



**Nurbank JSC**

Consolidated Financial Statements  
for the year ended 31 December 2014

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## Independent Auditors' Report

To the Shareholders and Board of Directors of Nurbank JSC

We have audited the accompanying consolidated financial statements of Nurbank JSC (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and 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's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor 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*

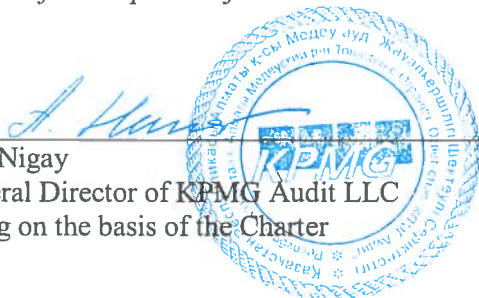
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Ravshan Irmatov  
Certified Auditor  
of the Republic of Kazakhstan,  
Auditor's Qualification Certificate  
No. MF-0000053 of 6 January 2012

**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

28 April 2015

**Nurbank JSC**


*Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2014*

	Note	2014 KZT'000	2013 KZT'000
<b>Continuing operations</b>			
Interest income	4	28,934,879	23,535,189
Interest expense	4	(12,770,647)	(11,651,762)
<b>Net interest income</b>		<b>16,164,232</b>	<b>11,883,427</b>
Fee and commission income	5	3,384,825	2,981,865
Fee and commission expense	6	(319,301)	(218,540)
<b>Net fee and commission income</b>		<b>3,065,524</b>	<b>2,763,325</b>
Net gain on financial instruments at fair value through profit or loss	7	1,186,631	232,990
Net foreign exchange (loss) gain	8	(485,475)	707,555
Net (loss) gain on available-for-sale financial assets		(385,261)	124,342
Net income from insurance operations	9	1,023,454	305,218
Other operating income (expenses)		543,152	(200,407)
<b>Operating income</b>		<b>21,112,257</b>	<b>15,816,450</b>
Impairment losses and provision expenses	10	(7,819,189)	(40,995,067)
Personnel expenses	11	(5,525,749)	(4,362,736)
Other general administrative expenses	12	(5,719,713)	(4,551,878)
<b>Profit (loss) before income tax</b>		<b>2,047,606</b>	<b>(34,093,231)</b>
Income tax (expense) benefit	13	(262,212)	747,652
<b>Profit (loss) for the year from continuing operations</b>		<b>1,785,394</b>	<b>(33,345,579)</b>
<b>Discontinued operations</b>			
Profit for the year from discontinued operations (net of income tax)	37	-	1,030,380
<b>Profit (loss) for the year</b>		<b>1,785,394</b>	<b>(32,315,199)</b>
<b>Profit (loss) attributable to:</b>			
- Equity holders of the Bank		1,787,886	(32,316,502)
- Non-controlling interests		(2,492)	1,303
<b>Profit (loss) for the year</b>		<b>1,785,394</b>	<b>(32,315,199)</b>

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.

	2014	2013
Note	KZT'000	KZT'000
<b>Other comprehensive income</b>		
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Revaluation reserve for available-for-sale financial assets:		
- Net change in fair value	(706,004)	(255,043)
- Net change in fair value transferred to profit or loss	(246,954)	(155,754)
Impairment loss on available-for-sale financial assets transferred to profit or loss	-	8,381
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	<u>(952,958)</u>	<u>(402,416)</u>
<i>Items that will not be reclassified to profit or loss:</i>		
Revaluation of land and buildings	990,881	-
<i>Total items that will not be reclassified to profit or loss</i>	<u>990,881</u>	<u>-</u>
<b>Other comprehensive income for the year</b>	<b>37,923</b>	<b>(402,416)</b>
<b>Total comprehensive income (loss) for the year</b>	<b><u>1,823,317</u></b>	<b><u>(32,717,615)</u></b>
<b>Total comprehensive income (loss) attributable to:</b>		
- Equity holders of the Bank	1,829,595	(32,719,052)
- Non-controlling interests	(6,278)	1,437
<b>Total comprehensive income (loss) for the year</b>	<b><u>1,823,317</u></b>	<b><u>(32,717,615)</u></b>
Earnings (loss) per ordinary share, in KZT	29 <u>169.84</u>	<u>(3,069.95)</u>

The consolidated financial statements as set out on pages 5 to 79 were approved by management on 28 April 2015 and were signed on its behalf by:

  
 \_\_\_\_\_  
 Orynbayev K. B.  
 Chairman of the Board



  
 \_\_\_\_\_  
 Filatova A.I.  
 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.

**Nurbank JSC**  
Consolidated Statement of Financial Position as at 31 December 2014

	Note	2014 KZT'000	2013 KZT'000
<b>ASSETS</b>			
Cash and cash equivalents	14	35,151,993	29,471,147
Financial instruments at fair value through profit or loss	15	3,049,209	1,211,643
Available-for-sale financial assets	16	33,034,854	38,659,862
Deposits and balances with banks and other financial institutions	17	9,826,382	2,344,059
Loans to customers	18	190,756,530	151,732,916
Current tax asset		52,193	100,147
Property and equipment	19	5,290,517	3,896,459
Deferred tax asset	13	3,172,872	3,616,271
Other assets	20	15,627,715	14,569,368
<b>Total assets</b>		<b>295,962,265</b>	<b>245,601,872</b>
<b>LIABILITIES</b>			
Loans from the Government of the Republic of Kazakhstan	21	14,139,279	6,585,642
Loans and deposits from banks and other financial institutions	22	4,609,808	1,048,064
Current accounts and deposits from customers	23	185,569,774	152,139,857
Debt securities issued	24	34,929,190	34,700,351
Subordinated debt	25	7,155,951	7,073,629
Amounts payable under repurchase agreements	26	2,998,102	9,000
Other liabilities	27	5,807,506	5,006,076
<b>Total liabilities</b>		<b>255,209,610</b>	<b>206,562,619</b>
<b>EQUITY</b>			
	28		
Share capital		127,611,241	127,611,241
Treasury shares		(280,212)	(275,253)
Additional paid-in capital		100	100
Dynamic reserve		4,380,918	4,380,918
Revaluation reserve for available-for-sale financial assets		(1,805,998)	(851,799)
Revaluation reserve for land and buildings		1,944,841	970,879
Reserve for general insurance risks		-	103,421
Accumulated losses		(91,162,232)	(93,131,895)
<b>Total equity attributable to equity holders of the Bank</b>		<b>40,688,658</b>	<b>38,807,612</b>
Non-controlling interests		63,997	231,641
<b>Total equity</b>		<b>40,752,655</b>	<b>39,039,253</b>
<b>Total liabilities and equity</b>		<b>295,962,265</b>	<b>245,601,872</b>

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

	<b>2014</b>	<b>2013</b>
	<b>KZT'000</b>	<b>KZT'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest receipts	18,313,196	21,341,763
Interest payments	(12,211,261)	(11,589,790)
Fee and commission receipts	3,338,823	4,456,079
Fee and commission payments	(378,765)	(275,681)
Net (payments) receipts from financial instruments at fair value through profit or loss	(29,013)	268,773
Net receipts from foreign exchange	393,597	357,045
Net receipts from insurance operations	1,703,109	388,130
Other operating income receipts	445,550	(51,546)
Personnel expenses payments	(5,432,117)	(4,586,836)
Other general administrative expenses payments	(4,794,169)	(3,721,275)
<b>(Increase) decrease in operating assets</b>		
Financial instruments at fair value through profit or loss	(622,291)	705,177
Deposits and balances with banks and other financial institutions	(8,048,722)	(112,400)
Loans to customers	(36,335,364)	(16,360,846)
Other assets	(55,929)	(163,128)
<b>Increase (decrease) in operating liabilities</b>		
Loans from the Government of the Republic of Kazakhstan	7,581,758	(2,213,128)
Loans and deposits from banks and other financial institutions	3,424,419	(821,622)
Current accounts and deposits from customers	31,298,380	2,679,881
Amounts payable under repurchase agreements	2,981,001	9,000
Other liabilities	(777,359)	1,101,842
<b>Net cash from (used in) operating activities before income tax paid</b>	<b>794,843</b>	<b>(8,588,562)</b>
Income tax paid	(62,881)	(18,877)
<b>Cash flows from (used in) operations</b>	<b>731,962</b>	<b>(8,607,439)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of available-for-sale financial assets	(5,670,270)	(17,467,978)
Sale and repayment of available-for-sale financial assets	11,087,822	12,693,329
Purchases of property, equipment and intangible assets	(738,394)	(345,573)
Sales of property, equipment and intangible assets	11,629	46,708
<b>Cash flows from (used in) investing activities</b>	<b>4,690,787</b>	<b>(5,073,514)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repurchase of own shares	(4,959)	-
Acquisition of non-controlling interests	(104,956)	-
Proceeds from debt securities issued	-	29,530,863
Redemption of debt securities issued	(1,869)	(9,995,311)
Receipts from subordinated debt	-	80,614
Repurchase of subordinated debt	(6,568)	(550)
<b>Cash flows (used in) from financing activities</b>	<b>(118,352)</b>	<b>19,615,616</b>
<b>Net increase in cash and cash equivalents</b>	<b>5,304,397</b>	<b>5,934,663</b>
Effect of changes in exchange rates on cash and cash equivalents	376,449	33,556
Cash and cash equivalents as at the beginning of the year	29,471,147	23,502,928
<b>Cash and cash equivalents as at the end of the year (Note 14)</b>	<b>35,151,993</b>	<b>29,471,147</b>

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



	Attributable to equity holders of the Bank										
	Share capital	Treasury shares	Additional paid-in capital	Revaluation reserve for available-for-sale financial assets	Revaluation reserve for land and buildings	Reserve for general insurance risks	Dynamic reserve	Accumulated losses	Total	Non-controlling interests	Total equity
<b>KZT'000</b>											
Balance as at 1 January 2013	127,611,241	(275,253)	100	(449,249)	986,538	127,176	-	(56,473,889)	71,526,664	230,204	71,756,868
<b>Total comprehensive income</b>											
Loss for the year	-	-	-	-	-	-	-	(32,316,502)	(32,316,502)	1,303	(32,315,199)
<b>Other comprehensive income</b>											
<i>Items that are or may be reclassified subsequently to profit or loss:</i>											
Net change in fair value of available-for-sale financial assets	-	-	-	(254,570)	-	-	-	-	(254,570)	(473)	(255,043)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	(156,361)	-	-	-	-	(156,361)	607	(155,754)
Impairment loss on available-for-sale financial assets transferred to profit or loss	-	-	-	8,381	-	-	-	-	8,381	-	8,381
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	-	-	(402,550)	-	-	-	-	(402,550)	134	(402,416)
Total other comprehensive income	-	-	-	(402,550)	-	-	-	-	(402,550)	134	(402,416)
<b>Total comprehensive loss for the year</b>	-	-	-	(402,550)	-	-	-	(32,316,502)	(32,719,052)	1,437	(32,717,615)
<b>Other movements in equity</b>											
Transfer of revaluation surplus as a result of depreciation and disposals	-	-	-	-	(15,659)	-	-	15,659	-	-	-
Transfer of insurance reserve	-	-	-	-	-	(23,755)	-	23,755	-	-	-
Transfer to dynamic reserves (Note 28 (b))	-	-	-	-	-	-	4,380,918	(4,380,918)	-	-	-
<b>Balance as at 31 December 2013</b>	<b>127,611,241</b>	<b>(275,253)</b>	<b>100</b>	<b>(851,799)</b>	<b>970,879</b>	<b>103,421</b>	<b>4,380,918</b>	<b>(93,131,895)</b>	<b>38,807,612</b>	<b>231,641</b>	<b>39,039,253</b>

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.

	Attributable to equity holders of the Bank										
	Share capital	Treasury shares	Additional paid-in capital	Revaluation reserve for available-for-sale financial assets	Revaluation reserve for land and buildings	Reserve for general insurance risks	Dynamic reserve	Accumulated losses	Total	Non-controlling interests	Total equity
<b>KZT'000</b>											
Balance as at 1 January 2014	127,611,241	(275,253)	100	(851,799)	970,879	103,421	4,380,918	(93,131,895)	38,807,612	231,641	39,039,253
<b>Total comprehensive income</b>											
Profit for the year	-	-	-	-	-	-	-	1,787,886	1,787,886	(2,492)	1,785,394
<b>Other comprehensive income</b>											
<i>Items that are or may be reclassified subsequently to profit or loss:</i>											
Net change in fair value of available-for-sale financial assets	-	-	-	(702,157)	-	-	-	-	(702,157)	(3,847)	(706,004)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	(247,015)	-	-	-	-	(247,015)	61	(246,954)
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	-	-	(949,172)	-	-	-	-	(949,172)	(3,786)	(952,958)
<i>Items that will not be reclassified subsequently to profit or loss:</i>											
Revaluation of land and buildings, net of deferred tax liabilities (Note 19)	-	-	-	-	990,881	-	-	-	990,881	-	990,881
<i>Total items that will not be reclassified subsequently to profit or loss</i>	-	-	-	-	990,881	-	-	-	990,881	-	990,881
Total other comprehensive income	-	-	-	(949,172)	990,881	-	-	-	41,709	(3,786)	37,923
<b>Total comprehensive income for the year</b>	-	-	-	(949,172)	990,881	-	-	1,787,886	1,829,595	(6,278)	1,823,317
<b>Transactions with owners, recorded directly in equity</b>											
Treasury shares acquired	-	(4,959)	-	-	-	-	-	-	(4,959)	-	(4,959)
<b>Total transactions with owners</b>	-	(4,959)	-	-	-	-	-	-	(4,959)	-	(4,959)
<b>Other movements in equity</b>											
Acquisition of non-controlling interests	-	-	-	(5,027)	-	-	-	61,437	56,410	(161,366)	(104,956)
Transfer of revaluation surplus as a result of depreciation and disposals	-	-	-	-	(16,919)	-	-	16,919	-	-	-
Transfer of insurance reserve	-	-	-	-	-	(103,421)	-	103,421	-	-	-
<b>Balance as at 31 December 2014</b>	<b>127,611,241</b>	<b>(280,212)</b>	<b>100</b>	<b>(1,805,998)</b>	<b>1,944,841</b>	<b>-</b>	<b>4,380,918</b>	<b>(91,162,232)</b>	<b>40,688,658</b>	<b>63,997</b>	<b>40,752,655</b>

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.

