



Citibank Kazakhstan JSC

Financial Statements

for the year ended

31 December 2014

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Independent Auditors' Report

To the Board of Directors of Citibank Kazakhstan JSC

We have audited the accompanying financial statements of Citibank Kazakhstan JSC (the "Bank"), which comprise the statement of financial position as at 31 December 2014, and the 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 Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank 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 MΦ-0000053 of 6 January 2012

KPMG Audit LLC

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



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

28 April 2015

Citibank Kazakhstan JSC
Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2014

	Note	2014 '000 KZT	2013 '000 KZT
Interest income	4	7,847,819	8,704,533
Interest expense	4	(2,668,387)	(3,298,295)
Net interest income		5,179,432	5,406,238
Fee and commission income	5	1,877,912	2,174,534
Fee and commission expense	6	(697,357)	(876,400)
Net fee and commission income		1,180,555	1,298,134
Net foreign exchange gain	7	24,633,461	4,244,793
Net (loss)/gain on derivative financial instruments		(10,597,535)	2,785,736
Net realised gain on available-for-sale financial assets		685	40,206
Other operating income/(expenses), net		191,119	(82,376)
Operating income		20,587,717	13,692,731
General administrative expenses	8	(4,769,559)	(2,716,330)
Profit before taxes		15,818,158	10,976,401
Income tax expense	9	(4,982,510)	(2,079,935)
Profit for the year		10,835,648	8,896,466
Other comprehensive loss, net of income tax			
<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 of available-for-sale financial assets		(29,141)	30,707
- Net change in fair value of available-for-sale financial assets transferred to profit or loss		(685)	(40,206)
Other comprehensive loss for the year		(29,826)	(9,499)
Total comprehensive income for the year		10,805,822	8,886,967

The financial statements as set out on pages 5 to 50 were approved by management on 27 April 2015 and were signed on its behalf by:


Andrey Kurilin
Chief Executive Officer




Natalya Suslova
Chief Accountant

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

Citibank Kazakhstan JSC
Statement of Financial Position as at 31 December 2014

	Note	2014 '000 KZT	2013 '000 KZT
ASSETS			
Cash and cash equivalents	10	261,357,288	194,192,595
Placements with banks	11	5,165,593	4,684,120
Financial instruments at fair value through profit or loss	12	4,514,310	927,991
Loans to customers	13	89,446,842	102,740,247
Available-for-sale financial assets	14	17,283,252	19,775,378
Amounts receivable under repurchase agreements		-	11,716,104
Property, equipment and intangible assets		453,513	431,739
Current tax assets		-	107,087
Other assets		338,550	230,311
Total assets		378,559,348	334,805,572
LIABILITIES			
Financial instruments at fair value through profit or loss	12	4,400,470	82,127
Deposits and balances from banks and other financial institutions	15	15,482,323	61,143,711
Current accounts and deposits from customers	16	295,803,862	221,824,731
Current tax liability		108,981	-
Deferred tax liability	9	468,662	634,386
Other liabilities		914,828	546,217
Total liabilities		317,179,126	284,231,172
EQUITY			
Share capital	17	12,497,625	12,497,625
Additional paid-in capital		61,975	61,975
Dynamic reserve		2,380,583	2,380,583
Reserve capital	17(c)	-	7,725,032
Revaluation reserve for available-for-sale financial assets		(31,517)	(1,691)
Retained earnings		46,471,556	27,910,876
Total equity		61,380,222	50,574,400
Total liabilities and equity		378,559,348	334,805,572

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

Citibank Kazakhstan JSC
Statement of Cash Flows for the year ended 31 December 2014

	2014 '000 KZT	2013 '000 KZT
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	7,775,655	8,918,390
Interest payments	(2,634,711)	(2,981,545)
Fee and commission receipts	1,889,692	2,174,042
Fee and commission payments	(698,366)	(876,228)
Net (payments)/receipts from foreign exchange and derivatives	(3,362,396)	5,281,819
Other receipts/(payments), net	191,119	(82,376)
General administrative payments	(4,725,567)	(2,665,663)
(Increase)/decrease in operating assets		
Placements with banks	(406,942)	35,209,193
Loans to customers	23,827,645	16,875,926
Amounts receivable under repurchase agreements	11,716,008	(11,716,008)
Other assets	(119,418)	(28,398)
Increase/(decrease) in operating liabilities		
Deposits and balances from banks and other financial institutions	(54,294,307)	26,780,824
Amounts payable under repurchase agreements	-	(5,833,006)
Current accounts and deposits from customers	58,191,631	(22,735,121)
Other liabilities	361,619	249,622
Net cash flows from operating activities before income tax paid	37,711,662	48,571,471
Taxes paid	(4,932,166)	(2,013,852)
Cash flows from operating activities	32,779,496	46,557,619
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale financial assets	(2,800,000)	(3,498,509)
Sales and redemption of available-for-sale financial assets	5,130,685	8,992,151
Purchases of property, equipment and intangible assets	(65,766)	(37,998)
Cash flows from investing activities	2,264,919	5,455,644
Net increase in cash and cash equivalents	35,044,415	52,013,263
Effect of changes in exchange rates on cash and cash equivalents	32,120,278	2,570,907
Cash and cash equivalents at 1 January	194,192,595	139,608,425
Cash and cash equivalents at 31 December (Note 10)	261,357,288	194,192,595

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

Citibank Kazakhstan JSC
Statement of Changes in Equity for the year ended 31 December 2014

'000 KZT	Share capital	Additional paid-in capital	Dynamic reserve	Reserve capital	Revaluation reserve for available-for-sale financial assets	Retained earnings	Total equity
Balance at 1 January 2013	12,497,625	61,975	-	5,432,480	7,808	23,687,545	41,687,433
Total comprehensive income							
Profit for the year	-	-	-	-	-	8,896,466	8,896,466
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	-	-	-	-	30,707	-	30,707
- Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	-	(40,206)	-	(40,206)
Total other comprehensive loss	-	-	-	-	(9,499)	-	(9,499)
Total comprehensive income	-	-	-	-	(9,499)	8,896,466	8,886,967
Allocation of reserve capital for dynamic reserve (Note 17 (d))	-	-	2,380,583	-	-	(2,380,583)	-
Additional reserve capital allocation	-	-	-	2,292,552	-	(2,292,552)	-
Balance at 31 December 2013	12,497,625	61,975	2,380,583	7,725,032	(1,691)	27,910,876	50,574,400
Total comprehensive income							
Profit for the year	-	-	-	-	-	10,835,648	10,835,648
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	-	-	-	-	(29,141)	-	(29,141)
- Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	-	(685)	-	(685)
Total other comprehensive loss	-	-	-	-	(29,826)	-	(29,826)
Total comprehensive income	-	-	-	-	(29,826)	10,835,648	10,805,822
Additional reserve capital allocation (Note 17(c))	-	-	-	(7,725,032)	-	7,725,032	-
Balance at 31 December 2014	12,497,625	61,975	2,380,583	-	(31,517)	46,471,556	61,380,222

