

Tsesnabank JSC

Consolidated Interim
Financial Statements

for the six-month period ended
30 June 2015

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Independent Auditors' Report on Interim Financial Statements

To the Board of Directors of Tsesnabank JSC

We have audited the accompanying consolidated interim financial statements of Tsesnabank JSC and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 30 June 2015, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month periods ended 30 June 2015 and 2014, 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 interim financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of consolidated interim 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 interim financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated interim financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated interim financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated interim 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 interim 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 interim 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 interim financial statements present fairly, in all material respects, the financial position of the Group as at 30 June 2015, and its financial performance and its cash flows for the six-month periods ended 30 June 2015 and 2014 in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.



Assel Urdabayeva
Certified Auditor
of the Republic of Kazakhstan
Auditor's Qualification Certificate
No. МФ-0000096 of 27 August 2012




Ashley Clarke
Audit Partner

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



26 August 2015

Tsesnabank JSC
Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income
for the six-month period ended 30 June 2015

		Six-month period ended 30 June 2015 KZT'000	Six-month period ended 30 June 2014 KZT'000
Interest income	5	60,042,692	51,760,370
Interest expense	5	(29,217,722)	(26,407,308)
Net interest income		30,824,970	25,353,062
Fee and commission income	6	4,018,380	4,524,138
Fee and commission expense	7	(688,317)	(826,771)
Net fee and commission income		3,330,063	3,697,367
Gross insurance premiums written	8	3,989,903	5,125,470
Written premiums ceded to reinsurers	8	(866,304)	(45,128)
Net insurance premiums written		3,123,599	5,080,342
Change in the gross provision for unearned premiums	8	205,727	(845,566)
Reinsurers' share of change in the gross provision for unearned premiums	8	549,826	(1,093,598)
Net earned insurance premiums		3,879,152	3,141,178
Insurance claims incurred		(2,341,555)	(2,229,405)
Reinsurers' share of insurance claims incurred		31,171	14,202
Insurance claims incurred, net of reinsurance	9	(2,310,384)	(2,215,203)
Change in gross insurance contract provisions	9	146,825	(2,307)
Change in reinsurers' share in insurance contract provisions	9	354	-
Net insurance claims incurred		(2,163,205)	(2,217,510)
Net gain (loss) on financial instruments at fair value through profit or loss	10	647,569	(2,410)
Net foreign exchange gain	11	2,019,200	5,010,054
Net gain on available-for-sale financial assets		20,017	-
Dividend income		73	5,195
Other income		213,261	145,488
Other operating income		2,900,120	5,158,327
Impairment losses	12	(11,282,900)	(7,699,754)
Personnel expenses	13	(8,101,293)	(7,827,116)
Other general administrative expenses	14	(9,473,894)	(9,532,212)
Other operating expenses		(28,858,087)	(25,059,082)
Profit before income tax		9,913,013	10,073,342
Income tax expense	15	(1,939,927)	(2,088,823)
Profit for the period		7,973,086	7,984,519

The consolidated interim 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 interim financial statements.

Tsesnabank JSC
Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income
for the six-month period ended 30 June 2015

	Six-month period ended 30 June 2015	Six-month period ended 30 June 2014
Note	KZT'000	KZT'000
Other comprehensive income		
<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	(111,752)	10,536
- Net change in fair value transferred to profit or loss	(20,017)	-
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	<u>(131,769)</u>	<u>10,536</u>
Other comprehensive (loss)/income for the period	<u>(131,769)</u>	<u>10,536</u>
Total comprehensive income for the period	<u>7,841,317</u>	<u>7,995,055</u>
Basic and diluted earnings per ordinary share (in KZT)	34 182	218

The consolidated interim financial statements as set out on pages 5 to 95 were approved by the management on 26 August 2015 and were signed on its behalf by:



Yakupbayev R.K.
Acting Chairman of the Management Board


Bagautdinova N.M.
Chief Accountant

The consolidated interim 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 interim financial statements.

Tsesnabank JSC
Consolidated Interim Statement of Financial Position as at 30 June 2015

	Note	30 June 2015 KZT'000	31 December 2014 KZT'000
ASSETS			
Cash and cash equivalents	16	119,577,087	142,148,716
Deposits and balances with banks and other financial institutions	17	22,812,901	13,011,071
Financial instruments at fair value through profit or loss	18	9,176,012	8,333,940
Available-for-sale financial assets	19	9,585,942	9,362,119
Loans to customers	20	1,083,608,033	1,060,248,934
Held-to-maturity investments	21	26,718,473	34,728,989
Amounts receivable under reverse repurchase agreements		685,000	380,002
Property, equipment and intangible assets	22	36,690,128	26,112,447
Investment property	23	1,505,964	1,241,153
Insurance premiums and reinsurance assets	24	3,188,914	2,469,935
Long-term assets held for sale		124,019	124,019
Current tax asset		212,844	187,790
Deferred tax asset	15	32,363	28,692
Other assets	25	17,145,706	23,117,267
Total assets		1,331,063,386	1,321,495,074
LIABILITIES			
Loans from state company	26	41,000,261	23,526,969
Deposits and balances from banks and other financial institutions	27	77,278,108	62,876,779
Financial instruments at fair value through profit or loss	18	745,753	-
Current accounts and deposits from customers	28	977,698,259	1,010,115,876
Debt securities issued	29	46,789,362	46,690,990
Subordinated debt	30	58,311,103	58,276,784
Insurance contract provisions	31	5,876,687	6,229,239
Deferred tax liability	15	4,151,300	3,901,562
Current tax liability		2,769	43,572
Other liabilities	32	6,363,736	4,812,048
Total liabilities		1,218,217,338	1,216,473,819
EQUITY			
Share capital	33	59,009,379	59,026,087
Additional paid-in capital		43,799	43,615
Revaluation reserve for available-for-sale financial assets		(144,340)	(12,571)
Reserve for general banking and insurance risks		11,991,541	12,002,883
Dynamic reserve		16,631,209	16,631,209
Retained earnings		25,314,460	17,330,032
Total equity		112,846,048	105,021,255
Total liabilities and equity		1,331,063,386	1,321,495,074

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

	Six-month period ended 30 June 2015 KZT'000	Six-month period ended 30 June 2014 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	57,027,242	44,329,794
Interest payments	(28,959,971)	(23,189,135)
Fee and commission receipts	3,983,277	4,500,300
Fee and commission payments	(691,315)	(842,685)
Insurance premiums received	3,821,104	4,340,150
Insurance premiums paid to reinsurers	(427,880)	(39,122)
Net insurance claims paid	(2,307,467)	(2,164,703)
Net receipts from financial instruments at fair value through profit or loss	173,328	4,225
Net receipts from foreign exchange	4,175,878	4,872,542
Dividends received	65	6,548
Other income receipts	156,839	46,763
Personnel and other general administrative expenses	(14,633,057)	(14,419,560)
(Increase) decrease in operating assets		
Deposits and balances with banks and other financial institutions	(9,781,751)	(7,010,405)
Amounts receivable under reverse repurchase agreements	(324,482)	(2,256,004)
Financial instruments at fair value through profit or loss	329,032	8,735,849
Loans to customers	(21,399,413)	(160,028,120)
Other assets	(851,873)	(682,864)
Increase (decrease) in operating liabilities		
Loans from state company	17,277,996	11,934,062
Deposits and balances from banks and other financial institutions	13,928,056	23,290,645
Current accounts and deposits from customers	(45,373,085)	218,482,044
Amounts payable under repurchase agreements	-	(14,944,006)
Other liabilities	(504,083)	(144,269)
Net cash (used in) from operating activities before income tax paid	(24,381,560)	94,822,049
Income tax paid	(1,734,027)	(1,590,120)
Net cash flows (used in) from operating activities	(26,115,587)	93,231,929
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale financial assets	(927,040)	(48,936)
Sale and repayment of available-for-sale financial assets	583,387	-
Purchases of held-to-maturity investments	(141,360)	-
Redemption of held-to-maturity investments	7,856,469	138,463
Purchases of property, equipment and intangible assets	(4,966,295)	(3,460,751)
Cash flows from (used in) investing activities	2,405,161	(3,371,224)

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

Tsesnabank JSC
Consolidated Interim Statement of Cash Flows for the six-month period ended 30 June 2015

	Six-month period ended 30 June 2015 KZT'000	Six-month period ended 30 June 2014 KZT'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Placement of subordinated debt	-	9,217
Placement of debt securities issued	-	14,222
Redemption of debt securities	(37,411)	(24,239)
Proceeds from issuance of shares	-	15,000,000
Re-purchase of treasury shares	(15,546)	(16,284)
Net cash flows (used in) from financing activities	(52,957)	14,982,916
Net (decrease) increase in cash and cash equivalents	(23,763,383)	104,843,621
Effect of changes in exchange rates on cash and cash equivalents	1,191,754	7,033,836
Cash and cash equivalents as at the beginning of the period	142,148,716	96,822,331
Cash and cash equivalents as at the end of the period (Note 16)	119,577,087	208,699,788

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

KZT'000	Share capital	Additional paid-in capital	Revaluation reserve for available-for-sale financial assets	Reserve for general banking and insurance risks	Dynamic reserve	Retained earnings	Total
Balance as at 1 January 2015	59,026,087	43,615	(12,571)	12,002,883	16,631,209	17,330,032	105,021,255
Total comprehensive income							
Profit for the period	-	-	-	-	-	7,973,086	7,973,086
Other comprehensive income							
<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	-	-	(111,752)	-	-	-	(111,752)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	(20,017)	-	-	-	(20,017)
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	-	(131,769)	-	-	-	(131,769)
Total other comprehensive loss	-	-	(131,769)	-	-	-	(131,769)
Total comprehensive income for the period	-	-	(131,769)	-	-	7,973,086	7,841,317
Transactions with owners, recorded directly in equity							
Treasury shares acquired	(16,708)	184	-	-	-	-	(16,524)
Total transactions with owners	(16,708)	184	-	-	-	-	(16,524)
Transfer from mandatory reserve	-	-	-	(11,342)	-	11,342	-
Balance as at 30 June 2015	59,009,379	43,799	(144,340)	11,991,541	16,631,209	25,314,460	112,846,048

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

KZT'000	Share capital	Additional paid-in capital	Revaluation reserve for available-for-sale financial assets	Reserve for general banking and insurance risks	Dynamic reserve	Retained earnings	Total
Balance as at 1 January 2014	38,634,015	49,082	(24,958)	12,131,875	16,631,209	1,303,316	68,724,539
Total comprehensive income							
Profit for the period	-	-	-	-	-	7,984,519	7,984,519
Other comprehensive income							
<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	-	-	10,536	-	-	-	10,536
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	-	<u>10,536</u>	-	-	-	<u>10,536</u>
Total other comprehensive income	-	-	<u>10,536</u>	-	-	-	<u>10,536</u>
Total comprehensive income for the period	-	-	<u>10,536</u>	-	-	<u>7,984,519</u>	<u>7,995,055</u>
Transactions with owners, recorded directly in equity							
Shares issued	15,000,000	-	-	-	-	-	15,000,000
Treasury shares acquired	(697)	(5,617)	-	-	-	-	(6,314)
Total transactions with owners	<u>14,999,303</u>	<u>(5,617)</u>	-	-	-	-	<u>14,993,686</u>
Transfer from mandatory reserve	-	-	-	(99,899)	-	99,899	-
Balance as at 30 June 2014	<u>53,633,318</u>	<u>43,465</u>	<u>(14,422)</u>	<u>12,031,976</u>	<u>16,631,209</u>	<u>9,387,734</u>	<u>91,713,280</u>

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

1 Background

(a) Organisation and operations

These consolidated interim financial statements include the financial statements of Tsesnabank JSC (the “Bank”) and its subsidiaries (together referred to as the “Group”). The subsidiaries include insurance, securities trading and asset management company, a special purpose entity and a debt collection management company.

The Bank was established in the Republic of Kazakhstan as an open joint stock company under the laws of the Republic of Kazakhstan on 17 January 1992. Due to a change in legislation introduced in 2003, the Bank was re-registered as a joint stock company on 26 December 2003.

The Bank operates based on general license #1.2.74/74/29 for banking operations and activities on securities market granted on 8 September 2014 by the National Bank of the Republic of Kazakhstan (the “NBRK”). The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by NBRK. The Bank is a member of the state deposit insurance system in Kazakhstan.

On 3 January 2007, the Bank established a subsidiary, Tsesna International B.V., which is a special purpose entity intended to raise funds on international capital markets and make these funds available to the Bank. As at 30 June 2015 and 31 December 2014, the Bank owned 100% of the share capital of Tsesna International B.V.

In accordance with the resolutions of the Agency of the Republic of Kazakhstan on the Regulation and Supervision of Financial Markets and Financial Organisations (the “FMSC”) #65 and #66 dated 18 May 2010, the Bank was given a permission to purchase a subsidiary, Subsidiary Company of Tsesnabank JSC Insurance Company Tsesna Garant JSC (“Tsesna Garant”). The primary business activity of Tsesna Garant is mandatory and voluntary insurance and re-insurer’s services in accordance with the licence #2.1.49 granted on 14 June 2012 by the Committee on the Regulation and Supervision of Financial Markets and Financial Organisations of the NBRK (the “FMSC”).

During the year ended 31 December 2011, the Bank obtained control over Tsesna Capital JSC (“Tsesna Capital”). As at 31 December 2012 the share of ownership of the Bank in Tsesna Capital comprises 76.80% of share capital. In 2013 the Bank acquired the remaining portion of 23.20% of the share capital of Tsesna Capital. Tsesna Capital possesses licences #0001201383 for brokerage and dealing activities in the securities market with the right to manage clients’ accounts as a nominal holder and #0003200615 for investment portfolio management activities without the right to attract voluntary pension contributions granted by the NBRK on 24 October 2014.

In accordance with the resolution of the NBRK #329 dated 29 October 2012 the Bank was given a permission #2 dated 5 November 2012 to establish a subsidiary company managing doubtful and bad assets of the parent bank Subsidiary Organisation of Tsesnabank JSC OMAD Tsesna LLC (“OMAD Tsesna”). The primary business activity of OMAD Tsesna is purchase of doubtful and bad rights of demand of the parent bank, sale of doubtful and bad assets and lease of own immovable property.

As at 30 June 2015, the Bank has 22 branches (31 December 2014: 22) and 146 sub-branches (31 December 2014: 144) from which it conducts business throughout the Republic of Kazakhstan. The registered address of the head office is 24 Syganak Street, Astana, Republic of Kazakhstan. The majority of the Group’s assets and liabilities are located in Kazakhstan.

1 Background, continued

(a) Organisation and operations, continued

The subsidiaries are as follows:

Name	Country of incorporation	Principal activities	Ownership %	
			30 June 2015	31 December 2014
		Raising funds on international capital markets and making these funds available to the		
Tsesna International B.V.	Netherlands	Bank	100.00	100.00
Tsesna Garant	Kazakhstan	Insurance activity	100.00	100.00
Tsesna Capital	Kazakhstan	Brokerage and dealing activity	100.00	100.00
OMAD Tsesna	Kazakhstan	Debt collection	100.00	100.00

At 30 June 2015, Financial Holding Tsesna JSC, APPARATKZ LLC, KINESIOKZ LLC and United Accumulated Pension Fund JSC owned 50.94%, 7.61%, 7.38% and 6.64% of the outstanding common shares of the Bank, respectively (31 December 2014: Financial Holding Tsesna JSC, Tsesna Corporation JSC, APPARATKZ LLC, KINESIOKZ LLC and United Accumulated Pension Fund JSC owned 39.94%, 10.98%, 7.61%, 7.38% and 6.64%). Other shareholders have less than 5% of the outstanding shares each.

(b) 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 characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes, which together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in Kazakhstan. The consolidated interim financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the 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 interim financial statements are prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

(b) Basis of measurement

The consolidated interim 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.

2 Basis for preparation, continued

(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 them.

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

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

(d) Use of estimates and judgments

The preparation of consolidated interim 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:

- loan impairment estimates - Note 20
- insurance contract provisions – Note 31
- estimates of fair value of financial instruments – Note 42.

(e) Changes in accounting policies

New amendments to IFRS became effective from 1 January 2015 and have been adopted by the Group since that date. These changes did not have a significant effect on the consolidated interim financial statements.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these consolidated interim 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) Business combinations

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

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

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

3 Significant accounting policies, continued

(a) Basis of consolidation, continued

(i) *Business combinations, continued*

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

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

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

(ii) *Subsidiaries*

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

(iii) *Structured entities*

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

(iv) *Funds management*

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated interim financial statements except when the Group controls the entity.

(v) *Acquisitions of entities under common control*

The assets and liabilities acquired as a result of the acquisition of a controlling interest in an entity that is under the control of the beneficiaries of the Group are recognised at their carrying amounts, as recognised in the individual financial statements of the subsidiary acquired. The difference between the consideration paid for the acquisition and the carrying value of net assets acquired is recognised directly in equity attributable to equity holders of the Group.

(vi) *Acquisitions and disposals of non-controlling interests*

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

(vii) *Transactions eliminated on consolidation*

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

3 Significant accounting policies, continued

(a) Basis of consolidation, continued

(viii) Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Goodwill is allocated to cash-generating units for impairment testing purposes and is stated at cost less impairment losses.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest rate 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.

(c) 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 interim statement of financial position.

(d) 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 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,

3 Significant accounting policies, continued

(d) Financial instruments, continued

(i) Classification, continued

- the asset or liability contains an embedded financial derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivative financial instruments in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivative financial instruments 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 entity has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

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

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

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

- the Group upon initial recognition designates as at fair value through profit or loss
- the Group designates as available-for-sale, or
- meet the definition of loans and receivables.
- *Available-for-sale financial assets* are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

Financial assets and liabilities are recognised in the consolidated interim 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 sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method

3 Significant accounting policies, continued

(d) Financial instruments, continued

(iii) *Measurement, continued*

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

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

(iv) *Amortised cost*

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

(v) *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.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(vi) *Fair value measurement principles, continued*

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.