# 1 Background

## (a) Organisation and operations

These consolidated financial statements include the financial statements of Nurbank JSC (the “Bank”) and its subsidiaries (together referred to as the “Group”). The principal subsidiaries include insurance, leasing, brokerage companies and investment management company.

The Bank was established in the Republic of Kazakhstan in 1993. The principal activities are deposit taking and customer account maintenance, lending, issuing guarantees, cash and settlement operations and transactions with securities and foreign exchange.

The activities of the Bank and its subsidiaries are regulated by the National Bank of the Republic of Kazakhstan (the “NBRK”).

The Bank has a general banking license #1.2.15/193 dated 28 October 2014, and is a member of the the Kazakhstan Deposit Insurance Fund.

The Bank’s registered office is 10V Abay ave., 050010, Almaty, Republic of Kazakhstan.

As at 31 December 2014 the Bank has 16 branches and 75 cash settlement units (31 December 2013: 16 branches and 58 cash settlement units). The majority of the assets and liabilities are located in the Republic of Kazakhstan.

The subsidiaries are as follows:

Name	Country of incorporation	Principal activities	Ownership %	
			31 December 2014	31 December 2013
Atameken Nur Technology S JSC (formerly Subsidiary of “Nurbank” JSC “Atameken” Accumulative Pension Fund JSC)	Kazakhstan	Management of own investment portfolio	98.46	94.79
Leasing Company Nur-Leasing LLC	Kazakhstan	Leasing	100.00	100.00
Insurance Company Nurpolicy LLC	Kazakhstan	Insurance	100.00	100.00
Money Experts JSC	Kazakhstan	Brokerage	100.00	100.00
Organisation on Management of Doubtful Assets NB LLC	Kazakhstan	Purchase of impaired assets of the Bank	100.00	100.00

As a result of changes in the Kazakhstan pension legislation in December 2013 Atameken Nur Technology S JSC (formerly Subsidiary of “Nurbank” JSC “Atameken” Accumulative Pension Fund JSC) (the “Atameken”) transferred all pension assets that were under its management to the State-owned United Accumulative Pension Fund JSC. The transfer resulted in discontinuation of a significant part of the Group’s operations (Note 37). Following the transfer managing the Atameken’s own investment portfolio became its primarily business activity.

On 19 March 2014 Atameken ceased its license on pension asset management.

## (b) Shareholders

As at 31 December 2014 and 31 December 2013, the following shareholders owned 5% or more of the issued voting shares of the Bank:

Name	Ownership %	
	31 December 2014	31 December 2013
J. P. Finance Group LLC	84.45	67.84
Koibagarova G.S.	9.87	-
Other shareholders owning less than 5% each	5.68	22.49
Helios LLC	-	9.67
	<b>100.00</b>	<b>100.00</b>

The Group is ultimately controlled by a single individual, Mrs. Sarsenova S. T., who has the power to direct the transactions of the Group at her own discretion and for her own benefit.

## **1 Background, continued**

### **(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, and land and buildings are stated at revalued amounts.

### **(c) Functional and presentation currency**

The functional currency of the Bank and 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 the Group.

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.

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

- income tax (expense) benefit – Note 13
- loan impairment estimates - Note 18
- revaluation of land and buildings – Note 19
- estimates of fair values of financial instruments – Note 36.

### **(e) Changes in accounting policies and presentation**

New amendments to IFRS became effective from 1 January 2014 and have been adopted by the Group since that date. These changes did not have a significant effect on the consolidated financial statements.

## 2 Basis of preparation, continued

### (e) Changes in accounting policies and presentation, continued

- Amendments to IAS 32 *Financial Instruments, Disclosure and Presentation* further clarify the definition of a legally enforceable right to set off the financial assets and liabilities conditional on the fact that the right is not contingent on a future event; and enforceable in the normal course of business, and in the event of default, insolvency or bankruptcy of the entity and of the counterparties.

## 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(e), which addresses changes in accounting policies.

### (a) Basis of consolidation

#### (i) *Subsidiaries*

Subsidiaries are investees controlled by the Bank. The Bank 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 Bank 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.

#### (ii) *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. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

### (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 functional currency of the Bank and its subsidiaries 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.

### 3 Significant accounting policies, continued

#### (d) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the NBRK 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 and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

#### (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.

### 3 Significant accounting policies, continued

#### (e) Financial instruments, continued

##### (i) *Classification, continued*

*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.

##### (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.

### 3 Significant accounting policies, continued

#### (e) Financial instruments, continued

##### (v) *Financial assets or liabilities originated at interest rates different from market rates*

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference is credited or charged to profit or loss as gains or losses on origination of financial instruments at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortisation of the gains/losses on origination and the related income/expense is recorded in interest income/expense within profit or loss using the effective interest method.

##### (vi) *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.

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.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell the net long position (or paid to transfer the net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

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.



### **3 Significant accounting policies, continued**

#### **(e) Financial instruments, continued**

##### **(vii) 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.

##### **(viii) 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.

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.

### **3 Significant accounting policies, continued**

#### **(e) Financial instruments, continued**

##### **(ix) *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. 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 cash and cash equivalents, 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 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.

##### **(x) *Derivative financial instruments***

Derivative financial instruments include swaps, forwards, futures, spot 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.

Derivatives may be embedded in another contractual arrangement (a host contract). An embedded derivative is separated from the host contract and is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

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

##### **(xi) *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.

#### **(f) Property and equipment**

##### **(i) *Owned assets***

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for land and buildings, which are stated at revalued amounts as described below.

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) *Revaluation*

Land and buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the land and buildings being revalued. A revaluation increase on the land and building is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on the land and building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income.

##### (iii) *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	40 years
- motor vehicles	7 years
- computer and banking equipment	4 to 10 years
- leasehold improvements	5 years
- other	5 to 15 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 6 to 7 years.

#### (h) 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. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

#### (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.

### 3 Significant accounting policies, continued

#### (i) Impairment, continued

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.

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 uncollectable and when all necessary steps to collect the loan are completed.

### 3 Significant accounting policies, continued

#### (i) Impairment, continued

##### (ii) *Financial assets carried at cost*

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.

##### (iii) *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.

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.

##### (iv) *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.

### 3 Significant accounting policies, continued

#### (k) 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.

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.

#### (l) 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) Preference share capital

Preference share capital that is non-redeemable and carries no mandatory dividends is classified as equity.

The component of the preference shares that exhibits characteristics of a liability is recognised as a liability in the consolidated statement of financial position, net of transaction costs. The corresponding cumulative dividends on those shares are charged as interest expense in the statement of profit or loss and other comprehensive income. On issuance of the preference shares, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long-term liability on the amortised cost basis until extinguished on redemption.

##### (iii) 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.

### **3 Significant accounting policies, continued**

#### **(l) Share capital, continued**

##### **(iv) 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.

##### **(m) 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.

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.

##### **(n) 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.

### 3 Significant accounting policies, continued

#### (o) Segment reporting

The Group's operations constitute four operating business segments for the purposes of IFRS 8 *Operating Segments*: banking, finance leasing, insurance and brokerage subsidiary. The finance leasing, insurance and brokerage segments are not reported separately in these consolidated interim financial statements as they do not exceed the quantitative threshold set out in *IFRS 8 Operating Segments*. Assets are concentrated primarily in the Republic of Kazakhstan, and the majority of revenues and net loss/income are derived from operations in, and connected with, the Republic of Kazakhstan. The Chief Operating Decision Maker, in the case of the Group, the Chairman of the Management Board, only receives and reviews the information on the Group as a whole.

#### (p) Insurance contracts

##### (i) Classification of contracts

Contracts under which the Group accepts significant insurance risk from another party (the "policyholder") by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the "insured event") adversely affects the policyholder or other beneficiary are classified as insurance contracts. Insurance risk is the risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

Insurance risk is significant if, and only if, an insured event could cause the Group to pay significant additional benefits. Once a contract is classified as an insurance contract, it remains classified as an insurance contract until all rights and obligations are extinguished or expire.

Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as financial instruments.

##### (ii) Recognition and measurement of contracts

###### *Premiums*

General business premiums written comprise the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums. The earned portion of premiums received is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of reinsurance service received. The portion of outward reinsurance premiums not recognised is treated as a prepayment.

###### *Unearned premium provision*

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro-rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

###### *Claims*

Claims comprise claims and claim handling expenses paid during the financial year together with the movement in the provision for outstanding claims.



### 3 Significant accounting policies, continued

#### (p) Insurance contracts, continued

##### (ii) *Recognition and measurement of contracts, continued*

###### *Claims, continued*

Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses. Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, the effect of both internal and external foreseeable events, such as changes in claims handling procedures, legislative changes and past experience and trends. Provisions for claims outstanding are not discounted.

Whilst management considers that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and developments and may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the consolidated financial statements for the period in which the adjustments are made, and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

#### (q) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

When an operation is classified as a discontinued operation, the comparative statement of profit and loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

#### (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. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of the new standards on its financial position or performance.

- IFRS 9 *Financial Instruments* published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. 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.

### 3 Significant accounting policies, continued

#### (r) New standards and interpretations not yet adopted, continued

- 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 2015. 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
<b>Interest income</b>		
Loans to customers	26,027,414	20,387,327
Available-for-sale financial assets	1,785,323	1,858,844
Other assets	788,035	771,691
Cash and cash equivalents	274,980	351,331
Financial instruments at fair value through profit or loss	58,029	84,777
Deposits and balances with banks and other financial institutions	1,098	81,219
	<b>28,934,879</b>	<b>23,535,189</b>
<b>Interest expense</b>		
Current accounts and deposits from customers	(8,149,246)	(7,531,933)
Debt securities issued	(2,741,752)	(2,814,522)
Subordinated debt	(688,443)	(680,647)
Amounts payable under repurchase agreements	(503,324)	-
Loans from the Government of the Republic of Kazakhstan	(416,464)	(559,946)
Loans and deposits from banks and other financial institutions	(271,418)	(64,714)
	<b>(12,770,647)</b>	<b>(11,651,762)</b>
	<b>16,164,232</b>	<b>11,883,427</b>

Included within various line items under interest income for the year ended 31 December 2014 is a total of KZT 5,965,419 thousand (2013: KZT 6,565,107 thousand) accrued on individually impaired financial assets.

Included in interest income on financial instruments at fair value through profit or loss for the year ended 31 December 2014 is a total of KZT 58,029 thousand (2013: KZT 84,777 thousand) recognised on financial assets held for trading.

Interest income and expense calculated using the effective interest method and relating to financial assets or liabilities not carried at fair value through profit or loss is KZT 28,876,850 thousand (2013: KZT 23,450,412 thousand) and KZT 12,770,647 thousand (2013: KZT 11,651,762 thousand), respectively.

## 5 Fee and commission income

	<b>2014</b> <b>KZT'000</b>	<b>2013</b> <b>KZT'000</b>
Cash withdrawal fees	999,927	970,330
Transfer operations	887,941	829,149
Guarantee and letter of credit issuance fees	668,819	469,167
Bank cards fees	419,122	383,863
Foreign exchange fees	259,113	197,141
Cash collection fees	48,807	34,417
Agents' services fees	32,556	38,903
Other	68,540	58,895
	<b>3,384,825</b>	<b>2,981,865</b>

## 6 Fee and commission expense

	<b>2014</b> <b>KZT'000</b>	<b>2013</b> <b>KZT'000</b>
Transfer operations	123,691	123,085
Bank cards fees	64,989	66,274
Guarantee and letter of credit issuance	6,769	4,289
Operations with securities	4,245	5,486
Other	119,607	19,406
	<b>319,301</b>	<b>218,540</b>

## 7 Net gain on financial instruments at fair value through profit or loss

	<b>2014</b> <b>KZT'000</b>	<b>2013</b> <b>KZT'000</b>
Derivative financial instruments	1,215,644	260,264
Debt financial instruments	(29,013)	(27,274)
	<b>1,186,631</b>	<b>232,990</b>

Included in net gain on financial instruments at fair value through profit or loss for the year ended 31 December 2014 is a gain of KZT 1,186,631 thousand (2013: gain of KZT 232,990 thousand) recognised on financial assets held for trading.

## 8 Net foreign exchange (loss) gain

	<b>2014</b> <b>KZT'000</b>	<b>2013</b> <b>KZT'000</b>
Dealing, net	393,597	268,336
Translation differences, net	(879,072)	439,219
	<b>(485,475)</b>	<b>707,555</b>

## 9 Net income from insurance operations

	<b>2014</b> <b>KZT'000</b>	<b>2013</b> <b>KZT'000</b>
<b>Premiums</b>		
Gross premiums written	2,098,767	526,264
Change in the gross provision for unearned premiums	(610,914)	(45,055)
<b>Gross earned premiums</b>	<b>1,487,853</b>	<b>481,209</b>
Written premiums ceded to reinsurers	(15,806)	(6,341)
Reinsurers' share of change in the gross provision for unearned premiums	4,188	(21,837)
<b>Reinsurers' share of premiums earned on insurance contracts</b>	<b>(11,618)</b>	<b>(28,178)</b>
<b>Net earned premiums</b>	<b>1,476,235</b>	<b>453,031</b>
<b>Claims incurred</b>		
Claims incurred	(374,704)	(188,553)
Reinsurers' share of claims incurred	51,102	17,135
Reimbursement from reinsurance	3,963	49,822
Insurance acquisition costs	(16,876)	(47,568)
Change in liabilities for insurance contracts	(116,266)	21,351
<b>Net insurance claims and compensations</b>	<b>(452,781)</b>	<b>(147,813)</b>
<b>Net income from insurance operations</b>	<b>1,023,454</b>	<b>305,218</b>

## 10 Impairment losses and provision expenses

	<b>2014</b> <b>KZT'000</b>	<b>2013</b> <b>KZT'000</b>
Loans to customers (Note 18)	7,822,116	37,641,909
Other assets (Note 20)	144,147	2,366,911
Guarantees and letters of credit issued (Note 27)	(147,074)	986,247
	<b>7,819,189</b>	<b>40,995,067</b>

## 11 Personnel expenses

	<b>2014</b> <b>KZT'000</b>	<b>2013</b> <b>KZT'000</b>
Salaries and other payments	5,043,179	3,973,640
Social contribution costs	482,570	389,096
	<b>5,525,749</b>	<b>4,362,736</b>

## 12 Other general administrative expenses

	<b>2014</b> <b>KZT'000</b>	<b>2013</b> <b>KZT'000</b>
Operating lease expense	996,470	897,891
Advertising and marketing	806,399	655,256
Depreciation and amortisation	584,548	568,110
Deposit insurance	465,832	423,543
Taxes other than on income	374,922	368,562
Insurance	332,174	255,749
Donation and charity expenses	285,139	22,214
Repairs and maintenance	264,449	131,717
Professional services	235,232	180,805
Communications and information services	170,667	296,104
Security	160,590	150,463
Transportation	119,827	77,749
Stationery and office supplies	97,355	51,613
Cash delivery services	76,134	57,037
Business trips	69,266	84,032
Utilities	65,709	81,342
Social and corporate events	59,898	46,705
Postal service expenses	48,111	16,498
Other	506,991	186,488
	<b>5,719,713</b>	<b>4,551,878</b>

## 13 Income tax (expense) benefit

	<b>2014</b> <b>KZT'000</b>	<b>2013</b> <b>KZT'000</b>
Current year tax (expense) benefit	(66,533)	12,400
Current tax overprovided in prior periods	-	52,362
Deferred taxation movement due to origination and reversal of temporary differences and movement in valuation allowance	(195,679)	682,890
<b>Total income tax (expense) benefit</b>	<b>(262,212)</b>	<b>747,652</b>

In 2014, the applicable tax rate for current and deferred tax is 20% (2013: 20%).