1 Background

(a) Principal activities

Citibank Kazakhstan JSC (“the Bank”) was established as a joint stock company in the Republic of Kazakhstan. The Bank was granted its general banking license in 1998 and this license was updated in 2008. The Bank is a member of the state deposit insurance system in the Republic of Kazakhstan.

The principal activities of the Bank are deposit taking, lending and operations with securities and foreign exchange. The activities of the Bank are regulated by the National Bank of the Republic of Kazakhstan (“NBRK”).

The address of the Bank’s registered office is: Park Palace, Building A, 2nd floor, 41 Kazibek Bi Str., Almaty, 480100, Republic of Kazakhstan. The majority of the Bank’s assets and liabilities are located in the Republic of Kazakhstan.

(b) Shareholder

The Bank is wholly-owned by Citibank N.A. (“the Shareholder Bank”). As a result the Bank is economically dependent upon the Shareholder Bank. In addition, the activities of the Bank are closely linked with the requirements of the Shareholder Bank and determination of the pricing of the Bank’s services to the Shareholder Bank is undertaken in conjunction with other Shareholder Bank companies.

(c) Kazakhstan business environment

The Bank’s operations are primarily located in Kazakhstan. Consequently, the Bank 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 financial statements reflect management’s assessment of the impact of the Kazakhstan business environment on the operations and financial position of the Bank. The future business environment may differ from management’s assessment.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

The functional currency of the Bank 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 KZT is also the Bank’s presentation currency for the purposes of these financial statements.

Financial information presented in KZT has been rounded to the nearest thousand.

2 Basis of preparation, continued

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual result 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 Note 13 “Loans to customers” and Note 24 “Fair value of financial instruments”.

(e) Changes in accounting policies

The Bank 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) (see (i))

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

(i) *Offsetting Financial Assets and Financial Liabilities*

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

This amendment has no impact on the financial statements of the Bank as it does not present financial assets and financial liabilities on net basis in the statement of financial position.

3 Significant accounting policies

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the KZT - the functional currency of the Bank (the functional currency) 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 was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss.

3 Significant accounting policies, continued

(a) Foreign currency transactions, continued

The exchange rates between the USD and the KZT and the EUR and the KZT as at 31 December 2014 and 2013 were as follows:

<i>Currency</i>	2014	2013
1 United States Dollar	182.35	154.06
1 Euro	221.59	212.02

(b) Cash and cash equivalents

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

(c) Financial instruments

(i) Classification

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

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

The Bank 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 loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it 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.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(i) *Classification, continued*

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 Bank:

- 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 Bank has the positive intention and ability to hold to maturity, other than those that:

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

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

(ii) *Recognition*

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

(iii) *Measurement*

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

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(iv) Amortised cost

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

(v) Fair value measurement principles

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

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

When there is no quoted price in an active market, the Bank 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 Bank 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 Bank measures assets and long positions at the bid price and liabilities and short positions at the ask price.

The Bank 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.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(vi) *Gains and losses on subsequent measurement, continued*

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

(vii) *Derecognition*

The Bank 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 Bank 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 Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

In transactions where the Bank 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 Bank 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 Bank purchases its own debt, it is removed from the 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 Bank 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 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.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(ix) *Derivative financial instruments, continued*

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

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

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

(x) *Placements with banks*

In the normal course of business, the Bank maintains nostro accounts, loans, and deposits for various periods of time with other banks. Placements with banks with a fixed maturity terms are subsequently measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at amortised cost based on expected maturities. Placements with banks are carried net of any allowance for impairment loss, if any.

(xi) *Offsetting*

Financial assets and liabilities are offset and the net amount reported in the 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.

(d) 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	50 years
Computers	3 years
Fixtures and fittings	5 years
Vehicles	5 years

3 Significant accounting policies, continued

(e) Intangible assets

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

Acquired computer software licences 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 life of 5 years.

(f) Impairment

The Bank 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 Bank determines the amount of any impairment loss.

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

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Bank 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 relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

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

(i) Financial assets carried at amortised cost

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

The Bank 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 Bank 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, if appropriate, 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.

3 Significant accounting policies, continued

(f) Impairment, continued

(i) *Financial assets carried at amortised cost, continued*

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 Bank 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 Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) *Financial assets carried at cost*

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

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

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

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

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

(iv) *Non financial assets*

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of 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.

3 Significant accounting policies, continued

(f) Impairment, continued

(iv) Non financial assets, continued

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.

(g) Provisions

A provision is recognised in the statement of financial position when the Bank 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 Bank 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.

(h) Credit related commitments

In the normal course of business, the Bank 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 Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

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

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

Loan commitments are not recognised, except for the following:

- loan commitments that the Bank designates as financial liabilities at fair value through profit or loss
- if the Bank 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.

3 Significant accounting policies, continued

(i) 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 Bank to declare and pay dividends is subject to the rules and regulations of Kazakhstan legislation.

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

(j) Taxation

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Bank 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 it is no longer probable that the related tax benefit will be realised.

(k) Income and expense recognition

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

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

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

3 Significant accounting policies, continued

(k) Income and expense recognition, continued

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided. Dividend income is recognised in profit or loss on the date that the dividend is declared.

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

(l) Fiduciary assets

The Bank provides custody services that result in the holding of assets on behalf of third parties. These assets and the income arising there from are excluded from these financial statements as they are not assets of the Bank. Commissions received from such business are shown within fee and commission income in the profit or loss.

