58,762
Loans collateralized by pledge of agricultural products	1,502	26,458
Unsecured loans	48,313	39,967
	1,857,899	1,780,677
Less - Allowance for loan impairment losses (Note 19)	(280,433)	(321,309)
Total loans to customers	1,577,466	1,459,368

Loans are granted to the following sectors:

	31 December 2014	%	31 December 2013	%
Retail loans:				
- consumer loans	334,894	18%	289,308	16%
- mortgage loans	117,995	6%	104,513	6%
	452,889		393,821	
Wholesale trade	368,737	20%	337,240	19%
Services	229,150	12%	233,049	13%
Construction	149,173	8%	159,653	9%
Real estate	127,788	7%	134,931	8%
Retail trade	111,608	6%	116,179	7%
Agriculture	103,420	5%	84,614	5%
Transportation	64,038	3%	38,903	2%
Financial services	60,146	4%	96,628	5%
Mining	39,625	2%	37,920	2%
Hotel industry	28,583	2%	30,759	2%
Food industry	26,280	1%	38,049	2%
Communication	25,582	2%	249	0%
Metallurgy	21,952	1%	31,284	2%
Chemical industry	8,775	1%	10,586	1%
Oil and gas	8,229	1%	5,824	0%
Energy	5,938	0%	3,392	0%
Light industry	4,163	0%	4,495	0%
Machinery	3,834	0%	7,681	0%
Other	17,989	1%	15,420	1%
	1,857,899	100%	1,780,677	100%

As at 31 December 2014, the amount of accrued interest on loans comprised KZT 102,420 million (31 December 2013 – KZT 113,472 million).

During the years ended 31 December 2014 and 2013 the Bank received financial and non-financial assets by taking possession of collateral it held as security. As at 31 December 2014 and 2013 such assets in amount of KZT 8,029 million and KZT 2,728 million, respectively, are included in assets held for sale.

As at 31 December 2014 and 2013 loans to customers included loans amounted to KZT 169 million and KZT 124 million, respectively, whose terms were renegotiated.

12. 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	42,285	877	20,889	980	11,286	76,317
Additions	750	89	2,665	13,662	484	17,650
Disposals	(1,095)	(133)	(2,334)	(391)	(327)	(4,280)
Write-off at revaluation	(1,251)	-	-	-	-	(1,251)
Revaluation	4,953	-	-	-	-	4,953
Impairment	(423)	-	-	-	-	(423)
Transfers	1,656	-	114	(1,656)	(114)	-
31 December 2014	46,875	833	21,334	12,595	11,329	92,966
Accumulated depreciation:						
31 December 2013	692	418	16,358	-	6,808	24,276
Charge for the year	635	142	1,149	-	1,036	2,962
Disposals	(16)	(131)	(2,294)	-	(307)	(2,748)
Write-off at revaluation	(1,251)	-	-	-	-	(1,251)
Transfer	-	-	338	-	(338)	-
31 December 2014	60	429	15,551	-	7,199	23,239
Net book value:						
31 December 2014	46,815	404	5,783	12,595	4,130	69,727

	Buildings and construction	Vehicles	Computers and banking equipment	Construction in progress	Other	Total
Revalued/initial cost:						
31 December 2012	41,462	886	20,119	685	10,901	74,053
Additions	129	89	1,208	309	2,019	3,754
Disposals	(405)	(98)	(473)	(14)	(500)	(1,490)
Transfers	1,099	-	35	-	(1,134)	-
31 December 2013	42,285	877	20,889	980	11,286	76,317
Accumulated depreciation:						
31 December 2012	67	385	14,913	-	5,655	21,020
Charge for the year	637	130	1,892	-	1,433	4,092
Disposals	(12)	(97)	(459)	-	(268)	(836)
Transfers	-	-	12	-	(12)	-
31 December 2013	692	418	16,358	-	6,808	24,276
Net book value:						
31 December 2013	41,593	459	4,531	980	4,478	52,041

The Bank'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 Bank may opt to perform revaluations more regularly.

The Bank revalued its buildings and construction in 2014 by an independent appraiser, Business Partner 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 Bank's buildings and construction, are categorized into Level 2 and Level 3, in amount of KZT 46,735 million and KZT 80 million, respectively (description of measurement hierarchy is disclosed in Note 2).

As at 31 December 2014 total amount of fair value of buildings and construction was KZT 46,815 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 KZT 44,096 million.

13. INTANGIBLE ASSETS

	Software	Licensing agreements on the rights to use software	Other	Total
Cost:				
31 December 2012	9,690	814	359	10,863
Additions	649	536	90	1,275
Disposals	(819)	(37)	(348)	(1,204)
31 December 2013	9,520	1,313	101	10,934
Additions	366	526	222	1,114
Disposals	(89)	-	(177)	(266)
31 December 2014	9,797	1,839	146	11,782
Accumulated depreciation				
31 December 2012	5,663	152	1	5,816
Additions	667	136	-	803
Disposals	(812)	(11)	-	(823)
31 December 2013	5,518	277	1	5,796
Additions	833	220	-	1,053
Disposals	(73)	-	-	(73)
31 December 2014	6,278	497	1	6,776
Net Book Value				
31 December 2013	4,002	1,036	100	5,138
31 December 2014	3,519	1,342	145	5,006

14. ASSETS HELD FOR SALE

During 2010 and 2009, after the default of certain counterparties on loans to customers, the Bank 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 November 2014 the Bank performed an independent valuation of its assets held for sale and based on the results the Bank has recognized an impairment loss of KZT 102 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 and 2013, the fair value measurement of the Bank's assets held for sale is categorized into Level 2 in amount of KZT 8,202 million and KZT 3,288 million, respectively, and into Level 3 KZT 110 million and KZT 11 million, respectively (description of measurement hierarchy is disclosed in Note 2).