(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 interim 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 interim 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 interim 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

(d) 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 interim 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. 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 and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

Derivative financial instruments 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 derivative financial instruments 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 derivative financial instruments are recognised immediately in profit or loss.

Derivative financial instruments may be embedded in another contractual arrangement (a host contract). An embedded derivative financial instrument is separated from the host contract and is accounted for as a derivative financial instrument if, and only if the economic characteristics and risks of the embedded derivative financial instrument 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. Derivative financial instruments embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

Although the Group trades in derivative financial 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 interim 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.

(e) Property and equipment

(i) *Owned assets*

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

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

3 Significant accounting policies, continued

(e) Property and equipment, continued

(ii) Depreciation

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

- Buildings	25 to 100 years
- Computer equipment	5 to 10 years
- Motor vehicles	7 years
- Other	2 to 20 years.

(f) 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 life is from 2 to 30 years.

(g) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at historical cost.

When the use of a property changes such that it is reclassified as property and equipment, its carrying amount at the date of reclassification becomes its cost for subsequent accounting and presentation in consolidated interim financial statements.

(h) 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 asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

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

3 Significant accounting policies, continued

(h) Impairment, continued

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

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

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

(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.

3 Significant accounting policies, continued

(h) Impairment, continued

(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*

Other 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 or its cash-generating unit (the "CGU"). 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 CGU 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.

(i) **Provisions**

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

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

(j) **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.

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

3 Significant accounting policies, continued

(j) Credit related commitments, continued

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

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

Loan commitments are not recognised, except for the following:

- 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.

(k) 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) Cumulative non-redeemable preference shares

The component of the cumulative non-redeemable preference shares that exhibits characteristics of a liability is recognised as a liability in the consolidated interim statement of financial position, net of transaction costs. The corresponding cumulative dividends on those shares are charged as interest expense in the consolidated interim statement of profit or loss and other comprehensive income. On issuance of the cumulative non-redeemable 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.

(iv) Dividends

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

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

3 Significant accounting policies, continued

(l) 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 is 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 is 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 taxes 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 is 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.

A deferred tax asset is 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 it is no longer probable that the related tax benefit will be realised.

(m) Income and expense recognition

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

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss.

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

(n) Segment reporting

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Group's operations are highly integrated and constitute two operating business segments for the purposes of IFRS 8 *Operating Segments*: banking and insurance.

(o) 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.

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.

3 Significant accounting policies, continued

(o) Insurance contracts, continued

(ii) Recognition and measurement of contracts, continued

Claims, continued

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 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.

(iii) Reinsurance assets

The Group cedes reinsurance in the normal course of business for the purpose of limiting its potential net loss through the diversification of its risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

Only rights under contracts that give rise to significant transfer of insurance risk are accounted for as reinsurance assets. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments.

Reinsurance premiums for ceded reinsurance are recognised as an expense on a basis that is consistent with the recognition basis for the premiums on the related insurance contracts. For general insurance business, reinsurance premiums are expensed over the period that the reinsurance cover is provided based on the expected pattern of the reinsured risks. The unexpensed portion of ceded reinsurance premiums is included in reinsurance assets.

The net amounts paid to a reinsurer at the inception of a contract may be less than the reinsurance assets recognised by the Group in respect of its rights under such contracts.

The amounts recognised as reinsurance assets are measured on a basis that is consistent with the measurement of the provisions held in respect of the related insurance contracts.

Reinsurance assets include recoveries due from reinsurance companies in respect of claims paid. These are classified as reinsurers' share in insurance contract provisions in the consolidated interim statement of financial position.

Reinsurance assets are assessed for impairment at each reporting date. An asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

(iv) Insurance acquisition costs

Acquisition costs include direct costs such as commissions paid to insurance agents and brokers and indirect costs such as administrative expenses connected with the processing of proposals and the issuing of policies.

Insurance acquisition costs are expensed as incurred.

3 Significant accounting policies, continued

(o) Insurance contracts, continued

(v) *Liability adequacy test*

At each reporting date, liability adequacy tests are performed to determine if the insurance contract provisions are adequate. Current best estimates of all future contractual cash flows and related expenses, such as claims handling expenses, and investment income from assets backing the insurance contract provisions are used in performing these tests.

If a shortfall is identified an additional provision is established. The deficiency is recognised in profit or loss for the year.

(vi) *Insurance receivables and payables*

Amounts due to and from policyholders, agents and reinsurers are financial instruments and are included in insurance receivables and payables, and not in insurance contract provisions or reinsurance assets.

(p) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 30 June 2015, and are not applied in preparing these consolidated interim 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 yet completed the process of evaluating the impact of these changes. The Group does not intend to adopt this standard early. The standard will be effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.
- Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2015. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Insurance risk management

The Group issues contracts that transfer insurance risk. This section summarises these risks and the way the Group manages them.

(a) Risk management objectives and policies for mitigating insurance risk

The Group's management of insurance is a critical aspect of the business. For insurance contracts, the objective is to select assets with duration and a maturity value which match the expected cash flows from the claims on those portfolios.

The primary insurance and reinsurance activity carried out by the Group assumes the risk of loss from persons or organisations that are directly subject to the risk. Such risks may relate to property, liability, accident, cargo, health, financial or other perils that may arise from an insurable event. As such the Group is exposed to the uncertainty surrounding the timing and severity of claims under the contract.

The Group manages its insurance risk through underwriting limits; approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, centralised management of reinsurance and monitoring of emerging issues.

The theory of probability is applied to the pricing and provisioning for insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

(i) Underwriting strategy

The Group's underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that this reduces the variability of the outcome.

The underwriting strategy is set out in the business plan that sets out the classes of business to be written, the territories in which business is to be written and the industry sectors to which the Group is prepared to underwrite. The strategy is cascaded down to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, territory and industry in order to enforce appropriate risk selection within the portfolio.

Calculation of the tariffs and prices on insurance product reflects current market conditions and covers the most probable assumptions necessary for the adjustment of future results, aiming to significantly mitigate financial risks.

Adherence to the underwriting authorities is being monitored by management on an on-going basis. Those transactions requiring special authorisation are subject to the special attention of the Board of Directors of Tsesna Garant.

(ii) Reinsurance strategy

The Group reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Group buys facultative and Excess-of-Loss (XL) based reinsurance to reduce the net exposure and not to exceed the actual margin of solvency.

Ceded reinsurance contains credit risk, and such reinsurance recoveries are reported after deductions for known insolvencies and uncollectible items. The Group monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically.

The Group does not utilise any stop-loss reinsurance.

(b) Terms and conditions of insurance contracts and nature of risks covered

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below. In addition, the following gives an assessment of the Group's main products and the ways in which it manages the associated risks.

4 Insurance risk management, continued

(b) Terms and conditions of insurance contracts and nature of risks covered, continued

(i) Insurance contracts – Vehicles owner’s civil liability and general civil liability

Product features

The Group undertakes general civil liability insurance on compulsory and voluntary types of insurance in the Republic of Kazakhstan, and vehicles owner’s civil liability on compulsory types of insurance in the Republic of Kazakhstan. Under these contracts policyholders are reimbursed for any monetary compensation awards paid for the injury caused to body, life, health and (or) property of the third parties. General civil liability is generally considered a ‘long tail’ line, as it takes a relatively long period of time to finalise and settle claims for a given accident year.

Risk management

The key risks associated with this product are underwriting risk, competitive risk, and claims experience risk. Calculating a premium commensurate with the risk for these policies will be subjective, and hence risky. Insurance risk is managed primarily through appropriate pricing, product design, risk selection, appropriate investment strategy, rating and reinsurance. The Group therefore monitors and reacts to changes in the general economic and commercial environment in which it operates.

(ii) Insurance contracts – Property

Product features

Property insurance indemnifies, subject to any limits or excesses, the policyholder against loss or damage to its own material property and business interruption arising from this damage.

The event giving rise to a claim for damage to buildings or contents usually occurs suddenly (such as a fire or burglary) and the cause is readily determinable. The claim will thus be notified promptly and can be settled without delay. Property business is therefore classified as ‘short-tail’, contrasted with ‘long-tail’ classes where the ultimate claim cost takes longer to determine.

Risk management

The key risks associated with this product are underwriting risk, competitive risk, and claims experience risk.

Underwriting risk is the risk that the Group does not charge premiums appropriate for the different properties it insures. For private property insurance, it is expected that there will be large numbers of properties with similar risk profiles. However, for commercial business this may not be the case. Many commercial property proposals comprise a unique combination of location, type of business, and safety measures in place. Calculating a premium commensurate with the risk for these policies will be subjective, and hence risky.

Property classes are exposed to the risk that the insured will make false or invalid claims, or exaggerate the amount claimed following a loss. This largely explains why economic conditions correlate with the profitability of a property portfolio.

Insurance risk is managed primarily through pricing, independent assessment of property under international standards, product design, risk selection and reinsurance. The Group therefore monitors and reacts to changes in the general economic and commercial environment in which it operates.

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the Group’s liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

4 Insurance risk management, continued

(b) Terms and conditions of insurance contracts and nature of risks covered, continued

(iii) Insurance contracts – Cargo

Product features

The Group writes cargo insurance. Cargo insurance indemnifies, subject to any limits or excesses, the policyholder against loss or damage of cargo during transportation to the buyers. The return to shareholders under this product arises from the total premiums charged to policyholders less the amounts paid to cover claims and the expenses incurred by the Group. The event giving rise to a claim could be characterised as “low effect – high frequency” and the cause is readily determinable. The claim will thus be notified promptly and can be settled without delay. Cargo business is therefore classified as ‘short-tail’.

Risk management

The key risks associated with this product are underwriting risk, competitive risk and claims experience risk. The Group will also be exposed to the risk of dishonest actions by policyholders.

Underwriting risk is the risk that the Group does not charge premiums appropriate for the different routes it insures. The risk on any policy will vary according to many factors such as route and destination, safety measures of the carrier, nature of cargo etc. Many commercial cargo proposals will comprise a unique combination of route and destination, type of cargo, and safety measures accepted by carriers. Calculating a premium commensurate with the risk for these policies will be subjective.

Cargo classes are exposed to the risk that the insured will make false or invalid claims, or exaggerate the amount claimed following a loss. This largely explains why economic conditions correlate with the profitability of a cargo portfolio. Insurance risk is managed primarily through appropriate pricing, product design, risk selection and reinsurance. The Group therefore monitors and reacts to changes in the general economic and commercial environment in which it operates. Within the insurance process, it is unlikely that concentrations of risk may arise where a particular event or series of events could impact heavily upon the Group’s liabilities. Cargo supplies are generally made by limited batches and various supplies are not connected.

(c) Concentration of insurance risk

A key aspect of the insurance risk faced by the Group is the extent of concentration of insurance risk which may exist where a particular event or series of events could impact significantly upon the Group’s liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise. An important aspect of the concentration of insurance risk is that it may arise from the accumulation of risks within a number of individual classes or contracts tranche.

Concentrations of risk can arise in both high-severity, low frequency events, such as natural disasters and in situations where underwriting is biased towards a particular group, such as a particular geography or demographic trend.

The Group’s key methods in managing these risks are two-fold. Firstly, the risk is managed through appropriate underwriting. Underwriters are not permitted to underwrite risks unless the expected profits are commensurate with the risks assumed. Secondly, the risk is managed through the use of reinsurance. The Group purchases reinsurance coverage for various classes of its liability and property business. The Group assesses the costs and benefits associated with the reinsurance programme on an ongoing basis.

(d) Total aggregate exposures

The Group sets out the total aggregate exposure that it is prepared to accept in relation to concentrations of risk. It monitors these exposures both at the time of underwriting a risk, and on a monthly basis by reviewing reports which show the key aggregations to which the Group is exposed. The Group uses a number of modelling tools to monitor aggregation in order to measure the effectiveness of the reinsurance programmes and the net exposure to which the Group is exposed.

4 Insurance risk management, continued

(d) Total aggregate exposures, continued

As at 30 June 2015 the Group has 683,489 insurance agreements in force (31 December 2014: 677,054).

(i) Exposure to various business lines

The key concentrations identified as at 30 June 2015 are:

Insurance type	Total insured amount KZT'000	Reinsurance amount KZT'000	Net retention (after reinsurance) KZT'000
Vehicles owner's liability – obligatory	2,389,941,186	-	2,389,941,186
Civil liability of passenger carrier – obligatory	320,575,489	1,787,643	318,787,846
Property – voluntary	250,838,390	121,354,669	129,483,721
Transport and cargo – voluntary	122,530,710	12,476,636	110,054,074
General civil liability – voluntary	151,284,917	117,914,855	33,370,062
Other obligatory	24,708,196	485,590	24,222,606
Other voluntary	7,159,275	541,351	6,617,924
Casualty – voluntary	4,062,792	1,206,544	2,856,248
Financial losses liability – voluntary	12,125,825	11,747,240	378,585
Total	3,283,226,780	267,514,528	3,015,712,252

The key concentrations identified as at 31 December 2014 are:

Insurance type	Total insured amount KZT'000	Reinsurance amount KZT'000	Net retention (after reinsurance) KZT'000
Vehicles owner's liability – obligatory	2,400,179,736	-	2,400,179,736
Civil liability of passenger carrier – obligatory	361,436,265	3,232,203	358,204,062
Transport and cargo – voluntary	135,840,773	13,271,088	122,569,685
Property – voluntary	186,583,633	65,527,185	121,056,448
General civil liability – voluntary	105,581,027	80,336,774	25,244,253
Other obligatory	32,169,389	8,439,203	23,730,186
Other voluntary	6,778,190	149,504	6,628,686
Casualty – voluntary	4,627,854	2,041,671	2,586,183
Financial losses liability – voluntary	12,402,583	11,992,706	409,877
Total	3,245,599,450	184,990,334	3,060,609,116

(ii) Exposure by other countries

The Group is not exposed to risks in any countries other than the Republic of Kazakhstan, as the Group has no insurance contracts covering risk outside the Republic of Kazakhstan.

(iii) Exposure to catastrophe events

The greatest likelihood of significant losses to the Group arises from catastrophic events, such as earthquake damage, resulting from an earthquake in Almaty. The Group does not possess catastrophe modelling techniques and software facilitating modelling of Probable Maximum Loss (PML). However, the Group made an estimate of its losses that it believes will not exceed 20% of total aggregate exposure.

The key concentration identified is:

Catastrophe events	Total insurance amount '000 KZT	Estimated PML (before reinsurance) '000 KZT	Net retention (after reinsurance) '000 KZT
Almaty earthquake with magnitude exceeding seven points under Richter scale	21,454,300	4,290,860	4,290,860

4 Insurance risk management, continued

(e) Claims development

The Group uses statistical methods for insurance contract provisioning. Uncertainty about the amount and timing of claims payment for all insurance contracts is typically resolved within one year.

While the information in the table provides a historical perspective on the adequacy of unpaid claims estimates established in previous years, users of these consolidated interim financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The Group believes that the estimate of total claims outstanding as at 30 June 2015 is adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

Analysis of claims development (gross) – total

KZT'000	Accident year				Total
	2012	2013	2014	30 June 2015	
Estimate of cumulative claims					
At end of accident year	1,536,953	3,776,419	3,809,449	1,693,797	10,816,618
- one year later	1,430,556	1,262,161	1,390,276	-	4,082,993
- two years later	90,584	72,166	-	-	162,750
- three years later	49,195	-	-	-	49,195
Estimate of cumulative claims	49,195	72,166	1,390,276	1,693,797	3,205,434
Cumulative payments to date	(38,745)	(43,347)	(1,191,263)	(981,252)	(2,254,607)
Gross outstanding claims liabilities	10,450	28,819	199,013	712,545	950,827

Analysis of claims development (gross) – Vehicle owner's civil liability

KZT'000	Accident year				Total
	2012	2013	2014	30 June 2015	
Estimate of cumulative claims					
At end of accident year	1,209,012	2,769,209	2,641,701	1,137,973	7,757,895
- one year later	1,092,515	907,718	985,987	-	2,986,220
- two years later	17,792	45,628	-	-	63,420
- three years later	2,475	-	-	-	2,475
Estimate of cumulative claims	2,475	45,628	985,987	1,137,973	2,172,063
Cumulative payments to date	(1,704)	(30,557)	(843,387)	(681,427)	(1,557,075)
Gross outstanding claims liabilities	771	15,071	142,600	456,546	614,988

5 Net interest income

	Six-month period ended 30 June 2015 KZT'000	Six-month period ended 30 June 2014 KZT'000
Interest income		
Loans to customers	58,117,993	49,771,256
Held-to-maturity investments	770,097	660,399
Deposits and balances with banks and other financial institutions	486,970	287,579
Amounts receivable under reverse repurchase agreements	238,497	434,059
Available-for-sale financial assets	194,391	67,604
Financial instruments at fair value through profit or loss	118,616	271,350
Cash and cash equivalents	116,128	268,123
	60,042,692	51,760,370
Interest expense		
Current accounts and deposits from customers	(22,272,178)	(22,274,640)
Subordinated debt	(2,729,234)	(2,035,185)
Debt securities issued	(2,018,378)	(866,695)
Deposits and balances from banks and other financial institutions	(1,607,121)	(1,104,877)
Loans from state company	(565,739)	(102,192)
Amounts payable under repurchase agreements	(25,072)	(23,719)
	(29,217,722)	(26,407,308)
	30,824,970	25,353,062

Included within various line items under interest income for the six-month period ended 30 June 2015 is a total of KZT 3,773,337 thousand (six-month period ended 30 June 2014: KZT 2,321,830 thousand) accrued on individually impaired financial assets.

