Subsidiary JSC VTB Bank (Kazakhstan)

Financial statements

Year ended 31 December 2014
together with independent auditor's report

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Independent auditor's report

To the Shareholder and Board of Directors of Subsidiary Bank VTB (Kazakhstan) Joint Stock Company

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

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Subsidiary JSC VTB Bank (Kazakhstan) 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.

Ernst & Young LLP

Evgeny Zhemaletdinov
Auditor/General Director
Ernst and Young LLP

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

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

26 February 2015

STATEMENT OF FINANCIAL POSITION

As of 31 December 2014

(Thousands of tenge)

	Notes	*2014*	*2013*
Assets			
Cash and cash equivalents	6	**26,546,469**	29,070,041
Trading securities	7	**3,010**	310,200
Amounts due from credit institutions		**357,669**	176,784
Loans to customers	8	**116,453,914**	108,280,391
Held-to-maturity investment securities	9	**674,962**	686,478
Property and equipment	10	**2,898,620**	1,747,661
Intangible assets	11	**1,021,114**	682,513
Current corporate income tax assets	12	**37,006**	34,745
Deferred corporate income tax assets	12	**98,869**	472,167
Other assets	13	**5,007,230**	2,534,297
Total assets		**153,098,863**	143,995,277
Liabilities			
Amounts due to credit institutions	14	**22,512,373**	12,586,583
Amounts due to customers	15	**98,705,456**	97,155,406
Debt securities issued	16	**8,521,760**	15,188,479
Subordinated loan	17	**3,138,304**	–
Other liabilities	13	**2,122,328**	1,334,967
Total liabilities		**135,000,221**	126,265,435
Equity			
Share capital	18	**20,000,000**	20,000,000
Accumulated deficit		**(1,901,358)**	(2,270,158)
Total equity		**18,098,642**	17,729,842
Total equity and liabilities		**153,098,863**	143,995,277

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

S. N. Gusarov — Chairman of the Management Board

A. V. Lavrentyeva — Chief Accountant

26 February 2015

Қазақстан Республикасы Алматы қаласы Банк ВТБ (Қазақстан) АҚ ЕҰ
ВТБ
ДО АО Банк ВТБ (Казахстан) Республика Казахстан город Алматы

The accompanying notes on pages 5 to 46 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

(Thousands of tenge)

	Notes	*2014*	*2013*
Interest income			
Loans to customers		**15,071,353**	12,297,011
Cash and cash equivalents		**246,337**	–
Amounts due from credit institutions		**185**	56,868
Investment securities		**27,096**	26,889
		15,344,971	12,380,768
Trading securities		**3,206**	12,349
		15,348,177	12,393,117
Interest expense			
Amounts due to credit institutions		**(658,694)**	(547,261)
Amounts due to customers		**(4,541,198)**	(3,435,459)
Debt securities issued		**(996,384)**	(908,938)
Subordinated loan		**(151,082)**	–
		(6,347,358)	(4,891,658)
Net interest income before impairment		**9,000,819**	7,501,459
Impairment charge	8	**(2,827,806)**	(1,690,931)
Net interest income		**6,173,013**	5,810,528
Net fee and commission income	20	**2,691,263**	1,651,695
Net gain / (loss) on transactions with financial instruments at fair value through profit or loss		**183,465**	(4,558)
Net gains/(losses) from foreign currencies:			
- dealing		**778,866**	1,102,487
- translation differences		**515,137**	(18,116)
Other income		**10,700**	17,786
Non-interest income		**4,179,431**	2,749,294
Personnel expenses	21	**(5,209,536)**	(4,237,384)
Other operating expenses	21	**(3,172,640)**	(2,727,771)
Depreciation and amortization	10, 11	**(573,487)**	(562,985)
Taxes other than corporate income tax		**(167,500)**	(128,694)
Other expenses		**(133,563)**	(83,762)
Non-interest expense		**(9,256,726)**	(7,740,596)
Profit before corporate income tax expense		**1,095,718**	819,226
Corporate income tax expense	12	**(373,298)**	(200,594)
Profit for the year		**722,420**	618,632
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year		**722,420**	618,632
Basic and diluted earnings per share (in tenge)	22	**361.21**	309.32

The accompanying notes on pages 5 to 46 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

(Thousands of tenge)

	Share capital	*Accumulated deficit*	*Total equity*
31 December 2012	20,000,000	(2,888,790)	17,111,210
Comprehensive income for the year	–	618,632	618,632
31 December 2013	20,000,000	(2,270,158)	17,729,842
Comprehensive income for the year	–	**722,420**	**722,420**
Distribution of dividends (*Note 18*)	–	**(353,620)**	**(353,620)**
31 December 2014	**20,000,000**	**(1,901,358)**	**18,098,642**

STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

(Thousands of tenge)

	Notes	*2014*	*2013*
Cash flows from operating activities			
Interest received		**14,509,229**	11,701,738
Interest paid		**(6,153,105)**	(4,073,502)
Fees and commissions received		**3,109,870**	1,537,056
Fees and commissions paid		**(521,352)**	(176,876)
Gains less losses on transactions with financial instruments at fair value through profit or loss		**(293,115)**	–
Realised gains less losses from dealing in foreign currencies		**778,866**	984,733
Personnel expenses paid		**(5,249,059)**	(4,072,352)
Other operating expenses paid		**(3,457,407)**	(2,774,045)
Cash flows from operating activities before changes in operating assets and liabilities		**2,723,927**	3,126,752
Net decrease/ (increase) in operating assets:			
Trading securities		**297,523**	–
Amounts due from credit institutions		**(183,358)**	(83,726)
Loans to customers		**(7,970,545)**	(28,252,662)
Other assets		**763,086**	255,522
Net increase / (decrease) in operating liabilities:			
Amounts due to credit institutions		**6,507,132**	(537,888)
Amounts due to customers		**(454,014)**	44,110,581
Other liabilities		**(503,254)**	(135,971)
Net cash flows from operating activities before corporate income tax		**1,180,497**	18,482,608
Corporate income tax paid		**–**	–
Net cash flow from operating activities		**1,180,497**	18,482,608
Cash flows from investing activities			
Purchase of property and equipment		**(1,755,886)**	(306,046)
Purchase of intangible assets	11	**(465,157)**	(363,088)
Net cash used in investing activities		**(2,221,043)**	(669,134)
Cash flows from financing activities			
Redemption of debt securities issued		**(15,000,000)**	–
Proceeds from debt securities issued		**8,386,897**	–
Proceeds from subordinated loan	17	**4,990,000**	–
Dividends paid to the shareholder of the Bank	18	**(353,620)**	–
Net cash used in financing activities		**(1,976,723)**	–
Effect of exchange rate changes on cash and cash equivalents		**493,697**	95,793
Net (decrease) / increase in cash and cash equivalents		**(2,523,572)**	17,909,267
Cash and cash equivalents, beginning of the year		**29,070,041**	11,160,774
Cash and cash equivalents, end of the year	6	**26,546,469**	29,070,041
Non-cash transactions			
Corporate income tax offset		**2,261**	–

(Thousands of tenge, unless otherwise indicated)

1. Principal activities

Subsidiary JSC VTB Bank (Kazakhstan) (the "Bank") was formed on 19 September 2008 as a joint stock company under the laws of the Republic of Kazakhstan. The Bank operates under a general license for conducting banking and other activities and operations on securities market No. 1.2.14/39 issued by the National Bank of the Republic of Kazakhstan (hereinafter, the "NBRK") on 23 December 2014, which supersedes previous licenses.

The Bank accepts deposits from the public, extends credit, transfers payments in Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Bank's registered office is: 050040, Almaty, 28B Timiryazev Str., Republic of Kazakhstan. As at 31 December 2014 the Bank had 17 branches throughout Kazakhstan (31 December 2013: 17).

The Bank is a member of the deposit insurance system. The system operates under the laws of the Republic of Kazakhstan and is governed by the NBRK. Insurance covers the Bank's liabilities to individual depositors for an amount up to 5 million tenge for each individual in the event of business failure and revocation of the banking licence.

As at 31 December 2014 and 2013, the sole shareholder of the Bank is OJSC Bank VTB (Russia) (the "Parent"). The ultimate controlling party of the Bank is the Government of the Russian Federation.

2. Basis of preparation

General

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

The financial statements are prepared under the historical cost convention except for recording at fair value of financial assets through profit or loss and classified as trading securities and derivatives as required by IAS 39 *Financial Instruments: Recognition and Measurement.*

These financial statements are presented in thousands of tenge, unless otherwise indicated.

3. Summary of significant accounting policies

Changes in accounting policies

The Bank has adopted the following amended IFRSs and interpretations effective for annual periods beginning on or after 1 January 2014:

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

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

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

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. The amendments had no impact on the Bank's financial position.

IIFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. This IFRIC had no impact on the Bank's financial statements as it has applied the recognition principles under IAS 37 *Provisions, contingent liabilities and contingent assets* consistent with the requirements of IFRIC 21 in prior years.

Amendments to IAS 39 Novation of derivative instruments and continuation of hedging accounting

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are not relevant to the Bank, since the Bank has not novated its derivatives during the current period.

(Thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Changes in accounting policy (continued)

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

These amendments eliminate unintended consequences of application of IFRS 13 *Measurement of fair value* to disclosure required in accordance with IAS 36 *Impairment of assets.* Besides, the amendments require disclosure of recoverable value of assets or cash generating units for which impairment was recognized or impairment losses were recovered during the period. The amendments did not have any impact on the financial position or performance of the Bank.