15. OTHER ASSETS

Other assets comprise:

	31 December 2014	31 December 2013
Other financial assets recorded as loans and receivables in accordance with IAS 39:		
Debtors on banking activities	6,841	6,289
Accrued other commission income	777	758
Debtors on non-banking activities	360	286
Other	4	1
	7,982	7,334
Less - Allowance for impairment (Note 19)	(4,229)	(5,006)
	3,753	2,328
Other non financial assets:		
Receivables	4,037	3,276
Prepayments for property and equipment	1,836	1,005
Inventory	863	618
Advances for taxes other than income tax	554	529
Other	946	711
	8,236	6,139
Less - Allowance for impairment	-	-
	8,236	6,139
	11,989	8,467

16. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers include the following:

	31 December 2014	31 December 2013
Recorded at amortized cost:		
Term deposits:		
Individuals	753,595	642,359
Legal entities	372,364	557,523
	1,125,959	1,199,882
Current accounts:		
Legal entities	453,939	398,932
Individuals	156,497	164,678
	610,436	563,610
	1,736,395	1,763,492

As at 31 December 2014, the Bank's ten largest groups of related customers accounted for approximately 23% of the total amounts due to customers (31 December 2013 – 32%), 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 Bank 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	%
Individuals and entrepreneurs	910,092	52%	807,037	46%
Oil and gas	296,982	17%	306,889	17%
Transportation	100,969	6%	80,250	4%
Wholesale trade	64,759	4%	81,944	5%
Construction	63,303	4%	68,896	4%
Other consumer services	63,288	4%	148,198	8%
Financial services	41,327	2%	52,578	3%
Metallurgy	26,276	2%	13,947	1%
Government	24,840	1%	36,686	2%
Insurance and pension funds activity	22,284	1%	31,175	2%
Energy	13,960	1%	9,715	1%
Education	13,904	1%	17,328	1%
Healthcare and social services	13,654	1%	7,723	0%
Communication	5,469	0%	11,376	1%
Other	75,288	4%	89,750	5%
	1,736,395	100%	1,763,492	100%

17. AMOUNTS DUE TO CREDIT INSTITUTIONS

Amounts due to credit institutions comprise:

	31 December 2014	31 December 2013
Recorded at amortized cost:		
Loans from JSC National Managing Holding KazAgro	47,846	-
Loans and deposits from Kazakhstan banks	25,459	81,578
Loans from JSC Entrepreneurship Development Fund DAMU	21,127	-
Loans and deposits from OECD based banks	3,963	3,831
Correspondent accounts	3,319	2,753
Loans from other financial institutions	262	1,007
Overnight deposits	-	8,611
Loans and deposits from non-OECD based banks	-	6,933
	101,976	104,814

As at 31 December 2014, loans from JSC National Managing Holding KazAgro ("KazAgro") included a long-term loan in the amount of KZT 47,846 million at 3.0% p.a. 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% p.a. 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% p.a. 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 Bank, the Bank is responsible to extend loans to SME borrowers, eligible to participate in the Program, up to 10 years at 6.0% p.a. interest rate.

The Management of the Bank 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	
	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
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
Loans from other financial institutions	4.8%-5.9%	2015-2016	2.6%-5.9%	2014-2018
Overnight deposits	-	-	0.5%-3.5%	2014
Loans and deposits from non-OECD based banks	-	-	0.6%	2014

Fair value of assets pledged (Note 9) and carrying value of loans included in loans and deposits from Kazakhstan banks under repurchase agreements as at 31 December 2014 and 2013, are presented as follows:

	31 December 2014		31 December 2013	
	Fair value of collateral	**Carrying value of loans**	**Fair value of collateral**	**Carrying value of loans**
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	12,575	12,017	73,057	67,754
	12,575	12,017	73,057	67,754

Details of transferred financial assets that are not derecognised in their entirety as at 31 December 2014 and 2013 are disclosed below:

	Investments available-for-sale (Note 9)
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	73,057
Carrying amount of associated liabilities	67,754

In accordance with the contractual terms of the loans from certain OECD based banks, the Bank is required to maintain certain financial ratios, particularly with regard to capital adequacy. Certain of the Bank's outstanding financing agreements include covenants restricting the Bank's ability to create security interests over its assets. Should the Bank default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Bank's other financing arrangements.

The Bank's management believes that as at 31 December 2014 and 2013, the Bank was in compliance with the covenants of the agreements the Bank has with the trustees and holders of the notes.

18. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	31 December 2014	31 December 2013
Recorded at amortized cost:		
Subordinated debt securities issued:		
Reverse inflation indexed KZT denominated bonds	8,554	8,554
Inflation indexed KZT denominated bonds	8,019	4,053
Fixed rate KZT denominated bonds	4,063	11,961
Total subordinated debt securities outstanding	20,636	24,568
Unsubordinated debt securities issued:		
USD denominated bonds	196,105	165,435
KZT denominated bonds	95,545	-
Total unsubordinated debt securities outstanding	291,650	165,435
Total debt securities outstanding	312,286	190,003

On 18 November 2014, the Bank has placed KZT 100 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	
	Coupon rate, %	Maturity, year	Coupon rate, %	Maturity, year
Subordinated debt securities issued:				
Reverse inflation indexed KZT denominated bonds	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
Fixed rate KZT denominated bonds	7.5%-13.0%	2015-2018	7.5%-13.0%	2014-2018
Unsubordinated debt securities issued:				
USD denominated bonds	7.3%	2017-2021	7.3%	2017-2021
KZT denominated bonds	7.5%	2024		

As at 31 December 2014 the amount of accrued interest on debt securities issued was KZT 4,829 million (as at 31 December 2013 – KZT 3,321 million).

Subordinated securities are unsecured obligations of the Bank and are subordinated in right of payments to all present and future senior indebtedness and certain other obligations of the Bank. 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 Bank 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 Bank's ability to create security interests over its assets. Should the Bank default under these covenants, this could result in cross-accelerations and cross-defaults under the terms of the Bank's other financing arrangements. The Bank's management believes that as at 31 December 2014 and 2013, the Bank was in compliance with the covenants of the agreements the Bank has with the trustees and holders of the notes.

19. 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 11)	Amounts due from credit institutions (Note 8)	Other assets (Note 15)	Total
31 December 2012	(299,496)	(2)	(2,244)	(301,742)
Additional provisions recognized	(22,420)	(3)	(2,948)	(25,371)
Write-offs	2,923	-	154	3,077
Foreign exchange differences	(2,316)	-	32	(2,284)
31 December 2013	(321,309)	(5)	(5,006)	(326,320)
(Additional provisions recognized)/recoveries	(6,274)	-	617	(5,657)
Write-offs	73,028	-	119	73,147
Foreign exchange differences	(25,878)	5	41	(25,832)
31 December 2014	(280,433)	-	(4,229)	(284,662)

During the year ended 31 December 2014, the Bank has written off loans in the amount of KZT 73,147 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
At the beginning of the year	(4,151)	(4,363)
Provisions	(27)	(5,482)
Recoveries of provisions	4,100	5,682
Foreign exchange differences	78	12
At the end of the year	-	(4,151)

20. TAXATION

The Bank is subject to income tax in Kazakhstan.