## 13 Income tax (expense) benefit, continued

### Reconciliation of effective tax rate for the year ended 31 December:

	2014 KZT'000	%	2013 KZT'000	%
<b>Profit (loss) before income tax from continuing operations</b>	<b>2,047,606</b>	<b>100.0</b>	<b>(34,093,231)</b>	<b>(100.0)</b>
Income tax at the applicable tax rate	(409,521)	(20.0)	6,818,646	20.0
Non-taxable income	335,397	16.4	221,255	0.7
Change in unrecognised deferred tax assets	(188,088)	(9.2)	(1,664,973)	(4.9)
Reduction of previously unrecognised deferred tax asset	-	-	(4,627,276)	(13.6)
	<b>(262,212)</b>	<b>(12.8)</b>	<b>747,652</b>	<b>2.2</b>

### 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 partially 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 law and regulations that adversely affect the Group's ability to claim the deductions in future periods. These future tax benefits are partially recognised due to uncertainties concerning their realisation.

The deductible temporary differences do not expire under current tax legislation. The tax loss carry-forwards expire in 2020-2021.

Movements in temporary differences during the years ended 31 December 2014 and 2013 are presented as follows.

KZT'000	Balance 1 January 2014	Recognised in profit or loss	Recognised in equity	Balance 31 December 2014
Financial instruments at fair value through profit or loss	-	(271,615)	-	(271,615)
Property, equipment and intangible assets	(121,551)	61,302	(247,720)	(307,969)
Loans to customers	1,554,880	-	-	1,554,880
Other assets	374,548	(123,655)	-	250,893
Interest payable	351,319	(325,363)	-	25,956
Other liabilities	79,414	11,982	-	91,396
Tax losses carried forward	10,029,472	639,758	-	10,669,230
	<b>12,268,082</b>	<b>(7,591)</b>	<b>(247,720)</b>	<b>12,012,771</b>
Unrecognised deferred tax asset	(8,651,811)	(188,088)	-	(8,839,899)
	<b>3,616,271</b>	<b>(195,679)</b>	<b>(247,720)</b>	<b>3,172,872</b>

### 13 Income tax (expense) benefit, continued

KZT'000	Balance 1 January 2013	Recognised in profit or loss – continuing operations	Recognised in profit or loss – discontinued operations	Balance 31 December 2013
Property, equipment and intangible assets	(137,482)	15,931	-	(121,551)
Loans to customers	(6,938,831)	8,493,711	-	1,554,880
Other assets	-	374,548	-	374,548
Interest payable	-	351,319	-	351,319
Other liabilities	35,507	86,645	(42,738)	79,414
Tax losses carried forward	17,003,763	(6,974,291)	-	10,029,472
	<b>9,962,957</b>	<b>2,347,863</b>	<b>(42,738)</b>	<b>12,268,082</b>
Unrecognised deferred tax asset	(6,986,838)	(1,664,973)	-	(8,651,811)
	<b>2,976,119</b>	<b>682,890</b>	<b>(42,738)</b>	<b>3,616,271</b>

#### Unrecognised deferred tax asset

As at 31 December 2014 a deferred tax asset of KZT 8,839,899 thousand (31 December 2013: KZT 8,651,811 thousand) relating to tax loss carry-forwards was not recognised due to uncertainties concerning its realisation.

### 14 Cash and cash equivalents

	2014 KZT'000	2013 KZT'000
<b>Cash on hand</b>	<b>11,300,610</b>	<b>8,432,228</b>
<b>Nostro accounts with the NBRK</b>	<b>3,271,871</b>	<b>4,361,245</b>
<b>Nostro accounts with other banks</b>		
rated AA- to AA+	6,127,139	3,809,677
rated A- to A+	5,228,227	518,410
rated BBB+	309,703	17,917
rated from BB- to BB+	553,003	39,011
rated from B- to B+	169,369	947,579
not rated	20,703	19,597
<b>Total nostro accounts with other banks</b>	<b>12,408,144</b>	<b>5,352,191</b>
<b>Cash equivalents</b>		
<b>Term deposits with other banks</b>		
rated from BB- to BB+	375,972	1,710,617
rated from B- to B+	-	245,000
<b>Total term deposits with other banks</b>	<b>375,972</b>	<b>1,955,617</b>
<b>Reverse repurchase agreements</b>	<b>7,795,396</b>	<b>9,369,866</b>
<b>Total cash equivalents</b>	<b>8,171,368</b>	<b>11,325,483</b>
<b>Total cash and cash equivalents</b>	<b>35,151,993</b>	<b>29,471,147</b>

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

No cash and cash equivalents are impaired or past due.

In December 2014 and 2013 the Group concluded reverse repurchase agreements on the "automatic repo" market on the Kazakhstan Stock Exchange in the amount of KZT 7,795,396 thousand and KZT 9,369,866 thousand maturing in January 2015 and 2014, respectively.

## 14 Cash and cash equivalents, continued

### Collateral

As at 31 December 2014 and 2013 amounts receivable under reverse repurchase agreements were collateralised by the following securities:

	<b>2014</b> <b>KZT'000</b>	<b>2013</b> <b>KZT'000</b>
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	7,824,655	9,988,331
Bonds of KazTransOil JSC	-	2,858
	<b>7,824,655</b>	<b>9,991,189</b>

As at 31 December 2014 the Group has one bank (31 December 2013: one bank), whose balance exceeds 10% of equity. The gross value of this balance as at 31 December 2014 is KZT 6,124,192 thousand (31 December 2013: KZT 4,361,245 thousand).

### Minimum reserve requirements

In accordance with regulations issued by the NBRK, minimum reserve requirements are calculated as a total of specified proportions of different groups of banks liabilities. Banks are required to comply with these requirements by maintaining average reserve assets (local currency cash and NBRK balances) equal or in excess of the average minimum requirements.

As at 31 December 2014 the minimum reserve is KZT 5,604,796 thousand (31 December 2013: KZT 2,737,638 thousand).

## 15 Financial instruments at fair value through profit or loss

	<b>2014</b> <b>KZT'000</b>	<b>2013</b> <b>KZT'000</b>
<b>Debt instruments</b>		
<b>Government bonds</b>		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	1,140,801	1,154,863
Russian Government eurobonds	26,567	49,320
<b>Total government bonds</b>	<b>1,167,368</b>	<b>1,204,183</b>
<b>Equity investments</b>		
Corporate shares	5,897	7,372
Global depository receipts on shares	130	88
<b>Total equity investments</b>	<b>6,027</b>	<b>7,460</b>
<b>Derivative financial instruments</b>		
Foreign currency contracts	1,875,814	-
<b>Total derivative financial instruments</b>	<b>1,875,814</b>	<b>-</b>
	<b>3,049,209</b>	<b>1,211,643</b>

Financial instruments at fair value through profit or loss comprise financial instruments held for trading.

No financial assets at fair value through profit or loss are past due.



## 15 Financial instruments at fair value through profit or loss, continued

### Derivative financial instruments

The Group had the following derivative financial instruments as at 31 December 2014:

Type of instrument	Notional amount	Maturity	Payments to be made by Group	Payments to be received by Group	Fair value asset	Fair value liability
Foreign currency swap	USD 110,000,000	25/09/2015- 24/10/2015	KZT 19,975,950 thousand at maturity	USD 110,000,000 at maturity	1,946,406	-
Foreign currency swap	USD 225,000,000	07/01/2015	KZT 41,028,550 thousand at maturity	USD 225,000,000 at maturity	-	-
Foreign currency swap	USD 8,784,000	22/05/2015 – 27/06/2015	USD 8,784,000 at maturity	KZT 1,530,000 thousand at maturity	-	(70,592)

At 31 December 2014, derivative financial instruments include 5 currency swaps agreements signed in 2014 with the NBRK, under which the Group should deliver KZT 19,975,950 thousand in 2015 in exchange for USD 110,000 thousand. Under these agreements the Group prepaid a premium of KZT 599,279 thousand, which equates to 3% per annum in KZT of the principal amount at inception. These agreements have an early withdrawal option for the NBRK. As at 31 December 2014 the fair value of the swaps amounted to KZT 1,946,406 thousand.

As at 31 December 2014, derivative financial instruments include a 7-day currency swap agreements signed on 31 December 2014 with the NBRK to deliver KZT 41,028,550 thousand. The Group shall pay 15% p.a. in arrears. As at 31 December 2014 the fair value of the 7-day swap amounted to nil.

## 16 Available-for-sale financial assets

	<b>2014</b> <b>KZT'000</b>	<b>2013</b> <b>KZT'000</b>
<b>Debt instruments</b>		
<b>Government bonds</b>		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	20,798,089	24,160,175
Government bonds of other countries (rated A to AAA)	206,696	1,150,982
Russian Government eurobonds	131,199	315,508
<b>Total government bonds</b>	<b>21,135,984</b>	<b>25,626,665</b>
<b>Bonds of corporations and financial institutions</b>		
rated AAA	59,030	488,048
rated AA- to AA+	71,169	1,009,793
rated A- to A+	36,476	1,682,333
rated from BBB- to BBB+	8,601,556	5,889,921
rated from BB- to BB+	2,552,951	3,009,397
rated from B- to B+	408,619	815,635
rated below B-	150,376	129,642
<b>Total bonds of corporations and financial institutions</b>	<b>11,880,177</b>	<b>13,024,769</b>
<b>Equity instruments</b>		
Global depositary receipts on shares	17,812	-
Corporate shares	881	8,428
<b>Total equity instruments</b>	<b>18,693</b>	<b>8,428</b>
	<b>33,034,854</b>	<b>38,659,862</b>

The credit ratings are presented by reference to the credit ratings of Standard & Poor's or other agencies converted into Standard & Poor's scale.

### Collateral

As at 31 December 2014, the fair value of the treasury bills of the Ministry of Finance of the Republic of Kazakhstan that collateralising amounts payable under repurchase agreements is KZT 3,809,887 thousand (31 December 2013: KZT 9,000 thousand) (Note 26).

## 17 Deposits and balances with banks and other financial institutions

	<b>2014</b>	<b>2013</b>
	<b>KZT'000</b>	<b>KZT'000</b>
Conditional deposit with NBRK	7,114,610	-
Other deposits and balances:		
rated A- to A+	1,059,736	278,849
rated from BB- to BB+	145,976	723,257
rated from B- to B+	1,506,060	1,341,953
	<b>9,826,382</b>	<b>2,344,059</b>

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

Conditional deposit with the NBRK consists of:

- funds of KZT 4,000,000 thousand received from Development Bank of Kazakhstan ("DBK") in accordance with the loan agreement. Funds will be distributed to corporate businesses on preferential terms. These funds may be withdrawn from the conditional deposit only after approval of DBK.
- funds of KZT 3,114,610 thousand received from "Damu" Entrepreneurship Development Fund JSC ("Damu") in accordance with the loan agreements. Funds will be distributed to medium and small businesses on preferential terms. These funds may be withdrawn from the conditional deposit only after approval of Damu.

### Concentration of deposits and balances with banks and other financial institutions

As at 31 December 2014 the Group has one bank (31 December 2013: nil), whose balance exceeds 10% of equity. The gross value of this balance as at 31 December 2014 is KZT 7,114,610 thousand.