(m) 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 financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective. The Bank has not yet analysed the likely impact of these standards and pronouncements on its 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 Company recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the financial statements. The Company has not analysed the impact of these changes yet. The Company 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 Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2014 '000 KZT	2013 '000 KZT
Interest income		
Loans to customers	6,338,237	6,332,562
Placements with banks	534,569	1,373,509
Available-for-sale financial assets	896,351	912,379
Amounts receivable under reverse repurchase agreements	78,662	86,083
	7,847,819	8,704,533
Interest expense		
Current accounts and deposits from customers	2,580,617	3,204,484
Deposits and balances from banks and other financial institutions	72,603	5,611
Amounts payable under repurchase agreements	15,167	88,200
	2,668,387	3,298,295
Net interest income	5,179,432	5,406,238

5 Fee and commission income

	2014 '000 KZT	2013 '000 KZT
Transfers	753,313	747,218
Credit cards	707,712	642,108
Custodian fees	140,927	478,014
Guarantees issued	120,975	133,301
Letters of credit provided	81,766	124,224
Accounts maintenance	24,150	17,591
Cash transactions	13,301	15,251
Other	35,768	16,827
	1,877,912	2,174,534

6 Fee and commission expense

	2014 '000 KZT	2013 '000 KZT
Credit cards	345,700	309,804
Guarantee and letter of credit issuance fees	169,783	440,923
Custodian fees	17,845	77,442
Other	164,029	48,231
	697,357	876,400

7 Net foreign exchange gain

	2014 '000 KZT	2013 '000 KZT
Unrealised gain from foreign currency revaluation	18,130,346	1,187,197
Net forex trading gain	6,503,115	3,057,596
	24,633,461	4,244,793

8 General administrative expenses

	2014 '000 KZT	2013 '000 KZT
Administrative support provided by related banks	2,472,408	759,025
Employee compensation	1,409,249	1,180,953
Administration	165,053	154,140
Cash collection	155,184	114,891
Communications and information services	144,364	142,843
Travel expenses	89,807	63,697
Taxes other than on income	76,555	60,489
Rent	60,326	59,412
Depreciation and amortisation	43,992	47,982
Representative expenses	24,329	34,032
Repairs and maintenance	27,719	20,601
Security	18,200	16,531
Office supplies	32,810	12,934
Professional services	32,576	11,154
Advertising and marketing	2,137	1,350
Other	14,850	36,296
	4,769,559	2,716,330

9 Income tax expense

	2014 '000 KZT	2013 '000 KZT
Current tax expense		
Current year	5,055,007	1,937,853
Underprovided in prior years	93,227	33,396
	5,148,234	1,971,249
Deferred tax expense		
Origination and reversal of temporary differences	(165,724)	108,686
Total income tax expense in profit or loss	4,982,510	2,079,935

9 Income tax expense, continued

Reconciliation of effective tax rate:

	2014 '000 KZT	%	2013 '000 KZT	%
Profit before tax	15,818,158	100.00	10,976,401	100.00
Income tax at the applicable tax rate	3,163,632	20.00	2,195,280	20.00
Current tax expense underprovided in prior years	93,227	0.59	33,396	0.30
Non-taxable income	(196,576)	(1.24)	(211,277)	(1.92)
Non-deductible expenses	258,705	1.64	62,536	0.57
Change in unrecognised deferred tax assets	1,663,522	10.52	-	-
	4,982,510	31.51	2,079,935	18.95

Deferred tax asset and liability

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

Deferred tax assets on losses on non-deliverable derivatives are not recognised in these financial statements. Future tax benefits will only be realised if profits will be available against which unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Bank's ability to claim deductions in future periods. These future tax benefits are not recognised by the Bank due to uncertainties concerning their realisation.

The Bank's applicable tax rate in 2014 is the income tax rate of 20% for Kazakhstan companies (2013: 20%).

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

'000 KZT	Balance 1 January 2014	Recognised in profit or loss	Balance 31 December 2014
Financial instruments at fair value through profit or loss	(169,173)	146,405	(22,768)
Loans to customers	(476,116)	-	(476,116)
Property and equipment	(20,747)	(3,823)	(24,570)
Other liabilities	31,650	23,142	54,792
Tax losses carry forward per undeliverable derivatives	-	1,663,522	1,663,522
Total deferred tax (liabilities)/assets	(634,386)	1,829,246	1,194,860
Unrecognised deferred tax asset	-	(1,663,522)	(1,663,522)
Recognised deferred tax liabilities	(634,386)	165,724	(468,662)

9 Income tax expense, continued

Deferred tax asset and liability, continued

'000 KZT	Balance 1 January 2013	Recognised in profit or loss	Balance 31 December 2013
Financial instruments at fair value through profit or loss	(56,870)	(112,303)	(169,173)
Loans to customers	(481,925)	5,809	(476,116)
Property and equipment	(18,315)	(2,432)	(20,747)
Other liabilities	31,410	240	31,650
Recognised deferred tax liabilities	(525,700)	(108,686)	(634,386)

10 Cash and cash equivalents

Cash and cash equivalents at the end of the financial year are composed of the following items:

	2014 '000 KZT	2013 '000 KZT
Placements with the NBRK	238,553,759	109,191,347
Placements with banks		
<i>Nostro accounts:</i>		
- rated A- to A	19,973,784	83,694,029
- rated BBB+	-	211,099
- rated BBB	2,526,979	-
<i>Loans and deposits with original maturities less than three months:</i>		
- rated A- to A	-	795,740
Total placements with banks	22,500,763	84,700,868
Cash on hand	302,766	300,380
Total cash and cash equivalents	261,357,288	194,192,595

Ratings are based on Standard and Poor's rating system.

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

Concentration of placements with banks

As at 31 December 2014 the Bank has 1 bank, except for the NBRK, (2013: 2 banks) whose balances exceed 10% of equity. The gross value of this balance as at 31 December 2014 is KZT 14,533,346 thousand (2013: KZT 83,684,013 thousand).

Nostro accounts include overnight placement amounting to KZT 5,429,709 thousand as at 31 December 2014 (2013: KZT 36,190,267 thousand) placed with entities of Citigroup Inc.

Minimum reserve requirements of the National Bank of the Republic of Kazakhstan

Minimum reserve requirements are calculated in accordance with regulations issued by the NBRK and should be maintained as average of cash on hand and balances on current account with the NBRK for the two week period calculated as certain minimum level of residents' and non-residents' customer deposits and current accounts balances as well as other bank liabilities. As at 31 December 2014 the minimum reserve requirements equaled KZT 9,343,657 thousand (31 December 2013: KZT 7,329,320 thousand).

