ATFBank JSC

Consolidated Financial Statements

for the year ended 31 December 2014

Contents

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Independent Auditors' Report

To the Management Board of ATFBank JSC

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Emphasis of Matter

During the year the Group changed its accounting policy on presentation of financial assets and liabilities with a legally enforceable right and intention to settle or realise them on a net basis. The reason for and the effects of this change are described in Note 3(q) to the consolidated financial statements. We have audited the adjustments described in Note 3(q) that were applied to restate the 2013 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. Our opinion is not qualified in respect of this matter.

Yelena Kim
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No. МФ-0000042 of 8 August 2011

KPMG Audit LLC

State Licence to conduct audit # 0000021 dated 6 December 2006 issued by the Ministry of Finance of the Republic of Kazakhstan

Alla Nigay
General Director of KPMG Audit LLC
acting on the basis of the Charter

5 March 2015

	Note	2014 KZT'000	2013 KZT'000
Interest income	4	64,811,350	58,606,759
Interest expense	4	(42,050,069)	(39,892,944)
Net interest income		**22,761,281**	**18,713,815**
Fee and commission income	5	12,573,619	11,677,985
Fee and commission expense	6	(4,983,524)	(7,622,467)
Net fee and commission income		**7,590,095**	**4,055,518**
Net loss on financial instruments at fair value through profit or loss		(1,408)	(10,362)
Net loss on derivative financial instruments	7	(3,268,861)	(840)
Net foreign exchange gain		4,979,847	2,234,489
Net income/(loss) on available-for-sale financial assets		13,592	(666)
Loss from repurchased own debt instruments		(50,631)	(728,760)
Net income on sale of foreclosed assets	19	1,065,955	19,393
Other operating income		725,992	721,898
Operating income		**33,815,862**	**25,004,485**
Impairment losses	8	(10,380,085)	(4,533,418)
General and administrative expenses	9	(18,321,147)	(18,682,552)
Taxes other than income tax	10	(1,051,912)	4,227,576
Profit before income tax		**4,062,718**	**6,016,091**
Income tax expense	11	(594,825)	(4,199,296)
Profit for the year		**3,467,893**	**1,816,795**
Attributable to:			
Equity holders of the Bank		3,381,237	1,749,221
Non-controlling interests		86,656	67,574
		3,467,893	**1,816,795**

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

	Note	2014 KZT'000	2013 KZT'000
Other comprehensive income for the year, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		113,832	31,631
- Net change in fair value transferred to profit or loss		(13,592)	666
Foreign currency translation differences for foreign operations		(261,623)	(67,090)
Total items that are or may be reclassified subsequently to profit or loss		*(161,383)*	*(34,793)*
Other comprehensive loss for the year, net of income tax		**(161,383)**	**(34,793)**
Total comprehensive income for the year		**3,306,510**	**1,782,002**
Attributable to:			
Equity holders of the Bank		3,225,957	1,716,828
Non-controlling interests		80,553	65,174
Total comprehensive income for the year		**3,306,510**	**1,782,002**
Earnings per share			
Basic earnings per share, in KZT	25	75	39
Diluted earnings per share, in KZT	25	75	39

The consolidated financial statements as set out on pages 5 to 80 were approved by the Management on 5 March 2015, and were signed on its behalf by:

Mr. Anthony Espina
Chairman of the Management Board

Ms. Zaure Albossinova
Acting Chief Accountant

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

	Note	2014 KZT'000	Restated 2013 KZT'000
ASSETS			
Cash and cash equivalents	11	149,707,679	199,981,647
Financial instruments at fair value through profit or loss			
- Held by the Group	13	451,143	113,184
Available-for-sale financial assets			
- Held by the Group	14	27,019,938	3,619,491
Loans and advances to banks	15	8,062,254	2,284,660
Loans to customers	16	649,756,690	558,211,933
Current tax asset		1,138,255	1,040,173
Property, equipment and intangible assets	17	18,366,634	19,725,263
Deferred tax asset	10	5,103,025	5,164,736
Receivable from UniCredit Bank Austria AG under guarantee agreement	18	115,753,133	99,738,176
Other assets	19	8,867,282	22,529,778
Total assets		**984,226,033**	**912,409,041**
LIABILITIES			
Financial instruments at fair value through profit or loss	13	272,156	15,660
Deposits and balances from banks and other financial institutions	20	120,705,578	106,345,844
Current accounts and deposits from customers	21	705,026,331	603,955,487
Subordinated borrowings	22	18,431,310	31,131,142
Other borrowed funds	22	59,827,535	92,981,872
Deferred tax liability	10	34,808	-
Other liabilities	23	2,472,414	3,793,269
Total liabilities		**906,770,132**	**838,223,274**
EQUITY			
Share capital	24	167,878,470	167,878,470
Additional paid-in capital		1,461,271	1,461,271
General reserve		15,181,181	15,181,181
Revaluation reserve for available-for-sale financial assets		36,033	(64,465)
Cumulative translation reserve		(322,175)	(66,397)
Accumulated losses		(107,036,498)	(110,417,735)
Total equity attributable to equity holders of the Bank		**77,198,282**	**73,972,325**
Non-controlling interests		257,619	213,442
Total equity		**77,455,901**	**74,185,767**
Total liabilities and equity		**984,226,033**	**912,409,041**

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

	2014 KZT'000	2013 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	57,128,933	49,312,413
Interest payments	(40,932,591)	(49,791,517)
Fee and commission receipts	12,402,127	11,969,318
Fee and commission payments	(3,866,584)	(7,521,478)
Net payments on financial instruments at fair value through profit or loss	(3,822,117)	(14,797)
Net receipts from foreign exchange	15,472,957	2,646,472
Other income receipts	1,691,989	773,765
Personnel expenses payments	(9,046,180)	(9,078,552)
Other general administrative expenses payments	(9,344,535)	(8,261,943)
Net change in operating assets		
Financial instruments at fair value through profit or loss	(5,752)	166,914
Loans and advances to banks	(4,107,732)	(7,033,533)
Loans to customers	(64,666,181)	18,839,262
Other assets	16,366,716	(608,992)
Net change in operating liabilities		
Financial instruments at fair value through profit or loss	450,616	(100,499)
Deposits and balances from banks and other financial institutions	(5,916,778)	70,174,065
Current accounts and deposits from customers	65,466,405	85,533,212
Other liabilities	101,236	271,846
Net cash provided from operating activities before income tax paid	**27,372,529**	**157,275,956**
Income tax paid	(492,520)	(313,834)
Cash flows provided from operations	**26,880,009**	**156,962,122**

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

	2014 KZT'000	2013 KZT'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of held-to-maturity investments	-	(1,313)
Repayment of held-to-maturity investments	1,324	-
Purchases of available-for-sale financial assets	(95,314,624)	(26,780,405)
Sales of available-for-sale financial assets	72,297,219	35,889,831
Purchases of property, equipment and intangible assets	(1,682,293)	(1,510,207)
Sales of property, equipment and intangible assets	1,114,177	376,668
Cash flows (used in)/provided from investing activities	**(23,584,197)**	**7,974,574**
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts of loans	13,000,000	2,550,000
Repayment of loans	(5,226,529)	(56,728,125)
Repayment of subordinated borrowings	(15,319,280)	(21,086,400)
Proceeds from debt securities issued	30,000	-
Repayment of debt securities	(54,324,599)	(23,260,407)
Dividends paid	(36,376)	(33,505)
Cash flows used in financing activities	**(61,876,784)**	**(98,558,437)**
Net (decrease)/increase in cash and cash equivalents	**(58,580,972)**	**66,378,259**
Effect of changes in exchange rates on cash and cash equivalents	8,307,004	1,025,553
Cash and cash equivalents as at the beginning of the year	199,981,647	132,577,835
Cash and cash equivalents as at the end of the year (Note 11)	**149,707,679**	**199,981,647**

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

KZT'000	**Attributable to equity holders of the Bank**								
	Share capital	**Additional paid-in capital**	**General reserve**	**Revaluation reserve for available-for-sale financial assets**	**Cumu-lative translation reserve**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total equity**
Balance as at 1 January 2014	167,878,470	1,461,271	15,181,181	(64,465)	(66,397)	(110,417,735)	73,972,325	213,442	74,185,767
Total comprehensive income									
Profit for the year	-	-	-	-	-	3,381,237	3,381,237	86,656	3,467,893
Other comprehensive income									
Items that are or may be reclassified subsequently to profit or loss:									
Net change in fair value of available-for-sale financial assets	-	-	-	114,090	-	-	114,090	(258)	113,832
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	(13,592)	-	-	(13,592)	-	(13,592)
Foreign currency translation differences for foreign operations	-	-	-	-	(255,778)	-	(255,778)	(5,845)	(261,623)
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	*100,498*	*(255,778)*	-	*(155,280)*	*(6,103)*	*(161,383)*
Total other comprehensive income	-	-	-	**100,498**	**(255,778)**	-	**(155,280)**	**(6,103)**	**(161,383)**
Total comprehensive income for the year	-	-	-	**100,498**	**(255,778)**	**3,381,237**	**3,225,957**	**80,553**	**3,306,510**
Transactions with owners, recorded directly in equity									
Dividends of subsidiaries to minority shareholder	-	-	-	-	-	-	-	(36,376)	(36,376)
Total transactions with owners	-	-	-	-	-	-	-	**(36,376)**	**(36,376)**
Balance as at 31 December 2014	**167,878,470**	**1,461,271**	**15,181,181**	**36,033**	**(322,175)**	**(107,036,498)**	**77,198,282**	**257,619**	**77,455,901**

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

KZT'000	**Attributable to equity holders of the Bank**								
	Share capital	**Additional paid-in capital**	**General reserve**	**Revaluation reserve for available-for-sale financial assets**	**Cumu-lative translation reserve**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total equity**
Balance as at 1 January 2013	167,878,470	1,461,271	15,181,181	(96,684)	(1,785)	(110,405,106)	74,017,347	181,773	74,199,120
Total comprehensive income									
Profit for the year	-	-	-	-	-	1,749,221	1,749,221	67,574	1,816,795
Other comprehensive income									
Items that are or may be reclassified subsequently to profit or loss:									
Net change in fair value of available-for-sale financial assets	-	-	-	31,553	-	-	31,553	78	31,631
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	666	-	-	666	-	666
Foreign currency translation differences for foreign operations	-	-	-	-	(64,612)	-	(64,612)	(2,478)	(67,090)
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	*32,219*	*(64,612)*	-	*(32,393)*	*(2,400)*	*(34,793)*
Total other comprehensive income/(loss)	**-**	**-**	**-**	**32,219**	**(64,612)**	**-**	**(32,393)**	**(2,400)**	**(34,793)**
Total comprehensive income/(loss) for the year	**-**	**-**	**-**	**32,219**	**(64,612)**	**1,749,221**	**1,716,828**	**65,174**	**1,782,002**
Transactions with owners, recorded directly in equity									
Dividends of subsidiaries to minority shareholder	-	-	-	-	-	-	-	(33,505)	(33,505)
Fee paid to UniCredit Bank Austria AG	-	-	-	-	-	(1,761,850)	(1,761,850)	-	(1,761,850)
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**(1,761,850)**	**(1,761,850)**	**(33,505)**	**(1,795,355)**
Balance as at 31 December 2013	**167,878,470**	**1,461,271**	**15,181,181**	**(64,465)**	**(66,397)**	**(110,417,735)**	**73,972,325**	**213,442**	**74,185,767**

1 Background

(a) Organisation and operations

These consolidated financial statements include the financial statements of ATFBank JSC (the “Bank”) and its subsidiaries (together referred to as the Group).

The Bank was established on 3 November 1995 as a closed joint stock company under the laws of the Republic of Kazakhstan. Due to a change in legislation introduced in 2003, the Bank was re-registered as a joint stock company in October 2003. The Bank operates under a general banking license issued on 28 December 2007 by the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Markets and Financial Institutions. The license supercedes all previously issued general banking and other licenses.

ATFBank JSC and its subsidiaries provide retail and corporate banking services in Kazakhstan and Kyrgyzstan, cash collection services in Kazakhstan. The Bank accepts deposits from the public, extends credit, transfers payments in Kazakhstan and abroad, exchanges currencies and provides other banking services to its corporate and retail customers.

The Bank's registered legal address is 100 Furmanov Street, Almaty, Republic of Kazakhstan, 050000.

The Bank is a member of the obligatory deposit insurance system, which operates under the Law of the Republic of Kazakhstan “On Obligatory Insurance of Second Tier Banks Deposits” dated 7 July 2006 and is governed by the National Bank of the Republic of Kazakhstan (the NBRK).

The Bank has a primary listing on the Kazakhstan Stock Exchange (the KASE) and certain of its debt securities are listed on the Luxembourg and London Stock Exchanges. As at 31 December 2014 the Bank had 17 branches located throughout Kazakhstan (31 December 2013: 17 branches).

The principal subsidiaries are as follows:

			Ownership %	
Name	**Country of incorporation**	**Principal activity**	**31 December 2014**	**31 December 2013**
ATF Finance JSC	Kazakhstan	Investments	100.0	100.0
ATF Inkassatsiya LLP	Kazakhstan	Cash collection	100.0	100.0
ATF Capital B.V.	The Netherlands	Special purpose entity	100.0	100.0
Optima Bank OJSC(formerly “UnicreditBank” OJSC)	Kyrgyzstan	Banking	97.1	97.1

(b) Shareholders

As at 31 December 2014, the following shareholders own the outstanding common shares:

Shareholders	**31 December 2014 %**	**31 December 2013 %**
KNG Finance LLC	99.78	99.78
Other shareholders	0.22	0.22
	100.00	**100.00**

In December 2014, the Board of Directors of the Group made decision to liquidate ATF Capital B.V. due to the lack of volume in the primary activity of the company. The impact of subsidiary liquidation on the Group’s assets and liabilities and the profit for the year is insignificant accordingly the Group did not present this subsidiary as discontinued operation in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014 and the consolidated statement of financial position as at 31 December 2014.

1 Background, continued

(b) Shareholders, continued

In November 2013, the Board of Directors of the Group made decision to liquidate ATF Finance JSC due to the lack of volume in the primary activity of the company. The impact of subsidiary liquidation on the Group's assets and liabilities and the profit for the year is insignificant, accordingly the Group did not present this subsidiary as discontinued operation in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2013 and the consolidated statement of financial position as at 31 December 2013.

