Joint Stock Company "Zaman-Bank"

Financial statements

For the year ended 31 December 2014
together with independent auditor's report

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«Эрнст энд Янг» ЖШС
Әл-Фараби д-лы, 77/7
«Есентай Тауэр» ғимараты
Алматы қ., 050060
Қазақстан Республикасы
Тел.: +7 727 258 5960
Факс: +7 727 258 5961
www.ey.com

ТОО «Эрнст энд Янг»
пр. Аль-Фараби, 77/7
здание «Есентай Тауэр»
г. Алматы, 050060
Республика Казахстан
Тел.: +7 727 258 5960
Факс: +7 727 258 5961

Ernst & Young LLP
Al-Farabi ave., 77/7
Esentai Tower
Almaty, 050060
Republic of Kazakhstan
Tel.: +7 727 258 5960
Fax: +7 727 258 5961

Independent auditor's report

To the Shareholders and Board of Directors of Joint Stock Company "Zaman-Bank"

We have audited the accompanying financial statements of Joint Stock Company "Zaman-Bank" (hereinafter - the "Bank"), which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Building a better
working world

Opinion

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

Ernst & Young LLP

Evgeny Zhemaletdinov
Auditor/General Director
Ernst and Young LLP

State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

31 March 2015

STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

(In thousands of tenge)

	Notes	*2014*	*2013*
Assets			
Cash and cash equivalents	5	**2,593,226**	4,341,095
Reverse repurchase agreements	6	**–**	504,498
Loans to customers	7	**11,232,037**	9,540,652
Finance lease receivables	8	**47,807**	63,766
Property and equipment	9	**35,465**	45,977
Intangible assets	10	**28,114**	28,856
Inventory	11	**190,565**	–
Other assets	15	**6,434**	34,327
Total assets		**14,133,648**	14,559,171
Liabilities			
Amounts due to customers	12	**1,954,908**	3,403,144
Deferred income tax liabilities	13	**2,907**	19,518
Allowance for commitments and contingencies	14	**468,868**	–
Other liabilities	15	**47,897**	55,830
Total liabilities		**2,474,580**	3,478,492
Equity	16		
Share capital		**10,050,000**	10,050,000
Additional paid-in capital		**122,037**	122,037
Retained earnings		**1,487,031**	908,642
Total equity		**11,659,068**	11,080,679
Total liabilities and equity		**14,133,648**	14,559,171

Signed and authorised for release on behalf of the Management Board of the Bank

Gupalo Yelena Anatoliyevna — Chairwoman of the Management Board

Seitova Rimma — Chief Accountant

31 March 2015

The accompanying notes on page 5 to 34 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

(In thousands of tenge)

	Notes	*2014*	*2013*
Interest income			
Loans to customers		**1,317,924**	1,235,770
Finance lease receivables		**7,895**	8,778
Reverse repurchase agreements		**2,220**	23,648
Amounts due from credit institutions		**212**	80
		1,328,251	1,268,276
Interest expense			
Amounts due to customers		**(32,840)**	(91,111)
		(32,840)	(91,111)
Net interest income		**1,295,411**	1,177,165
Allowance for loan impairment	7	**21,954**	(717,735)
Net interest income after allowance for loan impairment		**1,317,365**	459,430
Net fee and commission income	18	**128,332**	88,195
Initial recognition of gain on loans to customers, adjusted for losses on changes in future cash flows	19	**–**	83,159
Net gains from foreign currencies	20	**180,081**	42,130
Other income		**3,406**	904
Non-interest income		**311,819**	214,388
Personnel expenses	21	**(203,462)**	(184,799)
Other operating expenses	21	**(236,075)**	(150,936)
Other impairment expenses	14	**(468,868)**	–
Non-interest expense		**(908,405)**	(335,735)
Profit before corporate income tax expense		**720,779**	338,083
Corporate income tax expense	13	**(142,390)**	(47,949)
Profit for the year		**578,389**	290,134
Other comprehensive income		**–**	–
Total comprehensive income for the year		**578,389**	290,134

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Seitova Rimma — Chief Accountant

31 March 2015

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STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

(In thousands of tenge)

	Share capital	*Additional paid-in capital*	*Retained earnings*	*Total equity*
At 31 December 2012	9,045,000	223,946	1,340,038	10,608,984
Total comprehensive income for the year	–	–	290,134	290,134
Decrease in additional paid-in capital (*Note 16*)	–	(101,909)	–	(101,909)
Dividends converted to share capital (*Note 16*)	691,679	–	(691,679)	–
Dividends paid to shareholders (*Note 16*)	–	–	(29,851)	(29,851)
Issue of share capital (*Note 16*)	313,321	–	–	313,321
At 31 December 2013	10,050,000	122,037	908,642	11,080,679
Total comprehensive income for the year	**–**	**–**	**578,389**	**578,389**
At 31 December 2014	**10,050,000**	**122,037**	**1,487,031**	**11,659,068**

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31 March 2015

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STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

(In thousands of tenge)

	Notes	*2014*	*2013*
Cash flows from operating activities			
Interest received		**1,182,463**	1,176,486
Interest paid		**(29,806)**	(163,811)
Fees and commissions received		**141,715**	91,506
Fees and commissions paid		**(2,855)**	(4,241)
Realised gains less losses from dealing in foreign currencies		**22,626**	14,110
Other income received		**3,380**	904
Personnel expenses paid		**(201,621)**	(183,322)
Other operating expenses paid		**(246,032)**	(134,863)
Cash flows from operating activities before changes in operating assets and liabilities		**869,870**	796,769
Net (increase)/ decrease in operating assets			
Amounts due from credit institutions		**22**	18,739
Finance lease receivables		**15,959**	4,252
Loans to customers		**(1,713,732)**	(1,403,584)
Other assets		**28,316**	(5,254)
Net increase/ (decrease) in operating liabilities			
Amounts due to customers		**(1,293,815)**	(5,299,891)
Other liabilities		**30,891**	7,237
Net cash flows used in operating activities before corporate income tax		**(2,062,489)**	(5,881,732)
Corporate income tax paid		**(178,632)**	(146,554)
Net cash flows used in operating activities		**(2,241,121)**	(6,028,286)
Cash flows from investing activities			
Proceeds from sale of reverse repurchase agreements		**504,000**	3,453,005
Proceeds from sale of property and equipment		**4,000**	–
Purchase of property and equipment	9	**(5,636)**	(38,202)
Purchase of intangible assets	10	**(9,112)**	(4,000)
Net cash flows used in investing activities		**493,252**	3,410,803
Cash flows from financing activities			
Proceeds from issue of share capital	16	**–**	313,321
Dividends paid to shareholders of the Bank	16	**–**	(29,851)
Net cash flows from financing activities		**–**	283,470
Net decrease in cash and cash equivalents		**(1,747,869)**	(2,334,013)
Cash and cash equivalents, as at 1 January	5	**4,341,095**	6,675,108
Cash and cash equivalents, as at 31 December	5	**2,593,226**	4,341,095

