

Eurasian Bank JSC

Consolidated Financial Statements
for the year ended 31 December 2014

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and Other Comprehensive Income 5

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Independent Auditors' Report

To the Board of Directors of Eurasian Bank JSC

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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



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

KPMG Audit LLC

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

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

27 March 2015

	Note	2014 KZT'000	2013 KZT'000
Interest income	4	80,075,139	67,074,862
Interest expense	4	(39,862,264)	(29,489,203)
Net interest income		40,212,875	37,585,659
Fee and commission income	5	11,479,459	11,687,847
Fee and commission expense		(779,643)	(751,232)
Net fee and commission income		10,699,816	10,936,615
Net loss on financial instruments at fair value through profit or loss		(631,760)	(161,988)
Net foreign exchange gain	6	3,396,540	2,642,196
Net loss on available-for-sale financial assets		(349)	(290)
Gain from sale of mortgage and consumer loans		1,131,811	707,582
Other operating expenses, net		(279,425)	(165,286)
Operating income		54,529,508	51,544,488
Impairment losses	7	(10,069,797)	(8,247,764)
Personnel expenses	8	(16,438,092)	(15,070,861)
Other general administrative expenses	9	(13,412,070)	(10,947,331)
Profit before income tax		14,609,549	17,278,532
Income tax expense	10	(3,185,919)	(4,132,351)
Profit for the year		11,423,630	13,146,181
Other comprehensive loss			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		(22,839)	62,315
- Net change in fair value transferred to profit or loss		349	290
Foreign currency exchange differences on translation		(2,031,456)	(174,496)
<i>Total items that are or may be reclassified subsequently to profit or loss:</i>		<i>(2,053,946)</i>	<i>(111,891)</i>
Total other comprehensive loss for the year		(2,053,946)	(111,891)
Total comprehensive income for the year		9,369,684	13,034,290
Basic and diluted earnings per ordinary share, in KZT	27	704.68	810.94

The consolidated financial statements as set out on pages 5 to 84 were approved by management on 27 March 2015 and were signed on its behalf by:





 Nelina L.N.
 Chief Accountant

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

	Note	2014 KZT'000	2013 KZT'000
ASSETS			
Cash and cash equivalents	11	112,083,022	83,146,378
Financial instruments at fair value through profit or loss	12	4,547,700	1,139,628
Available-for-sale financial assets	13	5,913,836	10,979,872
Deposits and balances with banks	14	13,476,169	2,922,373
Loans to customers	15	588,232,099	432,529,086
Held-to-maturity investments	16	35,184,257	23,462,306
Current tax asset		2,146,329	1,284,278
Property, equipment and intangible assets	17	22,847,412	19,758,591
Other assets	18	24,171,260	13,410,896
Total assets		808,602,084	588,633,408
LIABILITIES			
Financial instruments at fair value through profit or loss	12	-	2,278
Deposits and balances from banks	19	3,469,981	14,116,633
Amounts payable under repurchase agreements	20	7,353,570	8,803,285
Current accounts and deposits from customers	21	548,499,125	404,673,786
Debt securities issued	22	103,242,607	32,786,356
Subordinated debt securities issued	23	26,028,695	35,669,288
Other borrowed funds	24	37,862,573	21,410,349
Deferred tax liabilities	10	1,795,183	257,542
Other liabilities	25	13,662,318	12,095,527
Total liabilities		741,914,052	529,815,044
EQUITY			
Share capital	26	30,110,207	30,110,207
Share premium		25,632	25,632
Reserve for general banking risks		8,234,923	8,234,923
Dynamic reserve		6,733,233	6,733,233
Revaluation reserve for available-for-sale financial assets		(74,143)	(51,653)
Foreign currency translation reserve		(2,213,707)	(182,251)
Retained earnings		23,871,887	13,948,273
Total equity		66,688,032	58,818,364
Total liabilities and equity		808,602,084	588,633,408

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

	2014 KZT'000	2013 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	71,967,339	60,387,215
Interest payments	(38,915,794)	(28,398,992)
Fee and commission receipts	11,331,678	11,799,057
Fee and commission payments	(779,643)	(751,232)
Net payments from financial instruments at fair value through profit or loss	(4,560,196)	(150,551)
Net receipts from foreign exchange	3,422,282	2,683,016
Other payments	(288,228)	(168,675)
Personnel expenses payments	(17,062,206)	(14,534,561)
Other general administrative expenses (payments)	(10,475,321)	(8,379,350)
(Increase) decrease in operating assets		
Financial instruments at fair value through profit or loss	465,512	56,500
Mandatory reserve	262,897	(206,759)
Deposits and balances with banks	(9,919,080)	759,294
Loans to customers	(157,476,859)	(80,354,726)
Other assets	956,507	(3,859,898)
Increase (decrease) in operating liabilities		
Deposits and balances from banks	(11,106,973)	(6,740,082)
Amounts payable under repurchase agreements	(1,479,999)	8,801,003
Current accounts and deposits from customers	119,679,177	88,901,052
Other liabilities	1,161,402	1,905,318
Net cash (used in) from operating activities before income tax paid	(42,817,505)	31,747,629
Income tax paid	(2,510,329)	(4,312,612)
Cash flows (used in) from operating activities	(45,327,834)	27,435,017
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale financial assets	(22,698,238)	(10,425,277)
Sale and repayment of available-for-sale financial assets	27,666,445	18,145,893
Purchases of held-to-maturity investments	(52,871,716)	(20,005,394)
Redemption of held-to-maturity investments	41,419,634	7,242,093
Purchases of property and equipment and intangible assets	(6,719,150)	(5,658,011)
Sales of property and equipment and intangible assets	315,802	17,554
Capital expenditures	79,773	(761,780)
Cash flows used in investing activities	(12,807,450)	(11,444,922)

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

	2014 KZT'000	2013 KZT'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from debt securities issued	89,816,367	-
Repayment of debt securities issued	(2,236,200)	-
Repurchase of debt securities issued	(18,096,374)	(1,295,789)
Receipts from subordinated debt securities issued	12,461	17,534,520
Repayment of subordinated debt securities issued	(9,210,360)	(10,000,000)
Repurchase of subordinated debt securities issued	(828,923)	-
Receipts of other borrowed funds	23,064,839	12,328,852
Repayment of other borrowed funds	(6,893,104)	(9,733,272)
Dividends paid	(1,500,016)	(2,000,129)
Cash flows from financing activities	74,128,690	6,834,182
Net increase in cash and cash equivalents	15,993,406	22,824,277
Effect of changes in exchange rates on cash and cash equivalents	12,943,238	699,347
Cash and cash equivalents as at the beginning of the year	83,146,378	59,622,754
Cash and cash equivalents as at the end of the year (Note 11)	112,083,022	83,146,378

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

KZT'000	Share capital	Share premium	Reserve for general banking risks	Dynamic reserve	Revaluation reserve for available-for-sale financial assets	Foreign currency translation reserve	Retained earnings	Total
Balance as at 1 January 2013	30,110,207	25,632	6,650,265	-	(114,258)	(7,755)	11,120,112	47,784,203
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	13,146,181	13,146,181
Other comprehensive loss								
<i>Items that are or may be reclassified subsequently to profit or loss:</i>								
Net change in fair value of available-for-sale financial assets	-	-	-	-	62,315	-	-	62,315
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	-	290	-	-	290
Foreign currency exchange differences on translation	-	-	-	-	-	(174,496)	-	(174,496)
<i>Total items that are or may be reclassified subsequently to profit or loss:</i>	-	-	-	-	62,605	(174,496)	-	(111,891)
Total other comprehensive loss	-	-	-	-	62,605	(174,496)	-	(111,891)
Total comprehensive income for the year	-	-	-	-	62,605	(174,496)	13,146,181	13,034,290
Transactions with owners, recorded directly in equity								
Dividends declared (Note 26 (b))	-	-	-	-	-	-	(2,000,129)	(2,000,129)
Other movements in equity								
Increase in general reserve (Note 26 (d))	-	-	1,584,658	-	-	-	(1,584,658)	-
Transfer to dynamic reserve (Note 26 (d))	-	-	-	6,733,233	-	-	(6,733,233)	-
Balance as at 31 December 2013	30,110,207	25,632	8,234,923	6,733,233	(51,653)	(182,251)	13,948,273	58,818,364

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

KZT'000	Share capital	Share premium	Reserve for general banking risks	Dynamic reserve	Revaluation reserve for available-for-sale financial assets	Foreign currency translation reserve	Retained earnings	Total
Balance as at 1 January 2014	30,110,207	25,632	8,234,923	6,733,233	(51,653)	(182,251)	13,948,273	58,818,364
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	11,423,630	11,423,630
Other comprehensive loss								
<i>Items that are or may be reclassified subsequently to profit or loss:</i>								
Net change in fair value of available-for-sale financial assets	-	-	-	-	(22,839)	-	-	(22,839)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	-	349	-	-	349
Foreign currency exchange differences on translation	-	-	-	-	-	(2,031,456)	-	(2,031,456)
<i>Total items that are or may be reclassified subsequently to profit or loss:</i>	-	-	-	-	(22,490)	(2,031,456)	-	(2,053,946)
Total other comprehensive loss	-	-	-	-	(22,490)	(2,031,456)	-	(2,053,946)
Total comprehensive income for the year	-	-	-	-	(22,490)	(2,031,456)	11,423,630	9,369,684
Transactions with owners, recorded directly in equity								
Dividends declared (Note 26 (b))	-	-	-	-	-	-	(1,500,016)	(1,500,016)
Balance as at 31 December 2014	30,110,207	25,632	8,234,923	6,733,233	(74,143)	(2,213,707)	23,871,887	66,688,032

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

1 Background

(a) Organisation and operations

These consolidated financial statements include the financial statements of Eurasian Bank JSC (the “Bank”) and its subsidiary, Eurasian Bank OJSC (together referred to as the “Group”).

The Bank was established in 1994 in the Republic of Kazakhstan as a closed joint-stock company under the laws of the Republic of Kazakhstan. Due to a change in legislation introduced in 2003, the Bank was re-registered as a joint-stock company on 2 September 2003. The Bank operates based on general banking licence number 237 granted on 28 December 2007. The Bank also possesses licences number 0401100623 and number 0407100189 for brokerage, dealing and custodian activities. The principal activities of the Group are deposit taking and customer account maintenance, lending and issuing guarantees, custodian services, cash and settlement operations, operations with securities and foreign exchange.

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

As at 31 December 2014 the Group has 20 regional branches (2013: 20) and 143 cash settlement centers (2013: 143) from which it conducts business throughout the Republic of Kazakhstan and Russian Federation.

The registered address of the Bank’s head office is 56 Kunayev str., Almaty, Republic of Kazakhstan. The majority of the Group’s assets and liabilities are located in Kazakhstan.

On 1 April 2010 the Bank acquired a subsidiary, Eurasian Bank OJSC, located in Moscow, Russian Federation.

(b) Shareholders

As at 31 December 2014 Eurasian Financial Company JSC (the “EFC”) is the Bank’s Parent company, which owns 100% of the Bank’s shares (2013: EFC owns 100% of the Bank’s shares).

(c) Business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

2 Basis of preparation, continued

(c) Functional and presentation currency

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

The functional currency of the Bank’s subsidiary is the Russian Rouble (“RUB”) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to the subsidiary.

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

In translating to the KZT, assets and liabilities of the Bank’s subsidiary that are included in the consolidated statement of financial position are translated at the foreign exchange rate ruling at the reporting date. All income and expense and equity items are translated at approximating rates at the dates of the transactions. The resulting exchange difference is recorded in the cumulative translation reserve.

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

Any conversion of RUB amounts to KZT should not be construed as a representation that RUB amounts have been, could be, or will be in the future, convertible into KZT at the exchange rate shown, or at any other exchange rate.

(d) Use of estimates and judgments

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

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

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

- insurance agent services income – Note 5
- loan impairment estimates – Note 15
- estimates of fair value of financial assets and liabilities – Note 35.

(e) Changes in accounting policies and presentation

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

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

These amendments did not have an impact on its financial statements as the Group does not present financial assets and financial liabilities on net basis in the consolidated statement of financial position.

2 Basis of preparation, continued

(f) Changes in presentation – prior period reclassification

Comparative information is reclassified to conform to changes in presentation in the current period.

During the preparation of the Group's consolidated financial statements for the year ended 31 December 2014, management made certain reclassifications affecting the corresponding figures to conform to the presentation of the consolidated financial statements for the year ended 31 December 2014.

In the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2013 agent services expenses on loans to customers were reclassified from 'Fee and commission expense' to 'Interest income' in the amount of KZT 1,235,274 thousand.

In the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2013 the cost of insurance of car loans was reclassified from 'Other general administrative expenses' to 'Interest income' in the amount of KZT 992,740 thousand.

Management believes that this presentation is more appropriate presentation in accordance with IFRS and provides a clearer view of the consolidated financial performance of the Group. The effect of reclassifications on the corresponding figures can be summarised as follows:

KZT'000	As reclassified	Effect of reclassifications	As previously reported
Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2013			
Interest income	67,074,862	(2,228,014)	69,302,876
Net interest income	37,585,659	(2,228,014)	39,813,673
Fee and commission expense	(751,232)	1,235,274	(1,986,506)
Net fee and commission income	10,936,615	1,235,274	9,701,341
Other general administrative expenses	(10,947,331)	992,740	(11,940,071)
Consolidated statement of cash flows for the year ended 31 December 2013			
Cash flows from operating activities:			
Interest receipts	60,387,215	(2,228,014)	62,615,229
Fee and commission payments	(751,232)	1,235,274	(1,986,506)
Other general administrative expenses (payments)	(8,379,350)	992,740	(9,372,090)

The above reclassifications do not impact the Group's results or equity.

3 Significant accounting policies

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

(a) Basis of consolidation

(i) Business combinations

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

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

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

3 Significant accounting policies, continued

(a) Basis of consolidation, continued

(ii) Subsidiaries

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

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(iv) Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets.