Included in interest income on financial instruments at fair value through profit or loss for the six-month period ended 30 June 2015 is a total of KZT 118,616 thousand (six-month period ended 30 June 2014: KZT 271,350 thousand) recognised on financial assets at fair value through profit or loss 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 of loss is KZT 59,924,076 thousand (six-month period ended 30 June 2014: KZT 51,489,020 thousand) and KZT 29,217,722 thousand (six-month period ended 30 June 2014: KZT 26,407,308 thousand), respectively.

6 Fee and commission income

	Six-month period ended 30 June 2015	Six-month period ended 30 June 2014
	KZT'000	KZT'000
Transfer operations	1,218,890	1,180,199
Guarantee and letter of credit issuance fees	828,700	1,189,791
Cash withdrawal fees	770,032	794,783
Settlement fees	463,710	503,485
Foreign exchange fees	379,574	521,777
Cash collection fees	28,542	21,254
Commission for the safe deposit operations	25,295	20,104
Other	303,637	292,745
	4,018,380	4,524,138

7 Fee and commission expense

	Six-month period ended 30 June 2015	Six-month period ended 30 June 2014
	KZT'000	KZT'000
Insurance acquisition costs	356,510	405,975
Client card account maintenance fees	137,648	164,772
Transfer operations	71,381	66,060
Agents' services	30,905	29,547
Brokers' and insurance agents' services	30,202	48,251
Commission expenses on guarantees issued	22,871	39,813
Commission expense on received deposits	10,342	45,137
Commission expenses on credit letters	3,912	9,055
Other	24,546	18,161
	688,317	826,771

8 Net earned insurance premiums

	Obligatory		Voluntary				Total
	Vehicle owner's liability	Other obligatory	Property	Civil liability	Transport and cargo	Other voluntary	
Six-month period ended 30 June 2015							
KZT'000							
Gross premiums written	2,505,742	130,628	844,624	118,678	233,150	157,081	3,989,903
Change in the gross provision for unearned premiums	49,896	33,647	(553,425)	(29,067)	654,358	50,318	205,727
Gross earned premiums	2,555,638	164,275	291,199	89,611	887,508	207,399	4,195,630
Less: written premiums ceded to reinsurers	(80)	(2,193)	(619,516)	(30,598)	(201,018)	(12,899)	(866,304)
Reinsurers' share of change in the gross provision for unearned premiums	-	(418)	540,020	12,023	(7,796)	5,997	549,826
Ceded earned premiums	(80)	(2,611)	(79,496)	(18,575)	(208,814)	(6,902)	(316,478)
Net earned premiums	2,555,558	161,664	211,703	71,036	678,694	200,497	3,879,152
	Obligatory		Voluntary				
	Vehicle owner's liability	Other obligatory	Property	Civil liability	Transport and cargo	Other voluntary	Total
Six-month period ended 30 June 2014							
KZT'000							
Gross premiums written	2,369,926	170,254	250,056	88,977	1,849,067	397,190	5,125,470
Change in the gross provision for unearned premiums	283,750	19,577	66,153	(4,216)	(922,744)	(288,086)	(845,566)
Gross earned premiums	2,653,676	189,831	316,209	84,761	926,323	109,104	4,279,904
Less: written premiums ceded to reinsurers	-	(70)	(28,903)	(3,122)	(9,422)	(3,611)	(45,128)
Reinsurers' share of change in the gross provision for unearned premiums	(1,043,986)	64	(15,303)	956	(37,724)	2,395	(1,093,598)
Ceded earned premiums	(1,043,986)	(6)	(44,206)	(2,166)	(47,146)	(1,216)	(1,138,726)
Net earned premiums	1,609,690	189,825	272,003	82,595	879,177	107,888	3,141,178

9 Net insurance claims incurred

	Obligatory		Voluntary				Total
	Vehicle owner's liability	Other obligatory	Property	Civil liability	Transport and cargo	Other voluntary	
Six-month period ended 30 June 2015							
KZT'000							
Insurance claims incurred, net of reinsurance	(1,585,439)	(11,370)	(5,393)	(34,577)	(407,457)	(266,148)	(2,310,384)
Change in provisions for incurred but not reported claims	97,521	19,941	5,582	(9,219)	4,535	7,473	125,833
Change in provisions for reported but not settled claims	5,469	1,966	(1,119)	215	17,071	(2,610)	20,992
Change in reinsurers' share in claims provisions	-	110	-	-	113	131	354
Change in net insurance contract provisions	102,990	22,017	4,463	(9,004)	21,719	4,994	147,179
Net insurance claims incurred	(1,482,449)	10,647	(930)	(43,581)	(385,738)	(261,154)	(2,163,205)

	Obligatory		Voluntary				Total
	Vehicle owner's liability	Other obligatory	Property	Civil liability	Transport and cargo	Other voluntary	
Six-month period ended 30 June 2014							
KZT'000							
Insurance claims incurred, net of reinsurance	(1,541,248)	(68,061)	(7,941)	(38,191)	(342,117)	(217,645)	(2,215,203)
Change in provisions for incurred but not reported claims	(71,116)	(12,266)	9,444	34,559	(53,664)	23,878	(69,165)
Change in provisions for reported but not settled claims	25,170	13,774	1,815	12,908	6,387	6,804	66,858
Change in reinsurers' share in claims provisions	-	-	-	-	-	-	-
Change in net insurance contract provisions	(45,946)	1,508	11,259	47,467	(47,277)	30,682	(2,307)
Net insurance claims incurred	(1,587,194)	(66,553)	3,318	9,276	(389,394)	(186,963)	(2,217,510)

10 Net gain (loss) on financial instruments at fair value through profit or loss

	Six-month period ended 30 June 2015 KZT'000	Six-month period ended 30 June 2014 KZT'000
Derivative financial instruments	681,305	-
Equity financial instruments	(5,280)	3,391
Debt financial instruments	(28,456)	(5,801)
	647,569	(2,410)

Included in net gain (loss) on financial instruments at fair value through profit or loss for the six-month period ended 30 June 2015 is a total gain of KZT 647,569 thousand (six-month period ended 30 June 2014: loss of KZT 2,410 thousand) recognised on financial assets held for trading.

11 Net foreign exchange gain

	Six-month period ended 30 June 2015 KZT'000	Six-month period ended 30 June 2014 KZT'000
Gain on spot transactions and derivatives	4,178,069	4,872,095
Loss from revaluation of financial assets and liabilities	(2,158,869)	137,959
	2,019,200	5,010,054

12 Impairment losses

	Six-month period ended 30 June 2015 KZT'000	Six-month period ended 30 June 2014 KZT'000
Loans to customers (Note 20)	11,691,202	7,397,910
Other assets (Note 25)	(408,302)	301,844
	11,282,900	7,699,754

13 Personnel expenses

	Six-month period ended 30 June 2015 KZT'000	Six-month period ended 30 June 2014 KZT'000
Employee compensation	7,232,061	6,912,875
Social contributions and payroll related taxes	869,232	914,241
	8,101,293	7,827,116

14 Other general administrative expenses

	Six-month period ended 30 June 2015 KZT'000	Six-month period ended 30 June 2014 KZT'000
Occupancy	1,843,088	1,945,531
Depreciation and amortisation	1,319,640	872,775
Contributions to deposit and insurance guarantee fund	1,087,900	1,093,324
Advertising and marketing	1,049,712	569,232
Transportation	762,158	396,768
Taxes other than on income	597,200	584,256
Repairs and maintenance	505,907	483,564
Security	367,802	317,353
Communications and information services	255,015	233,556
Professional services	209,102	176,181
Stationery and office equipment supplies	193,023	163,874
Travel expenses	101,889	130,150
Encashment expenses	96,134	75,444
Post and courier services	49,375	39,377
Insurance	42,142	8,640
Recruitment and training	19,233	18,377
Other	974,574	2,423,810
	9,473,894	9,532,212

15 Income tax expense

	Six-month period ended 30 June 2015 KZT'000	Six-month period ended 30 June 2014 KZT'000
Current tax expense		
Current year	1,657,566	2,258,891
Effect of retrospective changes in tax legislation	-	(1,097,368)
Underprovided in prior periods	36,294	-
	1,693,860	1,161,523
Deferred tax expense		
Origination and reversal of temporary differences	246,067	927,300
Total income tax expense	1,939,927	2,088,823

In 2015, the applicable tax rate for current and deferred tax is 20% (2014: 20%).

15 Income tax expense, continued

Reconciliation of effective tax rate for the six-month period ended 30 June 2015:

	Six-month period ended 30 June 2015	%	Six-month period ended 30 June 2014	%
	KZT'000		KZT'000	
Profit before income tax	9,913,013	100.0	10,073,342	100.0
Income tax at the applicable tax rate	1,982,603	20.0	2,014,668	20.0
Underprovided in prior periods	36,294	0.4	-	-
Non-taxable income (non-deductible expense)	(78,970)	(0.8)	74,155	0.7
	1,939,927	19.6	2,088,823	20.7

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 and liabilities as at 30 June 2015 and 31 December 2014. Deferred tax assets in respect of tax losses carried forward are recognised in these consolidated interim 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 deductible temporary differences do not expire under current tax legislation. The tax losses carried forward expire in ten years after the date of origination.

Movements in temporary differences during the six-month periods ended 30 June 2015 and 2014 are presented as follows.

KZT'000	Balance 1 January 2015	Recognised in profit or loss	Balance 30 June 2015
Property, equipment and intangible assets	(1,012,986)	(130,702)	(1,143,688)
Loans to customers	(3,326,242)	-	(3,326,242)
Interest payable on deposits and balances from banks and other financial institutions	122,949	-	122,949
Interest payable on current accounts and deposits from customers	40,051	-	40,051
Unrealised revaluation of currency swap agreements	-	(463,539)	(463,539)
Other liabilities	246,567	20,436	267,003
Tax losses carried forward	56,791	327,738	384,529
	(3,872,870)	(246,067)	(4,118,937)
<i>Including:</i>			
Deferred tax asset	28,692	3,671	32,363
Deferred tax liability	(3,901,562)	(249,738)	(4,151,300)

15 Income tax expense, continued

Deferred tax asset and liability, continued

KZT'000	Balance 1 January 2014	Recognised in profit or loss	Balance 30 June 2014
Property, equipment and intangible assets	(609,355)	(35,658)	(645,013)
Loans to customers	(3,326,242)	-	(3,326,242)
Interest payable on deposits and balances from banks and other financial institutions	56,657	22,528	79,185
Interest payable on current accounts and deposits from customers	850,284	(850,284)	-
Interest payable on repurchase agreements	382	(382)	-
Interest payable on debt securities issued	72,045	(72,045)	-
Interest payable on subordinated debt	197,186	(197,186)	-
Other liabilities	105,834	14,080	119,914
Tax losses carried forward	69,472	191,647	261,119
	(2,583,737)	(927,300)	(3,511,037)
<i>Including:</i>			
Deferred tax asset	10,475	188,106	198,581
Deferred tax liability	(2,594,212)	(1,115,406)	(3,709,618)

16 Cash and cash equivalents

	30 June 2015 KZT'000	31 December 2014 KZT'000
Cash on hand	27,222,403	32,412,169
Nostro accounts with the NBRK	78,470,388	64,928,468
Nostro accounts with other banks		
- rated AA- to AA+	7,555,380	29,422,285
- rated A- to A+	119,845	2,711,122
- rated from BBB- to BBB+	991,039	592,892
- rated from BB- to BB+	408,333	358,246
- rated from B- to B+	613,028	456,737
- not rated	172,669	208,996
Total nostro accounts with other banks	9,860,294	33,750,278
Current accounts and term deposits with other banks		
- rated A- to A+	6,313	13,868
- rated from BB- to BB+	2,762	1,596
- rated from B- to B+	3,650,850	10,957,007
- not rated	364,077	85,330
Total current accounts and term deposits with other banks	4,024,002	11,057,801
Total cash and cash equivalents	119,577,087	142,148,716

The credit ratings are presented by reference to the credit ratings of Fitch's credit ratings agency or analogues of similar international agencies.

None of cash and cash equivalents are impaired or past due.

As at 30 June 2015, the Group has one bank (31 December 2014: three banks), whose balance exceeds 10% of equity. The gross value of these balances as at 30 June 2015 is KZT 78,470,388 thousand (31 December 2014: KZT 105,213,068 thousand).

Minimum reserve requirements

As at 30 June 2015 minimum reserve requirements are calculated in accordance with regulations issued by the NBRK and should be maintained as average of cash on hand not exceeding 70% of the estimated minimum reserve requirements and balances on current account with the NBRK for four week period (31 December 2014: as average of cash on hand and balances on current account with the NBRK for the two week period) calculated as certain minimum level of residents' and non-residents' customer deposits and current accounts balances as well as other Group liabilities. As at 30 June 2015, the minimum reserve is KZT 10,383,257 thousand (31 December 2014: KZT 12,043,308 thousand), and reserve asset is KZT 16,376,936 thousand (31 December 2014: KZT 21,272,996 thousand).

17 Deposits and balances with banks and other financial institutions

	30 June 2015 KZT'000	31 December 2014 KZT'000
Loans and deposits		
- conditional deposit with NBRK	14,677,126	3,672,281
- rated from BBB- to BBB+	-	984,850
- rated from BB- to BB+	668,217	656,894
- rated below B+	4,850,944	2,272,679
- not rated	2,612,657	5,424,367
- defaulted	48,130	48,130
Total loans and deposits	22,857,074	13,059,201
Impairment allowance	(48,130)	(48,130)
Total loans and deposits	22,808,944	13,011,071
Derivative financial instruments		
Foreign currency contracts	3,957	-
Net deposits and balances with banks and other financial institutions	22,812,901	13,011,071

The credit ratings are presented by reference to the credit ratings of Fitch's credit ratings agency or analogues of similar international agencies.

Overdue or impaired deposits and balances with banks and other financial institutions comprise deposits and balances with banks and other financial institutions overdue for more than 360 days of KZT 48,130 thousand (31 December 2014: overdue for more than 360 days of KZT 48,130 thousand).

Conditional deposit with NBRK consists of funds of KZT 2,414,850 thousand (31 December 2014: KZT 3,000,000 thousand) received from Development Bank of Kazakhstan JSC ("DBK") in accordance with the loan agreement with DBK and funds of KZT 12,262,276 thousand (31 December 2014: KZT 672,281 thousand) received from Entrepreneurship Development Fund DAMU JSC (the "DAMU") in accordance with the loan agreement with Damu. Funds will be distributed to corporate clients on preferential terms. These funds may be withdrawn from the conditional deposit only after approval of DBK and Damu, respectively.

The amount of loans and deposits with not rated banks includes KZT 2,610,657 thousand of subordinated debt (31 December 2014: KZT 2,009,312 thousand).

Concentration of deposits and balances with banks and other financial institutions

As at 30 June 2015, the Group has a bank (31 December 2014: no banks), whose balance exceeds 10% of equity. The gross value of this balance as at 30 June 2015 is KZT 14,677,126 thousand (31 December 2014: nil).

18 Financial instruments at fair value through profit or loss

	30 June 2015 KZT'000	31 December 2014 KZT'000
ASSETS		
Held by the Group		
Debt and other fixed-income instruments		
- Government bonds		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	389,109	1,953,399
- Total government bonds	389,109	1,953,399
- Corporate bonds		
rated from BBB- to BBB+	295,807	2,288,064
rated from BB- to BB+	2,584,951	281,961
rated from B- to B+	851,763	120,176
not rated	-	3,667
- Total corporate bonds	3,732,521	2,693,868
Equity investments		
Corporate shares	4,837	7,920
American and Global depository receipts	1,948	510
Exchange-Traded Fund	1,831	-
Total equity investments	8,616	8,430
Derivative financial instruments		
Foreign currency contracts	5,045,766	3,678,243
	9,176,012	8,333,940
LIABILITIES		
Derivative financial instruments		
Foreign currency contracts	745,753	-
	745,753	-

The credit ratings are presented by reference to the credit ratings of Fitch's credit ratings agency or analogues of similar international agencies. As at 30 June 2015 and 31 December 2014 financial instruments at fair value through profit or loss are held for trading.

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

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of the foreign currency swap contracts outstanding at 30 June 2015 and 31 December 2014 with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these non-matured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
	30 June 2015 KZT'000	31 December 2014 KZT'000	30 June 2015	31 December 2014
Buy USD sell KZT				
Less than 12 months	109,537,924	109,537,924	181.22	181.22
More than 12 months	11,111,150	11,111,150	182.15	182.15
Buy KZT sell USD				
Less than 3 months	-	1,042,960	-	186.24
Less than 12 months	444,934	444,934	182.35	182.35
More than 12 months	11,111,150	11,111,150	182.15	182.15

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

At 30 June 2015 and 31 December 2014, derivative financial instruments include a currency swap agreements signed in 2014 with NBRK, under which the Group should deliver KZT 120,649,074 thousand in 2015 and 2019 in exchange for USD 665,440 thousand. Under these agreements the Group prepaid a premium of KZT 3,619,472 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 30 June 2015 the fair value of the swaps amounted to KZT 5,045,766 thousand (31 December 2014: KZT 3,678,243 thousand).

19 Available-for-sale financial assets

	30 June 2015 KZT'000	31 December 2014 KZT'000
Debt instruments		
Government bonds		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	3,429,742	3,431,405
Total government bonds	3,429,742	3,431,405
Corporate bonds		
Corporate bonds rated from BBB- to BBB+	1,221,270	1,095,635
Corporate bonds rated from BB- to BB+	1,582,359	1,482,508
Total corporate bonds	2,803,629	2,578,143
Equity instruments		
Corporate shares	3,352,571	3,352,571
Impairment allowance	-	-
	9,585,942	9,362,119

As at 30 June 2015, available-for-sale investments include unquoted equity securities stated at cost of KZT 46,548 thousand (31 December 2014: KZT 46,548 thousand). There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows.