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31 March 2015

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(In thousands of tenge, unless otherwise indicated)

1. Principal activities

Joint Stock Company "Zaman-Bank" (hereinafter – "the Bank") operates in the Republic of Kazakhstan since 1991. The Bank accepts deposits from the public and extends credits, transfers payments within Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers in accordance with license No. 11 issued by the National Bank of the Republic of Kazakhstan (hereinafter – "the NBRK") on 24 December 2007. The Bank's activity is regulated by the NBRK.

The Bank is a member of the deposit insurance system. The system operates under the Republic of Kazakhstan laws and regulations and is governed by Kazakhstan Fund of Guarantees Insurance. The insurance covers Bank's obligations to individual depositors for the amount of up to KZT 5,000 thousand for each individual in case of Bank's failure to meet its obligations and/or loss of the license.

Registered address of the Bank's head office is: Republic of Kazakhstan, 141206, Ekibastuz, 111A Mashhur Zhusup Str.

As at 31 December 2014 and 2013, the following shareholders owned the issued shares:

Shareholder	*2014 (%)*	*2013 (%)*
Abguzhinov A.T.	**61.9**	61.9
Abguzhinov T.S	**29.0**	26.8
Islamic Corporation for the Development of the Private Sector	**5.0**	5.0
Other shareholders (individually holding less than 3%)	**4.1**	6.3
Total	**100.0**	100.0

As at 31 December 2014, members of the Board of Directors and Management Board controlled 2,991,021 shares (30%) (in 2013: 2,736,805 shares (26.8%)) of the Bank.

On 23 May 2013, the Islamic Corporation for the Development of the private sector (the "ICD") announced its footsteps with a mandate of converting the Bank into Islamic Bank with expected investments up to 35% of the subscribed and paid up capital of the Bank. Accordingly, the Bank will become Islamic Bank in the Republic of Kazakhstan.

2. Basis of preparation

General

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

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. These financial statements are presented in thousands of Kazakh tenge ("tenge" or "KZT") except per share amounts and unless otherwise indicated.

3. Summary of significant accounting policies

Changes in accounting policies

The Bank adopted the following revised IFRS and interpretation effective for annual periods beginning on or after 1 January 2014:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

Amendments provide for an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments did not have an influence on the Bank, since the Bank does not qualify to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. The amendments did not have an impact on the Bank.

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

IFRIC 21 did not have an impact on the Bank's financial statements as during the previous years the Bank followed the recognition principles established by IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which meet the requirements of IFRIC 21.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments did not affect the Bank, since in the current reporting period the Bank has not novated its derivatives.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

These amendments eliminate unintended consequences of application of IFRS 13 *Measurement of Fair Value* to disclosure required in accordance with IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of information on asset's or cash generating units recoverable amount on which impairment loss was recognized or reimbursed during the reporting period. The amendments did not have any impact on the financial position or performance of the Bank.

Fair value measurement

The Bank measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in *Note 23*.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

In the event of assets and liabilities recognized in the financial statements on a regular basis, the Bank determines the fact of transfer between levels of hierarchy sources by analysing the classification once again (based on initial data of the lowest level that are significant for fair value evaluation in whole) at the end of each reporting period.

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from NBRK and amounts due from other banks that mature within ninety days of the date of origination and are free from contractual encumbrances.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the income statement. The obligation to return them is recorded at fair value as a trading liability.

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to customers and non-convertible subordinated loan. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the borrowings are derecognised as well as through the amortisation process.

Leases

Finance – Bank as lessor

The Bank recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Operating – Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the borrower is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets 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 an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Amounts due from credit institutions and loans to customers (continued)

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognized;
- If the loan restructuring is not caused by the financial difficulties of the borrower the Bank uses the same approach as for financial liabilities described below;
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the allowance charges for the period. In case loan is not impaired after restructuring the Bank recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar allowance) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar allowance) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of guarantees. Financial guarantees are initially recognised in the financial statements at fair value, in "Other liabilities", being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of comprehensive income. The premium received is recognised in the statement of comprehensive income on a straight-line basis over the life of the guarantee.

Taxation

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

Deferred tax assets and liabilities are calculated in respect of all temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred income tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The Republic of Kazakhstan also has various operating taxes that are assessed on the Bank's activities. These taxes are included in the statement of comprehensive income within taxes other than corporate income tax.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated rates:

	Depreciation rates
Computers and office equipment	20-50%
Vehicles	15-20%
Furniture	15-20%
Land	0%

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Intangible assets other than goodwill

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic lives of 1 to 7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Allowances

Allowances are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments. These expenses are charged in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Contingent assets and liabilities

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Revenue and expense recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest and similar income and expense

For all financial instruments measured at amortised cost, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

  Fee and commission income obtained for rendering the services during a certain period of time are accrued during this period. These items include commission income and fees for the issuance of guarantees and letters of credit. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loans.

- *Fee commission income from providing transaction services*

  Fees arising from settlement transactions, transactions with cash and other services are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Foreign currency translation

The financial statements are presented in Tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate established by KASE and published by NBRK ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income as net gains from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the official exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the official KASE exchange rate on the date of the transaction are included in net gains from dealing in foreign currencies. The KASE market exchange rates at 31 December 2014 and 2013, were 182.35 KZT and 154.06 KZT to 1 USD, respectively.

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends, if necessary, to adopt these standards when they become effective.

