



**JOINT STOCK COMPANY  
BANK CENTERCREDIT**

**Separate Financial Statements  
and Independent Auditor's Report  
For the year ended 31 December 2014**

# JOINT STOCK COMPANY BANK CENTERCREDIT

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# JOINT STOCK COMPANY BANK CENTERCREDIT

## 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 the Joint Stock Company Bank CenterCredit ("the Bank") as at 31 December 2014, the separate results of its operations, cash flows and changes in equity for the year then ended, in accordance 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 IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's 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 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 legislation of the Republic of Kazakhstan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Preventing and detecting fraud and other irregularities.

The separate financial statements for the year ended 31 December 2014 were authorized for issue on 13 March 2015 by the Management Board of the Bank.

On behalf of the Management Board of the Bank:

Lee V.S.  
Chairman

13 March 2015  
Almaty

Yang Jinhwan  
Managing Director

13 March 2015  
Almaty

Nurgaliyeva A.T.  
Chief Accountant

13 March 2015  
Almaty

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Joint Stock Company Bank CenterCredit:

We have audited the accompanying separate financial statements of Joint Stock Company Bank CenterCredit, which comprise the statement of financial position as at 31 December 2014, and the statement of profit or loss, the 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 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 about 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 Joint Stock Company Bank CenterCredit as at 31 December 2014 and its financial performance and 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 that were authorized for issue by the Management Board of the Bank on 16 February 2015.



Andrew Weekes  
Engagement Partner  
Chartered Accountant  
Certificate of Public Practice  
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DeLoitte, LLP



Deloitte, LLP  
State license on auditing  
in the Republic of Kazakhstan  
No. 0000015, type MFU - 2, given by the  
Ministry of Finance of the Republic 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

13 March 2015  
Almaty

# JOINT STOCK COMPANY BANK CENTERCREDIT

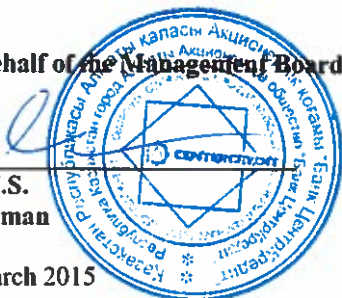
## STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2014 (in Kazakhstani tenge and in millions)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
Interest income	4, 27	90,797	81,706
Interest expense	4, 27	(45,637)	(48,380)
<b>NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS</b>		<b>45,160</b>	<b>33,326</b>
Provision for impairment losses on interest bearing assets	5	(42,204)	(25,030)
<b>NET INTEREST INCOME</b>		<b>2,956</b>	<b>8,296</b>
Net gain on financial assets and liabilities at fair value through profit or loss	6	265	94
Net realized gain/(loss) on investments available-for-sale		60	(40)
Net gain on foreign exchange operations	7	5,888	4,502
Fee and commission income	8, 27	21,564	19,721
Fee and commission expense	8, 27	(1,756)	(1,784)
Recovery/(provision) for impairment losses on other transactions	5	80	(750)
Dividends from subsidiaries		1,057	-
Other income		280	25
<b>NET NON-INTEREST INCOME</b>		<b>27,438</b>	<b>21,768</b>
<b>OPERATING INCOME</b>		<b>30,394</b>	<b>30,064</b>
OPERATING EXPENSES	9, 27	(24,438)	(26,461)
<b>OPERATING PROFIT BEFORE INCOME TAX</b>		<b>5,956</b>	<b>3,603</b>
Income tax expense	10	(1,776)	(1,801)
<b>NET PROFIT</b>		<b>4,180</b>	<b>1,802</b>

On behalf of the Management Board of the Bank:

Lee V.S.  
Chairman

13 March 2015  
Almaty



Yang Jinhwan  
Managing Director

13 March 2015  
Almaty

Nurgaliyeva A.T.  
Chief Accountant

13 March 2015  
Almaty

The notes on pages 10-84 form an integral part of these separate financial statements.

# JOINT STOCK COMPANY BANK CENTERCREDIT

## STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014 *(in Kazakhstani tenge and in millions)*

	Year ended 31 December 2014	Year ended 31 December 2013
NET PROFIT	4,180	1,802
OTHER COMPREHENSIVE (LOSS)/INCOME:		
Items that may be reclassified subsequently to profit or loss:		
Net loss resulting on revaluation of investments available-for-sale during the year	(932)	(310)
Reclassification adjustment relating to investments available for sale disposed of during the year	(60)	40
Other comprehensive loss for the year, net of income tax	(992)	(270)
OTHER COMPREHENSIVE LOSS	(992)	(270)
TOTAL COMPREHENSIVE INCOME	3,188	1,532

On behalf of the Management Board of the Bank:

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13 March 2015  
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# JOINT STOCK COMPANY BANK CENTERCREDIT

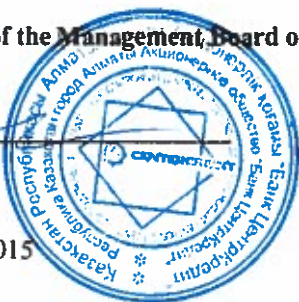
## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014 (in Kazakhstani tenge and in millions)

	Notes	31 December 2014	31 December 2013
<b>ASSETS:</b>			
Cash and cash equivalents	11, 27	112,113	141,513
Obligatory reserves	11	17,136	15,596
Financial assets at fair value through profit or loss	12	14,813	15,748
Investments available-for-sale	13	53,397	53,659
Investments held to maturity	14	7,628	12,345
Investments in subsidiaries	15, 27	25,566	17,343
Due from banks	16, 27	12,640	5,502
Loans to customers and banks	17, 27	810,184	759,320
Current income tax assets		1,009	1,313
Deferred income tax assets	10	-	1,106
Other assets	18	17,276	24,499
Property, equipment and intangible assets	19	31,386	24,288
<b>TOTAL ASSETS</b>		<b>1,103,148</b>	<b>1,072,232</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES:</b>			
Due to banks and financial institutions	20, 27	114,171	76,157
Customer and banks accounts	21, 27	804,233	800,199
Debt securities issued	22, 27	30,900	49,544
Deferred income tax liabilities	10	237	-
Other liabilities	23, 27	9,374	8,319
Subordinated bonds	24, 27	54,255	53,120
<b>Total liabilities</b>		<b>1,013,170</b>	<b>987,339</b>
<b>EQUITY:</b>			
Share capital	25, 27	69,856	69,856
Investments available-for-sale fair value reserve		(1,248)	(256)
Retained earnings		21,370	15,293
<b>Total equity</b>		<b>89,978</b>	<b>84,893</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,103,148</b>	<b>1,072,232</b>

On behalf of the Management Board of the Bank:

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# JOINT STOCK COMPANY BANK CENTERCREDIT

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014 (in Kazakhstani tenge and in millions)

	Share capital	Investments available-for-sale fair value reserve	Statutory reserves	Retained earnings	Total equity
As at 31 December 2012	69,856	14	3,723	9,768	83,361
Net profit	-	-	-	1,802	1,802
Other comprehensive loss for the year, net of income tax	-	(270)	-	-	(270)
Transfer to statutory reserve	-	-	(3,723)	3,723	-
As at 31 December 2013	69,856	(256)	-	15,293	84,893
Net profit	-	-	-	4,180	4,180
Other comprehensive loss for the year, net of income tax	-	(992)	-	-	(992)
Increase of retained earnings due to merge of subsidiaries	-	-	-	1,897	1,897
As at 31 December 2014	69,856	(1,248)	-	21,370	89,978

On behalf of the Management Board of the Bank:



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13 March 2015  
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# JOINT STOCK COMPANY BANK CENTERCREDIT

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014 *(in Kazakhstani tenge and in millions)*

	Year ended 31 December 2014	Year ended 31 December 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Interest received	103,009	62,057
Interest paid	(47,967)	(49,122)
Fee and commission received	22,185	17,184
Fee and commission paid	(1,798)	(1,636)
Other income received	426	25
Operating expenses paid	(21,269)	(29,327)
	<hr/>	<hr/>
Cash inflow/(outflow) from operating activities before changes in operating assets and liabilities	54,586	(819)
Changes in operating assets and liabilities:		
Obligatory reserves	(1,540)	(2,030)
Financial assets at fair value through profit or loss	1,198	1,031
Due from banks	(7,086)	7,540
Loans to customers and banks	(114,137)	1,864
Net investment in subsidiaries	(6,326)	(6,832)
Other assets	(3,292)	(6,404)
	<hr/>	<hr/>
Due to banks and financial institutions	36,284	(17,755)
Customer and banks accounts	7,158	18,113
Other liabilities	2,443	2,390
	<hr/>	<hr/>
Cash outflow from operating activities before taxation	(30,712)	(2,902)
Income tax paid	(129)	(58)
	<hr/>	<hr/>
Net cash outflow from operating activities	(30,841)	(2,960)

# JOINT STOCK COMPANY BANK CENTERCREDIT

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED) (in Kazakhstani tenge and in millions)

	Year ended 31 December 2014	Year ended 31 December 2013
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Proceeds on sale of investments available-for-sale	22,703	27,172
Purchase of investments available-for-sale	(23,206)	(23,517)
Proceeds on maturity of investments held to maturity	4,842	14,048
Purchase of investments held to maturity	-	(3,684)
Dividends received	1,057	-
Purchase of property, equipment and intangible assets	(1,758)	(5,660)
Proceeds on sale of property and equipment	119	97
	<u>3,757</u>	<u>8,456</u>
Net cash inflow from investing activities		
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of debt securities issued	(41,953)	(18,876)
Proceeds from debt securities issued	25,000	2,447
Proceeds from subordinated bonds issued	910	18,305
	<u>(16,043)</u>	<u>1,876</u>
Net cash (outflow)/inflow from financing activities		
<i>Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents</i>	13,727	2,395
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(29,400)</b>	<b>9,767</b>
<b>CASH AND CASH EQUIVALENTS, beginning of the year (Note 11)</b>	<b>141,513</b>	<b>131,746</b>
<b>CASH AND CASH EQUIVALENTS, end of the year (Note 11)</b>	<b>112,113</b>	<b>141,513</b>

On behalf of the Management Board of the Bank:

Lee V.S.  
Chairman

13 March 2015  
Almaty



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Managing Director

13 March 2015  
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13 March 2015  
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# JOINT STOCK COMPANY BANK CENTERCREDIT

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

*(in Kazakhstani tenge and in millions, unless otherwise stated)*

### 1. ORGANIZATION

JSC Bank CenterCredit (“the Bank”) is a Joint Stock Company (“JSC”), which was incorporated in the Republic of Kazakhstan and started its operations in 1988. The Bank is regulated by the legislation of the Republic of Kazakhstan. The Bank is regulated by the National Bank of the Republic of Kazakhstan (“the NBRK”). The Bank conducts its business under license number 248, renewed on 13 December 2007 by the FMSC. On 27 August 2008, Kookmin Bank (South Korea) purchased 23% of the Bank’s issued ordinary share capital. As at 31 December 2014, Kookmin Bank’s share was 41.93% and the International Financial Corporation’s (“IFC”) share was 10% of the issued capital of the Bank.

The Bank’s primary business consists of commercial banking activities, trading with securities, loans, foreign currencies and derivative instruments, loan origination activities and guarantees.

The Bank is a member of the Kazakhstan Deposit Insurance Fund (the “KDIF”).

The registered address is: 38 Al Farabi Ave., Almaty, the Republic of Kazakhstan.

As at 31 December 2014 and 2013, the Bank had 20 branches in the Republic of Kazakhstan.

As at 31 December 2014 and 2013 the following ultimate beneficial shareholders owned individually more than 5% of the issued shares of the Bank:

	31 December 2014 %	31 December 2013 %
Kookmin Bank	41.93	41.93
Baiseitov B.R.	25.60	25.11
IFC	10.00	10.00
Other (individually hold less than 5%)	22.47	22.96
Total	<u>100.00</u>	<u>100.00</u>

The separate financial statements were authorized for issue by the Management Board of the Bank on 13 March 2015.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Statement of compliance

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

These financial statements are the separate financial statements of the Bank.

Investments in subsidiaries were accounted at cost, less any impairment losses.

These separate financial statements shall be read in conjunction with the consolidated financial statements that were authorized for issue by the Management Board of the Bank on 16 February 2015.

## **Other basis of presentation criteria**

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 millions”), unless otherwise indicated.

These separate financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the 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 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.

## **Functional currency**

Items included in the separate financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The functional currency of the Bank is the Kazakhstani tenge (“KZT”). The presentational currency of the separate financial statements of the Bank is the KZT. All values are rounded to the nearest million tenge, except when otherwise indicated.

The principal accounting policies are set out below.

## **Recognition of interest income and expense**

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably. Interest income and expense are recognized on an accrual basis 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 receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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.

Interest earned on assets at fair value is classified within interest income.

#### **Recognition of income on repurchase and reverse repurchase agreements**

Gain/loss on the sale of the above instruments is recognized as interest income or expense in the separate statement of profit or loss based on the difference between the repurchase price accreted to date using the effective interest method and the sale price when such instruments are sold to third parties. When the reverse repo/repo is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognized using the effective interest method.

#### **Recognition of fee and commission income and expense**

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. 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. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in profit or loss when the syndication has been completed. All other commissions are recognized when services are provided.

#### **Financial instruments**

The Bank recognizes financial assets and liabilities in its separate 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. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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.

##### *Financial assets*

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held to maturity' ("HTM") investments, 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

##### *Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified 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 other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset 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 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend and interest earned on the financial asset and is included in the 'other income/(expense)' and 'interest income' line item, respectively, in the separate statement of profit or loss. Fair value is determined in the manner described in Note 30.

#### ***Investments held to maturity***

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity. Held to maturity investments are measured at amortised cost using the effective interest method less any impairment.

If the Bank were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the current financial year and following two financial years.

#### ***Investments available-for-sale***

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (2) held to maturity investments or (c) financial assets at fair value through profit or loss.

Listed shares and listed redeemable notes held by the Bank that are traded in an active market are classified as AFS and are stated at fair value. The Bank also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value (because the Bank's management considers that fair value can be reliably measured). Fair value is determined in the manner described in Note 30. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, dividend income and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

#### ***Loans and receivables***

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market (including balances with the National Bank of Kazakhstan, due from banks, loans to customers and other financial assets) are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### ***Securities repurchase and reverse repurchase agreements and securities lending transactions***

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

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the separate financial statements and consideration received under these agreements is recorded as collateralized deposit received within depositary instruments with banks.

Assets purchased under reverse repos are recorded in the separate financial statements as cash placed on deposit collateralized by securities and other assets and are classified within due from banks and/or loans to customers.

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.

The transfer of securities to counterparties is only reflected on the separate statement of financial position if the risks and rewards of ownership are also transferred.

#### ***Impairment of financial assets***

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

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.



For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments;
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Bank's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, 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 through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments 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.

### ***Individual assessment of impairment of loans to customers***

Individual assessment of impairment losses is calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. This process normally encompasses management's best estimate, such as operating cash flow of the borrower and net realizable value of any collateral held and the timing of anticipated receipts. The impairment allowances on individually significant loans are reviewed at least quarterly and more regularly if circumstances required.

Those loans with outstanding amount of debt exceeding certain amount are considered to be individually significant loans. All individually significant loans are assessed for the indicators of impairment, such as overdue of more than 90 days, worsening of credit rating of the borrower, prolongations, restructuring and debt forgiveness related to deterioration of financial condition of the borrower.

If the borrower has any of the four indicators of impairment on any of its loans exceeding threshold, the borrower belongs to the group of individually significant loans. These borrowers are analysed and assessed for impairment on an individual basis.

### ***Collective assessment of impairment of loans to customers***

The methodology based on historical loss experience is used to estimate inherent incurred loss on groups of assets for collective evaluation of impairment. Such methodology incorporates factors such as type of product and borrowers, credit rating, portfolio size, loss emergence period, recovery period and applies probability of default on each assets (or pool of assets) and loss given default by type of collateral. Also, consistent assumptions are applied to form a formula-based model in estimating inherent loss and to determine factors on the basis of historical loss experience and current condition. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

If the borrower has no impairment indicators on any of its loans then it is included in the category of non-impaired loans which are not individually significant and assessed on a collective basis. Collective assessment of impairment in respect of group of loans with similar characteristics is performed using roll rate analysis.