11 Placements with banks

	2014 '000 KZT	2013 '000 KZT
Placements with banks with original maturities more than three months		
- rated A- to A	1,945,403	-
- rated BBB- to BBB	-	2,977,033
- rated BB+	243,379	-
- rated BB	2,976,811	354,410
- rated B+	-	1,352,677
Total placements with banks	5,165,593	4,684,120

Ratings are based on Standard and Poor's rating system.

No placements with banks were impaired or past due as at 31 December 2014 (2013: none).

As at 31 December 2014 the Bank pledged a margin deposit for liabilities on derivative financial instruments of KZT 1,945,403 thousand.

12 Financial instruments at fair value through profit or loss

	2014 '000 KZT	2013 '000 KZT
Assets		
Derivative financial instruments		
Forward exchange contracts	4,514,310	927,991
Liabilities		
Derivative financial instruments		
Forward exchange contracts	4,400,470	82,127

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

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

	Notional amount		Weighted average contracted exchange rates	
	2014 '000 KZT	2013 '000 KZT	2014	2013
Buy USD sell KZT				
Less than three months	34,417,293	1,182,436	205.38	155.19
Between three months and one year	1,546,731	1,600,000	193.34	160.00
Sell USD buy KZT				
Less than three months	90,166,838	85,652,218	184.59	155.48
Between three months and one year	5,365,223	4,871,836	244.23	158.85
Sell EUR buy KZT				
Less than three months	517,965	293,553	299.97	212.38
Between three months and one year	310,758	904,343	344.18	223.15
Buy RUB sell KZT				
Between three months and one year	2,162,442	-	3.94	-
Sell USD buy EUR				
Less than three months	766,282	287,813	1.38	1.35
Between three months and one year	402,193	1,433,407	1.47	1.36
Buy USD sell EUR				
Less than three months	188,040	-	1.46	-
Between three months and one year	45,804	551,252	1.44	1.36
Buy USD sell RUB				
Less than three months	2,519,260	-	63.02	-
Between three months and one year	3,443,171	-	57.52	-
Buy KZT sell RUB				
Less than three months	1,745,792	1,628,663	7.81	4.80
Between three months and one year	1,924,648	4,616,454	7.73	4.84
Buy RUB sell USD				
Less than three months	5,082,340	1,624,516	48.18	33.00
Between three months and one year	5,115,663	4,478,618	42.38	33.94
Buy KZT sell other currencies				
Less than three months	106,678	367,736	-	-
Buy other currencies sell USD				
Less than three months	118,953	348,945	-	-
Between three months and one year	114,075	-	-	-
Buy USD sell other currencies				
Between three months and one year	108,332	-	-	-

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

The following table provides information on the credit quality of foreign currency contracts, which are assets:

	2014 '000 KZT	2013 '000 KZT
Medium and small Kazakhstan companies	2,944,905	209,161
Large OECD banks	1,317,895	692,843
Kazakhstan banks	251,510	25,850
Other foreign companies	-	137
	4,514,310	927,991

No financial instruments at fair value through profit or loss are past due as at 31 December 2014 (2013: None).

13 Loans to customers

	2014 '000 KZT	2013 '000 KZT
Loans to large corporates	88,753,028	101,996,084
Loans to retail customers	693,814	744,163
Loans to customers	89,446,842	102,740,247

(a) Credit quality of loan portfolio

The Bank has no overdue loans as at 31 December 2014 (2013: nil). None of the loans are impaired at 31 December 2014 and 2013. No collective provision was recognised in respect of loans to customers as all possible risks have been considered in individual impairment test. Change in estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by minus one percent, the impairment allowance on loans to customers as at 31 December 2014 would be KZT 894,468 thousand higher (31 December 2013: KZT 1,027,402 thousand).

Analysis of collateral

(i) Loans to large corporates

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

31 December 2014 '000 KZT	Loans to customers, carrying amount	Fair value of collateral not determined
Guarantees from related parties	44,116,804	44,116,804
Third party guarantees	32,079,367	32,079,367
No collateral	12,556,857	-
Total loans to large corporates	88,753,028	76,196,171

13 Loans to customers, continued

(a) Credit quality of loan portfolio, continued

(i) Loans to large corporates, continued

31 December 2013 '000 KZT	Loans to customers, carrying amount	Fair value of collateral not determined
Guarantees from related parties	47,072,209	47,072,209
Third party guarantees	25,730,837	25,730,837
No collateral	29,193,038	-
Total loans to large corporates	101,996,084	72,803,046

The tables above exclude overcollateralisation.

Third party guarantees are mainly provided by large Kazakhstan state-owned corporations or by headquarters of international corporations operating in Kazakhstan. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

(ii) Loans to retail customers

Mortgage loans are secured by the underlying housing real estate.

The following tables provides information on real estate collateral securing mortgage loans:

31 December 2014 '000 KZT	Loans to customers, carrying amount	Fair value of collateral – for collateral assessed as of loan inception date	Fair value of collateral not determined
Mortgage	626,449	626,449	-
Third party guarantees (not rated)	31,109	-	31,109
No collateral	36,256	-	-
Total loans to retail customers	693,814	626,449	31,109

31 December 2013 '000 KZT	Loans to customers, carrying amount	Fair value of collateral – for collateral assessed as of loan inception date	Fair value of collateral not determined
Mortgage	645,360	645,360	-
Third party guarantees (not rated)	32,883	-	32,883
No collateral	65,920	-	-
Total loans to retail customers	744,163	645,360	32,883

The tables above exclude overcollateralisation.