The income tax expense comprises:

	Year ended 31 December 2014	Year ended 31 December 2013
Current tax charge	16,467	17,358
Deferred income tax expense/(benefit) relating to origination and reversal of temporary differences	3,911	(3,503)
Adjustments recognised in the current period for deferred tax of prior periods	2,788	-
Income tax expense	23,166	13,855

During the year ended 31 December 2014, due to the changes in the Tax Code related to the deduction of accrued interest expense, the Bank adjusted its deferred tax assets correspondingly.

The tax rate for Kazakhstan companies was 20% during the years ended 31 December 2014 and 2013. Income on state and other qualifying securities is tax exempt.

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
Income before income tax expense	142,562	98,761
Statutory tax rate	20%	20%
Income tax expense at the statutory rate	28,512	19,752
Tax-exempt interest income and other related income on state and other qualifying securities	(2,271)	(2,256)
Tax-exempt income on dividends	(4,168)	(4,906)
Non-deductible expenditures:		
- general and administrative expenses	150	131
- other provisions	123	-
- charity	114	112
Other	706	1,022
Income tax expense	23,166	13,855

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.

Deferred tax assets and liabilities comprise:

	31 December 2014	31 December 2013
Tax effect of deductible temporary differences:		
Bonuses accrued	1,219	822
Vacation pay accrual	206	163
Fair value of derivatives	123	72
Interest accrued, but not paid	-	2,788
Deferred tax asset	1,548	3,845
Tax effect of taxable temporary differences:		
Property and equipment, accrued depreciation	(5,785)	(4,695)
Dynamic provisions	(3,804)	(3,077)
Fair value of derivatives and investments available-for-sale	(387)	(19)
Other	(1,587)	(238)
Deferred tax liability	(11,563)	(8,029)
Net deferred tax liability	(10,015)	(4,184)

Kazakhstan currently has 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 Republic of Kazakhstan, 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 Bank's business activities, was to be challenged by the tax authorities, the Bank 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 Bank believes that it has accrued all tax amounts due and therefore no allowance has been made in the separate financial statements.

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 Bank 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
Net deferred tax liability at the beginning of the year	4,184	7,687
Tax expenses/(benefit) relating to origination and reversal of temporary differences	3,911	(3,503)
Adjustments recognised in the current period for deferred tax of prior periods	2,788	-
Credited to other comprehensive income at the date of property and equipment revaluation	(868)	-
Net deferred tax liability at the end of the year	10,015	4,184

21. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2014	31 December 2013
Other financial liabilities:		
Salary payable	6,579	4,568
Creditors on non-banking activities	685	504
Payable for general and administrative expenses	408	602
Creditors on banking activities	54	555
Other	82	239
	7,808	6,468
Other non financial liabilities:		
Current income tax payable	2,429	2,184
Taxes payable other than income tax	816	824
Other prepayments received	772	139
	4,017	3,147
	11,825	9,615

22. EQUITY

Authorized, issued and fully paid number of shares as at 31 December 2014 and 2013, 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	(217,361,861)	10,911,156,590
Non-convertible preferred	600,000,000	(290,140,570)	309,859,430	(196,232,399)	113,627,031
Convertible preferred	80,225,222	-	80,225,222	-	80,225,222

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	(217,293,461)	10,911,224,990
Non-convertible preferred	600,000,000	(290,140,570)	309,859,430	(190,000,000)	119,859,430
Convertible preferred	80,225,222	-	80,225,222	-	80,225,222

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 2012	10,911,224,990	119,859,430	80,225,222	43,709	9,440	13,237
Purchase of treasury shares	-	-	-	-	-	-
Other purchases of treasury shares	-	-	-	-	-	-
31 December 2013	10,911,224,990	119,859,430	80,225,222	43,709	9,440	13,237
Purchase of treasury shares	(68,400)	(6,232,399)	-	-	(1,460)	-
Sale of treasury shares	-	-	-	-	-	-
31 December 2014	10,911,156,590	113,627,031	80,225,222	43,709	7,980	13,237

Common shares

At 31 December 2014, the Bank held 217,361,861 of the common shares as treasury shares at KZT 39,918 million (31 December 2013 – 217,293,461 at KZT 39,918 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. On a return of capital on liquidation, the assets of the Bank available for distribution are applied in priority to any payment to the holders of common shares in paying to the holders of the Preferred Shares an amount equal to the nominal capital paid up or credited as paid up.

The terms of the Preferred Shares require that the Bank 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 Bank's profitability. Where the Bank 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 NBRK 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 NBRK plus one per cent. Inflation in either calculation will range between three and nine per cent. Dividends on the Preferred Shares are only paid if declared and approved by the Board of Directors at the Annual General Meeting of the Shareholders. 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**
Dividend paid per one preferred share, (convertible and non-convertible), tenge	9.28	11.20
Dividend paid per one common share, tenge	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 Bank 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 such that, at the date of conversion, if the value of the common shares received by the preferred shareholder is less than KZT 160 per share, the Bank will reimburse the preferred shareholders for the difference in cash at the time of conversion.

Retained earnings

Due to amendments to Legal act of the NBRK in 2013, the Bank ceased accruing impairment provisions in accordance with the requirements of the Regulator and formed 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 NBRK. As at 31 December 2014, dynamic reserves amounted to KZT 19,568 million and were included into the Retained earnings on the statement of financial position.

23. COMMITMENTS AND CONTINGENCIES

Financial commitments and contingencies

The Bank's financial commitments and contingencies comprised the following:

	31 December 2014	31 December 2013
Guarantees issued	139,629	155,572
Commitments to extend credit	13,212	11,885
Commercial letters of credit	4,842	12,092
Financial commitments and contingencies	157,683	179,549
Less: cash collateral against letters of credit	(1,908)	(6,249)
Less: provisions (Note 19)	-	(4,151)
Financial commitments and contingencies, net	155,775	169,149

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 85% of the Bank's total financial guarantees (31 December 2013 – 84%) and represented 26% of the Bank's total equity (31 December 2013 – 41%).

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 100% of the Bank's total commercial letters of credit (31 December 2013 – 48%) and represented 1% of the Bank's total equity (31 December 2013 – 2%).