## 18 Loans to customers

	<b>2014</b>	<b>2013</b>
	<b>KZT'000</b>	<b>KZT'000</b>
<b>Loans to corporate customers</b>		
Loans to large corporates	155,300,667	133,638,647
Loans to small and medium size companies	57,462,513	59,333,521
<b>Total loans to corporate customers</b>	<b>212,763,180</b>	<b>192,972,168</b>
<b>Loans to retail customers</b>		
Consumer loans	39,306,491	32,403,886
Mortgage loans	8,915,814	9,154,032
Credit cards	296,739	361,092
<b>Total loans to retail customers</b>	<b>48,519,044</b>	<b>41,919,010</b>
<b>Gross loans to customers</b>	<b>261,282,224</b>	<b>234,891,178</b>
Impairment allowance	(70,525,694)	(83,158,262)
<b>Net loans to customers</b>	<b>190,756,530</b>	<b>151,732,916</b>

## 18 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:

	<b>Loans to corporate customers KZT'000</b>	<b>Loans to retail customers KZT'000</b>	<b>Total KZT'000</b>
Balance at the beginning of the year	73,547,768	9,610,494	83,158,262
Net (recovery) charge	(1,263,836)	9,085,952	7,822,116
Write-offs	(23,852,359)	(1,525,984)	(25,378,343)
Effect of foreign currency translation	4,022,370	901,289	4,923,659
<b>Balance at the end of the year</b>	<b>52,453,943</b>	<b>18,071,751</b>	<b>70,525,694</b>

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

	<b>Loans to corporate customers KZT'000</b>	<b>Loans to retail customers KZT'000</b>	<b>Total KZT'000</b>
Balance at the beginning of the year	57,993,771	4,403,198	62,396,969
Net charge	32,462,269	5,179,640	37,641,909
Write-offs	(17,419,897)	-	(17,419,897)
Effect of foreign currency translation	511,625	27,656	539,281
<b>Balance at the end of the year</b>	<b>73,547,768</b>	<b>9,610,494</b>	<b>83,158,262</b>

## 18 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:

	<b>2014</b>	<b>2013</b>
	<b>KZT'000</b>	<b>KZT'000</b>
<b>Loans corporate customers</b>		
<b>Loans to large corporates</b>		
Loans which are not individually impaired	67,526,759	48,958,946
Standard not overdue		
Overdue loans:		
- overdue less than 90 days	3,025,924	3,043,267
- overdue more than 1 year	5,875,141	3,713,134
Total loans which are not individually impaired	<b>76,427,824</b>	<b>55,715,347</b>
Impaired or overdue loans:		
- not overdue	45,566,269	40,808,872
- overdue less than 90 days	4,027,302	4,430,687
- overdue more than 90 days and less than 1 year	12,235,139	5,980,270
- overdue more than 1 year	17,044,133	26,703,471
Total impaired or overdue loans	<b>78,872,843</b>	<b>77,923,300</b>
<b>Total loans to large corporates</b>	<b>155,300,667</b>	<b>133,638,647</b>
Impairment allowance on loans to large corporates	(42,559,595)	(55,450,468)
<b>Total loans to large corporates, net of impairment allowance</b>	<b>112,741,072</b>	<b>78,188,179</b>
<b>Loans to small and medium size companies</b>		
Loans which are not individually impaired		
Standard not overdue	28,404,843	20,404,404
Overdue loans:		
- overdue less than 90 days	916,465	1,833,353
- overdue more than 90 days and less than 1 year	4,661,381	1,286,483
- overdue more than 1 year	3,329,175	6,971,410
Total loans which are not individually impaired	<b>37,311,864</b>	<b>30,495,650</b>
Impaired or overdue loans:		
- not overdue	6,177,092	11,036,557
- overdue less than 90 days	3,337,695	231,692
- overdue more than 90 days and less than 1 year	4,088,451	2,747,296
- overdue more than 1 year	6,547,411	14,822,326
Total impaired or overdue loans	<b>20,150,649</b>	<b>28,837,871</b>
<b>Total loans to small and medium size companies</b>	<b>57,462,513</b>	<b>59,333,521</b>
Impairment allowance on loans to small and medium size companies	(9,894,348)	(18,097,300)
<b>Total loans to small and medium size companies, net of impairment allowance</b>	<b>47,568,165</b>	<b>41,236,221</b>
<b>Total loans to corporate customers</b>	<b>212,763,180</b>	<b>192,972,168</b>
Impairment allowance on loans corporate customers	(52,453,943)	(73,547,768)
<b>Total loans to corporate customers</b>	<b>160,309,237</b>	<b>119,424,400</b>

## 18 Loans to customers, continued

### (a) Credit quality of loans to customers, continued

	<b>2014</b> <b>KZT'000</b>	<b>2013</b> <b>KZT'000</b>
<b>Loans to retail customers</b>		
<b>Consumer loans</b>		
- not overdue	20,027,518	17,304,850
- overdue less than 30 days	586,867	1,083,705
- overdue 30-89 days	1,202,203	919,083
- overdue 90-179 days	619,763	605,087
- overdue more than 180 days	16,870,140	12,491,161
<b>Total consumer loans</b>	<b>39,306,491</b>	<b>32,403,886</b>
Impairment allowance on consumer loans	(16,951,509)	(8,487,600)
<b>Total consumer loans, net of impairment allowance</b>	<b>22,354,982</b>	<b>23,916,286</b>
<b>Mortgage loans</b>		
- not overdue	6,680,132	6,561,322
- overdue less than 30 days	309,022	169,187
- overdue 30-89 days	147,933	147,064
- overdue 90-179 days	128,357	43,561
- overdue more than 180 days	1,650,370	2,232,898
<b>Total mortgage loans</b>	<b>8,915,814</b>	<b>9,154,032</b>
Impairment allowance on mortgage loans	(974,550)	(974,555)
<b>Total mortgage loans, net of impairment allowance</b>	<b>7,941,264</b>	<b>8,179,477</b>
<b>Credit cards</b>		
- not overdue	114,779	183,162
- overdue less than 30 days	8,210	-
- overdue 30-89 days	24,486	28,904
- overdue 90-179 days	39,869	687
- overdue more than 180 days	109,395	148,339
<b>Total credit cards</b>	<b>296,739</b>	<b>361,092</b>
Impairment allowance on credit cards	(145,692)	(148,339)
<b>Total cards, net of impairment allowance</b>	<b>151,047</b>	<b>212,753</b>
<b>Total loans to retail customers</b>	<b>48,519,044</b>	<b>41,919,010</b>
Impairment allowance on loans to retail customers	(18,071,751)	(9,610,494)
<b>Total loans to retail customers, net of impairment allowance</b>	<b>30,447,293</b>	<b>32,308,516</b>
<b>Total loans to customers</b>	<b>261,282,224</b>	<b>234,891,178</b>
Impairment allowance on loans to customers	(70,525,694)	(83,158,262)
<b>Total loans to customers, net of impairment allowance</b>	<b>190,756,530</b>	<b>151,732,916</b>

## **18 Loans to customers, continued**

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

#### **(i) *Loans to corporate customers***

The Group estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for loans with individual signs of impairment and based on its past loss experience for portfolios of loans which are not individually impaired.

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

- historic annual loss rate of 4.59% based on historical loss experience and an emergence period of 5 months
- a discount of between 10% and 20% to the originally appraised value if the property pledged is sold
- a delay of 12 months in obtaining proceeds from the foreclosure of 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 one percent, the impairment allowance on loans to corporate customers as at 31 December 2014 would be KZT 1,603,092 thousand lower/higher (31 December 2013: KZT 1,194,244 thousand lower/higher).

#### **(ii) *Loans to retail customers***

The Group estimates loan impairment for loans to retail customers based on its past historical loss experience on each type 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
- a discount of between 10% and 20% to the annually appraised value if the property pledged is sold
- a delay of twelve months in obtaining proceeds from the foreclosure of 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 minus three percent, the impairment allowance on loans to retail customers as at 31 December 2014 would be KZT 913,419 thousand lower/higher (31 December 2013: KZT 969,255 thousand).

## 18 Loans to customers, continued

### (c) Analysis of collateral and other credit enhancements

#### (i) Loans to corporate customers

Loans to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Group generally requests corporate borrowers to provide it.

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers, 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
<b>Loans which are not individually impaired</b>			
Real estate	59,849,475	47,190,467	12,659,008
Goods in turnover	8,495,178	6,063,945	2,431,233
Share in capital	7,003,905	7,003,905	-
Equipment	6,282,639	4,917,364	1,365,275
Cash and deposits	3,885,104	3,885,104	-
Motor vehicles	3,878,775	3,068,015	810,760
No collateral or other credit enhancement	21,132,244	-	-
<b>Total loans which are not individually impaired</b>	<b>110,527,320</b>	<b>72,128,800</b>	<b>17,266,276</b>
<b>Overdue or impaired loans</b>			
Real estate	33,078,732	16,775,620	16,303,112
Rights of claim under future construction partnership agreements	6,629,781	6,629,781	-
Equipment	4,813,497	4,303,297	510,200
Motor vehicles	1,064,044	348,676	715,368
Goods in turnover	252,597	86,876	165,721
Cash and deposits	1,400	1,400	-
No collateral or other credit enhancement	3,941,866	-	-
<b>Total overdue or impaired loans</b>	<b>49,781,917</b>	<b>28,145,650</b>	<b>17,694,401</b>
<b>Total loans to corporate customers</b>	<b>160,309,237</b>	<b>100,274,450</b>	<b>34,960,677</b>



**18 Loans to customers, continued****(c) Analysis of collateral and other credit enhancements, continued****(i) Loans to corporate customers, continued**

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
<b>Loans which are not individually impaired</b>				
Real estate	40,303,700	9,031,115	31,272,585	-
Corporate guarantees (unrated)	11,193,130	-	-	11,193,130
Share in capital	6,287,465	-	6,287,465	-
Goods in turnover	3,734,357	-	3,734,357	-
Equipment	3,502,627	888,200	2,614,427	-
Cash and deposits	1,168,333	1,168,333	-	-
Motor vehicles	868,519	-	868,519	-
Other	5,229	-	5,229	-
No collateral or other credit enhancement	8,775,180	-	-	-
<b>Total loans which are not individually impaired</b>	<b>75,838,540</b>	<b>11,087,648</b>	<b>44,782,582</b>	<b>11,193,130</b>
<b>Overdue or impaired loans</b>				
Real estate	29,619,027	23,319,587	6,299,440	-
Rights of claim under future construction partnership agreements	9,066,593	-	-	9,066,593
Equipment	1,071,137	880,001	191,136	-
Cash and deposits	891,752	891,752	-	-
Motor vehicles	45,040	42,373	2,667	-
Corporate guarantees (unrated)	26,786	-	-	26,786
No collateral or other credit enhancement	2,865,525	-	-	-
<b>Total overdue or impaired loans</b>	<b>43,585,860</b>	<b>25,133,713</b>	<b>6,493,243</b>	<b>9,093,379</b>
<b>Total loans to corporate customers</b>	<b>119,424,400</b>	<b>36,221,361</b>	<b>51,275,825</b>	<b>20,286,509</b>

The tables above excludes overcollateralisation.

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.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. 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. 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.

**18 Loans to customers, continued****(c) Analysis of collateral and other credit enhancements, continued****(i) Loans to corporate customers, continued***Collateral obtained*

During the year ended 31 December 2014, the Group obtained certain assets by taking possession of collateral for loans to corporate customers with a net carrying amount of KZT 1,835,685 thousand (31 December 2013: KZT 1,615,793 thousand). As at 31 December 2014, the carrying value of the repossessed collateral is KZT 4,347,755 thousand in foreclosed assets and KZT 1,651,812 thousand in investment property (31 December 2013: foreclosed assets of KZT 4,741,462 thousand) (Note 20).

**(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%. Consumer loans are generally secured by properties and in certain cases by assets including vehicles, cash deposits and guarantees. Credit card overdrafts are mostly not secured.

Management estimates that the impairment allowance would have been higher by KZT 1,466,481 thousand for mortgage loans, by KZT 2,686,079 thousand for consumer loans if collateral was not taken into account.

**(d) Industry and geographical analysis of the loan portfolio**

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

	<b>2014</b>	<b>2013</b>
	<b>KZT'000</b>	<b>KZT'000</b>
<b>Loans to corporate customers</b>		
Rental properties	42,593,097	32,489,835
Construction	24,709,394	22,469,420
Wholesale trade	21,901,463	17,663,243
Real estate	18,805,467	19,771,673
Agriculture	16,992,938	11,585,199
Food industry	16,641,251	14,456,724
Manufacturing	14,840,418	10,477,402
Publishing	10,199,766	10,245,606
Oil and gas	9,229,592	10,407,247
Retail trade	7,959,483	8,518,969
Hotels and restaurants	5,521,043	5,825,543
Mining	5,067,501	8,841,598
Transportation	2,663,854	2,082,334
Telecommunication	1,747,113	1,791,105
Entertainment	1,063,291	1,853,008
Financial intermediary	822,902	1,298,704
Pharmaceutics	255,089	1,385,620
Other	11,749,518	11,808,938
<b>Loans to retail customers</b>		
Consumer loans	39,306,491	32,403,886
Mortgage loans	8,915,814	9,154,032
Credit cards	296,739	361,092
	<b>261,282,224</b>	<b>234,891,178</b>
Impairment allowance	(70,525,694)	(83,158,262)
	<b>190,756,530</b>	<b>151,732,916</b>

## **18 Loans to customers, continued**

### **(e) Significant credit exposures**

As at 31 December 2014 the Group has ten borrowers or groups of connected borrowers (31 December 2013: twelve borrowers), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2014 is KZT 80,886,102 thousand (31 December 2013: KZT 86,489,641 thousand).

### **(f) Loan maturities**

The maturity of the loan portfolio is presented in Note 30(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

## 19 Property and equipment

KZT'000	<b>Land and buildings</b>	<b>Motor vehicles</b>	<b>Computer and banking equipment</b>	<b>Leasehold improvements</b>	<b>Other</b>	<b>Total</b>
<b>Cost/revalued amount</b>						
Balance at 1 January 2014	2,793,091	260,251	1,535,396	63,803	2,361,905	7,014,446
Additions	214,174	29,168	244,859	-	123,808	612,009
Disposals	(152,927)	(11,790)	(302,569)	-	(68,857)	(536,143)
Revaluation	1,238,601	-	-	-	-	1,238,601
Internal movements	-	-	(2,048)	-	2,048	-
<b>Balance at 31 December 2014</b>	<b>4,092,939</b>	<b>277,629</b>	<b>1,475,638</b>	<b>63,803</b>	<b>2,418,904</b>	<b>8,328,913</b>
<b>Depreciation</b>						
Balance at 1 January 2014	104,855	175,828	1,188,080	63,315	1,585,909	3,117,987
Depreciation for the year	68,989	34,718	114,535	389	223,752	442,383
Disposals	(152,927)	(5,587)	(294,603)	-	(68,857)	(521,974)
Internal movements	-	-	(2,047)	-	2,047	-
<b>Balance at 31 December 2014</b>	<b>20,917</b>	<b>204,959</b>	<b>1,005,965</b>	<b>63,704</b>	<b>1,742,851</b>	<b>3,038,396</b>
<b>Carrying amount</b>						
<b>At 31 December 2014</b>	<b>4,072,022</b>	<b>72,670</b>	<b>469,673</b>	<b>99</b>	<b>676,053</b>	<b>5,290,517</b>

## 19 Property and equipment, continued

KZT'000	Land and buildings	Motor vehicles	Computer and banking equipment	Leasehold improvements	Other	Total
<b>Cost/revalued amount</b>						
Balance at 1 January 2013	2,786,815	271,646	1,408,073	63,803	2,294,737	6,825,074
Additions	6,276	13,194	178,780	-	95,374	293,624
Disposals	-	(26,069)	(51,457)	-	(26,726)	(104,252)
Internal movements	-	1,480	-	-	(1,480)	-
<b>Balance at 31 December 2013</b>	<b>2,793,091</b>	<b>260,251</b>	<b>1,535,396</b>	<b>63,803</b>	<b>2,361,905</b>	<b>7,014,446</b>
<b>Depreciation</b>						
Balance at 1 January 2013	52,427	153,380	1,127,607	61,411	1,371,548	2,766,373
Depreciation for the year	52,428	36,488	101,814	1,904	235,854	428,488
Disposals	-	(14,856)	(41,341)	-	(20,677)	(76,874)
Internal movements	-	816	-	-	(816)	-
<b>Balance at 31 December 2013</b>	<b>104,855</b>	<b>175,828</b>	<b>1,188,080</b>	<b>63,315</b>	<b>1,585,909</b>	<b>3,117,987</b>
<b>Carrying amount</b>						
<b>At 31 December 2013</b>	<b>2,688,236</b>	<b>84,423</b>	<b>347,316</b>	<b>488</b>	<b>775,996</b>	<b>3,896,459</b>

There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during 2014 (2013: nil).