IFRS 9 Financial Instruments

In July 2014 IFRS Board published a final version of IFRS 9 *Financial Instruments*, which includes all stages of financial instruments' project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* as well as all previous version of IFRS 9. The standard introduces new requirements to classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. Retrospective application is required but presentation of comparative information is not mandatory. Earlier application of previous versions of IFRS 9 is permitted if the date of initial application is 1 February 2015 or earlier. Application of IFRS 9 will have an impact on classification and measurement of the Bank's financial assets and will not have an impact on classification and measurement of its financial liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 published in May 2014 establishes a new five-step model, which is applied to revenue from contracts with clients. Revenue arising from lease contracts within the scope of IAS 17 *Leases*, insurance contracts within the scope of IFRS 4 *Insurance Contracts* and financial instruments and other contractual rights and obligations within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (or IFRS 9 *Financial Instruments*, if early adopted) is out of IFRS 15 scope and is dealt by respective standards.

According to IFRS 15, revenue is recognized in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income.

The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Bank is an existing IFRS preparer, this standard would not apply.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Bank, since the Bank does not have defined benefit plans with contributions from employees or third parties.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank given that the Bank has not used a revenue-based method to depreciate its non-current assets.

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Annual IFRS improvements: 2010-2012 cycle

These improvements are effective from 1 July 2014. These amendments are not expected to have a significant impact on the Bank. They include the following amendments:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- A performance condition may be a market or non-market condition;
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

IFRS 13 Short-term Receivables and Payables – Amendments to IFRS 13

This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual IFRS improvements: 2011-2013 cycle

These improvements are effective from 1 July 2014. These amendments are not expected to have a significant impact on the Bank. They include the following amendments:

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

Meaning of effective IFRSs – Amendments to IFRS 1

The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Bank, since the Bank is an existing IFRS preparer.

(In thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Annual IFRS improvements: 2012-2014 cycle

These improvements are effective on or after 1 January 2016 and are not expected to have a material impact on the Bank. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment must be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016, with earlier application permitted.

IFRS 7 Financial Instruments: Disclosures – servicing contracts

IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

IFRS 7 Financial Instruments: Disclosures – applicability of the offsetting disclosures to condensed interim financial statements

In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that "An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report.

The amendment removes the phrase "and interim periods within those annual periods", clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment must be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IAS 19 Employee Benefits – regional market issue regarding discount rate

The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment must be applied for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IAS 34 Interim Financial Reporting – disclosure of information "elsewhere in the interim financial report"

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment should be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

(In thousands of tenge, unless otherwise indicated)

4. Significant accounting judgments and estimates

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Allowance for loans impairment

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Taxation

Republic of Kazakhstan currently has a single Tax Code that regulates main taxation matters. The existing taxes include value added tax, corporate income tax, social and other taxes. Implementing regulations are often unclear or nonexistent and insignificant amount of precedents has been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Bank is in compliance with the tax laws of the Republic of Kazakhstan regulating its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive tax issues.

Adequacy of allowances for guarantees issued

The Bank regularly reviews its exposures under guarantees and similar off balance sheet credit instruments issued. These instruments are assessed and allowance made in a similar manner as for loans. The Bank uses its experienced judgment to adjust the allowances against guarantees issued based on probability of outflow of resources required to settle the obligation under the guarantee.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2014	*2013*
Cash on hand	**97,667**	240,744
Correspondent accounts with the NBRK	**2,324,648**	3,664,912
Correspondent accounts with other banks	**170,911**	435,439
Cash and cash equivalents	**2,593,226**	4,341,095

Under Kazakh legislation, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held on the current account with the NBRK or physical cash computed based on average monthly balances of the aggregate of cash balances on current account with the NBRK or physical cash in national and hard currencies during the period of reserve creation. As at 31 December 2014, obligatory reserves amounted to KZT 20,570 thousand (as at 31 December 2013: KZT 69,094 thousand).

(In thousands of tenge, unless otherwise indicated)

6. Reverse repurchase agreements

As at 31 December 2014, all reverse repurchase agreements entered into by the Bank during 2014 and 2013 had expired. As at 31 December 2013, the Bank entered into reverse repurchase agreements with short-term government securities with the carrying value of KZT 504,498 thousand issued in December 2013 with maturity of 14 days and effective interest rate of 5%. The fair value of securities as at 31 December 2013, was KZT 538,704 thousand.

7. Loans to customers

Loans to customers comprise:

	2014	*2013*
Corporate lending	**11,730,140**	10,001,364
Individual entrepreneurs	**369,760**	559,589
Consumer lending	**67,533**	37,500
Small business lending	**63,493**	29,564
Residential mortgages	**45,735**	40,874
Gross loans to customers	**12,276,661**	10,668,891
Less: allowance for loan impairment	**(1,044,624)**	(1,128,239)
Loans to customers	**11,232,037**	9,540,652

Allowance for impairment of loans to customers

The movements in allowance for impairment of loans to customers by class are as follows:

	2014					
	Corporate lending	*Individual entrepre-neurs*	*Small business lending*	*Consumer lending*	*Residential mortgages*	*Total*
At 1 January 2014	**1,099,576**	**11,697**	**16,966**	**–**	**–**	**1,128,239**
Charge/(reversal) for the year	**5,320**	**(11,697)**	**(15,577)**	**–**	**–**	**(21,954)**
Write-off	**(61,661)**	**–**	**–**	**–**	**–**	**(61,661)**
At 31 December 2014	**1,043,235**	**–**	**1,389**	**–**	**–**	**1,044,624**
Individual impairment	**1,043,235**	**–**	**1,389**	**–**	**–**	**1,044,624**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**3,999,512**	**–**	**28,593**	**–**	**–**	**4,028,105**

	2013					
	Corporate lending	*Individual entrepre-neurs*	*Small business lending*	*Consumer lending*	*Residential mortgages*	*Total*
At 1 January 2013	388,371	4,551	16,966	42	574	410,504
Charge for the year	711,205	7,146	–	(42)	(574)	717,735
At 31 December 2013	1,099,576	11,697	16,966	–	–	1,128,239
Individual impairment	1,099,576	11,697	16,966	–	–	1,128,239
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	4,265,550	33,581	16,966	–	–	4,316,097

Interest income accrued on loans, for which impairment allowances have been recognized, for the year ended 31 December 2014, comprised KZT 347,414 thousand (in 2013: KZT 249,136 thousand).