For certain mortgage loans the Bank updates the appraised values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. For the remaining mortgage loans the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

13 Loans to customers, continued

(b) Industry and geographical analysis of the loan portfolio

Loans and advances to customers are issued primarily to customers located within the Republic of Kazakhstan, who operate in the following economic sectors:

	2014 '000 KZT	2013 '000 KZT
Trade	20,421,445	15,104,949
Manufacturing	13,498,673	6,326,088
Communications	13,134,224	15,555,247
Energy and natural resources	10,931,584	21,761,888
Chemical	8,147,813	6,372,817
Real estate	6,529,778	2,483,658
Agriculture, forestry and timber	5,015,072	11,555,690
Mining/metallurgy	3,739,472	13,358,645
Transportation	2,748,425	1,132,003
Food production	2,076,106	5,113,560
Finance	1,101,645	178,363
Miscellaneous services	948,896	1,752,382
Loans to individuals	693,814	744,163
Other	459,895	1,300,794
	89,446,842	102,740,247

(c) Significant credit exposures

As at 31 December 2014 the Bank had two borrowers (2013: five), whose loan balances exceeded 10% of equity. The gross value of these loans as at 31 December 2014 was KZT 19,061,399 thousand (2013: KZT 46,444,881 thousand).

14 Available-for-sale financial assets

	2014 '000 KZT	2013 '000 KZT
Debt instruments		
Bonds issued by the Ministry of Finance of the Republic of Kazakhstan (Country sovereign rating: BBB+)	17,283,252	19,775,378
	17,283,252	19,775,378

None of available-for-sale financial assets are past due or impaired as at 31 December 2014 (2013: None).

15 Deposits and balances from banks and other financial institutions

	2014 '000 KZT	2013 '000 KZT
Vostro accounts	9,837,596	60,994,206
Term deposits	5,644,727	149,505
	15,482,323	61,143,711

Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2014 the Bank has no financial institution (2013: 1 financial institution), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2014 is nil (2013: KZT 54,488,736 thousand).

16 Current accounts and deposits from customers

	2014 '000 KZT	2013 '000 KZT
Current accounts and demand deposits		
- Retail	3,384,641	4,465,050
- Corporate	266,783,208	145,721,419
Term deposits		
- Corporate	25,636,013	71,638,262
	295,803,862	221,824,731

Concentrations of current accounts and customer deposits

As at 31 December 2014, the Bank had 6 customers (2013: 7 customers) whose balances exceeded 10% of equity. These balances as at 31 December 2014 amount to KZT 141,836,635 thousand (2013: KZT 97,026,470 thousand).

17 Equity

(a) Issued capital

The authorised, issued and outstanding share capital comprises 621 ordinary shares (2013: 621). All shares have a par value of KZT 20,125 thousand. During 2014 the Bank did not issue ordinary shares (2013: nil).

(b) Dividends

In accordance with Kazakhstan legislation the Bank's distributable reserves are limited to the balance of retained earnings as recorded in the Bank's statutory financial statements prepared in accordance with IFRS or profit for the year if there is an accumulated loss brought forward. A distribution cannot be made if this would result in negative equity or the Bank's insolvency. Under Kazakhstan legislation, as at the reporting date, reserves available for distribution amounted to KZT 46,471,556 thousand (2013: KZT 27,910,876 thousand). During 2014 no dividends were declared or paid (2013: nil).

(c) Reserve capital

The FMSC Resolutions #196 On Establishment of Minimum Limit on Reserve Capital of Second-Tier Banks and #296 On Approval of the Rules of Classification of Assets, Contingent Liabilities and Creation of Provisions (Reserves) against Assets and Contingent Liabilities ceased to be in force during 2013.

The Bank's reserve capital in the amount of KZT 7,725,032 thousand was dissolved in accordance with the decision of the sole shareholder on 30 May 2014 as maintaining such a reserve capital was no longer required by regulations and the outstanding balance was transferred to retained earnings.

(d) Dynamic reserve

In accordance with Resolution of the National Bank of the Republic of Kazakhstan #137 dated 27 May 2013 On Approval of Rules on Forming Dynamic Reserves by Second-Tier Banks and Establishment of Minimum Size of Dynamic Reserves and Expected Loss, the Bank has established a dynamic reserve calculated using a formula determined in the Rules.

17 Equity, continued

(d) Dynamic reserve, continued

In accordance with the Rules, dynamic reserve cannot be less than zero and shall be calculated as the difference between expected losses and actual charge on deductible for tax purposes impairment losses recognised during the reporting quarter in accordance with IFRS net of income from recovery of provisions. Expected losses are estimated based on the increase of loans to customers during the reporting quarter multiplied by certain coefficients. The Resolution has been effective from 1 January 2013.

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

As at 31 December 2014 and 31 December 2013 the non-distributable dynamic reserve of the Bank is KZT 2,380,583 thousand.

18 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, which includes price, interest rate and currency risks, credit risk and liquidity risk.

(a) Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Bank, 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 of the Bank has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board of the Bank is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Bank operates within established risk parameters.

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).

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 current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their respective areas of expertise.

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

18 Risk management, continued

(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 President. Market risk limits are approved by the ALCO, based on recommendations of the Risk Department.

The Bank 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 Bank 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 Bank'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 Bank 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.

(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 Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

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

'000 KZT	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
31 December 2014							
ASSETS							
Cash and cash equivalents	5,429,709	-	-	-	-	255,927,579	261,357,288
Placements with banks	1,945,403	3,087,181	133,009	-	-	-	5,165,593
Loans to customers	55,658,772	9,965,430	18,762,033	4,439,878	620,729	-	89,446,842
Available-for-sale financial assets	3,851,030	3,414,200	-	10,018,022	-	-	17,283,252
	<u>66,884,914</u>	<u>16,466,811</u>	<u>18,895,042</u>	<u>14,457,900</u>	<u>620,729</u>	<u>255,927,579</u>	<u>373,252,975</u>
LIABILITIES							
Deposits and balances from banks and other financial institutions	176,924	-	5,466,600	-	-	9,838,799	15,482,323
Current accounts and deposits from customers	66,384,513	-	-	-	-	229,419,349	295,803,862
	<u>66,561,437</u>	<u>-</u>	<u>5,466,600</u>	<u>-</u>	<u>-</u>	<u>239,258,148</u>	<u>311,286,185</u>
	<u>323,477</u>	<u>16,466,811</u>	<u>13,428,442</u>	<u>14,457,900</u>	<u>620,729</u>	<u>16,669,431</u>	<u>61,966,790</u>