On 2 May 2013 KazNitrogenGas LLP and Unicredit Bank Austria AG announced the completion of the transaction of sale of ATF Bank JSC 99.76% interest, which was approved by the National Bank of the Republic of Kazakhstan on 29 March 2013.

On 24 May 2013, the Department of Justice of Almaty registered the change of the name of KazNitrogenGas LLP to KNG Finance LLP.

(c) Kazakhstan business environment

The Group's operations are primarily located in Kazakhstan. Consequently, the Group is exposed to the economic and financial markets of Kazakhstan, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in Kazakhstan. The consolidated financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Bank and the majority of its subsidiaries is the Kazakhstan Tenge (KZT) as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The KZT is also the presentation currency for the purposes of these consolidated financial statements.

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

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

2 Basis of preparation, continued

(d) Use of estimates and judgments, continued

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

- deferred taxes - note 11;
- loan impairment estimates and sale of mortgage portfolio – note 16;
- offset of receivable from UniCredit Bank Austria AG under guarantee agreement and cash deposit on this receivable – note 18;
- estimates of fair values of financial instruments - note 34.

(e) Changes in accounting policies

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014:

- *Investment Entities* (Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements) (see (i));
- *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32 Financial Instruments: Presentation) (see (ii));
- *Recoverable Amount Disclosures for Non-Financial Assets* (Amendments to IAS 36 Impairment of Assets) (see (iii)).

The nature and the effect of the changes are explained below.

(i) Investment entities

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments did not have an impact on the consolidated financial statements.

(ii) Offsetting Financial Assets and Financial Liabilities

Amendments to IAS 32 *Financial Instruments: Disclosure and Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

Impact of this amendment on the Group’s consolidated statement of financial position is disclosed in Notes 18 and 20.

(iii) Recoverable Amount Disclosures for Non-Financial Assets

The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements, and are applied consistently by Group entities, except as explained in note 2, which addresses changes in accounting policies.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit of loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

The Group elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(ii) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(iii) Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as the purpose and design of the investee; its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

(iv) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

3 Significant accounting policies, continued

(a) Basis of consolidation, continued

(v) Acquisitions and disposals of non-controlling interests

The Group accounts for the acquisitions and disposals of non-controlling interests as transactions with equity holders in their capacity as equity holders. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent.

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Non-controlling interests

Non-controlling interests are the equity in a subsidiary not attributable, directly or indirectly, to the Bank.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the Bank. Non-controlling interests in profit or loss and total comprehensive income are separately disclosed in the consolidated statement of profit or loss and other comprehensive income.

(c) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss; a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or qualifying cash flow hedges to the extent that the hedge is effective, which are recognised in other comprehensive income.

(d) Cash and cash equivalents

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

3 Significant accounting policies, continued

(e) Financial instruments

(i) Classification

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

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

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

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

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Group has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group:

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

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

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

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

3 Significant accounting policies, continued

(e) Financial instruments, continued

(ii) Recognition

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

(iii) Measurement

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

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

- loans and receivables which are measured at amortised cost using the effective interest method
- held-to-maturity investments that are measured at amortised cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

(iv) Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(v) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

3 Significant accounting policies, continued

(e) Financial instruments, continued

(v) Fair value measurement principles, continued

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

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

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vi) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss;
- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vii) Derecognition

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

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

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

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

3 Significant accounting policies, continued

(e) Financial instruments, continued

(vii) Derecognition, continued

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

The Group writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within loans to banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the reverse repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(ix) Derivative financial instruments

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

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

Changes in the fair value of derivatives are recognised immediately in profit or loss.

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

(x) Offsetting

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

(f) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

3 Significant accounting policies, continued

(f) Property and equipment, continued

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

- Buildings	25 years;
- Computer equipment	5 years;
- Vehicles	7 years;
- Fixtures and fittings	8 years.

(g) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 2 to 10 years.

(h) Foreclosed assets

Foreclosed assets are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Impairment

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

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

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

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

(i) Financial assets carried at amortised cost

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

3 Significant accounting policies, continued

(i) Impairment, continued

(i) Financial assets carried at amortised cost, continued

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

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

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in profit or loss and cannot be reversed.

(ii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

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

3 Significant accounting policies, continued

(i) Impairment, continued

(ii) Available-for-sale financial assets, continued

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(iii) Non-financial assets

Non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of goodwill is estimated at each reporting date. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

(j) Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(k) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies at the lower of their carrying amount and fair value less cost to sell.

(l) Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

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

3 Significant accounting policies, continued

(l) Credit related commitments, continued

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

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

Loan commitments are not recognised, except in the following cases:

- loan commitments that the Group designates as financial liabilities at fair value through profit or loss
- if the Group has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument
- commitments to provide a loan at a below-market interest rate

(m) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Repurchase of share capital

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

(iii) Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of Kazakhstan legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(n) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3 Significant accounting policies, continued

(n) Taxation, continued

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilised.

(o) Income and expense recognition

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

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

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

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

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

(p) Segment reporting

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same Group); whose operating results are regularly reviewed by the 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.

(q) Comparative information

Comparative information is restated to conform to changes in presentation in the current year.

During the preparation of these consolidated financial statements, due to coming into effect in 2014 of Amendments to IAS 32 *Financial Instruments: Disclosure and Presentation - Offsetting Financial Assets and Financial Liabilities* described in Note 2(e) above, the Group has analysed the impact of these Amendments on presentation of the UniCredit receivables under the guarantee agreement and respective deposit, which was done on a net basis in the consolidated statement of financial position as at 31 December 2013 (Note 18) . As the Kazakhstani legislation does not provide for the unconditional and legally enforceable right to set-off of these amounts in the event of default, insolvency or bankruptcy of the Bank, said receivables and deposit are not offset against each other anymore and are presented in the consolidated financial statements for the year ended 31 December 2014 at gross values.

Moreover, in the consolidated statement of financial position as at 31 December 2013, the prepaid commission fees of KZT 2,581,960 thousand under the guarantee obtained from UniCredit, which were previously recognised in loans and advances to the banks, were reclassified in the receivables from UniCredit, and the prepaid interest on UniCredit deposit of KZT 3,739,583 thousand was reclassified in UniCredit deposit. Management believes that such presentation is more appropriate in accordance with IFRS and provides a clearer view of the consolidated financial position and performance of the Group. The effect of reclassifications on the comparatives can be summarised as follows:

3 Significant accounting policies, continued

(q) Comparative information, continued

KZT'000	As reclassified	Effect of reclassifications	As previously reported
Consolidated statement of financial position as at 31 December 2013			
Loans and advances to banks	2,284,660	(6,321,543)	8,606,203
UniCredit Bank Austria AG receivables under guarantee agreement	99,738,176	99,738,176	-
Deposits and balances from banks and other financial institutions	106,345,844	93,416,633	12,929,211

The above reclassifications do not have impact on the Group performance or equity.

The Group did not provide the third statement of financial position as at 1 January 2013, the beginning of the earliest year presented, as the reclassification had no impact on the information presented in the consolidated statement of financial position at 1 January 2013.

Taxes other than income tax

During preparation of these consolidated financial statements, the Group has reviewed presentation of certain items in the consolidated statement of profit or loss and other comprehensive income, as a result of which taxes other than income tax have been excluded from the general and administrative expenses and presented as a separate item in the consolidated statement of profit or loss and other comprehensive income. The Group management believes that this presentation is the most appropriate and provides a clearer view of the Group performance. The effect of reclassifications on the comparatives is summarised as follows:

KZT'000	As reclassified	Reclassification effect	As previously reported
Consolidated statement of profit or loss and other comprehensive income for 2013			
General and administrative expenses	(18,682,552)	(4,227,576)	(14,454,976)
Taxes other than income tax	4,227,576	4,227,576	-

The above reclassifications had no effect on the Bank performance or equity.

3 Significant accounting policies, continued

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2014, and are not applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

The Group has not yet analysed the likely impact of the new standard on its financial position or performance.

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding the classification and measurement of financial liabilities was published in October 2010. The third phase of IFRS 9 was issued in November 2013 and relates to general hedge accounting. The standard was finalised and published in July 2014. The final phase relates to a new expected credit loss model for calculating impairment. The Group recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The Group has not analysed the impact of these changes yet. The Group does not intend to adopt this standard early. The standard will be effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.

- Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2014. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2014 KZT'000	**2013 KZT'000**
Interest income		
Loans to customers	63,816,717	58,146,576
Available-for-sale financial assets	653,908	150,652
Loans and advances to banks	335,111	300,163
Financial instruments at fair value through profit or loss	5,614	9,368
	64,811,350	**58,606,759**
Interest expense		
Current accounts and deposits from customers	(31,299,728)	(24,075,380)
Other borrowed funds	(5,073,302)	(9,826,686)
Deposits and balances from banks and other financial institutions	(3,362,200)	(2,094,811)
Subordinated borrowings	(2,314,839)	(3,896,067)
	(42,050,069)	**(39,892,944)**

In accordance with requirements of IAS 39, interest should continue to be accrued on impaired financial assets. Included within various line items under interest income for the year ended 31 December 2014 is a total of KZT 12,065,715 thousand (for the year ended 31 December 2013: KZT 14,399,329 thousand) accrued mainly on impaired corporate and SME loans.

5 Fee and commission income

	2014 KZT'000	2013 KZT'000
Bank transfers	4,063,294	3,907,211
Plastic cards	2,500,632	2,178,946
Cash operations	2,467,032	2,255,870
Guarantees and letters of credit	1,832,498	1,675,025
Foreign currency trading	1,116,155	930,033
Custodian services	67,289	164,293
Customer service	57,480	49,894
Project management	10,347	22,784
Securities operations	175	10,405
Other	458,717	483,524
	12,573,619	**11,677,985**

6 Fee and commission expense

	2014 KZT'000	2013 KZT'000
Guarantees	2,299,681	4,533,645
Expenses on insurance of customer deposits	1,574,738	2,073,034
Plastic cards	693,747	571,467
Bank transfers	300,235	287,808
Securities operations	39,428	59,044
Custodian services	22,898	10,272
Foreign currency trading	14,114	11,714
Other	38,683	75,483
	4,983,524	**7,622,467**

7 Net loss from derivative financial instruments

Net loss from derivative financial instruments for the years ended 31 December 2014 and 31 December 2013 comprises mostly the losses from currency swaps.

8 Impairment losses

	2014 KZT'000	2013 KZT'000
Loans to customers	(9,834,373)	(4,464,607)
Other assets	(388,785)	(105,001)
Credit related commitments	(156,927)	32,626
Loans and advances to banks	-	3,564
	(10,380,085)	**(4,533,418)**

9 General and administrative expenses

	2014 KZT'000	2013 KZT'000
Personnel expenses		
Employee benefits	8,599,649	8,411,407
Payroll related taxes	923,225	814,821
	9,522,874	**9,226,228**
Other general administrative expenses		
Depreciation and amortisation	2,026,704	1,921,384
Repairs and maintenance	1,377,113	1,233,112
Rent	1,244,871	1,953,443
Collectors	927,472	1,033,503
Security	708,906	730,044
Communication and information services	540,347	550,203
Stationery, publications, packaging	344,038	216,457
Professional services	312,218	688,050
Advertising and marketing	308,988	337,597
Lease of vehicles	219,561	101,116
Business travel	200,190	258,710
Transportation and logistics	120,000	108,774
Insurance	74,827	107,774
Fines and penalties	43,359	51,902
Representation	16,225	27,086
Other	333,454	137,169
	18,321,147	**18,682,552**

10 Taxes other than income tax

Expenses on taxes other than income tax for the year ended 31 December 2014 comprised mostly the VAT expenses of KZT 670,184 thousand (31 December 2013: KZT 707,363 thousand) and property tax expenses of KZT 274,015 thousand (31 December 2013: KZT 228,948 thousand).

During 2013, following the results of appeal of the tax audit in favour of the Bank, the Group reversed the income tax expenses and penal sanctions recognised in prior period based on the tax inspection act for the period of 2007-2012.

11 Income tax expense

	2014 KZT'000	2013 KZT'000
Current tax expense		
Current year	498,242	306,994
	498,242	**306,994**
Deferred tax		
Origination and reversal of temporary differences	96,583	3,892,302
Total income tax expense	**594,825**	**4,199,296**

The Bank and its subsidiaries, other than ATF Capital B.V. and Optima Bank OJSC, are subject to taxation in the Republic of Kazakhstan. ATF Capital B.V. is subject to income tax in the Netherlands. Optima Bank OJSC is subject to income tax in Kyrgyzstan.

The Group's applicable tax rate for the year ended 31 December 2014 is the income tax rate of 20% for Kazakhstan companies (2013: 20%).

11 Income tax expense, continued

The applicable tax rate for current tax is 10% for Optima Bank OJSC (2013: 10%) and 25% for ATF Capital B.V. (2013: 25%).

During 2014, the Bank re-submitted the tax returns for 2011-2013. The Bank claimed additional deduction for the total amount of KZT 591,858 thousand with regard to the doubtful debt related to the interest income on loan overdue for more than 3 years.

During 2013, the Group recalculated its current tax in respect to non-deductible interest expenses for 2011 and 2012 and accordingly reduced the tax loss carry-forwards by KZT 1,063,040 thousand.

Reconciliation of effective tax rate:

	2014 KZT'000	%	2013 KZT'000	%
Profit before income tax	**4,062,718**	**100**	**6,016,091**	**100**
Income tax charge at the applicable tax rate	812,544	20	1,203,218	20
Income of subsidiaries taxed at different rates	(337,702)	(8)	(252,484)	(4)
Withholding tax on dividends	136,887	3	-	
Non-deductible impairment losses	321,236	8	401,115	7
Non-deductible interest and commission expenses	33,880	1	417,736	7
Forgiven debt	193,470	5	305,161	5
Change in unrecognised deferred tax assets	-	-	401,437	7
(Over)/under provided in prior year	(591,858)	(15)	1,063,040	18
Non-deductible penalties	1,643	-	529,786	9
Other non-deductible expenses	24,725	1	130,287	2
	594,825	**15**	**4,199,296**	**70**

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2014 and 2013. These deferred tax assets are recognised in these consolidated financial statements. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the laws and regulations that adversely affect the Group's ability to claim the deductions in future periods.