### ***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 any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

### ***Write-off of loans and advances***

Loans and advances are written off against the allowance for impairment losses based on the decision of the Bank's authorized body, after the Bank has exercised all possible measures for recovery of the overdue debt, and the possibility of recovery of these amounts is low or does not exist. Subsequently, if in the assessment of the authorized body, a loan previously written off is deemed recoverable, the amounts previously written off are recorded in loans to customers and banks and the related allowance for impairment loss accounts.

### ***Derecognition of financial assets***

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

### ***Cash and cash equivalents***

Cash and cash equivalents consist of cash on hand, unrestricted balances on correspondent and term deposits with the National Bank of Kazakhstan with original maturity of less or equal to 90 days and amounts due from credit institutions with original maturity of less or equal to 90 days and are free from contractual encumbrances.

### ***Obligatory reserves***

Obligatory reserves represent mandatory reserve deposits with the National Bank of the Republic of Kazakhstan 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 purposes of the statement of cash flows.

### ***Due from banks***

In the normal course of business, the Bank maintains advances and deposits for various periods of time with other banks. Due from banks are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method. Amounts due from credit institutions are carried net of any allowance for impairment losses.

### **Financial liabilities and equity instruments issued**

#### ***Classification as debt or equity***

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

### ***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Bank's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

### ***Financial liabilities***

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

#### ***Financial liabilities at FVTPL***

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified 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 liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The 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 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'interest expenses' line item in the separate statement of profit or loss. Fair value is determined in the manner described in Note 30.

#### ***Other financial liabilities***

Other financial liabilities (including depository instruments with the National Bank of Republic Kazakhstan, deposits by banks and customers, repurchase agreements, debt securities issued, other borrowed funds, subordinated debt and other financial liabilities) are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

#### ***Financial guarantee contracts***

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

#### ***Derecognition of financial liabilities***

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

#### **Derivative financial instruments**

##### ***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.

In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

##### **Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

##### ***The Bank as lessor***

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

### ***The Bank as lessee***

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### **Non-current assets held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. 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.

When the Bank is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Bank will retain a non-controlling interest in its former subsidiary after the sale.

After the disposal takes place, the Bank accounts for any retained interest in the associate or joint venture in accordance with IAS 39 unless the retained interest continues to be an associate or a joint venture, in which case the Bank uses the equity method.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

### **Repossessed assets**

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell.

### **Property and equipment**

Property and equipment are carried at historical cost less accumulated depreciation and any recognized impairment loss.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Buildings and other real estate	1.25-2.50%
Furniture and computer equipment	7-20%
Intangible assets	12-60%

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. Amortisation is recognised on a straight-line basis over their estimated useful lives. 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. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

### *Derecognition of intangible assets*

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.

### *Impairment of tangible and intangible assets other than goodwill*

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

## **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

### *Current tax*

The tax currently payable is based on taxable profit for the year. Taxable profit before tax differs from net profit before tax as reported in the separate statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

### *Deferred tax*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the separate financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The Bank management reviewed the Bank's investment property portfolios and concluded that none of the Bank's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, the Bank management has determined that the 'sale' presumption set out in the amendments to IAS 12 Income Taxes is not rebutted. As a result, the Bank has not recognised any deferred taxes on changes in fair value of the investment properties as the Bank is not subject to any income taxes on the fair value changes of the investment properties on disposal.

### **Provisions**

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### **Share capital**

Share capital is recognized at historical cost.

Costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.



Treasury shares repurchased from shareholders are recognized at cost of acquisition. When such repurchased treasury shares are further sold, any difference between their selling price and the cost of acquisition is charged to share capital (if positive) or to retained earnings (if negative). Where repurchased treasury shares are retired, the carrying value thereof is reduced by the amount paid by the Bank at repurchase thereof, with the share capital respectively reduced by the par value of such retired shares restated, where applicable, for inflation, and the resulting difference is charged to retained earnings.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event under IAS 10 "Events after the Balance Sheet Date" ("IAS 10") and disclosed accordingly.

### **Contingencies**

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

### **Fiduciary activities**

The Bank provides trustee services to its customers. The Bank also provides depository services to its customers which include transactions with securities on their depository accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Bank's separate financial statements. The Bank accepts the operational risk on these activities, but the Bank's customers bear the credit and market risks associated with such operations. Revenue for provision of trustee services is recognized as services are provided.

### **Foreign currencies**

In preparing the separate financial statements of the Bank, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

The exchange rates used by the Bank in the preparation of the separate financial statements as at year-end are as follows:

	31 December 2014	31 December 2013
Tenge/1 Euro	221.59	212.02
Tenge/1 US Dollar	182.35	154.06

### **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.

### **Equity reserves**

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

- 'Available-for-sale' reserve which comprises changes in fair value of available-for-sale financial assets.

### **Offsetting**

Financial assets and financial liabilities are offset and the net amount reported in the separate statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the separate 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.

### **Segment reporting**

Operating segments are identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Bank measures information about reportable segments in accordance with IFRS. Information about reportable operating segment meets any one of the following quantitative thresholds:

- its reported revenue, from both external customers and intersegment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments; or
- the absolute measure of its reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; or
- its assets are 10% or more of the combined assets of all operating segments.

If the total external revenue reported by operating segments constitutes less than 75% of the entity's revenue, additional operating segments are identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75% of the Bank's revenue is included in reportable segments.

## **Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Bank's accounting policies the Bank management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### ***Critical judgements in applying accounting policies***

The following are the critical judgements, apart from those involving estimations (see below), that the Bank management has made in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognised in the separate financial statements.

#### ***Investments held to maturity***

The Bank management has reviewed the Bank's held to maturity financial assets in the light of its capital maintenance and liquidity requirements and has confirmed the Bank's positive intention and ability to hold those assets to maturity. Details of these assets are set out in Note 14.

#### ***Key sources of estimation uncertainty***

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### ***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 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 would require the Bank to record provisions which could have a material impact on its separate financial statements in future periods.

The Bank uses management's judgment 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 behavior, 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. The Bank uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

As at 31 December 2014 and 2013 the gross loans to customers totaled KZT 951,245 million and KZT 949,106 million, respectively, and allowance for impairment losses amounted to KZT 145,875 million and KZT 193,653 million, respectively.

### *Valuation of financial instruments*

As described in Note 30, the Bank uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 30 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The Bank management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

### *Recoverability of deferred tax assets*

The management of the Bank is confident that no valuation allowance against deferred tax assets at the reporting date is considered necessary, because it is more likely than the deferred tax asset will be fully realized. The carrying value of deferred tax assets amounted to KZT nil and KZT 1,106 million as at 31 December 2014 and 2013, respectively.

## **3. APPLICATION OF NEW AND REVISED IFRS**

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.

### **Standards affecting the separate financial statements**

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*.

These amendments affect disclosures only and do not have any impact on separate financial statements of the Bank as no impairment loss was recognized or reversed during the reporting period.

### **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.

The Bank does not expect that these amendments will have an impact on its separate financial statements as the Bank does not apply hedge accounting according to IFRS.

### **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 except for the change in Bank’s policy.

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<sup>1</sup>;
- Annual Improvements to IFRSs 2010-2012 Cycle<sup>1</sup>;
- Annual Improvements to IFRSs 2011-2013 Cycle<sup>1</sup>;
- Annual Improvements to IFRSs 2012-2014 Cycle<sup>2</sup>;
- IFRS 14 Regulatory Deferral Accounts<sup>2</sup>;
- Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation<sup>2</sup>;
- Amendments to IAS 27 - Equity Method in Separate Financial Statements<sup>2</sup>;
- Amendments to IAS 16 and IAS 41 - Agriculture: Bearer Plants<sup>2</sup>;
- Amendments to IFRS 11 - Accounting for Acquisition of Interests in Joint Operations<sup>2</sup>;
- Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>2</sup>;
- IFRS 15 Revenue from Contracts with Customers<sup>3</sup>;
- IFRS 9 Financial Instruments<sup>4</sup>.

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

### ***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 other comprehensive income 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 may 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.

#### **Amendments to IFRS 11 – *Accounting for Acquisitions of Interests in Joint Operations***

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation. A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The Management of the Bank does not anticipate that the application of these amendments will have a material impact on the Bank's separate financial statements.

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

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted when the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Bank uses straight-line method for depreciation and amortization of its property, plant and equipment and intangible assets, respectively.

The Bank does not anticipate that the application of these amendments will have a material impact on the Bank's separate financial statements.

#### **Amendments to IAS 27 – *Equity Method in Separate Financial Statements***

The amendments to IAS 27 allows entities to apply the equity method as one of the options for accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements. The amendments are effective from 1 January 2016 with earlier application permitted.

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

The amendments clarify that on a sale or contribution of assets to a joint venture or associate or on a loss of control when joint control or significant influence is retained in a transaction involving an associate or a joint venture, the extent of any gain or loss recognized depends on whether the assets or subsidiary constitute a business, as defined in IFRS 3. When the assets or subsidiary constitutes a business, any gain or loss is recognized in full; when the assets or subsidiary do not constitute a business, the entity's share of the gain or loss is eliminated.

The amendments apply prospectively to transactions occurring in annual periods beginning on or after 1 January 2016 with early application permitted. The Management of the Bank does not anticipate that the application of these amendments will have a material impact on the Bank's separate financial statements.



## **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 first 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 Bank's separate financial statements.

#### 4. NET INTEREST INCOME

	Year ended 31 December 2014	Year ended 31 December 2013
<b>Interest income comprises:</b>		
Interest income on financial assets recorded at amortized cost:		
- interest income on unimpaired assets	53,553	40,162
- interest income on impaired assets	33,578	37,995
Interest income on financial assets recorded at fair value	<u>3,666</u>	<u>3,549</u>
<b>Total interest income</b>	<u>90,797</u>	<u>81,706</u>
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers and banks	81,740	75,571
Interest on investments held to maturity	696	1,209
Interest on due from banks and cash equivalents	656	518
Penalties on loans to customers and banks	<u>4,039</u>	<u>859</u>
<b>Total interest income on financial assets recorded at amortized cost</b>	<u>87,131</u>	<u>78,157</u>
Interest income on financial assets recorded at fair value comprises:		
Interest income on investments available-for-sale	2,929	2,757
Interest income on financial assets at fair value through profit or loss	<u>737</u>	<u>792</u>
<b>Total interest income on financial assets recorded at fair value</b>	<u>3,666</u>	<u>3,549</u>
<b>Interest expense comprises:</b>		
Interest on financial liabilities recorded at amortized cost		
<b>Total interest expense</b>	<u>45,637</u>	<u>48,380</u>
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on customer and banks accounts	30,576	33,480
Interest on debt securities issued	1,735	5,964
Interest on due to banks and financial institutions	9,146	5,795
Interest on subordinated bonds	<u>4,180</u>	<u>3,141</u>
<b>Total interest expense on financial liabilities recorded at amortized cost</b>	<u>45,637</u>	<u>48,380</u>
<b>Net interest income before provision for impairment losses on interest bearing assets</b>	<u>45,160</u>	<u>33,326</u>

## 5. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

The movements in allowance for impairment losses on interest bearing assets were as follows:

	Consumer loans	Corporate loans	Credit cards	Total
<b>31 December 2012</b>	14,234	122,218	41	136,493
Additional provision recognized	17,967	6,895	168	25,030
Write-off of assets	(106)	(5,341)	-	(5,447)
Recoveries of assets previously written off	11,381	26,557	-	37,938
Exchange rate difference	<u>(35)</u>	<u>(312)</u>	<u>-</u>	<u>(347)</u>
<b>31 December 2013</b>	43,441	150,017	209	193,667
(Recovery)/additional provision recognized	(6,812)	49,104	(88)	42,204
Write-off of assets	(19,464)	(70,576)	-	(90,040)
Unwinding of discount	(1,081)	(12,551)	-	(13,632)
Recoveries of assets previously written off	818	149	-	967
Exchange rate difference	<u>1,011</u>	<u>11,739</u>	<u>-</u>	<u>12,750</u>
<b>31 December 2014</b>	<u>17,913</u>	<u>127,882</u>	<u>121</u>	<u>145,916</u>

During the year ended 31 December 2014, the Bank has written off loans in the amount of KZT 90,040 million. Changes introduced to the Tax Code as at 1 January 2014 allow the write-off of loans without this being considered forgiveness of the loan for tax purposes and are therefore not subject to corporate income tax.

In November 2013, the Bank has recovered previously written off loans to customers in amount of KZT 34,328 million due to the changes in NBRK regulations and prospects of recovery of these loans. As a result, individually significant loans recovered amounted to KZT 19,973 million and the allowance recovered against them amounted to KZT 19,074 million. Additional provision was recognized against the recovered loans assessed on a collective basis.

The movements in provision for impairment losses on other transactions were as follows:

	Other assets (Note 18)	Guarantees and letters of credit (Note 23)	Total
<b>31 December 2012</b>	1,231	1,763	2,994
Additional provision recognised/ (recovery)	770	(20)	750
Write-off of assets	(121)	-	(121)
Exchange rate difference	<u>10</u>	<u>7</u>	<u>17</u>
<b>31 December 2013</b>	<u>1,890</u>	<u>1,750</u>	<u>3,640</u>
(Recovery)/additional provision recognised	(167)	87	(80)
Write-off of assets	(823)	-	(823)
Recoveries of assets previously written off	1,255	-	1,255
Exchange rate difference	<u>136</u>	<u>57</u>	<u>193</u>
<b>31 December 2014</b>	<u>2,291</u>	<u>1,894</u>	<u>4,185</u>

**6. NET GAIN ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS**

	Year ended 31 December 2014	Year ended 31 December 2013
Realized (loss)/gain on trading operations	(2)	21
Unrealized gain/(loss) on fair value adjustment	32	(113)
Realized (loss)/gain on operations with derivative financial instruments	(428)	166
Unrealized gain on operations with derivative financial instruments	<u>663</u>	<u>20</u>
<b>Total net gain on financial assets and liabilities at fair value through profit or loss</b>	<b><u>265</u></b>	<b><u>94</u></b>

The Bank enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes.

**7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS**

	Year ended 31 December 2014	Year ended 31 December 2013
Dealing, net	6,521	4,356
Translation differences, net	<u>(633)</u>	<u>146</u>
<b>Total net gain on foreign exchange operations</b>	<b><u>5,888</u></b>	<b><u>4,502</u></b>

**8. FEE AND COMMISSION INCOME AND EXPENSE**

	Year ended 31 December 2014	Year ended 31 December 2013
<b>Fee and commission income:</b>		
Cash operations	5,757	5,382
Settlements	4,939	4,459
Payment cards	4,220	3,878
Guarantees	3,864	3,323
Foreign exchange operations	1,210	1,036
Internet-banking operations	551	439
Custodian activities	414	610
Documentary operations	179	139
Trust operations	49	64
Other	<u>381</u>	<u>391</u>
<b>Total fee and commission income</b>	<b><u>21,564</u></b>	<b><u>19,721</u></b>
<b>Fee and commission expense:</b>		
Settlements	1,082	973
Custodian activities	386	550
Foreign exchange operations	82	18
Documentary operations	67	63
Financial activities	25	36
Brokerage services	-	42
Other	<u>114</u>	<u>102</u>
<b>Total fee and commission expense</b>	<b><u>1,756</u></b>	<b><u>1,784</u></b>

## 9. OPERATING EXPENSES

	Year ended 31 December 2014	Year ended 31 December 2013
Staff costs	11,190	10,002
Deposit Insurance Fund expenses	2,371	2,729
Taxes other than income tax	2,002	3,212
Operating leases expenses	1,914	2,877
Depreciation and amortization	1,828	2,117
Administrative expenses	1,803	1,623
Security expenses	638	662
Property and equipment maintenance	511	321
Telecommunications	508	553
Business trip expenses	248	261
Advertising costs	238	609
Professional services	81	316
Other	1,106	1,179
<b>Total operating expenses</b>	<b>24,438</b>	<b>26,461</b>

## 10. INCOME TAXES

The Bank provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of Kazakhstan.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses such as business development expenses and a tax free regime for certain income such as income on finance lease and income from operations with state securities and securities listed on the Kazakhstan Stock Exchange.