18 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

'000 KZT	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
31 December 2013							
ASSETS							
Cash and cash equivalents	57,236,822	-	-	-	-	136,955,773	194,192,595
Placements with banks	180,948	4,503,172	-	-	-	-	4,684,120
Loans to customers	44,006,476	28,981,848	24,764,875	4,346,598	640,450	-	102,740,247
Available-for-sale financial assets	-	-	2,402,607	14,312,379	3,060,392	-	19,775,378
Amounts receivable under repurchase agreements	11,716,104	-	-	-	-	-	11,716,104
	<u>113,140,350</u>	<u>33,485,020</u>	<u>27,167,482</u>	<u>18,658,977</u>	<u>3,700,842</u>	<u>136,955,773</u>	<u>333,108,444</u>
LIABILITIES							
Deposits and balances from banks and other financial institutions	149,504	-	-	-	-	60,994,207	61,143,711
Current accounts and deposits from customers	69,227,652	9,197,894	21,096,534	387,387	-	121,915,264	221,824,731
	<u>69,377,156</u>	<u>9,197,894</u>	<u>21,096,534</u>	<u>387,387</u>	<u>-</u>	<u>182,909,471</u>	<u>282,968,442</u>
	<u>43,763,194</u>	<u>24,287,126</u>	<u>6,070,948</u>	<u>18,271,590</u>	<u>3,700,842</u>	<u>(45,953,698)</u>	<u>50,140,002</u>

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2014 and 2013.

	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	-	0.11	-	-	-	4.62
Placements with banks	9.80	0.13	3.43	7.00	3.81	3.64
Loans to customers	23.61	3.42	-	7.15	4.12	4.00
Available-for-sale financial assets	4.32	-	-	4.98	-	-
Amounts receivable under repurchase agreements	-	-	-	0.30	-	-
Interest bearing liabilities						
Deposits and balances from banks and other financial institutions						
- Term deposits	12.00	-	-	-	-	-
Current accounts and deposits from customers						
- Current accounts and demand deposits	1.36	0.11	1.52	0.48	0.06	0.10
- Term deposits	16.50	-	-	5.00	0.58	0.84

The Bank 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.

18 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 fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2014 and 2013, is as follows:

	31 December 2014		31 December 2013	
	Net income	Equity	Net income	Equity
100 bp parallel increase	89,164	89,164	439,920	439,920
100 bp parallel decrease	(89,164)	(89,164)	(439,920)	(439,920)

Fair value interest rate sensitivity analysis

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

	31 December 2014		31 December 2013	
	Net income	Equity	Net income	Equity
100 bp parallel increase	-	(282,087)	-	(442,186)
100 bp parallel decrease	-	290,054	-	458,046

(ii) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank's exposure to currency risk at year end refer to Note 25.

An analysis of sensitivity of the Bank's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2014 and 2013 and a simplified scenario of a +/-20% change in USD and other currencies to Kazakhstan Tenge exchange rates is as follows:

	2014		2013	
	Net income	Equity	Net income	Equity
20% appreciation of USD against KZT (2013: 20%)	(559,224)	(559,224)	163,078	163,078
20% depreciation of USD against KZT (2013: 20%)	559,224	559,224	(163,078)	(163,078)
20% appreciation of other currencies against KZT (2013: 20%)	132,235	132,235	14,599	14,599
20% depreciation of other currencies against KZT (2013: 20%)	(132,235)	(132,235)	(14,599)	(14,599)

18 Risk management, continued

(c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank 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 Bank's 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 Loan Business Department, which is responsible for the Bank's corporate loan portfolio. Analysis reports are based on a structured analysis, focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Department's Credit Risk Management Department and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Corporate Business Department and the Risk Department. Individual transactions are also reviewed by the Legal and Financial Control departments, depending on the specific risks and pending final approval of the Credit Committee.

The Bank 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 Bank.

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

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. The impact of the possible netting of assets and liabilities to reduce potential credit exposure is not significant. The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 20.

The Bank monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of loans and advances to customers refer to Note 13 "Loans to customers".

18 Risk management, continued

(c) Credit risk, continued

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

	2014 '000 KZT	2013 '000 KZT
ASSETS		
Cash and cash equivalents	261,054,522	193,892,215
Placements with banks	5,165,593	4,684,120
Financial instruments at fair value through profit or loss	4,514,310	927,991
Loans to customers	89,446,842	102,740,247
Available-for-sale financial assets	17,283,252	19,775,378
Amounts receivable under repurchase agreements	-	11,716,104
Total maximum exposure	377,464,519	333,736,055

(d) 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 Bank'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 agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below, unless they are offset in the statement of financial position.

The Bank 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 Bank 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 Bank will process receivables and payables in a single settlement process or cycle.

The Bank 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 International Derivative Swaps and Dealers Association (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.

18 Risk management, continued

(d) 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:

‘000 KZT

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position Financial instruments	Net amount
Financial instruments at fair value through profit or loss - assets	4,514,310	-	4,514,310	(1,689,671)	2,824,639
Placements with banks	5,165,593	-	5,165,593	(1,945,403)	3,220,190
Financial instruments at fair value through profit or loss - liabilities	(4,400,470)	-	(4,400,470)	3,502,423	(898,047)

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

‘000 KZT

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position Financial instruments	Net amount
Financial instruments at fair value through profit or loss - assets	927,991	-	927,991	(285,852)	642,139
Amounts payable under repurchase agreements	(82,127)	-	(82,127)	82,127	-
Financial instruments at fair value through profit or loss - liabilities	11,716,104	-	11,716,104	(927,991)	10,788,113

18 Risk management, continued

(d) Offsetting financial assets and financial liabilities, continued

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

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

The amounts in the above tables that are offset in the statement of financial position are measured on the same basis.

(e) Liquidity risk

Liquidity risk is the risk that the Bank 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 Bank 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 Bank's liquidity policy is reviewed and approved by the Management Board.

The Bank 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.

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

18 Risk management, continued

(e) Liquidity risk, continued

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

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the NBRK. The Bank was in compliance with these ratios as at 31 December 2014 and 2013.

To manage the liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents, short-term state securities for which there is a liquid market. These assets can be readily sold to meet liquidity requirements. Hence, the Bank believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable users to evaluate the nature and extent of liquidity risk.

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 Bank indicates that these customers accounts provide a long-term and stable source of funding.

The following tables show the undiscounted cash flows of non-derivative financial liabilities, including issued financial guarantee contracts, and unrecognised loan commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The total gross amount (inflow)/ outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability. The Bank's expected cash flows on these financial liabilities may vary significantly from this analysis.