20 Loans to customers

	30 June 2015 KZT'000	31 December 2014 KZT'000
Loans to corporate customers		
Loans to large corporates	289,967,358	278,946,761
Loans to small and medium size companies	709,925,577	670,138,838
Total loans to corporate customers	999,892,935	949,085,599
Loans to retail customers		
Car loans	72,810,253	82,305,774
Mortgage loans	42,449,128	45,615,991
Consumer loans	24,225,974	27,761,012
Express loans	4,974,175	4,908,812
Credit cards	106,266	111,980
Total loans to retail customers	144,565,796	160,703,569
Gross loans to customers	1,144,458,731	1,109,789,168
Impairment allowance	(60,850,698)	(49,540,234)
Net loans to customers	1,083,608,033	1,060,248,934

20 Loans to customers, continued

Movements in the loan impairment allowance by classes of loans to customers for the six-month period ended 30 June 2015 are as follows:

	Loans to corporate customers KZT'000	Loans to retail customers KZT'000	Total KZT'000
Balance at the beginning of the period	41,404,211	8,136,023	49,540,234
Net charge	9,457,986	2,233,216	11,691,202
Foreign exchange effect	394,892	10,985	405,877
Write-offs	(728,647)	(58,870)	(787,517)
Recovery of previously written-off balances	-	902	902
Balance at the end of the period	50,528,442	10,322,256	60,850,698

Movements in the loan impairment allowance by classes of loans to customers for the six-month period ended 30 June 2014 are as follows:

	Loans to corporate customers KZT'000	Loans to retail customers KZT'000	Total KZT'000
Balance at the beginning of the period	24,474,211	3,765,524	28,239,735
Net charge	4,347,900	3,050,010	7,397,910
Foreign exchange effect	189,507	36,789	226,296
Write-offs	(50,904)	(28,994)	(79,898)
Balance at the end of the period	28,960,714	6,823,329	35,784,043

(a) Credit quality of loans to customers

The following table provides information on the credit quality of the loans to customers as at 30 June 2015:

	30 June 2015 KZT'000	31 December 2014 KZT'000
Loans to corporate customers		
Loans to large corporates		
Loans without individual signs of impairment	274,564,813	271,080,226
Impaired or overdue loans:		
- not overdue	7,535,977	-
- overdue more than 90 days and less than 1 year	2,250,247	2,250,247
- overdue more than 1 year	5,616,321	5,616,288
Total impaired or overdue loans	15,402,545	7,866,535
Total loans to large corporates	289,967,358	278,946,761
Impairment allowance on loans to large corporates	(9,601,425)	(7,187,574)
Total loans to large corporates, net of impairment allowance	280,365,933	271,759,187
Loans to small and medium size companies		
Loans without individual signs of impairment	623,123,600	590,273,671
Impaired or overdue loans:		
- not overdue	58,969,176	52,026,217
- overdue less than 90 days	11,361,437	6,525,968
- overdue more than 90 days and less than 1 year	1,389,019	5,910,865
- overdue more than 1 year	15,082,345	15,402,117
Total impaired or overdue loans	86,801,977	79,865,167
Total loans to small and medium size companies	709,925,577	670,138,838
Impairment allowance on loans to small and medium size companies	(40,927,017)	(34,216,637)
Total loans to small and medium size companies, net of impairment allowance	668,998,560	635,922,201
Total loans to corporate customers	999,892,935	949,085,599
Impairment allowance on loans corporate customers	(50,528,442)	(41,404,211)
Total loans to corporate customers, net of impairment allowance	949,364,493	907,681,388

20 Loans to customers, continued

(a) Credit quality of loans to customers, continued

	30 June 2015 KZT'000	31 December 2014 KZT'000
Loans to retail customers		
Car loans		
- not overdue	55,569,299	70,624,097
- overdue less than 30 days	2,780,821	2,605,687
- overdue 30-89 days	2,230,609	1,909,962
- overdue 90-179 days	3,441,094	2,045,418
- overdue more than 180 days	8,788,430	5,120,610
Total car loans	72,810,253	82,305,774
Impairment allowance on car loans	(4,669,133)	(1,770,825)
Total car loans, net of impairment allowance	68,141,120	80,534,949
Mortgage loans		
- not overdue	34,079,445	38,361,409
- overdue less than 30 days	1,458,949	701,716
- overdue 30-89 days	646,738	521,246
- overdue 90-179 days	645,779	353,842
- overdue more than 180 days	5,618,217	5,677,778
Total mortgage loans	42,449,128	45,615,991
Impairment allowance on mortgage loans	(3,058,814)	(3,120,138)
Total mortgage loans, net of impairment allowance	39,390,314	42,495,853
Consumer loans		
- not overdue	18,907,175	23,157,410
- overdue less than 30 days	783,211	550,196
- overdue 30-89 days	576,275	391,451
- overdue 90-179 days	566,377	303,107
- overdue more than 180 days	3,392,936	3,358,848
Total consumer loans	24,225,974	27,761,012
Impairment allowance on consumer loans	(1,161,279)	(1,238,283)
Total consumer loans, net of impairment allowance	23,064,695	26,522,729
Express loans		
- not overdue	4,090,069	4,252,030
- overdue less than 30 days	95,433	65,556
- overdue 30-89 days	84,866	61,180
- overdue 90-179 days	114,092	55,257
- overdue more than 180 days	589,715	474,789
Total express loans	4,974,175	4,908,812
Impairment allowance on express loans	(1,390,518)	(1,975,532)
Total express loans, net of impairment allowance	3,583,657	2,933,280
Credit cards		
- not overdue	60,794	33,836
- overdue less than 30 days	-	42,651
- overdue 30-89 days	4,222	-
- overdue 90-179 days	1,328	127
- overdue more than 180 days	39,922	35,366
Total credit cards	106,266	111,980
Impairment allowance on credit cards	(42,512)	(31,245)
Total credit cards, net of impairment allowance	63,754	80,735
Total loans to retail customers	144,565,796	160,703,569
Impairment allowance on loans to retail customers	(10,322,256)	(8,136,023)
Total loans to retail customers, net of impairment allowance	134,243,540	152,567,546
Total loans to customers	1,144,458,731	1,109,789,168
Impairment allowance on loans to customers	(60,850,698)	(49,540,234)
Total loans to customers, net of impairment allowance	1,083,608,033	1,060,248,934

20 Loans to customers, continued

(b) Key assumptions and judgments for estimating 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 for which no individual signs of impairment has been identified.

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

- quarterly loss rates are based on historic loss experience of 0.47-0.64% and an emergence period of 3 months
- migration rates for loans to small and medium size companies are constant and can be estimated based on historic loss migration pattern for the past 12 months
- a discount of between 10% and 20% to the originally appraised value if the property pledged is sold
- a delay of 6-24 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 30 June 2015 would be KZT 9,493,645 thousand lower/higher (31 December 2014: KZT 9,076,814 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 30% to the annually appraised value if the property pledged is sold
- a delay of 6-12 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 plus minus three percent, the impairment allowance on loans to retail customers as at 30 June 2015 would be KZT 4,027,306 thousand lower/higher (31 December 2014: KZT 4,577,026 thousand).

20 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:

30 June 2015 KZT'000	Loans to customers, carrying amount	Fair value of collateral - for collateral assessed as of reporting date	Fair value of collateral – for collateral – as of date of loan issue	Fair value of collateral not determined
Loans without individual signs of impairment				
Cash and deposits	18,488,483	18,488,483	-	-
Traded securities	17,863,751	17,863,751	-	-
Real estate	374,782,211	355,094,680	19,687,531	-
Grain	89,126,172	89,126,172	-	-
Goods in turnover	102,283,114	101,997,121	285,993	-
Motor vehicles	2,566,924	2,087,998	478,926	-
Equipment	10,415,516	10,373,006	42,510	-
Corporate guarantees and guarantees of individuals	104,972,109	-	-	104,972,109
No collateral or other credit enhancement	148,331,070	-	-	148,331,070
Other collateral registered subsequently after reporting date	23,230,701	23,230,701	-	-
Total loans without individual signs of impairment	892,060,051	618,261,912	20,494,960	253,303,179
Overdue or impaired loans				
Cash and deposits	72,014	72,014	-	-
Traded securities	941,859	941,859	-	-
Real estate	32,676,571	27,394,004	5,282,567	-
Grain	5,051,520	5,051,520	-	-
Goods in turnover	3,463,652	3,418,053	45,599	-
Motor vehicles	506,524	120,820	385,704	-
Equipment	1,913,889	1,797,045	116,844	-
Other	29,950	29,950	-	-
Corporate guarantees and guarantees of individuals	6,790,738	-	-	6,790,738
No collateral or other credit enhancement	5,857,725	-	-	5,857,725
Total overdue or impaired loans	57,304,442	38,825,265	5,830,714	12,648,463
Total loans to corporate customers	949,364,493	657,087,177	26,325,674	265,951,642

20 Loans to customers, continued**(c) Analysis of collateral, continued****(i) Loans to corporate customers, continued**

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 as of date of loan issue	Fair value of collateral not determined
Loans without individual signs of impairment				
Cash and deposits	19,820,064	19,820,064	-	-
Trading securities	19,041,460	19,041,460	-	-
Real estate	349,645,322	340,108,365	9,536,957	-
Grain	63,986,649	63,986,649	-	-
Goods in turnover	77,838,579	77,749,748	88,831	-
Motor vehicles	2,987,524	2,726,036	261,488	-
Equipment	11,224,173	11,163,640	60,533	-
Other	795,630	795,630	-	-
Corporate guarantees (unrated) and guarantees of individuals	141,118,941	-	-	141,118,941
No collateral or other credit enhancement	142,265,193	-	-	142,265,193
Other collateral registered subsequently after reporting date	28,678,293	28,678,293	-	-
Total loans without individual signs of impairment	857,401,828	564,069,885	9,947,809	283,384,134
Overdue or impaired loans				
Cash and deposits	61,790	61,790	-	-
Trading securities	1,428,842	1,428,842	-	-
Real estate	33,561,510	31,993,577	1,567,933	-
Goods in turnover	2,762,213	2,638,806	123,407	-
Motor vehicles	370,738	182,207	188,531	-
Equipment	177,537	88,194	89,343	-
Guarantees	9,606,335	-	-	9,606,335
Other	63	33	30	-
No collateral or other credit enhancement	2,310,532	-	-	2,310,532
Total overdue or impaired loans	50,279,560	36,393,449	1,969,244	11,916,867
Total loans to corporate customers	907,681,388	600,463,334	11,917,053	295,301,001

The tables above exclude the effect of overcollateralisation.

The amount disclosed in the table above within “No collateral or other credit enhancement” line includes uncollateralised loans and portions of loans without full collateral coverage. As at 30 June 2015, the net carrying value of uncollateralised corporate loans is KZT 14,465,327 thousand or 1.52% of the corporate loan portfolio (31 December 2014: KZT 16,832,789 thousand or 1.85% of corporate loan portfolio).

For majority of loans the fair value of collateral is updated as at the reporting date. The Group also 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. 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, and corporate guarantees received from unrated local companies are not considered for impairment assessment purposes.

20 Loans to customers, continued

(c) Analysis of collateral, continued

(ii) Loans to retail customers

Mortgage loans are secured by underlying housing real estate. The Group's policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 70%. Car loans are secured by cars. The Group's policy is to issue car loans with a loan-to-value ratio of a maximum of 90%. Consumer loans are generally secured by properties and in certain cases by assets including vehicles, cash deposits and guarantees.

Management estimates that the impairment allowance would have been higher by KZT 3,337,066 thousand (31 December 2014: KZT 3,082,333 thousand) for mortgage loans, by KZT 2,520,515 thousand (31 December 2014: KZT 2,218,581 thousand) for consumer loans and by KZT 6,084,415 thousand (31 December 2014: KZT 4,270,097 thousand) for car 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:

	30 June 2015	31 December
	KZT'000	2014
	KZT'000	KZT'000
Trade	276,335,108	239,747,689
Agriculture	180,070,199	186,725,453
Production	154,018,524	140,503,823
Services	120,903,116	115,064,241
Construction	119,703,870	110,013,084
Transportation	100,702,560	92,460,031
Finance and insurance	38,738,017	55,831,894
Education	1,274,453	2,720,573
Public authority companies	45,582	31,677
Other	8,101,506	5,987,134
Total loans to corporate customers	999,892,935	949,085,599
Loans issued to retail customers		
Car loans	72,810,253	82,305,774
Mortgage loans	42,449,128	45,615,991
Consumer loans	24,225,974	27,761,012
Express loans	4,974,175	4,908,812
Credit cards	106,266	111,980
Total retail loans	144,565,796	160,703,569
Gross loans to customers	1,144,458,731	1,109,789,168
Impairment allowance	(60,850,698)	(49,540,234)
	1,083,608,033	1,060,248,934

(e) Significant credit exposures

As at 30 June 2015, the Group has 22 borrowers or groups of connected borrowers (31 December 2014: 24), whose loan balances exceed 10% of equity. The gross value of these loans as at 30 June 2015 is KZT 349,858,541 thousand (31 December 2014: KZT 344,506,967 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in Note 36 which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Group, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than that based on contractual terms.

21 Held-to-maturity investments

	30 June 2015 KZT'000	31 December 2014 KZT'000
Held by the Group		
Government bonds		
- Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	25,463,911	32,123,829
- US treasury bills	-	1,495,205
Total government bonds	25,463,911	33,619,034
Corporate bonds		
- rated from BBB- to BBB+	924,905	924,049
- rated from B- to B+	329,657	185,906
- not rated	1,883,357	1,883,357
Total corporate bonds	3,137,919	2,993,312
Impairment allowance	(1,883,357)	(1,883,357)
Total net corporate bonds	1,254,562	1,109,955
	26,718,473	34,728,989

Analysis of movements in the impairment allowance

	Six-month period ended 30 June 2015 KZT'000	Six-month period ended 30 June 2014 KZT'000
Balance at the beginning of the period	1,883,357	1,883,357
Net charge	-	-
Balance at the end of the period	1,883,357	1,883,357

The credit ratings are presented by reference to the credit ratings of Fitch's credit ratings agency or analogues of similar international agencies.

Corporate bonds are interest-bearing securities, issued by local companies and banks. These securities are freely tradable on the Kazakhstan Stock Exchange ("KASE"), except for the bonds of Astana-Nedvizhimost JSC ("Astana-Nedvizhimost"). Astana-Nedvizhimost bonds were excluded from trading at KASE in July 2011. As at 30 June 2015 and 31 December 2014, the Group provided 100% impairment allowance on these bonds in the amount of KZT 1,883,357 thousand.

22 Property, equipment and intangible assets

KZT'000	Land and buildings	Computer equipment	Motor vehicles	Construction in progress	Other	Intangible assets	Total
<i>Cost</i>							
Balance at 1 January 2015	17,204,450	5,473,751	644,864	614,920	5,670,526	2,490,084	32,098,595
Additions	3,255,273	184,770	44,385	131,780	332,232	512,435	4,460,875
Disposals	-	(33,845)	-	-	(75,609)	(232)	(109,686)
Reclassified from other assets (Note 25)	7,745,313	-	-	-	-	-	7,745,313
Transfers	-	(286)	172,033	(300,707)	128,960	-	-
Balance at 30 June 2015	28,205,036	5,624,390	861,282	445,993	6,056,109	3,002,287	44,195,097
<i>Depreciation and amortisation</i>							
Balance at 1 January 2015	338,061	1,951,395	172,182	-	2,262,366	1,262,144	5,986,148
Depreciation and amortisation for the period	177,081	504,743	46,136	-	427,102	151,846	1,306,908
Disposals	-	(32,734)	-	-	(69,667)	(122)	(102,523)
Reclassified from other assets (Note 25)	314,436	-	-	-	-	-	314,436
Transfers	-	(24)	-	-	24	-	-
Balance at 30 June 2015	829,578	2,423,380	218,318	-	2,619,825	1,413,868	7,504,969
<i>Carrying amount</i>							
At 30 June 2015	27,375,458	3,201,010	642,964	445,993	3,436,284	1,588,419	36,690,128

22 Property, equipment and intangible assets, continued

KZT'000	Land and buildings	Computer equipment	Motor vehicles	Construction in progress	Other	Intangible assets	Total
<i>Cost</i>							
Balance at 1 January 2014	13,726,872	3,501,239	427,441	759,531	4,162,060	2,073,657	24,650,800
Additions	11,330	149,234	50,214	1,366,879	274,692	336,398	2,188,747
Disposals	-	(16,875)	-	-	(16,566)	(60,866)	(94,307)
Transfers	-	38,817	46,936	(201,908)	116,155	-	-
Balance at 30 June 2014	13,738,202	3,672,415	524,591	1,924,502	4,536,341	2,349,189	26,745,240
<i>Depreciation and amortisation</i>							
Balance at 1 January 2014	181,352	1,236,812	106,138	-	1,645,082	1,076,813	4,246,197
Depreciation and amortisation for the period	69,209	323,583	29,918	-	327,462	122,603	872,775
Disposals	-	(16,041)	-	-	(16,184)	(60,866)	(93,091)
Balance at 30 June 2014	250,561	1,544,354	136,056	-	1,956,360	1,138,550	5,025,881
<i>Carrying amount</i>							
At 30 June 2014	13,487,641	2,128,061	388,535	1,924,502	2,579,981	1,210,639	21,719,359

There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during six-month period ended 30 June 2015 and 2014.

23 Investment property

During the six-month period ended 30 June 2015, the Bank transferred to OMAD Tsesna some buildings located in Astana, Almaty and other regions of the Republic of Kazakhstan that were reclassified by the Group to investment property based on the management intentions of further use of these assets. The carrying value of investment property is KZT 1,505,964 thousand (31 December 2014: KZT 1,241,153 thousand). Management of the Group believes that carrying value of properties reflect their fair value as at 30 June 2015 and 31 December 2014. Fair value of investment properties are categorised in Level 2 of the fair value hierarchy.