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

(b) Foreign currency

Transactions in foreign currencies are translated to the respective functional currency of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss.

(c) Cash and cash equivalents

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

3 Significant accounting policies, continued

(d) Financial instruments

(i) Classification

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

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

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

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

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

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

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

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

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

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

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

3 Significant accounting policies, continued

(d) Financial instruments, continued

(ii) *Recognition*

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

(iii) *Measurement*

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

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

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

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

(iv) *Amortised cost*

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

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

(v) *Fair value measurement principles*

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

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

3 Significant accounting policies, continued

(d) Financial instruments, continued

(v) *Fair value measurement principles, continued*

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

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

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

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

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

(vi) *Gains and losses on subsequent measurement*

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

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss

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

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

3 Significant accounting policies, continued

(d) Financial instruments, continued

(vii) Derecognition

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

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

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

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

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

The Group writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

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

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

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

(ix) Derivative financial instruments

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

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

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

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

3 Significant accounting policies, continued

(d) Financial instruments, continued

(x) *Offsetting*

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

(e) Property and equipment

(i) *Owned assets*

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

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

(ii) *Depreciation*

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

- Buildings	25 to 40 years
- Computer and banking equipment	3 to 8 years
- Vehicles	7 years
- Furniture	8 to 10 years
- Leasehold improvements	5 years.

(f) Intangible assets

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

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

- Trademark	10 years
- Computer software and other intangibles	5 to 7 years.

(g) Impairment

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

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

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data related to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

3 Significant accounting policies, continued

(g) Impairment, continued

(i) *Financial assets carried at amortised cost*

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

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

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

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

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

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

(ii) *Financial assets carried at cost*

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

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

3 Significant accounting policies, continued

(g) Impairment, continued

(iii) *Available-for-sale financial assets*

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

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

(iv) *Non financial assets*

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

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount.

Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

(h) Provisions

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

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

3 Significant accounting policies, continued

(i) Credit related commitments

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

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

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

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

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

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

(j) Share capital

(i) Ordinary shares

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

(ii) Dividends

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

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

(k) Taxation

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

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

3 Significant accounting policies, continued

(k) Taxation, continued

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

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

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

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

(l) Income and expense recognition

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

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

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided. The Group acts as an agent for insurance providers offering their insurance products to consumer loan borrowers. Commission income from insurance represents commissions for such agency services received by the Group from such partners. It is not considered to be integral to the overall profitability of consumer loans because it is determined and recognised based on the Group's contractual arrangements with the insurance provider rather than with the borrower, the borrowers have a choice whether to purchase the policy, the interest rates for customers with and without the insurance are the same. The Group does not participate on the insurance risk, which is entirely borne by the partner. Commission income from insurance is recognised in profit or loss when the Group provides the agency service to the insurance company.

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

(m) Segment reporting

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

3 Significant accounting policies, continued

(n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2014, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Group plans to adopt these pronouncements when they become effective.

The Group has not yet analysed the likely impact of these new standards and pronouncements on its consolidated financial statements.

- IFRS 9 *Financial Instruments* published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Group recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The Group has not analysed the impact of these changes yet. The Group does not intend to adopt this standard early. The standard will be effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.
- Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2015. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2014 KZT'000	2013 KZT'000
Interest income		
Loans to customers	78,201,720	65,656,123
Held-to-maturity investments	1,005,143	806,711
Available-for-sale financial assets	415,247	330,057
Placements with banks	340,472	140,970
Financial instruments at fair value through profit or loss	54,432	73,291
Cash and cash equivalents	46,016	40,837
Amounts receivable under reverse repurchase agreements	12,109	26,873
	80,075,139	67,074,862
Interest expense		
Current accounts and deposits from customers	(27,955,273)	(21,046,296)
Debt securities issued	(3,813,219)	(3,007,092)
Subordinated debt securities issued	(3,433,109)	(2,746,103)
Amounts payable under repurchase agreements	(2,251,736)	(438,855)
Other borrowed funds	(1,466,399)	(1,599,620)
Deposits and balances from banks	(942,528)	(651,237)
	(39,862,264)	(29,489,203)
	40,212,875	37,585,659

Included within various line items under interest income for the year ended 31 December 2014 is a total of KZT 2,608,894 thousand (2013: KZT 1,533,986 thousand) accrued on individually impaired financial assets.

5 Fee and commission income

	2014	2013
	KZT'000	KZT'000
Agent services	7,222,800	7,782,122
Settlement	1,358,000	1,413,558
Cash withdrawal	1,110,279	969,944
Payment card maintenance fees	727,416	568,979
Guarantee and letter of credit issuance	571,341	589,893
Cash delivery	55,093	51,213
Custodian services	23,561	59,557
Other	410,969	252,581
	11,479,459	11,687,847

The Group provides insurance agent services. The Group offers life insurance policies of different insurance companies for its point of sale of retail loans and is paid an agency fee proportionate to premiums subscribed. Acquisition of a life insurance policy is voluntary and is not a condition to obtain a loan, nor does it affect the interest rate on the loan, therefore the agent services fee was not considered as part of effective interest rate.

6 Net foreign exchange gain

	2014	2013
	KZT'000	KZT'000
Dealing, net	3,422,282	2,546,000
Translation differences, net	(25,742)	96,196
	3,396,540	2,642,196

7 Impairment losses

	2014	2013
	KZT'000	KZT'000
Loans to customers (Note 15)	9,803,742	8,256,601
Other assets (Note 18)	260,618	(37,271)
Provision for contingent liabilities	5,437	28,434
	10,069,797	8,247,764

8 Personnel expenses

	2014	2013
	KZT'000	KZT'000
Wages, salaries, bonuses and related taxes	15,726,099	14,494,614
Other employee costs	711,993	576,247
	16,438,092	15,070,861

9 Other general administrative expenses

	2014 KZT'000	2013 KZT'000
Depreciation and amortisation	3,300,687	2,641,592
Communications and information services	1,804,894	1,183,161
Operating lease expense	1,725,183	1,438,042
Advertising and marketing	1,254,708	1,070,994
Taxes other than on income	1,164,940	1,034,195
Security	839,111	701,332
Professional services	394,133	293,324
Repairs and maintenance	365,030	486,404
Travel expenses	347,231	300,966
Services of state center for pension payments	308,896	222,672
Cash delivery services	199,824	129,482
Insurance	164,235	125,918
Transportation	68,739	59,419
Payment cards production	57,986	37,506
Trainings	46,100	26,237
Stationery and office supplies	41,986	63,664
Loan servicing	28,445	157,020
Representation expenses	12,786	13,411
Other	1,287,156	961,992
	13,412,070	10,947,331

10 Income tax expense

	2014 KZT'000	2013 KZT'000
Current tax expense		
Current year tax expense	2,990,753	3,916,381
Decrease in tax expense due to changes in the Tax Code	(1,236,117)	-
Income tax overprovided in prior years	(106,358)	-
	1,648,278	3,916,381
Deferred tax expense		
Reversal of deferred tax assets due to changes in the Tax Code	1,236,117	-
Origination and reversal of temporary differences	301,524	215,970
Total income tax expense	3,185,919	4,132,351

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

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

	2014 KZT'000	%	2013 KZT'000	%
Profit before income tax	14,609,549	100.00	17,278,532	100.00
Income tax at the applicable tax rate	2,921,910	20.00	3,455,706	20.00
Tax-exempt income on securities	(281,014)	(1.92)	(218,405)	(1.26)
Overprovided in prior years	(106,358)	(0.73)	-	-
Non-deductible expenses	651,381	4.46	895,050	5.18
	3,185,919	21.81	4,132,351	23.92

10 Income tax expense, continued

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to a net deferred tax liability as at 31 December 2014 and 2013.

The deductible temporary differences do not expire under current tax legislation.

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

KZT'000	Balance 1 January 2014	Recognised in profit or loss	Balance 31 December 2014
Loans to customers	(1,091,293)	32,227	(1,059,066)
Property and equipment	(831,271)	(142,926)	(974,197)
Other assets	122,890	(3,196)	119,694
Financial instruments at fair value through profit or loss	(2,464)	(102,043)	(104,507)
Interest payable on deposits and balances from banks	82,321	(82,321)	-
Interest payable on current accounts and deposits from customers	928,392	(928,392)	-
Interest payable on repurchase agreements	456	(456)	-
Interest payable on debt securities issued	154,418	(154,418)	-
Interest payable on subordinated debt	89,369	(89,369)	-
Other liabilities	289,640	(66,747)	222,893
	(257,542)	(1,537,641)	(1,795,183)

KZT'000	Balance 1 January 2013	Recognised in profit or loss	Balance 31 December 2013
Loans to customers	192,954	(1,284,247)	(1,091,293)
Property and equipment	(687,139)	(144,132)	(831,271)
Other assets	232,247	(109,357)	122,890
Financial instruments at fair value through profit or loss	3,896	(6,360)	(2,464)
Interest payable on deposits and balances from banks	-	82,321	82,321
Interest payable on current accounts and deposits from customers	-	928,392	928,392
Interest payable on repurchase agreements	-	456	456
Interest payable on debt securities issued	-	154,418	154,418
Interest payable on subordinated debt	-	89,369	89,369
Other liabilities	216,470	73,170	289,640
	(41,572)	(215,970)	(257,542)

11 Cash and cash equivalents

	2014	2013
	KZT'000	KZT'000
Cash on hand	35,171,884	20,248,246
Nostro accounts with the NBRK and the CBRF	64,368,034	30,333,937
Nostro accounts with other banks		
- rated from AA- to AA+	939,423	50,422
- rated from A- to A+	8,783,545	26,338,051
- rated from BBB- to BBB+	1,336,489	283,288
- rated from BB- to BB+	438,773	582,973
- rated below B+	25,523	331,135
- not rated	236,851	82,610
Total nostro accounts with other banks	11,760,604	27,668,479
Term deposits with other banks		
- rated from BBB- to BBB+	782,500	936,000
- rated below B+	-	2,418,731
- not rated	-	1,540,985
Total term deposits with other banks	782,500	4,895,716
Total cash and cash equivalents	112,083,022	83,146,378

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

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

As at 31 December 2014 the Group has 1 bank (31 December 2013: 2 banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2014 is KZT 63,791,316 thousand (31 December 2013: KZT 53,462,403 thousand).

Minimum reserve requirements

In accordance with regulations issued by the NBRK, minimum reserve requirements are calculated as a total of specified proportions of different groups of banks liabilities. Banks are required to comply with these requirements by maintaining average reserve assets (local currency cash and NBRK balances) equal or in excess of the average minimum requirements. As at 31 December 2014 the minimum reserve is KZT 13,154,262 thousand (31 December 2013: KZT 6,694,173 thousand).

12 Financial instruments at fair value through profit or loss

	2014	2013
	KZT'000	KZT'000
ASSETS		
Held by the Group		
- Government bonds		
Russian Government Federal bonds (OFZ)	522,544	1,139,628
Total government bonds	522,544	1,139,628
Derivative financial instruments		
Foreign currency contracts	4,025,156	-
	4,547,700	1,139,628
LIABILITIES		
Derivative financial instruments		
Foreign currency contracts	-	2,278
	-	2,278

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

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

Foreign currency contracts

The Group had the following derivative financial instruments as at 31 December 2014 and 2013:

Type of instrument	Notional amount	Maturity	Weighted average contractual exchange rates	Amounts payable by Group	Amounts receivable by Group	Fair value Asset KZT'000
31 December 2014						
Foreign currency swaps with the NBRK	USD 850,000,000	July 2016 - November 2017	181.73	KZT 154,467,500 thousand	USD 850,000,000	4,025,156
Foreign currency swap	USD 150,000,000	7 January 2015	182.35	KZT 27,352,500 thousand	USD 150,000,000	-
						4,025,156

Type of instrument	Notional amount	Maturity	Weighted average contractual exchange rates	Amounts payable by Group	Amounts receivable by Group	Fair value Liability KZT'000
31 December 2013						
Foreign currency swap	EUR 4,000,000	9 January 2014	45.08	EUR 4,000,000	RUB'000 180,325	2,278
						2,278

At 31 December 2014, the derivative financial instruments include currency swap agreements signed in 2014 with the NBRK, under which the Group should deliver KZT 154,467,500 thousand in 2016-2017 in exchange for USD 850,000 thousand. Under these agreements the Group prepaid a premium of KZT 4,634,025 thousand, which equates to 3% of the principal amount at inception. The NBRK have a right to terminate the contract at any time prior to the maturity. As at 31 December 2014 the fair value of the swaps amounted to KZT 4,025,156 thousand.

Approach to derivative transactions

The Group enters into swap agreements and other types of over-the-counter transactions with broker-dealers or other financial institutions. A swap involves the exchange by the Group with another party of their respective commitments to pay or receive cash flows, e.g. an exchange of floating rate payments for fixed-rate payments.

Swap agreements and similar transactions can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structures, swap agreements may increase or decrease the Group's exposure to long or short-term interest rates, foreign currency values, corporate borrowing rates, or other factors such as security prices or inflation rates. The value of the swap positions increases or decreases depending on the changes in value of the underlying rates or currency values. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the Group's investments.

The Group's ability to meet its objectives in entering into such transactions will depend on the ability of the financial institution with which it enters into the transaction to meet their obligations to the Group. If the counterparty's creditworthiness declines, the value of the agreement would be likely to decline, potentially resulting in losses. If a default occurs by the other party to such transaction, the Group will have contractual remedies pursuant to the agreements related to the transaction, which may be limited by applicable law in the case of the counterparty's insolvency.

13 Available-for-sale financial assets

	2014	2013
	KZT'000	KZT'000
Held by the Group		
- Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	149,562	10,965,674
- Corporate bonds rated from BB- to BB+	559,200	-
- Corporate shares	14,387	14,198
	723,149	10,979,872
Pledged under sale and repurchase agreements		
- Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	5,190,687	-
	5,913,836	10,979,872

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

Available-for-sale investments stated at cost comprise unquoted equity securities with a carrying value of KZT 14,387 thousand (31 December 2013: KZT 14,198 thousand). There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value.