Deferred taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2014 and 2013 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

The tax losses carried forward expire in 2022. Based on the business plans prepared, management concluded that it is appropriate to recognise a deferred tax asset in relation to tax losses carried forward.

On 26 December 2012, certain changes to the Tax Code were adopted in Kazakhstan. Most of those tax amendments took effect on 1 January 2013. Significant changes that were introduced relate to interest expense deduction, deduction of provision for impairment losses, introduction of dynamic provision and changes in the deduction of doubtful debts. In particular, the amount of interest expense deductible for corporate income tax purposes shall be recognised in the amount of interest that is paid in the reporting tax period, up to the amount of interest recognised as expenses in the reporting tax period and(or) in tax periods prior to the reporting tax period, up to the amount of interest recognised as expense in the reporting tax period. According to changes to the Tax Code, banks shall determine the deductible provision for impairment losses based on IFRS and Kazakhstan legislation, except for provisions accrued against finance lease and loans provided to related parties or to third parties against related parties' liabilities.

During the year ended 31 December 2014, due to the changes introduced to the Tax Code in relation to deductibility of interest expense, the Bank has recalculated corporate income tax return for 2013 year and adjusted income tax expense correspondingly.

Deferred taxes on temporary differences as at 31 December 2014 and 2013 comprise:

	31 December 2014	31 December 2013
Accrued interest payable	414	2,030
Financial assets and liabilities at fair value through profit or loss	282	(653)
Tax losses carried forward	164	9
Property, equipment and intangible assets	(1,202)	(1,022)
Accrued interest on loans to customers, written off	-	654
Other	105	88
<b>Net deferred tax (liability)/asset</b>	<b>(237)</b>	<b>1,106</b>

Relationships between tax expenses and accounting profit for the period ended 31 December 2014 and 2013 are explained as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Operating profit before income tax	5,956	3,603
Tax at the statutory tax rate	1,191	721
Tax effect of permanent differences:		
Tax-exempt interest income and other related income on state and other qualifying securities	(781)	(737)
Non-deductible operating and other (income)/expenses	(1,029)	157
Non-deductible provision for impairment losses on doubtful debt and qualifying securities	2,395	1,660
<b>Income tax expense</b>	<b>1,776</b>	<b>1,801</b>
Current income tax expense	433	859
Deferred income tax expense	1,343	942
<b>Income tax expense</b>	<b>1,776</b>	<b>1,801</b>

The tax rate used for the year ended 31 December 2014 and 2013 reconciliations above is the corporate tax rate of 20%, payable by corporate entities in the Republic of Kazakhstan on taxable profits under tax law in that jurisdiction.

	31 December 2014	31 December 2013
<b>Deferred income tax (liability)/asset</b>		
Beginning of the year	1,106	2,048
Change in deferred tax assets	(1,343)	(942)
<b>End of the year</b>	<b>(237)</b>	<b>1,106</b>

## 11. CASH AND CASH EQUIVALENTS

	31 December 2014	31 December 2013
Deposits with financial institutions	76,622	105,245
Cash on hand	31,887	32,262
Cash in transit	3,604	4,006
<b>Total cash and cash equivalents</b>	<b>112,113</b>	<b>141,513</b>

As at 31 December 2014 the Bank had deposits with NBRK and Citibank, N.Y. which individually and in the aggregate exceeded 10% of the Bank's equity.

As at 31 December 2013 the Bank had deposits with NBRK, Bank of New York Mellon, USA, Citibank, N.Y., BNP Paribas, France and LBW Stuttgart, Germany which individually and in the aggregate exceeded 10% of the Bank's equity.

### *Obligatory reserves*

Minimum reserve requirements are determined as a percentage of average balances of deposits in accordance with the requirements of the NBRK. The Bank has maintained an average balance in compliance with the NBRK requirements.

	31 December 2014	31 December 2013
Mandatory cash deposits with the NBRK	<u>17,136</u>	<u>15,596</u>
<b>Total obligatory reserves</b>	<u><u>17,136</u></u>	<u><u>15,596</u></u>

## 12. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2014	31 December 2013
<b>Financial assets held for trading:</b>		
Debt securities	11,572	11,911
Equity securities	<u>-</u>	<u>35</u>
<b>Total financial assets held for trading</b>	11,572	11,946
Derivative financial instruments	<u>3,241</u>	<u>3,802</u>
<b>Total financial assets at fair value through profit or loss</b>	<u><u>14,813</u></u>	<u><u>15,748</u></u>

	31 December 2014		31 December 2013	
	Nominal interest rate %	Fair value	Nominal interest rate %	Fair value
<b>Debt securities:</b>				
Government bonds of the Republic of Kazakhstan	4.80-6.00	7,942	4.80-7.80	7,998
Kazakhstan corporate bonds	7.50-8.00	<u>3,630</u>	5.9-13.00	<u>3,913</u>
<b>Total debt securities</b>		<u><u>11,572</u></u>		<u><u>11,911</u></u>

	31 December 2014	31 December 2013
<b>Equity securities*:</b>		
Shares of Kazakhstan corporations	<u>-</u>	<u>35</u>
<b>Total equity securities</b>	<u>-</u>	<u>35</u>

\*Ownership interest in equity securities is below 1%



	Notional amount	31 December 2014 Net fair value		Notional amount	31 December 2013 Net fair value	
		Asset	Liability (Note 23)		Asset	Liability (Note 23)
<b>Foreign currency contracts:</b>						
Swaps	178,122	<u>3,241</u>	<u>128</u>	21,108	<u>3,802</u>	<u>6</u>
<b>Total derivative financial instruments</b>		<u>3,241</u>	<u>128</u>		<u>3,802</u>	<u>6</u>

The table above shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Bank.

### 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. Cross currency swap is an exchange of differently defined interest rates payable and different currencies on a fixed nominal amount (principal) between two contracting parties.

As at 31 December 2014 and 2013 financial assets at fair value through profit or loss included Treasury bonds of the Ministry of Finance of Republic of KZT 3,689 million and KZT 5,029 million, respectively, were pledged under repurchase agreements with the other banks (Note 29). All repurchase agreements as at 31 December 2014 and 2013 mature on 5 January 2015 and 22 January 2014, respectively.

## 13. INVESTMENTS AVAILABLE-FOR-SALE

	31 December 2014	31 December 2013
Debt securities	53,264	53,461
Equity securities	<u>133</u>	<u>198</u>
<b>Total investments available-for-sale</b>	<u>53,397</u>	<u>53,659</u>

	31 December 2014		31 December 2013	
	Nominal interest rate %	Fair value	Nominal interest rate %	Fair value
<b>Debt securities:</b>				
Government bonds of the Republic of Kazakhstan	3.30-8.75	32,705	3.10-8.75	36,610
Kazakhstan corporate bonds	3.36-8.90	16,398	4.40-8.00	13,266
Russian corporate bonds	4.22-8.15	<u>4,161</u>	5.25-10.40	<u>3,585</u>
<b>Total debt securities</b>		<u>53,264</u>		<u>53,461</u>

	31 December 2014	31 December 2013
<b>Equity securities*:</b>		
Kazakhstan corporate shares	122	187
International corporate shares	<u>11</u>	<u>11</u>
<b>Total equity securities</b>	<u>133</u>	<u>198</u>
<b>Total investments available-for-sale</b>	<u><u>53,397</u></u>	<u><u>53,659</u></u>

\*Ownership interest in equity securities is below 1%

As at 31 December 2014 and 2013 investments available-for-sale included Treasury bonds of the Ministry of Finance of Republic of Kazakhstan of KZT 3,847 million and KZT 25,427 million, respectively, were pledged under repurchase agreements with the other banks (Note 29). All repurchase agreements as at 31 December 2014 and 2013 mature on 5 January 2015 and 22 January 2014, respectively.

#### 14. INVESTMENTS HELD TO MATURITY

	31 December 2014		31 December 2013	
	Nominal interest rate %	Amount	Nominal interest rate %	Amount
Government bonds of the Republic of Kazakhstan	4.40-7.76	4,505	4.30-8.75	7,585
Kazakhstan corporate bonds	7.41-11.75	2,825	5.89-13.00	3,352
International corporate bonds	6.07	298	2.82	296
Russian corporate bonds	-	<u>-</u>	5.03	<u>1,112</u>
<b>Total investments held to maturity</b>		<u><u>7,628</u></u>		<u><u>12,345</u></u>

As at 31 December 2014 and 2013 investments held to maturity included Treasury bonds of the Ministry of Finance of Republic of Kazakhstan pledged under repurchase agreements with other banks amounting to KZT 3,117 million and KZT 6,931 million, respectively (Note 29). All repurchase agreements as at 31 December 2014 and 2013 mature on 5 January 2015 and 22 January 2014, respectively.

#### 15. INVESTMENTS IN SUBSIDIARIES

	31 December 2014		31 December 2013	
	Ownership interest, %	Amount	Ownership interest, %	Amount
LLP BCC-SAOO	100.00	12,894	100.00	6,842
LLC Bank BCC-Moscow	100.00	6,470	100.00	6,470
JSC BCC Invest	95.19	5,063	100.00	1,335
LLP Center Leasing	90.75	1,139	90.75	1,139
JSC APF Capital	-	<u>-</u>	75.06	<u>1,557</u>
<b>Total investments in subsidiaries</b>		<u><u>25,566</u></u>		<u><u>17,343</u></u>

The Bank is the parent company of the banking Group which consists of the following subsidiaries that are not consolidated in its separate financial statements:

Name	Country of operation	Type of operation
LLP BCC-SAOO	Republic of Kazakhstan	Management of distressed assets
LLC Bank BCC-Moscow	Russian Federation	Banking services
JSC BCC Invest	Republic of Kazakhstan	Brokerage and dealer activity
LLP Center Leasing	Republic of Kazakhstan	Finance lease
JSC APF Capital	Republic of Kazakhstan	Pension fund management

In December 2011, Kazakhstan adopted the Law of the Republic of Kazakhstan on the Introduction of Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan regarding the Regulation of Banking Activities and Financial Institutions with Respect to Risk Mitigation, which stipulated that commercial banks create special subsidiaries to purchase banks' non-working (distressed) assets and manage them. On 21 August 2013, the Bank's special subsidiary for the management of distressed assets – LLP BCC-SAOO was registered by the Ministry of Justice of the Republic of Kazakhstan.

On 26 December 2013 the Bank concluded with LLP BCC-SAOO cession agreements for certain loans. As a result of this transaction, the Bank has derecognized loans to customers and recognized receivable with par value of KZT 10,074 million and the fair value of KZT 3,233 million at initial recognition. Subsequent amortization of discount is recognised as interest income and amortization of discount on accounts receivable. The nominal interest rate on receivable is 0.1% and the fair value was determined using 14.9% interest rate. The difference between fair value of receivables and transaction price in the amount of KZT 6,841 million was recognized as part of the investment in LLP BCC-SAOO.

On 31 December 2014 the Bank provided a loan to its subsidiary LLP BCC-SAOO in the amount of KZT 16,520 million at 0.01% p.a. Essentially this transaction assumed derecognition of a previously recorded receivable and transfer of certain loans to LLP BCC-SAOO. As a result of this transaction, the Bank has derecognized loans to customers and recognized loan with the fair value of KZT 3,627 million at initial recognition. Subsequent amortization of discount is recognised as interest income and amortization of discount on loan. The fair value was determined using 14.9% interest rate. The difference between fair value of the loan and its nominal value in the amount of KZT 12,893 million was recognized as part of the investment in LLP BCC-SAOO.

In August 2006, the Bank received permission from the NBRK for establishment of its subsidiary LLC Bank BCC-Moscow. On 21 March 2008, LLC Bank BCC-Moscow received its license from the Central Bank of Russian Federation. The main activity of LLC Bank BCC-Moscow consists of banking services.

In May 1998, JSC BCC Invest was established as a limited liability partnership (previously named "LLP KIB ASSET MANAGEMENT") in accordance with legislation of the Republic of Kazakhstan. On 26 September 2006, LLP KIB ASSET MANAGEMENT was registered as a joint stock company. The main activity of JSC BCC Invest consists of management of assets of mutual funds and management of investment portfolios.

In September 2002, LLP Center Leasing was established as a limited liability partnership in accordance with the legislation of the Republic of Kazakhstan. The main activity of LLP Center Leasing is leasing operations, which are carried out in accordance with Article 10 on financial leasing of the Republic of Kazakhstan.

JSC Accumulated Pension Fund Capital ("APF Capital") was established as a closed joint stock company in October 2001, in accordance with legislation of the Republic of Kazakhstan. In December 2003, APF Capital was registered as a joint stock company. APF Capital managed pension contribution inflows and the accumulation of individual pension accounts in accordance with the requirements of legislative authorities of the Republic of Kazakhstan.

The new Law of the Republic of Kazakhstan #105-V enacted on 21 June 2013 and amendments to it together with the decree of the Government of the Republic of Kazakhstan #747 issued on 31 July 2013 ruled to start the new reform of the national pension system of the Republic of Kazakhstan by unifying all pension assets and associated liabilities managed by private pension funds into wholly state owned Single Accumulating Pension Fund (“SAPF”).

As a result of this reform, on 18 November 2013 the APF Capital stopped accepting pension contributions from its clients and transferred all pension assets and associated liabilities under management to SAPF. On 28 November 2014, Management of the Bank made a decision to reorganize its subsidiaries by transferring assets of APF Capital to JSC BCC Invest. In return for transferred assets on 3 December 2014 JSC BCC Invest had issued 2,027,975,072 of common shares with a par value of KZT 4,050,428 thousand. Assets were recognized on the day of transfer at their previous carrying value.

## 16. DUE FROM BANKS

	31 December 2014	31 December 2013
Due from banks	12,495	5,409
Accrued interest	<u>145</u>	<u>93</u>
<b>Total due from banks</b>	<b><u>12,640</u></b>	<b><u>5,502</u></b>

As at 31 December 2014 and 31 December 2013, included in balances due from banks are guarantee deposits placed by the Bank for its credit card operations amounting to KZT 1,446 million and KZT 1,161 million, respectively.

## 17. LOANS TO CUSTOMERS AND BANKS

	31 December 2014	31 December 2013
Originated loans to customers	895,077	877,333
Net investment in finance lease	4,201	4,645
Accrued interest	<u>51,967</u>	<u>67,128</u>
	951,245	949,106
Less: allowance for impairment losses	<u>(145,875)</u>	<u>(193,653)</u>
<b>Total loans to customers</b>	<b><u>805,370</u></b>	<b><u>755,453</u></b>
Originated loans to banks and other financial institutions	4,804	3,861
Accrued interest	51	20
Less: allowance for impairment losses	<u>(41)</u>	<u>(14)</u>
<b>Total loans to banks and other financial institutions</b>	<b><u>4,814</u></b>	<b><u>3,867</u></b>
<b>Total loans to customers and banks</b>	<b><u>810,184</u></b>	<b><u>759,320</u></b>

Movement in allowances for impairment losses on loans to customers and banks for the years ended 31 December 2014 and 2013 are disclosed in Note 5.