The Bank requires collateral to support credit-related financial instruments when it is deemed necessary. The Bank 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 Bank. Collateral held varies, but may include deposits held in the banks, government securities and other assets.

Capital commitments

The Bank had no material commitments for capital expenditures outstanding as of 31 December 2014 and 2013.

Operating lease commitments

There was no material operating lease commitments under non-cancellable operating leases outstanding as of 31 December 2014 and 2013.

24. NET INTEREST INCOME

	Year ended 31 December 2014	Year ended 31 December 2013
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on unimpaired assets	98,885	73,380
- interest income on impaired assets	87,072	87,438
Interest income on available-for-sale investment securities	14,190	12,928
Total interest income	200,147	173,746
Interest income on loans to customers	181,946	157,859
Interest income on cash and cash equivalents and amounts due from credit institutions	4,011	2,959
Total interest income on financial assets recorded at amortized cost	185,957	160,818
Interest income on available-for-sale investment securities	14,190	12,928
Total interest income	200,147	173,746
Interest expense comprises:		
Interest expense on financial liabilities recorded at amortized cost	(77,014)	(75,752)
Total interest expense	(77,014)	(75,752)
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest expense on amounts due to customers	(57,400)	(53,775)
Interest expense on debt securities issued	(17,305)	(21,087)
Interest expense on amounts due to credit institutions	(2,309)	(890)
Total interest expense on financial liabilities recorded at amortized cost	(77,014)	(75,752)
Net interest income before impairment charge	123,133	97,994

25. FEES AND COMMISSIONS

Fee and commission income was derived from the following sources:

	Year ended 31 December 2014	Year ended 31 December 2013
Bank transfers - settlements	11,065	10,241
Cash operations	8,679	7,289
Payment cards maintenance	7,933	6,822
Bank transfers - salary projects	6,456	5,922
Servicing customers' pension payments	5,047	4,234
Letters of credit and guarantees issued	3,157	3,499
Maintenance of customer accounts	1,259	964
Other	411	424
	44,007	39,395

Fee and commission expense comprised the following:

	Year ended 31 December 2014	Year ended 31 December 2013
Deposit insurance	(4,000)	(3,434)
Payment cards	(2,172)	(1,344)
Foreign currency operations	(778)	(368)
Commission paid to collectors	(495)	(614)
Bank transfers	(337)	(268)
Other	(229)	(271)
	(8,011)	(6,299)

26. 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
Net gain on operations with financial assets and liabilities classified as held for trading:		
Net gain on derivative operations	6,219	154
Unrealized net gain on trading operations	1,085	59
Realized gain/(loss) on trading operations	216	(72)
Total net gain on operations with financial assets and liabilities classified as held for trading	7,520	141

27. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

	Year ended 31 December 2014	Year ended 31 December 2013
Dealing, net	10,384	6,655
Translation differences, net	(4,541)	2,611
Total net gain on foreign exchange operations	5,843	9,266

28. OPERATING EXPENSES

	Year ended 31 December 2014	Year ended 31 December 2013
Salaries and other employee benefits	26,518	21,799
Depreciation and amortization expenses	4,015	4,895
Taxes other than income tax	2,406	2,182
Professional services	1,264	1,759
Repair and maintenance	1,572	1,347
Loss arising on sale of shares of subsidiaries	1,403	-
Security	1,321	1,291
Communication	1,339	1,154
Information services	1,069	844
Rent	1,039	931
Utilities	987	765
Advertisement	853	846
Charity	572	561
Stationery and office supplies	568	526
Impairment and write off of of property and equipment and intangible assets	423	-
Business trip expenses	431	361
Social events	200	304
Transportation	100	96
Hospitality expenses	90	40
Other	5,007	3,770
Total operating expenses	51,177	43,471

29. BOOK VALUE PER SHARE

As required by KASE rules for listed companies the book value of one share per each class of shares as at 31 December 2014 and 2013, is disclosed as follows:

	Outstanding shares	31 December 2014 Equity	Book value of one share, in KZT
Common	10,911,156,590	430,699	39.47
Non-convertible preferred	113,627,031	9,216	81.11
Convertible preferred	80,225,222	13,237	165.00
		453,152	

Class of shares	Outstanding shares	31 December 2013 Equity	Book value of one share, in KZT
Common	10,911,224,990	336,469	30.84
Non-convertible preferred	119,869,430	10,677	89.07
Convertible preferred	80,225,222	13,237	165.00
		360,383	

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 Bank believes that it fully complies with the requirement of KASE as at the reporting date.

30. FINANCIAL RISK MANAGEMENT

Risk management is fundamental to the Bank's banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to:

- Credit risk;
- Liquidity risk; and
- Market risk

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives. Through the risk management framework, the Bank manages the following risks:

Credit risk

Credit risk is the risk of loss arising for the Bank when a counterparty is unable to meet its contractual obligations on time or in full.

The 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 Bank 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 Bank 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 Bank applies the same credit policy to the contingent liabilities as it does to the financial instruments recorded in the 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 Bank 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 package of documents, including complex analysis, 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.

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 Bank'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 Bank would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on (Note 23). 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*	331,708	-	331,708	-
Financial assets at fair value through profit or loss (less equity securities)	11,872	-	11,872	-
Amounts due from credit institutions	36,958	-	36,958	-
Available-for-sale investment securities	323,152	-	323,152	-
Loans to customers	1,577,466	-	1,577,466	1,529,153
Other financial assets	3,753	-	3,753	-
Total financial assets	2,284,909	-	2,284,909	1,529,153
Commitments and contingencies	157,683	-	157,683	1,908

	31 December 2013			
	Maximum exposure	**Offset**	**Net exposure after offset**	**Collateral Pledged**
Cash equivalents*	397,836	-	397,836	26,306
Financial assets at fair value through profit or loss (less equity securities)	334	-	334	-
Amounts due from credit institutions	31,729	-	31,729	-
Available-for-sale investment securities	284,818	-	284,818	-
Loans to customers	1,459,368	-	1,459,368	1,419,401
Other financial assets	2,328	-	2,328	-
Total financial assets	2,176,413	-	2,176,413	1,445,707
Commitments and contingencies	175,398	-	175,398	6,249

* 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 Bank'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 Bank, before any impairment losses:

	AA	**AA-**	**A**	**BBB**	**<BBB**	**Not rated**	**31 December 2014 Total**
Cash and cash equivalents	43,135	2,263	75,261	205,485	-	5,564	331,708
Financial assets at fair value through profit or loss	-	-	431	11,167	267	56	11,921
Amounts due from credit institutions	-	-	2,501	22,416	-	12,041	36,958
Available-for-sale investment securities	9,393	-	30,943	230,235	52,581	-	323,152
Other financial assets	-	-	-	-	-	7,982	7,982
Commitments and contingencies	-	-	-	-	-	157,683	157,683

	AA	**AA-**	**A**	**BBB**	**<BBB**	**Not rated**	**31 December 2013 Total**
Cash and cash equivalents	10,105	27,246	247,950	106,945	-	5,590	397,836
Financial assets at fair value through profit or loss	-	-	120	194	61	20	395
Amounts due from credit institutions	-	-	2,010	14,939	-	14,780	31,729
Available-for-sale investment securities	7,918	-	23,987	252,913	-	-	284,818
Other financial assets	-	-	-	-	-	7,334	7,334
Commitments and contingencies	-	-	-	-	-	179,549	179,549

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Bank 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 Bank'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 Bank, and this classification is verified by the Risk Management function.

The Bank is considering the following impairment indicators:
- Overdue for more than 90 days;
- Default rating calculated based on rating model described below; and
- Restructuring because of deterioration of financial position of the borrower.

The Bank 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**
1	9,722	7,158
2	-	-
3	8,967	2,087
4	198,024	93,749
5	203,773	397,846
6	339,761	95,890
7	200,479	255,928
8	127,626	110,075
9	2,563	4,852
10	90,567	192,565
Loans to corporate customers that are individually assessed for impairment	1,181,482	1,160,150
Loans to SME customers that are individually assessed for impairment	98,483	172,199
Loans to customers that are collectively assessed for impairment	577,934	448,328
	1,857,899	1,780,677
Less - Allowance for loan impairment (Note 19)	(280,433)	(321,309)
Loans to customers	1,577,466	1,459,368

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	36,958	-	-	-	-	-	36,958
Available-for-sale investment securities	323,152	-	-	-	-	-	323,152
Loans to customers	859,242	(9,235)	420,723	(196,180)	577,934	(75,018)	1,577,466
Other financial assets	1,141	-	6,841	(4,229)	-	-	3,753

	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	31,734	(5)	-	-	-	-	31,729
Available-for-sale investment securities	284,818	-	-	-	-	-	284,818
Loans to customers	781,319	(39,454)	551,030	(226,935)	448,328	(54,920)	1,459,368
Other financial assets	2,278	-	5,056	(5,006)	-	-	2,328

As at 31 December 2014 the carrying amount of unimpaired overdue loans was KZT 1,528 million (31 December 2013 – KZT 1,118 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 Bank to provide funds for repayment of its obligations in a due time. The Bank'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 Bank'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 Bank 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 Bank'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	454,199	3,285	-	-	-	457,484
Obligatory reserves	22,611	3,353	12,141	3,320	2,336	43,761
Financial assets at fair value through profit or loss	11,921	-	-	-	-	11,921
Amounts due from credit institutions	2,667	8,106	9,044	17,141	-	36,958
Available-for-sale investment securities	4,001	2,150	39,492	165,988	111,521	323,152
Loans to customers	151,593	170,288	984,534	223,716	47,335	1,577,466
Other financial assets	3,571	30	10	96	46	3,753
	650,563	187,212	1,045,221	410,261	161,238	2,454,495
FINANCIAL LIABILITIES:						
Amounts due to customers	894,383	210,872	484,192	103,823	43,125	1,736,395
Amounts due to credit institutions	20,663	1	258	3,133	77,921	101,976
Financial liabilities at fair value through profit or loss	2,826	-	-	-	-	2,826
Debt securities issued	2,798	-	13,829	115,000	180,659	312,286
Other financial liabilities	7,722	12	48	23	3	7,808
	928,392	210,885	498,327	221,979	301,708	2,161,291
Net position	(277,829)	(23,673)	546,894	188,282	(140,470)	
Accumulated gap	(277,829)	(301,502)	245,392	433,674	293,204	

	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	454,632	23,109	-	-	-	477,741
Obligatory reserves	25,082	3,095	11,145	2,360	2,010	43,692
Financial assets at fair value through profit or loss	395	-	-	-	-	395
Amounts due from credit institutions	2,781	26	1,794	25,581	1,547	31,729
Available-for-sale investment securities	8,738	16,413	22,952	182,736	53,979	284,818
Loans to customers	176,065	173,970	857,157	213,313	38,863	1,459,368
Other financial assets	1,993	125	16	135	59	2,328
	669,686	216,738	893,064	424,125	96,458	2,300,071
FINANCIAL LIABILITIES:						
Amounts due to customers	953,048	126,603	529,909	121,854	32,078	1,763,492
Amounts due to credit institutions	98,036	1,520	626	1,141	3,491	104,814
Financial liabilities at fair value through profit or loss	69	-	-	-	-	69
Debt securities issued	2,381	-	5,338	109,756	72,528	190,003
Other financial liabilities	6,291	121	39	17		6,468
	1,059,825	128,244	535,912	232,768	108,097	2,064,846
Net position	(390,139)	88,494	357,152	191,357	(11,639)	
Accumulated gap	(390,139)	(301,645)	55,507	246,864	235,225	

Assets and liabilities are recorded on the basis of their contractual maturity and payment schedules. The Bank 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 Bank.

A significant portion of the Bank's liabilities is represented by customer term deposits, current accounts of corporate and retail customers, 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 Bank indicate that these deposits provide a long-term and stable source of funding for the Bank. 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 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**
FINANCIAL LIABILITIES:						
Amounts due to customers	896,951	218,287	506,524	221,941	63,153	1,906,856
Amounts due to credit institutions	20,689	1	263	3,570	101,335	125,858
Debt securities issued	2,798	72	37,734	198,489	209,917	449,010
Other financial liabilities	7,722	12	48	23	3	7,808
Guarantees issued	139,629	-	-	-	-	139,629
Commercial letters of credit	4,842	-	-	-	-	4,842
Commitments to extend credit	13,212	-	-	-	-	13,212
	1,085,843	218,372	544,569	424,023	374,408	2,647,215
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**
FINANCIAL LIABILITIES:						
Amounts due to customers	955,011	132,074	546,502	197,641	53,163	1,884,391
Amounts due to credit institutions	98,130	1,536	637	1,292	5,810	107,405
Debt securities issued	2,381	-	20,340	152,317	84,141	259,179
Other financial liabilities	6,291	121	39	17		6,468
Guarantees issued	155,572	-	-	-	-	155,572
Commercial letters of credit	12,092					12,092
Commitments to extend credit	11,885	-	-	-	-	11,885
	1,241,362	133,731	567,518	351,267	143,114	2,436,992
Derivative financial assets	68,517	-	1,212	-	-	69,729
Derivative financial liabilities	68,445	-	1,019	-	-	69,464

Market risk

Market risk is a risk that Bank'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 Bank 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 Bank 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 Bank 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 Bank's position on interest rates to reach positive interest margins. Budgeting and Controlling Department monitors current results of the Bank's financial activity, estimates the Bank's sensitivity in relation to interest rates changes and influence on the Bank's profits.