No notes and bonds are overdue or impaired as at 31 December 2014 and 2013.

14 Deposits and balances with banks

	2014	2013
	KZT'000	KZT'000
Mandatory reserves with the CBRF	46,371	323,523
Term deposits		
- conditional deposit with NBRK	4,139,851	-
- rated from BB- to BB+	582,427	507,944
- rated from B- to B+	7,423,263	1,260
- not rated	1,284,257	2,089,646
Total term deposits	13,429,798	2,598,850
Total deposits and balances with banks	13,476,169	2,922,373

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

No deposits and balances with banks are overdue or impaired as at 31 December 2014 (2013: nil).

Conditional deposit with NBRK consists of funds of KZT 2,000,000 thousand received from Development Bank of Kazakhstan JSC ("DBK") and KZT 2,139,851 thousand received from Entrepreneurship Development Fund DAMU JSC ("DAMU") in accordance with the loan agreements with DBK and DAMU. Funds will be distributed to small and medium businesses on preferential terms. These funds may be withdrawn from the conditional deposit only after approval of DBK and DAMU, respectively.

(a) Concentration of deposits and balances with banks

As at 31 December 2014 1 bank (2013: nil) has balances that exceed 10% of equity. The gross value of this balance as at 31 December 2014 is KZT 7,421,953 thousand (2013: nil).

(b) Mandatory reserves with the CBRF

Under legislation of the Russian Federation, the Group subsidiary is required to maintain a mandatory reserve. The mandatory reserve is a non-interest bearing deposit calculated in accordance with regulations issued by the CBRF and whose withdrawability is restricted.

15 Loans to customers

	2014	2013
	KZT'000	KZT'000
Loans to corporate customers		
Loans to large corporate	273,626,257	193,915,808
Loans to small and medium size companies	31,301,591	35,784,153
Total loans to corporate customers	304,927,848	229,699,961
Loans to retail customers		
Car loans	144,173,185	76,369,442
Uncollateralised consumer loans	139,980,913	127,099,793
Mortgage loans	16,174,953	17,943,436
Small business loans	15,058,722	16,664,846
Loans collateralised by cash	46,893	171,172
Private banking loans	-	150,894
Total loans to retail customers	315,434,666	238,399,583
Gross loans to customers	620,362,514	468,099,544
Impairment allowance	(32,130,415)	(35,570,458)
Net loans to customers	588,232,099	432,529,086

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

	Loans to corporate customers	Loans to retail customers	Total
	KZT'000	KZT'000	KZT'000
Balance at the beginning of the year	13,845,687	21,724,771	35,570,458
Net charge	1,179,554	8,624,188	9,803,742
Write-offs	(7,763,395)	(6,218,708)	(13,982,103)
Effect of foreign currency translation	518,882	219,436	738,318
Balance at the end of the year	7,780,728	24,349,687	32,130,415

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

	Loans to corporate customers	Loans to retail customers	Total
	KZT'000	KZT'000	KZT'000
Balance at the beginning of the year	13,585,773	15,291,234	28,877,007
Net charge	1,478,460	6,778,141	8,256,601
Write-offs	(1,302,333)	(396,376)	(1,698,709)
Effect of foreign currency translation	83,787	51,772	135,559
Balance at the end of the year	13,845,687	21,724,771	35,570,458

15 Loans to customers, continued

The following table provides information by types of loan products as at 31 December 2014:

	Gross amount KZT'000	Impairment allowance KZT'000	Carrying amount KZT'000
Loans to corporate customers			
Loans to large corporate	273,626,257	(5,753,197)	267,873,060
Loans to small and medium size companies	31,301,591	(2,027,531)	29,274,060
Loans to retail customers			
Car loans	144,173,185	(1,413,620)	142,759,565
Uncollateralised consumer loans	139,980,913	(15,936,570)	124,044,343
Mortgage loans	16,174,953	(2,072,561)	14,102,392
Small business loans	15,058,722	(4,926,925)	10,131,797
Loans collateralised by cash	46,893	(11)	46,882
Balance at the end of the year	620,362,514	(32,130,415)	588,232,099

The following table provides information by types of loan products as at 31 December 2013:

	Gross amount KZT'000	Impairment allowance KZT'000	Carrying amount KZT'000
Loans to corporate customers			
Loans to large corporate	193,915,808	(10,639,263)	183,276,545
Loans to small and medium size companies	35,784,153	(3,206,424)	32,577,729
Loans to retail customers			
Uncollateralised consumer loans	127,099,793	(13,701,486)	113,398,307
Car loans	76,369,442	(709,679)	75,659,763
Mortgage loans	17,943,436	(2,257,456)	15,685,980
Small business loans	16,664,846	(5,055,072)	11,609,774
Loans collateralised by cash	171,172	(481)	170,691
Private banking loans	150,894	(597)	150,297
Balance at the end of the year	468,099,544	(35,570,458)	432,529,086

15 Loans to customers, continued

(a) Credit quality of loans to customers

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

	2014	2013
	KZT'000	KZT'000
Loans to corporate customers		
Loans to large corporate		
Loans without individual signs of impairment		
Standard not overdue loans	242,322,130	175,374,898
Overdue loans:		
- overdue 30-89 days	17,966,816	62,998
- overdue 90-179 days	38,679	474,453
- overdue 180-360 days	94,470	-
- overdue more than 360 days	561,577	590,841
Total loans without individual signs of impairment	<u>260,983,672</u>	<u>176,503,190</u>
Loans with individual signs of impairment:		
- not overdue	8,606,064	5,332,330
- overdue less than 90 days	543,504	1,562,520
- overdue more than 90 days and less than 360 days	95,178	6,798,337
- overdue more than 360 days	3,397,839	3,719,431
Total loans with individual signs of impairment	<u>12,642,585</u>	<u>17,412,618</u>
Total loans to large corporate	273,626,257	193,915,808
Impairment allowance on loans to large corporates	(5,753,197)	(10,639,263)
Net loans to large corporate	267,873,060	183,276,545
Loans to small and medium size companies		
Loans without individual signs of impairment		
Standard not overdue loans	22,784,176	26,904,371
Overdue loans:		
- overdue less than 30 days	-	505,370
- overdue 30-89 days	44,618	371,260
- overdue 90-179 days	93,030	17,891
- overdue 180-360 days	1,133,247	280,732
- overdue more than 360 days	727,388	265,412
Total loans without individual signs of impairment	<u>24,782,459</u>	<u>28,345,036</u>
Loans with individual signs of impairment:		
- not overdue	3,076,738	4,800
- overdue less than 90 days	-	2,737,364
- overdue more than 90 days and less than 360 days	34,245	1,059,221
- overdue more than 360 days	3,408,149	3,637,732
Total loans with individual signs of impairment	<u>6,519,132</u>	<u>7,439,117</u>
Total loans to small and medium size companies	31,301,591	35,784,153
Impairment allowance on loans to small and medium size companies	(2,027,531)	(3,206,424)
Net loans to small and medium size companies	29,274,060	32,577,729
Total loans to corporate customers	304,927,848	229,699,961
Total impairment allowance on loans to corporate customers	(7,780,728)	(13,845,687)
Total net loans to corporate customers	297,147,120	215,854,274

15 Loans to customers, continued**(a) Credit quality of loans to customers, continued**

	2014	2013
	KZT'000	KZT'000
Loans to retail customers		
Car loans		
- not overdue	132,460,920	72,403,428
- overdue less than 30 days	3,913,919	1,497,963
- overdue 30-89 days	2,273,505	773,138
- overdue 90-179 days	1,730,633	494,662
- overdue 180-360 days	1,892,164	387,834
- overdue more than 360 days	1,902,044	812,417
Total car loans	144,173,185	76,369,442
Impairment allowance on car loans	(1,413,620)	(709,679)
Net car loans	142,759,565	75,659,763
Uncollateralised consumer loans		
- not overdue	103,599,971	100,481,680
- overdue less than 30 days	5,720,965	4,724,230
- overdue 30-89 days	3,692,664	3,769,471
- overdue 90-179 days	3,664,340	3,939,109
- overdue 180-360 days	7,324,514	6,206,142
- overdue more than 360 days	15,978,459	7,979,161
Total uncollateralised consumer loans	139,980,913	127,099,793
Impairment allowance on uncollateralised consumer loans	(15,936,570)	(13,701,486)
Net uncollateralised consumer loans	124,044,343	113,398,307
Mortgage loans		
- not overdue	9,194,662	11,453,483
- overdue less than 30 days	659,737	1,343,731
- overdue 30-89 days	534,359	552,563
- overdue 90-179 days	956,468	353,485
- overdue 180-360 days	692,580	369,221
- overdue more than 360 days	4,137,147	3,870,953
Total mortgage loans	16,174,953	17,943,436
Impairment allowance on mortgage loans	(2,072,561)	(2,257,456)
Net mortgage loans	14,102,392	15,685,980
Small business loans		
- not overdue	7,070,659	8,449,223
- overdue less than 30 days	50,739	76,626
- overdue 30-89 days	112,856	1,366,019
- overdue 90-179 days	69,963	107,943
- overdue 180-360 days	445,051	760,303
- overdue more than 360 days	7,309,454	5,904,732
Total small business loans	15,058,722	16,664,846
Impairment allowance on small business loans	(4,926,925)	(5,055,072)
Net small business loans	10,131,797	11,609,774
Loans collateralised by cash		
- not overdue	46,893	171,172
Total loans collateralised by cash	46,893	171,172
Impairment allowance on loans collateralised by cash	(11)	(481)
Net loans collateralised by cash	46,882	170,691
Private banking loans		
- not overdue	-	150,894
Total private banking loans	-	150,894
Impairment allowance on private banking loans	-	(597)
Net private banking loans	-	150,297
Total loans to retail customers	315,434,666	238,399,583
Total impairment allowance on loans to retail customers	(24,349,687)	(21,724,771)
Total net loans to retail customers	291,084,979	216,674,812
Total loans to customers	620,362,514	468,099,544
Total impairment allowance on loans to customers	(32,130,415)	(35,570,458)
Total loans to customers	588,232,099	432,529,086

15 Loans to customers, continued

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

(i) Loans to corporate customers

The Group estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified.

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

- historical annual loss rates of 0.55-1.10% p.a.
- a discount of between 15% and 50% to the originally appraised value if the property pledged is sold
- a delay of 12 to 36 months in obtaining proceeds from the foreclosure of collateral.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to corporate customers as at 31 December 2014 would be KZT 2,971,471 thousand lower/higher (2013: KZT 2,158,543 thousand lower/higher).

(ii) Loans to retail customers

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

- loss migration rates are constant and can be estimated based on the historic loss migration pattern for the past 2-6 years
- recovery rates for uncollateralised loans are estimated based on historical cash recovery rates for the past 2-6 years, adjusted for more recent recovery experience based on 'payment request orders' ("PTP"), which are sent to other banks in Kazakhstan to request payments in case of the existence of current accounts or deposits of the Group's borrowers in those banks. The PTP program was launched in May 2013 and collections continued to grow through 2014. Management believes that the Group will further be able to maintain collections from PTP based on the 2014 pattern. If the Group did not take into account the effect of the PTP program, the impairment allowance on loans to retail customers as at 31 December 2014 would be KZT 5,659,229 thousand higher.
- a discount of between 15% and 50% to the annually appraised value if the property pledged is sold
- a delay of 12 months in obtaining proceeds from the foreclosure of collateral

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the impairment allowance on loans to retail customers as at 31 December 2014 would be KZT 8,732,549 thousand lower/higher (2013: KZT 6,500,244 thousand lower/higher).

15 Loans to customers, continued

(c) Analysis of collateral

(i) Loans to corporate customers

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

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

31 December 2014 KZT'000	Loans to customers, carrying amount	Fair value of collateral - for collateral assessed as at reporting date	Fair value of collateral - for collateral assessed as at loan inception date	Fair value of collateral not determined
Loans without individual signs of impairment				
Real estate	72,021,785	62,055,627	9,966,158	-
Future contract revenues	65,503,697	-	-	65,503,697
Insurance	39,231,141	-	-	39,231,141
Grain	24,981,565	20,621,510	4,360,055	-
Motor vehicles	17,600,423	6,578,168	11,022,255	-
Equipment	10,742,365	8,802,009	1,940,356	-
Construction in progress	7,119,811	7,119,811	-	-
Subsoil use	6,187,976	6,187,976	-	-
Corporate guarantees (unrated) and guarantees of individuals	2,738,102	-	-	2,738,102
Cash and deposits	4,061,675	-	4,061,675	-
Goods in turnover	1,772,147	914,946	857,201	-
Other	4,717,218	4,717,218	-	-
No collateral or other credit enhancement	26,222,294	-	-	26,222,294
Total loans without individual signs of impairment	282,900,199	116,997,265	32,207,700	133,695,234
Overdue or impaired loans				
Real estate	9,290,274	4,129,407	5,160,867	-
Future contract revenues	2,098,116	-	-	2,098,116
Equipment	1,294,171	1,219,470	74,701	-
Motor vehicles	218,560	217,915	645	-
Grain	100,100	100,100	-	-
Corporate guarantees (unrated) and guarantees of individuals	35,417	-	-	35,417
Insurance	26,532	-	-	26,532
Goods in turnover	17,807	13,310	4,497	-
Cash and deposits	12,927	-	12,927	-
Other	3,847	-	3,847	-
No collateral or other credit enhancement	1,149,170	-	-	1,149,170
Total overdue or impaired loans	14,246,921	5,680,202	5,257,484	3,309,235
Total loans to corporate customers	297,147,120	122,677,467	37,465,184	137,004,469

15 Loans to customers, continued

(c) Analysis of collateral, continued

(i) Loans to corporate customers, continued

31 December 2013 KZT'000	Loans to customers, carrying amount	Fair value of collateral - for collateral assessed as at reporting date	Fair value of collateral - for collateral assessed as at loan inception date	Fair value of collateral not determined
Loans without individual signs of impairment				
Real estate	48,467,604	35,463,008	13,004,596	-
Future contract revenues	32,941,117	-	-	32,941,117
Insurance	31,877,015	-	-	31,877,015
Grain	22,042,993	22,042,993	-	-
Equipment	11,256,861	9,669,174	1,587,687	-
Construction in progress	9,311,377	9,311,377	-	-
Motor vehicles	7,456,973	6,471,473	985,500	-
Corporate guarantees (unrated) and guarantees of individuals	2,522,224	-	-	2,522,224
Cash and deposits	2,151,523	-	2,151,523	-
Goods in turnover	1,800,649	849,582	951,067	-
Subsoil use	45,171	45,171	-	-
Other	3,282,610	3,277,130	5,480	-
No collateral or other credit enhancement	29,102,129	-	-	29,102,129
Total loans without individual signs of impairment	202,258,246	87,129,908	18,685,853	96,442,485
Overdue or impaired loans				
Real estate	5,632,792	3,509,482	2,123,310	-
Future contract revenues	1,792,788	-	-	1,792,788
Goods in turnover	1,981,429	1,728,460	252,969	-
Insurance	854,400	-	-	854,400
Equipment	510,837	-	510,837	-
Motor vehicles	337,360	227,427	109,933	-
Cash and deposits	160,324	-	160,324	-
Corporate guarantees (unrated) and guarantees of individuals	5,032	-	-	5,032
No collateral or other credit enhancement	2,321,066	-	-	2,321,066
Total overdue or impaired loans	13,596,028	5,465,369	3,157,373	4,973,286
Total loans to corporate customers	215,854,274	92,595,277	21,843,226	101,415,771

The tables above exclude overcollateralisation.