The table below summarizes the amount of loans to customers secured by type of collateral, rather than the fair value of the collateral itself:

	31 December 2014	31 December 2013
Loans collateralized by real estate	698,180	700,609
Loans collateralized by goods	78,659	103,131
Loans collateralized by corporate guarantees	54,404	42,666
Loans collateralized by equipment	49,737	52,725
Loans collateralized by other assets	27,427	13,121
Loans collateralized by cash	18,832	17,237
Unsecured loans	24,006	19,617
	<u>951,245</u>	<u>949,106</u>
Less: allowance for impairment losses	<u>(145,875)</u>	<u>(193,653)</u>
<b>Total loans to customers</b>	<u><u>805,370</u></u>	<u><u>755,453</u></u>
	<b>31 December 2014</b>	<b>31 December 2013</b>
<b>Analysis by sector:</b>		
Individuals	370,478	357,129
Trading	146,493	155,060
Industrial construction	76,346	62,493
Residential construction	58,268	48,686
Rent of real estate	54,974	55,233
Manufacturing	48,151	56,493
Agriculture	45,365	48,286
Food industry	40,046	44,159
Transportation and equipment maintenance	28,227	28,198
Oil and gas	13,463	21,318
Telecommunications and transport	12,015	13,082
Energy	10,112	10,015
Mass media	998	5,303
Other	46,309	43,651
	<u>951,245</u>	<u>949,106</u>
Less: allowance for impairment losses	<u>(145,875)</u>	<u>(193,653)</u>
<b>Total loans to customers</b>	<u><u>805,370</u></u>	<u><u>755,453</u></u>

During the years ended 31 December 2014 and 2013 the Bank received non-financial assets by taking possession of collateral it held as security. As at 31 December 2014 and 2013 such assets amounting to KZT 10,726 million and KZT 14,254 million, respectively, are included in other assets (Note 18).

Loans to customers comprise the following products:

	31 December 2014	31 December 2013
<b>Loans to legal entities</b>		
Corporate loans	525,835	536,083
Small and medium-sized enterprises	<u>54,932</u>	<u>55,894</u>
<b>Total loans to legal entities</b>	<u>580,767</u>	<u>591,977</u>
<b>Loans to individuals</b>		
Mortgage loans	164,664	166,752
Consumer loans	120,072	112,813
Business development	79,259	69,753
Car loans	<u>6,483</u>	<u>7,811</u>
<b>Total loans to individuals</b>	<u>370,478</u>	<u>357,129</u>
<b>Gross loans to customers</b>	951,245	949,106
Less: allowance for impairment losses	<u>(145,875)</u>	<u>(193,653)</u>
<b>Total loans to customers</b>	<u>805,370</u>	<u>755,453</u>

As at 31 December 2014 and 2013 the Bank provided loans to 18 and 15 borrowers totaling KZT 242,835 million and KZT 208,451 million, which individually and in aggregate exceeded 10% of the Bank's equity, respectively.

As at 31 December 2014 and 2013 a significant amount of loans (98% and 97% of total portfolio, respectively) were granted to companies operating in the Republic of Kazakhstan, which represents a significant geographical concentration in one region.

As at 31 December 2014 and 2013 loans to customers and banks included loans totaling KZT 62,250 million and KZT 79,931 million, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

	31 December 2014			31 December 2013		
	Carrying value before allowance	Allowance for impairment losses	Carrying value	Carrying value before allowance	Allowance for impairment losses	Carrying Value
Loans to customers individually determined to be impaired	276,670	(111,713)	164,957	305,126	(132,017)	173,109
Loans to customers collectively determined to be impaired	67,089	(13,727)	53,362	161,283	(22,316)	138,967
Unimpaired loans	<u>607,486</u>	<u>(20,435)</u>	<u>587,051</u>	<u>482,697</u>	<u>(39,320)</u>	<u>443,377</u>
<b>Total</b>	<u>951,245</u>	<u>(145,875)</u>	<u>805,370</u>	<u>949,106</u>	<u>(193,653)</u>	<u>755,453</u>

During the year ended 31 December 2014 the Bank clarified its definition of unimpaired loans so that a loan is considered unimpaired if it is overdue more than 90 days provided that Loss Given Default ("LGD") coefficient is less than 5%. The carrying value before allowance of loans to customers collectively determined to be impaired has increased by KZT 43,694 million as a result. This did not result in a change in the allowance for impairment.

In determining the impairment allowance for the loans that are individually significant, management makes the assumption of delay of 1-3 year in obtaining proceeds from sale of collateral.

Analysis by credit quality of loans to corporations outstanding as at 31 December 2014 and 2013 was as follows:

<b>Corporate loans As at 31 December 2014</b>	<b>Gross loans</b>	<b>Provision for impairment</b>	<b>Net loans</b>	<b>Provision for impairment to gross loans</b>
<b>Individually impaired</b>				
Not past due	170,611	(67,611)	103,000	39.63%
Overdue:				
up to 30 days	14,986	(5,441)	9,545	36.31%
31 to 60 days	28,451	(8,767)	19,684	30.81%
61 to 90 days	4,933	(2,215)	2,718	44.90%
91 to 180 days	12,394	(4,746)	7,648	38.29%
over 180 days	45,295	(22,933)	22,362	50.63%
<b>Total individually impaired loans</b>	<b>276,670</b>	<b>(111,713)</b>	<b>164,957</b>	<b>40.38%</b>
<b>Collectively assessed</b>				
Not past due	3,620	(26)	3,594	0.72%
Overdue:				
up to 30 days	-	-	-	0.00%
31 to 60 days	-	-	-	0.00%
61 to 90 days	-	-	-	0.00%
91 to 180 days	-	-	-	0.00%
over 180 days	223	(165)	58	73.99%
<b>Total collectively assessed loans</b>	<b>3,843</b>	<b>(191)</b>	<b>3,652</b>	<b>4.97%</b>
<b>Unimpaired loans</b>				
Not past due	239,716	(1,387)	238,329	0.58%
Overdue:				
up to 30 days	235	(1)	234	0.43%
31 to 60 days	3,354	(2,279)	1,075	67.95%
61 to 90 days	1,147	(227)	920	19.79%
91 to 180 days	603	(424)	179	70.32%
over 180 days	267	(200)	67	74.91%
<b>Total unimpaired loans</b>	<b>245,322</b>	<b>(4,518)</b>	<b>240,804</b>	<b>1.84%</b>
<b>Total corporate loans</b>	<b>525,835</b>	<b>(116,422)</b>	<b>409,413</b>	<b>22.14%</b>

<b>Corporate loans As at 31 December 2013</b>	<b>Gross loans</b>	<b>Provision for impairment</b>	<b>Net loans</b>	<b>Provision for impairment to gross loans</b>
<b>Individually impaired</b>				
Not past due	192,876	(67,152)	125,724	34.82%
Overdue:				
up to 30 days	10,780	(867)	9,913	8.04%
31 to 60 days	1,184	(828)	356	69.93%
61 to 90 days	16,426	(8,738)	7,688	53.20%
91 to 180 days	11,856	(7,859)	3,997	66.29%
over 180 days	72,004	(46,573)	25,431	64.68%
<b>Total individually impaired loans</b>	<b>305,126</b>	<b>(132,017)</b>	<b>173,109</b>	<b>43.27%</b>
<b>Collectively assessed</b>				
Not past due	45,785	(5,270)	40,515	11.51%
Overdue:				
up to 30 days	2,088	(262)	1,826	12.55%
31 to 60 days	-	-	-	0.00%
61 to 90 days	-	-	-	0.00%
91 to 180 days	2,131	(92)	2,039	4.32%
over 180 days	3,211	(348)	2,863	10.84%
<b>Total collectively assessed loans</b>	<b>53,215</b>	<b>(5,972)</b>	<b>47,243</b>	<b>11.22%</b>
<b>Unimpaired loans</b>				
Not past due	171,598	(6,542)	165,056	3.81%
Overdue:				
up to 30 days	2,832	(43)	2,789	1.52%
31 to 60 days	-	-	-	0.00%
61 to 90 days	3,312	(32)	3,280	0.97%
91 to 180 days	-	-	-	0.00%
over 180 days	-	-	-	0.00%
<b>Total unimpaired loans</b>	<b>177,742</b>	<b>(6,617)</b>	<b>171,125</b>	<b>3.72%</b>
<b>Total corporate loans</b>	<b>536,083</b>	<b>(144,606)</b>	<b>391,477</b>	<b>26.97%</b>



Analysis by credit quality of loans to small and medium-sized enterprise outstanding as at 31 December 2014 and 2013 was as follows:

<b>Small and medium-sized enterprises As at 31 December 2014</b>	<b>Gross loans</b>	<b>Provision for impairment</b>	<b>Net loans</b>	<b>Provision for impairment to gross loans</b>
<b>Collectively assessed</b>				
Not past due	484	(4)	480	0.83%
Overdue:				
up to 30 days	93	(9)	84	9.68%
31 to 60 days	-	-	-	0.00%
61 to 90 days	-	-	-	0.00%
91 to 180 days	105	(62)	43	59.05%
over 180 days	5,924	(4,868)	1,056	82.17%
<b>Total collectively assessed</b>	<b>6,606</b>	<b>(4,943)</b>	<b>1,663</b>	<b>74.83%</b>
<b>Unimpaired loans</b>				
Not past due	38,408	(1,228)	37,180	3.20%
Overdue:				
up to 30 days	1,053	(168)	885	15.95%
31 to 60 days	565	(285)	280	50.44%
61 to 90 days	126	(47)	79	37.30%
91 to 180 days	2,157	(221)	1,936	10.25%
over 180 days	6,017	(4,527)	1,490	75.24%
<b>Total unimpaired loans</b>	<b>48,326</b>	<b>(6,476)</b>	<b>41,850</b>	<b>13.40%</b>
<b>Total small and medium-sized enterprises</b>	<b>54,932</b>	<b>(11,419)</b>	<b>43,513</b>	<b>20.79%</b>
<b>Small and medium-sized enterprises As at 31 December 2013</b>	<b>Gross loans</b>	<b>Provision for impairment</b>	<b>Net loans</b>	<b>Provision for impairment to gross loans</b>
<b>Collectively assessed</b>				
Not past due	3,128	(359)	2,769	11.48%
Overdue:				
up to 30 days	61	(8)	53	13.11%
31 to 60 days	-	-	-	0.00%
61 to 90 days	35	(4)	31	11.43%
91 to 180 days	1,281	(145)	1,136	11.32%
over 180 days	12,905	(1,487)	11,418	11.52%
<b>Total collectively assessed</b>	<b>17,410</b>	<b>(2,003)</b>	<b>15,407</b>	<b>11.50%</b>
<b>Unimpaired loans</b>				
Not past due	36,286	(3,476)	32,810	9.58%
Overdue:				
up to 30 days	783	(76)	707	9.71%
31 to 60 days	298	(27)	271	9.06%
61 to 90 days	264	(24)	240	9.09%
91 to 180 days	853	-	853	0.00%
over 180 days	-	-	-	0.00%
<b>Total unimpaired loans</b>	<b>38,484</b>	<b>(3,603)</b>	<b>34,881</b>	<b>9.36%</b>
<b>Total small and medium-sized enterprises</b>	<b>55,894</b>	<b>(5,606)</b>	<b>50,288</b>	<b>10.03%</b>

Analysis by credit quality of mortgage loans outstanding as at 31 December 2014 and 2013 was as follows:

	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
<b>Mortgage As at 31 December 2014</b>				
<b>Collectively assessed</b>				
Not past due	2,830	(13)	2,817	0.46%
Overdue:				
up to 30 days	308	(8)	300	2.60%
31 to 60 days	194	(11)	183	5.67%
61 to 90 days	998	(38)	960	3.81%
91 to 180 days	520	(32)	488	6.15%
over 180 days	16,740	(1,321)	15,419	7.89%
<b>Total collectively assessed</b>	<b>21,590</b>	<b>(1,423)</b>	<b>20,167</b>	<b>6.59%</b>
<b>Unimpaired loans</b>				
Not past due	124,655	(134)	124,521	0.11%
Overdue:				
up to 30 days	4,456	(59)	4,397	1.32%
31 to 60 days	1,785	(75)	1,710	4.20%
61 to 90 days	941	(55)	886	5.84%
91 to 180 days	1,552	(155)	1,397	9.99%
over 180 days	9,685	(1,128)	8,557	11.65%
<b>Total unimpaired loans</b>	<b>143,074</b>	<b>(1,606)</b>	<b>141,468</b>	<b>1.12%</b>
<b>Total mortgage loans</b>	<b>164,664</b>	<b>(3,029)</b>	<b>161,635</b>	<b>1.84%</b>
<b>Mortgage As at 31 December 2013</b>				
<b>Collectively assessed</b>				
Not past due	2,044	(472)	1,572	23.09%
Overdue:				
up to 30 days	173	(40)	133	23.12%
31 to 60 days	120	(28)	92	23.33%
61 to 90 days	166	(38)	128	22.89%
91 to 180 days	3,761	(620)	3,141	16.48%
over 180 days	29,032	(4,553)	24,479	15.68%
<b>Total collectively assessed</b>	<b>35,296</b>	<b>(5,751)</b>	<b>29,545</b>	<b>16.29%</b>
<b>Unimpaired loans</b>				
Not past due	121,943	(12,049)	109,894	9.88%
Overdue:				
up to 30 days	6,067	(699)	5,368	11.52%
31 to 60 days	2,112	(264)	1,848	12.50%
61 to 90 days	1,334	(178)	1,156	13.34%
91 to 180 days	-	-	-	0.00%
over 180 days	-	-	-	0.00%
<b>Total unimpaired loans</b>	<b>131,456</b>	<b>(13,190)</b>	<b>118,266</b>	<b>10.03%</b>
<b>Total mortgage loans</b>	<b>166,752</b>	<b>(18,941)</b>	<b>147,811</b>	<b>11.36%</b>

Analysis by credit quality of car loans outstanding as at 31 December 2014 and 2013 was as follows:

	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
<b>Car loans As at 31 December 2014</b>				
<b>Collectively assessed</b>				
Not past due	9	-	9	0.00%
Overdue:				
up to 30 days	1	-	1	0.00%
31 to 60 days	-	-	-	0.00%
61 to 90 days	-	-	-	0.00%
91 to 180 days	3	-	3	0.00%
over 180 days	12	(1)	11	8.33%
<b>Total collectively assessed</b>	<b>25</b>	<b>(1)</b>	<b>24</b>	<b>4.00%</b>
<b>Unimpaired loans</b>				
Not past due	6,079	(25)	6,054	0.41%
Overdue:				
up to 30 days	185	(2)	183	1.08%
31 to 60 days	37	(1)	36	2.70%
61 to 90 days	22	(1)	21	4.55%
91 to 180 days	56	(4)	52	7.14%
over 180 days	79	(6)	73	7.59%
<b>Total unimpaired loans</b>	<b>6,458</b>	<b>(39)</b>	<b>6,419</b>	<b>0.60%</b>
<b>Total car loans</b>	<b>6,483</b>	<b>(40)</b>	<b>6,443</b>	<b>0.62%</b>
<b>Car loans As at 31 December 2013</b>				
<b>Collectively assessed</b>				
Not past due	79	(18)	61	22.78%
Overdue:				
up to 30 days	15	(3)	12	20.00%
31 to 60 days	3	(1)	2	33.33%
61 to 90 days	-	-	-	0.00%
91 to 180 days	33	(4)	29	12.12%
over 180 days	1,254	(205)	1,049	16.35%
<b>Total collectively assessed</b>	<b>1,384</b>	<b>(231)</b>	<b>1,153</b>	<b>16.69%</b>
<b>Unimpaired loans</b>				
Not past due	6,256	(992)	5,264	15.86%
Overdue:				
up to 30 days	98	(12)	86	12.24%
31 to 60 days	37	(6)	31	16.22%
61 to 90 days	36	(5)	31	13.89%
91 to 180 days	-	-	-	0.00%
over 180 days	-	-	-	0.00%
<b>Total unimpaired loans</b>	<b>6,427</b>	<b>(1,015)</b>	<b>5,412</b>	<b>15.79%</b>
<b>Total car loans</b>	<b>7,811</b>	<b>(1,246)</b>	<b>6,565</b>	<b>15.95%</b>

Analysis by credit quality of consumer loans outstanding as at 31 December 2014 and 2013 was as follows:

	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
<b>Consumer loans As at 31 December 2014</b>				
<b>Collectively assessed</b>				
Not past due	5,491	(12)	5,479	0.22%
Overdue:				
up to 30 days	3,016	(58)	2,958	1.92%
31 to 60 days	117	(5)	112	4.27%
61 to 90 days	1,711	(63)	1,648	3.68%
91 to 180 days	448	(24)	424	5.36%
over 180 days	12,157	(908)	11,249	7.47%
<b>Total collectively assessed</b>	<b>22,940</b>	<b>(1,070)</b>	<b>21,870</b>	<b>4.66%</b>
<b>Unimpaired loans</b>				
Not past due	77,054	(353)	76,701	0.46%
Overdue:				
up to 30 days	3,982	(63)	3,919	1.58%
31 to 60 days	1,784	(52)	1,732	2.91%
61 to 90 days	1,017	(45)	972	4.42%
91 to 180 days	2,069	(122)	1,947	5.90%
over 180 days	11,226	(974)	10,252	8.68%
<b>Total unimpaired loans</b>	<b>97,132</b>	<b>(1,609)</b>	<b>95,523</b>	<b>1.66%</b>
<b>Total consumer loans</b>	<b>120,072</b>	<b>(2,679)</b>	<b>117,393</b>	<b>2.23%</b>
<b>Consumer loans As at 31 December 2013</b>				
<b>Collectively assessed</b>				
Not past due	2,917	(671)	2,246	23.00%
Overdue:				
up to 30 days	179	(41)	138	22.91%
31 to 60 days	495	(114)	381	23.03%
61 to 90 days	22	(5)	17	22.73%
91 to 180 days	2,656	(435)	2,221	16.38%
over 180 days	22,952	(3,685)	19,267	16.06%
<b>Total collectively assessed</b>	<b>29,221</b>	<b>(4,951)</b>	<b>24,270</b>	<b>16.94%</b>
<b>Unimpaired loans</b>				
Not past due	74,728	(9,499)	65,229	12.71%
Overdue:				
up to 30 days	3,327	(466)	2,861	14.01%
31 to 60 days	4,757	(798)	3,959	16.78%
61 to 90 days	780	(92)	688	11.79%
91 to 180 days	-	-	-	0.00%
over 180 days	-	-	-	0.00%
<b>Total unimpaired loans</b>	<b>83,592</b>	<b>(10,855)</b>	<b>72,737</b>	<b>12.99%</b>
<b>Total consumer loans</b>	<b>112,813</b>	<b>(15,806)</b>	<b>97,007</b>	<b>14.01%</b>

Analysis by credit quality of loans issued for business development purposes as at 31 December 2014 and 2013 was as follows:

	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
<b>Business development As at 31 December 2014</b>				
<b>Collectively assessed</b>				
Not past due	846	(5)	841	0.59%
Overdue:				
up to 30 days	164	(49)	115	29.88%
31 to 60 days	1	-	1	0.00%
61 to 90 days	-	-	-	0.00%
91 to 180 days	131	(109)	22	83.21%
over 180 days	10,943	(5,936)	5,007	54.24%
<b>Total collectively assessed</b>	<b>12,085</b>	<b>(6,099)</b>	<b>5,986</b>	<b>50.47%</b>
<b>Unimpaired loans</b>				
Not past due	54,040	(1,418)	52,622	2.62%
Overdue:				
up to 30 days	1,572	(161)	1,411	10.24%
31 to 60 days	1,048	(96)	952	9.16%
61 to 90 days	520	(146)	374	28.08%
91 to 180 days	891	(261)	630	29.29%
over 180 days	9,103	(4,105)	4,998	45.10%
<b>Total unimpaired loans</b>	<b>67,174</b>	<b>(6,187)</b>	<b>60,987</b>	<b>9.21%</b>
<b>Total business development</b>	<b>79,259</b>	<b>(12,286)</b>	<b>66,973</b>	<b>15.50%</b>
<b>Business development As at 31 December 2013</b>				
<b>Collectively assessed</b>				
Not past due	1,893	(337)	1,556	17.80%
Overdue:				
up to 30 days	111	(18)	93	16.22%
31 to 60 days	48	(9)	39	18.75%
61 to 90 days	47	(8)	39	17.02%
91 to 180 days	1,189	(126)	1,063	10.60%
over 180 days	21,469	(2,910)	18,559	13.55%
<b>Total collectively assessed</b>	<b>24,757</b>	<b>(3,408)</b>	<b>21,349</b>	<b>13.77%</b>
<b>Unimpaired loans</b>				
Not past due	43,611	(3,899)	39,712	8.94%
Overdue:				
up to 30 days	748	(70)	678	9.36%
31 to 60 days	333	(38)	295	11.41%
61 to 90 days	304	(33)	271	10.86%
91 to 180 days	-	-	-	0.00%
over 180 days	-	-	-	0.00%
<b>Total unimpaired loans</b>	<b>44,996</b>	<b>(4,040)</b>	<b>40,956</b>	<b>8.98%</b>
<b>Total business development</b>	<b>69,753</b>	<b>(7,448)</b>	<b>62,305</b>	<b>10.68%</b>

The components of net investment in finance lease as at 31 December 2014 and 2013 are presented as follows:

	31 December 2014	31 December 2013
Not later than one year	360	426
From one year to five years	1,440	1,624
More than five years	<u>10,443</u>	<u>11,163</u>
Minimum lease payments	12,243	13,213
Less: unearned finance income	<u>(8,042)</u>	<u>(8,568)</u>
Net investment in finance lease	<u>4,201</u>	<u>4,645</u>
Current portion	26	426
Long-term portion	<u>4,175</u>	<u>4,219</u>
Net investment in finance lease, before allowance for impairment	4,201	4,645
Less: allowance for impairment losses	<u>(19)</u>	<u>(974)</u>
Net investment in finance lease, net of allowance for impairment	<u>4,182</u>	<u>3,671</u>

There are no restrictions placed upon the lessee by entering into these contracts.

#### 18. OTHER ASSETS

	31 December 2014	31 December 2013
<b>Other financial assets:</b>		
Receivables	4,750	7,357
Accrued commission	2,210	2,831
Western Union and other wireless transfers	<u>130</u>	<u>68</u>
	7,090	10,256
Less allowances for impairment losses	<u>(1,608)</u>	<u>(1,059)</u>
<b>Total other financial assets</b>	<u>5,482</u>	<u>9,197</u>
<b>Other non-financial assets:</b>		
Repossessed collateral	7,502	5,837
Non-current assets held for sale	3,224	8,417
Tax settlements, other than income tax	1,398	1,017
Advances paid	338	836
Inventory	<u>15</u>	<u>26</u>
	12,477	16,133
Less accumulated impairment	<u>(683)</u>	<u>(831)</u>
<b>Total other non-financial assets</b>	<u>11,794</u>	<u>15,302</u>
<b>Total other assets</b>	<u>17,276</u>	<u>24,499</u>

Movement in allowances for impairment losses on other assets for the years ended 31 December 2014 and 2013 are disclosed in Note 5.

As at 31 December 2014 and 2013 non-current assets held for sale are represented by assets foreclosed by the Bank from non-performing borrowers. These assets have been initially recognized at fair value and subsequently measured at the lower of fair value less cost to dispose or the carrying value, as the appropriate level of management has committed to a plan to sell the assets and an active program to locate a buyer and complete the sale plan has been initiated. The Bank expects to dispose of these assets within a year. The Bank does not occupy repossessed properties for business use.

Repossessed collateral represents real estate accepted by the Bank from the non-performing borrowers. These assets have been initially recognized at fair value and subsequently measured at cost less accumulated impairment. As at 31 December 2014, the Management has not yet decided on whether the repossessed collateral will be sold or used as property and equipment.

## 19. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings and other real estate	Furniture and equipment	Construction in progress	Intangible assets	Total
<b>At initial cost</b>					
31 December 2012	14,191	11,541	984	3,616	30,332
Additions	1,741	1,774	1,745	400	5,660
Reclassified as held for sale	-	-	(838)	-	(838)
Disposals	(106)	(808)	-	(1)	(915)
31 December 2013	15,826	12,507	1,891	4,015	34,239
Additions	7,287	1,263	107	388	9,045
Transfers	1,960	-	(1,960)	-	-
Disposals	-	(1,518)	-	(8)	(1,526)
31 December 2014	25,073	12,252	38	4,395	41,758
<b>Accumulated depreciation and impairment</b>					
31 December 2012	(294)	(6,719)	-	(1,639)	(8,652)
Depreciation expenses	(153)	(1,344)	-	(620)	(2,117)
Disposals	13	804	-	1	818
31 December 2013	(434)	(7,259)	-	(2,258)	(9,951)
Depreciation expenses	(195)	(1,207)	-	(426)	(1,828)
Disposals	-	1,399	-	8	1,407
31 December 2014	(629)	(7,067)	-	(2,676)	(10,372)
<b>Net book value</b>					
As at 31 December 2014	24,444	5,185	38	1,719	31,386
As at 31 December 2013	15,392	5,248	1,891	1,757	24,288

Intangible assets include software, patents and licenses.

## 20. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	Interest rate, %	31 December 2014	31 December 2013
Long-term loans due to banks and financial institutions	0.93-8.50	50,489	21,209
Loans due to Government of the Republic of Kazakhstan and NBRK	5.50	30,148	165
Perpetual debt	9.13	14,742	12,455
Subordinated loan	LIBOR+4.50- LIBOR+6.50	4,559	3,852
Short-term loans due to banks and financial institutions	3.28-7.00	970	2,421
Correspondent accounts of banks	-	682	491
Loans due to international credit organizations	-	-	453
Accrued interest	-	2,581	826
		104,171	41,872
Loans under repurchase agreements	15.00	10,000	34,285
<b>Total due to banks and financial institutions</b>		<b>114,171</b>	<b>76,157</b>

During the year ended 31 December 2014 the Bank has received a long term loan from JSC Entrepreneurship Development Fund DAMU (“DAMU”) in the amount of KZT 8,000 million at 2.00% p.a. maturing in 2034 with the possibility of early recall. The loan was received in accordance with the Government program (“the Program”) to finance small and medium enterprises (“SME”) of 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, at 6% with the maturity not exceeding 10 years. The Bank’s obligation to repay the loan to DAMU is not contingent on collectability of the loans extended to SME borrowers. The Bank is obligated to pay 5% penalty on the amounts not extended to SME borrowers within 6 months after receiving the money from DAMU. The Bank believes that there are no other similar financial instruments and due to specific nature of SME clients, this product represents separate market. As a result, the loan from DAMU was received in an orderly transaction and as such has been recorded at fair value at the recognition date.

During the year ended 31 December 2014 the Bank has received long term loans from JSC Development Bank of Kazakhstan in the amount of KZT 11,000 million at 7.90% p.a. maturing in 2019.

In February 2014 the Bank received a loan from NBRK in the amount of KZT 80,000 million at 5.5% p.a. with the maturity of one year. As at 31 December 2014 the Bank partially repaid the loan.

The Perpetual non-cumulative debt was issued by the Bank in March 2006 with an option to repay in whole, but not in part, on any interest payment date from and including 3 March 2016 at face value of USD 100 million. Interest payment dates are 3 March and 3 September in each year. Interest and principal on loans due to banks are repayable either quarterly, semiannually or at the end of the term, depending on the agreed repayment schedule.

Interest on the subordinated loan is repayable semiannually, and principal is repayable at the end of the term in 2015.

During the year ended 31 December 2014 the Bank has repaid loans received from PNC Bank, European Bank for Reconstruction and Development (“EBRD”) and certain loans received from Citibank N.A., USA in amounts of KZT 998 million, KZT 520 million and KZT 577 million, respectively.



During the year ended 31 December 2013 the Bank has repaid loans received from IFC, Eurasian Development Bank, Deutsche Investitions-Und Entwicklungsgesellschaft MBH and certain loans received from European Bank for Reconstruction and Development (“EBRD”) in amounts of KZT 14,202 million, KZT 10,425 million, KZT 6,164 million and KZT 2,360 million, respectively.

In the event of bankruptcy or liquidation of the Bank, repayment of all subordinated loans is subordinate to the repayments of the Bank’s liabilities to all other creditors.

The Bank is obligated to comply with financial covenants in relation to due to banks and subordinated loans. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. The Bank has not breached any of these covenants during the years ended 31 December 2014 and 2013.

As at 31 December 2014, the Bank had long-term loans received from JSC Development Bank of Kazakhstan and Entrepreneurship Development Fund DAMU (“DAMU”) that individually and in aggregate exceeded 10% of the Bank’s equity. As at 31 December 2013, the Bank had long-term loans received from JSC Entrepreneurship Development Fund DAMU (“DAMU”) that individually and in aggregate exceeded 10% of the Bank’s equity.

As at 31 December 2014 and 2013 included in deposits by banks are loans under repurchase agreements of KZT 10,000 million and KZT 34,285 that were settled on 5 January 2015 and 22 January 2014, respectively (Note 29).

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

	31 December 2014		31 December 2013	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Bonds of the Ministry of Finance of the Republic of Kazakhstan	10,000	10,653	34,285	37,006
<b>Total</b>	<b>10,000</b>	<b>10,653</b>	<b>34,285</b>	<b>37,006</b>

## 21. CUSTOMER AND BANKS ACCOUNTS

	31 December 2014	31 December 2013
<b>Recorded at amortized cost:</b>		
Customer accounts	790,445	789,784
Bank accounts	9,601	3,104
	800,046	792,888
Accrued interest	4,187	7,311
<b>Total customer and bank accounts</b>	<b>804,233</b>	<b>800,199</b>
	31 December 2014	31 December 2013
Time deposits	502,473	539,349
Demand deposits	287,972	250,435
	790,445	789,784
Accrued interest	3,905	7,286
<b>Total customer accounts</b>	<b>794,350</b>	<b>797,070</b>

As at 31 December 2014 and 2013 customer accounts totalling KZT 86,348 million and KZT 123,795 million, respectively, were due to five and four customers, which represents a significant concentration.

	31 December 2014	31 December 2013
<b>Analysis by sector:</b>		
Individuals	332,167	327,161
Social services	127,767	147,325
Real estate construction	75,080	75,518
Education and health care	38,908	25,275
Trade	37,589	44,308
Insurance companies and pension fund	31,608	54,891
Public administration	30,859	3,023
Transportation and communication	27,604	16,979
Manufacturing	10,195	13,141
Metallurgy	9,790	2,517
Energy	9,314	9,848
Agriculture	7,253	4,032
Oil and Gas	6,567	20,153
Research and engineering	6,328	8,130
Chemical production	4,088	2,599
Fuel	3,823	13,650
Entertainment services	3,428	759
Machinery	1,331	2,790
Other	30,651	24,971
<b>Total customer accounts</b>	<u>794,350</u>	<u>797,070</u>

Bank accounts as at 31 December 2014 and 2013 comprised the following:

	31 December 2014	31 December 2013
Time deposits	9,600	3,100
Demand deposits	<u>1</u>	<u>4</u>
	9,601	3,104
Accrued interest	<u>282</u>	<u>25</u>
<b>Total bank accounts</b>	<u>9,883</u>	<u>3,129</u>

## 22. DEBT SECURITIES ISSUED

	CCY	Issue date (dd/mm/yyyy)	Maturity date (dd/mm/yyyy)	Annual coupon rate %	31 December 2014	31 December 2013
Kazakhstani bonds	KZT	16/08/2005- 26/04/2014	16/08/2015- 26/04/2019	7.50-8.40	30,420	10,206
International bonds	USD	30/01/2007	30/01/2014	8.63	<u>-</u>	<u>37,843</u>
					30,420	48,049
Accrued interest					<u>480</u>	<u>1,495</u>
<b>Total debt securities issued</b>					<u>30,900</u>	<u>49,544</u>

During the year ended 31 December 2014, the Bank repaid Eurobonds with par value of KZT 38,169 million. During the year ended 31 December 2014, the Bank repaid bonds with nominal value of KZT 3,447 million.

During the year ended 31 December 2013, the Bank repurchased Eurobonds with par value of KZT 18,843 million.

During the year ended 31 December 2014 and 2013 the Bank has issued new bonds under the previously issued prospectus with par value of KZT 25,000 million and KZT 2,447 million, respectively.

The Bank is obligated to comply with financial covenants in relation to debt securities issued. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. The Bank has not breached any of these covenants during the years ended 31 December 2014 and 2013. Interest on debt securities issued is repayable semiannually.