(In thousands of tenge, unless otherwise indicated)

7 Loans to customers (continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory and other;
- For retail lending, mortgages over residential properties.

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

Concentration of loans to customers

As at 31 December 2014, the Bank had a concentration of loans represented by KZT 7,453,613 thousands due from the ten largest third party borrowers (61% of gross loan portfolio) (in 2013: KZT 6,371,554 thousands, 60% of gross loan portfolio). An allowance of KZT thousands 926,402 (in 2013: KZT 337,227 thousands) was recognized against these loans.

Loans have been extended to the following types of customers:

	2014	*2013*
Private companies	**10,738,915**	8,904,294
Individuals and entrepreneurs	**493,122**	636,358
Loans to customers	**11,232,037**	9,540,652

Loans are issued on the territory of Kazakhstan in the following industry sectors:

	2014	*2013*
Trading enterprises	**3,806,077**	3,855,186
Construction and maintenance	**3,248,559**	868,735
Agriculture and food processing	**1,460,350**	2,312,247
Services	**871,288**	810,020
Machine-building	**846,995**	55,573
Metal products manufacturing	**494,297**	307,923
Individuals and entrepreneurs	**343,627**	626,265
Publishing activities	**120,242**	359,568
Transport	**30,509**	–
Coal mining	**–**	333,483
Other	**10,093**	11,652
Loans to customers	**11,232,037**	9,540,652

8. Finance lease receivables

The analysis of finance lease receivables at 31 December 2014 and 31 December 2013 are as follows:

	Less than 1 year	*1 to 5 years*	*Over 5 years*	*Total*
Gross investment in finance lease	**44,415**	**9,380**	**–**	**53,795**
Unearned future finance income on finance leases	**(2,789)**	**(3,199)**	**–**	**(5,988)**
Net investment in finance lease	**41,626**	**6,181**	**–**	**47,807**
Finance lease receivables	**41,626**	**6,181**	**–**	**47,807**

	Less than 1 year	*1 to 5 years*	*Over 5 years*	*Total*
Gross investment in finance lease as at 1 January 2013	30,649	40,282	–	70,931
Unearned future finance income on finance leases	(2,667)	(4,498)	–	(7,165)
Net investment in finance lease	27,982	35,784	–	63,766
Finance lease receivables as at 31 December 2013	27,982	35,784	–	63,766

(In thousands of tenge, unless otherwise indicated)

9. Property and equipment

The movements in property and equipment were as follows:

	Land	*Computers and office equipment*	*Vehicles*	*Furniture*	*Total*
Cost					
At 31 December 2012	3,975	10,568	–	13,492	28,035
Additions	–	25,820	6,584	5,798	38,202
Disposals	–	(1,586)	–	(5,243)	(6,829)
At 31 December 2013	3,975	34,802	6,584	14,047	59,408
Additions	**–**	**1,506**	**–**	**4,130**	**5,636**
Disposals	**(3,975)**	**(740)**	**–**	**(2,038)**	**(6,753)**
At 31 December 2014	–	**35,568**	**6,584**	**16,139**	**58,291**
Accumulated depreciation					
At 31 December 2012	–	3,019	–	8,164	11,183
Charge for the year	–	5,272	768	2,721	8,761
Disposals	–	(1,343)	–	(5,170)	(6,513)
At 31 December 2013	–	6,948	768	5,715	13,431
Charge for the year	**–**	**7,731**	**1,317**	**3,079**	**12,127**
Disposals	**–**	**(711)**	**–**	**(2,021)**	**(2,732)**
At 31 December 2014	**–**	**13,968**	**2,085**	**6,773**	**22,826**
Net book value					
At 31 December 2012	3,975	7,549	–	5,328	16,852
At 31 December 2013	3,975	27,854	5,816	8,332	45,977
At 31 December 2014	**–**	**21,600**	**4,499**	**9,366**	**35,465**

10. Intangible assets

The movements in intangible assets were as follows:

	Computer software and licenses
Cost	
At 31 December 2012	44,516
Additions	4,000
Disposals	(2,205)
At 31 December 2013	46,311
Additions	**9,112**
Disposals	**(323)**
At 31 December 2014	**55,100**
Accumulated amortisation	
At 31 December 2012	10,954
Charge for the year	8,706
Disposals	(2,205)
At 31 December 2013	17,455
Charge for the year	**9,854**
Disposals	**(323)**
At 31 December 2014	**26,986**
Net book value	
At 31 December 2012	33,562
At 31 December 2013	28,856
At 31 December 2014	**28,114**

(In thousands of tenge, unless otherwise indicated)

11. Inventory

As at 31 December 2014, inventories comprise real estate that was repossessed by the Bank from borrower who failed to meet the obligations to repay a loan to the Bank. During 2014, the Bank collected property from the borrower at the amount of KZT 190,565 thousand. The Bank plans to realize the property in future.

12. Amounts due to customers

The amounts due to customers include the following:

	2014	*2013*
Time deposits	**1,154,193**	1,811,404
Current accounts	**800,715**	1,591,740
Amounts due to customers	**1,954,908**	3,403,144
Held as security		
- against guarantees	**10,000**	778,598
- against loans	**9,683**	–
Held as security against guarantees	**19,683**	778,598

As at 31 December 2014, amounts due to customers of KZT 685,799 thousand (85.65%) were due to the ten largest customers (as at 2013: KZT 1,494,314 thousand (93.88%)).