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

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

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

15 Loans to customers, continued

(c) Analysis of collateral, continued

(ii) Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. Small business loans are secured by real estate and movable property. Car loans are secured by the underlying cars. Cash loans are collateralised by cash. Uncollateralised consumer loans are not secured.

Mortgage loans

Included in mortgage loans are loans with a net carrying amount of KZT 2,369,001 thousand (31 December 2013: KZT 3,965,038 thousand), which are secured by collateral with a fair value of less than the net carrying amount of the individual loans. The fair value of collateral for these loans amounts to KZT 1,113,122 thousand (31 December 2013: KZT 2,399,554 thousand).

For mortgage loans with a net carrying amount of KZT 11,733,391 thousand (31 December 2013: KZT 11,720,942 thousand) management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

The Group updates the appraised values of collateral at inception of the loans to the current values considering the approximate changes in property values. The Group obtains specific individual valuation of collateral once a half-year in case there are indications of impairment.

For mortgage loans with a net carrying amount of KZT 11,654,514 thousand (31 December 2013: KZT 13,224,261 thousand) the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

Car loans

Management estimates that the impairment allowance would have been higher by KZT 2,164,762 thousand (31 December 2013: KZT 525,835 thousand) for car loans without any collateral.

Small business loans

Included in small business loans are loans with a net carrying amount of KZT 668,011 thousand (31 December 2013: KZT 2,657,990 thousand), which are secured by collateral with a fair value of less than the net carrying amount of the individual loans. The fair value of collateral for these loans amounts to KZT 313,971 thousand (31 December 2013: KZT 2,644,668 thousand).

For small business loans with a net carrying amount of KZT 9,463,786 thousand (31 December 2013: KZT 8,951,784 thousand) management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date.

The Group updates the appraised values of collateral at inception of the loans to the current values considering the approximate changes in property values. The Group obtains specific individual valuation of collateral once a half-year in case there are indications of impairment.

For small business loans with a net carrying amount of KZT 6,352,054 thousand (31 December 2013: KZT 7,104,027 thousand) the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

15 Loans to customers, continued

(d) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Republic of Kazakhstan, except for loans to customers issued by the Russian subsidiary bank, who operate in the following economic sectors:

	2014 KZT'000	2013 KZT'000
Loans to corporate customers		
Wholesale trade	100,248,702	68,650,164
Construction	45,863,515	28,950,432
Transport	36,380,918	14,587,091
Agriculture, forestry and timber	33,597,606	33,685,073
Manufacturing	19,173,584	11,250,637
Services	17,197,487	12,250,035
Mining/metallurgy	15,438,293	13,751,948
Retail trade	12,136,818	13,081,639
Lease, rental and leasing	6,144,650	6,585,798
Foods production	4,604,354	5,962,130
Research and activities	2,638,171	3,407,717
Medical and social care	2,284,771	1,942,913
Financial intermediary	1,710,219	3,073,755
Energy production and supply	875,747	3,574,595
Machinery production	677,526	848,764
Entertainment	598,731	584,241
Publishing	301,704	396,656
Real estate	164,109	1,336,098
Other	4,890,943	5,780,275
Loans to retail customers		
Car loans	144,173,185	76,369,442
Uncollateralised consumer loans	139,980,913	127,099,793
Mortgage loans	16,174,953	17,943,436
Small business loans	15,058,722	16,664,846
Loans collateralised by cash	46,893	171,172
Private banking loans	-	150,894
	620,362,514	468,099,544
Impairment allowance	(32,130,415)	(35,570,458)
	588,232,099	432,529,086

(e) Significant credit exposures

As at 31 December 2014 the Group has 9 borrowers or groups of connected borrowers (31 December 2013: 7), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2014 is KZT 108,160,684 thousand (31 December 2013: KZT 56,119,420 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in Note 29 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

15 Loans to customers, continued

(g) Transfers of financial assets

During 2014, the Group sold to a third party a portfolio of consumer loans with a carrying value of KZT 22,367,887 thousand for KZT 23,125,868 thousand under cession agreements. The net gain recognised in the consolidated statement of profit or loss and other comprehensive income at the date of transfer amounted to KZT 757,981 thousand.

In June 2014, the Group sold to another third party a portfolio of mortgage loans with a carrying value of KZT 3,820,407 thousand for KZT 3,969,928 thousand (in December 2013: a portfolio of mortgage loans of KZT 12,509,133 thousand was sold to the same third party for KZT 13,242,692 thousand) and provided a guarantee to the buyer that it will repurchase individual loans back or exchange them for other individual loans if loans become delinquent for more than sixty days. The amount that will be repurchased or exchanged is limited to 20% of transferred financial assets at the date of the sale. The net gain recognised in the consolidated statement of profit or loss and other comprehensive income at the date of transfer amounted to KZT 154,752 thousand (2013: KZT 707,582 thousand). The Group has determined that it has transferred some but not substantially all of the risks and rewards to the transferee, accordingly the Group retains control and continues to recognise the loans to the extent of its continuing involvement in that mortgage loans.

As at 31 December 2014 and 2013 the Group's continuing involvement with such transferred portfolio is recorded in the consolidated statement of financial position in other assets (Note 18) of KZT 5,547,428 thousand (31 December 2013: KZT 4,235,721 thousand) with corresponding liability on continuing involvement included in other liabilities of KZT 4,653,790 thousand (31 December 2013: KZT 3,905,380 thousand) (Note 25) and the guarantee with the fair value of KZT 102,456 thousand (31 December 2013: KZT 102,707 thousand) recognised in other liabilities. This asset includes also an interest strip receivable of KZT 1,420,864 thousand (31 December 2013: KZT 1,090,077 thousand) which represents the right to withhold from the loan buyer a portion of interest receivable on mortgage loan portfolio sold. The Group has a right to receive 1.7% p.a. of the mortgage loan portfolio sold on a monthly basis.

16 Held-to-maturity investments

	2014 KZT'000	2013 KZT'000
Held by the Group		
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	14,436,547	14,074,495
Notes of the NBRK	15,336,656	-
Corporate bonds rated from BB- to BB+	2,736,497	-
	32,509,700	14,074,495
Pledged under sale and repurchase agreements		
Treasury notes of the Ministry of Finance of the Republic of Kazakhstan	569,059	9,387,811
Notes of the NBRK	2,105,498	-
	35,184,257	23,462,306

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

No notes or bonds are overdue or impaired as at 31 December 2014 (31 December 2013: nil).

17 Property, equipment and intangible assets

KZT'000	Land and buildings	Computer and banking equipment	Vehicles	Furniture	Construction in progress and equipment to be installed	Leasehold improvements	Trademark	Computer software and other intangibles	Total
<i>Cost</i>									
Balance at 1 January 2014	10,488,777	10,710,143	700,447	719,842	83,016	547,731	1,075,716	4,508,574	28,834,246
Additions	796,166	2,696,742	164,115	103,648	400,831	401,683	-	2,155,965	6,719,150
Disposals	(173,655)	(637,969)	(19,050)	(18,798)	(669)	(56,753)	-	(57,027)	(963,921)
Effect of foreign currency translation	-	(13,323)	(7,285)	(184)	-	-	-	(23,145)	(43,937)
Balance at 31 December 2014	11,111,288	12,755,593	838,227	804,508	483,178	892,661	1,075,716	6,584,367	34,545,538
<i>Depreciation and amortisation</i>									
Balance at 1 January 2014	(1,190,871)	(4,470,468)	(354,994)	(208,185)	-	(282,719)	(248,574)	(2,319,844)	(9,075,655)
Depreciation and amortisation for the year	(254,218)	(1,938,566)	(82,778)	(78,724)	-	(89,818)	(103,411)	(753,172)	(3,300,687)
Disposals	235	551,621	19,050	13,698	-	56,753	-	15,565	656,922
Effect of foreign currency translation	-	8,243	1,613	18	-	-	-	11,420	21,294
Balance at 31 December 2014	(1,444,854)	(5,849,170)	(417,109)	(273,193)	-	(315,784)	(351,985)	(3,046,031)	(11,698,126)
<i>Carrying amount</i>									
At 31 December 2014	9,666,434	6,906,423	421,118	531,315	483,178	576,877	723,731	3,538,336	22,847,412

17 Property, equipment and intangible assets, continued

KZT'000	Land and buildings	Computer and banking equipment	Vehicles	Furniture	Construction in progress and equipment to be installed	Leasehold improvements	Trademark	Computer software and other intangibles	Total
<i>Cost</i>									
Balance at 1 January 2013	9,716,037	7,434,665	556,324	573,374	82,091	300,143	1,075,716	3,641,628	23,379,978
Additions	772,740	3,457,638	149,859	155,008	925	252,224	-	869,617	5,658,011
Disposals	-	(180,691)	(4,797)	(6,606)	-	(4,636)	-	-	(196,730)
Effect of foreign currency translation	-	(1,469)	(939)	(1,934)	-	-	-	(2,671)	(7,013)
Balance at 31 December 2013	10,488,777	10,710,143	700,447	719,842	83,016	547,731	1,075,716	4,508,574	28,834,246
<i>Depreciation and amortisation</i>									
Balance at 1 January 2013	(955,350)	(3,296,973)	(295,003)	(152,107)	-	(245,661)	(143,429)	(1,530,857)	(6,619,380)
Depreciation and amortisation for the year	(235,521)	(1,341,019)	(65,298)	(63,019)	-	(41,694)	(105,145)	(789,896)	(2,641,592)
Disposals	-	166,245	4,797	6,871	-	4,636	-	-	182,549
Effect of foreign currency translation	-	1,279	510	70	-	-	-	909	2,768
Balance at 31 December 2013	(1,190,871)	(4,470,468)	(354,994)	(208,185)	-	(282,719)	(248,574)	(2,319,844)	(9,075,655)
<i>Carrying amount</i>									
At 31 December 2013	9,297,906	6,239,675	345,453	511,657	83,016	265,012	827,142	2,188,730	19,758,591

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

18 Other assets

	2014 KZT'000	2013 KZT'000
Accounts receivable for sold consumer loans	9,247,679	-
Asset from continuing involvement in transferred assets	5,547,428	4,235,721
Debtors on letters of credit	2,395,174	3,265,562
Accrued commission income	1,306,578	1,158,797
Payment cards settlements	937,119	525,003
Debtors on loan operations	884,828	852,089
Receivables from insurance company	-	174,710
Other	1,312,642	751,683
Impairment allowance	(850,977)	(548,429)
Total other financial assets	20,780,471	10,415,136
Advances for capital expenditures	2,089,642	2,416,402
Taxes prepaid other than on income tax	608,969	221,916
Prepayments	497,095	130,487
Materials and supplies	181,912	201,075
Other	13,171	25,880
Total other non-financial assets	3,390,789	2,995,760
Total other assets	24,171,260	13,410,896

Asset from continuing involvement in transferred assets in amount of KZT 5,547,428 thousand (31 December 2013: KZT 4,235,721 thousand) arose as a result of loans sale to mortgage company in June 2014 and December 2013.

Analysis of movements in the impairment allowance

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

	2014 KZT'000	2013 KZT'000
Balance at the beginning of the year	548,429	403,949
Net charge (recovery)	260,618	(37,271)
(Write-offs) recoveries	(7,093)	177,217
Effect of foreign currency translation	49,023	4,534
Balance at the end of the year	850,977	548,429

As at 31 December 2014, included in other assets are overdue receivables of KZT 23,849 thousand (31 December 2013: KZT 18,081 thousand), of which KZT 4,450 thousand (31 December 2013: KZT 5,661 thousand) are overdue for more than 90 days but less than one year and KZT 15,245 thousand are overdue for more than one year (31 December 2013: KZT 7,077 thousand).

19 Deposits and balances from banks

	2014 KZT'000	2013 KZT'000
Term deposits	3,264,767	13,458,364
Vostro accounts	205,214	658,269
	3,469,981	14,116,633

As at 31 December 2014 the Group has no banks whose balances exceed 10% of equity (31 December 2013: nil).

20 Amounts payable under repurchase agreements

Securities pledged

As at 31 December 2014 and 2013 the Group has pledged certain securities as collateral under repurchase agreements (Note 13, 16).