### Revalued assets

At 31 December 2014 land and buildings were revalued based on the results of an independent appraisal performed by “ATB Group” LLC.

The basis used for the appraisal is the market approach. The market approach is based on analysis of the results of comparable sales of similar buildings.

The fair values of the Group’s buildings are categorised into Level 2 of the fair value hierarchy.

The carrying value of land and buildings as at 31 December 2014, if the land and buildings would not have been revalued, would be KZT 1,862,541 thousand (31 December 2013: KZT 1,717,356 thousand).

## 20 Other assets

	2014 KZT'000	2013 KZT'000
Receivables from sale of loans	9,695,476	10,603,219
Other accounts receivable	472,475	589,502
Other investments	93,942	237,100
Insurance and reinsurance receivables	86,791	29,682
Accrued commission income	2,695	70,092
Discount on receivables from sale of loans	(1,816,980)	(2,605,015)
<b>Total other financial assets</b>	<b>8,534,399</b>	<b>8,924,580</b>
Foreclosed property	4,347,755	4,741,462
Investment property	1,651,812	-
Deferred expenses	304,319	312,073
Intangible assets	249,645	339,393
Taxes prepaid other than on income tax	121,597	168,691
Materials and supplies	115,521	109,348
Prepayments	84,624	188,419
Other	234,305	326,266
Impairment allowance	(16,262)	(540,864)
<b>Total other non-financial assets</b>	<b>7,093,316</b>	<b>5,644,788</b>
<b>Total other assets</b>	<b>15,627,715</b>	<b>14,569,368</b>

Receivables from sale of loans arose as a result of loans sale to 2 collector companies in October-November 2012. Receivables are repaid in instalments starting from October 2015 and have final maturity of December 2016.

The Group estimated the fair value of the receivables from sale of loans on initial recognition in 2012 that was estimated as the present value of all future cash receipts according to the repayment schedule discounted using market interest rate of 10.50%. In 2014, included in interest income is KZT 788,035 thousand (2013: KZT 771,691 thousand) of amortisation of the discount on receivables from sale of loans.

Foreclosed property comprises real estate collateral, primarily land plots, accepted by the Group in exchange for its rights and obligations under impaired loans. The Group has not yet determined the future use of this property, whether it is going to be sold or rented out.

### Analysis of movements in the discount on receivables from sale of loans and impairment allowance

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

	Discount on receivables from sale of loans KZT'000	Other non- financial assets KZT'000	Total KZT'000
Balance at the beginning of the year	2,605,015	540,864	3,145,879
Net charge	-	144,147	144,147
Write-offs	-	(668,749)	(668,749)
Effect of unwinding of discount	(788,035)	-	(788,035)
<b>Balance at the end of the year</b>	<b>1,816,980</b>	<b>16,262</b>	<b>1,833,242</b>

## 20 Other assets, continued

### Analysis of movements in the discount on receivables from sale of loans and impairment allowance, continued

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

	<b>Discount on receivables from sale of loans KZT'000</b>	<b>Other non- financial assets KZT'000</b>	<b>Total KZT'000</b>
Balance at the beginning of the year	1,263,359	389,737	1,653,096
Net charge	2,113,347	253,564	2,366,911
Write-offs	-	(111,544)	(111,544)
Effect of unwinding of discount	(771,691)	-	(771,691)
Effect of foreign currency translation	-	9,107	9,107
<b>Balance at the end of the year</b>	<b>2,605,015</b>	<b>540,864</b>	<b>3,145,879</b>

As at 31 December 2014 included in other assets are overdue receivables of KZT 202,834 thousand (31 December 2013: KZT 64,124 thousand), of which KZT 134,650 thousand (31 December 2013: KZT 17,524 thousand) are overdue for more than 90 days but less than one year and KZT 65,257 thousand (31 December 2013: KZT 4,399 thousand) are overdue for more than one year.

## 21 Loans from the Government of the Republic of Kazakhstan

The summary of loans from the Government of the Republic of Kazakhstan at 31 December 2014 and 2013 is presented below:

	<b>Issue date</b>	<b>Maturity</b>	<b>Interest rate</b>	<b>2014 KZT'000</b>	<b>2013 KZT'000</b>
“Damu” Entrepreneurship Development Fund JSC	14/08/2008 – 11/12/2014	25/11/2014 - 01/12/2034	2% - 8.5%	10,134,835	6,585,642
Development Bank of Kazakhstan JSC	10/12/2034	10/12/2034	2%	4,004,444	-
				<b>14,139,279</b>	<b>6,585,642</b>

The loans from the Government of the Republic of Kazakhstan comprised long-term loans from “Damu” Entrepreneurship Development Fund JSC that were received to finance small and medium enterprises and a long-term loan from Development Bank of Kazakhstan JSC to finance corporate business. Management of the Group believes that there are some other similar financial instruments and due to their specific nature, the loans from Damu and DBK represent a separate segment of borrowings from state companies to support companies operating in certain industries. As a result, the loans from Damu and DBK were received in an “arm’s length” transaction and, as such, the amount received under the loans represents the fair value of the loans on initial recognition.

## 22 Loans and deposits from banks and other financial institutions

	<b>2014 KZT'000</b>	<b>2013 KZT'000</b>
Deposits of local banks	3,129,778	-
Loans from other financial institutions	1,467,405	818,516
Vostro accounts	12,625	148,817
Loans from OECD based banks	-	80,731
	<b>4,609,808</b>	<b>1,048,064</b>

## 22 Loans and deposits from banks and other financial institutions, continued

Loans from other financial institutions represent liabilities towards Kazakh Mortgage Company JSC (KMC) on sold loans with a right on full recourse to the Group.

## 23 Current accounts and deposits from customers

	<b>2014</b> <b>KZT'000</b>	<b>2013</b> <b>KZT'000</b>
Current accounts and demand deposits		
- Corporate	46,711,195	44,811,426
- Retail	4,931,013	5,881,988
Term deposits		
- Corporate	67,315,073	50,983,087
- Retail	66,612,493	50,463,356
	<b>185,569,774</b>	<b>152,139,857</b>

As at 31 December 2014, the Group maintained customer deposit balances of KZT 6,157,380 thousand (31 December 2013: KZT 5,238,407 thousand) that serve as collateral for loans and unrecognised credit instruments granted by the Group.

As at 31 December 2014, the Group has 5 customers (31 December 2013: 4 customers), whose balances exceed 10% of equity. These balances as at 31 December 2014 are KZT 52,485,100 thousand (31 December 2013: KZT 24,625,146 thousand).

## 24 Debt securities issued

	<b>2014</b> <b>KZT'000</b>	<b>2013</b> <b>KZT'000</b>
Nominal	35,799,200	35,801,100
Discount	(1,567,682)	(1,802,790)
Accrued interest	697,672	702,041
	<b>34,929,190</b>	<b>34,700,351</b>

The summary of bond issues at 31 December 2014 and 2013 is presented below:

	Issue date	Maturity	Coupon rate	Effective rate	Carrying amount	
					31 December 2014 KZT'000	31 December 2013 KZT'000
KZT denominated bonds of the fourth issue *	26.07.2010	26.07.2016	7.0%	8.0%	16,068,455	15,936,590
KZT denominated bonds of the third issue *	05.06.2013	05.06.2023	7.0%	8.5%	13,737,146	13,631,895
KZT denominated bonds of the fifth issue *	24.01.2008	24.01.2015	inflation +1%	7.0%	5,123,589	5,131,866
					<b>34,929,190</b>	<b>34,700,351</b>

\* Quoted on KASE



## 25 Subordinated debt

	<b>2014</b>	<b>2013</b>
	<b>KZT'000</b>	<b>KZT'000</b>
Liability component of preference shares	2,268,859	2,268,859
Subordinated bonds	4,887,092	4,804,770
	<b>7,155,951</b>	<b>7,073,629</b>

As at 31 December 2014 and 31 December 2013 subordinated debt comprises quoted bonds and liability component of preference shares. In case of bankruptcy, the repayment of the subordinated debt would be made after repayment in full of all other liabilities of the Group but before repayment of the preference shares.

### (a) Preference shares

Holders of preference shares receive a minimum cumulative dividend of 10% per annum on the par value of their shareholding. The preference shares do not carry the right to vote unless the dividend is in arrears. All shares rank equally with regard to the Group's residual assets, except that preference shareholders participate only to the extent of the face value of the shares adjusted for any dividends in arrears. All preference shares were issued and fully paid at their par value of KZT 1,000.

During the year ended 31 December 2014, the Group accrued dividends on preference shares amounting to KZT 225,695 thousand (31 December 2013: KZT 225,695 thousand).

### (b) Subordinated bonds

The summary of bond issues at 31 December 2014 and 2013 is presented below:

	Issue date	Maturity	Coupon rate	Effective rate	Carrying amount	
					31 December 2014	31 December 2013
					KZT'000	KZT'000
KZT denominated bonds of the second issue *	18.05.2006	18.05.2016	7.5%	9.7%	4,887,092	4,804,770

\* Quoted on KASE

## 26 Amounts payable under repurchase agreements

	<b>2014</b>	<b>2013</b>
	<b>KZT'000</b>	<b>KZT'000</b>
Amounts payable under repurchase agreements	2,998,102	9,000
	<b>2,998,102</b>	<b>9,000</b>

### Collateral provided as security for liabilities

As at 31 December 2014 amounts payable under repurchase agreements were collateralised by available for sale financial instruments with a fair value of KZT 3,809,887 thousand (Note 16).

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

## 27 Other liabilities

	<b>2014</b>	<b>2013</b>
	<b>KZT'000</b>	<b>KZT'000</b>
Insurance liabilities	1,026,869	306,823
Payables on guarantees and letters of credit issued	706,417	24,356
Accrued operating expenses	29,042	49,357
<b>Total other financial liabilities</b>	<b>1,762,328</b>	<b>380,536</b>
Provision for guarantees and letters of credit issued	2,146,401	2,232,527
Prepayments on banking operations	900,817	1,702,654
Vacation reserve	473,901	400,877
Other taxes payable	210,235	108,644
Other non-financial liabilities	313,824	180,838
<b>Total other non-financial liabilities</b>	<b>4,045,178</b>	<b>4,625,540</b>
<b>Total other liabilities</b>	<b>5,807,506</b>	<b>5,006,076</b>

Movements in the provision for guarantees and letters of credit issued for the years ended 31 December 2014 and 2013 are as follows:

	<b>2014</b>	<b>2013</b>
	<b>KZT'000</b>	<b>KZT'000</b>
Balance at the beginning of the year	2,232,527	1,397,012
Net (recovery) charge	(147,074)	986,247
Discontinued operations (Note 37)	-	(166,478)
Recoveries	-	863
Effect of foreign currency translation	60,948	14,883
<b>Balance at the end of the year</b>	<b>2,146,401</b>	<b>2,232,527</b>

## 28 Share capital and reserves

### (a) Issued capital

As at 31 December 2014 and 2013, the authorised share capital comprises 13,375,557 ordinary shares and 300,000 preference shares. As at 31 December 2014 issued and outstanding share capital comprises 10,526,189 ordinary shares and 225,876 preference shares (31 December 2013: 10,526,728 ordinary shares and 225,876 preference shares). 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 meetings of the Bank.

### (b) Nature and purpose of reserves

#### Dynamic reserve

In accordance with the NBRK Resolution #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 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 tax deductible 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.

## 28 Share capital and reserves, continued

### (b) Nature and purpose of reserves, continued

In 2014 the dynamic reserve was temporarily fixed by the NBRK on the level recognised at 31 December 2013.

As at 31 December 2014 and 2013 the non-distributable dynamic reserve is KZT 4,380,918 thousand.

#### Reserve for general insurance risks

In 2014 the Group transferred KZT 103,421 thousand from reserve for general insurance risks to retained earnings due to the decrease of the calculated amount of stabilisation reserve as at 31 December 2014 (2013: KZT 18,272 thousand – from reserve for general insurance risks to retained earnings) as in accordance with the Regulation of NBRK on “Creating and maintaining insurance reserves” effective 1 January 2011 the Subsidiary Company of Nurbank JSC Insurance Company Nurpolicy LLC shall create stabilisation reserve for insurance products that demonstrate loss rates exceeding average loss rate for three preceding years.

#### Revaluation surplus for land and buildings

The revaluation surplus for land and buildings comprises the cumulative positive fair value of land and buildings, until the assets are derecognised or impaired.

#### Revaluation reserve for 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.

### (c) 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.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared. No dividends were declared for 2014 and 2013.

### (d) Treasury shares

At 31 December 2014 the Group held 1,237 of its own ordinary shares and 181 preference shares (31 December 2013: 698 ordinary shares and 181 preference shares).

## 29 Earnings (loss) per ordinary share

### Basic earnings (loss) per share

The calculation of earnings (loss) per share is based on the net profit (loss) for the year attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the year calculated as follows.

	<u>2014</u>	<u>2013</u>
Profit (loss) for the year attributable to equity holders of the Bank, in thousand of KZT	1,787,886	(32,316,502)
Weighted average number of ordinary shares for basic earnings (loss) per share	10,526,710	10,526,728
<b>Basic earnings (loss) per ordinary share, in KZT</b>	<b><u>169.84</u></b>	<b><u>(3,069.95)</u></b>

There are no potentially dilutive shares for the year ended 31 December 2014 (2013: nil).

## **30 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 Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman of the Board 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, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

### **(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 optimising the return on risk.

Overall authority for market risk is vested in the ALCO, which is chaired by the Chairman. Market risk limits are approved by ALCO based on recommendations of the Risk Department.