2014 KZT'000	**Balance 1 January 2014**	**Recognised in profit or loss**	**Effect of foreign exchange difference**	**Balance 31 December 2014**
Loans to customers	943,732	(4,092,589)	-	(3,148,857)
Property, equipment and intangible assets	(1,010,722)	37,242	64	(973,416)
Other assets	331,926	(145,825)	-	186,101
Tax loss carry-forwards	4,899,800	4,104,589	-	9,004,389
	5,164,736	**(96,583)**	**64**	**5,068,217**

2013 KZT'000	**Balance 1 January 2013**	**Recognised in profit or loss**	**Balance 31 December 2013**
Loans to customers	1,345,169	(401,437)	943,732
Property, equipment and intangible assets	(999,569)	(11,153)	(1,010,722)
Other assets	122,948	208,978	331,926
Tax loss carry-forwards	8,588,490	(3,688,690)	4,899,800
	9,057,038	**(3,892,302)**	**5,164,736**

As at 31 December 2014 the deferred liabilities on property, plant and equipment and intangible assets include the liabilities of foreign subsidiaries in the amount of KZT 34,808 thousand.

The tax loss carry-forwards expire in 2020-2022.

12 Cash and cash equivalents

	2014 KZT'000	2013 KZT'000
Cash on hand	39,835,965	28,147,360
Nostro accounts with the NBRK	55,749,253	86,504,276
Nostro accounts with the National Bank of the Republic of Kyrgyzstan	3,886,380	3,313,369
Nostro accounts with other banks		
- rated AA- to AA+	11,497,979	23,256,274
- rated A- to A+	22,751,034	45,257,966
- rated BBB- to BBB+	4,401,223	3,801,902
- rated from BB- to BB+	151,017	27,320
- rated below B+	96,035	67,528
- not rated	10,253,793	9,605,652
Term deposits with other banks up to 90 days		
- not rated	1,085,000	-
Total cash and cash equivalents	**149,707,679**	**199,981,647**

12 Cash and cash equivalents, continued

None of the cash equivalents are impaired or past due.

The above table is based on the credit ratings assigned by Standard & Poor's or other agencies converted into Standard & Poor's scale.

As at 31 December 2014 the Group has three banks (31 December 2013: four banks), whose balances exceed 10% of statutory equity. The gross value of these balances as at 31 December 2014 is KZT 76,359,001 thousand (31 December 2013: KZT 140,866,756 thousand).

Minimum reserve requirements

Minimum reserve requirements are calculated in accordance with regulations issued by the NBRK and should be maintained as average of cash on hand and balances on current account with the NBRK for the two week period calculated as certain minimum level of residents' and non-residents' customer deposits and current accounts balances as well as other bank liabilities. As at 31 December 2014 the minimum reserve is KZT 15,491,101 thousand (31 December 2013: KZT 18,429,752 thousand).

13 Financial instruments at fair value through profit or loss

	2014 KZT'000	2013 KZT'000
Held by the Group		
ASSETS		
Debt instruments and other fixed-income instruments		
Government bonds		
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	97,996	105,614
Total government bonds	**97,996**	**105,614**
Derivative financial instruments		
Foreign currency contracts	353,147	7,570
	451,143	**113,184**
LIABILITIES		
Derivative financial instruments		
Foreign currency contracts	272,156	15,660
	272,156	**15,660**

None of the financial assets at fair value through profit or loss are past due or impaired.

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

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of the foreign currency forward and swap contracts outstanding at 31 December 2014 and 2013 with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these non-matured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
	2014 KZT'000	2013 KZT'000	2014	2013
Buy USD sell KZT				
More than12 months	27,312,000	-	182.08	-
Less than 3 months	-	17,254,720	-	154.47
Buy EURO sell USD				
Less than 1 month	221,590	-	1.21581	-
Sell USD buy KGS				
Less than 3 months	922,374	-	54.00	-
Between 3 to 12 months	1,458,054	-	49.48	-
Sell KZT buy USD				
Less than 3 months	-	23,681	-	156.21
Between 3 to 12 months	-	23,541	-	158.17
Buy USD sell RUB				
Less than 3 months	-	184,872	-	32.79

At 31 December 2014, the derivative financial instruments included a currency swap agreement signed in August 2014 with the National Bank of the Republic of Kazakhstan, under which the Group should deliver KZT 27,312,000 thousand in August 2016 in exchange for USD 150,000,000. Under said agreement the Group paid KZT 819,360 thousand, which is 3% per annum in tenge as at the agreement signed date. This agreement has an early withdrawal option. As at 31 December 2014 the fair value of the swap amounted to KZT 353,147 thousand.

14 Available-for-sale financial assets

Held by the Group	2014 KZT'000	2013 KZT'000
Debt and other fixed-income instruments		
Government bonds		
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	16,362,475	-
Notes of the NBRK	9,569,077	-
Notes of the National Bank of the Kyrgyz Republic	773,492	2,601,830
Treasury notes of the Ministry of Finance of the Kyrgyz Republic	-	923,600
Total government and municipal bonds	**26,705,044**	**3,525,430**
Municipal bonds		
Bonds of Almaty Akimat	220,833	-
Total municipal bonds	**220,833**	**-**
Corporate bonds		
Rated below BBB-	-	4
Total corporate bonds	**-**	**4**
Equity investments measured at cost	**94,061**	**94,057**
	27,019,938	**3,619,491**

14 Available-for-sale financial assets, continued

Investment without a determinable fair value

Available-for-sale investments stated at cost comprise unquoted equity securities in the finance industry. There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows in this industry.

15 Loans and advances to banks

	2014 KZT'000	2013 KZT'000
Loans and deposits		
National Bank of the Republic of Kazakhstan	4,394,176	-
OECD banks	3,376,030	1,181,062
Largest 10 Kazakh banks	300	1,500
Other banks	291,748	1,102,098
Loans and advances to banks	**8,062,254**	**2,284,660**

No loans and advances to banks are impaired or past due.

Money on the current account with the National Bank of the Republic of Kazakhstan comprises funds provided by Damu Entrepreneurship Development Fund JSC ("Damu") and Development Bank of Kazakhstan JSC ("DBK") deposited on the special account with the NBRK in accordance with the loan agreement concluded with Damu and DBK. Funds in the current account are to be distributed to small and medium businesses on preferential terms. In accordance with the agreements with Damu and DBK funds may be withdrawn from the account only after approval of Damu and DBK. Therefore, balances in the account are restricted funds.

Analysis of movements in the impairment allowance

	2014 KZT'000	2013 KZT'000
Balance at the beginning of the year	-	3,608
Recovery for the year	-	(3,564)
Effect of foreign currency translation	-	(44)
Balance at the end of the year	**-**	**-**

16 Loans to customers

	2014 KZT'000	2013 KZT'000
Loans to corporate customers		
Loans to large corporates	527,649,764	512,384,046
Loans to small and medium size companies	168,160,405	195,448,753
Total loans to corporate customers	**695,810,169**	**707,832,799**
Loans to retail customers		
Mortgage loans	59,818,944	55,160,699
Consumer loans	84,331,924	77,311,055
Auto loans	1,529,974	2,356,800
Total loans to retail customers	**145,680,842**	**134,828,554**
Gross loans to customers	**841,491,011**	**842,661,353**
Impairment allowance	(191,734,321)	(284,449,420)
Net loans to customers	**649,756,690**	**558,211,933**

16 Loans to customers, continued

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2014 are as follows:

	Loans to corporate customers KZT'000	Loans to retail customers KZT'000	Total KZT'000
Balance at the beginning of the year	265,479,073	18,970,347	284,449,420
Net charge for the year	9,010,427	823,946	9,834,373
Write-offs	(122,653,000)	(18,998,587)	(141,651,587)
Reversals	776,047	582,700	1,358,747
Effect of foreign currency translation	35,246,950	2,496,418	37,743,368
Balance at the end for the year	**187,859,497**	**3,874,824**	**191,734,321**

During 2014 upon decision of the management of the Bank significant amounts of impaired loans overdue for more than 90 days were written off in the amount of provisions charged. This has not affected the carrying value of loans and their classification in terms of credit quality and overdue aging.

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2013 are as follows:

	Loans to corporate customers KZT'000	Loans to retail customers KZT'000	Total KZT'000
Balance at the beginning of the year	256,682,340	18,795,362	275,477,702
Net charge for the year	4,108,412	356,195	4,464,607
Write-offs	(783,089)	(880,859)	(1,663,948)
Reversals	1,160,483	407,001	1,567,484
Effect of foreign currency translation	4,310,927	292,648	4,603,575
Balance at the end for the year	**265,479,073**	**18,970,347**	**284,449,420**

16 Loans to customers, continued

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2014 and 31 December 2013:

	2014 KZT'000	2013 KZT'000
Loans to corporate customers		
Loans to large corporates		
Loans without individual signs of impairment:		
Standard not overdue loans	262,910,167	195,875,515
Loans with individual signs of impairment:		
- not overdue	78,821,339	75,380,824
-overdue less than 90 days	3,954,898	1,800,783
- overdue more than 90 days and less than 1 year	16,062,064	2,745,586
- overdue more than 1 year	165,901,296	236,581,338
Total loans to large corporates	**527,649,764**	**512,384,046**
Impairment allowance on loans to large corporates	(180,330,980)	(223,241,774)
Net loans to large corporates	**347,318,784**	**289,142,272**
Loans to small- and medium-sized companies		
Loans without individual signs of impairment:		
Standard not overdue loans	102,369,562	100,944,282
Loans with individual signs of impairment:		
- not overdue	4,571,095	4,493,595
-overdue less than 90 days	1,546,082	3,485,626
- overdue more than 90 days and less than 1 year	5,210,567	12,255,402
- overdue more than 1 year	54,463,099	74,269,848
Total loans to small and medium-sized companies	**168,160,405**	**195,448,753**
Impairment allowance on loans to small- and medium-sized companies	(7,528,517)	(42,237,299)
Net loans to small and medium-sized companies	**160,631,888**	**153,211,454**
Total loans to corporate customers	**695,810,169**	**707,832,799**
Total impairment allowance on loans to corporate customers	(187,859,497)	(265,479,073)
Total net loans to corporate customers	**507,950,672**	**442,353,726**

16 Loans to customers, continued

(a) Credit quality of loans to customers, continued

	2014 KZT'000	2013 KZT'000
Loans to retail customers		
Mortgage loans		
- not overdue	41,334,377	32,107,602
- overdue less than 30 days	1,160,057	990,889
- overdue 30-89 days	726,828	857,652
- overdue 90-179 days	919,615	873,692
- overdue 180-360 days	1,687,867	1,325,192
- overdue more than 360 days	13,990,200	19,005,672
Total mortgage loans	**59,818,944**	**55,160,699**
Impairment allowance on mortgage loans	(1,331,566)	(9,405,385)
Net mortgage loans	**58,487,378**	**45,755,314**
Consumer loans		
- not overdue	65,014,082	53,235,136
- overdue less than 30 days	3,409,650	2,956,732
- overdue 30-89 days	1,030,133	1,231,540
- overdue 90-179 days	1,350,183	1,731,063
- overdue 180-360 days	1,365,658	2,194,188
- overdue more than 360 days	12,162,218	15,962,396
Total consumer loans	**84,331,924**	**77,311,055**
Impairment allowance on consumer loans	(2,514,912)	(9,320,808)
Net consumer loans	**81,817,012**	**67,990,247**
Auto loans		
- not overdue	1,209,371	1,813,166
- overdue less than 30 days	35,674	90,890
- overdue 30-89 days	14,524	13,189
- overdue 90-179 days	11,892	16,791
- overdue 180-360 days	32,675	41,346
- overdue more than 360 days	225,838	381,418
Total auto loans	**1,529,974**	**2,356,800**
Impairment allowance on auto loans	(28,346)	(244,154)
Net auto loans	**1,501,628**	**2,112,646**
Total loans to retail customers	**145,680,842**	**134,828,554**
Total impairment allowance on loans to retail customers	(3,874,824)	(18,970,347)
Total net loans to retail customers	**141,806,018**	**115,858,207**
Total loans to customers	**841,491,011**	**842,661,353**
Total impairment allowance on loans to customers	(191,734,321)	(284,449,420)
Net total loans to customers	**649,756,690**	**558,211,933**

As described above, as at 31 December 2014 the Group writes off significant amounts of impaired loan overdue for more than 90 days in the amount of impairment allowance. If the Group did not write off those loans, balance of impairment allowance would have been of KZT 333,384,076 thousand or 35.4%, as follows:

	Impairment allowance to gross loans before write off, %	Impairment allowance to gross loans after write off, %
Loans to large corporates	43.4	34.2
Loans to small and medium size companies	21.7	4.5
Mortgage loans	15.5	2.2
Consumer loans	12.7	3.0
Auto loans	16.4	2.0
Total loans to customers	**33.9**	**22.8**

16 Loans to customers, continued

(b) Key assumptions and judgments for estimating the loan impairment

(i) Loans to corporate customers

As at 31 December 2014 included in the loan portfolio are renegotiated loans to corporate and retail customers that would otherwise be past due or impaired of KZT 4,489,974 thousand and KZT 1,606,042 thousand, respectively (2013: KZT 3,653,567 thousand and KZT 1,544,169 thousand, respectively). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. Renegotiated loans are included in the category of assets without individual signs of impairment in the tables above, unless the borrower fails to comply with the renegotiated terms.

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

For all loans that are considered individually significant, the Bank assesses on a case-by-case basis at each reporting date whether there is any objective evidence that the loan is impaired. Objective indicators of loan impairment for loans to corporate customers include the following:

- overdue payments under the loan agreement;
- significant difficulties in the financial conditions of the borrower;
- deterioration in business environment, negative changes in the borrower's markets;
- negative force-majeure events;
- bankruptcy.

For those loans where objective evidence of impairment exists, impairment losses are determined considering the following aspects:

- the aggregate exposure to the customer;
- the amount and timing of expected loan receipts and recoveries;
- the realisable value of collateral and likelihood of successful foreclosure.

For individually insignificant loans, the collective assessment is based on appropriate historical trends of default. For collective assessment purposes, exposures are divided into homogeneous groups with similar risks and characteristics. The impairment provision for collectively assessed loans is determined taking into account the following aspects:

- probability of default for loans of certain homogeneous groups and certain delinquency buckets;
- cash recoveries after default, other than resulting from collateral foreclosure;
- estimated cash receipts from collateral foreclosure.