Fair value measurement

The Bank evaluates such financial instruments as trading securities and derivatives at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in *Note 23.*

The fair value is a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

Financial assets

Initial recognition

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

Date of recognition

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

Trading securities

Financial assets classified as held for trading are included in the category "Trading securities". Financial assets are classified as trading securities if they are acquired for the purpose of selling in the near term. Gains or losses on financial assets held for trading are recognised in profit or loss.

3. Summary of significant accounting policies (continued)

Financial assets (continued)

Held-to-maturity investment securities

Securities with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Securities intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in profit or loss when the investments are impaired, as well as through the amortisation process.

Loans and receivables

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

Reclassification of financial assets

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

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

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amount due from the National Bank of the Republic of Kazakhstan and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments, including forwards, swaps and options on the foreign exchange markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as other assets when their fair value is positive and as other liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of comprehensive income within net gain or loss from financial instruments at fair value through profit or loss.

Borrowings

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

(Thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Leases

Operating - Bank as lessee

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

Measurement of financial instruments at initial recognition

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Bank determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Bank recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Bank recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

Offsetting

Financial assets and liabilities are offset and the net amount is 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 to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- the normal course of business;
- the event of default; and
- the event of insolvency or bankruptcy of an entity or any of the counterparties.

This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans to customers

For loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

(Thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Loans to customers (continued)

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

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

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

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

Held-to-maturity financial investments:

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the statement of comprehensive income.

Renegotiated loans

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

The accounting treatment of such restructuring is as follows:

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

(Thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Renegotiated loans (continued)

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

A financial liability is derecognized when the obligation is discharged, cancelled or expires.

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

Financial guarantees

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

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

3. Summary of significant accounting policies (continued)

Taxation

The current corporate income tax charge is calculated in accordance with the tax legislation of the Republic of Kazakhstan.

Deferred corporate income tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred corporate income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred corporate income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

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

Property and equipment

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

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

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

	Years
Furniture and fixtures	8
Leasehold improvements	10
Computers and office equipment	2-7
Motor vehicles	7
Other	3-16

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

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

Intangible assets

Intangible assets include software and licenses and are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic lives from 5 to 12 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Provisions

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

Retirement and other employee benefit obligations

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

(Thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Share capital

Ordinary shares are classified as equity. Share capital is measured at the fair value of consideration received. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

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

Segment reporting

The Bank's segmental reporting is based on the following operating segments: "Corporate - investment banking (including the following sub-segments: "Investment banking", "Loans and deposits" and "Transactional business"), "Medium corporate business" (including the following sub-segments: "Investment - banking", "Loans and deposits" and "Transactional business"), "Retail business", "Treasury" and "Other".

Contingent assets and liabilities

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

Recognition of income and expenses

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

Interest and similar income and expenses

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

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

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

Fee and commission income

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

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

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

- *Commission income from providing transaction services*

  Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as purchase or sale of currency, transfer transactions or cash transactions are recognised on completion of such transaction.

(Thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Foreign currency translation

The financial statements are presented in Kazakh tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially translated into functional currency at the official exchange rate at the date of the transaction established by the Kazakhstan Stock Exchange (hereinafter, the "KASE") and published by the NBRK. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income as net gains from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the official exchange rates at the date when the fair value was determined. Differences between the contractual exchange rate of a transaction in a foreign currency and the official exchange rate on the date of the transaction are included in net gains from dealing in foreign currencies. The official exchange rate established at the KASE as at 31 December 2014 and 2013, were KZT 182.35 and KZT 154.06 to USD 1, respectively. The currency exchange rate as at 26 February 2015 was KZT 185.05 to USD 1.

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

In July 2014 IFRS Board published a final version of IFRS 9 *Financial instruments*, which includes all stages of financial instruments' project and replaces IAS 39 *Financial instruments: recognition and measurement as well as all previous version of IFRS 9.* The standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. Retrospective application is required but presentation of comparative information is not compulsory. Early application of previous versions of IFRS 9 is permitted if the date of initial application is 1 February 2015 or earlier. The adoption of IFRS 9 will have effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of its financial liabilities.

IFRS 15 Revenue from Contracts with Customers

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

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

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

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual reporting periods beginning on or after 1 January 2016. The standard has no impact on the Bank, since the Bank is an existing IFRS preparer.

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

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

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016. Early application is permitted. These amendments are not expected to have any impact to the Bank.

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

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

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted. These amendments will not have any impact on the Bank's financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognised only to the extent of unrelated investors' interests in that former subsidiary. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Earlier application is permitted. These amendments are not expected to have any impact to the financial statements of the Bank.

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

Annual IFRS improvements: 2010-2012 cycle

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

IFRS 2 Share-based Payment

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

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

IFRS 3 Business combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 Operating segments

Amendments are applied on a retrospective basis and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

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

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

IAS 16 Property and Equipment and IAS 38 Intangible Assets

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

IAS 24 Related Party Disclosures

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

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

Annual IFRS improvements: 2011-2013 cycle

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

IFRS 3 Business combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

IFRS 13 Fair Value Measurement

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

IAS 40 Investment Property

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

Meaning of effective IFRSs – Amendments to IFRS 1

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

Annual IFRS improvements: 2012-2014 cycle

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

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

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

IFRS 7 Financial Instruments: Disclosures – Servicing contracts

IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs B30 and 42C IFRS 7 in order to assess whether the disclosures are required. The amendment becomes effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(Thousands of tenge, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Standards issued but not yet effective (continued)

Annual IFRS improvements: 2012-2014 cycle (continued)

IFRS 7 Financial Instruments: Disclosures - Applicability of the offsetting disclosures to interim financial statements

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

The amendment removes the phrase 'and interim periods within those annual periods', clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment becomes effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted.

IAS 19 Employee Benefits – Regional market issue regarding discount rate

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

IAS 34 Interim Financial Reporting – Disclosure of information 'elsewhere in the interim financial report'

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

4. Significant accounting judgements and estimates

Estimation uncertainty

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

Allowance for impairment of loans and receivables

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

4. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Taxation

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

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

5. Segment information

Disclosure of segment information is presented on the basis consistent with IFRS data about reportable segments, adjusted if necessary, on intersegment reallocation. Qualitative and quantitative information about operating segments is reported to the management of the Bank in order to make decisions about allocation of resources to the segment and assess its performance.

Income, disclosed in this note, comprises the following: net interest income, net commission income, gains less losses on transactions with financial assets at fair value through profit or loss, gains less losses from foreign currencies and other operating income. Each of these items is considered in determining the income of a particular sub-segment /segment without sub-segments, if its value for this sub-segment /segment without sub-segments is positive. Totals are calculated as the sum of item-by-item components.

In 2014, the Bank introduced a new reportable segment "Medium corporate business" ("MCB"). Previously, this segment was included to “Corporate - investment banking” (“CIB”) segment, and was disclosed as new reportable segment in connection with introduction of a new global business line by VTB Group.

Segment information as at 31 December 2013 and for the year then ended was not retrospectively restated to reflect changes within the segments due to the lack of necessary information and excessive costs to receive such information. Accordingly, segment information as at 31 December 2014 and for the year then ended could not be compared with the information as at 31 December 2013 and for the year ended 31 December 2013.

(Thousands of tenge, unless otherwise indicated)

5. Segment information (continued)

Transactions between segments are carried out mainly in the normal course of business.

Below is the information on the reportable segments of the Bank as at 31 December 2014 and 2013, and segment results for the years ended 31 December 2014 and 2013.