	30 June 2015 KZT'000	31 December 2014 KZT'000
Balance as at 1 January	1,241,153	-
Additions	277,543	1,241,153
Accumulated depreciation	(12,732)	-
Balance as at 31 December	1,505,964	1,241,153

24 Insurance premiums and reinsurance assets

	30 June 2015 KZT'000	31 December 2014 KZT'000
Insurance premiums receivables	2,713,370	2,544,571
Impairment allowance	(158,729)	(158,729)
Total insurance premiums receivable	2,554,641	2,385,842
Reinsurers' share in insurance contract provisions	634,273	84,093
Total	3,188,914	2,469,935

Analysis of movements in the impairment allowance

Movements in the impairment allowance for the six-month period ended 30 June 2015 and 2014 are as follows:

	Six-month period ended 30 June 2015 KZT'000	Six-month period ended 30 June 2014 KZT'000
Balance at the beginning of the period	158,729	78,188
Net charge	-	-
Balance at the end of the period	158,729	78,188

25 Other assets

	30 June 2015	31 December
	KZT'000	2014
	KZT'000	KZT'000
Other receivables	10,504,544	10,688,778
Amount due from local commercial bank	210,035	210,035
Commissions receivable	111,685	54,942
Impairment allowance	(2,076,610)	(2,581,165)
Total other financial assets	8,749,654	8,372,590
Advance consideration*	-	7,430,877
Prepayments for office buildings	3,643,229	3,367,183
Prepayments	3,128,214	2,073,341
Materials and supplies	1,321,046	1,594,019
Other	328,933	378,958
Impairment allowance	(25,370)	(99,701)
Total other non-financial assets	8,396,052	14,744,677
Total other assets	17,145,706	23,117,267

*On 10 April 2013, the Group entered into an agreement with the shareholders of Plus Bank OJSC to increase the Group's shareholding of 19% up to 91.09%, subject to Kazakhstan and Russian Federation regulatory approval. Prior to 31 December 2012, the Group acquired certain assets for KZT 6,744,543 thousand which the Group planned to use as consideration for the completion of the transaction. During the six-month period ended 30 June 2015, the Group changed its intentions on transfer of the assets. Thus, the assets of KZT 7,430,877 thousand were reclassified from other assets to property, equipment and intangible assets (Note 22) for further use.

Analysis of movements in the impairment allowance

Movements in the impairment allowance for the six-month period ended 30 June 2015 are as follows:

	Other financial	Other non-	Total
	assets	financial assets	KZT'000
	KZT'000	KZT'000	KZT'000
Balance at the beginning of the period	2,581,165	99,701	2,680,866
Net recovery	(333,971)	(74,331)	(408,302)
Write-offs	(171,220)	-	(171,220)
Foreign exchange	636	-	636
Balance at the end of the period	2,076,610	25,370	2,101,980

Movements in the impairment allowance for the six-month period ended 30 June 2014 are as follows:

	Other financial	Other non-	Total
	assets	financial assets	KZT'000
	KZT'000	KZT'000	KZT'000
Balance at the beginning of the period	1,462,655	22,537	1,485,192
Net charge	141,977	159,867	301,844
Write-offs	(1,951)	(4,556)	(6,507)
Foreign exchange	7,776	-	7,776
Balance at the end of the period	1,610,457	177,848	1,788,305

As at 30 June 2015, included in other assets are overdue other receivables of gross KZT 4,716,000 thousand (31 December 2014: KZT 1,104,226 thousand), of which KZT 472,695 thousand are overdue for more than 90 days (31 December 2014: KZT 294,247 thousand).

26 Loans from state company

	Issue date	Maturity	Interest rate	Carrying value 30 June 2015 KZT'000	Carrying value 31 December 2014 KZT'000
Loans from National Management Holding KazAgro JSC:					
Loan 1	06.01.2014	04.12.2021	10.00%	847,947	847,717
Loan 2	29.08.2014	15.06.2023	3.00%	22,735,071	22,679,252
Loan 3	21.02.2015	10.12.2015	3.41%	11,060,790	-
Loan 4	28.02.2015	10.12.2015	3.41%	2,621,168	-
Loan 5	26.04.2015	10.12.2015	3.41%	2,590,610	-
Loan 6	26.05.2015	10.12.2015	3.41%	1,144,675	-
				41,000,261	23,526,969

Loans from the National Management Holding KazAgro JSC (the “KazAgro”) were received in accordance with KazAgro Rules of programme on financial recovery of companies operating in agriculture industry (the “Rules”).

During 2014, in accordance with the Rules and based on an agreement between KazAgro and the Group, KazAgro placed a fixed term deposit in the amount USD 541,076 thousand at 1% per annum interest rate with maturity in 2023 (Note 27). As at 30 June 2015 the deposit amounted to USD 515,916 thousand (31 December 2014: USD 531,012 thousand). According to the loan and deposit agreements between KazAgro and the Group, the Group is responsible to extend loans to companies operating in the agriculture industry to support their financial recovery. The Management of the Group believes that there are some other similar financial instruments such as loans from Entrepreneurship Development Fund DAMU JSC (the “DAMU”) and due to their specific nature, the loans and deposits from KazAgro and DAMU represent a separate segment of borrowings from state companies to support companies operating in certain industries. As a result, the loans from KazAgro 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.

27 Deposits and balances from banks and other financial institutions

	30 June 2015 KZT'000	31 December 2014 KZT'000
Loans and deposits from banks and other financial institutions	77,100,596	62,202,704
Vostro accounts	177,512	661,785
	77,278,108	62,864,489
Derivative financial instruments		
Foreign currency contracts	-	12,290
	77,278,108	62,876,779

As at 30 June 2015, the Group has two financial institutions (31 December 2014: two financial institutions), whose balances exceed 10% of equity. The gross value of this balance as at 30 June 2015 is KZT 69,048,219 thousand (31 December 2014: KZT 57,005,366 thousand).

As at 30 June 2015, deposits and balances from banks and other financial institutions include a long-term loan from DAMU in the amount of KZT 20,000,000 thousand at 2.0% per annum interest rate with maturity in 2034 and with an early repayment option. The loan was received in accordance with the Government program (“the Program”) to finance small and medium enterprises (“SME”)s operating in certain industries. According to the loan agreement between DAMU and the Group, the Group is responsible to extend loans to SME borrowers, eligible to participate in the Program, with maximum maturity up to 10 years at 6% interest rate. Management of the Group believes that there are some other similar financial instruments and due to their specific nature, the loans from KazAgro (Note 26) and DAMU represent a separate segment of borrowings from state companies to support companies operating in certain industries. As a result, the loan from DAMU was 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.

28 Current accounts and deposits from customers

	30 June 2015 KZT'000	31 December 2014 KZT'000
Current accounts and demand deposits		
- Corporate	205,870,725	128,454,705
- Retail	9,238,756	10,243,000
- Accrued interest	120,011	324,569
Term deposits		
- Corporate	496,048,611	605,942,170
- Retail	260,533,250	258,761,696
- Accrued interest	5,886,906	6,389,736
	977,698,259	1,010,115,876

As at 30 June 2015, the Group maintained customer deposit balances of KZT 26,382,172 thousand (31 December 2014: KZT 25,758,569 thousand) that serve as collateral for loans and unrecognised credit instruments granted by the Group.

As at 30 June 2015, the Group has 15 customers (31 December 2014: 14 customers), whose balances exceed 10% of equity. These balances as at 30 June 2015 are KZT 429,561,484 thousand (31 December 2014: KZT 469,563,445 thousand).

Current accounts and deposits from customers include a fixed term deposit of KazAgro in the amount of USD 515,916 thousand at 1% per annum with maturity in 2023 on terms described in Note 26 (31 December 2014: USD 531,012 thousand).

29 Debt securities issued

	30 June 2015 KZT'000	31 December 2014 KZT'000
Nominal	48,801,302	48,839,302
Discount	(2,495,214)	(2,654,159)
Accrued interest	483,274	505,847
	46,789,362	46,690,990

The summary of bond issues at 30 June 2015 and 31 December 2014 is presented below:

	Issue date	Maturity	Coupon rate	Effective rate	Carrying amount	
					30 June 2015 KZT'000	31 December 2014 KZT'000
KZT denominated bonds of the eighteenth issue *	4.06.2013	4.06.2016	8.0%	8.2%	10,041,345	10,041,333
KZT denominated bonds of the nineteenth issue *	04.06.2013	04.06.2018	8.0%	8.7%	9,913,773	9,895,024
KZT denominated bonds of the twenty fourth issue *	10.04.2014	10.04.2017	6.0%	6.9%	9,713,324	9,610,873
KZT denominated bonds of the twentieth issue *	10.04.2014	10.04.2021	Inflation index + 1%	8.0%	9,202,516	9,221,980
KZT denominated bonds of the twenty fifth issue *	10.04.2014	10.04.2019	8.0%	8.7%	2,895,076	2,880,051
KZT denominated bonds of the seventh issue *	11.07.2007	11.07.2027	7.5%	10.9%	2,633,324	2,633,335
KZT denominated bonds of the sixth issue *	14.12.2006	14.12.2015	Inflation index + 1%	10.8%	2,390,004	2,408,394
					46,789,362	46,690,990

*Quoted on KASE

30 Subordinated debt

	30 June 2015 KZT'000	31 December 2014 KZT'000
Subordinated bonds	55,787,828	55,634,631
Cumulative non-redeemable preferred shares	2,523,275	2,642,153
	58,311,103	58,276,784

As at 30 June 2015 and 31 December 2014, subordinated debt comprises quoted bonds and cumulative non-redeemable preferred 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 preferred shares.

(a) Cumulative non-redeemable preference shares

Holders of cumulative non-redeemable 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 price of KZT 1,000 each.

During the six-month period ended 30 June 2015, the Group accrued dividends on preference shares amounting to KZT 125,000 thousand (six-month period ended 30 June 2014: KZT 125,000 thousand).

(b) Subordinated bonds

The summary of subordinated bonds at 30 June 2015 and 31 December 2014 is presented below:

	Issue date	Maturity	Coupon rate	Effective rate	Carrying amount	
					30 June 2015 KZT'000	31 December 2014 KZT'000
KZT denominated bonds of the twenty first issue *	10.04.2014	10.04.2021	8%	9.7%	9,297,608	9,243,691
KZT denominated bonds of the thirteenth issue *	02.08.2012	02.08.2019	8.0%	9.7%	5,876,376	5,847,055
KZT denominated bonds of the eighth issue *	13.04.2011	13.04.2018	8.0%	8.1%	5,546,235	5,544,297
KZT denominated bonds of the eleventh issue *	01.02.2012	01.02.2019	8.0%	9.2%	4,983,166	4,965,772
KZT denominated bonds of the fourteenth issue *	04.06.2013	04.06.2020	8.0%	9.7%	4,723,955	4,701,509
KZT denominated bonds of the sixteenth issue *	04.06.2013	04.06.2028	9.0%	9.7%	4,676,205	4,669,819
KZT denominated bonds of the twenty second issue *	10.04.2014	10.04.2021	8%	9.7%	4,640,179	4,613,270
KZT denominated bonds of the fifteenth issue *	04.06.2013	04.06.2023	8.0%	9.7%	4,538,847	4,519,419
KZT denominated bonds of the tenth issue *	30.06.2011	30.06.2018	8.0%	10.7%	3,943,851	4,008,256
KZT denominated bonds of the twelfth issue *	02.08.2012	02.08.2019	8.0%	9.7%	3,896,910	3,877,375
KZT denominated bonds of the twenty third issue *	10.04.2014	10.04.2021	8.0%	9.7%	2,794,458	2,778,252
KZT denominated bonds*	19.03.2013	19.03.2020	8.0%	9.7%	870,038	865,916
					55,787,828	55,634,631

*Quoted on KASE

31 Insurance contract provisions

	Gross 30 June 2015 '000 KZT	Reinsurance 30 June 2015 '000 KZT	Net 30 June 2015 '000 KZT
Unearned premium provision	4,925,860	(632,077)	4,293,783
Provision for claims incurred but not reported	803,921	(2,196)	801,725
Provision for claims reported but not settled	146,906	-	146,906
	5,876,687	(634,273)	5,242,414

	Gross 31 December 2014 '000 KZT	Reinsurance 31 December 2014 '000 KZT	Net 31 December 2014 '000 KZT
Unearned premium provision	5,131,587	(82,251)	5,049,336
Provision for claims incurred but not reported	929,754	(1,842)	927,912
Provision for claims reported but not settled	167,898	-	167,898
	6,229,239	(84,093)	6,145,146

Assumptions and sensitivity analysis*Process used to determine the assumptions*

The assumptions used in the estimation of insurance assets and liabilities are intended to result in provisions which are sufficient to cover any liabilities arising out of insurance contracts so far as can reasonably be foreseen. However, given the uncertainty in establishing outstanding claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

Provision is made at the reporting date for the expected ultimate cost of settlement of all claims incurred in respect of events up to that date, whether reported or not, together with related external claims handling expenses, less amounts already paid. The provision for claims is not discounted for the time value of money.

The sources of data used as inputs for the assumptions are typically internal to the Group, using detailed studies that are carried out at least annually. The assumptions are checked to ensure that they are consistent with observable market information or other published information. There is, however, a general lack of publicly available information on the Kazakhstan insurance market that would be relevant to identification of assumptions and sensitivities.

The estimation of incurred but not reported claims (IBNR) is generally subject to a greater degree of uncertainty than the estimates of outstanding claims already notified, where more information is available. IBNR claims may often not be apparent to the Group until sometime after the occurrence of the event giving rise to the claim. Due to the generally short tail nature of the Group's portfolio a substantial amount of claims are settled within one year after the occurrence of the event giving rise to the claim.

31 Insurance contract provisions, continued

Assumptions and sensitivity analysis, continued

Process used to determine the assumptions, continued

Claims provisions for six classes of insurance (obligatory vehicle owner's liability, voluntary transport insurance, voluntary medical insurance, voluntary property insurance, other voluntary insurance and obligatory employer liability) are estimated using a range of statistical methods. Such methods extrapolate the development of paid and incurred claims, average cost per claim and ultimate claim numbers for each accident year based upon observed development of earlier years and expected loss ratios.

The key statistical method is the chain ladder method, which use historical data to estimate the paid and incurred to date proportions of the ultimate claim cost.

The actual method or blend of methods used varies by the class of insurance contract based on observed historical claims development.

Large claims are generally assessed separately and are measured on a case by case basis or projected separately in order to allow for the possible distorting effects on development and incidence of these large claims.

Insurance claims provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries. The method uses historical data, gross IBNR estimates and the terms and conditions of the reinsurance contracts to estimate the carrying value of the IBNR reinsurance asset.

The Actuary of the Group is responsible for calculation of insurance contract provisions.

For other classes of insurance, not mentioned above, IBNR is calculated as 5% of gross premium due to lack of statistics.

Assumptions

The assumptions that have the greatest effect on the measurement of general insurance contract provisions are the expected loss ratios for the most recent accident years. The expected loss ratio is the ratio of expected claims to earned premiums. When determining the total liability, the projection of future cash flows includes the estimated values of parameters that can affect the amount of an individual claim (e.g. frequency of claims, risks connected with the insurance contract – death as a result of an accident, ongoing effects, recovery time, time between date of occurrence of the insured event and the settlement date).

Sensitivity analysis

Management believes that, due to the short-tailed nature of the Group's business, the performance of the Group's portfolio is sensitive mainly to changes in expected loss ratios. The Group adjusts its insurance tariffs on a regular basis based on the latest developments in these variables so that any emerging trends are taken into account.

32 Other liabilities

	30 June 2015 KZT'000	31 December 2014 KZT'000
Sundry creditors	1,377,206	854,099
Insurance and reinsurance payables	898,841	578,884
Dividends payable	1,421	1,421
Total other financial liabilities	2,277,468	1,434,404
Accrued vacation and other amounts due to employees	2,171,526	1,083,144
Deferred income for guarantees and letters of credit issued	1,173,859	1,554,475
Other taxes payable	609,513	631,723
Other prepayments	108,432	81,500
Other non-financial liabilities	22,938	26,802
Total other non-financial liabilities	4,086,268	3,377,644
Total other liabilities	6,363,736	4,812,048

33 Share capital

(a) Issued capital

As at 30 June 2015, the authorised share capital comprises 77,500,000 ordinary shares and 2,500,000 non-redeemable cumulative preference shares (31 December 2014: 77,500,000 ordinary shares and 2,500,000 non-redeemable cumulative preference shares). Issued and outstanding share capital comprises 43,871,708 ordinary shares and 2,403,119 non-redeemable cumulative preference shares (31 December 2014: 43,880,062 ordinary shares and 2,401,957 non-redeemable cumulative preference shares). The shares do not have a par value. During the six-month period ended 30 June 2015 no ordinary shares were issued (the year ended 31 December 2014: 10,199,915 ordinary shares were issued at KZT 2,000 per share).

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 Group.

(b) Nature and purpose of reserves

Reserves for general banking risks

Until 2013 year, in accordance with amendments to the Resolution #196 On Establishment of Minimum Limit on Reserve Capital of Second-Tier Banks issued by the FMSA introduced on 31 January 2011 (which ceased to be in force during 2013), the Group had to establish reserve capital by transferring an amount from retained earnings to a non-distributable reserve. The amount to be transferred each year was calculated as the net profit for the preceding year before distribution of dividends attributable to ordinary shareholders, multiplied by the percentage increase in Classified Assets and Contingent Liabilities for the preceding year. Classified Assets and Contingent Liabilities were defined in accordance with Resolution #296 "On Approval of the Rules of Classification of Assets, Contingent Liabilities and Creation of Provisions (Reserves) against Assets and Contingent Liabilities" issued by FMSC on 25 December 2006, which ceased to be in force during 2013. Such percentage increase should not be less than 10% and not more than 100%.