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

- historic annual loss rate of about 1%-1.4%;
- migration rates are constant and can be estimated based on historic loss migration pattern for the past 12 months;

16 Loans to customers, continued

(b) Key assumptions and judgments for estimating the loan impairment, continued

(i) Loans to retail customers. continued

- a discount of 50% to 70% to the originally appraised value if the property pledged is sold;
- a delay of 12 to 24 months in obtaining proceeds from the sale of foreclosed collateral.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus or minus one percent, the loan impairment provision on loans to corporate customers as of 31 December 2014 would be KZT 5,079,507 thousand lower/higher (31 December 2013: KZT 4,423,537 thousand).

The Group estimates loan impairment for loans to retail customers based on its past historical loss experience on each types of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers include:

- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 12 months
- in respect of mortgage loans, a delay of 24 months in obtaining proceeds from the foreclosure of collateral, which is not compensated by related interest income, and a discount if the property pledged is sold through court procedures at the market price.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus or minus three percent, the loan impairment on loans to retail customers as of 31 December 2014 would be KZT 4,254,181 thousand lower/higher (31 December 2013: KZT 3,475,746 thousand).

(c) Analysis of collateral and other credit enhancements

(i) Loans to corporate customers

The following table provides information on collateral securing loans to corporate customers, net of impairment, by types of collateral:

31 December 2014 KZT'000	**Carrying amount of the loans to customers**	**Fair value of collateral - for collateral assessed as of reporting date**	**Fair value of collateral – for collateral assessed as of loan inception date**	**Fair value of collateral not determined**
Loans without individual signs of impairment				
Cash and deposits	8,047,794	8,047,794	-	-
Real estate	190,490,541	118,199439	72,291,102	-
Motor vehicles	43,292,912	37,813,655	5,479,257	-
Equipment	7,818,296	3,312,891	4,505,405	-
Other collateral	44,693,033	22,939,547	21,753,486	-
Corporate guarantees (State owned companies)	8,354,492	-	-	8,354,492
Corporate guarantees (Unrated)	22,030,467	-	-	22,030,467
No collateral or other credit enhancement (at carrying amount of the loans to customers)	36,135,694	-	-	36,135,694
Total loans without individual signs of impairment	**360,863,229**	**190,313,326**	**104,029,250**	**66,520,653**
Overdue or impaired loans				
Cash and deposits	111,165	111,165	-	-
Real estate	140,826,316	138,308,618	2,517,698	-
Motor vehicles	893,348	888,685	4,663	-
Equipment	2,010,449	1,993,938	16,511	-
Other collateral	2,924,130	2,874,606	49,524	-
Corporate guarantees (Unrated)	147,187	-	-	147,187
No collateral or other credit enhancement (at carrying amount of the loans to customers)	174,848	-	-	174,848
Total overdue or impaired loans	**147,087,443**	**144,177,012**	**2,588,396**	**322,035**
Total loans to corporate customers	**507,950,672**	**334,490,338**	**106,617,646**	**66,842,688**

16 Loans to customers, continued

(c) Analysis of collateral and other credit enhancements, continued

(i) Loans to corporate customers, continued

31 December 2013 KZT'000	Carrying amount of loans to customers	Fair value of collateral - for collateral assessed as of reporting date	Fair value of collateral – for collateral assessed as of loan inception date	Fair value of collateral not determined
Loans without individual signs of impairment				
Cash and deposits	9,548,159	9,548,159	-	-
Traded securities	59,755	-	59,755	-
Real estate	153,303,213	127,654,334	25,648,879	-
Motor vehicles	35,484,905	29,513,403	5,971,502	-
Equipment	3,094,527	2,812,551	281,976	-
Other collateral	28,762,906	17,207,834	11,555,072	-
Corporate guarantees (State owned companies)	11,334,322	-	-	11,334,322
Corporate guarantees (Unrated)	16,159,290	-	-	16,159,290
No collateral or other credit enhancement(at carrying amount of the loans to customers)	36,475,708	-	-	36,475,708
Total loans without individual signs of impairment	**294,222,785**	**186,736,281**	**43,517,184**	**63,969,320**
Overdue or impaired loans				
Cash and deposits	201,359	201,359	-	-
Real estate	138,577,589	137,616,210	961,379	-
Motor vehicles	983,826	983,826	-	-
Equipment	1,703,609	1,668,228	35,381	-
Other collateral	5,062,352	5,031,352	31,000	-
Corporate guarantees (Unrated)	672,356	-	-	672,356
No collateral or other credit enhancement (at carrying amount of the loans to customers)	929,850	-	-	929,850
Total overdue or impaired loans	**148,130,941**	**145,500,975**	**1,027,760**	**1,602,206**
Total loans to corporate customers	**442,353,726**	**332,237,256**	**44,544,944**	**65,571,526**

The tables above are presented excluding overcollateralisation.

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date.

The Group has loans, for which fair value of collateral was assessed at the loan inception date and it was not updated for further changes, and loans for which fair value of collateral is not determined. For certain loans the fair value of collateral is updated as at the reporting date. Information on valuation of collateral is based on when this estimate was made, if any.

16 Loans to customers, continued

(c) Analysis of collateral and other credit enhancements, continued

(i) Loans to corporate customers, continued

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Certain guarantees and sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

(ii) Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. The Group's policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 80%.

The following tables provides information on real estate collateral securing mortgage loans, net of impairment:

31 December 2014 KZT'000	Carrying amount of the loans to customers	Fair value of collateral - for collateral assessed as of reporting date	Fair value of collateral – for collateral assessed as of loan inception date	Fair value of collateral not determined
Not overdue loans	41,151,380	22,593,256	13,684,631	4,873,493
Overdue loans	17,335,998	16,401,247	762,782	171,969
Total mortgage loans	**58,487,378**	**38,994,503**	**14,447,413**	**5,045,462**

31 December 2013 KZT'000	Carrying amount of the loans to customers	Fair value of collateral - for collateral assessed as of reporting date	Fair value of collateral – for collateral assessed as of loan inception date	Fair value of collateral not determined
Not overdue loans	31,958,569	25,364,595	4,341,896	2,252,078
Overdue loans	13,796,745	12,980,068	568,765	247,912
Total mortgage loans	**45,755,314**	**38,344,663**	**4,910,661**	**2,499,990**

The table above is presented on the basis of excluding overcollateralisation.

For certain mortgage loans the Group updates the appraised values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. The Group may also obtain a specific individual valuation of collateral at each reporting date where there are indications of impairment. For the remaining mortgage loans the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

For impaired or overdue mortgage loans management believes that the fair value of collateral is at least 99% of the carrying amount of the loans at the reporting date (31 December 2013: 99%).

Auto loans are secured by the underlying cars. The Group's policy is to issue auto loans with a loan-to-value ratio of a maximum of 80%.

For impaired or overdue auto loans management believes that the fair value of collateral is at least 98% of the carrying amount of the loans at the reporting date (31 December 2013: 99%).

16 Loans to customers, continued

(c) Analysis of collateral and other credit enhancements, continued

(ii) Loans to retail customers, continued

The following table provides information on collateral securing consumer loans, net of impairment, by types of collateral:

31 December 2014 KZT'000	Loans to customers, carrying amount	Fair value of collateral - for collateral assessed as of reporting date	Fair value of collateral – for collateral assessed as of loan inception date	Fair value of collateral not determined
Not overdue loans				
Real estate	21,941,061	15,855,794	6,085,267	-
Other collateral (equipment, motor vehicles, movables)	7,244,478	74,602	7,169,876	-
No collateral or other credit enhancement	35,347,058	-	-	35,347,058
Total not overdue loans	**64,532,597**	**15,930,396**	**13,255,143**	**35,347,058**
Overdue or impaired loans				
Real estate	14,514,763	13,849,726	665,037	-
Other collateral (Equipment, Motor vehicles)	29,752	12,774	16,978	-
No collateral or other credit enhancement	2,739,900	-	-	2,739,900
Total overdue or impaired loans	**17,284,415**	**13,862,500**	**682,015**	**2,739,900**
Total loans to consumer customers	**81,817,012**	**29,792,896**	**13,937,158**	**38,086,958**

31 December 2013 KZT'000	Loans to customers, carrying amount	Fair value of collateral - for collateral assessed as of reporting date	Fair value of collateral – for collateral assessed as of loan inception date	Fair value of collateral not determined
Not overdue loans				-
Real estate	23,481,568	20,540,662	2,940,906	-
Other collateral (equipment, motor vehicles, movables)	4,615,924	301,150	4,314,774	-
No collateral or other credit enhancement	24,629,458	5,550	-	24,623,908
Total not overdue loans	**52,726,950**	**20,847,362**	**7,255,680**	**24,623,908**
Overdue or impaired loans				
Real estate	13,378,637	13,184,098	194,539	-
Other collateral (Equipment, Motor vehicles)	117,255	1,193	116,062	-
No collateral or other credit enhancement	1,767,405	1,492	-	1,765,913
Total overdue or impaired loans	**15,263,297**	**13,186,783**	**310,601**	**1,765,913**
Total loans to consumer customers	**67,990,247**	**34,034,145**	**7,566,281**	**26,389,821**

16 Loans to customers, continued

(c) Analysis of collateral and other credit enhancements, continued

(iii) Reposessed collateral

During the year ended 31 December 2014, the Group obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of KZT 2,402,463 thousand (31 December 2013: KZT 14,897,099 thousand). As at 31 December 2014, the repossessed collateral comprises:

	2014 KZT'000	2013 KZT'000
Real estate	5,785,505	18,231,591
Other assets	17,490	9,488
Total repossessed collateral	**5,802,995**	**18,241,079**

The Group's policy is to sell these assets as soon as it is practicable.

(d) Industry and geographical analysis of the loan portfolio

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

	2014 KZT'000	2013 KZT'000
Individuals	145,680,842	134,828,554
Wholesale trade	126,199,724	102,947,385
Construction	95,902,756	122,778,327
Food	85,945,176	75,064,892
Transport	76,050,267	69,043,349
Retail trade	37,665,498	56,033,495
Real estate	37,176,540	82,215,718
Hotel services	29,576,718	22,006,564
Agriculture	13,238,030	14,537,774
Chemical	11,798,636	12,298,892
Entertainment	6,642,614	5,719,346
Mining	6,424,266	6,027,026
Metallurgy	4,234,028	6,851,129
Textile	3,088,005	11,480,534
Oil and gas	2,475,813	2,484,659
Communications	2,068,427	5,620,301
Other	157,323,671	112,723,408
	841,491,011	**842,661,353**
Impairment allowance	(191,734,321)	(284,449,420)
	649,756,690	**558,211,933**

(e) Significant credit exposures

As at 31 December 2014 the Group has 12 borrowers or groups of related borrowers (31 December 2013: 7), whose loan balances exceed 10% of statutory equity. The carrying value of these loans as at 31 December 2014 is KZT 153,179,041 thousand (31 December 2013: KZT 82,486,999 thousand).

16 Loans to customers, continued

(f) Loan maturities

The maturity of the loan portfolio is presented in note 28, which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Group, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be longer than the term based on contractual terms.

(g) Transfers of financial assets

In July 2013, the Group sold to a third party a portfolio of mortgage loans with a carrying value of KZT 35,524,925 thousand for KZT 38,781,330 thousand, but provided a guarantee that will purchase individual loans back or exchange it for other individual loans if a loan becomes delinquent for more than two months. The amount that will be repurchased or exchanged is limited to 20% of transferred financial assets at the date of sale. The net gain recognised in other income at the date of transfer amounted to KZT 440,475 thousand.

The Group has determined that it has transferred substantially all the risks and rewards to the transferee, and accordingly the loan portfolio has been derecognised. The Group's continuing involvement in the portfolios transferred is recognised in the statement of financial position as assets from continuing involvement within loans to customers of KZT 7,104,985 thousand with corresponding liability on continuing involvement included in deposits and balances from banks and other financial institutions of KZT 7,104,985 thousand (Note 20), while the fair value of guarantee of KZT 167,000 thousand is recognised in other liabilities.

17 Property, equipment and intangible assets

KZT'000	Land and buildings	Vehicles	Computer equipment and fixtures and fittings	Construction in progress	Computer software	Total
Cost						
Balance at 1 January 2014	19,011,872	673,656	8,540,659	78,702	3,705,040	32,009,929
Additions	500,054	80,595	713,122	361,761	224,299	1,879,831
Disposals	(1,291,434)	(136,993)	(266,461)	(231)	(233,415)	(1,928,534)
Effect of foreign currency translation	(6,188)	(1,008)	(8,690)	(440)	(6,107)	(22,433)
Balance at 31 December 2014	**18,214,304**	**616,250**	**8,978,630**	**439,792**	**3,689,817**	**31,938,793**
Depreciation and amortisation						
Balance at 1 January 2014	(4,233,917)	(559,161)	(5,544,334)	-	(1,947,254)	(12,284,666)
Depreciation and amortisation for the year	(667,949)	(47,015)	(846,975)	-	(464,765)	(2,026,704)
Disposals	261,830	136,993	224,876	-	86,625	710,324
Effect of foreign currency translation	1,939	1,496	16,128	-	9,324	28,887
Balance at 31 December 2014	**(4,638,097)**	**(467,687)**	**(6,150,305)**	**-**	**(2,316,070)**	**(13,572,159)**
Carrying amount						
At 31 December 2014	**13,576,207**	**148,563**	**2,828,325**	**439,792**	**1,373,747**	**18,366,634**

17 Property, equipment and intangible assets, continued

KZT'000	Land and buildings	Vehicles	Computer equipment and fixtures and fittings	Construction in progress	Computer software	Total
Cost						
Balance at 1 January 2013	19,287,332	615,843	8,094,222	75,775	3,338,298	31,411,470
Additions	168,211	60,200	901,216	2,927	377,653	1,510,207
Disposals	(433,079)	(696)	(441,040)	-	(2,203)	(877,018)
Effect of foreign currency translation	(10,592)	(1,691)	(13,739)	-	(8,708)	(34,730)
Balance at 31 December 2013	**19,011,872**	**673,656**	**8,540,659**	**78,702**	**3,705,040**	**32,009,929**
Depreciation and amortisation						
Balance at 1 January 2013	(3,694,735)	(497,563)	(5,124,072)	-	(1,561,129)	(10,877,499)
Depreciation and amortisation for the year	(663,855)	(63,186)	(803,632)	-	(390,711)	(1,921,384)
Disposals	110,968	371	388,008	-	1,003	500,350
Effect of foreign currency translation	13,705	1,217	(4,638)	-	3,583	13,867
Balance at 31 December 2013	**(4,233,917)**	**(559,161)**	**(5,544,334)**	**-**	**(1,947,254)**	**(12,284,666)**
Carrying amount						
At 31 December 2013	**14,777,955**	**114,495**	**2,996,325**	**78,702**	**1,757,786**	**19,725,263**

18 Receivable from UniCredit Bank Austria AG under guarantee agreement

On 25 December 2009 the Group signed a guarantee agreement with its parent UniCredit Bank Austria AG (the UniCredit). Under this agreement repayment of loan impairment losses on certain large corporate loans were guaranteed by the UniCredit. The Group paid a commission fee of 6% per annum of carrying value of loans covered by the guarantee. This guarantee agreement had an expiration date on 17 April 2027, but it could be terminated prior to such date either by the guarantor or the Group in certain circumstances. In particular the main reason for early termination of the guarantee was the failure by the UniCredit to retain, directly or indirectly, the legal and beneficial ownership of at least 50% of the shares plus one share of the Group.