	Corporate - investment banking				*Medium corporate business*								
2014	*Investment banking*	*Loans and deposits*	*Transac-tional business*	*Total CIB*	*Investment banking*	*Loans and deposits*	*Transact-ional business*	*Total MCB*	*Retail Banking*	*Treasury*	*Total before elimination of interseg-ment transactions*	*Elimination of interseg-ment transactions*	*Total*
Cash and cash equivalents	–	–	–	–	–	–	–	–	626,494	25,919,975	26,546,469	–	26,546,469
Trading securities	3,010	–	–	3,010	–	–	–	–	–	–	3,010	–	3,010
Amounts due from credit institutions	–	–	–	–	–	–	–	–	357,669	–	357,669	–	357,669
Loans to customers	–	19,968,571	–	19,968,571	–	38,784,460	–	38,784,460	57,700,883	–	116,453,914	–	116,453,914
Held-to-maturity investment securities	674,962	–	–	674,962	–	–	–	–	–	–	674,962	–	674,962
Property and equipment	–	132,650	65,332	197,982	–	428,937	165,961	594,898	2,071,467	34,273	2,898,620	–	2,898,620
Intangible assets	–	42,605	27,442	70,047	–	137,768	69,710	207,478	733,820	9,769	1,021,114	–	1,021,114
Deferred corporate income tax assets	–	–	19,652	19,652	–	–	–	–	61,507	17,710	98,869	–	98,869
Other assets	–	545,825	504,295	1,050,120	–	1,924,261	710,053	2,634,314	817,624	542,178	5,044,236	–	5,044,236
Intersegment /intersub-segment transfer of funds	–	43,835,968	12,436,417	56,272,385	–	6,997,149	10,081,848	17,078,997	34,513,655	27,319,638	135,184,675	(135,184,675)	–
Total assets	677,972	64,525,619	13,053,138	78,256,729	–	48,272,575	11,027,572	59,300,147	96,883,119	53,843,543	288,283,538	(135,184,675)	153,098,863
Amounts due to credit institutions	–	625,736	–	625,736	–	1,991,997	–	1,991,997	4,293,958	15,600,682	22,512,373	–	22,512,373
Amounts due to customers	–	43,155,733	11,694,148	54,849,881	–	4,865,499	9,588,624	14,454,123	29,401,452	–	98,705,456	–	98,705,456
Debt securities issued	–	–	–	–	–	–	–	–	–	8,521,760	8,521,760	–	8,521,760
Subordinated loan	–	–	–	–	–	–	–	–	–	3,138,304	3,138,304	–	3,138,304
Other liabilities	–	54,499	557,815	612,314	–	139,653	493,224	632,877	818,245	58,892	2,122,328	–	2,122,328
Intersegment /intersub-segment transfer of funds	591,536	17,452,925	–	18,044,461	–	35,118,689	397,875	35,516,564	55,424,302	26,199,348	135,184,675	(135,184,675)	–
Total liabilities	591,536	61,288,893	12,251,963	74,132,392	–	42,115,838	10,479,723	52,595,561	89,937,957	53,518,986	270,184,896	(135,184,675)	135,000,221
Total equity	86,436	3,236,726	801,175	4,124,337	–	6,156,737	547,849	6,704,586	6,945,162	324,557	18,098,642	–	18,098,642
Total liabilities and equity	677,972	64,525,619	13,053,138	78,256,729	–	48,272,575	11,027,572	59,300,147	96,883,119	53,843,543	288,283,538	(135,184,675)	153,098,863

(Thousands of tenge, unless otherwise indicated)

5. Segment information (continued)

2013	*Corporate - investment banking* Investment banking	Loans and deposits	Transactional business	Total CIB	Retail Banking	Treasury	Other	Total before elimination of intersegment transactions	Elimination of intersegment transactions	Total
Cash and cash equivalents	–	–	–	–	468,789	28,601,252	–	29,070,041	–	29,070,041
Trading securities	206,438	–	–	206,438		103,762	–	310,200	–	310,200
Amounts due from credit institutions	–	–	–	–	176,784	–	–	176,784	–	176,784
Loans to customers	–	64,279,133	–	64,279,133	44,001,258	–	–	108,280,391	–	108,280,391
Held-to-maturity investment securities	686,478	–	–	686,478	–	–	–	686,478	–	686,478
Property and equipment	–	288,583	199,955	488,538	1,236,280	22,843	–	1,747,661	–	1,747,661
Intangible assets	–	117,192	80,559	197,751	474,090	10,672	–	682,513	–	682,513
Deferred corporate income tax assets	–	–	87,662	87,662	274,373	110,132	–	472,167	–	472,167
Other assets	–	73,126	2,133,455	2,206,581	355,335	7,126	–	2,569,042	–	2,569,042
Intersegment /intersub-segment transfer of funds	–	56,772,586	17,778,368	74,550,954	28,353,816	96,695,757	–	199,600,527	(199,600,527)	–
Total assets	892,916	121,530,620	20,279,999	142,703,535	75,340,725	125,551,544	–	343,595,804	(199,600,527)	143,995,277
Amounts due to credit institutions	–	3,625,621	1,517,385	5,143,006	807,792	6,635,785	–	12,586,583	–	12,586,583
Amounts due to customers	–	53,005,421	17,175,217	70,180,638	26,974,768	–	–	97,155,406	–	97,155,406
Debt securities issued	–	–	–	–	–	15,188,479	–	15,188,479	–	15,188,479
Other liabilities	–	141,543	603,053	744,596	571,257	19,114	–	1,334,967	–	1,334,967
Intersegment /intersub-segment transfer of funds	803,771	54,165,223	–	54,968,994	41,726,763	102,904,770	–	199,600,527	(199,600,527)	–
Total liabilities	803,771	110,937,808	19,295,655	131,037,234	70,080,580	124,748,148	–	325,865,962	(199,600,527)	126,265,435
Total equity	89,145	10,592,812	984,344	11,666,301	5,260,145	803,396	–	17,729,842	–	17,729,842
Total liabilities and equity	892,916	121,530,620	20,279,999	142,703,535	75,340,725	125,551,544	–	343,595,804	(199,600,527)	143,995,277

(Thousands of tenge, unless otherwise indicated)

5. Segment information (continued)

	Corporate - investment banking								*Medium corporate business*													
	Investment banking		*Loans and deposits*		*Transactional business*		*Total CIB*		*Investment banking*		*Loans and deposits*		*Transactional business*		*Total MCB*		*Retail Banking*		*Treasury*		*Elimination of intersegment transactions*	
2014	*External customers*	*Other segments*	*External customers*	*Other segments*	*External customers*	*Other segments*	*External customers*	*Other segments*	*External customers*	*Other segments*	*External customers*	*Other segments*	*External customers*	*Other segments*	*External customers*	*Other segments*	*External customers*	*Other segments*	*External customers*	*Other customers*		*Total*
Interest income	29,270	–	2,312,885	3,167,522	–	137,321	2,342,155	3,304,843	–	–	4,501,496	373,880	1,137	140,104	4,502,633	513,984	8,255,404	1,673,724	247,985	7,678,399	(13,170,950)	15,348,177
Interest expense	–	(43,165)	(2,934,396)	(1,375,208)	–	–	(2,934,396)	(1,418,373)	–	–	(333,901)	(2,565,060)	–	–	(333,901)	(2,565,060)	(1,639,545)	(3,694,966)	(1,439,516)	(5,492,551)	13,170,950	(6,347,358)
Net interest income	29,270	(43,165)	(621,511)	1,792,314	–	137,321	(592,241)	1,886,470	–	–	4,167,595	(2,191,180)	1,137	140,104	4,168,732	(2,051,076)	6,615,859	(2,021,242)	(1,191,531)	2,185,848	–	9,000,819
Impairment charge	(811)	–	(804,264)	–	–	–	(805,075)	–	–	–	(709,289)	–	–	–	(709,289)	–	(1,313,442)	–	–	–	–	(2,827,806)
Net interest income	28,459	(43,165)	(1,425,775)	1,792,314	–	137,321	(1,397,316)	1,886,470	–	–	3,458,306	(2,191,180)	1,137	140,104	3,459,443	(2,051,076)	5,302,417	(2,021,242)	(1,191,531)	2,185,848	–	6,173,013
Net fee and commission income /(expense)	203,174	–	–	–	485,823	–	688,997	–	40,501	–	–	–	988,106	–	1,028,607	–	1,138,054	–	(164,395)	–	–	2,691,263
Net gain /(loss) on transactions with financial instruments at fair value through profit or loss	(968)	–	–	–	–	–	(968)	–	–	–	–	–	–	–	–	–	–	–	184,433	–	–	183,465
Net gains/(losses) from foreign currencies	895,809	–	–	–	–	–	895,809	–	109,160	–	–	–	–	–	109,160	–	832,140	–	(543,106)	–	–	1,294,003
Other operating income	–	–	1,165	–	–	–	1,165	–	–	–	–	–	213	–	213	–	6,837	–	2,485	–	–	10,700
Net non-interest income	1,098,015	–	1,165	–	485,823	–	1,585,003	–	149,661	–	–	–	988,319	–	1,137,980	–	1,977,031	–	(520,583)	–	–	4,179,431
Net operating income	1,126,474	(43,165)	(1,424,610)	1,792,314	485,823	137,321	187,687	1,886,470	149,661	–	3,458,306	(2,191,180)	989,456	140,104	4,597,423	(2,051,076)	7,279,448	(2,021,242)	(1,712,114)	2,185,848	–	10,352,444
Non-interest expense	(116,248)	–	(465,523)	–	(222,568)	–	(804,339)	–	–	–	(1,206,894)	–	(533,361)	–	(1,740,255)	–	(6,434,469)	–	(277,663)	–	–	(9,256,726)
Profit /(loss) before tax	1,010,226	(43,165)	(1,890,133)	1,792,314	263,255	137,321	(616,652)	1,886,470	149,661	–	2,251,412	(2,191,180)	456,095	140,104	2,857,168	(2,051,076)	844,979	(2,021,242)	(1,989,777)	2,185,848	–	1,095,718
Income tax (expense) /benefit	(329,467)	–	33,326	–	(136,472)	–	(432,613)	–	(50,988)	–	(20,520)	–	(203,118)	–	(274,626)	–	400,741	–	(66,800)	–	–	(373,298)
Net profit/(loss)	680,759	(43,165)	(1,856,807)	1,792,314	126,783	137,321	(1,049,265)	1,886,470	98,673	–	2,230,892	(2,191,180)	252,977	140,104	2,582,542	(2,051,076)	1,245,720	(2,021,242)	(2,056,577)	2,185,848	–	722,420
Segment result							–	837,205							–	531,466	–	(775,522)	–	129,271	–	722,420

(Thousands of tenge, unless otherwise indicated)