Included in time deposits are deposits of individuals in the amount of KZT 1,132,538 thousand (in 2013: KZT 641,986 thousand). In accordance with the Kazakhstan Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

Amounts due to customers include accounts with the following types of customers:

	2014	*2013*
Individuals	**1,548,914**	1,766,423
Private enterprises	**405,994**	1,636,721
Amounts due to customers	**1,954,908**	3,403,144

Below is the breakdown of amounts due to customers by industry sectors:

	2014	*2013*
Individuals	**1,548,914**	1,766,423
Real estate construction	**146,370**	306,397
Energetics	**145,441**	14,130
Transport and communication	**41,123**	7,178
Trade	**28,358**	95,454
Fuel	**10,884**	1,149,320
Manufacturing	**10,713**	14,669
Financial leasing	**2,628**	3,682
Agriculture	**1,154**	23,637
Other	**19,323**	22,254
Amounts due to customers	**1,954,908**	3,403,144

13. Taxation

The corporate income tax expense comprises:

	2014	*2013*
Current corporate income tax expense	**159,001**	167,017
Deferred tax charge (credit) – origination and reversal of temporary differences	**(16,611)**	(119,068)
Corporate income tax expense	**142,390**	47,949

(In thousands of tenge, unless otherwise indicated)

13. Taxation (continued)

Kazakhstani legal entities have to file individual corporate income tax declarations. Standard corporate income tax rate comprised 20% for 2014 and 2013. The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2014	*2013*
Profit before corporate income tax expense	**720,779**	338,083
Statutory tax rate corporate	**20%**	20%
Theoretical income tax expense at the statutory rate	**144,156**	67,617
Non-taxable income		
Non-taxable interest income on finance lease	**(1,579)**	(1,755)
Non-deductible expenses		
- amounts due to customers	**–**	(19,743)
- expenses not related to entrepreneurship activities	**2,300**	1,604
- tax related penalties	**744**	–
- loans to customers (premium)	**–**	482
- other	**(3,231)**	(256)
Income tax expense	**142,390**	47,949

Deferred corporate income tax assets and liabilities as of 31 December and their movements for the respective years comprise:

	2012	*Origination and reversal of temporary differences in the statement of compre-hensive income*	*2013*	*Origination and reversal of temporary differences in the statement of compre-hensive income*	*2014*
Tax effect of deductible temporary differences					
Accrued professional services	1,976	–	1,976	**98**	**2,074**
Commission on guarantees	953	(953)	–	**–**	**–**
Unused vacation accrual	906	295	1,201	**369**	**1,570**
Payroll payments	–	2,270	2,270	**311**	**2,581**
Other assets	4	(4)	–	**–**	**–**
Deferred tax asset	3,839	1,608	5,447	**778**	**6,225**
Tax effect of taxable temporary differences					
Allowance for loan impairment	(69,836)	69,836	–	**–**	**–**
Time deposits	(24,372)	24,130	(242)	**261**	**19**
Allowance for guarantees issued	(35,000)	35,000	–	**–**	**–**
Loans to customers	(11,678)	(9,874)	(21,552)	**14,261**	**(7,291)**
Property, equipment and intangible assets	(1,539)	(1,632)	(3,171)	**1,311**	**(1,860)**
Deferred tax liability	(142,425)	117,460	(24,965)	**15,833**	**(9,132)**
Net deferred tax liability	(138,586)	119,068	(19,518)	**16,611**	**(2,907)**

(In thousands of tenge, unless otherwise indicated)

14. Allowance for contingent liabilities

Below is movement of allowance for impairment and other allowances:

	Guarantees and contractual commitments	*Total*
As at 31 December 2013	–	–
Charge	468,868	468,868
As at 31 December 2014	468,868	468,868

Allowance for impairment of assets is deducted from the carrying amount of related assets. Allowance for claims, guarantees and contractual commitments are recorded in liabilities.

In 2014, the Bank accrued an allowance for a guarantee issued to Kazakhstani company in the total amount of KZT 468,868 thousand due to the fact that the borrower is experiencing financial difficulty.

15. Other assets and liabilities

Other assets comprise:

	2014	*2013*
Prepaid corporate income tax	2,619	–
Prepayments for goods and services	2,290	23,384
Prepaid taxes other than corporate income tax	20	5,724
Other	1,505	5,219
Other assets	6,434	34,327

Other liabilities comprise:

	2014	*2013*
Deferred income on commission income from guarantee issued	14,407	3,502
Payables to employees	12,907	11,350
Payable for professional services	10,371	9,878
Unused vacation reserves	7,848	6,007
Due to Kazakhstan Deposit Insurance Fund JSC	1,693	5,380
Corporate income tax payable	–	17,012
Other	671	2,701
Other liabilities	47,897	55,830

16. Equity

Movements in shares outstanding, issued and fully paid were as follows:

	Number of ordinary shares	*Placement value, tenge*	*Total*
At 31 December 2012	9,000,000	1,005	9,045,000
Increase in share capital	1,000,000	1,005	1,005,000
At 31 December 2013	10,000,000	1,005	10,050,000
Increase in share capital	–	–	–
At 31 December 2014	10,000,000	1,005	10,050,000

The share capital of the Bank was contributed by the shareholders in tenge and they are entitled to dividends and any capital distribution in tenge. Each ordinary share has one vote. In 2014, the Bank did not declare or pay any dividends. At the Shareholders meeting held on 12 April 2013, it was decided to declare dividends of KZT 721,530 thousand and convert these dividends into share capital in order to meet NBRK requirements. As a result, dividends in the total amount of KZT 691,679 thousand were converted into ordinary shares net of withholding tax of KZT 29,851 thousand paid on the behalf of Shareholders during 2013. On 12 April 2013, Shareholders meeting of the Bank approved further increase in share capital in the total amount of KZT 313,321 thousand. The amount was paid in cash by existing shareholders in 2013.

During the year of 2013, additional paid-in capital decreased in the amount of KZT 101,909 thousand due to initial recognition of premium on discounting of long-term deposit issued from related parties of the Bank.

(In thousands of tenge, unless otherwise indicated)

17. Commitments and contingencies

Operating environment

The Republic of Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the economy of the Republic of Kazakhstan is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The economy of the Republic of Kazakhstan has been affected by the global financial crisis and is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Bank's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

Also, factors including increased reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, have affected the Bank's borrowers ability to repay the amounts due to the Bank. In addition, changes in economic conditions have resulted in deterioration in the value of collateral held against loans and other obligations. To the extent that information is available, the Bank has reflected revised estimates of expected future cash flows in its impairment assessment.

While Management of the Bank believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Bank's results and financial position in a manner not currently determinable.

Legal

In the ordinary course of business, the Bank 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 of the Bank.