On 29 April 2013 the UniCredit and ATF Bank signed an amendment to this guarantee agreement where a maximum liability was set at USD 630,639 thousand, and to be paid at the end of the two-year term on a net basis against a cash deposit of USD 630,639 thousand from UniCredit (Note 20). In case the losses on guaranteed loans are lower than the guarantee maximum amount at the end of the two-year term period, the amount of cash deposit in excess of the loan losses shall be estimated and paid back to the UniCredit in accordance with the terms specified in the amendment to the guarantee agreement.

Commission fee was reduced to 2% per annum for the period from 1 May 2013 to 30 April 2015 and in 2013 was paid in full by the Group.

19 Other assets

	2014 KZT'000	**2013 KZT'000**
Accrued commission income	470,703	295,662
Other financial assets	135,207	1,313
Total other financial assets	**605,910**	**296,975**
Foreclosed property	8,850,427	21,563,092
Advances prepaid for administrative activities	1,407,350	1,456,017
Advances paid for acquisition of property, equipment and intangible assets	519,401	120,106
Inventory	242,276	429,722
Taxes prepaid, other than income tax	89,981	1,994,250
Precious metals	4,062	3,569
Settlements with employees	3,933	3,687
Other assets	383,884	-
Total other non-financial assets	**11,501,314**	**25,570,443**
Impairment allowance	(3,239,942)	(3,337,640)
Total other assets	**8,867,282**	**22,529,778**

During the year ended 31 December 2014, the Group obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of KZT 2,402,463 thousand (31 December 2013: KZT 14,897,099 thousand) (Note 16 (c)). In 2014 the Group disposed of the foreclosed asset of net carrying amount of KZT 14,981,965 thousand and recognised income from sale of KZT 1,065, 955 thousand. As at 31 December 2014 and 2013 the carrying value of the foreclosed properties is the lower of cost and net realisable value, where the selling price is based on the results of valuation performed by an independent appraisal.

19 Other assets, continued

Analysis of movements in the impairment allowance

Movements in the impairment allowance for the year ended 31 December 2014 and 2013 are as follows:

	2014 KZT'000	2013 KZT'000
Balance at the beginning of the year	3,337,640	3,202,301
Net charge for the year	388,785	105,001
Net (write-offs)/reversals for the year	(484,557)	29,684
Effect of foreign currency translation	(1,926)	654
Balance at the end of the year	**3,239,942**	**3,337,640**

20 Deposits and balances from banks and other financial institutions

	2014 KZT'000	2013 KZT'000
Deposit from UniCredit Bank Austria AG	112,985,643	93,416,633
Liability on continuing involvement in loans to customers (Note 16(g))	7,104,985	7,104,985
Vostro accounts	517,634	478,743
Term deposits	97,316	5,345,483
	120,705,578	**106,345,844**

As at 31 December 2014 and 2013 the Group has one bank whose balance exceeded 10% of statutory equity.

21 Current accounts and deposits from customers

	2014 KZT'000	2013 KZT'000
Current accounts and demand deposits		
- Corporate	166,488,552	164,585,553
- Retail	28,641,990	23,348,602
Term deposits		
- Corporate	137,970,301	196,033,686
- Retail	371,925,488	219,987,646
	705,026,331	**603,955,487**

As at 31 December 2014, the Group maintained customer deposit balances of KZT 9,536,361 thousand (31 December 2013: KZT 10,343,712 thousand) that serve as collateral for loans and unrecognised credit instruments granted by the Group.

As at 31 December 2014, the Group has nine customers (31 December 2013: eight customers), whose balances exceed 10% of statutory equity. The total balances of the abovementioned customers as at 31 December 2014 are KZT 275,566,464 thousand (31 December 2013: KZT 202,573,365 thousand).

22 Subordinated borrowings and other borrowed funds

	2014 KZT'000	2013 KZT'000
Subordinated borrowings		
- Subordinated debt securities issued	18,431,310	31,131,142
Total subordinated borrowings	**18,431,310**	**31,131,142**
Other borrowed funds		
- Loans issued by foreign banks and financial institutions	21,660,032	13,668,628
	21,660,032	**13,668,628**
Bonds issued		
- USD Eurobonds	36,857,871	78,041,402
- KZT bonds	1,309,632	1,271,842
	38,167,503	**79,313,244**
Total other borrowed funds	**59,827,535**	**92,981,872**

In case of bankruptcy, the repayment of the subordinated borrowings will be made after full repayment of all other liabilities of the Group.

Financial covenants

In accordance with the contractual terms of certain long-term loans, the Group is required to maintain certain financial ratios, including with regard to its capital and lending exposure. The Group was in compliance with these ratios as at 31 December 2014 and 2013.

23 Other liabilities

	2014 KZT'000	2013 KZT'000
Accrued commission expense	119,080	296,879
Creditors on capital expenditures	3,079	-
Total other financial liabilities	**122,159**	**296,879**
Provision for guarantees and letters of credit issued	596,508	441,362
Vacation reserve	384,771	310,722
Accrued administrative expenses	313,712	696,194
Deferred income	289,659	225,983
Other taxes payable	265,398	289,455
Amounts payable to employees	256,150	549,087
Prepayments and other creditors	168,631	117,435
Corporate income tax	75,426	-
Accrued expenses on deposit guarantee fund	-	866,152
Total other non-financial liabilities	**2,350,255**	**3,496,390**
	2,472,414	**3,793,269**

24 Share capital and reserves

(a) Issued capital

As at 31 December 2014, authorised share capital comprised 54,000,000 ordinary shares (31 December 2013: 54,000,000), of which 45,294,733 ordinary shares had been issued (31 December 2013: 45,294,733) and 45,265,543 ordinary shares were outstanding (31 December 2013: 45,265,543). The shares do not have a par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general shareholders meetings.

24 Share capital and reserves, continued

(b) Treasury shares

As at 31 December 2014 the Bank held 29,190 (31 December 2013: 29,190) of its own shares.

(c) Nature and purpose of reserves

General reserve

The general reserve is created, as permitted by the statutory regulations of the Republic of Kazakhstan, for general risks, including future losses and other unforeseen risks or contingencies. During the year ended 31 December 2014, no transfers to general reserve were made.

Dynamic reserve

In accordance with Resolution of the National Bank of the Republic of Kazakhstan #137 dated 27 May 2013 On Approval of Rules on Forming Dynamic Reserves by Second-Tier Banks and Establishment of Minimum Size of Dynamic Reserves and Expected Loss (the "Resolution"), the Group has established a dynamic reserve calculated using a formula determined in the Rules. In accordance with the Rules, dynamic reserve cannot be less than zero and shall be calculated as the difference between expected losses and actual charge on deductible for tax purposes impairment losses recognised during the reporting quarter in accordance with IFRS net of income from recovery of provisions. Expected losses are estimated based on the increase of loans to customers during the reporting quarter multiplied by certain coefficients. The Resolution has been effective from 1 January 2013.

During 2014, the dynamic reserve is temporarily frozen by the NBRK at the level of 31 December 2013.

As at 31 December 2013 the non-distributable dynamic reserve requirement of the Group is nil (31 December 2013 - nil).

(d) Revaluation reserve of available-for-sale financial assets

The revaluation reserve for available-for-sale financial assets comprises the cumulative net change in the fair value, until the assets are derecognised or impaired.

(e) Cumulative translation reserve

The cumulative translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as the effective portion of any foreign currency translation differences arising from hedges of a net investment in a foreign operation.

(f) Dividends

In accordance with Kazakhstan legislation and the Bank's charter documents, distributable reserves are subject to the rules and regulations of the Republic of Kazakhstan.

At a general shareholders' meeting held in April 2014, the Bank made a decision not to pay any dividends (31 December 2013: nil).

25 Earnings per share

The calculation of basic and diluted earnings per share as at 31 December 2014 is based on the net profit attributable to ordinary shareholders of KZT 3,381,237 thousand (31 December 2013: earnings of KZT 1,749,221 thousand) and a weighted average number of ordinary shares outstanding of 45,265,543 (31 December 2013: 45,265,543) calculated as follows.

	2014	2013
Issued ordinary shares at the beginning of the year	45,265,543	45,294,733
Effect of own shares purchased	-	(29,190)
Weighted average number of ordinary shares	**45,265,543**	**45,265,543**

25 Earnings per share, continued

The following table shows the profit for the years ended 31 December 2014 and 2013 and share data used in the basic and diluted earnings per share calculations:

	2014	2013
Profit attributable to ordinary shareholders (KZT'000)	3,381,237	1,749,221
Weighted average number of participating shares for basic earnings per share	45,265,543	45,265,543
Basic and diluted earnings per share, in KZT	**75**	**39**

There are no potentially dilutive shares for the years ended 31 December 2014 and 2013.

26 Book value per share

Under the listing rules of the Kazakh Stock Exchange the Group should present book value per share in its consolidated statements of financial position. Book value per share as at 31 December 2014 is calculated based on outstanding ordinary shares of 45,265,543 (31 December 2013: 45,265,543) and net assets of KZT 76,082,154 thousand (31 December 2013: KZT 72,427,981 thousand) and is calculated as follows.

	31 December 2014 KZT'000	31 December 2013 KZT'000
Total assets	984,226,033	912,409,041
Intangible assets	(1,373,747)	(1,757,786)
Total liabilities	(906,770,132)	(838,223,274)
Net assets	**76,082,154**	**72,427,981**

Book value per share as at 31 December 2014 and 2013 is presented as follows.

	31 December 2014 KZT'000	31 December 2013 KZT'000
Net assets	76,082,154	72,427,981
Outstanding ordinary shares at the end of the year	45,265,543	45,265,543
Book value per share (in KZT)	**1,681**	**1,600**

27 Analysis by segments

The Group has four reportable segments, as described below, which are the strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. The following summary describes the operations in each of the reportable segments:

- corporate banking - extension of loans, overdrafts, credit facilities and other types of financing to corporate and institutional customers, opening and maintenance of current accounts and deposit accounts, provision of customer services, custodial services, non-cash settlements, foreign exchange operations and trade finance;
- Small and medium size business – extension of loans, overdrafts, credit facilities and other types of financing to small and medium size enterprises, private entrepreneurs and farm households, opening and maintenance of current accounts and deposit accounts, provision of customer services, trade finance and electronic service systems;
- retail banking – services for individual customers, including extension of consumer loans and mortgage loans, maintenance of current accounts, savings and deposit accounts, safekeeping, credit and debit cards and services related to cash and foreign exchange;
- other segments include subsidiaries as well as departments responsible for asset and liability management and treasury functions.

27 Analysis by segments, continued

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax as included in the internal management reports that are reviewed by the CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm's length basis. Since the majority of each segment's revenues are from interest and the CEO relies primarily on net interest revenue to assess performance of the segment and makes decisions about resources to be allocated to the segments.

Assets are concentrated mainly in the Republic of Kazakhstan, and revenues are derived mainly from operations in, and connected with, the Republic of Kazakhstan.