A transfer from retained earnings to the reserve for general banking risks in the amount of KZT 5,142,171 thousand was made for the year ended 31 December 2013.

33 Share capital, continued

(b) Nature and purpose of reserves, continued

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.

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

As at 30 June 2015 and 31 December 2014 the dynamic reserve is KZT 16,631,209 thousand.

Revaluation reserve for available-for-sale financial assets

Revaluation reserve for available-for-sale financial assets comprise accumulated net change in the fair value till the moment of assets derecognition or their impairment.

(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.

At a general shareholders' meeting held in May 2015, the Bank made a decision not to pay any dividends (31 December 2014: nil).

(c) Treasury shares

As at 30 June 2015, the Group held 128,207 of its own ordinary shares (31 December 2014: 119,853 ordinary shares).

(d) Book value per share

Under the listing rules of the Kazakh Stock Exchange the Group should present book value per share in its consolidated interim financial statements. The book value per ordinary share is calculated by dividing net assets less intangible assets by number of outstanding ordinary shares. As at 30 June 2015, the book value per ordinary share was KZT 2,536 (31 December 2014: KZT 2,365).

The book value per preferred share is calculated by dividing equity with prior claims and debt component of preferred shares by number of outstanding preferred shares. As at 30 June 2015, the book value per preferred share was KZT 1,050 (31 December 2014: KZT 1,100).

34 Earnings per share

Basic earnings per share

The calculation of basic earnings per share as at 30 June 2015 is based on the profit attributable to ordinary shareholders of KZT 7,973,086 thousand (six-month period ended 30 June 2014: KZT 7,984,519 thousand), and a weighted average number of ordinary shares outstanding of 43,875,882 (six-month period ended 30 June 2014: 36,584,297) calculated as follows:

	Six-month period ended 30 June 2015	Six-month period ended 30 June 2014
Profit, in thousand of KZT	7,973,086	7,984,519
Issued ordinary shares at the beginning of the period	43,880,062	33,684,026
Effect of shares (repurchased) issued during the period	(4,180)	2,900,271
Weighted average number of ordinary shares	43,875,882	36,584,297
Basic earnings per share, in KZT	182	218

The Group does not have any potentially dilutive securities.

35 Analysis by segment

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the chief operating decision maker reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- banking – includes loans, deposits and other transactions with customers, trading and corporate finance activities, the Bank's funding and banking risk management activities through borrowings, issue of debt securities
- insurance – conducting insurance and reinsurance activities.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax as included in the internal management reports that are based on statutory financial information and that are reviewed by the Chairman of the Management Board of the Group. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm's length basis.

Segment breakdown of assets and liabilities is set out below:

	30 June 2015 KZT'000	31 December 2014 KZT'000
ASSETS		
Banking	1,326,196,752	1,316,479,196
Insurance	13,602,336	13,623,937
Unallocated assets	4,025,023	3,739,688
Total assets	1,343,824,111	1,333,842,821
LIABILITIES		
Banking	1,212,028,603	1,210,240,746
Insurance	7,026,838	6,929,861
Unallocated liabilities	325,883	64,556
Total liabilities	1,219,381,324	1,217,235,163

35 Analysis by segment, continued

Segment information for the main reportable segments for the six-month period ended 30 June 2015 is set out below:

KZT'000	Banking	Insurance	Unallocated	Total
External interest income	59,737,641	247,629	77,285	60,062,555
Fee and commission income	3,998,521	2,824	44,705	4,046,050
Gross earned insurance premiums	-	4,520,781	-	4,520,781
Net gain (loss) on other financial instruments at fair value through profit or loss	667,467	-	(32,264)	635,203
Net foreign exchange gain	1,928,525	49,988	40,687	2,019,200
Net gain on available-for-sale financial assets	-	20,017	-	20,017
Dividend income	-	-	11,415	11,415
Other operating income	120,102	49,429	43,730	213,261
Revenue	66,452,256	4,890,668	185,558	71,528,482
Interest expense	(29,242,749)	-	-	(29,242,749)
Fee and commission expense	(304,865)	(385,874)	(25,248)	(715,987)
Written premiums ceded to reinsurers and reinsurers' share of change in the gross provision for unearned premiums	-	(316,478)	-	(316,478)
Net insurance claims incurred	-	(2,163,205)	-	(2,163,205)
Impairment losses	(11,316,188)	33,453	(165)	(11,282,900)
Personnel expenses	(7,255,060)	(782,575)	(63,658)	(8,101,293)
Other general administrative expenses	(8,486,635)	(1,241,846)	(70,564)	(9,799,045)
Segment result	9,846,759	34,143	25,923	9,906,825
Income tax expense				(1,939,927)
Net profit after taxes				7,966,898
Other segment items				
Additions of property and equipment	4,299,243	160,263	1,369	4,460,875
Depreciation and amortisation	1,270,995	33,747	2,166	1,306,908

35 Analysis by segment, continued

Segment information for the main reportable segments six-month period ended 30 June 2014 is set out below:

KZT'000	Banking	Insurance	Unallocated	Total
External interest income	51,512,267	233,424	28,080	51,773,771
Fee and commission income	4,522,495	274	79,932	4,602,701
Gross earned insurance premiums	-	4,316,969	-	4,316,969
Net (loss) gain on other financial instruments at fair value through profit or loss	(6,336)	-	7,816	1,480
Net foreign exchange gain (loss)	5,013,581	(9,643)	6,116	5,010,054
Dividend income	-	-	8,942	8,942
Other operating income	46,763	98,725	-	145,488
Revenue	61,088,770	4,639,749	130,886	65,859,405
Interest expense	(26,422,396)	-	-	(26,422,396)
Fee and commission expense	(467,151)	(425,486)	(12,697)	(905,334)
Written premiums ceded to reinsurers and reinsurers' share of change in the gross provision for unearned premiums	-	(1,138,726)	-	(1,138,726)
Net insurance claims incurred	-	(2,217,510)	-	(2,217,510)
Impairment losses	(7,699,279)	(475)	-	(7,699,754)
Personnel expenses	(6,285,758)	(1,494,946)	(46,412)	(7,827,116)
Other general administrative expenses	(9,049,706)	(492,340)	(27,231)	(9,569,277)
Segment result	11,164,480	(1,129,734)	44,546	10,079,292
Income tax expense				(2,276,928)
Net profit after taxes				7,802,364
Other segment items				
Additions of property and equipment	2,134,651	53,534	562	2,188,747
Depreciation and amortisation	846,956	21,671	4,148	872,775

Interest expense is allocated on the basis of unconsolidated financial statements of each reporting segment adjusted for intra-group operations.

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	Six-month period ended 30 June 2015	Six-month period ended 30 June 2014
Revenues		
Total revenues for reportable segments	71,528,482	65,859,405
Elimination of revenues	(371,660)	(136,666)
Consolidated revenues	71,156,822	65,722,739
Profit or loss		
Total profit for reportable segments	7,966,898	7,802,364
Elimination of profit or loss	6,188	182,155
Consolidated profit for the period	7,973,086	7,984,519
Assets		
Total assets for reportable segments	1,343,824,111	1,216,392,901
Elimination of assets	(12,760,725)	(9,891,966)
Consolidated assets	1,331,063,386	1,206,500,935
Liabilities		
Total liabilities for reportable segments	1,219,381,324	1,115,291,012
Elimination of liabilities	(1,163,986)	(503,357)
Consolidated liabilities	1,218,217,338	1,114,787,655

The majority of revenues from external customers relate to residents of the Republic of Kazakhstan. The majority of non-current assets are located in the Republic of Kazakhstan.

Information about major customers

For the six-month period ended 30 June 2015, there were no corporate customers (2014: nil) revenues from which individually exceed 10% of total revenue.

36 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 Heads of Risk Departments are 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. They are reportable to the member of Management Board who reports directly to the Chairman of the Management Board and indirectly to the Board of Directors.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled by Board of Directors, Management Board and through a system of Credit Committees and the Business Directorate (BD). 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, market and liquidity risk analysis, the Risk Department monitors operational risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

The Group on a daily basis calculates statutory ratios set by the NBRK. As at 30 June 2015 and 31 December 2014 the Group was in compliance with set ratios.

(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 BD, which is chaired by the Chairman of the Management Board. Market risk limits are approved by BD based on recommendations of the Financial and Operational Risks Department.

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

The Group also utilises Value-at-Risk (VAR) methodology to monitor market risk of its trading positions.

(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.

36 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 interest bearing financial instruments is as follows:

KZT'000	<u>Less than 1 month</u>	<u>1-3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>More than 5 years</u>	<u>Non-interest bearing</u>	<u>Carrying amount</u>
30 June 2015							
ASSETS							
Cash and cash equivalents	12,143,420	-	-	-	-	107,433,667	119,577,087
Deposits and balances with banks and other financial institutions	26,265	154,763	5,345,947	2,048,200	558,600	14,679,126	22,812,901
Financial instruments at fair value through profit or loss	-	67,874	5,182,309	3,539,588	377,624	8,617	9,176,012
Available-for-sale financial assets	-	57,633	1,917	4,992,194	1,181,628	3,352,570	9,585,942
Loans to customers	170,797,476	35,254,611	353,736,276	391,191,674	132,627,996	-	1,083,608,033
Held-to-maturity investments	42,654	2,192,475	4,296,138	20,187,206	-	-	26,718,473
Amounts receivable under reverse repurchase agreements	685,000	-	-	-	-	-	685,000
	183,694,815	37,727,356	368,562,587	421,958,862	134,745,848	125,473,980	1,272,163,448
LIABILITIES							
Loans from state company	16,218	54,883	18,148,296	15,869,495	6,911,369	-	41,000,261
Deposits and balances from banks and other financial institutions	6,299,235	218,819	1,238,527	27,276,405	42,245,122	-	77,278,108
Current accounts and deposits from customers	109,368,752	88,533,822	285,866,572	296,766,550	4,020	197,158,543	977,698,259
Financial instruments at fair value through profit or loss	-	-	9,394	736,359	-	-	745,753
Debt securities issued	123,321	-	22,724,571	22,273,868	1,667,602	-	46,789,362
Subordinated debt	-	515,201	798,681	29,038,512	25,560,434	2,398,275	58,311,103
	115,807,526	89,322,725	328,786,041	391,961,189	76,388,547	199,556,818	1,201,822,846
	67,887,289	(51,595,369)	39,776,546	29,997,673	58,357,301	(74,082,838)	70,340,602

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

KZT'000	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2014							
ASSETS							
Cash and cash equivalents	41,010,689	-	-	-	-	101,138,027	142,148,716
Deposits and balances with banks and other financial institutions	3,704,252	-	6,297,507	3,009,312	-	-	13,011,071
Financial instruments at fair value through profit or loss	3,678,243	1,635,231	247,048	2,251,806	513,183	8,429	8,333,940
Available-for-sale financial assets	-	57,633	-	4,770,286	1,181,629	3,352,571	9,362,119
Loans to customers	133,166,722	92,485,767	312,957,711	374,441,684	147,197,050	-	1,060,248,934
Held-to-maturity investments	4,124,494	2,435,836	4,093,520	24,075,139	-	-	34,728,989
Amounts receivable under reverse repurchase agreements	380,002	-	-	-	-	-	380,002
	186,064,402	96,614,467	323,595,786	408,548,227	148,891,862	104,499,027	1,268,213,771
LIABILITIES							
Deposits and balances from banks and other financial institutions	51,190	45,753	257,214	14,189,034	8,983,778	-	23,526,969
Current accounts and deposits from customers	3,103,134	706,410	2,015,843	24,976,609	32,074,783	-	62,876,779
Debt securities issued	120,631,318	75,265,574	359,906,337	263,796,270	110,581,291	79,935,086	1,010,115,876
Subordinated debt	123,321	-	11,955,560	32,119,084	2,493,025	-	46,690,990
Amounts payable under repurchase agreements	-	515,200	928,513	23,486,202	30,954,716	2,392,153	58,276,784
	123,908,963	76,532,937	375,063,467	358,567,199	185,087,593	82,327,239	1,201,487,398
	62,155,439	20,081,530	(51,467,681)	49,981,028	(36,195,731)	22,171,788	66,726,373

36 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 30 June 2015 and 31 December 2014. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	30 June 2015			31 December 2014		
	Average effective interest rate, %			Average effective interest rate, %		
	KZT	USD	Other currencies	KZT	USD	Other currencies
Interest bearing assets						
Cash and cash equivalents	0.50	1.63	4.92	6.0	0.3	-
Deposits and balances with banks and other financial institutions	9.33	6.66	-	4.87	5.22	-
Financial instruments at fair value through profit or loss	6.51	8.71	4.53	5.25	4.70	4.29
Available-for-sale financial assets	5.65	5.88	-	5.58	-	-
Loans to customers	14.44	8.57	7.47	14.69	8.91	5.29
Held-to-maturity investments	5.64	9.39	-	5.35	0.80	-
Amounts receivable under reverse repurchase agreements	1.36	-	-	19.39	-	-
Interest bearing liabilities						
Loans from state company	3.32	-	-	3.25	-	-
Deposits and balances from banks and other financial institutions						
- Term deposits	4.30	5.05	4.55	4.40	4.34	4.32
Current accounts and deposits from customers						
- Current accounts and demand deposits	5.59	2.10	0.50	1.61	1.47	3.17
- Term deposits	8.90	4.20	2.20	8.71	4.19	2.98
Financial instruments at fair value through profit or loss	3.00	-	-	-	-	-
Debt securities issued	9.16	-	-	9.16	-	-
Subordinated debt	9.86	-	-	9.86	-	-

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 rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities expected for the period of up to twelve months existing as at 30 June 2015 and 31 December 2014 is as follows:

	30 June 2015		31 December 2014	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
100 bp parallel fall	(295,830)	(295,830)	(455,999)	(455,999)
100 bp parallel rise	295,830	295,830	455,999	455,999

36 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 30 June 2015 and 31 December 2014 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves using modified duration method is as follows:

	30 June 2015		31 December 2014	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
100 bp parallel fall	87,791	268,195	79,468	283,471
100 bp parallel rise	(87,791)	(268,195)	(79,468)	(283,471)

(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.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 30 June 2015:

	KZT KZT'000	USD KZT'000	EUR KZT'000	RUB KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS						
Cash and cash equivalents	28,916,096	85,500,812	2,702,798	2,093,194	364,187	119,577,087
Deposits and balances with banks and other financial institutions	18,346,307	4,466,594	-	-	-	22,812,901
Financial instruments at fair value through profit or loss	7,600,429	1,487,703	29,537	-	58,343	9,176,012
Available-for-sale financial assets	9,218,952	366,990	-	-	-	9,585,942
Loans to customers	577,156,614	499,340,073	6,332,614	778,732	-	1,083,608,033
Held-to-maturity investments	26,388,816	329,657	-	-	-	26,718,473
Amounts receivable under reverse repurchase agreements	685,000	-	-	-	-	685,000
Insurance premiums and reinsurance assets	2,554,641	-	-	-	-	2,554,641
Other financial assets	8,149,072	546,676	52,716	1,190	-	8,749,654
Total financial assets	679,015,927	592,038,505	9,117,665	2,873,116	422,530	1,283,467,743
LIABILITIES						
Loans from state company	41,000,261	-	-	-	-	41,000,261
Deposits and balances from banks and other financial institutions	70,928,056	6,271,899	68,142	10,011	-	77,278,108
Financial instruments at fair value through profit or loss	745,753	-	-	-	-	745,753
Current accounts and deposits from customers	322,656,623	644,060,376	7,785,039	2,883,747	312,474	977,698,259
Debt securities issued	46,789,362	-	-	-	-	46,789,362
Subordinated debt	58,311,103	-	-	-	-	58,311,103
Other financial liabilities	2,254,661	21,186	1,202	341	78	2,277,468
Total financial liabilities	542,685,819	650,353,461	7,854,383	2,894,099	312,552	1,204,100,314
Net position as at 30 June 2015	136,330,108	(58,314,956)	1,263,282	(20,983)	109,978	79,367,429
The effect of derivatives held for risk management	(59,376,247)	63,492,203	(1,172,262)	55,716	-	2,999,410
Net position after derivatives held for risk management purposes as at 30 June 2015	76,953,861	5,177,247	91,020	34,733	109,978	82,366,839

36 Risk management, continued**(b) Market risk, continued****(ii) Currency risk, continued**

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

	KZT KZT'000	USD KZT'000	EUR KZT'000	RUB KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS						
Cash and cash equivalents	21,386,552	115,448,639	2,161,202	2,759,345	392,978	142,148,716
Deposits and balances with banks and other financial institutions	8,395,053	4,616,018	-	-	-	13,011,071
Financial instruments at fair value through profit or loss	7,988,409	259,688	31,735	-	54,108	8,333,940
Available-for-sale financial assets	9,362,119	-	-	-	-	9,362,119
Loans to customers	566,830,995	487,751,315	5,666,624	-	-	1,060,248,934
Held-to-maturity investments	33,047,878	1,681,111	-	-	-	34,728,989
Amounts receivable under reverse repurchase agreements	380,002	-	-	-	-	380,002
Insurance premiums and reinsurance assets	2,385,764	-	-	78	-	2,385,842
Other financial assets	7,617,223	700,041	52,625	2,701	-	8,372,590
Total financial assets	657,393,995	610,456,812	7,912,186	2,762,124	447,086	1,278,972,203
LIABILITIES						
Loans from state company	23,526,969	-	-	-	-	23,526,969
Deposits and balances from banks and other financial institutions	59,787,944	2,964,838	119,087	4,910	-	62,876,779
Current accounts and deposits from customers	291,312,543	708,126,759	7,699,058	2,612,325	365,191	1,010,115,876
Debt securities issued	46,690,990	-	-	-	-	46,690,990
Subordinated debt	58,276,784	-	-	-	-	58,276,784
Other financial liabilities	1,379,239	54,834	222	-	109	1,434,404
Total financial liabilities	480,974,469	711,146,431	7,818,367	2,617,235	365,300	1,202,921,802
Net position as at 31 December 2014	176,419,526	(100,689,619)	93,819	144,889	81,786	76,050,401
The effect of off balance derivatives held for risk management	(108,050,030)	108,753,540	-	-	-	703,510
Net position after derivatives held for risk management purposes as at 31 December 2014	68,369,496	8,063,921	93,819	144,889	81,786	76,753,911

36 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

A weakening of the KZT, as indicated below, against the following currencies at 30 June 2015 and 31 December 2014 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis for the financial assets and liabilities is on a 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.