18 Risk management, continued

(e) Liquidity risk, continued

The table below shows an analysis, by contractual maturities, of undiscounted liabilities recognised in the statement of financial position as at 31 December 2014:

'000 KZT	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	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	10,144,731	104,745	161,556	5,660,063	-	16,071,095	15,482,323
Current accounts and deposits from customers	293,575,513	2,540,172	-	-	-	296,115,685	295,803,862
Other liabilities	914,828	-	-	-	-	914,828	914,828
Derivatives							
- Inflow	(109,467,455)	(22,644,961)	(10,609,502)	(12,040,302)	-	(154,762,220)	(4,514,310)
- Outflow	110,193,105	24,682,553	10,035,738	11,257,079	-	156,168,475	4,400,470
Total	305,360,722	4,682,509	(412,208)	4,876,840	-	314,507,863	312,087,173
Credit related commitments	103,897,958	-	-	-	-	103,897,958	-

The table below shows an analysis, by contractual maturities, of undiscounted liabilities recognised in the statement of financial position as at 31 December 2013:

'000 KZT	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	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	61,143,711	-	-	-	-	61,143,711	61,143,711
Current accounts and deposits from customers	173,385,458	18,139,801	9,620,355	21,105,815	393,182	222,644,611	221,824,731
Other liabilities	546,217	-	-	-	-	546,217	546,217
Derivatives							
- Inflow	(89,421,593)	(2,798,637)	(10,038,565)	(8,870,693)	-	(111,129,488)	(927,991)
- Outflow	88,628,636	2,757,244	9,869,755	8,586,155	-	109,841,790	82,127
Total	234,282,429	18,098,408	9,451,545	20,821,277	393,182	283,046,841	282,668,795
Credit related commitments	103,131,779	-	-	-	-	103,131,779	-

19 Capital management

The NBRK sets and monitors capital requirements for the Bank.

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 and deferred tax liability related to certain impairment losses accrued in prior years less intangible assets and current year losses;
- 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 current year's income, revaluation reserves, qualifying subordinated liabilities, collective impairment allowance in the amount not exceeding 1.25% of risk-weighted assets and deferred tax liability related to certain impairment losses accrued in the current year.

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 and market risk-weighted assets and contingent liabilities and a quantitative measure of operational risk (k1-2);
- a ratio of total capital to the sum of credit and market risk-weighted assets and contingent 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. The investments are adjusted in the proportion of tier 1 capital in 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: k1-1 - 5%, k1-2 – 5% and k2 - 10%. The Bank was in compliance with the statutory capital ratios as at 31 December 2014 and 2013.

19 Capital management, continued

The following table shows the composition of the Bank's capital position calculated in accordance with the requirements of the NBRK, as at 31 December:

	2014 '000 KZT	2013 '000 KZT
Tier 1 capital		
Share capital	12,497,625	12,497,625
Additional paid-in capital	61,975	61,975
Retained statutory earnings of prior years	35,635,908	19,330,673
Reserves formed from statutory retained earnings of prior years	2,380,583	7,725,032
Intangible assets	(123)	(131)
Total tier 1 capital	50,575,968	39,615,174
Tier 2 capital		
Net statutory income for the year	10,835,647	9,012,419
Dynamic reserve subject to limitation of 1.25% of risk-weighted statutory assets	-	1,845,146
Revaluation reserve for available-for-sale financial asset	(31,517)	(1,691)
Total tier 2 capital	10,804,130	10,855,874
Total capital	61,380,098	50,471,048
Total qualifying statutory assets	374,251,603	324,764,700
Risk-weighted statutory assets, contingent liabilities, operational and market risk		
Risk weighted statutory assets	108,201,765	162,107,785
Risk weighted statutory contingent liabilities	29,277,838	27,966,499
Risk weighted statutory derivative financial instruments	4,897,650	581,500
Operational risk	8,408,833	5,915,897
Market risk	259,146	26,686
Total statutory risk weighted assets, contingent liabilities, operational and market risk	151,045,232	196,598,367
k1-1 ratio	13.51%	12.20%
k1-2 ratio	32.97%	20.13%
k-2 ratio	40.02%	25.64%

The Bank'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 Bank 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.

20 Credit related commitments

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

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

	2014 '000 KZT	2013 '000 KZT
Contracted amount		
Undrawn overdraft facilities	91,754,630	93,956,600
Guarantees and letters of credit	12,143,328	9,175,179
	103,897,958	103,131,779

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

21 Contingencies

(a) Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank 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 Bank property or relating to the Bank's operations. Until the Bank 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 Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial condition or the results of future operations.

21 Contingencies, continued

(c) Taxation contingencies

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

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

22 Custody activities

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

23 Related party transactions

(a) Control relationships

The Bank is wholly-owned by the Shareholder Bank which is ultimately owned by Citigroup Inc., a public company listed on several stock exchanges. Both entities produce publicly available financial statements.

Related parties include the Parent as well as other Citigroup entities, members of the Board of Directors and members of the Management Board.

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

Total remuneration included in employee compensation (refer Note 8):

	2014 '000 KZT	2013 '000 KZT
Members of the Management Board	162,585	154,555
Members of the Board of Directors	74,753	67,447
	237,338	222,002

The above amounts include non-cash benefits in respect of the Management Board.

The Board of Directors and the Management Board had no outstanding balances as at 31 December 2014 and 2013.

23 Related party transactions, continued

(c) Transactions with other related parties

The outstanding balances and the related average interest rates as of 31 December 2014 and 31 December 2013 and related income statement amounts of transactions for the year ended 31 December 2014 and 2013 with other related parties were as follows.