Segment breakdown of assets and liabilities is set out below:

	2014 KZT'000	2013 KZT'000
ASSETS		
Corporate banking	446,480,637	370,720,273
Small and medium size business	138,914,642	138,511,901
Retail banking	135,391,476	111,771,482
Other segments	263,439,278	291,405,385
Total assets	**984,226,033**	**912,409,041**
LIABILTIIES		
Corporate banking	314,001,292	365,232,775
Small and medium size business	81,043,865	74,863,834
Retail banking	235,579,872	225,350,478
Other segments	276,145,103	172,776,187
Total liabilities	**906,770,132**	**838,223,274**

27 Analysis by segments, continued

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

KZT'000	**Corporate banking**	**Small and medium size business**	**Retail banking**	**Other segments**	**Total**
Net interest income	8,774,931	660,277	3,734,516	9,591,557	22,761,281
Net fee and commission income	452,694	4,161,468	2,862,882	113,051	7,590,095
Net trading income	452,433	755,770	1,052,003	478,288	2,738,494
Other operating income	-	-	9,598	716,394	725,992
Revenue	**9,680,058**	**5,577,515**	**7,658,999**	**10,899,290**	**33,815,862**
Personnel expenses	(824,331)	(824,050)	(1,743,632)	(6,130,861)	(9,522,874)
Other general administrative expenses	(1,180,261)	(150,490)	(989,212)	(4,451,606)	(6,771,569)
Taxes, other than income tax	-	-	-	(1,051,912)	(1,051,912)
Depreciation and amortisation	(156)	-	(187,215)	(1,839,333)	(2,026,704)
Direct expenses	**(2,004,748)**	**(974,540)**	**(2,920,059)**	**(13,473,712)**	**(19,373,059)**
Indirect and overhead	(1,727,496)	(3,300,773)	(5,470,612)	10,498,881	-
Operating expenses	**(3,732,244)**	**(4,275,313)**	**(8,390,671)**	**(2,974,831)**	**(19,373,059)**
Segment result before impairment losses	**5,947,814**	**1,302,202**	**(731,672)**	**7,924,459**	**14,442,803**
Impairment losses	(10,376,529)	1,864,465	(815,801)	(1,052,220)	(10,380,085)
Profit before income tax per segment	**(4,428,715)**	**3,166,667**	**(1,547,473)**	**6,872,239**	**4,062,718**
Income tax expense	-	-	-	(594,825)	(594,825)
Profit/(loss) for the year	**(4,428,715)**	**3,166,667**	**(1,547,473)**	**6,277,414**	**3,467,893**
Capital expenditure	-	-	-	1,879,831	1,879,831
Deferred tax assets	-	-	-	5,103,025	5,103,025

27 Analysis by segments, continued

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

KZT'000	Corporate banking	Small and medium size business	Retail banking	Other segments	Total
Net interest income	5,128,906	1,999,067	5,180,208	6,405,634	18,713,815
Net fee and commission income	(1,428,794)	3,828,550	2,070,179	(414,417)	4,055,518
Net trading income	438,065	510,881	561,086	3,222	1,513,254
Other operating income	-	-	3,375	718,523	721,898
Revenue	**4,138,177**	**6,338,498**	**7,814,848**	**6,712,962**	**25,004,485**
Personnel expenses	(531,866)	(715,017)	(1,476,314)	(6,503,031)	(9,226,228)
Other general administrative expenses	(1,196,335)	(48,589)	(918,220)	(5,371,796)	(7,534,940)
Taxes other than income tax	-	-	-	4,227,576	4,227,576
Depreciation and amortisation	-	-	(219,774)	(1,701,610)	(1,921,384)
Direct expenses	**(1,728,201)**	**(763,606)**	**(2,614,308)**	(9,348,861)	**(14,454,976)**
Indirect and overhead	(2,402,902)	(3,280,609)	(6,447,600)	12,131,111	-
Operating expenses	**(4,131,103)**	**(4,044,215)**	**(9,061,908)**	**2,782,250**	**(14,454,976)**
Segment result before impairment losses	**7,074**	**2,294,283**	**(1,247,060)**	**9,495,212**	**10,549,509**
Impairment losses	(5,309,809)	1,018,020	(431,776)	190,147	(4,533,418)
Profit before income tax per segment	**(5,302,735)**	**3,312,303**	**(1,678,836)**	**9,685,359**	**6,016,091**
Income tax expense	-	-	-	(4,199,296)	(4,199,296)
Profit/(loss) for the year	**(5,302,735)**	**3,312,303**	**(1,678,836)**	**5,486,063**	**1,816,795**
Capital expenditure	-	-	-	1,510,207	1,510,207
Deferred tax asset	-	-	-	5,164,736	5,164,736

28 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Group's operations. The major risks faced by the Group are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Managing Director, Management Board member is responsible for the overall risk management and reports directly to the CEO and indirectly to the Board of Directors. Head of Compliance Control is responsible for the compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. They report directly to the CEO and indirectly to the Board of Directors.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Group established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, Group monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

The Bank calculates mandatory ratios on a daily basis in accordance with the requirement of the NBRK. As at 31 December 2014 and 2013 the mandatory ratios were in compliance with limits set by the NBRK.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the ALCO, which is chaired by the Chairman. Market risk limits are considered by ALCO for further approval of Supervisory Board.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Management Board.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Group include risk factor stress testing, where stress movements are applied to each risk category, and ad hoc stress testing, which includes applying possible stress events to specific positions. The Group also utilises Value-at-Risk (VAR) methodology to monitor market risk of its trading positions.

28 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

KZT'000	Less than 3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2014						
ASSETS						
Financial instruments at fair value through profit or loss	-	-	-	97,996	-	97,996
Available-for-sale financial assets	10,342,569	220,833	12,223,299	4,139,176	94,061	27,019,938
Loans and advances to banks	2,009,337	5,937,122	53,181	62,614	-	8,062,254
Loans to customers	81,875,213	219,611,093	186,057,210	162,213,174	-	649,756,690
	94,227,119	**225,769,048**	**198,333,690**	**166,512,960**	**94,061**	**684,936,878**
LIABILITIES						
Deposits and balances from banks and other financial institutions	93,903	112,987,560	7,106,481	-	517,634	120,705,578
Current accounts and deposits from customers	127,557,718	160,052,229	130,079,972	155,990,803	131,345,609	705,026,331
Subordinated borrowings	-	258,667	18,172,643	-	-	18,431,310
Other borrowed funds	24,027	3,685,793	40,873,007	15,244,708	-	59,827,535
	127,675,648	**276,984,249**	**196,232,103**	**171,235,511**	**131,863,243**	**903,990,754**
	(33,448,529)	**(51,215,201)**	**2,101,587**	**(4,722,551)**	**(131,769,182)**	**(219,053,876)**

28 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2013						
ASSETS						
Financial instruments at fair value through profit or loss	-	678	6,097	98,839	-	105,614
Available-for-sale financial assets	3,222,731	302,703	-	-	94,057	3,619,491
Loans and advances to banks	252,021	1,971,982	6,996	53,661	-	2,284,660
Loans to customers	196,528,756	100,753,006	141,877,191	119,052,980	-	558,211,933
	200,003,508	**103,028,369**	**141,890,284**	**119,205,480**	**94,057**	**564,221,698**
LIABILITIES						
Deposits and balances from banks and other financial institutions	12,927,062	874	93,417,908	-	-	106,345,844
Current accounts and deposits from customers	133,538,346	196,359,886	156,482,027	5,185,063	112,390,165	603,955,487
Subordinated borrowings	11,077,903	4,647,239	15,406,000	-	-	31,131,142
Other borrowed funds	44,256,964	431,218	46,137,598	2,156,092	-	92,981,872
	201,800,275	**201,439,217**	**311,443,533**	**7,341,155**	**112,390,165**	**834,414,345**
	(1,796,767)	**(98,410,848)**	**(169,553,249)**	**111,864,325**	**(112,296,108)**	**(270,192,647)**

28 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates

The table below displays average effective interest rates for interest-bearing assets and liabilities for 2014 and 2013. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	31 December 2014 Average effective interest rate, %			31 December 2013 Average effective interest rate, %		
	KZT	**USD**	**Other currencies**	**KZT**	**USD**	**Other currencie s**
Interest bearing assets						
Cash and cash equivalents	-	0.03	0.5	-	0.02	1.1
Financial instruments at fair value through profit or loss	2.5	-	-	5.8	-	-
Available-for-sale financial assets	4.9	-	6.5	0.8	-	5.5
Loans and advances to banks	5.4	0.9	-	0.1	4.9	-
Loans to customers	11.0	8.9	18.2	11.2	9.0	18.7
Interest liabilities						
Deposits and balances from banks and other financial institutions	-	2.2	-	-	2	-
Current accounts and deposits from customers	5.1	4.1	4.9	4.2	4.3	4.6
Subordinated borrowings	8.2	9.9	-	7.9	11.0	-
Other borrowed funds						
- Loans	4.1	6.8	-	7.0	6.5	-
- Bonds issued	8.6	9.7	-	10.6	9.2	-

Interest rate sensitivity analysis

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2014 and 2013 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2014		2013	
	Profit or loss KZT'000	**Equity KZT'000**	**Profit or loss KZT'000**	**Equity KZT'000**
100 bp parallel rise	(7,357)	(554,678)	(2)	(4,688)
100 bp parallel fall	8,148	580,628	2	4,688

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2014 and 2013 is as follows:

28 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued
Interest rate sensitivity analysis, continued

	2014		2013	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
100 bp parallel rise	(604,839)	(604,839)	(574,879)	(574,879)
100 bp parallel fall	604,839	604,839	574,879	574,879

(ii) Currency risk

The Group has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Group hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

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

	KZT KZT'000	USD KZT'000	EUR KZT'000	RUB KZT'000	KGS KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS							
Cash and cash equivalents	27,963,829	95,637,115	17,114,022	1,854,621	6,822,453	315,639	149,707,679
Financial instruments at fair value through profit or loss	451,143	-	-	-	-	-	451,143
Available-for-sale financial assets	26,246,446	-	-	-	773,492	-	27,019,938
Loans and advances to banks	4,544,356	2,702,896	686,274	128,728	-	-	8,062,254
Loans to customers	382,727,290	250,724,145	3,730,510	2,653	12,546,468	25,624	649,756,690
Receivable from UniCredit Bank Austria AG under guarantee agreement	-	115,753,133	-	-	-	-	115,753,133
Other financial assets	441,159	122,171	32,058	1,059	9,426	37	605,910
Total assets	**442,374,223**	**464,939,460**	**21,562,864**	**1,987,061**	**20,151,839**	**341,300**	**951,356,747**
LIABILITIES							
Deposits and balances from banks and other financial institutions	7,299,445	113,198,055	1,179	81	206,818	-	120,705,578
Current accounts and deposits from customers	329,357,944	337,193,513	22,300,539	2,187,409	13,685,636	301,290	705,026,331
Subordinated borrowings	-	18,431,310	-	-	-	-	18,431,310
Other borrowed funds	22,664,820	37,022,164	140,200	-	351	-	59,827,535
Other financial liabilities	81,195	3,457	2,410	3	34,786	308	122,159
Total liabilities	**359,403,404**	**505,848,499**	**22,444,328**	**2,187,493**	**13,927,591**	**301,598**	**904,112,913**
The effect of derivatives held for risk management	(27,312,000)	24,702,436	221,590	-	2,468,965	-	80,991
Net position	**55,658,819**	**(16,206,603)**	**(659,874)**	**(200,432)**	**8,693,213**	**39,702**	**47,324,825**

28 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

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

	KZT KZT'000	USD KZT'000	EUR KZT'000	RUB KZT'000	KGS KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS							
Cash and cash equivalents	27,474,704	152,185,429	13,844,097	1,700,228	4,356,032	421,157	199,981,647
Financial instruments at fair value through profit or loss	107,284	5,900	-	-	-	-	113,184
Available-for-sale financial assets	94,061	-	-	-	3,525,430	-	3,619,491
Loans and advances to banks	1,500	831,217	296,729	-	1,155,214	-	2,284,660
Loans to customers	326,288,613	216,357,987	2,886,208	322	12,678,803	-	558,211,933
Receivable from UniCredit Bank Austria AG under guarantee agreement	-	99,738,176	-	-	-	-	99,738,176
Other financial assets	186,886	54,795	48,719	804	5,745	26	296,975
Total assets	**354,153,048**	**469,173,504**	**17,075,753**	**1,701,354**	**21,721,224**	**421,183**	**864,246,066**
LIABILITIES							
Deposits and balances from banks and other financial institutions	7,974,992	97,604,381	1,109	-	765,362	-	106,345,844
Current accounts and deposits from customers	276,982,656	293,165,886	17,924,701	1,368,879	14,170,787	342,578	603,955,487
Subordinated borrowings	15,591,029	15,540,113	-	-	-	-	31,131,142
Other borrowed funds	14,466,165	78,084,164	428,513	-	3,030	-	92,981,872
Other financial liabilities	260,639	5,143	4,120	5	26,571	401	296,879
Total liabilities	**315,275,481**	**484,399,687**	**18,358,443**	**1,368,884**	**14,965,750**	**342,979**	**834,711,224**
The effect of derivatives held for risk management	(17,032,387)	17,208,435	-	(184,138)	-	-	(8,090)
Net position	**21,845,180**	**1,982,252**	**(1,282,690)**	**148,332**	**6,755,474**	**78,204**	**29,526,752**

28 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2014 and 2013 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2014 KZT'000	**2013 KZT'000**
25% appreciation of USD against KZT	(3,241,321)	396,450
25% appreciation of EUR against KZT	(131,975)	(256,538)
25% appreciation of RUB against KZT	(40,086)	29,666
25% appreciation of other foreign currencies against KZT	7,940	15,641

A strengthening of the KZT against the above currencies at 31 December 2014 and 2013 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(iii) Value at Risk estimates

The Group utilises VaR methodology to monitor market risk of its currency positions.

VAR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The VAR model used by the Group is based upon a 99 percent confidence level and assumes a 10-day holding period depending on the type of positions. The VAR model used is mainly based on historical simulation. The model derives plausible future scenarios based on historical market rate time series, taking into account inter-relationships between different markets and rates. Potential movements in market prices are determined with reference to market data from at least the last 12 months.

Although VAR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets as follows:

- the use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those that are of an extreme nature;
- a 10-day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- the use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VAR estimate;
- VAR is only calculated on the end-of-day balances and does not necessarily reflect exposures that may arise on positions during the trading day.

27 Risk management, continued

(b) Market risk, continued

(iii) Value at Risk estimates, continued

The VAR measure is dependent upon the position and the volatility of market prices. The VAR of an unchanged position reduces if market volatility declines and vice versa.

The Group does not solely rely on its VAR calculations in its market risk measurement due to inherent risk of usage of VAR as described above. The limitations of the VAR methodology are recognised by supplementing VAR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio, and gap analysis.

A summary of the VAR estimates of losses that could occur in respect of the portfolio of financial instruments at fair value as at 31 December is as follows:

	31 December 2014 KZT'000	31 December 2013 KZT'000
Foreign exchange risk	(120,799)	(613,004)
	(120,799)	**(613,004)**

(iv) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Other price risk arises when the Group takes a long or short position in a financial instrument.

As at 31 December 2014 and 2013, the Group is not exposed to other price risk.

(c) Credit risk

Credit risk the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Board of Directors.

The credit policy establishes:

- procedures for review and approval of loan credit applications;
- methodology for the credit assessment of borrowers (corporate and retail);
- methodology for the credit assessment of counterparties, issuers and insurance companies;
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures.

28 Risk management, continued

(c) Credit risk, continued

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Corporate Underwriting Unit, which is responsible for the corporate loan portfolio. Credit applications prepared by the Relationship Manager and a Credit Analyst are the basis for the Risk Underwriter's due diligence and recommendation. After the Risk Underwriter has concluded his analysis, the application is presented to the respective Credit Committee for its decision. Individual transactions are also reviewed by the Legal, Accounting and Tax departments depending on the requirements of the respective application.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. Retail loan credit applications are reviewed by the Retail Underwriting Unit through the use of scoring models and application data verification procedures.

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

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the consolidated statement of financial position and unrecognised contractual commitment amounts. The possibility of offsetting the assets and liabilities is not significant for the mitigation of potential credit risk.