	30 June 2015		31 December 2014	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
30% appreciation of USD against KZT (2014: 10%)	1,242,539	1,242,539	645,114	645,114
30% appreciation of EUR against KZT (2014: 10%)	21,845	21,845	7,506	7,506
30% appreciation of RUB against KZT (2014: 10%)	8,336	8,336	11,591	11,591

A strengthening of the KZT against the above currencies at 30 June 2015 and 31 December 2014 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(iii) Other price risk

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

An analysis of sensitivity of profit or loss and equity to changes in securities prices based on equity instrument positions existing as at 30 June 2015 and 31 December 2014 and a simplified scenario of a 10% change in all equity securities prices is as follows:

	30 June 2015		31 December 2014	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
10% increase in securities prices	862	336,119	843	336,100
10% decrease in securities prices	(862)	(336,119)	(843)	(336,100)

(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)

36 Risk management, continued

(c) Credit risk, continued

- 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 and SME loan credit applications are analysed by the Credit Analysis Department and SME lending divisions in branches, respectively, which are responsible for the analysis of issuing loans. Analysis reports made by these departments 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 second opinion is given accompanied by a verification that credit policy requirements are met. Before approval of independent transactions on issue of loans to corporate and SME customers by the Credit Committee, they are reviewed by the Legal and Collateral Departments and Security Department on the basis of the risk specification. The Credit Committee reviews the loan credit application on the basis of documents submitted by the Credit Analysis Department, Risk Department, Legal Department, Collateral Department and Security Department.

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. The current market value of collateral is regularly assessed by internal specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

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 Standard Products Risk Department.

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

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the consolidated interim statement of financial position and unrecognised contractual commitments. 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:

	30 June 2015	31 December
	KZT'000	2014
	KZT'000	KZT'000
ASSETS		
Cash equivalents and nostro accounts	92,354,684	109,736,547
Deposits and balances with banks and other financial institutions	22,812,901	13,011,071
Financial instruments at fair value through profit or loss	9,167,396	8,325,510
Available-for-sale financial assets	6,233,371	6,009,548
Loans to customers	1,083,608,033	1,060,248,934
Held-to-maturity investments	26,718,473	34,728,989
Amounts receivable under reverse repurchase agreements	685,000	380,002
Insurance premiums and reinsurance assets	2,554,641	2,385,842
Other financial assets	8,749,654	8,372,590
Total maximum exposure	1,252,884,153	1,243,199,033

For the analysis of concentration of credit risk in respect of loans to customers refer to Note 20.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 36.

As at 30 June 2015, the Group has no debtors or groups of connected debtors (31 December 2014: nil), credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

36 Risk management, continued

(c) Credit risk, continued

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 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 statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements.

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

- loans to customers collateralised by cash on bank deposits; and
- sale and repurchase agreements, 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. The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 30 June 2015:

KZT'000	Gross amounts of recognised financial asset/liability	Gross amounts of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial asset/liability presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		
				Financial instruments	Cash collateral received	Net amount
Loans to customers	26,756,121	-	26,756,121	-	(16,583,262)	10,172,859
Amounts receivable under reverse repurchase agreements	685,000	-	685,000	(685,000)	-	-
Total financial assets	27,441,121	-	27,441,121	(685,000)	(16,583,262)	10,172,859
Current accounts and deposits from customers	16,583,262	-	16,583,262	(16,583,262)	-	-
Current accounts and deposits from customers	251,353	(251,353)	-	-	-	-
Total financial liabilities	16,834,615	(251,353)	16,583,262	(16,583,262)	-	-

36 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	Gross amounts of recognised financial asset/liability	Gross amounts of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial asset/liability presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		
				Financial instruments	Cash collateral received	Net amount
Types of financial assets/liabilities						
Loans to customers	24,733,673	-	24,733,673	-	(16,887,513)	7,846,160
Amounts receivable under reverse repurchase agreements	380,002	-	380,002	(380,002)	-	-
Total financial assets	25,113,675	-	25,113,675	(380,002)	(16,887,513)	7,846,160
Current accounts and deposits from customers	16,887,513	-	16,887,513	(16,887,513)	-	-
Current accounts and deposits from customers	334,226	(334,226)	-	-	-	-
Total financial liabilities	17,221,739	(334,226)	16,887,513	(16,887,513)	-	-

The securities pledged under repurchased agreements represent the transferred financial assets that are not derecognised in their entirety.

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured in the consolidated statement of financial position at amortised cost. The amounts in the above tables that are offset in the statement of financial position are measured on the same basis.

(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 Board of Directors.

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

36 Risk management, continued

(d) Liquidity risk, continued

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
- maintaining the stock of liquid assets
- 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
- early warning of liquidity risk
- currency liquidity management
- management of pledged security
- management of intraday liquidity risk
- management on intragroup liquidity risk
- stress-testing of liquidity risk.

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, deposits and balances with banks and other financial institutions 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 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 BD and implemented by the Treasury Department.

The following tables show the undiscounted cash flows on financial liabilities and unrecognised credit related commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial assets, liability or credit related commitment.

36 Risk management, continued

(d) Liquidity risk, continued

The maturity analysis for financial liabilities as at 30 June 2015 is as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	No maturity	Total gross amount outflow	Carrying amount
Liabilities								
Loans from state company	16,262	55,184	18,596,113	17,435,842	9,185,250	-	45,288,651	41,000,261
Deposits and balances from banks and other financial institutions	6,323,138	220,480	1,280,825	31,002,571	61,481,814	-	100,308,828	77,278,108
Financial instruments at fair value through profit or loss	-	-	9,394	736,359	-	-	745,753	745,753
Current accounts and deposits from customers	149,445,024	134,896,412	296,841,994	347,643,329	162,257,239	4,020	1,091,088,018	977,698,259
Debt securities issued	130,658	-	15,852,485	30,976,575	16,682,748	-	63,642,466	46,789,362
Subordinated debt	-	636,000	4,127,482	67,863,928	13,950,000	2,398,275	88,975,685	58,311,103
Other financial liabilities	1,135,747	865,811	274,072	-	-	1,838	2,277,468	2,277,468
Total liabilities	157,050,829	136,673,887	336,982,365	495,658,604	263,557,051	2,404,133	1,392,326,869	1,204,100,314
Credit related commitments	166,593,078	-	-	-	-	-	166,593,078	166,593,078

Future interest payments for non-redeemable cumulative preference shares, which are payable annually, are not included in the table above.

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

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	No maturity	Total gross amount outflow	Carrying amount
Liabilities								
Deposits and balances from banks and other financial institutions	51,342	46,024	264,080	15,704,109	12,181,340	-	28,246,895	23,526,969
Current accounts and deposits from customers	3,117,333	712,875	2,098,857	29,090,827	49,686,281	-	84,706,173	62,876,779
Debt securities issued	158,507,858	118,383,543	375,424,896	309,527,250	174,481,497	24,754	1,136,349,798	1,010,115,876
Subordinated debt	130,658	-	6,309,872	42,746,575	17,332,748	-	66,519,853	46,690,990
Amounts payable under repurchase agreements	-	636,000	4,127,482	51,081,408	33,114,261	2,392,153	91,351,304	58,276,784
Other financial liabilities	751,818	261,175	379,840	-	-	41,571	1,434,404	1,434,404
Total liabilities	162,559,009	120,039,617	388,605,027	448,150,169	286,796,127	2,458,478	1,408,608,427	1,202,921,802
Credit related commitments	182,416,794	-	-	-	-	-	182,416,794	182,416,794

The tables above show the undiscounted cash flows of non-derivative financial liabilities, including issued financial guarantee contracts, and unrecognised loan commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

In accordance with Kazakhstan legislation, depositors can withdraw their term deposits at any time, losing 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.

36 Risk management, continued

(d) Liquidity risk, continued

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms. In the tables below the following financial assets and liabilities are presented on a discounted basis and are based on their expected cash flows:

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated interim statement of financial position as at 30 June 2015:

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
Non-derivative assets								
Cash and cash equivalents	119,577,087	-	-	-	-	-	-	119,577,087
Deposits and balances with banks and other financial institutions	14,705,391	154,763	5,345,947	2,048,200	558,600	-	-	22,812,901
Financial instruments at fair value through profit or loss	-	67,874	5,182,309	3,539,588	377,624	8,617	-	9,176,012
Available-for-sale financial assets	-	57,633	1,917	4,992,194	1,181,628	3,352,570	-	9,585,942
Loans to customers	141,685,928	35,254,611	353,736,276	391,191,674	132,627,996	-	29,111,548	1,083,608,033
Held-to-maturity investments	42,654	2,192,475	4,296,138	20,187,206	-	-	-	26,718,473
Amounts receivable under reverse repurchase agreements	685,000	-	-	-	-	-	-	685,000
Property, equipment and intangible assets	-	-	-	-	-	36,690,128	-	36,690,128
Investment property	-	-	-	-	-	1,505,964	-	1,505,964
Insurance premiums and reinsurance assets	6,223	1,353,250	1,811,619	17,822	-	-	-	3,188,914
Long-term assets held for sale	-	-	-	124,019	-	-	-	124,019
Current tax asset	2,117	-	210,727	-	-	-	-	212,844
Deferred tax asset	-	-	-	32,363	-	-	-	32,363
Other assets	978,298	1,691,310	6,666,835	1,813,607	85,213	1,194,443	4,716,000	17,145,706
Total assets	277,682,698	40,771,916	377,251,768	423,946,673	134,831,061	42,751,722	33,827,548	1,331,063,386
Non-derivative liabilities								
Loans from state company	16,218	54,883	18,148,296	15,869,495	6,911,369	-	-	41,000,261
Deposits and balances from banks and other financial institutions	6,299,235	218,819	1,238,527	27,276,405	42,245,122	-	-	77,278,108
Financial instruments at fair value through profit or loss	-	-	9,394	736,359	-	-	-	745,753
Current accounts and deposits from customers	264,171,804	30,730,557	279,183,347	296,766,550	106,841,981	4,020	-	977,698,259
Debt securities issued	123,321	-	12,724,571	22,273,868	11,667,602	-	-	46,789,362
Subordinated debt	-	515,201	798,681	29,038,512	25,560,434	2,398,275	-	58,311,103
Insurance contract provisions	37,461	242,969	4,475,403	1,036,318	84,536	-	-	5,876,687
Deferred tax liability	-	-	538	4,150,762	-	-	-	4,151,300
Current tax liability	-	-	2,769	-	-	-	-	2,769
Other liabilities	2,093,351	962,880	2,696,362	525,671	83,634	1,838	-	6,363,736
Total liabilities	272,741,390	32,725,309	319,277,888	397,673,940	193,394,678	2,404,133	-	1,218,217,338
Net position	4,941,308	8,046,607	57,973,880	26,272,733	(58,563,617)	40,347,589	33,827,548	112,846,048

36 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
Non-derivative assets								
Cash and cash equivalents	142,148,716	-	-	-	-	-	-	142,148,716
Deposits and balances with banks and other financial institutions	3,704,252	-	6,297,507	3,009,312	-	-	-	13,011,071
Financial instruments at fair value through profit or loss	3,678,243	1,635,231	247,048	2,251,806	513,183	8,429	-	8,333,940
Available-for-sale financial assets	-	57,633	-	4,770,286	1,181,629	3,352,571	-	9,362,119
Loans to customers	101,958,980	92,485,767	312,957,711	374,441,684	147,197,050	-	31,207,742	1,060,248,934
Held-to-maturity investments	4,124,494	2,435,836	4,093,520	24,075,139	-	-	-	34,728,989
Amounts receivable under reverse repurchase agreements	380,002	-	-	-	-	-	-	380,002
Property, equipment and intangible assets	-	-	-	-	-	26,112,447	-	26,112,447
Investment property	-	-	-	-	-	1,241,153	-	1,241,153
Insurance premiums and reinsurance assets	1,927	311,173	2,153,017	3,818	-	-	-	2,469,935
Long-term assets held for sale	-	44,425	79,594	-	-	-	-	124,019
Current tax asset	1,796	158,707	27,287	-	-	-	-	187,790
Deferred tax asset	-	-	-	28,692	-	-	-	28,692
Other assets	1,530,908	703,903	8,623,575	1,838,919	67,293	9,248,443	1,104,226	23,117,267
Total assets	257,529,318	97,832,675	334,479,259	410,419,656	148,959,155	39,963,043	32,311,968	1,321,495,074
Non-derivative liabilities								
Loans from state company	51,190	45,753	257,214	14,189,034	8,983,778	-	-	23,526,969
Deposits and balances from banks and other financial institutions	3,103,134	706,410	2,015,843	24,976,609	32,074,783	-	-	62,876,779
Current accounts and deposits from customers	215,855,725	62,595,574	357,262,262	263,796,270	110,581,291	24,754	-	1,010,115,876
Debt securities issued	123,321	-	2,780,970	32,119,084	11,667,615	-	-	46,690,990
Subordinated debt	-	515,200	928,513	23,486,202	30,954,716	2,392,153	-	58,276,784
Insurance contract provisions	169,246	1,219,131	3,408,736	1,347,833	84,293	-	-	6,229,239
Deferred tax liability	-	970	3,900,592	-	-	-	-	3,901,562
Current tax liability	-	43,572	-	-	-	-	-	43,572
Other liabilities	1,875,378	1,130,308	961,623	799,487	-	45,252	-	4,812,048
Total liabilities	221,177,994	66,256,918	371,515,753	360,714,519	194,346,476	2,462,159	-	1,216,473,819
Net position	36,351,324	31,575,757	(37,036,494)	49,705,137	(45,387,321)	37,500,884	32,311,968	105,021,255

37 Capital management

NBRK sets and monitors capital requirements for the Bank as a whole.

As at 31 December 2014, the Bank defines as capital those items defined by statutory regulation as capital for credit institutions.

- Tier 1 capital, which is comprised of ordinary and preference 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 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 capital requirements as at 31 December 2014 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.

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

- k1-1 – not less than 0.05
- k1-2 – not less than 0.05
- k2 – not less than 0.1.

During 2015 the NBRK fulfilled transition on international regulatory framework for banks Basel III. Hence new capital requirements for the Bank set from 1 January 2015. Therefore, the Bank defines as capital those items defined by statutory regulation as capital for credit institutions.

- As at 30 June 2015, tier 1 capital is a total of basic and additional capital. Basic capital comprises ordinary share capital, share premium, current and prior periods' retained earnings and reserves created thereof, less treasury share capital, intangible assets including goodwill, and current and prior periods losses, deferred tax asset net of deferred tax liability and other revaluation reserves. Additional capital comprises of perpetual contracts and paid-in preference share capital less adjustments for the Bank's investment in its own perpetual financial instruments and treasury preference shares.

- Tier 2 capital comprises subordinated debt in KZT less investments in subordinated debt of financial institutions the Bank holds 10% and more shares in.

37 Capital management, continued

Total capital is the sum of tier 1 and tier 2 capital.

There are a set of different limitations and classification criteria applied to the above listed total capital elements.

In accordance with the regulations set by the NBRK the Bank has to maintain total capital adequacy within the following coefficients:

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

As at 30 June 2015 the minimum level of ratios as applicable to the Bank are as follows:

- k1 – not less than 0.05
- k1-2 – not less than 0.06
- k2 – not less than 0.075.

The Bank complied with all externally imposed capital requirements as at 30 June 2015 and 31 December 2014. As at 30 June 2015 Bank's coefficients are as follows: k1 – 0.087, k1-2 – 0.089 and k2 – 0.128 (31 December 2014: k1-1 – 0.071, k1-2 – 0.076 and k2 – 0.127).

The following table shows the composition of the capital position calculated in accordance with the FMSA requirements established by the Rules # 358 dated 30 September 2005 as at 30 June 2015 and 31 December 2014:

	30 June 2015 KZT'000	31 December 2014 KZT'000
Tier 1 capital		
Basic capital:	112,689,575	
Ordinary share capital ¹	59,239,830	61,739,830
Additional paid-in capital	1,770	1,770
Statutory retained earnings of prior years	18,366,936	2,855,449
Retained earnings of current period ²	7,919,142	-
Reserves formed from statutory retained earnings of prior years	28,613,885	28,613,885
Revaluation reserve of available-for-sale financial assets ³	26,586	-
Statutory adjustments:		
Intangible assets including goodwill ⁴	(1,478,574)	(199,596)
Additional capital:		
Paid-in preference share capital not satisfying for basic capital requirements	2,500,000	-
Tier 1 capital	115,189,575	93,011,338

¹ As at 31 December 2014 share capital comprise of ordinary and preference shares.

² As at 31 December 2014 retained earnings of current period is included in tier 2 capital.

³ As at 31 December 2014 revaluation reserve of available-for-sale financial assets is included in tier 2 capital.

⁴ As at 31 December 2014 licences used for banking activities and accounted under IAS 38 Intangible assets are excluded from intangible assets.