The Bank manages interest rates by determining the Bank'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 Bank'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 and 2013, and the effect of revaluing instruments with fixed rates accounted at fair value. The management of the Bank 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 and 2013:

	31 December 2014		31 December 2013	
	Interest rate +2%	**Interest rate -2%**	**Interest rate +2%**	**Interest rate -2%**
FINANCIAL ASSETS:				
Loans to customers	408	(408)	336	(336)
FINANCIAL LIABILITIES:				
Amounts due to credit institutions	10	(10)	22	(22)
Net impact on income before tax	399	(399)	314	(314)

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	
	Interest rate +2%	**Interest rate -2%**	**Interest rate +2%**	**Interest rate -2%**
FINANCIAL ASSETS:				
Loans to customers	408	(408)	336	(336)
Available-for-sale investment securities	(29,428)	29,428	(16,406)	16,406
FINANCIAL LIABILITIES:				
Amounts due to credit institutions	10	(10)	22	(22)
Net impact on equity	(29,010)	29,010	(16,048)	16,048

Currency Risk

The Bank 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 Bank.

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 Bank an opportunity to minimize losses from significant currency rate fluctuations of national and foreign currencies.

The Treasury Department performs daily monitoring of the bank's open currency position with the aim to comply with the requirements of the regulatory authority.

The Bank 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 Bank'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 Bank's USD denominated monetary assets and liabilities. Currency risk is assessed in relation to the statement of financial position and off-balance sheet positions. Current Bank'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 Bank's exposure to foreign currency exchange rate risk follows:

	USD	EUR	RUB	31 December 2014 Other foreign currencies	Total	KZT	TOTAL
FINANCIAL ASSETS:							
Cash and cash equivalents	335,364	37,280	9,634	7,462	389,740	67,744	457,484
Obligatory reserves	28,500	973	57	26	29,556	14,205	43,761
Financial assets at fair value through profit or loss	-	-	-	-	-	11,921	11,921
Amounts due from credit institutions	13,241	-	1,311	-	14,552	22,406	36,958
Available-for-sale investment securities	169,838	1,057	-	-	170,895	152,257	323,152
Loans to customers	416,494	1,954	225	4,219	422,892	1,154,574	1,577,466
Other financial assets	290	24	39	5	358	3,395	3,753
	963,727	41,288	11,266	11,712	1,027,993	1,426,502	2,454,495
FINANCIAL LIABILITIES:							
Amounts due to customers	1,078,230	40,588	2,497	1,056	1,122,371	614,024	1,736,395
Amounts due to credit institutions	9,129	294	801	2	10,226	91,750	101,976
Financial liabilities at fair value through profit or loss	-	-	-	-	-	2,826	2,826
Debt securities issued	196,106	-	-	-	196,106	116,180	312,286
Other financial liabilities	-	3	-	-	3	7,805	7,808
	1,283,465	40,885	3,298	1,058	1,328,706	832,585	2,161,291
Net balance sheet position	(319,738)	403	7,968	10,654	(300,713)	593,917	293,204
Net off balance sheet position	321,960	-	(9,895)	(11,577)	300,488	(300,488)	
Net position	2,222	403	(1,927)	(923)	(225)	293,429	

				31 December 2013			
	USD	EUR	RUB	Other foreign currencies	Total	KZT	TOTAL
FINANCIAL ASSETS:							
Cash and cash equivalents	289,521	21,984	7,571	4,661	323,737	154,004	477,741
Obligatory reserves	19,313	582	74	29	19,998	23,694	43,692
Financial assets at fair value through profit or loss	-	-	-	-	-	395	395
Amounts due from credit institutions	17,107	-	-	-	17,107	14,622	31,729
Available-for-sale investment securities	157,670	-	-	-	157,670	127,148	284,818
Loans to customers	483,864	3,052	21	1,511	488,448	970,920	1,459,368
Other financial assets	246	43	58	5	352	1,976	2,328
	967,721	25,661	7,724	6,206	1,007,312	1,292,759	2,300,071
FINANCIAL LIABILITIES:							
Amounts due to customers	731,469	24,946	2,497	17,230	776,142	987,350	1,763,492
Amounts due to credit institutions	26,851	477	2	2	27,332	77,482	104,814
Financial liabilities at fair value through profit or loss	-	-	-	-	-	69	69
Debt securities issued	165,435	-	-	-	165,435	24,568	190,003
Other financial liabilities	71	55	107	-	233	6,235	6,468
	923,826	25,478	2,606	17,232	969,142	1,095,704	2,064,846
Net balance sheet position	43,895	183	5,118	(11,026)	38,170	197,055	235,225
Net off balance sheet position	321,960	-	(9,895)	(11,577)	300,488	(300,488)	
Net position	365,855	183	(4,777)	(22,603)	338,658	(103,433)	

Sensitivity analysis of currency risk

The table below indicates the currencies in which the Bank had significant exposure at 31 December 2014 and 2013, 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 statement of profit or loss. A negative amount in the table reflects a potential net reduction in the statement of profit or loss, while a positive amount reflects a net potential increase. Sensitivity of currency risk is assessed only in respect to balance sheet items, excluding off-balance sheet items. The actual sensitivity of the Bank to fluctuations in exchange rates will be lower than the calculated values due to the fact that off-balance sheet position substantially neutralizes the balance sheet position. The management of the Bank 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 and 2013, calculated using currency rate fluctuations analysis:

	31 December 2014		**31 December 2013**	
	+25% KZT/USD	**-25% KZT/USD**	**+25% KZT/USD**	**-25% KZT/USD**
Impact on income before tax	556	(556)	91,464	(91,464)
	+25% KZT/EURO	**-25% KZT/EURO**	**+25% KZT/EURO**	**-25% KZT/EURO**
Impact on income before tax	101	(101)	46	(46)
	+25% KZT/RUR	**-25% KZT/RUR**	**+25% KZT/RUR**	**-25% KZT/RUR**
Impact on income before tax	(482)	482	(1,194)	1,194

Impact on equity:

	31 December 2014		**31 December 2013**	
	+25% KZT/USD	**-25% KZT/USD**	**+25% KZT/USD**	**-25% KZT/USD**
Impact on equity	556	(556)	91,464	(91,464)
	+25% KZT/USD	**-25% KZT/USD**	**+25% KZT/USD**	**-25% KZT/USD**
Impact on equity	101	(101)	46	(46)
	+25% KZT/USD	**-25% KZT/USD**	**+25% KZT/USD**	**-25% KZT/USD**
Impact on equity	(482)	482	(1,194)	1,194

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 Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank'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 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 Bank'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 Bank is exposed to price risks of its products which are subject to general and specific market fluctuations.

To limit price risk the Bank 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 Bank estimates the price risk at 31 December 2014 and 2013, to be not material and therefore quantitative information is not disclosed.

31. CAPITAL RISK MANAGEMENT

The Bank's objectives when managing capital, which is a broader concept than the "equity" on the face of the statement of financial position, are as follows:

- To comply with the capital requirements set by the NBRK;
- To safeguard the Bank'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 Bank is controlled according to the principles, methods and coefficients employed by Basel Committee. There have been no changes as to the way the Bank 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 Bank for the years ended 31 December 2014 and 2013. During those two years the Bank complied with all of the externally imposed capital requirements to which it is subject.

	31 December 2014	31 December 2013
Composition of regulatory capital		
Tier 1		
Share capital, net of treasury shares	64,926	66,386
Share premium	1,984	1,986
Retained earnings and other reserves	391,248	297,149
Less: property and equipment and available-for-sale investment securities revaluation	(7,810)	(13,320)
Total qualifying tier 1 capital	450,348	352,201
Tier 2		
Subordinated debt	7,760	12,557
Property and equipment and available-for-sale investment securities revaluation	7,810	13,320
Total qualifying tier 2 capital	465,918	378,078
Less: investments in subsidiaries and associates	(86,320)	(58,304)
Total regulatory capital	379,598	319,774
Risk weighted assets	2,046,090	1,995,164
Tier 1 capital ratio	22.0%	17.7%
Total capital adequacy ratio	18.6%	16.0%

Basel standards set minimum capital adequacy ratio and tier 1 capital at 8% and 4%, respectively.

32. SEGMENT ANALYSIS

The Bank is managed and reported on the basis of three main operating segments. The Bank'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 Bank. 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. Unallocated expenses include provision on account receivables, operating overhead 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 Bank's chief operating decision maker, to evaluate performance, in accordance with IFRS 8. The Management of the Bank reviews discrete financial information for each of its segments, including measures of operating results, assets and liabilities.

There were no transactions between business segments during the years ended 31 December 2014 and 2013.

Segment information for the main reportable business segments of the Bank for the years ended 31 December 2014 and 2013, is set out below:

As at 31 December 2014 and for the year then ended	**Retail banking**	**Corporate banking**	**SME banking**	**Other**	**Unallocated amounts**	**Total**
External revenues	106,505	127,578	27,220	21,945	1,275	284,523
Total revenues	106,505	127,578	27,220	21,945	1,275	284,523
Total revenues comprise:						
- Interest income	70,264	96,434	19,259	14,190	-	200,147
- Fee and commission income	32,525	5,532	5,950	-	-	44,007
- Net gain from financial assets and liabilities at fair value through profit or loss	-	-	-	7,520	-	7,520
- Net realized gain from available for sale investment securities	-	-	-	235	-	235
- Net gain on foreign exchange operations	3,716	474	1,653	-	-	5,843
- Dividends received from subsidiaries	-	20,842	-	-	-	20,842
- Other income	-	581	-	-	1,275	1,856
Other provisions	-	3,715	358	-	-	4,073
Total revenues	106,505	127,578	27,220	21,945	1,275	284,523
- Interest expense	(42,080)	(32,597)	(2,337)	-	-	(77,014)
- Impairment charge	(1,674)	(6,518)	2,054	-	481	(5,657)
- Fee and commission expense	(7,575)	(212)	(181)	(40)	(3)	(8,011)
- Imapirment loss on non-current assets held for sale	-	-	-	-	(102)	(102)
- Operating expenses	(30,913)	(10,607)	(6,931)	(320)	(2,406)	(51,177)
Segment result	24,263	77,644	19,825	21,585	(755)	142,562
Income before income tax expense						142,562
Income tax expense					(23,166)	(23,166)
Net income						119,396
Total segment assets	405,597	1,502,451	177,533	323,201	224,699	2,633,481
Total segment liabilities	904,712	1,021,212	209,415	2,826	37,158	2,175,323
Other segment items:						
Capital expenditure (unallocated)					(14,436)	(14,436)
Depreciation and amortization expense (unallocated)					(4,015)	(4,015)

As at 31 December 2013 and for the year then ended	Retail banking	Corporate banking	SME banking	Other	Unallocated amounts	Total
External revenues	90,454	119,240	25,038	14,375	547	249,654
Total revenues	90,454	119,240	25,038	14,375	547	249,654
Total revenues comprise:						
- Interest income	59,329	84,989	16,500	12,928	-	173,746
- Fee and commission income	28,408	5,650	5,337	-	-	39,395
- Net gain from financial assets and liabilities at fair value through profit or loss	-	-	-	141	-	141
- Net realized gains from available-for-sale investment securities	-	-	-	1,306	-	1,306
- Net gain on foreign exchange operations	2,717	3,869	2,680	-	-	9,266
- Dividends received from subsidiaries	-	24,532		-	-	24,532
- Other income	-	521		-	547	1,068
- Recoveries of provisions/(provisions)	-	(321)	521	-	-	200
Total revenues	90,454	93,315	50,963	14,375	547	249,654
- Interest expense	(40,298)	(33,350)	(2,104)	-	-	(75,752)
- Impairment charge	(2,536)	(16,429)	(3,457)	-	(2,949)	(25,371)
- Fee and commission expense	(5,559)	(502)	(196)	(41)	(1)	(6,299)
- Operating expenses	(27,400)	(7,777)	(6,221)	(307)	(1,766)	(43,471)
Segment result	14,661	61,182	13,060	14,027	(4,169)	98,761
Income before income tax expense						98,761
Income tax expense					(13,855)	(13,855)
Net income						84,906
Total segment assets	352,538	1,513,982	104,544	284,879	149,091	2,441,849
Total segment liabilities	800,490	972,883	270,233	69	34,632	2,076,328
Other segment items:						
Capital expenditure (unallocated)					(4,838)	(4,838)
Depreciation and amortization expense (unallocated)					(4,895)	(4,895)

Geographical information

Information for the main geographical areas of the Bank is set out below as at 31 December 2014 and 2013, and for the years then ended.