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

	2014 KZT'000	2013 KZT'000
ASSETS		
Cash equivalents	109,871,714	171,834,287
Financial instruments at fair value through profit or loss	451,143	113,184
Available-for-sale financial assets	26,925,877	3,525,434
Loans and advances to banks	8,062,254	2,284,660
Loans to customers	649,756,690	558,211,933
Receivable from UniCredit Bank Austria AG under guarantee agreement	115,753,133	99,738,176
Other financial assets	605,910	296,975
Total maximum exposure	**911,426,721**	**836,004,649**

Collateral generally is not held against claims under derivative financial instruments, investments in securities, and loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activities.

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers, refer to note 16.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 30.

As at 31 December 2014, the Group has one debtor with carrying amount of KZT 115,753,133 thousand, credit risk exposure to whom exceeds 10% of maximum credit risk exposure (31 December 2013: two debtors, KZT 186,242,452 thousand).

28 Risk management, continued

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

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

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Bank. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the Treasury Department.

The following tables show the undiscounted cash flows on financial assets and liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial asset, liability or commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

28 Risk management, continued

(d) Liquidity risk, continued

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of, whether they are offset in the consolidated statement of financial position.

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

KZT'000

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Receivable from UniCredit Bank Austria AG under guarantee agreement	114,996,988	-	114,996,988	-	(114,996,988)	-
Total financial assets	**114,996,988**	**-**	**114,996,988**	**-**	**(114,996,988)**	**-**

The table below shows financial assets and financial liabilities, which are the subject to legally acting master netting agreements and similar agreements as at 31 December 2013.

KZT'000

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Receivable from UniCredit Bank Austria AG under guarantee agreement	97,156,216	-	97,156,216	-	(97,156,216)	-
Total financial assets	**97,156,216**	**-**	**97,156,216**	**-**	**(97,156,216)**	**-**

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured in the consolidated statement of financial position on the following basis:

- Receivables – amortised cost;
- Deposits and balances from banks and other financial institutions – amortised cost.

As at 31 December 2014 cash collateral received is presented as cash deposit from UniCredit Bank Austria AG (Note 20) reduced by prepaid interest of KZT 2,011,345 thousand (31 December 2013: KZT 3,739,583 thousand).

28 Risk management, continued

(d) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative assets						
Cash and cash equivalents	149,707,679	-	-	-	149,707,679	149,707,679
Financial instruments at fair value through profit or loss	-	-	-	162,674	162,674	97,996
Available-for-sale financial assets	10,446,599	-	230,335	20,024,469	30,701,403	27,019,938
Loans and advances to banks	335,351	1,673,986	5,937,122	115,795	8,062,254	8,062,254
Loans to customers	18,357,050	70,695,961	171,827,418	526,133,763	787,014,192	649,756,690
Receivable from UniCredit Bank Austria AG under guarantee agreement	-	-	114,996,988	-	114,996,988	115,753,133
Other financial assets	373,252	30,994	170,754	30,910	605,910	605,910
Derivative assets						
Net settled derivatives	-	-	(132,360)	-	(132,360)	353,147
Gross settled derivatives						
- Inflow	-	-	27,998,640	-	27,998,640	28,484,147
- Outflow	-	-	(28,131,000)	-	(28,131,000)	(28,131,000)
Total assets	**179,219,931**	**72,400,941**	**293,030,257**	**546,467,611**	**1,091,118,740**	**951,356,747**
Non-derivative financial liabilities						
Deposits and balances from banks and other financial institutions	(610,553)	(984)	(117,016,866)	(7,106,481)	(124,734,884)	(120,705,578)
Current accounts and deposits from customers	(225,927,632)	(33,419,030)	(165,059,299)	(426,737,991)	(851,143,952)	(705,026,331)
Subordinated borrowings	-	-	(258,667)	(21,569,849)	(21,828,516)	(18,431,310)
Other borrowed funds	(737)	(23,995)	(3,789,599)	(72,952,945)	(76,767,276)	(59,827,535)
Other financial liabilities	(122,159)	-	-	-	(122,159)	(122,159)
Derivative liabilities						
Net settled derivatives	(272,156)	-	-	-	(272,156)	(272,156)
Gross settled derivatives						
- Inflow	2,690,555	-	-	-	2,690,555	2,690,555
- Outflow	(2,962,711)	-	-	-	(2,962,711)	(2,962,711)
Total liabilities	**(226,933,237)**	**(33,444,009)**	**(286,124,431)**	**(528,367,266)**	**(1,074,868,943)**	**(904,385,069)**
Net liquidity gap on recognised financial assets and liabilities	**(47,713,306)**	**38,956,932**	**6,905,826**	**18,100,345**	**16,249,797**	**46,971,678**
Credit related commitments	**224,039,530**	**-**	**-**	**-**	**224,039,530**	**224,039,530**

28 Risk management, continued

(d) Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2013 is as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative financial assets						
Cash and cash equivalents	199,986,046	-	-	-	199,986,046	199,981,647
Financial instruments at fair value through profit or loss	-	112	646	104,937	105,695	105,614
Available-for-sale financial assets	2,706,727	626,076	309,310	-	3,642,113	3,619,491
Loans and advances to banks	223,124	77,299	2,302,484	907,473	3,510,380	2,284,660
Loans to customers	15,966,230	66,735,811	131,235,002	411,325,340	625,262,383	558,211,933
Receivable from UniCredit Bank Austria AG under guarantee agreement	-	-	-	97,156,216	97,156,216	99,738,176
Other financial assets	211,403	6,790	75,138	3,644	296,975	296,975
Derivative assets						
Net settled derivatives	28,829	-	-	-	28,829	7,570
Gross settled derivatives						
- Inflow	6,107,782	-	-	-	6,107,782	6,086,374
- Outflow	(6,078,953)	-	-	-	(6,078,953)	(6,078,804)
Total assets	**219,122,359**	**67,446,088**	**133,922,580**	**509,497,610**	**929,988,637**	**864,246,066**
Non-derivative financial liabilities						
Deposits and balances from banks and other financial institutions	(12,926,812)	(249)	(874)	(97,157,492)	(110,085,427)	(106,345,844)
Current accounts and deposits from customers	(200,259,748)	(40,445,887)	(204,341,763)	(180,552,400)	(625,599,798)	(603,955,487)
Subordinated borrowings	(128,383)	(11,463,053)	(7,207,238)	(17,271,838)	(36,070,512)	(31,131,142)
Other borrowed funds	(3,414,537)	(45,561,964)	(6,062,350)	(51,517,655)	(106,556,506)	(92,981,872)
Other financial liabilities	-	(296,879)	-	-	(296,879)	(296,879)
Derivative liabilities						
Net settled derivatives	(15,360)	-	-	-	(15,360)	(15,660)
Gross settled derivatives						
- Inflow	(11,431,460)	-	-	-	(11,431,460)	(11,431,760)
- Outflow	11,416,100	-	-	-	11,416,100	11,416,100
Total liabilities	**(216,744,840)**	**(97,768,032)**	**(217,612,225)**	**(346,499,385)**	**(878,624,482)**	**(834,726,884)**
Net liquidity gap on recognised financial assets and liabilities	**2,377,519**	**(30,321,944)**	**(83,689,645)**	**162,998,225**	**51,364,155**	**29,519,182**
Credit related commitments	**145,537,612**	**-**	**-**	**-**	**145,537,612**	**145,537,612**

The gross nominal inflow/(outflow) disclosed in the tables above represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes. The disclosure shows a net amount for derivatives that are net settled, but a gross inflow and outflow amount for derivatives that have simultaneous gross settlement (e.g., forward exchange contracts and currency swaps).

28 Risk management, continued

(d) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Cash and cash equivalents	149,707,679	-	-	-	-	-	-	149,707,679
Financial instruments at fair value through profit or loss	-	-	353,147	-	97,996	-	-	451,143
Available-for-sale financial assets	10,342,569	-	220,833	12,223,299	4,139,176	94,061	-	27,019,938
Loans and advances to banks	335,351	1,673,986	5,937,122	53,181	62,614	-	-	8,062,254
Loans to customers	11,396,459	28,474,941	129,735,495	215,993,028	166,999,198	-	97,157,569	649,756,690
Current tax asset	-	-	6,550	-	-	1,131,705	-	1,138,255
Property, equipment and intangible assets	-	-	-	-	-	18,366,634	-	18,366,634
Deferred tax asset	-	-	-	5,103,025	-	-	-	5,103,025
Receivable from UniCredit Bank Austria AG under guarantee agreement	-	-	115,753,133	-	-	-	-	115,753,133
Other assets	2,694,884	138,472	198,802	5,824,984	10,140	-	-	8,867,282
Total assets	**174,476,942**	**30,287,399**	**252,205,082**	**239,197,517**	**171,309,124**	**19,592,400**	**97,157,569**	**984,226,033**
Financial instruments at fair value through profit or loss	(272,156)	-	-	-	-	-	-	(272,156)
Deposits and balances from banks and other financial institutions	(610,553)	(984)	(112,987,560)	(7,106,481)	-	-	-	(120,705,578)
Current accounts and deposits from customers	(225,758,908)	(33,144,419)	(160,052,229)	(130,079,972)	(155,990,803)	-	-	(705,026,331)
Subordinated borrowings	-	-	(258,667)	(18,172,643)	-	-	-	(18,431,310)
Other borrowed funds	(32)	(23,995)	(3,685,793)	(40,873,007)	(15,244,708)	-	-	(59,827,535)
Deferred tax liability	-	-	(34,808)	-	-	-	-	(34,808)
Other liabilities	(1,889,744)	(243,066)	(273,288)	(61,657)	(4,659)	-	-	(2,472,414)
Total liabilities	**(228,531,393)**	**(33,412,464)**	**(277,292,345)**	**(196,293,760)**	**(171,240,170)**	**-**	**-**	**(906,770,132)**
Net position	**(54,054,451)**	**(3,125,065)**	**(25,087,263)**	**42,903,757**	**68,954**	**19,592,400**	**97,157,569**	**77,455,901**

28 Risk management, continued

(d) Liquidity risk, continued

The table below show an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2013:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Cash and cash equivalents	199,981,647	-	-	-	-	-	-	199,981,647
Financial instruments at fair value through profit or loss	6,710	112	1,426	6,097	98,839	-	-	113,184
Available-for-sale financial assets	2,601,829	620,902	302,703	-	-	94,057	-	3,619,491
Loans and advances to banks	252,021	-	1,971,982	6,996	53,661	-	-	2,284,660
Loans to customers	13,324,305	30,513,276	111,420,477	171,671,549	147,889,912	-	83,392,414	558,211,933
Current tax asset	-	-	20	-	-	1,040,153	-	1,040,173
Property, equipment and intangible assets	-	-	-	-	-	19,725,263	-	19,725,263
Deferred tax asset	-	-	5,164,736	-	-	-	-	5,164,736
Receivable from UniCredit Bank Austria AG under guarantee agreement	-	-	-	99,738,176	-	-	-	99,738,176
Other assets	889,700	56,159	79,694	18,407,845	3,644	3,092,736	-	22,529,778
Total assets	**217,056,212**	**31,190,449**	**118,941,038**	**289,830,663**	**148,046,056**	**23,952,209**	**83,392,414**	**912,409,041**
Financial instruments at fair value through profit or loss	(15,660)	-	-	-	-	-	-	(15,660)
Deposits and balances from banks and other financial institutions	(12,926,813)	(249)	(874)	(93,417,908)	-	-	-	(106,345,844)
Current accounts and deposits from customers	(200,723,348)	(40,584,435)	(197,089,129)	(157,234,341)	(8,324,234)	-	-	(603,955,487)
Subordinated borrowings	-	(11,077,903)	(4,428,987)	(15,624,252)	-	-	-	(31,131,142)
Other borrowed funds	(12)	(44,219,017)	(31,456)	(46,537,360)	(2,156,092)	(37,935)	-	(92,981,872)
Other liabilities	(610,800)	(106,415)	(291,953)	(264,483)	(3,962)	(2,515,656)	-	(3,793,269)
Total liabilities	**(214,276,633)**	**(95,988,019)**	**(201,842,399)**	**(313,078,344)**	**(10,484,288)**	**(2,553,591)**	**-**	**(838,223,274)**
Net position	**2,779,579**	**(64,797,570)**	**(82,901,361)**	**(23,247,681)**	**137,561,768**	**21,398,618**	**83,392,414**	**74,185,767**

28 Risk management, continued

(d) Liquidity risk, continued

In accordance with Kazakhstan legislation, depositors can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. The amount of such deposits, by each time band, is given below:

- less than 1 month: KZT 30,628,366 thousand (31 December 2013: KZT 12,789,193 thousand);
- from 1 to 3 months: KZT 33,144,419 thousand (31 December 2013: KZT 40,584,435 thousand);
- from 3 to 12 months: KZT 160,052,229 thousand (31 December 2013: KZT 197,089,129 thousand);
- from 1 to 5 years: KZT 130,079,972 thousand (31 December 2013: KZT 157,234,341 thousand);
- more than 5 years: KZT 155,990,803 thousand (31 December 2013: KZT 8,324,234 thousand).

29 Capital management

The NBRK sets and monitors capital requirements for the Group as a whole. The Bank and its subsidiaries are directly supervised by their respective local regulators.

The Group defines as capital those items defined by statutory regulation as capital for banks. Under the current capital requirements set by the NBRK, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2014 and 2013, this minimum level is 10%. As at 31 December 2014 the Group's statutory capital ratio was 11.9% (31 December 2013: 13.1%). The Group was in compliance with the statutory capital ratio as at 31 December 2014 and 2013.

The Group also monitors its capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I and Basel II.