	The Shareholder Bank				Other Citigroup entities				Total	
	'000 KZT		Average Interest Rate, %		'000 KZT		Average Interest Rate, %		'000 KZT	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Statement of Financial Position										
Assets										
Cash and cash equivalents	5,429,709	34,153,320	0.11	0.25	17,071,054	50,547,549	-	0.51	22,500,763	84,700,869
Placements with banks	1,945,403	-	0.13	-	-	-	-	-	1,945,403	-
Financial instruments at fair value through profit or loss	-	-	-	-	1,317,895	692,843	-	-	1,317,895	692,843
Other assets	1,335	965	-	-	193	180	-	-	1,528	1,145
Liabilities										
Deposits and balances from banks and other financial institutions	683,407	254,163	-	-	50,838	694,339	-	-	734,245	948,502
Financial instruments at fair value through profit or loss	-	-	-	-	3,751,840	68,720	-	-	3,751,840	68,720
Items not recognised in the statement of financial position										
Guarantees granted	337,799	365,205	-	-	2,213,242	2,178,135	-	-	2,551,041	2,543,340
Guarantees received	683,769	423,809	-	-	44,116,804	47,072,209	-	-	44,800,573	47,496,018
Commitments to buy foreign currency	-	-	-	-	49,732,823	11,687,882	-	-	49,732,823	11,687,882
Commitments to sell foreign currency	-	-	-	-	90,635,546	83,952,882	-	-	90,635,546	83,952,882

23 Related party transactions, continued

(c) Transactions with other related parties, continued

'000 KZT	The Shareholder		Other Citigroup entities		Total	
	Bank					
	2014	2013	2014	2013	2014	2013
Statement of Profit or Loss and Other Comprehensive Income						
Interest income	60,196	-	101,836	53,680	162,032	53,680
Interest expense	-	(57)	-	-	-	(57)
Net gain on derivative financial instruments	-	-	11,962,662	1,588,917	11,962,662	1,588,917
Fee and commission income	-	-	-	2,088	-	2,088
Fee and commission expense	(20,297)	-	(232,404)	(144,247)	(252,701)	(144,247)
General administrative expenses	-	-	(2,472,408)	(759,025)	(2,472,408)	(759,025)
Other operating income/ (expenses)	(55)	-	35,540	-	35,485	-

24 Fair value of financial instruments

The estimated fair values of all financial instruments approximate their carrying values at 31 December 2014 and 2013.

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 Bank determines fair values using other valuation techniques.

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

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

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like 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 like interest rate swaps.

24 Fair value of financial instruments, continued

Fair value hierarchy

For more complex instruments, the Bank 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 include certain loans and securities for which there is no active market, and certain over the counter structured derivatives.

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

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

The Bank has a control framework with respect to the measurement of fair values. This framework includes a Product Control function, which is independent of front office management and reports to the Chief Financial Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing
- re-performance of model valuations
- a review and approval process for new models and changes to models
- quarterly calibration and back testing of models against observed market transactions
- analysis and investigation of significant daily valuation movements;
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, Product Control assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument
- understanding how the fair value has been arrived at the extent to which it represents actual market transactions
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement
- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

24 Fair value of financial instruments, continued

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:

'000 KZT	<u>Level 2</u>
ASSETS	
Available-for-sale financial assets	17,283,252
Financial instruments at fair value through profit or loss	4,514,310
LIABILITIES	
Financial instruments at fair value through profit or loss	(4,400,470)

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:

'000 KZT	<u>Level 2</u>
ASSETS	
Available-for-sale financial assets	19,775,378
Financial instruments at fair value through profit or loss	927,991
LIABILITIES	
Financial instruments at fair value through profit or loss	(82,127)

For the rest of financial instruments, not measured at fair value, estimated fair values approximate their carrying values due to their short-term nature or market interest rates at period end as determined by reference to inputs from observable market data.

25 Currency analysis

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

'000 KZT	KZT	USD	Other currencies	Total
Assets				
Cash and cash equivalents	11,183,655	233,782,729	16,390,904	261,357,288
Placements with banks	2,976,810	1,945,403	243,380	5,165,593
Financial instruments at fair value through profit or loss	-	1,691,617	2,822,693	4,514,310
Loans to customers	51,064,175	38,382,667	-	89,446,842
Available-for-sale financial assets	17,283,252	-	-	17,283,252
Property, equipment and intangible assets	453,513	-	-	453,513
Other assets	256,887	81,403	260	338,550
Total assets	83,218,292	275,883,819	19,457,237	378,559,348
Liabilities				
Financial instruments at fair value through profit or loss	-	2,402,376	1,998,094	4,400,470
Deposits and balances from banks and other financial institutions	14,508,582	970,427	3,314	15,482,323
Current accounts and deposits from customers	70,300,677	208,943,485	16,559,700	295,803,862
Current tax liability	108,981	-	-	108,981
Deferred tax liability	468,662	-	-	468,662
Other liabilities	813,222	93,930	7,676	914,828
Total liabilities	86,200,124	212,410,218	18,568,784	317,179,126
Net position as at 31 December 2014	(2,981,832)	63,473,601	888,453	61,380,222
The effect of derivatives held for risk management purposes	65,624,475	(66,968,748)	(61,982)	(1,406,255)
Net position after derivatives held for risk management purposes as at 31 December 2014	62,642,643	(3,495,147)	826,471	59,973,967

25 Currency analysis, continued

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

'000 KZT	KZT	USD	Other currencies	Total
Assets				
Cash and cash equivalents	24,640,204	153,546,948	16,005,443	194,192,595
Placements with banks	4,148,762	179,416	355,942	4,684,120
Financial instruments at fair value through profit or loss	-	761,112	166,879	927,991
Loans to customers	48,355,191	54,311,512	73,544	102,740,247
Available-for-sale financial assets	19,775,378	-	-	19,775,378
Amounts receivable under repurchase agreements	11,716,104	-	-	11,716,104
Property, equipment and intangible assets	431,739	-	-	431,739
Current tax assets	107,087	-	-	107,087
Other assets	227,138	3,173	-	230,311
Total assets	109,401,603	208,802,161	16,601,808	334,805,572
Liabilities				
Financial instruments at fair value through profit or loss	-	-	82,127	82,127
Deposits and balances from banks and other financial institutions	15,389,791	35,851,996	9,901,924	61,143,711
Current accounts and deposits from customers	138,849,041	76,449,176	6,526,514	221,824,731
Deferred tax liability	634,386	-	-	634,386
Other liabilities	503,982	42,235	-	546,217
Total liabilities	155,377,200	112,343,407	16,510,565	284,231,172
Net position as at 31 December 2013	(45,975,597)	96,458,754	91,243	50,574,400
The effect of derivatives held for risk management purposes	96,727,212	(95,439,514)	-	1,287,698
Net position after derivatives held for risk management purposes as at 31 December 2013	50,751,615	1,019,240	91,243	51,862,098