Taxation

The Bank's business activity is carried out in the Republic of Kazakhstan. Kazakhstani tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities. It is therefore possible that transactions and activities of the Bank that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Fiscal periods remain open and subject to review by the tax authorities for a period of five calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

As at 31 December 2014, Management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

As at 31 December the Bank's commitments and contingencies comprised the following:

	2014	*2013*
Credit related commitments		
Guarantees issued	**3,002,108**	1,257,477
Undrawn loan commitments	**1,896,679**	749,848
	4,898,787	2,007,325
Operating lease commitments		
Not later than 1 year	**36,001**	36,001
Commitments and contingencies (before deducting collateral)	**4,934,788**	2,043,326
Less: cash held as security against guarantees (*Note 12*)	**(10,000)**	(778,598)
Commitments and contingencies	**4,924,788**	1,264,728

The loan commitments agreements stipulate the right of the Bank to unilaterally withdraw from the agreement should any conditions unfavorable to the Bank arise, including breach of contracts by borrowers, worsening of financial performance, etc.

(In thousands of tenge, unless otherwise indicated)

18. Net fee and commission income

Net fee and commission income comprises:

	2014	*2013*
Guarantees	**83,359**	42,203
Currency conversion operations	**18,566**	13,413
Cash operations	**15,781**	19,574
Transfer operations	**8,803**	9,243
Other	**3,741**	6,813
Customer accounts maintenance	**1,037**	1,203
Fee and commission income	**131,287**	92,449
Transfer operations	**(2,342)**	(2,322)
Cash operations	**(517)**	(1,459)
Securities operations	**(96)**	(473)
Fee and commission expense	**(2,955)**	(4,254)
Net fee and commission income	**128,332**	88,195

19. Initial recognition of gain on loans to customers, adjusted for losses on changes in future cash flows

In the ordinary course of business, the Bank extends loans to its employees at below market rate and to other customers at above market rate. These loans are initially recorded at their fair value determined as a present value of discounted future cash flows from the instrument. The discount rate used is a market interest rate for instruments with similar credit characteristics and risks. When these loans are not funded by the Shareholders, the Bank recognises the difference between the fair value of the loans and their notional amount in income statement as a gain or loss on initial recognition. During 2014, the Bank has not recorded any gain on loans to customers (in 2013: KZT 83,159 thousand).

20. Net gains from foreign currencies

	2014	*2013*
Gain less losses from translation	**157,455**	28,020
Gain less losses from dealing	**22,626**	14,110
Net gains from foreign currencies	**180,081**	42,130

21. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2014	*2013*
Salaries and bonuses	**(183,649)**	(167,224)
Social security costs	**(17,819)**	(15,384)
Other employment taxes	**(1,994)**	(2,191)
Personnel expenses	**(203,462)**	(184,799)
Professional services	**(80,270)**	(9,878)
Rent	**(35,775)**	(35,109)
Depreciation and amortization	**(21,981)**	(17,467)
Administrative expenses	**(16,839)**	(19,468)
Security expenses	**(10,631)**	(8,195)
Contribution to Kazakhstan Deposit Insurance Fund JSC	**(9,672)**	(22,274)
Business trip expenses	**(9,233)**	(6,793)
Communication expenses	**(5,531)**	(5,705)
Transportation expenses	**(3,518)**	(2,623)
Advertising and marketing costs	**(3,292)**	(3,270)
Cash collection expenses	**(1,172)**	(1,318)
Representative expenses	**(884)**	(7,540)
Taxes, other than income tax	**(595)**	(730)
Other	**(36,682)**	(10,566)
Other operating expenses	**(236,075)**	(150,936)

(In thousands of tenge, unless otherwise indicated)

22. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Bank.

Assets and Liabilities Management Committee

The Assets and Liabilities Management Committee (hereinafter "the ALMC") has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental liquidity risk issues and manages and monitors relevant risk decisions.

Risk Management

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Bank Treasury

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board of Directors of the Bank.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Asset and Liability Management Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geography risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

(In thousands of tenge, unless otherwise indicated)

22. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems (continued)

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A regular briefing is given to the Management Board and all other relevant employees of the Bank on the utilisation of credit limits, liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank monitors its exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the guarantees. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

Credit – related commitments risks

The maximum exposure to credit risk for the components of the statement of financial position before the effect of mitigation through the use of master netting and collateral agreements is best represented by their carrying amounts.

(In thousands of tenge, unless otherwise indicated)

22. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position of the Bank:

		2014			
	Notes	*Neither past due nor impaired*	*Past due but not impaired*	*Individually impaired*	*Total*
Cash and cash equivalents except cash on hand	5	2,495,559	–	–	2,495,559
Reverse repurchase agreements	6	–	–	–	–
Loans to customers	7	8,248,556	–	4,028,105	12,276,661
Corporate lending		7,716,417	–	3,999,512	11,715,929
Individual entrepreneurs		369,760	–	–	369,760
Consumer lending		67,533	–	–	67,533
Small business lending		49,111	–	28,593	77,704
Residential mortgages		45,735	–	–	45,735
Financial lease receivables	8	11,980	35,827	–	47,807
Total		10,756,095	35,827	4,028,105	14,820,027

		2013			
	Notes	*Neither past due nor impaired*	*Past due but not impaired*	*Individually impaired*	*Total*
Cash and cash equivalents except cash on hand	5	4,100,351	–	–	4,100,351
Reverse repurchase agreements	6	504,498	–	–	504,498
Amounts due from credit institutions	7	6,079,597	273,197	4,316,097	10,668,891
Corporate lending		5,462,618	273,197	4,265,549	10,001,364
Individual entrepreneurs		526,007	–	33,582	559,589
Residential mortgages		40,874	–	–	40,874
Consumer lending		37,500	–	–	37,500
Small business lending		12,598	–	16,966	29,564
Financial lease receivables	8	63,766	–	–	63,766
Total		10,748,212	273,197	4,316,097	15,337,506

Past due loans to customers include those that are only past due by a few days. An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly. Bank's current credit rating methodology treats all borrowers who are neither past due nor impaired as Standard.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank determines the allowances appropriate for each loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Financial guarantees are assessed and allowance made in a similar manner as for loans.