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

### **(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.

**30 Risk management, continued****(b) Market risk, continued****(i) Interest rate risk, continued****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	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
<b>31 December 2014</b>							
<b>ASSETS</b>							
Cash and cash equivalents	19,906,601	-	-	-	-	15,245,392	35,151,993
Financial instruments at fair value through profit or loss	6	-	1,875,814	26,567	1,140,795	6,027	3,049,209
Available-for-sale financial assets	796,116	429,364	770,595	18,285,533	12,734,553	18,693	33,034,854
Deposits and balances with banks and other financial institutions	1,020,280	27,397	588,810	-	-	8,189,895	9,826,382
Loans to customers	70,693,065	9,520,182	13,896,055	58,579,949	38,067,279	-	190,756,530
Other financial assets	-	-	-	-	-	8,534,399	8,534,399
	<b>92,416,068</b>	<b>9,976,943</b>	<b>17,131,274</b>	<b>76,892,049</b>	<b>51,942,627</b>	<b>31,994,406</b>	<b>280,353,367</b>
<b>LIABILITIES</b>							
Loans from the Government of the Republic of Kazakhstan	829,564	105,321	647,027	3,326,597	9,230,770	-	14,139,279
Loans and deposits from banks and other financial institutions	1,129,778	1,000,000	1,000,000	1,467,404	-	12,626	4,609,808
Current accounts and deposits from customers	50,344,170	15,376,717	54,547,497	4,570,150	1,704,260	59,026,980	185,569,774
Debt securities issued	5,599,286	75,236	-	15,592,758	13,661,910	-	34,929,190
Subordinated debt	-	43,603	-	4,843,489	2,268,859	-	7,155,951
Amounts payable under repurchase agreements	2,998,102	-	-	-	-	-	2,998,102
Other financial liabilities	-	-	-	-	-	1,762,328	1,762,328
	<b>60,900,900</b>	<b>16,600,877</b>	<b>56,194,524</b>	<b>29,800,398</b>	<b>26,865,799</b>	<b>60,801,934</b>	<b>251,164,432</b>
	<b>31,515,168</b>	<b>(6,623,934)</b>	<b>(39,063,250)</b>	<b>47,091,651</b>	<b>25,076,828</b>	<b>(28,807,528)</b>	<b>29,188,935</b>

**30 Risk management, continued****(b) Market risk, continued****(i) Interest rate risk, continued****Interest rate gap analysis, continued**

<b>KZT'000</b>	<b>Less than 3 months</b>	<b>3-6 months</b>	<b>6-12 months</b>	<b>1-5 years</b>	<b>More than 5 years</b>	<b>Non-interest bearing</b>	<b>Carrying amount</b>
<b>31 December 2013</b>							
<b>ASSETS</b>							
Cash and cash equivalents	15,134,857	-	-	-	-	14,336,290	29,471,147
Financial instruments at fair value through profit or loss	46,570	-	4,022	48,203	1,105,388	7,460	1,211,643
Available-for-sale financial assets	4,426,104	1,430,672	127,013	16,276,290	16,391,355	8,428	38,659,862
Deposits and balances with banks and other financial institutions	681	1,341,271	-	717,306	-	284,801	2,344,059
Loans to customers	55,093,685	9,222,172	13,319,795	53,755,875	20,341,389	-	151,732,916
Other financial assets	177,199	-	-	57,207	-	8,690,174	8,924,580
	<b>74,879,096</b>	<b>11,994,115</b>	<b>13,450,830</b>	<b>70,854,881</b>	<b>37,838,132</b>	<b>23,327,153</b>	<b>232,344,207</b>
<b>LIABILITIES</b>							
Loans from the Government of the Republic of Kazakhstan	1,182,132	60,817	1,089,793	3,627,900	625,000	-	6,585,642
Loans and deposits from banks and other financial institutions	230,242	243	87,872	38,642	691,065	-	1,048,064
Current accounts and deposits from customers	38,575,617	14,248,792	34,845,888	19,466,026	1,890,743	43,112,791	152,139,857
Debt securities issued	5,605,752	72,917	-	15,462,704	13,558,978	-	34,700,351
Subordinated debt	-	43,663	-	4,761,107	2,268,859	-	7,073,629
Amounts payable under repurchase agreements	9,000	-	-	-	-	-	9,000
Other financial liabilities	-	-	-	-	-	380,536	380,536
	<b>45,602,743</b>	<b>14,426,432</b>	<b>36,023,553</b>	<b>43,356,379</b>	<b>19,034,645</b>	<b>43,493,327</b>	<b>201,937,079</b>
	<b>29,276,353</b>	<b>(2,432,317)</b>	<b>(22,572,723)</b>	<b>27,498,502</b>	<b>18,803,487</b>	<b>(20,166,174)</b>	<b>30,407,128</b>

**30 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 as at 31 December 2014 and 2013. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2014			2013		
	Average effective interest rate, %			Average effective interest rate, %		
	KZT	USD	Other currencies	KZT	USD	Other currencies
<b>Interest bearing assets</b>						
Cash and cash equivalents	18.96	0.27	4.47	4.79	0.14	2.58
Financial instruments at fair value through profit or loss	4.47	-	7.00	4.40	-	7.00
Available-for-sale financial assets	5.60	5.49	4.09	4.76	4.59	2.81
Deposits and balances with banks and other financial institutions	4.20	4.29	-	6.77	-	-
Loans to customers	14.32	10.27	9.01	14.84	11.72	12.92
<b>Interest bearing liabilities</b>						
Loans from the Government of the Republic of Kazakhstan	3.72	-	-	7.87	-	-
Loans and deposits from banks and other financial institutions						
- Loans	10.96	3.40	2.19	11.09	-	1.87
- Term deposits	8.00	-	-	-	-	-
Current accounts and deposits from customers						
- Current accounts and demand deposits	1.83	0.01	-	3.66	-	-
- Term deposits	7.78	4.90	5.38	6.99	7.11	6.84
Debt securities issued	8.07	-	-	8.08	-	-
Subordinated debt	9.72	-	-	9.72	-	-
Amounts payable under repurchase agreements	15.79	-	-	9.72	-	-

**Interest rate sensitivity analysis**

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 rates (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:

	2014	2013
	KZT'000	KZT'000
100 bp parallel fall	109,360	147,627
100 bp parallel rise	(109,360)	(147,627)

### 30 Risk management, continued

#### (b) Market risk, continued

##### (i) Interest rate risk, continued

###### *Interest rate sensitivity analysis, continued*

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 through 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 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 fall	1,272,610	1,171,879	1,763,643	1,704,135
100 bp parallel rise	(1,254,627)	(1,247,795)	(1,616,285)	(1,560,470)

##### (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:

	USD KZT'000	EUR KZT'000	Other currencies KZT'000	Total KZT'000
<b>ASSETS</b>				
Cash and cash equivalents	10,899,946	2,505,113	3,097,356	16,502,415
Financial instruments at fair value through profit or loss	130	-	26,567	26,697
Available-for-sale financial assets	7,382,787	761,734	99,931	8,244,452
Deposits and balances with banks and other financial institutions	1,466,606	729,682	-	2,196,288
Loans to customers	19,111,035	999,743	-	20,110,778
Other financial assets	127,395	60,036	8,562	195,993
<b>Total assets</b>	<b>38,987,899</b>	<b>5,056,308</b>	<b>3,232,416</b>	<b>47,276,623</b>
<b>LIABILITIES</b>				
Loans and deposits from banks and other financial institutions	726	204	5	935
Current accounts and deposits from customers	93,974,885	4,772,006	3,390,773	102,137,664
Other financial liabilities	75,344	1,060	1,271	77,675
<b>Total liabilities</b>	<b>94,050,955</b>	<b>4,773,270</b>	<b>3,392,049</b>	<b>102,216,274</b>
<b>Net position</b>	<b>(55,063,056)</b>	<b>283,038</b>	<b>(159,633)</b>	<b>(54,939,651)</b>
The effect of derivatives held for risk management	59,485,488	-	-	59,485,488
<b>Net position after derivatives held for risk management purposes</b>	<b>4,422,432</b>	<b>283,038</b>	<b>(159,633)</b>	<b>4,545,837</b>



### 30 Risk management, continued

#### (b) Market risk, continued

##### (ii) Currency risk, continued

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

	USD KZT'000	EUR KZT'000	Other currencies KZT'000	Total KZT'000
<b>ASSETS</b>				
Cash and cash equivalents	5,359,286	382,725	527,486	6,269,497
Financial instruments at fair value through profit or loss	-	-	49,320	49,320
Available-for-sale financial assets	7,094,122	2,722,483	221,566	10,038,171
Deposits and balances with banks and other financial institutions	278,849	-	-	278,849
Loans to customers	20,627,460	1,033,955	-	21,661,415
Other financial assets	159,669	-	2	159,671
<b>Total assets</b>	<b>33,519,386</b>	<b>4,139,163</b>	<b>798,374</b>	<b>38,456,923</b>
<b>LIABILITIES</b>				
Loans and deposits from banks and other financial institutions	89,688	138,172	21	227,881
Current accounts and deposits from customers	36,817,455	3,040,219	800,104	40,657,778
Other financial liabilities	4,477	447	875	5,799
<b>Total liabilities</b>	<b>36,911,620</b>	<b>3,178,838</b>	<b>801,000</b>	<b>40,891,458</b>
<b>Net position</b>	<b>(3,392,234)</b>	<b>960,325</b>	<b>(2,626)</b>	<b>(2,434,535)</b>
The effect of derivatives held for risk management	6,143,590	(1,875,770)	(279,510)	3,988,310
<b>Net position after derivatives held for risk management purposes</b>	<b>2,751,356</b>	<b>(915,445)</b>	<b>(282,136)</b>	<b>1,553,775</b>

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
20% appreciation of USD against KZT	707,589	440,217
20% appreciation of EUR against KZT	45,286	(146,471)
20% appreciation of other currencies against KZT	(25,541)	(45,142)

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.

## 30 Risk management, continued

### (c) Credit risk

Credit risk is 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.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Department and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

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 Lending Department through the use of scoring models and application data verification procedures developed together with the Risk Department.

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

## 30 Risk management, continued

### (c) Credit risk, continued

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

	<b>2014</b>	<b>2013</b>
	<b>KZT'000</b>	<b>KZT'000</b>
<b>ASSETS</b>		
Cash and cash equivalents	23,851,383	21,038,919
Financial instruments at fair value through profit or loss	3,043,182	1,204,183
Available-for-sale financial assets	33,016,161	38,651,434
Deposits and balances with banks and other financial institutions	9,826,382	2,344,059
Loans to customers	190,756,530	151,732,916
Other financial assets	8,534,399	8,924,580
<b>Total maximum exposure</b>	<b>269,028,037</b>	<b>223,896,091</b>

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to Note 18.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 32.

As at 31 December 2014 and 2013 the Group did not have debtors or groups of connected debtors, credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

#### **Offsetting financial assets and financial liabilities**

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's consolidated statement of financial position or
- 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.

Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements.

The Group conducts derivative transactions that are not transacted on the exchange through a central counterparty. Management believes that such settlements are, in effect, equivalent to net settlement and that, the Group meets the net settlement criterion as this gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that the Group will process receivables and payables in a single settlement process or cycle.

The Group receives and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives
- sale and repurchase, and reverse sale and repurchase agreements.

This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

### 30 Risk management, continued

#### (c) Credit risk, continued

##### Offsetting financial assets and financial liabilities, continued

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	
	Amounts receivable under reverse repurchase agreements	7,795,396	-	7,795,396	(7,795,396)	-	-
	Loans to customers	20,126,595	-	20,126,595	-	(4,086,251)	16,040,344
	<b>Total financial assets</b>	<b>27,921,991</b>	<b>-</b>	<b>27,921,991</b>	<b>(7,795,396)</b>	<b>(4,086,251)</b>	<b>16,040,344</b>
	Current accounts and deposits from customers	(4,086,251)	-	(4,086,251)	-	4,086,251	-
	Amounts payable under repurchase agreements	(2,998,102)	-	(2,998,102)	2,998,102	-	-
	<b>Total financial liabilities</b>	<b>(7,084,353)</b>	<b>-</b>	<b>(7,084,353)</b>	<b>2,998,102</b>	<b>4,086,251</b>	<b>-</b>

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements 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	
	Amounts receivable under reverse repurchase agreements	9,369,866	-	9,369,866	(9,369,866)	-	-
	Loans to customers	7,840,776	-	7,840,776	-	(2,100,925)	5,739,851
	<b>Total financial assets</b>	<b>17,210,642</b>	<b>-</b>	<b>17,210,642</b>	<b>(9,369,866)</b>	<b>(2,100,925)</b>	<b>5,739,851</b>
	Current accounts and deposits from customers	(2,100,925)	-	(2,100,925)	-	2,100,925	-
	Amounts payable under repurchase agreements	(9,000)	-	(9,000)	9,000	-	-
	<b>Total financial liabilities</b>	<b>(2,109,925)</b>	<b>-</b>	<b>(2,109,925)</b>	<b>9,000-</b>	<b>2,100,925</b>	<b>-</b>

## **30 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 honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board.