5. Segment information (continued)

	Corporate - investment banking													*Elimination of intersegment transactions*	
	Investment banking		*Loans and deposits*		*Transactional business*		*Total CIB*		*Retail Banking*		*Treasury*		*Other*		
2013	*External customers*	*Other segments*	*External customers*	*Other segments*	*External customers*	*Other segments*	*External customers*	*Other segments*	*External customers*	*Other segments*	*External customers*	*Other segments*	*External customers*		*Total*
Interest income	35,122	–	5,966,876	2,867,403	–	137,230	6,001,998	3,004,633	6,330,219	1,265,104	60,900	5,836,991	–	(10,106,728)	12,393,117
Interest expense	–	(46,662)	(2,534,021)	(3,007,771)	–		(2,534,021)	(3,054,433)	(1,131,756)	(2,782,558)	(1,225,881)	(4,269,737)	–	10,106,728	(4,891,658)
Net interest income	35,122	(46,662)	3,432,855	(140,368)	–	137,230	3,467,977	(49,800)	5,198,463	(1,517,454)	(1,164,981)	1,567,254	–	–	7,501,459
Impairment charge	–	–	(545,226)	–	–	–	(545,226)	–	(1,145,705)	–	–	–	–	–	(1,690,931)
Net interest income	35,122	(46,662)	2,887,629	(140,368)	–	137,230	2,922,751	(49,800)	4,052,758	(1,517,454)	(1,164,981)	1,567,254	–	–	5,810,528
Net gain/(loss) on transactions with financial instruments at fair value through profit or loss	(3,039)	–	–	–	–	–	(3,039)	–	–	–	(1,519)	–	–	–	(4,558)
Net gains/(losses) from foreign currencies	676,240	–	–	–	–	–	676,240	–	426,247	–	(18,116)	–	–	–	1,084,371
Net fee and commission income /(expense)	193,003	–	–	–	846,484	–	1,039,487	–	675,395	–	(63,187)	–	–	–	1,651,695
Other operating income	–	–	–	–	15,136	–	15,136	–	1,098	–	1,552	–	–	–	17,786
Net non-interest income	866,204	–	–	–	861,620	–	1,727,824	–	1,102,740	–	(81,270)	–	–	–	2,749,294
Net operating income	901,326	(46,662)	2,887,629	(140,368)	861,620	137,230	4,650,575	(49,800)	5,155,498	(1,517,454)	(1,246,251)	1,567,254	–	–	8,559,822
Non-interest expense	(119,079)	–	(1,290,950)	–	(973,269)	–	(2,383,298)	–	(5,136,335)	–	(194,602)	–	(26,361)	–	(7,740,596)
Profit /(loss) before tax	782,247	(46,662)	1,596,679	(140,368)	(111,649)	137,230	2,267,277	(49,800)	19,163	(1,517,454)	(1,440,853)	1,567,254	(26,361)	–	819,226
Income tax (expense) /benefit	–	–	(175,289)	–	–	–	(175,289)	–	12,778	–	(38,083)	–	–	–	(200,594)
Net profit/(loss)	782,247	(46,662)	1,421,390	(140,368)	(111,649)	137,230	2,091,988	(49,800)	31,941	(1,517,454)	(1,478,936)	1,567,254	(26,361)	–	618,632
Segment result							–	2,042,188	–	(1,485,513)	–	88,318	(26,361)	–	618,632

(Thousands of tenge, unless otherwise indicated)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2014	*2013*
Cash on hand	**2,482,577**	2,101,528
Cash on current accounts with the NBRK	**21,284,379**	1,763,448
Cash on current accounts with credit institutions	**716,607**	241,305
Time deposits with the NBRK with contractual maturity of up to 90 days	**–**	17,500,000
Time deposits with credit institutions with contractual maturity of up to 90 days	**2,062,906**	7,463,760
	26,546,469	29,070,041

Under Kazakhtan legislation, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of the Bank's liabilities. Such reserves must be held on the current account with the NBRK or cash on hand computed based on average balances of the aggregate of cash balances on current account with the NBRK or cash on hand during the period of reserve creation.

As at 31 December 2014, obligatory reserves amounted to KZT 2,703,846 thousand (31 December 2013: KZT 1,895,438 thousand).

7. Trading securities

As at 31 December 2014, trading securities include treasury notes of the Ministry of Finance of the Republic of Kazakhstan with maturity in 2017 (31 December 2013: in 2014 - 2017) and nominal interest rate of 5.20% p.a. (31 December 2013: 4.30 - 5.20% p.a.).

8. Loans to customers

Loans to customers comprise:

	2014	*2013*
Corporate lending	**60,944,342**	65,173,777
Lending to small businesses	**27,443,391**	20,395,003
Consumer lending	**27,954,436**	21,202,622
Mortgage lending	**5,772,953**	4,624,477
Gross loans to customers	**122,115,122**	111,395,879
Less: allowance for impairment	**(5,661,208)**	(3,115,488)
Loans to customers	**116,453,914**	108,280,391

Allowance for impairment of loans to customers

A reconciliation of allowance for impairment of loans to customers by class is as follows:

	Corporate lending	*Lending to small businesses*	*Consumer lending*	*Mortgage lending*	*Total*
1 January 2014	894,644	1,688,513	456,480	75,851	**3,115,488**
Charge for the year	**1,516,916**	**294,362**	**889,545**	**126,983**	**2,827,806**
Write-offs	**(228,886)**	**(68,772)**	**(3,227)**	**(4,799)**	**(305,684)**
Foreign exchange differences	**8,641**	**15,877**	**(1,083)**	**163**	**23,598**
31 December 2014	**2,191,315**	**1,929,980**	**1,341,715**	**198,198**	**5,661,208**
Individual impairment	**1,402,052**	**1,551,160**	**–**	**–**	**2,953,212**
Collective impairment	**789,263**	**378,820**	**1,341,715**	**198,198**	**2,707,996**
	2,191,315	**1,929,980**	**1,341,715**	**198,198**	**5,661,208**
Total amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**3,803,167**	**2,735,781**	**–**	**–**	**6,538,948**

(Thousands of tenge, unless otherwise indicated)

8. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

	Corporate lending	*Lending to small businesses*	*Consumer lending*	*Mortgage lending*	*Total*
1 January 2013	1,196,867	36,578	361,557	67,020	1,662,022
Charge for the year	616,591	729,892	335,683	8,765	1,690,931
Transfer between categories	(920,162)	920,162	–	–	–
Disposal of sold loans	–	–	(240,789)	–	(240,789)
Foreign exchange differences	1,348	1,881	29	66	3,324
31 December 2013	894,644	1,688,513	456,480	75,851	3,115,488
Individual impairment	224,980	1,473,342	–	–	1,698,322
Collective impairment	669,664	215,171	456,480	75,851	1,417,166
	894,644	1,688,513	456,480	75,851	3,115,488
Total amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	480,008	2,761,022	–	–	3,241,030

In 2013, the Bank reclassified loans to customers with a gross carrying amount of KZT 6,762,418 thousand and a corresponding allowance for impairment in the amount of KZT 920,162 thousand from the category of corporate lending to the category of lending to small businesses in accordance with the policies of VTB Group.

In October 2013, the Bank sold a pool of overdue, blank consumer loans to a collector firm. As at the sale date the gross carrying amount of such loans was KZT 327,778 thousand. No losses from selling the above loans to customers were recognized in these financial statements.

Loans individually determined to be impaired

Interest income accrued on loans, individually determined as impaired, for the year ended 31 December 2014, amounted to KZT 350,730 thousand (2013: KZT 486,671 thousand).

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For corporate lending, charges over real estate properties, production equipment, inventory and trade receivables;
- For retail lending, mortgages over residential properties, charges over transport, cash and cash equivalents and guarantees of third parties.

The Bank also receives guarantees of parent companies on loans issued to subsidiaries.

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

(Thousands of tenge, unless otherwise indicated)

8. Loans to customers (continued)

Concentration of loans to customers

As at 31 December 2014, the Bank had a concentration of loans represented by KZT 25,711,540 thousand due from ten largest third party entities (21.1% of gross loan portfolio) (31 December 2013: KZT 25,095,472 thousand or 22.5%). As of 31 December 2014, an allowance for impairment of KZT 1,253,314 thousand (as of 31 December 2013: KZT 140,988 thousand) was recognised against these loans.

Loans have been extended to the following types of customers:

	2014	*2013*
Private companies	**88,387,733**	85,568,780
Individuals	**33,727,389**	25,827,099
	122,115,122	111,395,879

Loans were mainly extended to customers in Kazakhstan operating in the following economic sectors:

	2014	*2013*
Individuals	**33,727,389**	25,827,099
Wholesale trading	**26,448,087**	36,096,264
Transport	**7,813,063**	6,084,999
Road and industrial construction	**7,764,265**	4,759,942
Housing construction	**6,437,847**	4,869,879
Food industry	**5,575,841**	4,639,311
Investments in real estate	**4,899,403**	3,799,641
Retail trading	**4,585,485**	4,183,370
Agriculture	**4,531,044**	2,464,202
Production of machinery and equipment	**3,481,161**	4,231,027
Oil and gas	**2,346,816**	2,648,010
Energy	**2,125,127**	3,014,243
Hotel business and restaurants	**1,810,827**	1,169,908
Mining industry	**1,688,761**	1,818,174
Consumer goods industry	**1,465,314**	1,253,329
Production of construction materials	**1,371,447**	935,029
Other	**6,043,245**	3,601,452
	122,115,122	111,395,879

9. Held-to-maturity investment securities

As at 31 December 2014, held-to-maturity investment securities include corporate bonds with a total carrying value of KZT 674,962 thousand (31 December 2013: KZT 686,478 thousand), with maturity in 2019 (31 December 2013: in 2019) and nominal interest rate of 7.9% per annum (31 December 2013 – 6.9% per annum).