21 Current accounts and deposits from customers

	2014 KZT'000	2013 KZT'000
Current accounts and demand deposits		
- Retail	13,802,760	15,210,807
- Corporate	59,888,880	50,526,171
Term deposits		
- Retail	154,993,406	125,445,122
- Corporate	319,814,079	213,491,686
	548,499,125	404,673,786

As at 31 December 2014, the Group maintains customer deposit balances of KZT 3,166,486 thousand (31 December 2013: KZT 3,095,332 thousand) that serve as collateral for loans and unrecognised credit instruments granted by the Group.

As at 31 December 2014, the Group has 12 customers (31 December 2013: 11 customers), whose balances exceed 10% of equity. These balances as at 31 December 2014 are KZT 249,067,801 thousand (31 December 2013: KZT 137,200,872 thousand).

22 Debt securities issued

	2014 KZT'000	2013 KZT'000
Par value	103,492,180	31,820,649
(Discount) premium	(1,875,565)	124,195
Accrued interest	1,625,992	841,512
	103,242,607	32,786,356

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

	Issue registration date	Maturity	Coupon rate	Effective rate	Carrying amount	
					2014 KZT'000	2013 KZT'000
Bonds of the fifth issue	9-Jul-08	1-Sep-23	inflation +1%	9.43%	7,667,789	7,595,067
Bonds of the seventh issue	24-Sep-08	21-Jan-19	inflation +1%	7.89%	1,421,330	1,404,906
Bonds of the ninth issue	15-Oct-08	15-Oct-15	13.00%	9.94%	20,957,912	21,484,606
Bonds of the tenth issue	7-Jun-11	13-Jul-14	7.00%	7.60%	-	2,301,777
USD denominated eurobonds	6-Nov-14	6-Nov-17	7.50%	8.33%	73,195,576	-
					103,242,607	32,786,356

23 Subordinated debt securities issued

	2014 KZT'000	2013 KZT'000
Par value	29,984,550	40,000,000
Discount	(4,393,639)	(4,959,365)
Accrued interest	437,784	628,653
	26,028,695	35,669,288

As at 31 December 2014 subordinated debt securities issued comprise unsecured obligations of the Group. In case of bankruptcy, the repayment of the subordinated debt securities would be made after repayment in full of all other liabilities of the Group.

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

	Issue registration date	Maturity	Coupon rate	Effective rate	Carrying amount	
					2014 KZT'000	2013 KZT'000
Bonds of the fourth issue	29-Jun-07	04-Sep-14	inflation +1%	11.34%	-	9,938,138
Bonds of the sixth issue	4-Aug-08	1-Sep-15	11.00%	10.96%	5,181,521	5,183,652
Bonds of the eighth issue	15-Oct-08	15-Oct-23	inflation +1%	13.40%	11,084,476	10,832,008
Bonds of the eleventh issue	20-Nov-12	26-Dec-19	8.00%	8.64%	9,749,850	9,715,490
Bonds of the thirteenth issue	26-Nov-13	10-Jan-24	9.00%	12.49%	12,848	-
					26,028,695	35,669,288

Embedded derivatives represented by inflation-indexed coupon payments are considered to be closely related to the host debt instruments as the inflation index is commonly used for this purpose in the KZT economic environment and it is not leveraged and accordingly has not been separated from the underlying data.

24 Other borrowed funds

	2014 KZT'000	2013 KZT'000
Loans from state financial institutions	34,964,212	17,783,211
Loans from the Ministry of Finance of the Republic of Kazakhstan	1,264,939	1,344,023
Loans from foreign banks	1,633,422	2,283,115
	37,862,573	21,410,349

As at 31 December 2014, the terms and conditions of the loans outstanding are as follows:

	Currency	Average interest rate	Year of maturity	Carrying amount KZT'000
Damu Entrepreneurship Development Fund JSC	KZT	1.10-8.62%	2015-2034	19,523,987
KazAgro National Management Holding JSC	KZT	3.00%	2015-2021	13,438,003
Development Bank of Kazakhstan JSC	KZT	2.00%	2034	2,002,222
The Ministry of Finance of the Republic of Kazakhstan	KZT	NBRK refinancing rate	2024-2026	908,114
The Ministry of Finance of the Republic of Kazakhstan	USD	Libor +1%	2024-2025	356,825
Foreign banks	USD	4.46%-4.51%	2015	1,633,422
				37,862,573

24 Other borrowed funds, continued

As at 31 December 2013, the terms and conditions of the loans outstanding are as follows:

	Currency	Average interest rate	Year of maturity	Carrying amount KZT'000
Damu Entrepreneurship Development Fund JSC	KZT	5.50-8.62%	2014-2020	17,783,211
The Ministry of Finance of the Republic of Kazakhstan	KZT	NBRK refinancing rate	2024-2026	1,009,017
The Ministry of Finance of the Republic of Kazakhstan	USD	Libor +1%	2024-2025	335,006
Foreign banks	EUR	6.47%	2014	139,366
Foreign banks	USD	4.00-4.53%	2014	2,143,749
				21,410,349

Loans from the KazAgro National Management Holding JSC (“KazAgro”) were received in accordance with the rules of its programme on financial recovery of companies operating in the agriculture industry. Loans from DAMU and DBK were received in accordance with the Government program (“the Program”) to finance small and medium enterprises (“SME”)s operating in certain industries.

According to the loan agreements between KazAgro and the Group, the Group is responsible to extending loans to companies operating in the agriculture industry to support their financial recovery. According to the DAMU and DBK loan agreements, the Group is responsible to extend loans to SME borrowers, eligible to participate in the Program, with maximum maturity up to 10 years at 6% interest rate. Management of the Group believes that due to their specific nature, the loans from KazAgro, DAMU and DBK represent a separate segment of borrowings from state companies to support companies operating in certain industries. As a result, the loans from KazAgro, DAMU and DBK are regarded as having been received on an “arm’s length” basis and, as such, the amount received under the loans represents the fair value of the loans on initial recognition.

25 Other liabilities

	2014 KZT'000	2013 KZT'000
Liability from continuing involvement (Note 15(g))	4,653,790	3,905,380
Prepayments for loans	4,392,583	4,070,655
Payment cards settlements	866,762	281,062
Accrued administrative expenses	350,342	342,707
Payables to insurance company	240,763	135,315
Payables to borrowers on lending operations	199,464	233,836
Payables to obligatory deposit guarantee fund	184,849	153,528
Capital expenditures payables	10,165	257,152
Other financial liabilities	1,132,120	517,039
Total other financial liabilities	12,030,838	9,896,674
Vacation reserve	627,240	554,191
Deferred income	441,238	390,787
Other taxes payable	297,993	327,518
Amounts payable to employees	262,968	924,031
Other non-financial liabilities	2,041	2,326
Total other non-financial liabilities	1,631,480	2,198,853
Total other liabilities	13,662,318	12,095,527

Prepayments for loans comprise payments made by retail borrowers ahead of schedule. These payments are settled against the loan balance at the date the instalments fall due.

26 Share capital

(a) Issued capital and share premium

The authorised share capital comprises 33,000,000 ordinary shares (2013: 33,000,000) and 3,000,000 non-redeemable cumulative preference shares (2013: 3,000,000).

Issued and outstanding share capital as at 31 December comprised of the following fully paid ordinary shares:

	2014	2013
	Shares	Shares
Issued at KZT 955.98	8,368,300	8,368,300
Issued at KZT 1,523.90	2,631,500	2,631,500
Issued at KZT 1,092.00	2,930,452	2,930,452
Issued at KZT 6,532.60	2,280,881	2,280,881
Total issued and outstanding shares	16,211,133	16,211,133

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

(b) Dividends

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

During the year ended 31 December 2014 dividends of KZT 1,500,016 thousand or KZT 92.53 per share were declared and paid (2013: KZT 2,000,129 thousand or KZT 123.38 per share were declared and paid).

(c) Book value per share

Under the listing rules of the Kazakhstan Stock Exchange the Group should present book value per share in its consolidated financial statements. The book value per share is calculated by dividing net assets less intangible assets by the number of outstanding ordinary shares. As at 31 December 2014 the book value per share was KZT 3,850.81 (31 December 2013: KZT 3,442.23).

(d) Nature and purpose of reserves

Reserves for general banking risks

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

During the year ended 31 December 2014, no transfers to general reserve were made. During the year ended 31 December 2013, the Group made a transfer from retained earnings to the reserve for general banking risks in the amount of KZT 1,584,658 thousand.

In accordance with the amendments to the Resolution # 358 "On approval of the Instruction of normative coefficients and methods of calculation of prudential norms for the second tier banks" issued on 25 December 2013 the statutory reserve capital is non-distributable.

26 Share capital, continued

(d) Nature and purpose of reserves, continued

Dynamic reserve

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

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

As at 31 December 2014 and 2013 the non-distributable dynamic reserve of the Group is KZT 6,733,233 thousand.

27 Earnings per share

The calculation of earnings per share is based on the net profit, and a weighted average number of ordinary shares outstanding during the period, calculated as shown below. The Group has no dilutive potential ordinary shares.

	2014 KZT'000	2013 KZT'000
Net profit	11,423,630	13,146,181
Weighted average number of ordinary shares	16,211,133	16,211,133
Earnings per ordinary share, in KZT	704.68	810.94

28 Analysis by segment

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

- Retail banking – includes loans, deposits and other transactions with retail customers
- Corporate banking – includes loans, deposits and other transactions with corporate customers
- Assets and Liabilities management – includes maintaining of liquid assets portfolio (cash, nostro accounts with the NBRK and other banks, interbank financing (up to 1 month), investments into liquid assets and bonds issue management
- Small and medium size companies banking - includes loans, deposits and other transactions with small and medium size companies
- Treasury – includes group financing via interbank borrowings and using derivatives for hedging market risks and investments into liquid securities (corporate bonds).

28 Analysis by segment, continued

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

	2014	2013
	KZT'000	KZT'000
ASSETS		
Retail banking	283,613,022	199,704,943
Corporate banking	254,144,549	177,625,586
Assets and liabilities management	145,493,736	100,214,047
Small and medium size companies banking	40,678,626	44,099,466
Treasury	2,874,478	4,384,929
Unallocated assets	109,163,588	61,403,133
Total assets	835,967,999	587,432,104
LIABILITIES		
Corporate banking	332,921,698	224,544,900
Retail banking	165,272,579	136,239,660
Assets and liabilities management	137,458,516	94,851,933
Small and medium size companies banking	37,683,676	41,782,949
Unallocated liabilities	94,368,780	31,242,480
Total liabilities	767,705,249	528,661,922

Reconciliations of reportable segment total assets and total liabilities:

	2014	2013
	KZT'000	KZT'000
Reportable segment total assets	835,967,999	587,432,104
Consolidation effect	3,557,181	4,364,118
Other adjustments	(30,923,096)	(3,162,814)
Total assets	808,602,084	588,633,408

	2014	2013
	KZT'000	KZT'000
Reportable segment total liabilities	767,705,249	528,661,922
Consolidation effect	5,131,898	4,312,611
Other adjustments	(30,923,095)	(3,159,489)
Total liabilities	741,914,052	529,815,044

28 Analysis by segment, continued

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

KZT'000	Corporate banking	Small and medium size companies banking	Retail banking	Treasury	Assets and liabilities management	Unallocated assets and liabilities	Total
Interest income	22,551,716	4,619,251	43,306,111	93,303	1,683,792	593	72,254,766
Fee and commission income	1,952,864	1,721,698	16,074,087	-	-	395,840	20,144,489
Net gain on securities, dealing and translation differences	1,178,290	439,346	1,323,145	762,118	734	1,221	3,704,854
Other income	199,342	111,908	2,953,251	-	-	-	3,264,501
Funds transfer pricing	21,962,635	3,243,102	12,472,676	2,560	20,457,337	107,667	58,245,977
Revenue	47,844,847	10,135,305	76,129,270	857,981	22,141,863	505,321	157,614,587
Interest expense	(15,668,188)	(2,576,369)	(10,740,196)	(16,028)	(10,169,049)	(1,075,490)	(40,245,320)
Fee and commission expense	(182,748)	(46,159)	(3,581,541)	(10,614)	(164,140)	(181,017)	(4,166,219)
Impairment losses	(419,017)	(812,367)	(8,119,598)	-	-	-	(9,350,982)
Funds transfer pricing	(16,519,241)	(2,906,689)	(28,279,748)	(201,056)	(10,169,049)	(170,194)	(58,245,977)
Operational costs (direct)	(1,276,946)	(1,421,524)	(10,816,094)	(196,042)	(1,917,995)	(160,428)	(15,789,029)
Operational costs (indirect)	(1,747,765)	(979,318)	(12,381,844)	-	(313,668)	(262,441)	(15,685,036)
Corporate income tax	(954,589)	(301,311)	(1,813,802)	(45,493)	(1,517)	(237)	(3,116,949)
Segment result	11,076,353	1,091,568	396,447	388,748	(593,555)	(1,344,486)	11,015,075
Other segment items							
Additions of property and equipment	-	-	184,482	-	-	6,534,668	6,719,150
Depreciation and amortisation	(350,390)	(240,614)	(2,332,972)	(45,538)	(214,366)	(92,902)	(3,276,782)

28 Analysis by segment, continued

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

KZT'000	Corporate banking	Small and medium size companies banking	Retail banking	Treasury	Assets and liabilities management	Unallocated	Total
Interest income	18,567,552	6,142,194	36,219,214	159,772	1,077,999	51,915	62,218,646
Fee and commission income	2,045,590	1,519,068	13,292,143	-	-	391,655	17,248,456
Net gain on securities, dealing and translation differences	875,604	318,519	570,232	515,926	(136,558)	2,704	2,146,427
Other income	343,263	155,019	1,535,946	-	-	-	2,034,228
Funds transfer pricing	16,438,708	1,465,734	9,484,967	-	16,773,799	114,610	44,277,818
Revenue	38,270,717	9,600,534	61,102,502	675,698	17,715,240	560,884	127,925,575
Interest expense	(10,965,913)	(1,658,956)	(8,601,018)	-	(7,396,254)	(76,030)	(28,698,171)
Fee and commission expense	(91,959)	(33,424)	(2,248,357)	(7,289)	(92,644)	(137,340)	(2,611,013)
Impairment losses	(947,111)	(185,623)	(7,007,638)	-	(4,290)	2,956	(8,141,706)
Funds transfer pricing	(12,964,502)	(3,636,932)	(20,456,334)	(199,055)	(6,861,868)	(159,127)	(44,277,818)
Operational costs (direct)	(1,156,987)	(1,429,003)	(11,854,831)	(61,117)	(812,890)	(84,695)	(15,399,523)
Operational costs (indirect)	(2,566,013)	(1,492,716)	(6,933,368)	(66,759)	(599,750)	(145,104)	(11,803,710)
Corporate income tax	(1,777,571)	(432,737)	(1,793,142)	(63,341)	-	(6,432)	(4,073,223)
Segment result	7,800,661	731,143	2,207,814	278,137	1,947,544	(44,888)	12,920,411
Other segment items							
Additions of property and equipment	-	-	147,351	-	-	5,510,660	5,658,011
Depreciation and amortisation	(166,824)	(300,367)	(1,894,808)	(15,548)	(193,596)	(58,130)	(2,629,273)

28 Analysis by segment, continued

Reconciliations of reportable segment revenues and profit or loss:

	2014	2013
	KZT'000	KZT'000
Reportable segment revenue	157,614,587	127,925,575
Funds transfer pricing	(58,245,977)	(44,277,818)
Other adjustments	(5,923,284)	(3,525,437)
Consolidation effect	1,505,812	1,282,585
Total revenue	94,951,138	81,404,905
Reportable segment profit	11,015,075	12,920,411
Difference in impairment losses	(677,992)	(106,153)
Other adjustments	681,315	100,691
Consolidation effect	405,232	231,232
Total profit	11,423,630	13,146,181

Consolidation effect. Consolidation effect occurs due to the fact that the Chairman reviews internal management reports on a stand-alone basis.