## 23. OTHER LIABILITIES

	31 December 2014	31 December 2013
<b>Other financial liabilities:</b>		
Settlements on other transactions	5,078	4,423
Provision for guarantees and letters of credit (Note 5)	1,894	1,750
Accrued commission expenses	369	411
Derivative financial instruments (Note 12)	128	6
	<u>7,469</u>	<u>6,590</u>
<b>Other non-financial liabilities:</b>		
Taxes payable, other than income tax	1,378	1,291
Other non-financial liabilities	527	438
	<u>1,905</u>	<u>1,729</u>
<b>Total other liabilities</b>	<u><u>9,374</u></u>	<u><u>8,319</u></u>

Movement in the provision for guarantees and letters of credit for the years ended 31 December 2014 and 2013 are disclosed in Note 5.

## 24. SUBORDINATED BONDS

	CCY	Issue date (dd/mm/yyyy)	Maturity date (dd/mm/yyyy)	Annual coupon rate %	31 December 2014	31 December 2013
Floating rate	KZT	27/11/2009	11/11/2023	7.90-8.90	39,058	38,977
Fixed rate	KZT	27/06/2008- 27/11/2009	27/06/2018- 27/11/2024	11.00	14,630	13,655
					<u>53,688</u>	<u>52,632</u>
Accrued interest					567	488
<b>Total subordinated bonds</b>					<u><u>54,255</u></u>	<u><u>53,120</u></u>

Interest on the subordinated bonds is repayable semiannually, and principal is repayable at the end of the term.

During the year ended 31 December 2014 and 2013 the Bank has issued subordinated bonds under the previously issued prospectus with par value of KZT 910 million and KZT 18,305 million, respectively.

In the event of bankruptcy or liquidation of the Bank, repayment of all subordinated bonds is subordinate to the repayments of the Bank's liabilities to all other creditors.

## 25. SHARE CAPITAL

As at 31 December 2014 and 2013 the Bank's share capital comprised the following number of shares:

	Authorized share capital	Share capital authorized and not issued	Total share capital
Ordinary shares	260,750,745	(98,293,945)	162,456,800
Preference shares	39,249,255	-	39,249,255

As at 31 December 2014 and 2013 the Bank's share capital represented by:

	Authorized and issued share capital (KZT million)	Repurchased shares (KZT million)	Total (KZT million)
Ordinary shares	58,081	-	58,081
Preference shares	11,775	-	11,775
<b>Total</b>	<b>69,856</b>	<b>-</b>	<b>69,856</b>

All ordinary shares are ranked equally, carry one vote, and have no par value.

Preference shares are cumulative and convertible into ordinary shares according to the decision of the Board of Directors, one preferred share can be exchanged for one ordinary share.

According to Kazakhstan legislation on joint stock companies dividends are payable on ordinary shares in the form of money or securities of the Bank on condition that the decision was made at the annual meeting of shareholders of the Bank. In accordance with Regulation of the Bank dividend payments are made on the basis of financial results for the year.

Preference shares have no voting rights and are not redeemable. Preference shares have a right to receive dividends prior to common stockholders. Conversion of preferred shares is performed based on the decision of the Board of Directors. Preference shares receive dividends of KZT 0.01 per share.

	31 December 2014 Quantity (in thousands)	31 December 2013 Quantity (in thousands)
Preference shares, beginning of the year	39,249	39,249
Preference shares, end of the year	39,249	39,249
Ordinary shares, beginning of the year	162,457	162,457
Ordinary shares, end of the year	162,457	162,457

## 26. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the separate statement of financial position.

The Bank's maximum exposure to credit loss under financial guarantees and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

The risk-weighted amount is obtained by applying credit conversion factor and counterparty risk weightings according to the principles employed by the Basel Committee on Banking Supervision.

Provision for losses on financial guarantees and commitments totaled KZT 1,894 million and KZT 1,750 million as at 31 December 2014 and 2013, respectively.

As at 31 December 2014 and 2013 the nominal or contract amounts and risk-weighted amounts were:

	31 December 2014		31 December 2013	
	Nominal amount	Risk weighted amount	Nominal amount	Risk weighted amount
<b>Financial guarantees and commitments</b>				
Guarantees issued and similar commitments	95,835	90,839	91,689	88,583
Letters of credit and other transaction related contingent obligations	<u>2,591</u>	<u>518</u>	<u>3,743</u>	<u>749</u>
<b>Total financial guarantees and commitments</b>	<u><u>98,426</u></u>	<u><u>91,357</u></u>	<u><u>95,432</u></u>	<u><u>89,332</u></u>

The table below summarizes the amounts of financial guarantees issued and similar commitments secured by type of collateral, rather than the fair value of the collateral itself:

	31 December 2014	31 December 2013
Movables	24,004	9,285
Receivables	22,216	39,048
Real estate	13,660	8,636
Cash deposits	4,996	3,106
Corporate guarantees	4,631	9,145
Land	359	1,720
Goods in turnover	285	391
Other	17	33
Unsecured guarantees	<u>25,667</u>	<u>20,325</u>
<b>Total</b>	<u><u>95,835</u></u>	<u><u>91,689</u></u>

The table below summarizes the amounts of letters of credit and other transactions related to contingent obligations secured by type of collateral, rather than the fair value of the collateral itself:

	31 December 2014	31 December 2013
Real estate	835	99
Goods in turnover	547	2
Cash deposits	13	2,687
Receivables	-	188
Other	781	366
Unsecured letters of credit	<u>415</u>	<u>401</u>
<b>Total</b>	<u><u>2,591</u></u>	<u><u>3,743</u></u>

Extension of loans to customers within credit line limits is approved by the Bank on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions.

### Capital commitments

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

### Operating lease commitments

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

### Fiduciary activities

In the normal course of its business the Bank enters into agreements with limited right of decision making with clients for management of their assets in accordance with specific criteria established by the client. The Bank may be liable for losses or actions aimed at appropriation of the clients' funds if such funds or securities are not returned to the client. The balance of the clients' funds under the management of the Bank as at 31 December 2014 and 2013, including assets under trusteeship are KZT 543,071 million and KZT 189,293 million, respectively.

Managed assets are not included in the statement of financial position of the Bank, as these assets are not assets of the Bank. The face values of the securities presented below differ from the market value of the indicated securities. Fiduciary assets are divided by face value into the following categories:

	31 December 2014	31 December 2013
Securities	407,408	183,882
Units of investment funds	129,118	3,786
Bank deposits	5,641	45
Investments into real estate, cars, equipment, transport and other property	773	1,405
Other assets	131	175
	<hr/>	<hr/>
Total fiduciary assets	<u>543,071</u>	<u>189,293</u>

The Bank maintains the accounting records and prepares financial statements related to the assets and results of operations of the pension and investment funds, which manages assets, other legal entities and operations with their assets, performs reconciliations with the managing company in respect of served assets in accordance with the requirements of the legislation of the Republic of Kazakhstan and rules of the NBRK.

### 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 losses will be incurred and respectively no provision has been made in these separate financial statements.

### Taxation

Commercial legislation of the Republic of Kazakhstan where the Bank operates, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the 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, valuation of provision for impairment losses 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.

#### **Pensions and retirement plans**

Employees of the Bank receive pension benefits from pension funds in accordance with the laws and regulations of the Republic of Kazakhstan. As at 31 December 2014 and 2013 the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

#### **Operating environment**

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

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

## 27. TRANSACTIONS WITH RELATED PARTIES

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Details of transactions between the Bank and other related parties are disclosed below:

	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
<b>Cash and cash equivalents</b>	1,470	112,113	2,180	141,513
- subsidiaries	1,455		2,080	
- entity with significant influence over the Bank	15		100	
<b>Investments in subsidiaries</b>	25,566	25,566	17,343	17,343
- subsidiaries	25,566		17,343	
<b>Due from banks</b>	4,292	12,640	3,173	5,502
- subsidiaries	4,292		3,173	
<b>Loans to customers and banks, gross</b>	6,973	956,100	959	952,987
- subsidiaries	6,866		617	
- key management personnel of the entity or its parent	107		201	
- close family members of key management personnel	-		141	
<b>Allowance for impairment losses on loans to customers and banks</b>	-	(145,916)	(57)	(193,667)
- subsidiaries	-		-	
- key management personnel of the entity or its parent	-		(35)	
- close family members of key management personnel	-		(22)	
<b>Due to banks and financial institutions</b>	1,186	114,171	6,226	76,157
- subsidiaries	1,186		6,226	
- key management personnel of the entity or its parent	-		-	
<b>Customer and banks accounts</b>	24,792	804,233	15,293	800,199
- key management personnel of the entity or its parent	17,402		12,431	
- close family members of key management personnel	7,331		2,682	
- subsidiaries	59		180	
<b>Debt securities issued</b>	38	30,900	499	49,544
- subsidiaries	38		499	
<b>Other liabilities</b>	13	9,374	12	8,319
- subsidiaries	13		12	
<b>Subordinated bonds</b>	241	54,255	86	53,120
- subsidiaries	241		86	
<b>Share capital</b>	65	69,856	29	69,856
- subsidiaries	65		29	
<b>Guarantees issued and similar commitment</b>	12	98,426	702	95,432
- others	12		-	
- subsidiaries	-		702	



Secured and unsecured loans and guarantees are made to key management personnel of the entity and shareholders in the ordinary course of business. The transactions did not involve more than the normal risk of repayment or present other unfavorable features.

Amounts deposited by the parent and other related parties earn interest at the same rates as those offered to the market or on the same terms and conditions applicable to other employees within the Bank.

Included in the separate 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
<b>Interest income</b>	326	90,797	327	81,706
- subsidiaries	318		324	
- key management personnel of the entity or its parent	8		-	
- close family members of key management personnel	-		3	
<b>Interest expense</b>	(1,409)	(45,637)	(1,334)	(48,380)
- key management personnel of the entity or its parent	(1,012)		(885)	
- close family members of key management personnel	(397)		(449)	
<b>Fee and commission income</b>	6	21,564	10	19,721
- subsidiaries	6		10	
<b>Fee and commission expense</b>	(1)	(1,756)	(23)	(1,784)
- subsidiaries	(1)		(23)	
<b>Operating expenses</b>	(311)	(24,438)	(236)	(26,461)
- key management personnel of the entity or its parent	(311)		(236)	

Key management personnel compensation for the years ended 31 December 2014 and 2013 represent short-term employee benefits. Total remuneration of members of Board of Directors and Management Board amounted to KZT 311 million and to KZT 236 million for the year ended 31 December 2014 and 2013 respectively.

## 28. SEGMENT REPORTING

### Operating segments

The Bank discloses information to enable users of its separate financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. This matter is regulated by IFRS 8 "Operating segments" and other standards that require special disclosures in the form of segmental reporting.

IFRS 8 defines an operating segment as follows. An operating segment is a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- Whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- For which discrete financial information is available.

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of services delivered or provided. The Bank's reportable segments under IFRS 8 are therefore as follows:

- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities.
- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Investment banking – representing financial instruments trading, structured financing, money market operations, repo, foreign currency and derivative products, brokerage and asset management services, merger and acquisitions advice, provision of Bank's funding through issue of debt securities and attracting loans. This segment is responsible for redistribution of funds attracted by other segments.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The Board reviews discrete financial information for each of its segments, including measures of operating income, assets and liabilities. The segments are managed primarily on the basis of their results.

Segment assets and liabilities comprise all assets and liabilities, excluding income tax assets and liabilities. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. All revenues and expenses are attributable only to external customers, and there are no transactions between business segments.

More specific information on the revenues from external customers for each product and service, or each Bank of similar products and services is not available and the cost to develop it is excessive. Hence the Bank presents operating segments on the basis of three main products. Segment information about these businesses is presented below.

	Retail banking	Corporate banking	Investment banking	Year ended 31 December 2014
Interest income	40,914	45,597	4,286	90,797
Interest expense	(16,489)	(20,431)	(8,717)	(45,637)
Recovery/(provision) for impairment losses on interest bearing assets	6,900	(49,104)	-	(42,204)
Net non-interest income	6,555	20,558	325	27,438
Operating expenses	<u>(12,178)</u>	<u>(12,260)</u>	<u>-</u>	<u>(24,438)</u>
Operating profit/(loss) before income tax	<u>25,702</u>	<u>(15,640)</u>	<u>(4,106)</u>	<u>5,956</u>
Segment assets*	<u>352,700</u>	<u>635,395</u>	<u>114,044</u>	<u>1,102,139</u>
Segment liabilities*	<u>336,202</u>	<u>571,765</u>	<u>104,966</u>	<u>1,012,933</u>
<b>Other segment items:</b>				
Loans to customers and banks	352,444	457,740	-	810,184
Customer and bank accounts	332,167	472,066	-	804,233
Financial guarantees and commitments	-	98,426	-	98,426
Depreciation and amortization charge o property, equipment and intangible ass	(911)	(917)	-	(1,828)

\*- Excluding current income tax assets and deferred income tax liabilities. Income tax expense is unallocated.

	Retail banking	Corporate banking	Investment banking	Unallocated	Year ended 31 December 2013
Interest income	36,208	39,241	4,354	1,903	81,706
Interest expense	(20,387)	(9,159)	(17,953)	(881)	(48,380)
Provision for impairment losses on interest bearing assets	(18,138)	(6,892)	-	-	(25,030)
Net non-interest income/(expenses)	5,016	16,859	215	(322)	21,768
Operating expenses	<u>(10,913)</u>	<u>(15,548)</u>	<u>-</u>	<u>-</u>	<u>(26,461)</u>
Operating (loss)/profit before income tax	<u>(8,214)</u>	<u>24,501</u>	<u>(13,384)</u>	<u>700</u>	<u>3,603</u>
Segment assets*	<u>314,048</u>	<u>651,168</u>	<u>104,597</u>	<u>-</u>	<u>1,069,813</u>
Segment liabilities	<u>341,772</u>	<u>526,165</u>	<u>119,402</u>	<u>-</u>	<u>987,339</u>
<b>Other segment items:</b>					
Loans to customers and banks	313,688	445,632	-	-	759,320
Customer and bank accounts	327,161	473,038	-	-	800,199
Financial guarantees and commitments	-	95,432	-	-	95,432
Depreciation and amortization charge on property, equipment and intangible assets	(550)	(1,567)	-	-	(2,117)

\*- Excluding current income tax assets and deferred income tax assets. Income tax expense is unallocated.

The Bank operates principally within the Kazakhstan.

## 29. TRANSFERRED FINANCIAL ASSETS

**Transfers that did not qualify for derecognition of the financial asset in its entirety**

### *Securities lending and repurchase agreements*

The Bank enters a repo and reverse repo transactions on a regular basis. The securities lent or sold under agreements to repurchase are transferred to a third party and the Bank receives cash in exchange. These transactions are conducted under KASE terms. The Bank has determined that it retains substantially all the risks and rewards of these securities, which includes credit risk, market risk, and therefore it has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

The Bank may sell or repledge any securities borrowed or purchased under agreements to resell, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognised by the Bank, which instead recognise a separate asset for any cash collateral provided.

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

	Financial assets at fair value through profit or loss (Note 12)	Investments available-for-sale (Note 13)	Investments held to maturity (Note 14)	Total
Total carrying amount of the original assets before the transfer	3,689	3,847	3,117	10,653
<b>As at 31 December 2014:</b>				
Carrying amount of assets	3,689	3,847	3,117	10,653
Carrying amount of associated liabilities (Loans under repurchase agreements)	3,389	3,611	3,000	10,000
<b>As at 31 December 2013:</b>				
Carrying amount of assets	5,029	25,427	6,931	37,387
Carrying amount of associated liabilities (Loans under repurchase agreements)	4,607	23,573	6,105	34,285

## 30. FAIR VALUE 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:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes unlisted equity securities.