(Thousands of tenge, unless otherwise indicated)

10. Property and equipment

The movements in property and equipment were as follows:

	Furniture and fix-tures	*Leasehold improve-ment*	*Computers and office equipment*	*Vehicles*	*Assets to be installed*	*Other assets*	*Total*
Cost							
31 December 2012	193,630	595,511	822,473	29,917	89,820	668,298	2,399,649
Additions	17,013	23,684	213,739	12,122	79,808	39,782	386,148
Disposals	(372)	–	(654)	–	(6)	(88)	(1,120)
Transfers	–	–	53,010	–	(53,010)	–	–
31 December 2013	210,271	619,195	1,088,568	42,039	116,612	707,992	2,784,677
Additions	**58,473**	**435,943**	**138,695**	**15,200**	**679,721**	**269,858**	**1,597,890**
Disposals	**(3,505)**	**(6,276)**	**(2,183)**	**–**	**–**	**(38,332)**	**(50,296)**
Transfers	**–**	**–**	**81,814**	**–**	**(81,814)**	**–**	**–**
31 December 2014	**265,239**	**1,048,862**	**1,306,894**	**57,239**	**714,519**	**939,518**	**4,332,271**
Accumulated depreciation							
31 December 2012	(44,328)	(100,047)	(297,750)	(10,177)		(180,819)	(633,121)
Depreciation charge	(22,478)	(72,995)	(132,167)	(5,428)		(171,481)	(404,549)
Disposals	–	–	654	–		–	654
31 December 2013	(66,806)	(173,042)	(429,263)	(15,605)		(352,300)	(1,037,016)
Depreciation charge	**(31,175)**	**(65,919)**	**(164,723)**	**(7,091)**		**(178,023)**	**(446,931)**
Disposals	**3,505**	**6,276**	**2,183**	**–**		**38,332**	**50,296**
31 December 2014	**(94,476)**	**(232,685)**	**(591,803)**	**(22,696)**		**(491,991)**	**(1,433,651)**
Net book value							
31 December 2012	149,302	495,464	524,723	19,740	89,820	487,479	1,766,528
31 December 2013	143,465	446,153	659,305	26,434	116,612	355,692	1,747,661
31 December 2014	**170,763**	**816,177**	**715,091**	**34,543**	**714,519**	**447,527**	**2,898,620**

As at 31 December 2014, historical cost of fully amortised property and equipment was KZT 297,750 thousand (31 December 2013: KZT 104,726 thousand).

11. Intangible assets

The movements in intangible assets were as follows:

	Licenses	*Computer software*	*Assets to be installed*	*Total*
Cost				
31 December 2012	198,360	412,102	–	610,462
Additions	131,432	199,642	32,014	363,088
31 December 2013	329,792	611,744	32,014	973,550
Additions	**83,697**	**381,460**	**–**	**465,157**
Transfers	**–**	**28,153**	**(28,153)**	**–**
31 December 2014	**413,489**	**1,021,357**	**3,861**	**1,438,707**
Accumulated amortization				
31 December 2012	(31,877)	(100,724)		(132,601)
Amortization charge	(40,478)	(117,958)		(158,436)
31 December 2013	(72,355)	(218,682)		(291,037)
Amortization charge	**(70,238)**	**(56,318)**		**(126,556)**
31 December 2014	**(142,593)**	**(275,000)**		**(417,593)**
Net book value				
31 December 2012	166,483	311,378	–	477,861
31 December 2013	257,437	393,062	32,014	682,513
31 December 2014	**270,896**	**746,357**	**3,861**	**1,021,114**

(Thousands of tenge, unless otherwise indicated)

12. Taxation

The corporate income tax expense comprises:

	2014	*2013*
Current corporate income tax charge	–	–
Deferred corporate income tax charge - origination and reversal of temporary differences	**271,234**	231,727
Adjustment of deferred corporate income tax of prior years	**102,064**	(31,133)
Corporate income tax expense	**373,298**	200,594

The Republic of Kazakhstan was the only tax jurisdiction in which the Bank's income is taxable. In accordance with tax legislation the applied corporate income tax rate is 20% in 2014 and 2013.

The reconciliation between the corporate income tax expense in the accompanying financial statements and profit before corporate income tax multiplied by the statutory tax rate for the years ended 31 December is as follows:

	2014	*2013*
Profit before tax	**1,095,718**	819,226
Statutory tax rate	**20%**	20%
Theoretical corporate income tax expense at the statutory rate	**219,144**	163,845
Non-deductible impairment charge	**32,071**	49,967
Non-deductible operating expenses	**22,941**	25,036
Non taxable income on state securities and securities officially listed at the KASE	**(5,770)**	(6,936)
Adjustment of historical losses carried forward	**102,064**	(31,133)
Other differences	**2,848**	(185)
Corporate income tax expense	**373,298**	200,594

As at 31 December 2014, current corporate income tax assets comprised KZT 37,006 thousand (31 December 2013: KZT 34,745 thousand).

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

	2012	*Origination and reversal of temporary differences in the statement of comprehensive income*	*2013*	*Origination and reversal of temporary differences in the statement of comprehensive income*	*2014*
Tax effect of deductible temporary differences					
Tax losses carried forward	859,228	(483,062)	376,166	**48,550**	**424,716**
Accrued expenses on unused vacations	32,671	14,595	47,266	**68,887**	**116,153**
Accrued expenses on bonuses	58,347	18,445	76,792	**(29,369)**	**47,423**
Accrued interest expenses	–	256,897	256,897	**(235,344)**	**21,553**
Other accrued expenses	4,380	12,947	17,327	**1,853**	**19,180**
Deferred corporate income tax assets	954,626	(180,178)	774,448	**(145,423)**	**629,025**
Tax effect of taxable temporary differences					
Dynamic reserve	(153,236)	(49,124)	(202,360)	**–**	**(202,360)**
Property and equipment	(127,858)	27,937	(99,921)	**(227,875)**	**(327,796)**
Deferred expenses	(771)	771	–	**–**	**–**
Deferred corporate income tax liabilities	(281,865)	(20,416)	(302,281)	**(227,875)**	**(530,156)**
Net deferred corporate income tax asset	672,761	(200,594)	472,167	**(373,298)**	**98,869**

In Kazakhstan tax losses are carried forward for a period of ten years. The Bank expects that tax losses carried forward will be utilized.

(Thousands of tenge, unless otherwise indicated)

13. Other assets and liabilities

Other assets comprise at 31 December:

	2014	*2013*
Accounts receivable on guarantees and letters of credits	**3,457,078**	2,091,083
Other prepaid expenses	**516,155**	173,408
Currency swaptions	**510,483**	–
Prepayments for acquisition of property and equipment	**189,211**	31,215
Rent prepayments	**150,102**	136,547
Inventory	**84,612**	51,577
Other	**183,969**	90,342
	5,091,610	2,574,172
Less: allowance for impairment	**(84,380)**	(39,875)
	5,007,230	2,534,297

As at 31 December 2014, accounts receivable on guarantees and letters of credit comprise the Bank's amounts due on letters of credit issued with discounting in the amount of KZT 2,608,769 thousand (31 December 2013: KZT 1,608,246 thousand).

In 2014, the Bank entered into a currency swaption contract with the NBRK with the period of execution of one year. As at 31 December 2014, the aggregate notional amount of these instruments is KZT 38,293,500 thousand.

As at 31 December, other liabilities comprise:

	2014	*2013*
Deferred commission income	**872,732**	429,683
Bonuses accrued	**580,764**	383,960
Accrued expenses on unused vacations	**237,113**	236,327
Accrued administrative expenses	**85,356**	80,419
Taxes other than corporate income tax payable	**56,445**	46,678
Accounts payable for acquisition of property and equipment	**44,144**	10,327
Fee and commission expenses accrued	**24,290**	2,888
Professional fees payable	**23,424**	19,918
Provisions on guarantees and letters of credits	**18,183**	63,427
Other	**179,877**	61,340
	2,122,328	1,334,967

14. Amounts due to credit institutions

As at 31 December amounts due to credit institutions comprise:

	2014	*2013*
Term deposits and loans	**22,247,009**	12,350,604
Current accounts	**265,364**	235,979
	22,512,373	12,586,583

As at 31 December 2014, term deposits and loans include deposits placed by the Parent totalling KZT 14,742,420 thousand (31 December 2013: KZT 5,440,721 thousand) (*Note 26*).

15. Amounts due to customers

Amounts due to customers comprise the following at December 31:

	2014	*2013*
Time deposits	**69,588,235**	72,332,670
Current accounts	**29,117,221**	24,822,736
	98,705,456	97,155,406
Term deposits held as security against guarantees and letters of credit	**560,555**	719,675

(Thousands of tenge, unless otherwise indicated)

15. Amounts due to customers (continued)

As at 31 December 2014, amounts due to the Bank's ten largest customers accounted for KZT 34,222,709 thousand or 34.7% of total amounts due to customers (31 December 2013: KZT 40,243,286 thousand or 41.4%).