Other adjustments. These adjustments mostly represent netting of other assets and other liabilities. Other adjustments occur due to the fact that the Chairman reviews internal management reports prepared on a gross-up basis whereas for IFRS financial statements purposes netting is made for certain other assets/liabilities included in unallocated assets/liabilities.

Funds transfer pricing. For the purpose of internal management reporting transfer pricing represents the allocation of income and expense between segments that attract cash resources and to segments that create interest income generating assets using cash resources.

Information about major customers and geographical areas

For the year ended 31 December 2014, there are no corporate customers' revenues from which individually exceed 10% of total revenue.

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

29 Risk management

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

(a) Risk management policies and procedures

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

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures. This review has been initially carried out on behalf of the Board of Directors by its Audit Committee, which comprises three independent non-executive directors. With effect from 1 January 2015, the Board of Directors transferred this responsibility to a newly formed Risk and Internal Controls Committee.

29 Risk management, continued

(a) Risk management policies and procedures, continued

The Management Board is responsible for monitoring and implementing risk mitigation measures and ensuring that the Group operates within established risk parameters. The Chief Risk Officer (“CRO”) is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman and indirectly, through the Audit Committee (Risk and Internal Controls Committee with effect from 1 January 2015), to the Board of Directors.

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

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

(b) Market risk

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

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

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

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

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

The management of interest rate risk by monitoring interest rate gap is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate scenarios.

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

(i) Interest rate risk

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

29 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position as at 31 December 2014 and 2013 for major financial instruments is as follows:

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2014							
ASSETS							
Cash and cash equivalents	6,304,659	-	-	-	-	105,778,363	112,083,022
Financial instruments at fair value through profit or loss	522,544	-	-	4,025,156	-	-	4,547,700
Available-for-sale financial assets	2,546,242	20,935	787	2,988,082	343,403	14,387	5,913,836
Deposits and balances with banks	2,265,426	-	5,156,528	-	-	6,054,215	13,476,169
Loans to customers	76,213,642	68,290,020	86,306,835	278,746,723	78,674,879	-	588,232,099
Held-to-maturity investments	17,565,734	24,089	4,016,059	10,920,025	2,658,350	-	35,184,257
	105,418,247	68,335,044	95,480,209	296,679,986	81,676,632	111,846,965	759,437,083
LIABILITIES							
Deposits and balances from banks	2,155,779	-	916,537	156,500	-	241,165	3,469,981
Amounts payable under repurchase agreements	7,353,570	-	-	-	-	-	7,353,570
Current accounts and deposits from customers	126,699,403	74,085,231	167,542,439	75,092,331	60,229,514	44,850,207	548,499,125
Debt securities issued	1,421,329	1,372,326	28,084,838	72,364,114	-	-	103,242,607
Subordinated debt securities issued	182,443	8,884	16,084,191	9,740,966	12,211	-	26,028,695
Other borrowed funds	2,672,496	1,263,284	4,551,188	17,288,320	12,087,285	-	37,862,573
	140,485,020	76,729,725	217,179,193	174,642,231	72,329,010	45,091,372	726,456,551
	(35,066,773)	(8,394,681)	(121,698,984)	122,037,755	9,347,622	66,755,593	32,980,532

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

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2013							
ASSETS							
Cash and cash equivalents	28,754,022	-	-	-	-	54,392,356	83,146,378
Financial instruments at fair value through profit or loss	1,139,628	-	-	-	-	-	1,139,628
Available-for-sale financial assets	8,531,885	11,672	995	2,421,122	-	14,198	10,979,872
Deposits and balances with banks	-	-	1,004,645	-	-	1,917,728	2,922,373
Loans to customers	67,998,777	13,970,083	81,924,075	219,635,903	48,973,249	26,999	432,529,086
Held-to-maturity investments	12,019,283	2,425,890	1,017,294	7,999,839	-	-	23,462,306
	118,443,595	16,407,645	83,947,009	230,056,864	48,973,249	56,351,281	554,179,643
LIABILITIES							
Financial instruments at fair value through profit or loss	-	-	-	-	-	2,278	2,278
Deposits and balances from banks	10,121,543	-	3,318,039	234,000	-	443,051	14,116,633
Amounts payable under repurchase agreements	8,803,285	-	-	-	-	-	8,803,285
Current accounts and deposits from customers	41,579,752	44,677,113	161,607,696	94,437,988	11,726,765	50,644,472	404,673,786
Debt securities issued	1,662,962	540,864	9,638,788	20,943,742	-	-	32,786,356
Subordinated debt securities issued	404,139	224,514	20,332,188	5,001,847	9,706,600	-	35,669,288
Other borrowed funds	3,578,391	1,571,497	2,571,278	9,369,350	4,319,833	-	21,410,349
	66,150,072	47,013,988	197,467,989	129,986,927	25,753,198	51,089,801	517,461,975
	52,293,523	(30,606,343)	(113,520,980)	100,069,937	23,220,051	5,261,480	36,717,668

29 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2014 and 2013. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2014			2013		
	Average effective interest rate, %			Average effective interest rate, %		
	KZT	USD	Other currencies	KZT	USD	Other currencies
Interest bearing assets						
Cash and cash equivalents	-	0.40	-	-	0.79	2.03
Financial instruments at fair value through profit or loss	-	-	7.00	-	-	7.00
Available-for-sale financial assets	3.65	4.41	-	3.16	-	-
Deposits and balances with banks	7.00	5.50	-	-	2.99	0.10
Loans to customers	19.81	9.48	12.14	20.50	10.95	11.27
Held-to-maturity investments	4.38	6.42	-	3.60	-	-
Interest bearing liabilities						
Deposits and balances from banks						
- Term deposits	9.00	3.50	8.50	5.48	1.98	2.84
Amounts payable under repurchase agreements	37.23	-	-	3.30	-	-
Current accounts and deposits from customers						
- Corporate customers	10.43	2.71	1.49	7.38	4.45	2.55
- Retail customers	7.68	4.13	2.53	8.90	5.60	3.36
Debt securities issued	9.71	8.33	-	9.28	-	-
Subordinated debt securities issued	11.13	-	-	10.92	-	-
Other borrowed funds						
- Loans from state financial institutions	4.78	-	-	7.79	-	-
- Loans from foreign banks	-	4.49	-	-	4.23	6.47
- Loans from the Ministry of Finance of the Republic of Kazakhstan	5.50	1.83	-	5.50	1.93	-

29 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate sensitivity analysis

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

	2014		2013	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
100 bp parallel fall	530,839	530,839	14,019	14,019
100 bp parallel rise	(530,839)	(530,839)	(14,019)	(14,019)

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

	2014		2013	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
100 bp parallel fall	2,144	105,771	11,405	106,158
100 bp parallel rise	(2,144)	(105,771)	(11,405)	(106,158)

(ii) Currency risk

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

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Group hedges its exposure to currency risk. The Group manages its foreign currency position through the limits established for each currency and net foreign currency position limits.

29 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

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

	USD KZT'000	RUB* KZT'000	EUR KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS					
Cash and cash equivalents	80,521,879	3,824,985	3,484,845	282,740	88,114,449
Financial instruments at fair value through profit or loss	-	522,544	-	-	522,544
Available-for-sale financial assets	905,587	-	-	-	905,587
Deposits and balances with banks	4,128,619	46,371	-	-	4,174,990
Loans to customers	90,557,318	4,264,949	4,942,942	-	99,765,209
Held-to-maturity investments	2,736,497	-	-	-	2,736,497
Other financial assets	3,865,048	783	296,381	-	4,162,212
Total assets	182,714,948	8,659,632	8,724,168	282,740	200,381,488
LIABILITIES					
Deposits and balances from banks	1,108,191	156,501	10,747	18	1,275,457
Current accounts and deposits from customers	287,469,628	4,779,018	8,681,611	251,844	301,182,101
Debt securities issued	73,195,576	-	-	-	73,195,576
Other borrowed funds	1,990,247	-	-	-	1,990,247
Other financial liabilities	879,530	7,759	15,536	233	903,058
Total liabilities	364,643,172	4,943,278	8,707,894	252,095	378,546,439
Net position as at 31 December 2014	(181,928,224)	3,716,354	16,274	30,645	(178,164,951)
The effect of derivatives held for risk management	181,820,000	-	-	-	181,820,000
Net position with the effect of derivatives held for risk management as at 31 December 2014	(108,224)	3,716,354	16,274	30,645	3,655,049

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

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

	USD KZT'000	RUB* KZT'000	EUR KZT'000	Other currencies KZT'000	Total KZT'000
ASSETS					
Cash and cash equivalents	58,100,807	2,720,034	5,633,259	251,592	66,705,692
Financial instruments at fair value through profit or loss	-	1,139,628	-	-	1,139,628
Deposits and balances with banks	2,594,099	323,523	-	-	2,917,622
Loans to customers	67,071,004	4,731,898	1,409,494	-	73,212,396
Other financial assets	4,169,214	1,115	472,063	-	4,642,392
Total assets	131,935,124	8,916,198	7,514,816	251,592	148,617,730
LIABILITIES					
Deposits and balances from banks	1,967,845	468,072	1,810,830	16	4,246,763
Current accounts and deposits from customers	127,216,497	3,908,507	4,644,754	200,469	135,970,227
Other borrowed funds	2,478,755	-	139,366	-	2,618,121
Other financial liabilities	281,486	8,256	14,852	364	304,958
Total liabilities	131,944,583	4,384,835	6,609,802	200,849	143,140,069
Net position as at 31 December 2013	(9,459)	4,531,363	905,014	50,743	5,477,661
The effect of derivatives held for risk management	-	843,922	(843,922)	-	-
Net position with the effect of derivatives held for risk management as at 31 December 2013	(9,459)	5,375,285	61,092	50,743	5,477,661

* A portion of the net RUB position equivalent to KZT 3,791,284 thousand (2013: KZT 3,084,025 thousand) is not subject to direct currency risk exposure as it represents net assets of the subsidiary that are remeasured through cumulative translation reserve.

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

	2014 KZT'000		2013 KZT'000	
	Net profit or loss KZT'000	Equity KZT'000	Net profit or loss KZT'000	Equity KZT'000
10% appreciation of USD against KZT (2013: 20%)	(8,658)	(8,658)	(1,513)	(1,513)
10% appreciation of RUB against KZT	(5,994)	(5,994)	183,301	183,301
10% appreciation of EUR against KZT	1,302	1,302	4,887	4,887
10% appreciation of other currencies against KZT	2,452	2,452	4,059	4,059

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

29 Risk management, continued

(b) Market risk, continued

(iii) *Other price risk*

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

(iv) *Value at Risk estimates*

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

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The VaR model used by the Group is based on a 99 percent confidence level and assumes a 1-day holding period depending on the type of positions. The VaR model used is mainly based on historical simulation. The model derives plausible future scenarios based on historical market rate time series, taking into account inter-relationships between different markets and rates. Potential market price movements are determined with reference to market data from at least the most recent 12 months.

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

- the use of historical data as a basis for determining future events may not encompass all potential scenarios, particularly those of an extreme nature
- a 1-day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for an extended period
- the use of a 99 percent confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR estimate
- VaR is only calculated on the end-of-day balances and does not necessarily reflect exposures that may arise on positions during the trading day
- the VaR measure is dependent on the position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

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

A summary of the VaR estimates in respect of foreign currency risk of the Group at 31 December is as follows:

	31 December 2014	31 December 2013
	KZT'000	KZT'000
Foreign exchange risk	195,911	209,146

29 Risk management, continued

(c) Credit risk

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

The credit policy establishes:

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

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

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. The current market value of collateral is regularly assessed by either independent appraisal companies or internal specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Retail loan credit applications are reviewed through the use of scoring models and application data verification procedures developed by the Retail Business Department together with the Risk Management Department.

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

Loan approvals and credit card limits can be cancelled at anytime.