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 Treasury Department. 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, 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 assets, liability or credit related commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

**30 Risk management, continued****(d) Liquidity risk, continued**

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Overdue	No maturity	Total gross amount inflow (outflow)	Carrying amount
<b>Non-derivative assets</b>									
Cash and cash equivalents	35,172,857	-	-	-	-	-	-	35,172,857	35,151,993
Financial instruments at fair value through profit or loss	-	6	-	-	1,485,262	-	6,027	1,491,295	1,173,395
Available-for-sale financial assets	232,199	787,500	3,518,190	1,307,898	35,151,756	-	18,693	41,016,236	33,034,854
Deposits and balances with banks and other financial institutions	735,447	676,388	39,188	1,291,010	7,114,610	-	-	9,856,643	9,826,382
Loans to customers	5,771,391	7,384,530	9,931,408	15,892,884	148,452,784	57,691,779	-	245,124,776	190,756,530
Other financial assets	-	-	184,260	3,859,916	6,307,203	-	-	10,351,379	8,534,399
<b>Derivative assets</b>									
Net settled derivatives	-	-	(70,592)	1,946,406	-	-	-	1,875,814	1,875,814
<i>Gross settled derivatives</i>									
- Inflow	41,028,750	-	1,530,000	20,058,500	-	-	-	62,617,250	-
- Outflow	(41,028,750)	-	(1,601,762)	(19,975,950)	-	-	-	(62,606,462)	-
<b>Total assets</b>	<b>41,911,894</b>	<b>8,848,424</b>	<b>13,530,692</b>	<b>24,380,664</b>	<b>198,511,615</b>	<b>57,691,779</b>	<b>24,720</b>	<b>344,899,788</b>	<b>280,353,367</b>
<b>Non-derivative liabilities</b>									
Loans from the Government of the Republic of Kazakhstan	470,055	375,122	200,620	792,854	14,077,367	-	-	15,916,018	14,139,279
Loans and deposits from banks and other financial institutions	-	1,159,960	1,027,778	1,068,222	1,467,404	-	-	4,723,364	4,609,808
Current accounts and deposits from customers	58,141,585	45,837,992	14,447,092	58,418,172	15,465,939	-	-	192,310,780	185,569,774
Debt securities issued	5,678,033	-	527,319	1,078,826	40,856,252	-	-	48,140,430	34,929,190
Subordinated debt	-	-	176,488	186,869	5,170,049	-	2,268,859	7,802,265	7,155,951
Amounts payable under repurchase agreements	3,004,568	-	-	-	-	-	-	3,004,568	2,998,102
Other financial liabilities	-	27,821	-	706,417	1,028,090	-	-	1,762,328	1,762,328
<b>Total liabilities</b>	<b>67,294,241</b>	<b>47,400,895</b>	<b>16,379,297</b>	<b>62,251,360</b>	<b>78,065,101</b>	<b>-</b>	<b>2,268,859</b>	<b>273,659,753</b>	<b>251,164,432</b>
<b>Net liquidity gap on recognised financial assets and liabilities</b>	<b>(25,382,347)</b>	<b>(38,552,471)</b>	<b>(2,848,605)</b>	<b>(37,870,696)</b>	<b>120,446,514</b>	<b>57,691,779</b>	<b>(2,244,139)</b>	<b>71,240,035</b>	<b>29,188,935</b>
<b>Credit related commitments</b>	<b>48,532,045</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>48,532,045</b>	<b>48,532,045</b>

### 30 Risk management, continued

#### (d) Liquidity risk, continued

The maturity analysis for financial assets and 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 6 months	From 6 to 12 months	More than 1 year	Overdue	No maturity	Total gross amount inflow (outflow)	Carrying amount
<b>Non-derivative assets</b>									
Cash and cash equivalents	29,508,327	-	-	-	-	-	-	29,508,327	29,471,147
Financial instruments at fair value through profit or loss	-	46,570	-	4,022	1,650,374	-	7,460	1,708,426	1,211,643
Available-for-sale financial assets	1,558,416	2,829,578	719,849	153,052	42,172,600	-	8,428	47,441,923	38,659,862
Deposits and balances with banks and other financial institutions	286,986	-	1,392,245	18,972	722,777	-	-	2,420,980	2,344,059
Loans to customers	4,530,466	8,512,558	9,636,886	15,382,001	123,738,720	44,973,737	-	206,774,368	151,732,916
Other financial assets	-	179,893	659,594	29,682	7,991,287	64,124	-	8,924,580	8,924,580
<b>Total assets</b>	<b>35,884,195</b>	<b>11,568,599</b>	<b>12,408,574</b>	<b>15,587,729</b>	<b>176,275,758</b>	<b>45,037,861</b>	<b>15,888</b>	<b>296,778,604</b>	<b>232,344,207</b>
<b>Non-derivative liabilities</b>									
Loans from the Government of the Republic of Kazakhstan	566,747	615,385	141,975	1,278,791	4,842,028	-	-	7,444,926	6,585,642
Loans and deposits from banks and other financial institutions	338,402	289	256	8,351	1,511,860	-	-	1,859,158	1,057,064
Current accounts and deposits from customers	65,784,086	13,837,431	15,890,051	37,292,282	29,728,237	-	-	162,532,087	152,139,857
Debt securities issued	629,125	-	72,917	-	49,105,928	-	-	49,807,970	34,700,351
Subordinated debt	-	-	43,663	-	5,893,457	-	2,268,859	8,205,979	7,073,629
Other financial liabilities	306,823	24,356	49,357	-	-	-	-	380,536	380,536
<b>Total liabilities</b>	<b>67,625,183</b>	<b>14,477,461</b>	<b>16,198,219</b>	<b>38,579,424</b>	<b>91,081,510</b>	<b>-</b>	<b>2,268,859</b>	<b>230,230,656</b>	<b>201,937,079</b>
<b>Net liquidity gap on recognised financial assets and liabilities</b>	<b>(31,740,988)</b>	<b>(2,908,862)</b>	<b>(3,789,645)</b>	<b>(22,991,695)</b>	<b>85,194,248</b>	<b>45,037,861</b>	<b>(2,252,971)</b>	<b>66,547,948</b>	<b>30,407,128</b>
<b>Credit related commitments</b>	<b>30,777,514</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30,777,514</b>	<b>30,777,514</b>

## **30 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.

However management believes that in spite of this early withdrawal option and the fact that a substantial portion of customers accounts are on demand, diversification of these customer accounts and deposits by number and type of depositors, and the past experience of the Group indicates that these customers accounts provide a long-term and stable source of funding.

The Group maintains a portfolio of highly liquid marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flows. The Group also has committed lines of credit that can be assessed to meet liquidity needs.



## 30 Risk management, continued

### (d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated 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
<b>Non-derivative assets</b>								
Cash and cash equivalents	35,151,993	-	-	-	-	-	-	35,151,993
Financial instruments at fair value through profit or loss	-	6	1,875,814	26,567	1,140,795	6,027	-	3,049,209
Available-for-sale financial assets	508,239	287,877	1,199,959	18,285,533	12,734,553	18,693	-	33,034,854
Deposits and balances with banks and other financial institutions	377,517	671,608	1,305,732	-	7,114,610	356,915	-	9,826,382
Loans to customers	5,750,116	7,251,169	23,416,237	58,579,949	38,067,279	-	57,691,780	190,756,530
Current tax asset	-	-	52,193	-	-	-	-	52,193
Property and equipment	-	-	-	-	-	5,290,517	-	5,290,517
Deferred tax asset	-	-	-	-	-	3,172,872	-	3,172,872
Other assets	156,619	462,197	4,673,410	10,331,171	597	-	3,721	15,627,715
<b>Total assets</b>	<b>41,944,484</b>	<b>8,672,857</b>	<b>32,523,345</b>	<b>87,223,220</b>	<b>59,057,834</b>	<b>8,845,024</b>	<b>57,695,501</b>	<b>295,962,265</b>
<b>Non-derivative liabilities</b>								
Loans from the Government of the Republic of Kazakhstan	470,056	359,508	752,348	3,326,597	9,230,770	-	-	14,139,279
Loans and deposits from banks and other financial institutions	142,404	1,000,000	2,000,000	1,467,404	-	-	-	4,609,808
Current accounts and deposits from customers	58,135,673	45,123,805	70,375,778	10,131,418	1,803,100	-	-	185,569,774
Debt securities issued	5,599,286	-	75,236	15,592,758	13,661,910	-	-	34,929,190
Subordinated debt	-	-	43,603	4,843,489	-	2,268,859	-	7,155,951
Amounts payable under repurchase agreements	2,998,102	-	-	-	-	-	-	2,998,102
Other liabilities	346,155	69,765	862,754	4,528,832	-	-	-	5,807,506
<b>Total liabilities</b>	<b>67,691,676</b>	<b>46,553,078</b>	<b>74,109,719</b>	<b>39,890,498</b>	<b>24,695,780</b>	<b>2,268,859</b>	<b>-</b>	<b>255,209,610</b>
<b>Net position</b>	<b>(25,747,192)</b>	<b>(37,880,221)</b>	<b>(41,586,374)</b>	<b>47,332,722</b>	<b>34,362,054</b>	<b>6,576,165</b>	<b>57,695,501</b>	<b>40,752,655</b>

## 30 Risk management, continued

### (d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated 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
<b>Non-derivative assets</b>								
Cash and cash equivalents	29,471,147	-	-	-	-	-	-	29,471,147
Financial instruments at fair value through profit or loss	-	46,570	4,022	48,203	1,105,388	7,460	-	1,211,643
Available-for-sale financial assets	1,554,707	2,472,169	1,164,788	16,715,480	16,744,290	8,428	-	38,659,862
Deposits and balances with banks and other financial institutions	285,482	-	1,341,271	717,306	-	-	-	2,344,059
Loans to customers	4,503,254	8,282,029	22,541,968	53,755,875	20,341,388	-	42,308,402	151,732,916
Current tax asset	-	-	100,147	-	-	-	-	100,147
Property and equipment	-	-	-	-	-	3,896,459	-	3,896,459
Deferred tax asset	-	-	-	-	-	3,616,271	-	3,616,271
Other assets	117,932	654,078	5,008,085	8,494,923	108,823	121,403	64,124	14,569,368
<b>Total assets</b>	<b>35,932,522</b>	<b>11,454,846</b>	<b>30,160,281</b>	<b>79,731,787</b>	<b>38,299,889</b>	<b>7,650,021</b>	<b>42,372,526</b>	<b>245,601,872</b>
<b>Non-derivative liabilities</b>								
Loans from the Government of the Republic of Kazakhstan	1,182,132	-	1,150,610	3,627,900	625,000	-	-	6,585,642
Loans and deposits from banks and other financial institutions	229,813	-	88,541	38,642	691,068	-	-	1,048,064
Current accounts and deposits from customers	65,201,669	12,615,263	50,159,383	22,219,108	1,944,434	-	-	152,139,857
Debt securities issued	629,125	-	72,917	20,439,331	13,558,978	-	-	34,700,351
Subordinated debt	-	-	43,663	4,761,107	-	2,268,859	-	7,073,629
Amounts payable under repurchase agreements	9,000	-	-	-	-	-	-	9,000
Other liabilities	2,732,293	19,255	853,473	109,539	1,291,516	-	-	5,006,076
<b>Total liabilities</b>	<b>69,984,032</b>	<b>12,634,518</b>	<b>52,368,587</b>	<b>51,195,627</b>	<b>18,110,996</b>	<b>2,268,859</b>	<b>-</b>	<b>206,562,619</b>
<b>Net position</b>	<b>(34,051,510)</b>	<b>(1,179,672)</b>	<b>(22,208,306)</b>	<b>28,536,160</b>	<b>20,188,893</b>	<b>5,381,162</b>	<b>42,372,526</b>	<b>39,039,253</b>

## **31 Capital management**

NBRK sets and monitors capital requirements for the Group. There are no external capital requirements imposed on the Group as a whole.

The Bank defines as capital the following items defined by statutory regulation as capital for banks:

- Tier 1 capital, which is comprised of ordinary share capital, share premium, prior periods' retained earnings/accumulated losses and reserves created thereof, qualifying perpetual debt less intangible assets and current year losses. Starting from 1 February 2014 Tier 1 capital also includes the dynamic reserve.
- Total capital, which is the sum of tier 1 capital, tier 2 capital (in the amount not exceeding tier 1 capital) and tier 3 capital (in the amount not exceeding 250% of the portion of tier 1 capital attributed to cover market risk) less investments into equity or subordinated debt if their total exceeds 10% of the total of tier 1 and tier 2 capital.

Tier 2 capital is required for the purposes of calculation of total capital and is comprised of statutory net income for the current year, revaluation reserves, qualifying subordinated liabilities and, before 1 February 2014, dynamic reserve in the amount not exceeding 1.25% of risk-weighted assets.

Tier 3 capital is required for the purposes of calculation of total capital and includes subordinated liabilities not included into tier 2 capital.

Various further limits and qualifying criteria are applied to the above elements of the capital base.

Under the current capital requirements set by the NBRK banks have to maintain:

- a ratio of tier 1 capital less investments to total assets less investments (k1.1)
- a ratio of tier 1 capital less investments to the sum of credit risk-weighted assets and contingent liabilities, market risk-weighted assets, contingent assets and liabilities, and a quantitative measure of operational risk (k1.2)
- a ratio of total capital to the sum of credit risk-weighted assets and contingent liabilities, market risk-weighted assets, contingent assets and liabilities, and a quantitative measure of operational risk (k2).

Investments for the purposes of calculation of the above ratios represent investments into equity or subordinated debt if their total exceeds 10% of the total of tier 1 and tier 2 capital. For this purpose the investments are adjusted in the proportion of tier 1 capital to the total of tier 1 capital and tier 2 capital (in the amount not exceeding tier 1 capital).

As at 31 December 2014 and 2013 the minimum level of ratios as applicable to the Bank are as follows:

- k1.1 – 0.05
- k1.2 – 0.05
- k2 – 0.10.

## 31 Capital management, continued

The following table shows the composition of the Bank's capital position calculated in accordance with the NBRK requirements established by the Rules # 358 dated 30 September 2005, as at 31 December:

	<b>2014</b> <b>KZT'000</b>	<b>2013</b> <b>KZT'000</b>
Tier 1 capital	41,926,276	38,251,264
Tier 2 capital	5,003,745	5,436,743
<b>Total statutory capital</b>	<b>46,930,021</b>	<b>43,688,007</b>
<b>Total statutory assets</b>	<b>369,529,855</b>	<b>252,801,791</b>
<b>Risk-weighted statutory assets, contingent liabilities, operational and market risk</b>		
Risk weighted statutory assets and contingent liabilities	330,620,009	205,580,580
Operational risk	1,318,025	2,737,894
<b>Total statutory risk weighted assets, contingent liabilities, operational and market risk</b>	<b>331,938,034</b>	<b>208,318,474</b>
<b>k1.1 ratio</b>	<b>0.11</b>	<b>0.15</b>
<b>k1.2 ratio</b>	<b>0.13</b>	<b>0.18</b>
<b>k.2 ratio</b>	<b>0.14</b>	<b>0.21</b>

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also considered and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

The Bank reported to the NBRK the statutory capital ratios as at 31 December 2014 based on the amounts which were then recorded in its statutory financial statements at 31 December 2014. Subsequent to this date, management made adjustments to the Bank's unconsolidated financial statements which reduced tier 1 capital, tier 2 capital and total statutory capital by KZT 3,179,437 thousand, KZT 2,617,786 thousand and KZT 5,797,223 thousand at 31 December 2014, respectively (31 December 2013: KZT 3,381,383 thousand, KZT 143,984 thousand and KZT 3,525,367 thousand, respectively). Had the reduced tier 1 capital, tier 2 capital and total statutory capital been used in calculation of statutory capital ratios, the Bank would still be in compliance with capital ratios.