Included in time deposits are deposits of individuals of KZT 21,257,593 thousand (31 December 2013: KZT 17,617,480 thousand). In accordance with the Civil Code of the Republic of Kazakhstan, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest is not paid or paid at considerably lower interest rate depending on the terms specified in the agreement.

Amounts due to customers include accounts of the following categories of customers:

	2014	*2013*
Private enterprises	**75,694,389**	75,492,905
Individuals	**23,011,067**	21,662,501
	98,705,456	97,155,406

An analysis of customer accounts by economic sector follows:

	2014	*2013*
Non-credit financial institutions	**34,570,998**	35,708,003
Individuals	**23,011,067**	21,662,501
Construction	**10,042,747**	10,501,575
Wholesale trading	**7,731,271**	6,894,843
Metallurgy	**3,199,908**	246,863
Transportation and communication	**3,107,847**	4,777,378
Energy	**2,687,965**	94,879
Chemical industry	**2,059,655**	893,106
Production of construction materials	**2,003,687**	860,959
Research and development	**1,823,069**	222,195
Oil and gas production	**1,266,306**	9,109,551
Mining industry	**1,184,939**	115,249
Production of machinery and equipment	**849,198**	735,372
Investment in real estate	**476,423**	629,912
Agriculture	**465,412**	188,689
Retail trading	**443,955**	649,398
Education	**183,781**	282,489
Food industry	**146,063**	433,902
Consumer goods industry	**54,564**	59,025
Entertainment	**33,789**	26,787
Other	**3,362,812**	3,062,730
	98,705,456	97,155,406

16. Debt securities issued

Debt securities issued comprise:

	2014	*2013*
Debt securities issued at the KASE	**8,863,412**	15,055,417
Plus: unamortised premium	**–**	138,014
Less: unamortised discount	**(341,652)**	(4,952)
Debt securities issued	**8,521,760**	15,188,479

In July 2014, under the first bonds program the Bank placed unsecured coupon bonds with an aggregate nominal value of KZT 8,553,800 thousand, bearing an interest rate of 6%-8% per annum and maturing in 2018-2019.

17. Subordinated loan

In August 2014, the Bank received a subordinated loan from the Parent in the amount of 1 billion Russian Roubles with interest rate of 10.76% per annum and maturity in 2021.

18. Share capital

As at 31 December 2014 and 2013 authorized and outstanding common shares in the amount of 2,000,000 shares are issued and fully paid by the Parent at the price of placement of KZT 10 thousand per one common share.

Subject to the decision of the sole shareholder dated 25 April 2014, the Bank declared and paid dividends on common shares for the year ended 31 December 2013, in the amount of KZT 353,620 thousand. No dividends were declared or distributed during 2013.

In accordance with the Resolution of the NBRK No.137 dated 27 May 2013, starting from 1 January 2013 the Bank calculates dynamic reserve associated with a risk of future losses on the loan portfolio. As at 31 December 2014, dynamic reserve calculated in accordance with the NBRK requirements amounted to KZT 1,011,802 thousand (31 December 2013: KZT 1,011,802 thousand).

19. Commitments and contingencies

Political and economic environment

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

In 2014, significant decline in crude oil prices and a significant KZT devaluation had a negative impact on the Kazakhstan economy. Combination of these factors resulted in a reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Bank's future financial position, results of operations and business prospects. The management of the Bank believes that it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

Legal issues

The Bank assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated. The Bank did not generate any provisions in these financial statements for any legal liabilities related to legal proceedings.

Tax contingencies

Various types of legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakh laws, decrees and related regulations is severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of generally 50% of the taxes unpaid.

The Bank believes that it has paid or accrued all taxes that are applicable. Where practice concerning tax application is unclear, the Bank has accrued tax liabilities based on management's best estimate. The Bank's policy is to recognise provisions in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and fines, if any, may be in excess of the amount expensed to date and accrued at 31 December 2014. Although such amounts are possible and may be material, it is the opinion of the Bank's management that these amounts are either not probable, not reasonably determinable, or both.

(Thousands of tenge, unless otherwise indicated)

19. Financial commitments and contingencies (continued)

Financial commitments and contingencies

Financial commitments and contingencies of the Bank as at 31 December comprise:

	2014	*2013*
Credit related commitments		
Guarantees	**22,789,507**	16,390,000
Undrawn loan commitments	**27,885,037**	37,443,234
Letters of credit	**3,319,047**	3,176,980
	53,993,591	57,010,214
Operating lease commitments		
Not later than 1 year	**1,332,001**	373,851
1 to 5 years	**2,596,277**	265,800
	3,928,278	639,651
Less: provisions for guarantees and letters of credits *(Note 13)*	**(18,183)**	(63,427)
Financial commitments and contingencies (before collateral)	**57,903,686**	57,586,438
Less: cash held as security against guarantees and letters of credit *(Note 15)*	**(560,555)**	(719,675)
Financial commitments and contingencies	**57,343,131**	56,866,763

The undrawn loan commitment agreements stipulate the right of the Bank to unilaterally withdraw from the agreement should any conditions unfavourable to the Bank arise, including change of the refinance rate, inflation, exchange rates and other conditions.

The total outstanding contractual amount of commitments on undrawn loans, letters of credit and guarantees does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

The Bank requires collateral to support credit-related financial instruments when it is deemed necessary.

20. Fees and commissions

Net fee and commission income comprises:

	2014	*2013*
Guarantees issued	**816,065**	509,075
Transfer operations	**740,068**	468,115
Cash transactions	**605,868**	398,074
Letters of credit issued	**452,528**	71,345
Foreign currency transactions	**358,097**	266,149
Settlement transactions	**89,850**	27,048
Other	**128,737**	86,908
Fee and commission income	**3,191,213**	1,826,714
Letters of credit and guarantees issued	**(218,451)**	(22,875)
Transfer operations	**(160,833)**	(60,886)
Settlement transactions	**(113,471)**	(89,940)
Custodian services	**(2,921)**	(960)
Other	**(4,274)**	(358)
Fee and commission expenses	**(499,950)**	(175,019)
Net fee and commission income	**2,691,263**	1,651,695

(Thousands of tenge, unless otherwise indicated)

21. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2014	*2013*
Salaries and bonuses	**(4,637,124)**	(3,854,949)
Social security costs	**(572,412)**	(382,435)
Personnel expenses	**(5,209,536)**	(4,237,384)
Leases	**(1,123,408)**	(854,478)
Security	**(460,738)**	(352,332)
Marketing and advertising	**(359,185)**	(292,734)
Licenses	**(297,228)**	(173,055)
Communication	**(184,246)**	(145,180)
Business trip expenses	**(127,769)**	(112,318)
Payments to the Deposit Insurance Fund	**(94,129)**	(63,560)
Legal and consultancy	**(79,044)**	(149,184)
Repair and maintenance of property and equipment	**(73,623)**	(122,875)
Transportation	**(72,191)**	(65,133)
Cash collection	**(60,711)**	(48,061)
Information services	**(52,092)**	(68,089)
Office supplies	**(31,087)**	(34,241)
Translation services	**(23,313)**	(17,668)
Membership fees	**(18,643)**	(42,144)
Trainings	**(15,121)**	(3,888)
Representation expenses	**(6,405)**	(48,047)
Insurance expenses	**(5,075)**	(4,748)
Plastic cards	**(2,848)**	(6,861)
Other	**(85,784)**	(123,175)
Other operating expenses	(3,172,640)	(2,727,771)

22. Earnings per share

Basic earnings per share is calculated by dividing net profit for the period attributable to common shareholders by the weighted average number of participating shares outstanding during the period. The Bank does not have any share options or convertible debt or equity instruments.

The following reflects the income and shares data used in the basic and diluted earnings per share computations:

	2014	*2013*
Net profit for the year attributable to the shareholder of the Bank	**722,420**	618,632
Weighted average number of common shares for basic and diluted earnings per share computation	**2,000,000**	2,000,000
Basic and diluted earnings per share (in tenge)	**361.21**	309.32

As at 31 December 2014 and 2013, the Bank did not have any financial instruments diluting earnings per share.

The carrying amount of one common share as at 31 December 2014 and 2013, is as follows:

	31 December 2014			*31 December 2013*		
Type of shares	*Number of outstanding shares*	*Net assets (thousands of tenge)*	*Book value per share (tenge)*	*Number of outstanding shares*	*Net assets (thousands of tenge)*	*Book value per share (tenge)*
Common	**2,000,000**	**17,077,528**	**8,538.76**	2,000,000	17,047,329	8,523.66

The management of the Bank believes that the carrying value per share is calculated in accordance with methodology provided in the KASE Listing rules.

(Thousands of tenge, unless otherwise indicated)

23. Risk Management

Introduction

Risk is inherent in the Bank's activities. The Bank manages these risks through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. Bank is also subject to operating risks. In managing risks the Bank applies approved group-wide standards and approaches.

Risk management structure

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

Board of directors

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

Management board

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

Assets and liabilities management committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Risk controlling

The Risk Control Department is responsible for monitoring compliance with risk principles, policies and limits, across the Bank, for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems. It monitors and controls quality of credit portfolio, coverage of credit risk by liquid collateral. The unit is responsible for implementation of the credit policies of the Bank and fulfilment of requirements of internal documents and state regulatory authorities. It takes part in making decisions on accepting different risks. The unit develops methods of quantitative estimation of risks attributable to the Bank, and provides recommendation to different departments of the Bank on minimisation and effective control over risks. It develops and implements methodology and analytical instruments, which allow evaluating risks, controlling level of risk and organising procedures to mitigate risks.