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobserv- able input(s)	Relationshi p of unobservab le inputs to fair value
	31 December 2014	31 December 2013				
Non-derivative financial assets at fair value through profit or loss - debt securities (Note 12)	11,572	11,911	Level 1	Quoted bid prices in an active market.	N/A	N/A
Non-derivative financial assets at fair value through profit or loss- equity securities (Note 12)	-	35	Level 1	Quoted bid prices in an active market.	N/A	N/A
Non-derivative investments available-for-sale- debt securities (Note 13)	53,264	53,461	Level 1	Quoted bid prices in an active market. 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).	N/A	N/A
Derivative financial assets (Note 12)	-	3,802	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).	N/A	N/A
Derivative financial liabilities (see Note 12)	-	6	Level 2	Discounted cash flows. USD part was calculated using observable inputs and spot rates, KZT part was calculated using implied rate by calibration to market	N/A	N/A
Derivative financial assets (Note 12)	3,241	-	Level 3	Discounted cash flows. USD part was calculated using observable inputs and spot rates, KZT part was calculated using implied rate by calibration to market	KZT implied rate	The greater KZT implied rate – the smaller fair value
Derivative financial liabilities (see Note 12)	128	-	Level 3	Discounted cash flows. USD part was calculated using observable inputs and spot rates, KZT part was calculated using implied rate by calibration to market	KZT implied rate	The greater KZT implied rate – the smaller fair value

There were no transfers between Level 1 and 2 in the period.

As at 31 December 2014 and 2013, equity securities included in investments available for sale amounted to KZT 133 million and KZT 198 million, respectively, are carried at cost because it is practically difficult to quantify the intrinsic value of the equity securities issued by unlisted entities. In addition, probabilities and range of estimated cash flows of the unlisted equity securities cannot be reasonably assessed.

The reconciliation of Level 3 fair value measurements of financial assets is presented as follows:

	Derivative financial assets	Derivative financial liabilities
At 1 January 2014	-	-
Total gains/(losses) recognized in profit/(loss):	765	(102)
Purchases	2,476	(26)
At 31 December 2014	<u>3,241</u>	<u>(128)</u>

**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)**

Except as detailed below, management of the Bank considers that the fair value of financial assets and liabilities approximates their carrying value (the fair value of which varies from carrying value within the range of 5%):

	31 December 2014		31 December 2013	
	Carrying value	Fair value	Carrying value	Fair value
Loans to customers and banks	810,184	710,726	759,320	638,624
Customer accounts	804,233	780,718	800,199	783,368
Subordinated bonds	54,255	51,457	53,120	49,583

The carrying amount of cash and cash equivalents, due from banks, debt securities issued, other financial assets and other financial liabilities approximates fair value due to short-term nature of such financial assets.

	31 December 2014			Total
	Level 1	Level 2	Level 3	
Loans to customers and banks	-	-	710,726	710,726
Customer and bank accounts	-	780,718	-	780,718
Subordinated bonds	51,457	-	-	51,457

	31 December 2013			Total
	Level 1	Level 2	Level 3	
Loans to customers and banks	-	-	638,624	638,624
Customer and bank accounts	-	783,368	-	783,368
Subordinated bonds	49,583	-	-	49,583

Fair value of subordinated bonds was calculated based on quoted market prices.

Fair value of loans to customers and banks was determined on the basis of contractual cash flows discounted at market rates, published by NBRK and prevailed at the year end and adjusted for credit risk of counterparties

## 31. CAPITAL RISK MANAGEMENT

The adequacy of the Bank's capital is monitored using the ratios established by the NBRK in supervising the Bank. As at 31 December 2014 and 2013, the minimum required ratio of tier 1 capital to total assets was 5% and 6%, respectively. As at 31 December 2014 and 2013, the minimum required ratio of tier 1 to risk weighted assets was 5% and 6%, respectively. As at 31 December 2014 and 2013, the minimum required ratio of the total capital to risk weighted assets was 10% and 12%, respectively. As at 31 December 2014 and 2013, the Bank was in compliance with these statutory capital ratios.

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Bank consists of debt, which includes subordinated debt disclosed in Notes 20 and 24, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

The Management Board reviews the capital structure on a quarterly basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Bank balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Bank's overall capital risk management policy remains unchanged from 2013.

## 32. RISK MANAGEMENT POLICIES

Management of risk 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**

The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority. These processes are performed by the Credit Committees and the Bank's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the branch risk-manager or Risk Management Department. Daily risk management is performed by the Head of Credit Departments and Branch Credit Divisions.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved monthly, quarterly and annually by the Management Board, depending on the level of credit risk. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantees. However, a significant portion of loans is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of the 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 customers maintaining specific credit standards. The Bank applies the same credit policy to financial guarantees as it does to the balance sheet financial instruments, 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.

### Maximum exposure

The Bank's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the separate statement of financial position, the maximum exposure is equal to the carrying amount of those assets prior to any impairment loss, offset or collateral. For financial guarantees and other off balance sheet assets, 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. Collateral pledged is determined based on its estimated fair value on the day of origination of the loan and limited to the outstanding balance of each loan as at reporting date.

As at 31 December 2014:

	Maximum exposure	Net exposure after offset	Collateral pledged	Net exposure after offset and collateral
Cash equivalents*	76,622	76,622	-	76,622
Obligatory reserves	17,136	17,136	-	17,136
Financial assets at fair value through profit or loss	14,813	14,813	-	14,813
Investments available-for-sale	53,397	53,397	-	53,397
Investments held to maturity	7,628	7,628	-	7,628
Due from banks	12,640	12,640	-	12,640
Loans to customers and banks	810,184	810,184	790,267	19,917
Other financial assets	5,482	5,482	-	5,482
Total financial assets	997,902	997,902	790,267	207,635
Contingent liabilities and credit commitments	98,426	98,426	72,344	26,082



As at 31 December 2013:

	Maximum exposure	Net exposure after offset	Collateral pledged	Net exposure after offset and collateral
Cash equivalents*	105,245	105,245	-	105,245
Obligatory reserves	15,596	15,596	-	15,596
Financial assets at fair value through profit or loss	15,748	15,748	-	15,748
Investments available-for-sale	53,659	53,659	-	53,659
Investments held to maturity	12,345	12,345	-	12,345
Due from banks	5,502	5,502	-	5,502
Loans to customers and banks	759,320	759,320	735,045	24,275
Other financial assets	9,197	9,197	-	9,197
Total financial assets	976,612	976,612	735,045	241,567
Contingent liabilities and credit commitments	95,432	95,432	74,706	20,726

\*Amount represents the short-term loans and deposits with original maturities less than three months, which are considered as cash equivalents

### Off-balance sheet risk

The Bank applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

### Collateral

Collateral value is assessed at the issuance of loan. Valuation of collateral is updated in accordance with the Collateral Policy of the Bank.

The main types of collateral obtained are as follows:

- For reverse repurchase transactions – securities;
- For commercial lending – charges over real estate properties, inventory; and
- For retail lending – mortgages over residential properties.

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

### Renegotiated loans and advances

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Bank offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.

### Credit quality by class of financial assets

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency such as Standard and Poor's, Fitch and Moody's Investors Service. 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 as at 31 December 2014 and 2013:

	AA	A	BBB	<BBB	Not Rated	Total at 31 December 2014
Cash equivalents	559	11,102	63,090	1,834	37	76,622
Obligatory reserves	-	-	17,136	-	-	17,136
Financial assets at fair value through profit or loss	-	-	12,011	2,802	-	14,813
Investments available-for-sale	-	-	36,659	16,605	133	53,397
Investments held to maturity	-	298	4,505	2,825	-	7,628
Due from banks	-	1,446	5,830	5,364	-	12,640
Loans to customers and banks	-	-	-	-	810,184	810,184
Other financial assets	-	-	-	-	5,482	5,482
	AA	A	BBB	<BBB	Not Rated	Total at 31 December 2013
Cash equivalents	14,791	69,561	4,922	15,942	29	105,245
Obligatory reserves	-	-	15,596	-	-	15,596
Financial assets at fair value through profit or loss	-	3,802	7,998	3,948	-	15,748
Investments available-for-sale	-	-	38,377	15,084	198	53,659
Investments held to maturity	-	296	7,585	4,464	-	12,345
Due from banks	-	1,161	-	4,341	-	5,502
Loans to customers and banks	-	-	-	-	759,320	759,320
Other financial assets	-	-	-	-	9,197	9,197

The banking industry is generally exposed to credit risk through its financial assets and financial guarantees and commitments, loans to customers and inter bank deposits. With regard to the loans to customers this risk exposure 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.

The Bank enters into numerous transactions where the counterparties are not rated by international rating agencies. The Bank has developed internal models, which allow it to determine the rating of counterparties, which are comparable to ratings of international rating agencies. These models include rating models for corporate customers and scoring models for individuals and small business.

#### *Rating model*

The Bank has developed an internal rating model, based on the principles and methods used by international rating agencies for the assessment of credit risk of corporate borrowers. The rating of a corporate borrower is based on an analysis of the financial ratios of the borrower, and an analysis of the market and industry sector, in which the borrower operates. The model also takes into consideration various qualitative factors, such as management efficiency and the borrower's market share.

The application of the internal rating model results in a standardized approach in the analysis of corporate borrowers and provides a quantitative assessment of the creditworthiness of a borrower that does not have a rating from an international rating agency. The model takes into account specific local market conditions.

The quality of the internal rating model is examined on a regular basis through an assessment of both its effectiveness and validity. The Bank revises the model when deficiencies are identified.

### *Scoring models*

The Bank uses scoring models as a statistical tool in relation to newly issued loans to assess the future creditworthiness of new and existing borrowers of the Bank. Scoring models are applied for assessment of the credit risk of individuals.

The scoring models interpret socio-demographic and financial indicators, behavioural variables, the credit history of borrowers and historic data from external sources, such as Credit Bureau reports. Each of the parameters inserted into scoring model has a numeric value, the sum of which represents the borrower's internal credit score (rating). The assigned score reflects the probability of default of the borrower.

The scoring models standardize and automate the process of decision making and decrease the operating expenses and operational risks of the Bank. The scoring model is also used in the internal management decision making process as it permits the forecasting of profits and losses of the credit departments. The scoring model is assessed on a continual basis for its effectiveness and validity.

The Bank applies internal rating and scoring methodologies to specific corporate loans and groups of retail and small business loans, which incorporate various underlying master scales that are different from that used by international rating agencies. The scoring methodologies are tailor-made for specific products and are applied on the stage of making decision with regard to loan issuance.

The following table details the carrying value of financial assets before impairment loss that are impaired and the ageing of those that are past due but not impaired:

As at 31 December 2014:

	Neither past due nor impaired	Financial assets past due but not impaired				Financial assets that have been impaired		Total
		Up to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year	Collectively	Individually	
Cash equivalents	76,622	-	-	-	-	-	-	76,622
Obligatory reserves	17,136	-	-	-	-	-	-	17,136
Financial assets at fair value through profit or loss	14,813	-	-	-	-	-	-	14,813
Investments available-for-sale	53,397	-	-	-	-	-	-	53,397
Investments held to maturity	7,628	-	-	-	-	-	-	7,628
Due from banks	12,640	-	-	-	-	-	-	12,640
Loans to customers and banks	546,408	23,826	5,730	8,136	28,241	67,089	276,670	956,100
Other financial assets	5,482	-	-	-	-	-	1,608	7,090

As at 31 December 2013:

	Financial assets past due but not impaired				Total
	Neither past due nor impaired	0-3 months	Financial assets that have been impaired		
			Collectively	Individually	
Cash equivalents	105,245	-	-	-	105,245
Obligatory reserves	15,596	-	-	-	15,596
Financial assets at fair value through profit or loss	15,748	-	-	-	15,748
Investments available-for-sale	53,659	-	-	-	53,659
Investments held to maturity	12,345	-	-	-	12,345
Due from banks	5,502	-	-	-	5,502
Loans to customers and banks	459,137	27,441	161,283	305,126	952,987
Other financial assets	9,197	-	-	1,059	10,256

### Geographical concentration

The Finance and Risk Management Committee (“FRMC”) exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Bank’s activity. This approach allows the Bank to minimize potential losses from the investment climate fluctuations in the Republic of Kazakhstan.

The geographical concentration of assets and liabilities is set out below:

	Kazakhstan	Other non-OECD countries	OECD countries	31 December 2014 Total
<b>Financial assets</b>				
Cash and cash equivalents	98,800	1,654	11,659	112,113
Obligatory reserves	17,136	-	-	17,136
Financial assets at fair value through profit or loss	14,813	-	-	14,813
Investments available-for-sale	49,518	3,868	11	53,397
Investments held to maturity	7,330	-	298	7,628
Due from banks	6,902	4,292	1,446	12,640
Loans to customers and banks	796,619	13,554	11	810,184
Other financial assets	5,482	-	-	5,482
<b>Total financial assets</b>	<b>996,600</b>	<b>23,368</b>	<b>13,425</b>	<b>1,033,393</b>
<b>Financial liabilities</b>				
Due to banks and financial institutions	90,400	257	23,514	114,171
Customer and banks accounts	804,233	-	-	804,233
Debt securities issued	30,900	-	-	30,900
Other financial liabilities	7,469	-	-	7,469
Subordinated bonds	54,255	-	-	54,255
<b>Total financial liabilities</b>	<b>987,257</b>	<b>257</b>	<b>23,514</b>	<b>1,011,028</b>
<b>Net position</b>	<b>9,343</b>	<b>23,111</b>	<b>(10,089)</b>	

	Kazakhstan	Other non-OECD countries	OECD countries	31 December 2013 Total
<b>Financial assets</b>				
Cash and cash equivalents	53,730	3,913	83,870	141,513
Obligatory reserves	15,596	-	-	15,596
Financial assets at fair value through profit or loss	11,946	-	3,802	15,748
Investments available-for-sale	50,074	3,585	-	53,659
Investments held to maturity	10,937	1,112	296	12,345
Due from banks	1,168	3,173	1,161	5,502
Loans to customers and banks	735,018	24,079	223	759,320
Other financial assets	9,197	-	-	9,197
<b>Total financial assets</b>	<b>887,666</b>	<b>35,862</b>	<b>89,352</b>	<b>1,012,880</b>
<b>Financial liabilities</b>				
Due to banks and financial institutions	67,221	223	8,713	76,157
Customer and banks accounts	800,199	-	-	800,199
Debt securities issued	49,544	-	-	49,544
Other financial liabilities	6,590	-	-	6,590
Subordinated bonds	53,120	-	-	53,120
<b>Total financial liabilities</b>	<b>976,674</b>	<b>223</b>	<b>8,713</b>	<b>985,610</b>
<b>Net position</b>	<b>(89,008)</b>	<b>35,639</b>	<b>80,639</b>	

### Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Treasury Department performs management of these risks through analysis of asset and liability maturity and performance of money market transactions for current liquidity support and cash flow optimization. The Department of Planning and Finance determines the optimum structure of balance and limits on liquidity ratios. Gap-positions are approved by the FRMC. The Risk Department performs monitoring of liquidity ratios.

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 possible contractual maturity, except for financial assets at fair value through profit or loss and investments available-for-sale, which are based on expected maturity. The presentation below is based upon the information provided internally to key management personnel of the entity.