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

29 Risk management, continued

(c) Credit risk, continued

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

	2014	2013
	KZT'000	KZT'000
ASSETS		
Cash and cash equivalents	76,911,138	62,898,132
Financial instruments at fair value through profit or loss	4,547,700	1,139,628
Available-for-sale financial assets	5,899,449	10,965,674
Deposits and balances with banks	13,476,169	2,922,373
Loans to customers	588,232,099	432,529,086
Held-to-maturity investments	35,184,257	23,462,306
Other financial assets	20,780,471	10,415,136
Total maximum exposure	745,031,283	544,332,335

For the analysis of concentration of credit risk in respect of loans to customers refer to Note 15.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 31.

As at 31 December 2014 and 2013 the Group did not have debtors or groups of connected debtors, where credit risk exposure exceeded 10 percent of the maximum credit risk exposure.

Offsetting financial assets and financial liabilities

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

- are offset in the Group's statement of financial position, or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

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

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

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

- derivatives
- sale and repurchase, and reverse sale and repurchase agreements, and
- securities lending and borrowing.

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

29 Risk management, continued

(c) Credit risk, continued

Offsetting financial assets and financial liabilities, continued

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

KZT'000 Types of financial assets/ liabilities	Gross amounts of recognised financial assets/liabilities	Gross amount of recognised financial assets/liabilities offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Available-for-sale financial assets	5,190,687	-	5,190,687	(4,853,006)	-	337,681
Held-to-maturity investments	2,674,557	-	2,674,557	(2,500,564)	-	173,993
Loans to customers	28,971,665	-	28,971,665	-	(4,540,745)	24,430,920
Total financial assets	36,836,909	-	36,836,909	(7,353,570)	(4,540,745)	24,942,594
Amounts payable under repurchase agreements	(7,353,570)	-	(7,353,570)	7,353,570	-	-
Current accounts and deposits from customers	(4,540,745)	-	(4,540,745)	-	4,540,745	-
Total financial liabilities	(11,894,315)	-	(11,894,315)	7,353,570	4,540,745	-

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

- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing – amortised cost.

The securities pledged under repurchase agreements (Note 13, 16) represent the transferred financial assets that are not derecognised in their entirety. The securities lent or sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. Because the Group sells the contractual rights to the cash flows of the securities it does not have the ability to use the transferred assets during the term of the agreement.

29 Risk management, continued

(c) Credit risk, continued

Offsetting financial assets and financial liabilities, continued

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2013:

KZT'000 Types of financial assets/ liabilities	Gross amounts of recognised financial assets/liabilities	Gross amount of recognised financial assets/liabilities offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Held-to- maturity investments	9,387,811	-	9,387,811	(8,803,285)	-	584,526
Loans to customers	26,231,188	-	26,231,188	-	(2,483,019)	23,748,169
Total financial assets	35,618,999	-	35,618,999	(8,803,285)	(2,483,019)	24,332,695
Amounts payable under repurchase agreements	(8,803,285)	-	(8,803,285)	8,803,285	-	-
Current accounts and deposits from customers	(2,483,019)	-	(2,483,019)	-	2,483,019	-
Total financial liabilities	(11,286,304)	-	(11,286,304)	8,803,285	2,483,019	-

(d) Liquidity risk

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

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

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

29 Risk management, continued

(d) Liquidity risk, continued

The liquidity management policy requires:

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

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

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

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

29 Risk management, continued

(d) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	241,943	2,182,500	-	944,282	203,369	3,572,094	3,469,981
Amounts payable under repurchase agreements	7,408,893	-	-	-	-	7,408,893	7,353,570
Current accounts and deposits from customers	127,559,213	47,805,817	79,795,441	175,185,017	186,569,526	616,915,014	548,499,125
Debt securities issued	43,768	325,218	4,069,613	24,408,947	100,117,849	128,965,395	103,242,607
Subordinated debt securities issued	675	275,000	991,295	6,266,970	37,658,341	45,192,281	26,028,695
Other borrowed funds	1,055,268	1,093,331	1,552,350	5,907,637	38,775,437	48,384,023	37,862,573
Other financial liabilities	7,295,281	67,285	497	14,381	4,653,394	12,030,838	12,030,838
Total liabilities	143,605,041	51,749,151	86,409,196	212,727,234	367,977,916	862,468,538	738,487,389
Credit related commitments	49,356,962	-	-	-	-	49,356,962	49,356,962

29 Risk management, continued

(d) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	7,305,394	4,341,639	-	2,442,639	323,968	14,413,640	14,116,633
Amounts payable under repurchase agreements	8,812,266	-	-	-	-	8,812,266	8,803,285
Current accounts and deposits from customers	70,291,911	22,243,345	54,525,051	166,510,124	119,969,886	433,540,317	404,673,786
Debt securities issued	126,486	281,200	1,298,073	3,941,959	37,676,168	43,323,886	32,786,356
Subordinated debt securities issued	-	620,000	917,500	11,537,500	43,865,000	56,940,000	35,669,288
Other borrowed funds	1,064,149	1,970,040	1,233,571	3,297,882	18,316,976	25,882,618	21,410,349
Other financial liabilities	5,735,783	250,061	6,106	-	3,904,724	9,896,674	9,896,674
Derivative liabilities							
- Inflow	(843,922)	-	-	-	-	(843,922)	-
- Outflow	846,200	-	-	-	-	846,200	2,278
Total liabilities	93,338,267	29,706,285	57,980,301	187,730,104	224,056,722	592,811,679	527,358,649
Credit related commitments	73,776,801	-	-	-	-	73,776,801	73,776,801

In accordance with Kazakhstan legislation, depositors can withdraw their term deposits at any time, losing in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates.

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

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms.

29 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position, excluding derivative instruments, as at 31 December 2014:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	112,083,022	-	-	-	-	-	-	112,083,022
Financial instruments at fair value through profit or loss	522,544	-	-	-	-	-	-	522,544
Available-for-sale financial assets	-	2,546,242	21,722	2,988,082	343,403	14,387	-	5,913,836
Deposits and balances with banks	6,017,897	2,299,549	5,158,209	54	460	-	-	13,476,169
Loans to customers	28,811,294	35,441,127	151,867,444	274,591,539	75,860,787	-	21,659,908	588,232,099
Held-to-maturity investments	5,570,411	11,995,323	4,040,148	10,920,025	2,658,350	-	-	35,184,257
Current tax asset	2,146,329	-	-	-	-	-	-	2,146,329
Property, equipment and intangible assets	-	-	-	-	-	22,847,412	-	22,847,412
Other assets	4,189,911	9,908,296	4,326,641	7,002	5,535,622	179,939	23,849	24,171,260
Total assets	159,341,408	62,190,537	165,414,164	288,506,702	84,398,622	23,041,738	21,683,757	804,576,928
Non-derivative liabilities								
Deposits and balances from banks	205,474	2,155,000	916,537	156,500	36,470	-	-	3,469,981
Amounts payable under repurchase agreements	7,353,570	-	-	-	-	-	-	7,353,570
Current accounts and deposits from customers	125,320,110	44,150,397	243,126,793	75,604,454	60,297,371	-	-	548,499,125
Debt securities issued	38,662	215,005	21,789,374	73,746,782	7,452,784	-	-	103,242,607
Subordinated debt securities issued	638	181,806	5,255,109	9,740,966	10,850,176	-	-	26,028,695
Other borrowed funds	1,255,846	527,674	5,585,430	17,847,328	12,646,295	-	-	37,862,573
Deferred tax liability	-	-	-	-	-	1,795,183	-	1,795,183
Other liabilities	7,691,581	626,846	675,343	15,154	4,653,394	-	-	13,662,318
Total liabilities	141,865,881	47,856,728	277,348,586	177,111,184	95,936,490	1,795,183	-	741,914,052
Net position	17,475,527	14,333,809	(111,934,422)	111,395,518	(11,537,868)	21,246,555	21,683,757	62,662,876

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

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position, excluding derivative instruments, as at 31 December 2013:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	80,651,043	2,495,335	-	-	-	-	-	83,146,378
Financial instruments at fair value through profit or loss	1,139,628	-	-	-	-	-	-	1,139,628
Available-for-sale financial assets	-	8,531,885	12,667	2,421,122	-	14,198	-	10,979,872
Deposits and balances with banks	1,593,745	-	1,004,645	-	460	323,523	-	2,922,373
Loans to customers	15,403,906	36,224,310	89,642,362	213,282,785	48,166,933	-	29,808,790	432,529,086
Held-to-maturity investments	4,993,240	7,026,043	3,443,184	7,999,839	-	-	-	23,462,306
Current tax asset	1,284,278	-	-	-	-	-	-	1,284,278
Property, equipment and intangible assets	-	-	-	-	-	19,758,591	-	19,758,591
Other assets	3,535,866	375,767	4,495,024	481,909	4,303,445	200,804	18,081	13,410,896
Total assets	108,601,706	54,653,340	98,597,882	224,185,655	52,470,838	20,297,116	29,826,871	588,633,408
Non-derivative liabilities								
Deposits and balances from banks	7,298,607	3,265,986	3,318,040	234,000	-	-	-	14,116,633
Amounts payable under repurchase agreements	8,803,285	-	-	-	-	-	-	8,803,285
Current accounts and deposits from customers	68,402,068	1,867,190	209,511,861	95,860,663	12,227,004	-	-	404,673,786
Debt securities issued	115,208	188,635	2,770,026	20,943,742	8,768,745	-	-	32,786,356
Subordinated debt securities issued	-	404,139	9,940,319	5,001,847	20,322,983	-	-	35,669,288
Other borrowed funds	903,352	1,688,940	3,608,126	10,025,888	5,184,043	-	-	21,410,349
Deferred tax liability	-	-	-	-	-	257,542	-	257,542
Other liabilities	7,143,176	250,073	788,527	9,012	3,904,739	-	-	12,095,527
Total liabilities	92,665,696	24,469,963	229,936,899	132,075,152	50,407,514	257,542	-	529,812,766
Net position	15,936,010	30,183,377	(131,339,017)	92,110,503	2,063,324	20,039,574	29,826,871	58,820,642

29 Risk management, continued

(d) Liquidity risk, continued

Management believes that the following factors address the liquidity gap up to 1 year:

- Management's analysis of behaviour of holders of term deposits during the past three years indicates that offering of competitive interest rates provides for high level of renewals
- The balance of customer accounts and deposits from related parties, which is due up to 1 year, is KZT 80,797,463 thousand as at 31 December 2014. Management believes that the term deposits will be extended when they fall due and withdrawals of significant customer accounts, if required, will be coordinated with the Group's liquidity management objectives.
- Management manages liquidity risk using VaR methodology for the assessment of current accounts stability index. Results of the management's daily monitoring of stability of the current accounts balance indicate sufficiency of the Group's current level of liquidity.

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. In all cases, the Group policy requires compliance with all applicable legal and regulatory requirements.

The Group manages operational risk by establishing internal controls that management determines to be necessary in each area of its operations.

30 Capital management

NBRK sets and monitors capital requirements for the Bank. The Bank and its subsidiary are directly supervised by their respective local regulators. There are no external capital requirements imposed on the Group as a whole.

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

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

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

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

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

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

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

30 Capital management, continued

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

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

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

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

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

	2014 KZT'000	2013 KZT'000
Tier 1 capital		
Share capital	30,110,207	30,110,207
Additional paid-in capital	2,025,632	2,025,632
Statutory retained earnings of prior years	10,231,524	3,763,507
Reserves formed from statutory retained earnings of prior years	8,234,923	8,234,923
Dynamic reserve subject to limitation of 1.25% of risk-weighted statutory assets	6,719,532	-
Intangible assets	(1,703,394)	(1,623,744)
Total tier 1 capital	55,618,424	42,510,525
Tier 2 capital		
Net statutory income for the year	11,015,075	7,954,333
Dynamic reserve subject to limitation of 1.25% of risk-weighted statutory assets	-	6,733,233
Revaluation reserve for available-for-sale financial assets	(74,143)	(51,653)
Unamortised portion of subordinated debt limited to 50% of tier 1 capital	21,578,886	21,255,263
Total tier 2 capital	32,519,818	35,891,176
Tier 3 capital	-	21,212
Total capital	88,138,242	78,422,913
Total statutory assets less not invested funds, obtained under custody agreements	834,784,096	587,093,072
Risk-weighted statutory assets, contingent liabilities, operational and market risk		
Credit risk weighted statutory assets	699,177,181	437,737,884
Credit risk weighted statutory contingent liabilities	30,395,990	37,759,839
Credit risk weighted statutory derivative financial instruments	-	11,566
Operational risk	22,498,003	18,520,841
Total statutory risk weighted assets, contingent liabilities, operational and market risk	752,071,174	494,030,130
k1.1 ratio	0.067	0.072
k1.2 ratio	0.074	0.086
k2 ratio	0.117	0.159

30 Capital management, continued

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

31 Credit related commitments

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

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

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

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

	2014 KZT'000	2013 KZT'000
Contracted amount		
Loan and credit line commitments	24,533,434	48,598,277
Guarantees	21,805,930	19,233,613
Letters of credit	3,017,598	5,944,911
	49,356,962	73,776,801

Management expects that loan and credit line commitments, to the extent demanded, will be funded from amounts collected from scheduled repayments of current loan portfolio.

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

As at 31 December 2014 the Group has 1 customer whose balance exceeds 10% of total commitments (2013: 1 customers). The value of these commitments as at 31 December 2014 is KZT 8,752,800 thousand (2013: KZT 7,394,880 thousand).

32 Operating lease

Leases as lessee

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

	2014 KZT'000	2013 KZT'000
Less than 1 year	378,333	440,788
Between 1 and 5 years	1,741,258	972,618
	2,119,591	1,413,406

32 Operating lease, continued

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

During the current year KZT 1,725,183 thousand was recognised as an expense in profit or loss in respect of operating leases (2013: KZT 1,438,042 thousand).