(In thousands of tenge, unless otherwise indicated)

22. Risk management (continued)

Credit risk (continued)

Impairment assessment (continued)

The geographical concentration of Bank's monetary assets and liabilities is set out below:

	2014				*2013*			
	Kazakhstan	*OECD*	*CIS and other foreign banks*	*Total*	*Kazakhstan*	*OECD*	*CIS and other foreign banks*	*Total*
Assets								
Cash and cash equivalents	**2,570,278**	**–**	**22,948**	**2,593,226**	4,323,711	3	17,381	4,341,095
Reverse repurchase agreements	**–**	**–**	**–**	**–**	504,498	–	–	504,498
Loans to customers	**11,232,037**	**–**	**–**	**11,232,037**	9,540,652	–	–	9,540,652
Financial lease receivable	**47,807**	**–**	**–**	**47,807**	63,766	–	–	63,766
Other assets	**5,765**	**669**	**–**	**6,434**	21,091	–	13,236	34,327
	13,855,887	**669**	**22,948**	**13,879,504**	14,453,718	3	30,617	14,484,338
Liabilities								
Amounts due to customers	**1,954,606**	**–**	**302**	**1,954,908**	3,402,721	–	423	3,403,144
Other liabilities	**47,857**	**37**	**3**	**47,897**	55,790	35	5	55,830
	2,002,463	**37**	**305**	**2,002,805**	3,458,511	35	428	3,458,974
Net assets	**11,853,424**	**632**	**22,643**	**11,876,699**	10,995,207	(32)	30,189	11,025,364

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a cash deposit (obligatory reserve) with the NBRK, the amount of which depends on the level of customer funds attracted.

The Treasury Department is responsible for management of the current open position of the Bank. The Treasury performs the monitoring of the Bank's balance sheet liquidity and any changes thereof. The Bank's liquidity analysis is performed by the Treasury on monthly basis, and all members of the ALMC are informed appropriately.

The Bank uses internal methodologies to analyze the Bank's liquidity.

The ALMC performs weekly monitoring of liquidity risk by future expected cash flows – gap liquidity analysis. When the liquidity indicators worsen, the ALMC identifies the reasons and determines the strategy to mitigate the risk. The Risk Management Department performs regularly monitoring of compliance with the liquidity requirements determined by the Liquidity Management Policy, such as immediate, current, short-term, common and expected liquidity ratios.

Management of the Bank, mainly the Board of Directors and Management Board of the Bank, receives the information on the Bank's current liquidity at least on monthly basis and, when the current or expected liquidity positions worsen, on immediate basis.

(In thousands of tenge, unless otherwise indicated)

22. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

			2014		
Financial liabilities	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to customers	**830,580**	**1,829**	**1,132,538**	**–**	**1,964,947**
Other financial liabilities	**2,006**	**–**	**–**	**–**	**2,006**
Total undiscounted financial liabilities	**832,586**	**1,829**	**1,132,538**	**–**	**1,966,953**

			2013		
Financial liabilities	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to customers	2,779,110	–	641,029	–	3,420,139
Other financial liabilities	42,743	9,509	–	–	52,252
Total undiscounted financial liabilities	2,821,853	9,509	641,029	–	3,472,391

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Guarantees issued	**77,400**	**156,337**	**1,460,984**	**1,307,387**	**3,002,108**
Undrawn loan commitments	**1,896,679**	**–**	**–**	**–**	**1,896,679**
2014 (*Note 17*)	**1,974,079**	**156,337**	**1,460,984**	**1,307,387**	**4,898,787**
Guarantees issued	3,584	8,026	545,867	700,000	1,257,477
Undrawn loan commitments	749,848	–	–	–	749,848
2013 (*Note 17*)	753,432	8,026	545,867	700,000	2,007,325

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Bank has exposures to market risk into non-trading portfolios. Non-trading positions are managed and monitored using other sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Bank's exposure to interest rate risk is not significant as the Bank borrows and places its funds with fixed rates.

(In thousands of tenge, unless otherwise indicated)

22. Risk management (continued)

Market risk (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBRK regulations. The Management Board has set limits on positions by currency based on the NBRK regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the tenge, with all other variables held constant on the statement of comprehensive income – due to the fair value of currency sensitive non-trading monetary assets and liabilities. The effect on equity does not differ from the effect on the statement of comprehensive income. A negative amount in the table reflects a potential net reduction in statement of comprehensive income or equity, while a positive amount reflects a net potential increase.

	2014		*2013*	
Currency	*Increase in currency rate in %*	*Effect on profit before tax*	*Increase in currency rate in %*	*Effect on profit before tax*
USD	**+30.0%**	**206,290**	**+30.0%**	365,643
EUR	**+30.0%**	**382**	**+30.0%**	1,832
RUB	**+20.0%**	**527**	**+20.0%**	2,560

	2014		*2013*	
Currency	*Decrease in currency rate in %*	*Effect on profit before tax*	*Decrease in currency rate in %*	*Effect on profit before tax*
USD	**-30.0%**	**(206,290)**	**-30.0%**	(365,643)
EUR	**-30.0%**	**(382)**	**-30.0%**	(1,832)
RUB	**-20.0%**	**(527)**	**-20.0%**	(2,560)

Operational risk

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

23. Fair value measurements

Fair value hierarchy

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Fair value hierarchy for financial instruments measured at fair value as at 31 December 2014

		Fair value measurement using			
	Date of valuation	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2014	–	**2,593,226**	–	**2,593,226**
Loans to customers	31 December 2014	–	–	**11,388,769**	**11,388,769**
Liabilities for which fair values are disclosed					
Amounts due to customers	31 December 2014	–	–	**1,954,908**	**1,954,908**
Other financial liabilities	31 December 2014	–	–	**2,006**	**2,006**

(In thousands of tenge, unless otherwise indicated)

23. Fair value measurements (continued)

Fair value hierarchy (continued)

Fair value hierarchy for financial instruments measured at fair value as at 31 December 2013

	Date of valuation	Fair value measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2013	–	4,341,095	–	4,341,095
Reverse repurchase agreements	31 December 2013	–	538,704	–	538,704
Loans to customers	31 December 2013	–	–	9,662,176	9,662,176
Liabilities for which fair values are disclosed					
Amounts due to customers	31 December 2013	–	–	3,403,144	3,403,144
Other financial liabilities	31 December 2013	–	–	17,883	17,883