	Weighted average effective interest rate	On demand and 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
<b>Financial assets</b>							
Cash and cash equivalents	12.87%	1,440	-	-	-	-	1,440
Financial assets at fair value through profit or loss	5.68%	14,813	-	-	-	-	14,813
Investments available-for- sale	5.10%	53,264	-	-	-	-	53,264
Investments held to maturity	8.32%	5,591	868	260	909	-	7,628
Due from banks	5.35%	1,352	-	145	-	4,148	5,645
Loans to customers and banks	9.10%	79,447	58,894	177,711	331,829	162,303	810,184
<b>Total interest bearing financial assets</b>		155,907	59,762	178,116	332,738	166,451	892,974
Cash and cash equivalents		110,673	-	-	-	-	110,673
Obligatory reserves		17,136	-	-	-	-	17,136
Investments available-for- sale		133	-	-	-	-	133
Due from banks		6,995	-	-	-	-	6,995
Other financial assets		5,482	-	-	-	-	5,482
<b>Total financial assets</b>		296,326	59,762	178,116	332,738	166,451	1,033,393
<b>Financial liabilities</b>							
Due to banks and financial institutions	5.22%	11,236	33,238	9,044	30,419	29,552	113,489
Customer and banks accounts	4.99%	84,984	138,129	220,543	82,580	1,791	528,027
Debt securities issued	7.85%	-	132	6,830	23,938	-	30,900
Subordinated bonds	8.85%	-	66	7,472	29,820	16,897	54,255
<b>Total interest bearing financial liabilities</b>		96,220	171,565	243,889	166,757	48,240	726,671
Due to banks and financial institutions		682	-	-	-	-	682
Customer and banks accounts		276,206	-	-	-	-	276,206
Other financial liabilities		7,469	-	-	-	-	7,469
<b>Total financial liabilities</b>		380,577	171,565	243,889	166,757	48,240	1,011,028
Liquidity gap		(84,251)	(111,803)	(65,773)	165,981	118,211	
Interest sensitivity gap		59,687	(111,803)	(65,773)	165,981	118,211	
<b>Cumulative interest sensitivity gap</b>		59,687	(52,116)	(117,889)	48,092	166,303	
<b>Cumulative interest sensitivity gap as a percentage of total financial assets</b>		5.78%	(5.04%)	(11.41%)	4.65%	16.09%	

	Weighted average effective interest rate	On demand and 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
<b>Financial assets</b>							
Cash and cash equivalents	0.38%	58,874	11,438	-	-	-	70,312
Financial assets at fair value through profit or loss	5.68%	15,713	-	-	-	-	15,713
Investments available-for-sale	4.15%	53,461	-	-	-	-	53,461
Investments held to maturity	6.35%	240	3,648	1,204	7,253	-	12,345
Due from banks	4.78%	1,082	-	-	-	3,173	4,255
Loans to customers and banks	8.95%	157,895	48,030	141,264	254,924	157,207	759,320
<b>Total interest bearing financial assets</b>		287,265	63,116	142,468	262,177	160,380	915,406
Cash and cash equivalents		71,201	-	-	-	-	71,201
Obligatory reserves		15,596	-	-	-	-	15,596
Financial assets at fair value through profit or loss		35	-	-	-	-	35
Investments available-for-sale		198	-	-	-	-	198
Due from banks		1,247	-	-	-	-	1,247
Other financial assets		9,197	-	-	-	-	9,197
<b>Total financial assets</b>		384,739	63,116	142,468	262,177	160,380	1,012,880
<b>Financial liabilities</b>							
Due to banks and financial institutions	3.81%	35,782	2,112	4,701	32,244	827	75,666
Customer and banks accounts	4.62%	65,255	48,961	229,251	206,185	1,791	551,443
Debt securities issued	8.29%	39,203	116	3,771	6,454	-	49,544
Subordinated bonds	7.82%	-	59	429	24,844	27,788	53,120
<b>Total interest bearing financial liabilities</b>		140,240	51,248	238,152	269,727	30,406	729,773
Due to banks and financial institutions		491	-	-	-	-	491
Customer and banks accounts		248,756	-	-	-	-	248,756
Other financial liabilities		6,590	-	-	-	-	6,590
<b>Total financial liabilities</b>		396,077	51,248	238,152	269,727	30,406	985,610
Liquidity gap		(11,338)	11,868	(95,684)	(7,550)	129,974	
Interest sensitivity gap		147,025	11,868	(95,684)	(7,550)	129,974	
Cumulative interest sensitivity gap		147,025	158,893	63,209	55,659	185,633	
Cumulative interest sensitivity gap as a percentage of total financial assets		14.52%	15.69%	6.24%	5.50%	18.33%	

In accordance with Kazakhstan legislation, depositors can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest.

Based on prior experience, the Bank considers it highly unlikely that all customer accounts seek repayment on maturity. Historically the majority of such deposits are rolled over.

Management is confident that the Bank will be able to obtain required funds in order to replace attracted liabilities with duration up to twelve months. In particular, management believe that the continued support of its shareholders and access to borrowings from international financial institutions means that the Bank would be able to obtain appropriate resources.

A further analysis of the liquidity and interest rate risks 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 separate statement of financial position as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognized in the separate statement of financial position under the effective interest rate method. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate yield curves at the end of the reporting period.

	On demand and 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
<b>Financial liabilities</b>						
Due to banks and financial institutions	11,307	34,424	10,937	51,111	17,840	125,619
Customer and banks accounts	6,887	43,695	360,647	93,233	26,689	531,151
Debt securities issued	-	178	8,796	30,325	-	39,299
Subordinated bonds	-	563	11,017	42,328	22,265	76,173
<b>Total interest bearing financial liabilities</b>	<b>18,194</b>	<b>78,860</b>	<b>391,397</b>	<b>216,997</b>	<b>66,794</b>	<b>772,242</b>
Due to banks and financial institutions	682	-	-	-	-	682
Customer and banks accounts	276,206	-	-	-	-	276,206
Other financial liabilities	7,469	-	-	-	-	7,469
<b>Total financial liabilities</b>	<b>302,551</b>	<b>78,860</b>	<b>391,397</b>	<b>216,997</b>	<b>66,794</b>	<b>1,056,599</b>
Financial guarantees and commitments	98,426	-	-	-	-	98,426
Derivative financial instruments	-	-	8,601	86,627	-	95,228
	On demand and 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
<b>Financial liabilities</b>						
Due to banks and financial institutions	36,196	2,450	6,219	35,815	852	81,532
Customer and banks accounts	65,328	49,799	238,574	223,872	3,464	581,037
Debt securities issued	39,484	171	4,378	6,998	-	51,031
Subordinated bonds	-	79	3,975	37,651	34,324	76,029
<b>Total interest bearing financial liabilities</b>	<b>141,008</b>	<b>52,499</b>	<b>253,146</b>	<b>304,336</b>	<b>38,640</b>	<b>789,629</b>
Due to banks and financial institutions	491	-	-	-	-	491
Customer and banks accounts	248,756	-	-	-	-	248,756
Other financial liabilities	6,590	-	-	-	-	6,590
<b>Total financial liabilities</b>	<b>396,845</b>	<b>52,499</b>	<b>253,146</b>	<b>304,336</b>	<b>38,640</b>	<b>1,045,466</b>
Financial guarantees and commitments	95,432	-	-	-	-	95,432
Derivative financial instruments	-	-	53	17,041	-	17,094



The timing of cash outflows has been prepared on the following basis:

#### *Derivative financial instruments*

Contractual payments for derivative financial instruments are determined based on gross settlements due to initial and final exchange of notional amounts and applicable interest rates in accordance with the terms of these financial instruments.

#### *Prepaid liabilities*

Where a financial liability can be prepaid by the counterparty, the cash outflow has been included at the earliest date on which the counterparty can require repayment regardless whether or not such early repayment results in penalty. If the repayment of financial liability is triggered by, or is subject to, specific criteria such as market price hurdles being reached, it is included at the earliest possible that the conditions could be fulfilled without considering probability of the conditions being met.

The financial guarantees and commitments are included in the "On demand" category because payments can be required upon request.

#### **Market Risk**

Market risk is that the risk that the Bank's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk, currency risk and other pricing risks to which the Bank is exposed. There have been no changes as to the way the Bank measures risk or to the risk it is exposed in 2014.

The Bank is exposed to interest rate risks as Bank borrows funds at both fixed and floating rates. The risk is managed by the Bank by maintaining an appropriate mix between fixed and floating rate borrowings.

The FRMC also manages interest rate and market risks by matching the Bank's interest rate position, which provides the Bank with a positive interest margin. The Department of Planning and Finance conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in interest rates and its influence on the Bank's profitability.

The majority of the Bank's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

#### **Interest rate sensitivity**

The Bank manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Department of Planning and Finance conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in fair value interest rates and its influence on the Bank's profitability.

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 revaluation instruments with fixed rates accounted at fair value. 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 investments available-for-sale securities with fixed rates.

Impact on profit before tax based on asset values as at 31 December 2014 and 2013:

	As at 31 December 2014		As at 31 December 2013	
	Interest rate +1%	Interest rate -1.0%	Interest rate +1%	Interest rate -0.5%
<b>Financial assets:</b>				
Financial assets at fair value through profit or loss	-	-	(333)	189
Investments available-for-sale	(9)	8	(9)	4
Investments held to maturity	(41)	41	(61)	31
<b>Financial liabilities:</b>				
Due to banks and financial institutions	<u>(88)</u>	<u>88</u>	<u>(177)</u>	<u>89</u>
<b>Net impact on profit before tax</b>	<u><u>(138)</u></u>	<u><u>137</u></u>	<u><u>(580)</u></u>	<u><u>313</u></u>

Impact on shareholders equity:

	As at 31 December 2014		As at 31 December 2013	
	Interest rate +1.0%	Interest rate -1.0%	Interest rate +1.0%	Interest rate -0.5%
<b>Financial assets:</b>				
Financial assets at fair value through profit or loss	-	-	(266)	151
Investments available-for-sale	(1,513)	1,594	(1,272)	661
Investments held to maturity	(33)	33	(49)	25
<b>Financial liabilities:</b>				
Due to banks and financial institutions	<u>(70)</u>	<u>70</u>	<u>(142)</u>	<u>71</u>
<b>Net impact on shareholders equity</b>	<u><u>(1,616)</u></u>	<u><u>1,697</u></u>	<u><u>(1,729)</u></u>	<u><u>908</u></u>

**Currency risk**

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Treasury Department performs currency risk management through management of open currency position, which enables the Bank to minimize losses from significant fluctuations of exchange rates of national and foreign currencies. The Risk Department determines limits on open currency positions, arbitrary positions and stop-loss. All limits and restrictions are approved by the Management and the Board of Directors. The Risk Department performs monitoring of the Bank's currency position with the aim to match the requirements of the NBRK.

The Bank's exposure to foreign currency exchange rate risk as at 31 December 2014 is presented in the tables below:

	KZT	USD 1 USD = 182.35 KZT	EUR 1 EUR = 221.59 KZT	Other currency	31 December 2014 Total
<b>Financial assets</b>					
Cash and cash equivalents	21,129	73,336	15,268	2,380	112,113
Obligatory reserves	17,136	-	-	-	17,136
Financial assets at fair value through profit or loss	11,572	3,241	-	-	14,813
Investments available-for- sale	40,246	11,036	2,115	-	53,397
Investments held to maturity	5,700	1,928	-	-	7,628
Due from banks	5,832	6,271	-	537	12,640
Loans to customers and banks	670,551	137,715	1,918	-	810,184
Other financial assets	5,018	395	55	14	5,482
<b>Total financial assets</b>	<b>777,184</b>	<b>233,922</b>	<b>19,356</b>	<b>2,931</b>	<b>1,033,393</b>
<b>Financial liabilities</b>					
Due to banks and financial institutions	90,030	22,535	1,606	-	114,171
Customer and banks accounts	408,055	375,722	17,510	2,946	804,233
Debt securities issued	30,900	-	-	-	30,900
Other financial liabilities	5,921	1,331	165	52	7,469
Subordinated bonds	54,255	-	-	-	54,255
<b>Total financial liabilities</b>	<b>589,161</b>	<b>399,588</b>	<b>19,281</b>	<b>2,998</b>	<b>1,011,028</b>
<b>Open position</b>	<b>188,023</b>	<b>(165,666)</b>	<b>75</b>	<b>(67)</b>	

#### Derivative financial instruments and spot contracts

Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk by types of derivative financial instruments and spot contracts as at 31 December 2014:

	KZT	USD 1 USD = 182.35 KZT	EUR 1 EUR = 221.59 KZT	Other Currency	31 December 2014 Total
Accounts receivable on spot and derivative contracts	11,556	166,566	-	-	178,122
Accounts payable on spot and derivative contracts	(166,394)	(11,568)	-	-	(177,962)
<b>Net spot and derivative financial instruments position</b>	<b>(154,838)</b>	<b>154,998</b>	<b>-</b>	<b>-</b>	<b>160</b>
<b>Total open position</b>	<b>33,185</b>	<b>(10,668)</b>	<b>75</b>	<b>(67)</b>	

The Bank's exposure to foreign currency exchange rate risk as at 31 December 2013 is presented in the table below:

	KZT	USD 1 USD = 154.06 KZT	EUR 1 EUR = 212.02 KZT	Other currency	31 December 2013 Total
<b>Financial assets</b>					
Cash and cash equivalents	32,288	98,638	8,063	2,524	141,513
Obligatory reserves	15,596	-	-	-	15,596
Financial assets at fair value through profit or loss	11,946	3,800	-	2	15,748
Investments available-for-sale	44,592	9,067	-	-	53,659
Investments held to maturity	9,471	1,762	1,112	-	12,345
Due from banks	5	5,494	3	-	5,502
Loans to customers and banks	641,495	116,105	1,645	75	759,320
Other financial assets	7,094	2,054	38	11	9,197
<b>Total financial assets</b>	<b>762,487</b>	<b>236,920</b>	<b>10,861</b>	<b>2,612</b>	<b>1,012,880</b>
<b>Financial liabilities</b>					
Due to banks and financial institutions	54,025	21,318	813	1	76,157
Customer and banks accounts	610,992	176,902	9,940	2,365	800,199
Debt securities issued	10,341	39,203	-	-	49,544
Other financial liabilities	5,416	932	54	188	6,590
Subordinated bonds	53,120	-	-	-	53,120
<b>Total financial liabilities</b>	<b>733,894</b>	<b>238,355</b>	<b>10,807</b>	<b>2,554</b>	<b>985,610</b>
<b>Open position</b>	<b>28,593</b>	<b>(1,435)</b>	<b>54</b>	<b>58</b>	

#### Derivative financial instruments and spot contracts

Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk by types of derivative financial instruments and spot contracts as at 31 December 2013:

	KZT	USD 1 USD = 154.06 KZT	EUR 1 EUR = 212.02 KZT	Other Currency	31 December 2013 Total
Accounts receivable on spot and derivative contracts	3,704	12,178	-	8,930	21,108
Accounts payable on spot and derivative contracts	-	(8,474)	-	(8,930)	(21,108)
<b>Net spot and derivative financial instruments position</b>	<b>3,704</b>	<b>3,704</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total open position</b>	<b>32,297</b>	<b>2,269</b>	<b>54</b>	<b>58</b>	

## Currency risk sensitivity

The FRMC and Small Risk Committee controls currency risk by management of the open currency position on the estimated basis of KZT devaluation and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Bank's open currency position with the aim to match the requirements of the NBRK.

A VaR calculation is used to determine the Bank's exposure to currency risk, and is based on statistical data for previous periods Historical VaR assuming the following:

- benchmark data – average KASE rate used by the Bank to recalculate currency positions;
- length of period – one year from the calculation date (252 working days);
- confidence interval – 95%; and
- positions are assessed for each risk currency, i.e. those which are more than 5% of the Bank's equity.

The aim of this method is to assess the risk of a potential negative revaluation of the Bank's open currency positions in order to ensure effective management of market currency risks.

The table below indicates the currencies in which the Bank had significant exposure as 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 separate statement of profit or loss. A negative amount in the table reflects a potential net reduction in the separate statement of profit or loss, while a positive amount reflects a net potential increase.

Impact on net profit and equity based on asset values as at 31 December 2014 and 2013:

	As at 31 December 2014		As at 31 December 2013	
	KZT/USD	KZT/USD	KZT/USD	KZT/USD
	+1.65%	-8.23%	+2.53%	-20.00%
Impact on profit or loss	(3,148)	15,742	(45)	353

	As at 31 December 2014		As at 31 December 2013	
	KZT/EUR	KZT/EUR	KZT/EUR	KZT/EUR
	-1.09%	-10.69%	+2.18%	-20.00%
Impact on profit or loss	(2)	(24)	(1)	5

### 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 separate statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder 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; and the assumption that all interest rates move in an identical fashion.

### Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or 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.

The Bank manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments the Bank is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

The table below represents an analysis of sensitivity to price risk based on the balance sheet position for investments in securities at the reporting date.

The results of the analysis of the sensitivity of the Banks profit before tax for the year to changes in prices of securities on a simplified scenario of 10% symmetrical increase or decrease in all securities prices for 2014 and 2013, respectively, are given in the table below:

	31 December 2014		31 December 2013	
	10% increase in equity securities price	10% decrease in equity securities price	10% increase in equity securities Price	10% decrease in equity securities price
Impact on profit or loss before tax	-	-	4	(4)

### Operational risk

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

## 33. SUBSEQUENT EVENTS

On 20 January 2015, the Bank received a loan from European Bank of Reconstruction and Development in the amount of KZT 5,000 million at 6.2% p.a maturing in 2020.