37 Capital management, continued

	30 June 2015 KZT'000	31 December 2014 KZT'000
Tier 2 capital		
Revaluation reserve of available-for-sale financial assets	-	24,218
Subordinated debt placed before 1 January 2015 denominated in KZT	53,028,769	-
Subordinated debt included in total capital up to 50% of Tier 1 capital less repurchased subordinated debt of the Bank	-	46,505,669
Retained earnings of current period	-	15,508,912
Statutory adjustments::		
Less investments in subordinated debt of financial institutions the Bank holds 10% and more shares in	(2,606,800)	-
Total tier 2 capital	50,421,969	62,038,799
Total capital	165,611,544	155,050,137
Total statutory assets less not invested funds accepted based on custody agreements	-	1,316,849,477
Risk-weighted assets, contingent liabilities and derivative financial instruments and operational risk		
Credit risk-weighted assets	1,204,252,500	1,133,440,880
Credit risk-weighted contingent liabilities	51,142,084	55,226,278
Credit risk-weighted derivative financial instruments	560,007	579,890
Market risk-weighted assets and contingent liabilities	9,771,510	10,488,820
Operational risk	31,138,592	19,667,912
Risk-weighted assets, contingent liabilities and derivative financial instruments and operational risk	1,296,864,693	1,219,403,780
k1 (31 December 2014: k1-1)	0.087	0.071
k1-2	0.089	0.076
k2	0.128	0.127

The Bank is also subject to minimum capital adequacy requirements calculated in accordance with NBRK established by covenants under borrowings of the Bank. The Bank complied with all externally imposed capital requirements as at 30 June 2015 and 31 December 2014.

38 Commitments

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

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

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

	30 June 2015	31 December
	KZT'000	2014
	KZT'000	KZT'000
Contracted amount		
Loan and credit line commitments	106,973,068	122,532,863
Guarantees	57,565,217	53,464,123
Letters of credit	4,234,997	6,041,160
Credit card commitments	160,311	378,648
	168,933,593	182,416,794

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

As at 30 June 2015, the Group has outstanding contractual commitments that exceed 10% of capital to three clients for the total amount of KZT 36,496,944 thousand. Of these commitments, KZT 18,624,940 thousand are related to revocable loan and credit line commitments. The remaining amount of KZT 17,872,004 thousand related to the guarantees issued by the Group.

39 Operating leases

Leases as lessee

Non-cancellable operating lease rentals as at 30 June 2015 and 31 December 2014 are payable as follows:

	30 June 2015	31 December
	KZT'000	2014
	KZT'000	KZT'000
Less than 1 year	340,801	476,425

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of one to five 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.

During the current period KZT 1,843,088 thousand was recognised as an expense in the consolidated interim statement of profit or loss and other comprehensive income in respect of operating leases (six-month period ended 30 June 2014: KZT 1,945,531 thousand).

40 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.

(c) Taxation contingencies

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

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 the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

41 Related party transactions

(a) Control relationships

The party with ultimate control over the Group is Mr. Jaxybekov A.R., who has transferred effective control to Mrs. Jaxybekova L.I. under a trust management agreement. No publicly available financial statements are produced by the Group's ultimate controlling party. The Group's parent Financial Holding Tsesna JSC (the "Parent company") produces publicly available financial statements.

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

Total remuneration included in personnel expenses for the six-month period ended 30 June is as follows:

	Six-month period ended 30 June 2015 KZT'000	Six-month period ended 30 June 2014 KZT'000
Members of the Board of Directors	26,639	21,449
Members of the Management Board	253,483	316,454
	280,122	337,903

41 Related party transactions, continued

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

The outstanding balances and average interest rates as at 30 June 2015 for transactions with the members of the Board of Directors and the Management Board are as follows:

	30 June 2015	Average	31 December	Average
	KZT'000	interest rate %	2014	interest rate %
	KZT'000		KZT'000	
Consolidated interim statement of financial position				
ASSETS				
Loans to customers	134,751	10.61	139,211	10.61
Loan impairment allowance	(34)	-	(35)	-
Other assets	1	-	4	-
LIABILITIES				
Current accounts and deposits from customers	4,529,930	5.27	2,961,076	4.93
Other liabilities	42	-	17	-
Items not recognised in the consolidated statement of financial position				
Commitments	242	-	242	-

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors and the Management Board are as follows:

	Six-month	Six-month
	period ended	period ended
	30 June 2015	30 June 2014
	KZT'000	KZT'000
Profit or loss		
Interest income	7,005	7,045
Interest expense	(77,623)	(61,793)
	(70,618)	(54,748)

41 Related party transactions, continued**(c) Transactions with other related parties**

Other related parties include the parent company, ultimate parent company, fellow subsidiaries and other related entities. The outstanding balances and the related average interest rates as at 30 June 2015 and related profit or loss amounts of transactions for the six-month period ended 30 June 2015 with other related parties are as follows.

	<u>Parent company</u>		<u>Ultimate parent company and other fellow subsidiaries</u>		<u>Other*</u>		<u>Total KZT'000</u>
	<u>KZT'000</u>	<u>Average interest rate, %</u>	<u>KZT'000</u>	<u>Average interest rate, %</u>	<u>KZT'000</u>	<u>Average interest rate, %</u>	
Consolidated interim statement of financial position							
ASSETS							
Loans to customers							
In KZT:							
Gross loan exposure	-	-	-	-	12,942	13.03	12,942
Allowance for impairment	-	-	-	-	(120)	-	(120)
Other assets	50,000	-	1,814,495	-	-	-	1,864,495
LIABILITIES							
Current accounts and deposits from customers							
In KZT	35,618	7.34	595,474	7.77	123,165	3.33	754,257
In USD	3,383,673	5.9	19,994,082	5.86	12,158,323	5.67	35,536,078
In other currency	-	-	-	-	420,083	3.0	420,083
Other liabilities	-	-	313	-	32	-	345
Items not recognised in the consolidated statement of financial position							
Commitments	-	-	-	-	5,847	-	5,847
Consolidated interim statement of profit or loss and other comprehensive income							
Interest income	-	-	-	-	879	-	879
Interest expense	(145,653)	-	(949,736)	-	(93,321)	-	(1,188,710)
Income from insurance activities	-	-	23	-	-	-	23
Fee and commission income	162	-	1,205	-	914	-	2,281
Other general administrative expenses	-	-	(401,413)	-	-	-	(401,413)

41 Related party transactions, continued**(c) Transactions with other related parties, continued**

The outstanding balances and the related average interest rates as at 31 December 2014 and related profit or loss amounts of transactions for the six-month period ended 30 June 2014 with other related parties are as follows.

	Parent company		Ultimate parent company and other fellow subsidiaries		Other*		Total KZT'000
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	
Consolidated statement of financial position							
ASSETS							
Loans to customers							
In KZT:							
Principal balance	-	-	-	-	9,166	11.27	9,166
Allowance for impairment	-	-	-	-	(2)	-	(2)
Other assets	-	-	1,813,037	-	6	-	1,813,043
LIABILITIES							
Current accounts and deposits from customers							
In KZT	12,082	6.75	225,819	5.99	153,733	7.16	391,634
In USD	12,743,392	3.29	23,234,044	3.40	1,711,514	5.82	37,688,950
In other currency	-	-	-	-	445,745	1.00	445,745
Other liabilities	-	-	2,018	-	9	-	2,027
Items not recognised in the consolidated statement of financial position							
Guarantees received	-	-	-	-	22,000	-	22,000
Commitments	-	-	-	-	5,305	-	5,305
Consolidated statement of profit or loss and other comprehensive income							
Interest income	-	-	126,414	-	874	-	127,288
Interest expense	(988)	-	(14,148)	-	(59,832)	-	(74,968)
Income from insurance activities	-	-	2,539	-	-	-	2,539
Fee and commission income	24	-	9,441	-	100	-	9,565
Other general administrative expenses	-	-	(1,305,596)	-	-	-	(1,305,596)

* Other related parties are the entities that are controlled by the ultimate controlling party.

42 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 30 June 2015:

KZT'000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	119,577,087	-	-	119,577,087	119,577,087
Deposits and balances with banks and other financial institutions	-	-	22,812,901	-	-	22,812,901	22,812,901
Financial instruments at fair value through profit or loss	9,176,012	-	-	-	-	9,176,012	9,176,012
Available-for-sale financial assets	-	-	-	9,585,942	-	9,585,942	9,585,942
Loans to customers	-	-	1,083,608,033	-	-	1,083,608,033	1,064,327,850
Held-to-maturity investments:							
Government bonds	-	25,463,911	-	-	-	25,463,911	25,843,650
Corporate bonds	-	1,254,562	-	-	-	1,254,562	1,233,798
Amounts receivable under reverse repurchase agreements	-	-	685,000	-	-	685,000	685,000
Insurance premiums and reinsurance assets	-	-	2,554,641	-	-	2,554,641	2,554,641
Other financial assets	-	-	8,749,654	-	-	8,749,654	8,749,654
	9,176,012	26,718,473	1,237,987,316	9,585,942	-	1,283,467,743	1,264,546,535
Loans from state company	-	-	-	-	41,000,261	41,000,261	41,000,261
Deposits and balances from banks and other financial institutions	-	-	-	-	77,278,108	77,278,108	77,278,108
Financial instruments at fair value through profit or loss	745,753	-	-	-	-	745,753	745,753
Current accounts and deposits from customers	-	-	-	-	977,698,259	977,698,259	983,881,725
Debt securities issued	-	-	-	-	46,789,362	46,789,362	47,113,927
Subordinated debt	-	-	-	-	58,311,103	58,311,103	56,011,610
Other financial liabilities	-	-	-	-	2,277,468	2,277,468	2,277,468
	745,753	-	-	-	1,203,354,561	1,204,100,314	1,208,308,852

42 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 2014:

KZT'000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	142,148,716	-	-	142,148,716	142,148,716
Deposits and balances with banks and other financial institutions	-	-	13,011,071	-	-	13,011,071	13,011,071
Financial instruments at fair value through profit or loss	8,333,940	-	-	-	-	8,333,940	8,333,940
Available-for-sale financial assets	-	-	-	9,362,119	-	9,362,119	9,362,119
Loans to customers	-	-	1,060,248,934	-	-	1,060,248,934	1,024,039,360
Held-to-maturity investments:							
Government bonds	-	33,619,034	-	-	-	33,619,034	33,947,440
Corporate bonds	-	1,109,955	-	-	-	1,109,955	1,087,285
Amounts receivable under reverse repurchase agreements	-	-	380,002	-	-	380,002	380,002
Insurance premiums and reinsurance assets	-	-	2,385,842	-	-	2,385,842	2,385,842
Other financial assets	-	-	8,372,590	-	-	8,372,590	8,372,590
	8,333,940	34,728,989	1,226,547,155	9,362,119	-	1,278,972,203	1,243,068,365
Loans from state company	-	-	-	-	23,526,969	23,526,969	23,526,969
Deposits and balances from banks and other financial institutions	-	-	-	-	62,876,779	62,876,779	62,876,779
Current accounts and deposits from customers	-	-	-	-	1,010,115,876	1,010,115,876	1,017,764,153
Debt securities issued	-	-	-	-	46,690,990	46,690,990	48,610,072
Subordinated debt	-	-	-	-	58,276,784	58,276,784	55,310,074
Other financial liabilities	-	-	-	-	1,434,404	1,434,404	1,434,404
	-	-	-	-	1,202,921,802	1,202,921,802	1,209,522,451

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

(a) Accounting classifications and fair values, continued

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

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

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

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

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

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

The fair value of unquoted equity financial instruments at fair value through profit or loss with a carrying amount KTZ 384 thousand (31 December 2014: KZT 510 thousand) cannot be determined.

As disclosed in Note 19, the fair value of unquoted equity securities available-for-sale with a carrying value of KZT 46,548 thousand (31 December 2014: KZT 46,548 thousand) cannot be determined.

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

- discount rates of 5.0% - 14.2% and 9.4% – 16.3% are used for discounting future cash flows from loans to corporate customers and loans to retail customers, respectively
- discount rates of 2.6% – 6.9% and 2.1% – 7.9% 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.

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

(b) Fair value hierarchy

The Group measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making 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.
- 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 as at 30 June 2015, 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 interim statement of financial position:

KZT'000	Level 1	Level 2	Level 3	Total
Financial instruments at fair value through profit or loss				
- assets	1,308,215	2,821,647	5,045,766	9,175,628
- liabilities	-	-	(745,753)	(745,753)
Available-for-sale financial assets				
- Debt and other fixed income instruments	-	6,233,373	-	6,233,373
- Equity investments	-	3,306,021	-	3,306,021
	1,308,215	12,361,041	4,300,013	17,969,269

Securities, which are listed on the KASE but which do not have an active market as at 31 December 2014, are classified as level 2 in the fair value hierarchy. As at 30 June 2015 financial instruments categorised to Level 2 category include government securities of KZT 3,818,852 thousand.

The table below analyses financial instruments measured at fair value as 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	1,726,714	2,928,473	3,678,243	8,333,430
Available-for-sale financial assets				
- Debt and other fixed income instruments	1,259,578	4,749,970	-	6,009,548
- Equity investments	-	3,306,023	-	3,306,023
	2,986,292	10,984,466	3,678,243	17,649,001

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

(b) Fair value hierarchy, continued

Securities, which are listed on the KASE but which do not have an active market as at 31 December 2014, are classified as Level 2 in the fair value hierarchy. As at 31 December 2014 financial instruments categorised to Level 2 category include government securities of KZT 4,942,521 thousand.

Unobservable valuation differences on initial recognition

The transaction price of the swap transactions with the NBRK is different from fair value of the swap instruments in the principal markets (Note 18). At initial recognition, the Group estimates the fair values of the swaps transacted with the NBRK using valuation techniques.

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

The following table shows a reconciliation for the six-month ended 30 June 2015 for fair value measurements in Level 3 of the fair value hierarchy:

	Level 3		
	Financial instruments at fair value through profit or loss		
KZT'000	Derivative assets	Derivative liabilities	Total
Balance at beginning of the year	3,678,243	-	3,678,243
Net gain (loss) on financial instruments at fair value through profit or loss	1,427,058	(745,753)	681,305
Settlement	(59,535)	-	(59,535)
Balance at end of the year	5,045,766	(745,753)	4,300,013

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

	Level 3	
	Financial instruments at fair value through profit or loss	Total
KZT'000	Derivative assets	
Balance at beginning of the year	-	-
Net gain on financial instruments at fair value through profit or	316,163	316,163
Issues	3,619,472	3,619,472
Settlement	(257,392)	(257,392)
Balance at end of the year	3,678,243	3,678,243

To determine the fair value of the swaps, management assumed a risk free interest rate in KZT of 3.3% and a rate in USD of 0.3%. Management assumes that the early termination right will not be exercised by NBRK until maturity.

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

(b) Fair value hierarchy, continued

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 30 June 2015 if the risk-free interest rate applied to KZT cash flows increased by 0.5% and in USD increased by 0.1%, the fair value of the currency swaps with the NBRK in Level 3 of the hierarchy would increase by KZT 131,788 thousand (31 December 2014: KZT 372,480 thousand).

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 30 June 2015:

KZT'000	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Assets					
Cash and cash equivalents		119,577,087	-	119,577,087	119,577,087
Deposits and balances with banks and other financial institutions	-	22,812,901	-	22,812,901	22,812,901
Loans to customers	-	990,789,042	73,538,808	1,064,327,850	1,083,608,033
Held-to-maturity investments	329,657	26,747,791	-	27,077,448	26,718,473
Amounts receivable under reverse repurchase agreements	-	685,000	-	685,000	685,000
Liabilities					
Loans from state company	-	41,000,261	-	41,000,261	41,000,261
Deposits and balances from banks and other financial institutions	-	77,278,108	-	77,278,108	77,278,108
Current accounts and deposits from customers	-	983,881,725	-	983,881,725	977,698,259
Debt securities issued	-	47,113,927	-	47,113,927	46,789,362
Subordinated debt	-	56,011,610	-	56,011,610	58,311,103

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 1	Level 2	Level 3	Total fair values	Total carrying amount
Assets					
Cash and cash equivalents	-	142,148,716	-	142,148,716	142,148,716
Deposits and balances with banks and other financial institutions	-	13,011,071	-	13,011,071	13,011,071
Loans to customers	-	969,053,846	54,985,514	1,024,039,360	1,060,248,934
Held-to-maturity investments	12,366,988	22,667,737	-	35,034,725	34,728,989
Amounts receivable under reverse repurchase agreements	-	380,002	-	380,002	380,002
Liabilities					
Loans from state company	-	23,526,969	-	23,526,969	23,526,969
Deposits and balances from banks and other financial institutions	-	62,876,779	-	62,876,779	62,876,779
Current accounts and deposits from customers	-	1,017,764,153	-	1,017,764,153	1,010,115,876
Debt securities issued	-	48,610,072	-	48,610,072	46,690,990
Subordinated debt	-	55,310,074	-	55,310,074	58,276,784

43 Subsequent events

(a) Move to floating exchange rate

On 20 August 2015, the NBRK announced that the KZT, which had previously been managed within an exchange rate corridor, would float freely against other currencies going forward.

The KZT closed at 255.26 per USD after the announcement, down approximately 36% from the exchange rate quoted in the previous day's morning trading. As the switch to a floating exchange rate occurred after the reporting date, these consolidated interim financial statements have not been adjusted for the rate change.

Management is still in the process of evaluating the effects of the move to a floating exchange rate on the Group. Management estimates that the positive financial effect from gains and losses on monetary items during 19-21 August 2015 is approximately KZT 1,691,006 thousand. See note 36(b)(ii) for details of the Group's exposure to foreign currency risk at the reporting date. Management's current assessment is that the move to floating exchange rate will not affect the Group's ability to comply with its debt covenants and meet its existing contractual obligations.