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2014			*2013*		
	Carrying value	*Fair value*	*Unrecognised gain/(loss)*	*Carrying value*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets						
Cash and cash equivalents	**2,593,226**	**2,593,226**	**–**	4,341,095	4,341,095	–
Reverse repurchase agreements	**–**	**–**	**–**	504,498	538,704	34,206
Loans to customers	**11,232,037**	**11,388,769**	**156,732**	9,540,652	9,662,176	121,524
Financial liabilities						
Amounts due to customers	**1,954,908**	**1,954,908**	**–**	3,403,144	3,403,144	–
Other financial liabilities	**2,006**	**2,006**	**–**	17,883	17,883	–
Total unrecognised change in fair value			**156,732**			155,730

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Financial assets and financial liabilities carried at amortized cost

Fair value of the quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and credit institutions and other financial assets and liabilities, obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(In thousands of tenge, unless otherwise indicated)

24. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See *Note 22 Risk Management* for the Bank's contractual undiscounted repayment obligations.

	2014			2013		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	2,593,226	–	2,593,226	4,341,095	–	4,341,095
Reverse repurchase agreements	–	–	–	504,498	–	504,498
Loans to customers	3,401,094	7,830,943	11,232,037	3,009,102	6,531,550	9,540,652
Finacial lease receivables	–	47,807	47,807	–	63,766	63,766
Property and equipment	–	35,465	35,465	–	45,977	45,977
Intangible assets	–	28,114	28,114	–	28,856	28,856
Inventory	190,565	–	190,565	–	–	–
Other assets	6,434	–	6,434	34,327	–	34,327
Total	6,191,319	7,942,329	14,133,648	7,889,022	6,670,149	14,559,171
Amounts due to customers	822,277	1,132,631	1,954,908	1,983,517	1,419,627	3,403,144
Deferred income tax liabilities	–	2,907	2,907	–	19,518	19,518
Allowance for commitments and contingencies	468,868	–	468,868	–	–	–
Other liabilities	47,897	–	47,897	55,830	–	55,830
Total	1,339,042	1,135,538	2,474,580	2,039,347	1,439,145	3,478,492
Net	4,852,277	6,806,791	11,659,068	5,849,675	5,231,004	11,080,679

25. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. The outstanding balances of related party transactions are as follows:

	2014				2013			
	Share-holders	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*	*Share-holders*	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*
Loans outstanding at 1 January, gross	–	–	33,207	33,166	–	285,280	11,194	21,460
Loans issued during the year	–	330,000	21,500	4,000	–	170,000	29,480	19,000
Loan repayments during the year	–	(330,000)	(9,053)	(3,812)	–	(415,280)	(7,467)	(7,294)
Other movements	–	–	–	–	–	(40,000)	–	–
Loans outstanding at 31 December, gross	–	–	45,654	33,354	–	–	33,207	33,166
Loans outstanding at 31 December, net	–	–	45,654	33,354	–	–	33,207	33,166
Deposits at 1 January	–	–	480	641,506	3,755,775	–	1,200	–
Deposits received during the year	–	–	1,194	1,045,389	–	–	–	–
Deposits withdrawn during the year	–	–	–	(560,860)	(3,114,269)	–	(1,200)	–
Deposits outstanding at 31 December	–	–	1,674	1,126,035	641,506	–	–	–
Current accounts at 31 December	358,803	2,951	1,960	35,549	325,244	761,952	1,882	657,233

(In thousands of tenge, unless otherwise indicated)

25. Related party disclosures (continued)

The income and expense arising from related party transactions are as follows:

	For the year ended 31 December							
	2014				*2013*			
	Share-holders	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*	*Share-holders*	*Entities under common control*	*Key manage-ment personnel*	*Other related parties*
Interest income on loans	–	7,700	3,079	5,051	–	23,007	2,003	4,029
Fee and commission income	1,363	14,108	63	2,984	1,065	6,568	23	8,180
Interest expense on amounts due to customers	2,839	1,200	57,083	19,317	7,128	–	94	60,721
Other operating expenses	–	–	145	29,662	–	1,216	–	1,460

Compensation of 5 key management personnel was comprised of the following:

	2014	*2013*
Salaries and other short-term benefits	49,025	47,667
Social security costs	4,887	4,765
Total key management personnel compensation	53,912	52,432

26. Capital adequacy

Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the competent authority in supervising the Bank.

During 2014 and 2013, the Bank had complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains adequate capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

NBRK capital adequacy ratio

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the objectives, policies and processes from the previous years.

The NBRK requires second tier banks to maintain the capital adequacy ratio k1-1 at the level of no less than 5% of the total assets in accordance with the rules of the NBRK, k1-2 at the level of no less than 5% and k2 at the level of no less than 10% of assets, contingent liabilities, possible claims and liabilities and operational risks.

Capital adequacy ratios calculations

- Capital adequacy ratio k1-1 is calculated as tier 1 capital to total assets under the NBRK rules;
- Capital adequacy ratio k1-2 is calculated as tier 1 capital to the sum of risk-weighted assets and contingent liabilities, potential claims and liabilities and operational risk;
- Capital adequacy ratio k2 is calculated as total regulatory capital to the sum of risk-weighted assets and contingent liabilities, potential claims and liabilities and operational risk.

(In thousands of tenge, unless otherwise indicated)

26. Capital adequacy (continued)

Capital adequacy ratios calculations (continued)

As at 31 December 2014 and 2013, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

As at 31 December 2014 and 2013, the Bank's capital adequacy ratio, calculated in accordance with the requirements of the NBRK were as follows:

	2014	*2013*
Tier 1 capital	**11,080,680**	10,790,545
Tier 2 capital	**578,388**	290,134
Total capital	**11,659,068**	11,080,679
Risk weighted assets; commitments and contingencies	**14,938,296**	11,066,391
Operational risk	**494,370**	293,494
Capital adequacy ratio (k1-1)	**78%**	74%
Capital adequacy ratio (k1-2)	**70%**	89%
Capital adequacy ratio (k2)	**74%**	91%