33 Contingencies

(a) Insurance

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

(b) Litigation

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

(c) Taxation contingencies

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

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

34 Related party transactions

(a) Control relationships

The Group's parent company is Eurasian Financial Company JSC (the "Parent company"). The Parent company is controlled by the group of individuals, Mr. Mashkevich A.A., Mr. Shodiyev P.K., Mr. Ibragimov A.R., each of whom owns 33.3%. Publicly available financial statements are produced by the Group's Parent company.

(b) Transactions with members of the Board of Directors, the Management Board and other key management personnel

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

	2014 KZT'000	2013 KZT'000
Members of the Board of Directors	1,091,509	562,619
Members of the Management Board	638,932	383,337
Other key management personnel	1,635,777	1,157,130
	3,366,218	2,103,086

These amounts include non-cash benefits in respect of members of the Board of Directors, the Management Board and other key management personnel.

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

	2014 KZT'000	Average effective interest rate, %	2013 KZT'000	Average effective interest rate, %
Consolidated statement of financial position				
ASSETS				
Loans to customers	329,427	6.02	10,605	12.00
LIABILITIES				
Current accounts and deposits from customers	7,269,012	7.27	7,286,721	7.80

Amounts included in profit or loss in relation to transactions with the members of the Board of Directors, the Management Board and other key management personnel for the year ended 31 December are as follows:

	2014 KZT'000	2013 KZT'000
Profit or loss		
Interest income	12,213	109,159
Interest expense	(658,743)	(628,906)

34 Related party transactions, continued

(c) Transactions with other related parties

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

	Parent company		Other subsidiaries of the Parent company		Other related parties*		Total KZT'000
	KZT'000	Average effective interest rate, %	KZT'000	Average effective interest rate, %	KZT'000	Average effective interest rate, %	
Consolidated statement of financial position							
ASSETS							
Loans to customers (principal balance)							
- In KZT	-	-	-	-	4,161,605	11.82	4,161,605
- In USD	-	-	-	-	33,774,250	6.84	33,774,250
- In other currencies	-	-	-	-	363,154	10.00	363,154
Loans to customers (allowance for impairment)	-	-	-	-	(126,210)	-	(126,210)
Other assets							
- In KZT	-	-	1,190,659	-	248	-	1,190,907

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

	Parent company		Other subsidiaries of the Parent company		Other related parties*		Total KZT'000
	KZT'000	Average effective interest rate, %	KZT'000	Average effective interest rate, %	KZT'000	Average effective interest rate, %	
LIABILITIES							
Deposits and balances from customers							
- In KZT	16,692	4.13	3,876,711	6.98	13,449,572	4.98	17,342,975
- In USD	2,188,686	2.00	88,818	1.66	68,549,106	2.02	70,826,610
- In other currencies	-	-	269,331	0.83	2,618,806	1.21	2,888,137
Debt securities issued							
- In KZT	34,231	6.58	703,736	12.76	-	-	737,967
Subordinated debt securities issued							
- In KZT	-	-	39,827	9.23	-	-	39,827
Other liabilities							
- In KZT	-	-	241,397	-	4,888	-	246,285
- In other currencies	-	-	-	-	13,964	-	13,964
Items not recognised in the consolidated statement of financial position							
Loans and credit line commitments	-	-	-	-	444,074	-	444,074
Guarantees received	-	-	-	-	2,751,144	-	2,751,144
Letters of credit	-	-	-	-	2,404,096	-	2,404,096
Profit (loss)							
Interest income	-	-	-	-	1,628,932	-	1,628,932
Interest expense	(8,750)	-	(226,048)	-	(1,996,459)	-	(2,231,257)
Fee and commission income	719	-	41,356	-	459,008	-	501,083
Other operating (expenses) income	(246,132)	-	97,476	-	(134,999)	-	(283,655)
Impairment losses	-	-	-	-	(52,266)	-	(52,266)
Other general administrative expenses	-	-	(1,392,407)	-	(34,391)	-	(1,426,798)

34 Related party transactions, continued

(c) Transactions with other related parties, continued

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

	Parent company		Other subsidiaries of the Parent company		Other related parties*		Total KZT'000
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	
Consolidated statement of financial position							
ASSETS							
Loans to customers (principal balance)							
- In KZT	-	-	-	-	4,353,179	13.05	4,353,179
- In USD	-	-	-	-	17,518,219	6.06	17,518,219
- In other currencies	-	-	-	-	128,271	10.65	128,271
Loans to customers (allowance for impairment)	-	-	-	-	(143,894)	-	(143,894)
Other assets:							
- In KZT	-	-	37,212	-	366	-	37,578

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

31 December 2013	Parent company		Other subsidiaries of the Parent company		Other related parties*		Total KZT'000
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	
LIABILITIES							
Deposits and balances from customers							
- In KZT	1,655	-	3,098,834	2.93	17,071,717	1.27	20,172,206
- In USD	1,239,879	0.99	110,276	2.10	16,259,576	1.31	17,609,731
- In other currencies	-	-	229,520	0.37	3,469,034	0.54	3,698,554
Debt securities issued							
- In KZT	-	-	729,149	12.48	-	-	729,149
Subordinated debt securities issued							
- In KZT	-	-	51,600	7.39	-	-	51,600
Other liabilities							
- In KZT	-	-	152,631	-	808	-	153,439
Items not recognised in the consolidated statement of financial position							
Loans and credit line commitments	-	-	-	-	89,458	-	89,458
Guarantees issued	-	-	-	-	10,478	-	10,478
Guarantees received	-	-	-	-	406,442	-	406,442
Letters of credit	-	-	-	-	5,012,538	-	5,012,538
Profit (loss)							
Interest income	-	-	-	-	341,988	-	341,988
Interest expense	(6,605)	-	(406,618)	-	(1,223,153)	-	(1,636,376)
Fee and commission income	249	-	19,615	-	487,521	-	507,385
Other operating (expenses) income	(18,577)	-	(149,085)	-	2,692	-	(164,970)
Reversal of impairment losses	-	-	-	-	137,369	-	137,369
Other general administrative expenses	-	-	(1,100,173)	-	(233,660)	-	(1,333,833)

*Other related parties are the entities that are controlled by the Parent company's shareholders.

As at 31 December 2014 loans to customers of KZT 41,753,759 thousand were insured by an insurance company under common control (31 December 2013: KZT 33,464,209 thousand).

35 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

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

KZT'000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	112,083,022	-	-	112,083,022	112,083,022
Financial instruments at fair value through profit or loss	4,547,700	-	-	-	-	4,547,700	4,547,700
Available-for-sale financial assets	-	-	-	5,913,836	-	5,913,836	5,913,836
Deposits and balances with banks	-	-	13,476,169	-	-	13,476,169	13,476,169
Loans to customers:							
Loans to corporate customers	-	-	297,147,120	-	-	297,147,120	289,804,993
Loans to retail customers	-	-	291,084,979	-	-	291,084,979	283,849,678
Held-to-maturity investments:							
Government bonds	-	32,447,760	-	-	-	32,447,760	32,427,946
Corporate bonds	-	2,736,497	-	-	-	2,736,497	2,510,777
Other financial assets	-	-	20,780,471	-	-	20,780,471	20,780,471
	4,547,700	35,184,257	734,571,761	5,913,836	-	780,217,554	765,394,592
Deposits and balances from banks	-	-	-	-	3,469,981	3,469,981	3,469,981
Amounts payable under repurchase agreements	-	-	-	-	7,353,570	7,353,570	7,353,570
Current accounts and deposits from customers	-	-	-	-	548,499,125	548,499,125	549,271,150
Debt securities issued	-	-	-	-	103,242,607	103,242,607	102,402,013
Subordinated debt securities issued	-	-	-	-	26,028,695	26,028,695	24,431,940
Other borrowed funds	-	-	-	-	37,862,573	37,862,573	37,862,573
Other financial liabilities	-	-	-	-	12,030,838	12,030,838	12,030,838
	-	-	-	-	738,487,389	738,487,389	736,822,065

35 Financial assets and liabilities: fair values and accounting classifications, continued**(a) Accounting classifications and fair values, continued**

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

KZT'000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	-	83,146,378	-	-	83,146,378	83,146,378
Financial instruments at fair value through profit or loss	1,139,628	-	-	-	-	1,139,628	1,139,628
Available-for-sale financial assets	-	-	-	10,979,872	-	10,979,872	10,979,872
Deposits and balances with banks	-	-	2,922,373	-	-	2,922,373	2,922,373
Loans to customers:							
Loans to corporate customers	-	-	215,854,274	-	-	215,854,274	222,632,209
Loans to retail customers	-	-	216,674,812	-	-	216,674,812	214,169,567
Held-to-maturity investments:							
Government bonds	-	23,462,306	-	-	-	23,462,306	23,454,919
Other financial assets	-	-	10,415,136	-	-	10,415,136	10,415,136
	1,139,628	23,462,306	529,012,973	10,979,872	-	564,594,779	568,860,082
Financial instruments at fair value through profit or loss	2,278	-	-	-	-	2,278	2,278
Deposits and balances from banks	-	-	-	-	14,116,633	14,116,633	14,116,633
Amounts payable under repurchase agreements	-	-	-	-	8,803,285	8,803,285	8,803,285
Current accounts and deposits from customers	-	-	-	-	404,673,786	404,673,786	406,857,673
Debt securities issued	-	-	-	-	32,786,356	32,786,356	29,935,291
Subordinated debt securities issued	-	-	-	-	35,669,288	35,669,288	35,439,121
Other borrowed funds	-	-	-	-	21,410,349	21,410,349	21,410,349
Other financial liabilities	-	-	-	-	9,896,674	9,896,674	9,896,674
	2,278	-	-	-	527,356,371	527,358,649	526,461,304

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

(a) Accounting classifications and fair values, continued

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

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

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

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

The Group uses widely recognised valuation models to determine the fair value of common and simpler financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives such as interest rate swaps.

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

As disclosed in Note 13, the fair value of unquoted equity securities available-for-sale with a carrying value of KZT 14,387 thousand (2013: KZT 14,198 thousand) cannot be determined.

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

- discount rates of 6.7 – 22.3% and 1.9 – 27.2% are used for discounting future cash flows from loans to corporate customers and loans to retail customers, respectively;
- discount rates of 0.1 – 13.6% and 0.1 – 9.3% are used for discounting future cash flows from current accounts and deposits of corporate and retail customers, respectively;
- quoted market prices are used for determination of fair value of debt securities issued.

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

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

(b) Fair value hierarchy

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

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

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

KZT'000	Level 2	Level 3	Total
Financial instruments at fair value through profit or loss			
- Debt instruments	522,544	-	522,544
- Derivative assets	-	4,025,156	4,025,156
Available-for-sale financial assets			
- Debt instruments	5,899,449	-	5,899,449
	6,421,993	4,025,156	10,447,149

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

KZT'000	Level 1	Level 2	Total
Financial instruments at fair value through profit or loss			
- Debt instruments	1,139,628	-	1,139,628
- Derivative liabilities	-	(2,278)	(2,278)
Available-for-sale financial assets			
- Debt instruments	-	10,965,674	10,965,674
	1,139,628	10,963,396	12,103,024

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

Unobservable valuation differences on initial recognition

The transaction price of the swap transactions with the NBRK is different from fair value of the swap instruments in the principal markets (Note 12). At initial recognition, the Group estimates the fair values of the swaps transacted with the NBRK using valuation techniques.

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

(b) Fair value hierarchy, continued

Unobservable valuation differences on initial recognition, continued

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

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

	Level 3	
	Financial instruments at fair value through profit or loss	Total
KZT'000	Derivative assets	
Balance at beginning of the year	-	-
Net loss on financial instruments at fair value through profit or loss	(608,869)	(608,869)
Prepayment of interest	4,634,025	4,634,025
Balance at end of the year	4,025,156	4,025,156

To determine the fair value of the swaps, management assumed interest rates in KZT of 4.03% and of 0.44% in USD. Management assumes that the early termination right will not be exercised by NBRK until maturity.

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value.

As at 31 December 2014 if the interest rate applied to KZT cash flows increased by 1%, the fair value of the currency swaps with the NBRK in Level 3 of the hierarchy would increase by KZT 472,939 thousand.

As at 31 December 2014 if the right of early termination to be exercised in 3 months earlier, the effect on profit or loss will be a decrease in the fair value of KZT 552,644 thousand.

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

(b) Fair value hierarchy, continued

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

KZT'000	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	112,083,022	-	112,083,022	112,083,022
Deposits and balances with banks	13,476,169	-	13,476,169	13,476,169
Loans to customers	546,117,347	27,537,324	573,654,671	588,232,099
Held-to-maturity investments	34,938,723	-	34,938,723	35,184,257
Liabilities				
Deposits and balances from banks	3,469,981	-	3,469,981	3,469,981
Amounts payable under repurchase agreements	7,353,570	-	7,353,570	7,353,570
Current accounts and deposits from customers	549,271,150	-	549,271,150	548,499,125
Debt securities issued	102,402,013	-	102,402,013	103,242,607
Subordinated debt securities issued	24,431,940	-	24,431,940	26,028,695
Other borrowed funds	37,862,573	-	37,862,573	37,862,573
Other financial liabilities	12,030,838	-	12,030,838	12,030,838

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

KZT'000	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	83,146,378	-	83,146,378	83,146,378
Deposits and balances with banks	2,922,373	-	2,922,373	2,922,373
Loans to customers	411,449,826	25,351,950	436,801,776	432,529,086
Held-to-maturity investments	23,454,919	-	23,454,919	23,462,306
Liabilities				
Deposits and balances from banks	14,116,633	-	14,116,633	14,116,633
Amounts payable under repurchase agreements	8,803,285	-	8,803,285	8,803,285
Current accounts and deposits from customers	406,857,673	-	406,857,673	404,673,786
Debt securities issued	29,935,291	-	29,935,291	32,786,356
Subordinated debt securities issued	35,439,121	-	35,439,121	35,669,288
Other borrowed funds	21,410,349	-	21,410,349	21,410,349
Other financial liabilities	9,896,674	-	9,896,674	9,896,674