## 32 Credit related commitments

The Group has outstanding credit related commitments to extend loans. These credit related 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 also provides guarantees by acting as settlement agent in securities borrowing and lending transactions. 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.

## 32 Credit related commitments, continued

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related 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.

	<b>2014</b> <b>KZT'000</b>	<b>2013</b> <b>KZT'000</b>
<b>Contracted amount</b>		
Loan and credit line commitments	27,333,678	16,553,635
Guarantees and letters of credit	21,115,492	14,088,567
Finance lease to be provided	82,875	135,312
	<b>48,532,045</b>	<b>30,777,514</b>

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded.

## 33 Operating leases

### Leases as lessee

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

	<b>2014</b> <b>KZT'000</b>	<b>2013</b> <b>KZT'000</b>
Less than 1 year	736,371	311,670
Between 1 and 5 years	122,947	484,949
More than 5 years	-	101,322
	<b>859,318</b>	<b>897,941</b>

The Group leases a number of premises under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

## 34 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 condition or the results of future operations.

## 34 Contingencies, continued

### (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, which 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 the Republic of 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 Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

## 35 Related party transactions

### (a) Control relationships

The Group's parent company is J.P. Finance Group LLC. The Group's parent company produces publicly available financial statements. The party with ultimate control over the Group is Mrs. Sarsenova S. T. No publicly available financial statements are produced by the Group's ultimate controlling party.

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

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

	<b>2014</b> <b>KZT'000</b>	<b>2013</b> <b>KZT'000</b>
Short term employee benefits	196,826	155,386
Social security costs	7,525	44
	<b>204,351</b>	<b>155,430</b>

These amounts include cash and 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:

	<b>2014</b> <b>KZT'000</b>	<b>Average</b> <b>interest rate,</b> <b>%</b>	<b>2013</b> <b>KZT'000</b>	<b>Average</b> <b>interest rate,</b> <b>%</b>
<b>Consolidated statement of financial position</b>				
<b>ASSETS</b>				
Loans to customers	14,117	13.7-16.0	54,139	11.0 - 13.7
<b>LIABILITIES</b>				
Current accounts and deposits from customers	12,741	3.6 -9.7	243,849	7.5 - 9.0

## 35 Related party transactions, continued

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

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 are as follows:

	2014 KZT'000	2013 KZT'000
<b>Profit or loss</b>		
Interest income	4,028	7,112
Interest expense	(12,965)	(18,610)
Reversal of impairment losses	2,054	592
Fee and commission income	50	302
Other general administrative expenses	(1,010)	(2,021)

### (c) Transactions with other related parties

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

	Shareholders		Other related parties*		Total KZT'000
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	
<b>Consolidated statement of financial position</b>					
<b>ASSETS</b>					
Loans to customers					
- In KZT	-	-	6,470,214	6.0-11.0	6,470,214
Other assets	-	-		-	
- In KZT			204,467		204,467
<b>LIABILITIES</b>					
Current accounts and deposits from customers					
- In KZT	1,999,792	0-9.7	3,218,008	0-9.7	5,217,800
- In USD	681,699	4.50	11,134,519	0-4.5	11,816,218
- Other currencies	1,414	-	331,514	0-3.0	332,928
Other liabilities					
- In KZT	-	-	78,378	-	78,378
<b>Items not recognised in the consolidated statement of financial position</b>					
Guarantees issued	-		150,142		150,142
Letter of credit	-		43,428		43,428
<b>Profit (loss)</b>					
Interest income	137,218		555,359		692,577
Interest expense	(116,736)		(617,045)		(733,781)
Impairment losses	-		(4,532)		(4,532)
Fee and commission income	-		2		2
Other general administrative expenses	-		(292,465)		(292,465)

\*Other related parties are the entities that are controlled by the Parent company's controlling party.

## 35 Related party transactions, continued

### (c) Transactions with other related parties, continued

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

	Shareholders		Other related parties*		Total KZT'000
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	
<b>Consolidated statement of financial position</b>					
<b>ASSETS</b>					
Loans to customers					
- In KZT	1,925,100	12.0	2,849,994	12.0	4,775,094
<b>LIABILITIES</b>					
Current accounts and deposits from customers					
- In KZT	6,960,870	1.0-9.0	3,381,208	1.0-7.0	10,342,078
- In USD	25,208	3.0	798	-	26,006
<b>Items not recognised in the consolidated statement of financial position</b>					
Guarantees issued	28,020		-		28,020
<b>Profit (loss)</b>					
Interest income	367,748		250,617		618,365
Interest expense	(539,926)		(166,553)		(706,479)
Impairment losses	(117,797)		(312,495)		(430,292)
Fee and commission income	182,181		45,333		227,514
Other general administrative expenses	-		(251,703)		(251,703)

\*Other related parties are the entities that are controlled by the Parent company's controlling party.



## 36 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	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	35,151,993	-	-	35,151,993	35,151,993
Financial instruments at fair value through profit or loss	3,049,209	-	-	-	3,049,209	3,049,209
Available-for-sale financial assets	-	-	33,034,854	-	33,034,854	33,034,854
Deposits and balances with banks and other financial institutions	-	9,826,382	-	-	9,826,382	9,826,382
Loans to customers						
Loans to corporate customers	-	160,309,237	-	-	160,309,237	158,859,696
Loans to retail customers	-	30,447,293	-	-	30,447,293	29,708,411
Other financial assets	-	8,534,399	-	-	8,534,399	8,534,399
	<b>3,049,209</b>	<b>244,269,304</b>	<b>33,034,854</b>	<b>-</b>	<b>280,353,367</b>	<b>278,164,944</b>
Loans from the Government of the Republic of Kazakhstan	-	-	-	14,139,279	14,139,279	14,139,279
Loans and deposits from banks and other financial institutions	-	-	-	4,609,808	4,609,808	4,609,808
Current accounts and deposits from customers	-	-	-	185,569,774	185,569,774	186,182,650
Debt securities issued	-	-	-	34,929,190	34,929,190	31,609,634
Subordinated debt	-	-	-	7,155,951	7,155,951	7,027,588
Amounts payable under repurchase agreements	-	-	-	2,998,102	2,998,102	2,998,102
Other financial liabilities	-	-	-	1,762,328	1,762,328	1,762,328
	<b>-</b>	<b>-</b>	<b>-</b>	<b>251,164,432</b>	<b>251,164,432</b>	<b>248,329,389</b>

### 36 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	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	29,471,147	-	-	29,471,147	29,471,147
Financial instruments at fair value through profit or loss	1,211,643	-	-	-	-	1,211,643	1,211,643
Available-for-sale financial assets	-	-	-	38,659,862	-	38,659,862	38,659,862
Deposits and balances with banks and other financial institutions	-	-	2,344,059	-	-	2,344,059	2,344,059
Loans to customers							
Loans to corporate customers	-	-	119,424,400	-	-	119,424,400	121,175,390
Loans to retail customers	-	-	32,308,516	-	-	32,308,516	35,851,424
Other financial assets	-	216,739	8,707,841	-	-	8,924,580	8,924,580
	<b>1,211,643</b>	<b>216,739</b>	<b>192,255,963</b>	<b>38,659,862</b>	<b>-</b>	<b>232,344,207</b>	<b>237,638,105</b>
Loans from the Government of the Republic of Kazakhstan	-	-	-	-	6,585,642	6,585,642	6,585,642
Loans and deposits from banks and other financial institutions	-	-	-	-	1,048,064	1,048,064	1,048,064
Current accounts and deposits from customers	-	-	-	-	152,139,857	152,139,857	152,224,485
Debt securities issued	-	-	-	-	34,700,351	34,700,351	35,020,316
Subordinated debt	-	-	-	-	7,073,629	7,073,629	7,041,994
Other financial liabilities	-	-	-	-	380,536	380,536	380,536
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>201,937,079</b>	<b>201,937,079</b>	<b>202,310,037</b>

## **36 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, 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, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. 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 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.

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

- discount rates of 9.0% – 15.9% and 20.6% – 22.2% are used for discounting future cash flows from loans to corporate customers and loans to retail customers, respectively
- discount rates of 0.2 – 5.4% and 4.3 – 7.8% are used for discounting future cash flows from current accounts and deposits of corporate and retail customers, respectively
- quoted market prices are used for determination of fair value of debt securities issued.

### **(b) Fair value hierarchy**

The Group measures fair values 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: inputs other than quotes prices included within Level 1 that are observable 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 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.

## 36 Financial assets and liabilities: fair values and accounting classifications, continued

### (b) Fair value hierarchy, continued

- Level 3: inputs that are unobservable. 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 valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences 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. The amounts are based on the values recognised in the consolidated statement of financial position:

KZT'000	Level 1	Level 2	Level 3	Total
Financial instruments at fair value through profit or loss				
- Debt instruments	-	1,167,368	-	1,167,368
- Equity investments	-	6,027	-	6,027
- Derivative financial instruments	-	(70,592)	1,946,406	1,875,814
Available-for-sale financial assets				
- Debt instruments	3,665,354	29,350,807	-	33,016,161
- Equity investments	-	18,693	-	18,693
	<b>3,665,354</b>	<b>30,472,303</b>	<b>1,946,406</b>	<b>36,084,063</b>

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. The amounts are based on the values recognised in the consolidated statement of financial position:

KZT'000	Level 1	Level 2	Total
Financial instruments at fair value through profit or loss			
- Debt instruments	-	1,204,183	1,204,183
- Equity investments	-	7,460	7,460
Available-for-sale financial assets			
- Debt instruments	5,719,081	32,932,353	38,651,434
- Equity investments	-	8,428	8,428
	<b>5,719,081</b>	<b>34,152,424</b>	<b>39,871,505</b>

Due to low market liquidity, management consider that quoted prices in active markets are not available, including for government securities listed on the Kazakhstan Stock Exchange. Accordingly, as at 31 December 2014 and 2013 the estimated fair value of these financial instruments is based on the results of valuation techniques involving the use of observable market inputs.

## **36 Financial assets and liabilities: fair values and accounting classifications, continued**

### **(b) Fair value hierarchy, continued**

#### **Unobservable valuation differences on initial recognition**

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 of 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(d)(vi)).

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:

	<b>Level 3</b>
	<b>Financial instruments at fair value through profit or loss</b>
	<b>Derivative assets</b>
<b>KZT'000</b>	
Balance at beginning of the year	-
Net gain on financial instruments at fair value through profit or loss	1,347,127
Prepayment of interest	599,279
<b>Balance at end of the year</b>	<b>1,946,406</b>

Management assumes that the early termination right will not be exercised by NBRK until maturity.

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.

As at 31 December 2014 if the estimated forward rate would be 10% lower, the effect on profit or loss will be a decrease in the fair value of KZT 598,475 thousand.

## 36 Financial assets and liabilities: fair values and accounting classifications, continued

### (b) Fair value hierarchy, 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 2014:

KZT'000	Level 2	Level 3	Total fair values	Total carrying amount
<b>Assets</b>				
Cash and cash equivalents	35,151,993	-	35,151,993	35,151,993
Deposits and balances with banks and other financial institutions	9,826,382	-	9,826,382	9,826,382
Loans to customers	70,236,116	118,331,991	188,568,107	190,756,530
<b>Liabilities</b>				
Loans from the Government of the Republic of Kazakhstan	14,139,279	-	14,139,279	14,139,279
Loans and deposits from banks and other financial institutions	4,609,808	-	4,609,808	4,609,808
Current accounts and deposits from customers	186,182,650	-	186,182,650	185,569,774
Debt securities issued	31,609,634	-	31,609,634	34,929,190
Subordinated debt	7,027,588	-	7,027,588	7,155,951
Amounts payable under repurchase agreements	2,998,102	-	2,998,102	2,998,102

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
<b>Assets</b>				
Cash and cash equivalents	29,471,147	-	29,471,147	29,471,147
Deposits and balances with banks and other financial institutions	2,344,059	-	2,344,059	2,344,059
Loans to customers	105,057,132	51,969,682	157,026,814	151,732,916
<b>Liabilities</b>				
Loans from the Government of the Republic of Kazakhstan	6,585,642	-	6,585,642	6,585,642
Loans and deposits from banks and other financial institutions	1,048,064	-	1,048,064	1,048,064
Current accounts and deposits from customers	152,224,485	-	152,224,485	152,139,857
Debt securities issued	35,020,316	-	35,020,316	34,700,351
Subordinated debt	7,041,994	-	7,041,994	7,073,629

### 37 Discontinued operations

Due to changes in legislation on pension system reforming one of the Group's subsidiaries, the Fund, suspended its activities relating to pension contributions and payments (Note 1 (a)).

#### Profit from discontinued operations of the Fund

Analysis of the result of discontinued operations is as follows:

	<b>2013</b>
	<b>'000 KZT</b>
<b>Fee and commission income</b>	
Commission income from investment activity	806,665
Commission income from pension assets	499,505
	<b>1,306,170</b>
<b>Fee and commission expense</b>	
Commission expenses on custodial services	(23,160)
Other commission expenses	(11,177)
	<b>(34,337)</b>
<b>Net fee and commission income</b>	<b>1,271,833</b>
Reversal of provision for deferred commission losses	166,478
<b>Operating income</b>	<b>1,438,311</b>
Personnel expenses	(186,426)
Other general administrative expenses	(67,611)
	<b>1,184,274</b>
<b>(Loss) profit before income tax from discontinued operations</b>	<b>1,184,274</b>
Income tax expense	(153,894)
<b>(Loss) profit for the year from discontinued operations</b>	<b>1,030,380</b>

Kazakhstan pension legislation provided the types of commission rates allowed for services provided to accumulative pension funds. Commissions received by the Fund were 15% of net investments income for respective year and 0.05% of the lower of carrying amount of pension assets and its fair value at the beginning of each month.

#### Cash flows from discontinued operations of the Fund

The net cash flows from discontinued operations are as follows:

	<b>2013</b>
	<b>'000 KZT</b>
Net cash flow from operating activities	1,100,354