Bank treasury

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

Internal audit

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

Risk measurement and reporting systems

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

(Thousands of tenge, unless otherwise indicated)

23. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems (continued)

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. The above information is provided to the Board of Directors, Management Board of the Bank, Committees of the Bank and managers of units. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios, risk profile changes. On a monthly basis detailed reporting of industry, customer and geography risks takes place. The appropriateness of the allowance for credit losses is assessed on a monthly basis. The Board of Directors receives a comprehensive risk report once a month which is designed to provide all the necessary information to assess the risks of the Bank.

Risk mitigation

As part of its overall risk management, the Bank uses financial instruments to manage exposures resulting from changes in interest rates, foreign currencies and exposures arising from forecast transactions. The Bank actively uses collateral to reduce its credit risks (see below for more details).

Excessive risk concentration

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

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

Credit risk

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

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and undertake corrective action.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to risks similar to loans and these are mitigated by the same control processes and policies.

The carrying amount of components of the statement of financial position without the influence of risk mitigation through the use of master netting agreements and collateral agreements, most accurately reflects the maximum credit exposure on these components.

(Thousands of tenge, unless otherwise indicated)

23. Risk management (continued)

Credit risk (continued)

Credit-related commitments risks (continued)

Where financial instruments are recorded at fair value, their carrying amounts represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is presented in *Note 8 Loans to customers* and *Note 19 Financial commitments and contingencies*.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank's internal credit ratings. The table below shows the credit quality by class of asset for loan-related statement of financial position lines, based on the Bank's credit rating system.

2014	*Notes*	*Neither past due nor impaired*	*Past due but not impaired*	*Individually impaired*	*Total*
Cash (excluding cash on hand)	6	**24,063,892**	–	–	**24,063,892**
Amounts due from credit institutions		**357,669**	–	–	**357,669**
Loans to customers	8				
Corporate lending		**51,316,218**	**5,824,957**	**3,803,167**	**60,944,342**
Lending to small businesses		**23,998,520**	**709,090**	**2,735,781**	**27,443,391**
Consumer lending		**25,579,341**	**2,375,095**	–	**27,954,436**
Mortgage lending		**5,273,475**	**499,478**	–	**5,772,953**
Held-to-maturity investment securities	9	**674,962**	–	–	**674,962**
Other financial assets		**3,564,992**	–	–	**3,564,992**
Total		**134,829,069**	**9,408,620**	**6,538,948**	**150,776,637**

2013	*Notes*	*Neither past due nor impaired*	*Past due but not impaired*	*Individually impaired*	*Total*
Cash (excluding cash on hand)	6	26,968,513	–	–	26,968,513
Amounts due from credit institutions		176,784	–	–	176,784
Loans to customers	8				
Corporate lending		64,143,737	550,032	480,008	65,173,777
Lending to small businesses		17,351,140	282,841	2,761,022	20,395,003
Consumer lending		20,161,954	1,040,668	–	21,202,622
Mortgage lending		4,434,241	190,236	–	4,624,477
Held-to-maturity investment securities	9	686,478	–	–	686,478
Other financial assets		2,172,049	–	–	2,172,049
Total		136,094,896	2,063,777	3,241,030	141,399,703

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

(Thousands of tenge, unless otherwise indicated)

23. Risk management (continued)

Credit risk (continued)

Ageing analysis of past due but not impaired loans per class of financial assets

	2014				
	Less than 30 days	*31-60 days*	*61-90 days*	*Over 90 days*	*Total*
Loans to customers					
Corporate lending	**2,197,154**	**890,608**	**753,887**	**1,983,308**	**5,824,957**
Lending to small businesses	**256,926**	**32,836**	**55,907**	**363,421**	**709,090**
Consumer lending	**847,880**	**238,024**	**130,406**	**1,158,785**	**2,375,095**
Mortgage lending	**109,537**	**62,207**	**4,370**	**323,364**	**499,478**
Total	**3,411,497**	**1,223,675**	**944,570**	**3,828,878**	**9,408,620**

	2013				
	Less than 30 days	*31-60 days*	*61-90 days*	*Over 90 days*	*Total*
Loans to customers					
Corporate lending	32,025	–	518,007	–	550,032
Lending to small businesses	3,590	930	31,147	247,174	282,841
Consumer lending	297,961	196,612	97,730	448,365	1,040,668
Mortgage lending	36,422	–	41,509	112,305	190,236
Total	369,998	197,542	688,393	807,844	2,063,777

See *Note 8* for more detailed information with respect to the allowance for impairment of loans to customers.

Impairment assessment

The main considerations for the loan impairment assessment comprise: whether any payments of principal or interest are overdue or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances. Approved group-wide approaches are used for corporate business transactions.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include: the sustainability of the counterparty's business plan; its ability to improve financial performance once a financial difficulty has arisen; projected receipts and the expected dividend payout should bankruptcy ensue; the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for impairment on loans to customers that are not individually significant (including credit cards, residential mortgages, secured and unsecured consumer loans, borrowings received for car purchases, lending to small businesses) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

(Thousands of tenge, unless otherwise indicated)

23. Risk management (continued)

Credit risk (continued)

Collectively assessed allowances (continued)

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

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

	2014			
	Kazakhstan	*CIS and other non OECD countries*	*OECD countries*	*Total*
Assets				
Cash and cash equivalents	**24,612,182**	**537,622**	**1,396,665**	**26,546,469**
Trading securities	**3,010**	**–**	**–**	**3,010**
Amounts due from credit institutions	**195,400**	**–**	**162,269**	**357,669**
Loans to customers	**116,453,914**	**–**	**–**	**116,453,914**
Held-to-maturity investment securities	**674,962**	**–**	**–**	**674,962**
Current income tax assets	**37,006**	**–**	**–**	**37,006**
Other monetary assets	**3,540,397**	**20,488**	**4,107**	**3,564,992**
	145,516,871	**558,110**	**1,563,041**	**147,638,022**
Liabilities				
Amounts due to credit institutions	**6,501,725**	**15,009,543**	**1,001,105**	**22,512,373**
Amounts due to customers	**98,705,456**	**–**	**–**	**98,705,456**
Debt securities issued	**8,521,760**	**–**	**–**	**8,521,760**
Subordinated loan	**–**	**3,138,304**	**–**	**3,138,304**
Other monetary liabilities	**180,789**	**23,963**	**24,702**	**229,454**
	113,909,730	**18,171,810**	**1,025,807**	**133,107,347**
Net assets / (liabilities)	**31,607,141**	**(17,613,700)**	**537,234**	**14,530,675**

	2013			
	Kazakhstan	*CIS and other non OECD countries*	*OECD countries*	*Total*
Assets				
Cash and cash equivalents	25,400,063	127,859	3,542,119	29,070,041
Trading securities	310,200	–	–	310,200
Amounts due from credit institutions	119,650	–	57,134	176,784
Loans to customers	105,158,669	–	3,121,722	108,280,391
Held-to-maturity investment securities	686,478	–	–	686,478
Current income tax assets	34,745	–	–	34,745
Other monetary assets	2,136,130	34,725	1,194	2,172,049
	133,845,935	162,584	6,722,169	140,730,688
Liabilities				
Amounts due to credit institutions	5,670,214	5,485,981	1,430,388	12,586,583
Amounts due to customers	97,155,406	–	–	97,155,406
Debt securities issued	15,188,479	–	–	15,188,479
Other monetary liabilities	119,268	–	2,652	121,920
	118,133,367	5,485,981	1,433,040	125,052,388
Net assets / (liabilities)	15,712,568	(5,323,397)	5,289,129	15,678,300

(Thousands of tenge, unless otherwise indicated)

23. Risk management (continued)

Liquidity risk and funding management

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

For the purpose of evaluation and decrease of risk of liquidity as well as to manage this risk, the Bank uses the following:

- Analysis of contractual maturities and forecasting cash flows (gap analysis), as well as analysis of deposit base concentration;
- Establishing limits for maturity gaps (gap limit) as well as establishing and regular updating of limits on the total volume of financing considering current and forecast levels of liquidity;
- Distribution and using of treasury securities portfolio to manage current liquidity;
- Development of emergency action plans (plans for emergency financing).

The Bank is also obliged to comply with liquidity requirements established by the regulators including requirements of the NBRK represented by obligatory norms.

The Bank monitors a number of internal liquidity indicators in a daily basis. The Bank's Treasury Department manages short-term liquidity on an on-going basis using cash position and portfolio of highly marketable securities.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains cash (obligatory reserve) with the NBRK, the amount of which depends on the level of customer deposits attracted.