	Kazakhstan	OECD	Non OECD	Total
2014				
Total assets	2,423,657	165,557	44,267	2,633,481
External revenues	279,001	2,416	3,106	284,523
Capital expenditure	(14,436)	-	-	(14,436)
2013				
Total assets	2,034,269	332,283	75,297	2,441,849
External revenues	243,803	2,185	3,466	249,454
Capital expenditure	(4,838)	-	-	(4,838)

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 in the Republic of Kazakhstan.

33. 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 Bank's financial assets and financial liabilities measured at fair value on a recurring basis

Some of the Bank'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 Bank 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 statement of financial position as well as its profit/(loss) could be material.

The tables below summarises the Bank's financial assets and liabilities held at fair value by valuation methodology at 31 December 2014 and 2013, 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				
Non-derivative financial assets at fair value through profit or loss (Note 7)	49	61	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 7)	4,096	138	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 - options (Note 7)	-	196	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 assets at fair value through profit or loss (Note 7)	7,776	-	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 liabilities at fair value through profit or loss - options (Note 7)	2,826	69	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 9)	323,152	284,818	Level 1	Quoted bid prices in an active market	Not applicable	Not applicable

There were no transfers between Level 1 and 2 during the years ended 31 December 2014 and 2013.

	Financial assets at fair value through profit or loss (Level 3)
31 December 2012	3
Total gains or losses	(3)
- to profit or loss	(3)
- in other comprehensive income	-
Redemption/sale	-
31 December 2013	-
Total gains or losses	-
- additions	7,597
- to profit or loss	179
- in other comprehensive income	-
Redemption/sale	-
31 December 2014	7,776

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 Bank 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	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Amounts due from credit institutions	36,958	37,109	31,729	34,158
Loans to customers	1,577,466	1,671,927	1,459,368	1,558,180
Financial liabilities				
Amounts due to customers	1,736,395	1,738,681	1,763,492	1,760,811
Amounts due to credit institutions	101,976	113,757	104,814	106,179
Debt securities issued	312,286	323,244	190,003	212,827

	31 December 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Amounts due from credit institutions	-	37,109	-	37,109
Loans to customers	-	-	1,671,927	1,671,927
Financial liabilities				
Amounts due to customers	-	1,738,681	-	1,738,681
Amounts due to credit institutions	-	113,757	-	113,757
Debt securities issued	323,244	-	-	323,244

	31 December 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Amounts due from credit institutions	-	34,158	-	34,158
Loans to customers	-	-	1,558,180	1,558,180
Financial liabilities				
Amounts due to customers	-	1,760,811	-	1,760,811
Amounts due to credit institutions	-	106,179	-	106,179
Debt securities issued	212,827	-	-	212,827

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.

34. 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.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The Bank had the following transactions outstanding as at 31 December 2014 and 2013, with related parties:

	31 December 2014		31 December 2013	
	Related party balances	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**
Cash and cash equivalents	3,210	457,484	1,561	477,741
- *subsidiaries*	3,210		1,561	
Amounts due from credit institutions	11,885	36,958	15,092	31,729
- *subsidiaries*	11,885		15,092	
Investments in subsidiaries	86,320	86,320	58,304	58,304
- *subsidiaries*	86,320		58,304	
Loans to customers before allowance for impairment losses	24,131	1,857,899	14,112	1,780,677
- *entities with joint control or significant influence over the entity*	4,597		5,948	
- *subsidiaries*	19,534		7,260	
- *other related parties*	-		904	
Allowance for impairment losses	(15)	(280,433)	(216)	(321,309)
- *entities with joint control or significant influence over the entity*	(15)		(202)	
- *other related parties*	-		(14)	
Other assets	4,037	11,989	3,276	8,467
- *subsidiaries*	4,037		3,276	
Amounts due to customers	111,790	1,736,395	104,875	1,763,492
- *the parent*	73,757		60,184	
- *entities with joint control or significant influence over the entity*	8,086		33,546	
- *key management personnel of the entity or its parent*	5,902		2,602	
- *subsidiaries*	6,386		3,313	
- *associates*	-		27	
- *other related parties*	17,659		5,203	
Amounts due to credit institutions	1,094	101,976	126	104,814
- *subsidiaries*	1,094		126	
Debt securities issued	1,289	312,286	488	190,003
- *subsidiaries*	1,289		488	

Included in the statement of profit or loss for the years ended 31 December 2014 and 2013, are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2014		Year ended 31 December 2013	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	1,844	200,147	1,669	173,746
- entities with joint control or significant influence over the entity	547		763	
- other related parties	-		826	
-subsidiaries	1,297		80	
Interest expense	(3,608)	(77,014)	(2,029)	(75,752)
- the parent	(3,073)		(1,791)	
- key management personnel of the entity or its parent	(250)		(111)	
- other related parties	(218)		(70)	
- subsidiaries	(67)		(57)	
Fee and commission income	125	44,007	223	39,395
-subsidiaries	125		223	
Fee and commission expense	(51)	(8,011)	(11)	(6,299)
-subsidiaries	(51)		(11)	
Dividends received from subsidiaries	20,842	20,842	24,532	24,532
- dividends received from subsidiaries	20,842		24,532	
Operating expenses	(4,476)	(51,177)	(3,331)	(43,471)
- subsidiaries	(4,476)		(3,331)	

	Year ended 31 December 2014		Year ended 31 December 2013	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Key management personnel compensation:	1,333	26,518	835	21,799
- Salaries and other employee benefits	1,333		835	

35. SUBSEQUENT EVENTS

On 12 February 2015, the Bank placed bonds at KASE KZT 21,134 million (face value) at 94.6354% and on 3 March 2015 the Bank placed additional bonds KZT 30,000 million (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.