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord, as at 31 December 2014 and 2013:

	2014 KZT'000	2013 KZT'000
Tier 1 capital		
Share capital	167,878,470	167,878,470
Additional paid-in capital	1,461,271	1,461,271
Disclosed reserves	(92,177,492)	(93,689,834)
Non-controlling interests	257,619	213,442
Total tier 1 capital	**77,419,868**	**75,863,349**
Tier 2 capital		
Hybrid capital instruments	18,235,000	15,406,000
Asset revaluation reserve	36,033	(64,465)
Subordinated debt (unamortised portion)	-	900,000
Equity investments stated at cost	(94,061)	(94,057)
Total tier 2 capital	**18,176,972**	**16,147,478**
Total capital	**95,596,840**	**92,010,827**
Risk-weighted assets		
Banking book	703,852,435	624,654,560
Trading book	47,250,833	14,279,331
Total risk-weighted assets	**751,103,268**	**638,933,891**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**12.73**	**14.40**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	**10.31**	**11.87**

29 Capital management, continued

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognised contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

The Group is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under liabilities incurred by the Group. The Group complied with all externally imposed capital requirements as at 31 December 2014 and 2013.

30 Commitments

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

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Group applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of commitments as at 31 December 2014 are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2014 KZT’000	2013 KZT’000
Contracted amount		
Loan and credit line commitments	150,447,024	79,743,252
Guarantees	69,963,466	59,736,043
Letters of credit	3,629,040	6,058,317
	224,039,530	**145,537,612**
Less provisions	(596,508)	(441,362)
Less cash collateral	(324,079)	(790,732)
	223,118,943	**144,305,518**

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded. The majority of loan and credit line commitments do not represent an unconditional commitment by the Group.

Of these commitments, KZT 123,760,133 thousand are to seven customers at 31 December 2014 (2013: KZT 40,935,448 thousand are to three customers).

Movements in provision for losses on credit related commitments for the year ended 31 December 2014 and 2013 are as follows:

	2014 KZT’000	2013 KZT’000
Balance at the beginning of the year	441,362	474,010
Net charge for the year	156,927	(32,626)
Effect of foreign currency translation	(1,781)	(22)
Balance at the end of the year	**596,508**	**441,362**

31 Operating leases

Leases as lessee

Non-cancellable operating lease rentals as at 31 December 2014 are payable as follows:

	2014 KZT'000	2013 KZT'000
Less than 1 year	311,847	565,200
Between 1 and 5 years	168,773	-
More than 5 years	6,328	-
	486,948	**565,200**

The Group leases a number of premises under operating leases.

During the year ended 31 December 2014 KZT 1,244,871 thousand is recognised as an expense in profit or loss in respect of operating leases (31 December 2013: KZT 1,953,443 thousand).

32 Contingencies

(a) Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

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

(c) Taxation contingencies

The taxation system in the Republic of Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Kazakhstan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

(d) Custody activities

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the consolidated statement of financial position.

33 Related party transactions

(a) Control relationships

As at 31 December 2014 the Bank's parent company is KNG Finance LLP.

The ultimate controlling owner of the Group is Mr. Galimzhan Yessenov.

No publicly available financial statements are produced by the Group's ultimate controlling owner. The Group's parent KNG Finance LLP produces publicly available financial statements.

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

Total remuneration included in personnel expenses for the year ended 31 December 2014 and 2013 is as follows:

	2014 KZT'000	2013 KZT'000
Short term employee benefits	170,918	121,341

These amounts include non-cash benefits in respect of the members of the Board of Directors and the Management Board.

The outstanding balances and average interest rates as at 31 December 2014 and 2013 for transactions with the members of the Board of Directors and the Management Board are as follows:

	2014 KZT'000	Average interest rate, %	2013 KZT'000	Average interest rate, %
Consolidated statement of financial position				
ASSETS				
Loans to customers	43,630	19.69	31,977	19.32
LIABILITIES				
Current accounts and deposits from customers	537,775	4.34	232,815	3.99

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Board for the year ended 31 December 2014 and 2013 are as follows:

	2014 KZT'000	2013 KZT'000
Profit or loss		
Interest income	5,601	2,271
Interest expense	(27,453)	(3,608)

(c) Transactions with other related parties

Other related parties include entities under control or significant influence of the parent company and the ultimate controlling owner.

As described in Note 1 (b) on 2 May 2013 there was change of the major shareholder of the Group. Accordingly, profit or loss amounts of transactions for the period from 1 January 2013 to 2 May 2013 include transactions with UniCredit Bank Austria AG and its related entities and for the period from 2 May 2013 to 31 December 2013 – transactions with KNG Finance LLP and entities under control or significant influence of KNG Finance LLP, and the ultimate controlling owner of the Group.

33 Related party transactions, continued

(c) Transactions with other related parties, continued

The outstanding balances and the related average interest rates as at 31 December 2014 and 2013 and related profit or loss amounts of transactions for the years ended 31 December 2014 and 2013 with other related parties are as follows:

	2014					**2013**				
	Parent company		**Other related parties**			**Parent company**		**Other related parties**		
	KZT'000	**Average interest rate, %**	**KZT'000**	**Average interest rate, %**	**Total KZT'000**	**KZT'000**	**Average interest rate, %**	**KZT'000**	**Average interest rate, %**	**Total KZT'000**
Consolidated statement of financial position										
ASSETS										
Loans to customers										
- In USD	-	-	2,204,303	5.0	2,204,303	-	-	-	-	-
Other assets										
- in KZT	-	-	909	-	909	-	-	86	-	86
LIABILITIES										
Current accounts and deposits from customers										
- In KZT	94,872	6.92	117,584	-	212,456	382	-	131,788	-	132,170
- In USD	5,404,915	1.62	524,419	-	5,929,334	4,603,603	0.87		-	4,603,603
- In other currency	1,546	-	55,328	-	56,874	-	-	-	-	-
Items not recognised in the statement of financial position										
Guarantee issued	-	-	-	-	-	-	-	(1,387)	1.76	(1,387)
Profit/(loss)										
Interest income	-	-	98,067	-	98,067	60,398	-	-	-	60,398
Interest expense	(160,005)	-		-	(160,005)	(1,038,955)	-	(3,384)	-	(1,042,339)
Fee and commission income	-	-	-	-	-	-	-	923	-	923
Fee and commission expense	-	-	-	-	-	(3,160,879)	-	-	-	(3,160,879)
Other general and administrative expenses	-	-	-	-	-			(12,227)		(12,227)
Gains and losses on financial assets and liabilities held for trading	-	-	-	-	-	(33)	-	(8,695)	-	(8,728)

34 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2014:

KZT'000	Trading	Designated at fair value	Loans and receivables	Available-for-sale	Other at amortised cost	Total carrying amount	Fair value
Cash equivalents	-	-	109,871,714	-	-	109,871,714	109,871,714
Financial instruments at fair value through profit or loss	97,996	353,147	-	-	-	451,143	451,143
Available-for-sale financial assets	-	-	-	27,019,938	-	27,019,938	27,019,938
Loans and advances to banks	-	-	8,062,254		-	8,062,254	8,062,254
Loans to customers							
Loans to corporate customers	-	-	507,950,672	-	-	507,950,672	501,004,073
Loans to retail customers	-	-	141,806,018	-	-	141,806,018	137,239,994
Receivable from UniCredit Bank Austria AG under guarantee agreement	-	-	115,753,133	-	-	115,753,133	115,753,133
Other financial assets	-	-	605,910	-	-	605,910	605,910
	97,996	**353,147**	**884,049,701**	**27,019,938**	**-**	**911,520,782**	**900,008,159**
Financial instruments at fair value through profit or loss	-	272,156	-	-	-	272,156	272,156
Deposits and balances from banks and other financial institutions	-	-	-	-	120,705,578	120,705,578	120,705,578
Current accounts and deposits from customers	-	-	-	-	705,026,331	705,026,331	712,547,329
Subordinated borrowings	-	-	-	-	18,431,310	18,431,310	12,606,585
Other borrowed funds	-	-	-	-	59,827,535	59,827,535	58,680,077
Other financial liabilities	-	-	-	-	122,159	122,159	122,159
	-	**272,156**	**-**	**-**	**904,112,913**	**904,385,069**	**904,933,884**

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

(a) Accounting classifications and fair values, continued

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2013:

KZT'000	Trading	Designated at fair value	Loans and receivables	Available-for-sale	Other at amortised cost	Total carrying amount	Fair value
Cash equivalents	-	-	171,834,287	-	-	171,834,287	171,834,287
Financial instruments at fair value through profit or loss	105,614	7,570	-	-	-	113,184	113,184
Available-for-sale financial assets	-	-	-	3,619,491	-	3,619,491	3,619,491
Loans and advances to banks	-	-	2,284,660	-	-	2,284,660	2,284,660
Loans to customers:	-	-		-	-		
Loans to corporate customers	-	-	442,353,726	-	-	442,353,726	442,474,546
Loans to retail customers	-	-	115,858,207	-	-	115,858,207	116,415,221
Receivable from UniCredit Bank Austria AG under guarantee agreement	-	-	99,738,176	-	-	99,738,176	99,738,176
Other financial assets	-	-	296,975	-	-	296,975	296,975
	105,614	**7,570**	**832,366,031**	**3,619,491**	**-**	**836,098,706**	**836,776,540**
Financial instruments at fair value through profit or loss	-	15,660	-	-	-	15,660	15,660
Deposits and balances from banks and other financial institutions	-	-	-	-	106,345,844	106,345,844	106,345,844
Current accounts and deposits from customers	-	-	-	-	603,955,487	603,955,487	603,673,338
Subordinated borrowings	-	-	-	-	31,131,142	31,131,142	26,366,393
Other borrowed funds	-	-	-	-	92,981,872	92,981,872	93,212,410
Other financial liabilities	-	-	-	-	296,879	296,879	296,879
	-	**15,660**	**-**	**-**	**834,711,224**	**834,726,884**	**829,910,524**

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

(a) Accounting classifications and fair values, continued

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using other valuation techniques.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Valuation techniques include net present value and discounted cash flow models and comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices and foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common and simpler financial instruments. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

For more complex instruments, the Group uses proprietary valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs includes certain loans and securities for which there is no active market.

As disclosed in note 13 as at 31 December 2014 the fair value of unquoted equity securities available-for-sale with a carrying value of KZT 94,061 thousand (31 December 2013: KZT 94,057 thousand) cannot be determined.

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

- discount rates of 7.7%-15.4% and 11.5% – 19.0% are used for discounting future cash flows from loans to corporate customers and loans to retail customers, respectively;
- discount rate of 7.3% is used for discounting future cash flows from deposits of customers in Tenge and 3.9% is used for discounting future cash flows from deposits of customers in foreign currency;
- quoted market prices are used for determination of fair value of debt securities issued.

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

(b) Fair value hierarchy

The Group measures fair values for financial instruments recorded on the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

The table below analyses financial instruments measured at fair value at 31 December 2014, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KZT'000	Level 2	Level 3	Total
Financial instruments at fair value through profit or loss			
- Debt and other fixed income instruments	97,996	-	97,996
- Derivative assets	-	353,147	353,147
- Derivative liabilities	(272,156)	-	(272,156)
Available-for-sale financial assets			
- Debt and other fixed income instruments	26,925,877	-	26,925,877
	26,751,717	**353,147**	**27,104,864**

The table below analyses financial instruments measured at fair value at 31 December 2013, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KZT'000	Level 2	Level 3	Total
Financial instruments at fair value through profit or loss			
- Debt and other fixed income instruments	105,614	-	105,614
- Derivative assets	7,570	-	7,570
- Derivative liabilities	(15,660)	-	(15,660)
Available-for-sale financial assets			
- Debt and other fixed income instruments	3,525,434	-	3,525,434
	3,622,958	**-**	**3,622,958**

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

(b) Fair value hierarchy, continued

Unobservable valuation differences on initial recognition

The transaction price of the swap transactions with the NBRK is different from fair value of the swap instruments in the principal markets (Note 13). At initial recognition, the Group estimates the fair values of the swaps transacted with the NBRK using valuation techniques.

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

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

	Level 3		
	Financial instruments at fair value through profit or loss		Total
KZT'000	**Derivative assets**	**Derivative liabilities**	
Balance at beginning of the year			
Net gain (loss) on financial instruments at fair value through profit or loss	(466,213)	-	(466,213)
Issues	819,360	-	819,360
Balance at end of the year	**353,147**	**-**	**353,147**

To determine the fair value of the swap, management used 4.03% for KZT leg and 0.44% for USD leg. Management assumes that the early termination right will be exercised during the four months following the reporting date.

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changes in discount rate used for KZT leg by a 100 basis point (bp) would have the following effects as at 31 December 2014:

	Effect on profit or loss	
KZT'000	**Favourable**	**Unfavourable**
Financial instruments at fair value through profit or loss		
- Derivative assets	86,923	(85,816)
Total	**86,923**	**(85,816)**

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

(b) Fair value hierarchy, continued

Unobservable valuation differences on initial recognition, continued

The favourable and unfavourable effects of using reasonably possible alternative assumptions are calculated by recalibrating the model values using unobservable inputs, based on the averages of the upper and lower quartiles, respectively, of the Group's ranges of possible estimates. Key inputs and assumptions used in the models as at 31 December 2014:

- Changing the estimated risk-free rate for KZT leg by 1%
- Changing the estimated risk-free rate for USD leg by 0.5%

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2014:

KZT'000	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	109,871,714	-	109,871,714	109,871,714
Loans and advances to banks	8,062,254	-	8,062,254	8,062,254
Loans to customers	462,899,849	175,344,218	638,244,067	649,756,690
Receivable from UniCredit Bank Austria AG under guarantee agreement	115,753,133	-	115,753,133	115,753,133
Liabilities				
Deposits and balances from banks and other financial institutions	120,705,578	-	120,705,578	120,705,578
Current accounts and deposits from customers	712,547,329	-	712,547,329	705,026,331
Subordinated borrowings	12,606,585	-	12,606,585	18,431,310
Other borrowed funds	58,680,077	-	58,680,077	59,827,535

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

(b) Fair value hierarchy, continued

Unobservable valuation differences on initial recognition, continued

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2013:

KZT'000	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	171,834,287	-	171,834,287	171,834,287
Loans and advances to banks	2,284,660	-	2,284,660	2,284,660
Loans to customers	381,216,189	177,673,578	558,889,767	558,211,933
Receivable from UniCredit Bank Austria AG under guarantee agreement	99,738,176	-	99,738,176	99,738,176
Liabilities				
Deposits and balances from banks and other financial institutions	106,345,844	-	106,345,844	106,345,844
Current accounts and deposits from customers	603,673,338	-	603,673,338	603,955,487
Subordinated borrowings	26,366,393	-	26,366,393	31,131,142
Other borrowed funds	93,212,410	-	93,212,410	92,981,872