Analysis of financial liabilities by remaining contractual maturities

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

	2014				
Financial liabilities	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	**14,073,033**	**5,011,885**	**3,319,738**	**271,569**	**22,676,225**
Amounts due to customers	**36,485,428**	**43,118,574**	**23,678,644**	**164,061**	**103,446,707**
Debt securities issued	**341,902**	**341,902**	**11,286,016**	**–**	**11,969,820**
Subordinated loan	**82,121**	**339,683**	**10,150**	**3,130,000**	**3,561,954**
Other liabilities	**229,454**	**–**	**–**	**–**	**229,454**
Total undiscounted financial liabilities	**51,211,938**	**48,812,044**	**38,294,548**	**3,565,630**	**141,884,160**

	2013				
Financial liabilities	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	2,840,736	7,993,133	1,983,990	438,144	13,256,003
Amounts due to customers	32,823,564	36,761,788	34,151,122	58,786	103,795,260
Debt securities issued	–	16,050,000	–	–	16,050,000
Other liabilities	121,920	–	–	–	121,920
Total undiscounted financial liabilities	35,786,220	60,804,921	36,135,112	496,930	133,223,183

(Thousands of tenge, unless otherwise indicated)

24. Fair value of financial instruments

The following table presents analysis of assets and liabilities based on the assets and liabilities nature, characteristics and risks as well as the hierarchy of fair value sources.

	Date of valuation	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant non-observable inputs (Level 3)*	*Total*
31 December 2014					
Assets measured at fair value					
Trading securities	31 December 2014	**3,010**	–	–	**3,010**
Other financial assets	31 December 2014	–	–	**510,483**	**510,483**
Assets for which fair values are disclosed:					
Cash and cash equivalents	31 December 2014	–	**26,546,469**	–	**26,546,469**
Amounts due from credit institutions	31 December 2014	–	**357,669**	–	**357,669**
Loans to customers	31 December 2014	–	–	**124,312,654**	**124,312,654**
Held-to-maturity investment securities	31 December 2014	**533,152**	–	–	**533,152**
Other financial assets	31 December 2014	–	–	**3,567,164**	**3,567,164**
Liabilities for which fair values are disclosed:					
Amounts due to credit institutions	31 December 2014	–	**21,673,965**	–	**21,673,965**
Amounts due to customers	31 December 2014	–	**96,988,745**	–	**96,988,745**
Debt securities issued	31 December 2014	**8,209,677**	–	–	**8,209,677**
Subordinated loan	31 December 2014	–	**3,138,304**	–	**3,138,304**
Other financial liabilities	31 December 2014	–	–	**229,454**	**229,454**
31 December 2013					
Assets measured at fair value					
Trading securities	20 January 2014	310,200	–	–	310,200
Assets for which fair values are disclosed:					
Cash and cash equivalents	20 January 2014	–	29,070,041	–	29,070,041
Amounts due from credit institutions	20 January 2014	–	176,784	–	176,784
Loans to customers	20 January 2014	–	–	110,284,112	110,284,112
Held-to-maturity investment securities	20 January 2014	–	570,259	–	570,259
Other financial assets	20 January 2014	–	–	2,180,155	2,180,155
Liabilities for which fair values are disclosed:					
Amounts due to credit institutions	20 January 2014	–	12,569,995	–	12,569,995
Amounts due to customers	20 January 2014	–	97,109,229	–	97,109,229
Debt securities issued	20 January 2014	14,999,475	–	–	14,999,475
Other financial liabilities	20 January 2014	–	–	121,920	121,920

During 2014 and 2013 the Bank did not make transfers between levels of the fair value hierarchy of financial instruments recorded at fair value.

(Thousands of tenge, unless otherwise indicated)

24. Fair values of financial instruments (continued)

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

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

	2014			*2013*		
	Carrying value	*Fair value*	*Unrecognised gain / (loss)*	*Carrying value*	*Fair value*	*Unrecognised gain / (loss)*
Financial assets						
Cash and cash equivalents	**26,546,469**	**26,546,469**	–	29,070,041	29,070,041	–
Amounts due from credit institutions	**357,669**	**357,669**	–	176,784	176,784	–
Loans to customers	**116,453,914**	**124,312,654**	**7,858,740**	108,280,391	110,284,112	2,003,721
Held-to-maturity investment securities	**674,962**	**533,152**	**(141,810)**	686,478	570,259	(116,219)
Other financial assets	**3,564,992**	**3,567,164**	**2,172**	2,172,049	2,180,155	8,106
Financial liabilities						
Amounts due to credit institutions	**22,512,373**	**21,673,965**	**838,408**	12,586,583	12,569,995	16,588
Amounts due to customers	**98,705,456**	**96,988,745**	**1,716,711**	97,155,406	97,109,229	46,177
Debt securities issued	**8,521,760**	**8,209,677**	**312,083**	15,188,479	14,999,475	189,004
Subordinated loan	**3,138,304**	**3,138,304**	–	–	–	–
Other financial liabilities	**229,454**	**229,454**	–	121,920	121,920	–
Total unrecognized change in fair value			**10,586,304**			2,147,377

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

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Fixed and variable rate financial instruments

For quoted debt instruments, fair value is based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. In determining the current interest rate, the Bank uses available information published on the official site of the NBRK.

(Thousands of tenge, unless otherwise indicated)

25. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See *Note 23 "Risk management"* for the Bank's contractual undiscounted repayment obligations.

	2014			*2013*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	26,546,469	–	26,546,469	29,070,041	–	29,070,041
Trading securities	3,010	–	3,010	310,200	–	310,200
Amounts due from credit institutions	357,669	–	357,669	176,784	–	176,784
Loans to customers	54,829,059	61,624,855	116,453,914	47,919,231	60,361,160	108,280,391
Held-to-maturity investment securities	16,327	658,635	674,962	14,260	672,218	686,478
Property and equipment	–	2,898,620	2,898,620	–	1,747,661	1,747,661
Intangible assets	–	1,021,114	1,021,114	–	682,513	682,513
Current income tax assets	37,006	–	37,006	34,745	–	34,745
Deferred income tax assets	–	98,869	98,869	–	472,167	472,167
Other assets	2,716,716	2,290,514	5,007,230	2,153,871	380,426	2,534,297
Total	84,506,256	68,592,607	153,098,863	79,679,132	64,316,145	143,995,277
Amounts due to credit institutions	19,398,926	3,113,447	22,512,373	10,480,825	2,105,758	12,586,583
Amounts due to customers	78,034,384	20,671,072	98,705,456	68,172,271	28,983,135	97,155,406
Debt securities issued	124,400	8,397,360	8,521,760	15,188,479	–	15,188,479
Subordinated loan	–	3,138,304	3,138,304	–	–	–
Other liabilities	1,302,928	819,400	2,122,328	1,217,547	117,420	1,334,967
Total	98,860,638	36,139,583	135,000,221	95,059,122	31,206,313	126,265,435
Net position	(14,354,382)	32,453,024	18,098,642	(15,379,990)	33,109,832	17,729,842

The Bank's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. As at 31 December 2014 the Bank has a negative liquidity gap of KZT 14,354,382 thousand within a year. The management has an action plan in place to discharge its obligations including attraction of subordinated interbank borrowing at the market of short-term capital and other measures including increase of the charter capital, additional issuance of debt securities at the local market as well as extending the term of deposits of major customers of the Bank.

26. Related party transactions

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

Related parties may enter into transactions which unrelated parties might not. Prices and terms of such transactions may differ from prices and terms of transactions between unrelated parties.

Transactions with government-related entities

The Russian Federation controls the Bank through the Federal Agency for the Administration of State Property of the Russian Federation.

The Russian Federation through its state agencies and other institutions directly and indirectly controls and has significant influence over a significant number of entities (together referred to as "Government-related entities").

(Thousands of tenge, unless otherwise indicated)

26. Related party transactions (continued)

Transactions with government-related entities (continued)

In the course of its daily activities, the Bank performs all transactions with related parties at prices established on the basis of market rates.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2014			
	Parent	*Entities under common control*	*Government-related entities*	*Key management personnel*
Cash and cash equivalents at 1 January	106,379	16,384	–	–
Receipts on current accounts during the year	221,479,191	108,991,942	–	–
Payments from the current accounts during the year	(221,047,949)	(108,957,633)	–	–
Cash and cash equivalents at 31 December	537,621	50,693	–	–
Held-to-maturity investment securities at 1 January	–	–	686,478	–
Accrual of interest income on held-to-maturity investment securities	–	–	27,096	–
Payment of interest income on held-to-maturity investment securities	–	–	(37,800)	–
Held-to-maturity investment securities at 31 December	–	–	675,774	–
Less: allowance for impairment at 31 December	–	–	(812)	–
Held-to-maturity investment securities at 31 December, net of allowance for impairment	–	–	674,962	–
Amounts due to credit institutions at 1 January	5,440,721	45,260	–	–
Proceeds during the year	59,822,186	34,706	–	–
Payments during the year	(50,520,487)	(54,539)	–	–
Amounts due to credit institutions at 31 December	14,742,420	25,427	–	–
Amounts due to customers at 1 January	–	–	–	5,013
Receipts on current accounts during the year	–	–	–	406,922
Payments from the current accounts during the year	–	–	–	(407,274)
Amounts due to customers at 31 December	–	–	–	4,661
Subordinated loan at 1 January	–	–	–	–
Proceeds during the year	4,990,000	–	–	–
Accrual of interest on subordinated loan	151,082	–	–	–
Repayment of accrued interest on subordinated loan	(162,432)	–	–	–
Foreign exchange differences	(1,840,346)	–	–	–
Subordinated loan at 31 December	3,138,304	–	–	–

(Thousands of tenge, unless otherwise indicated)

26. Related party transactions (continued)

	2013			
	Parent	*Entities under common control*	*Government-related entities*	*Key management personnel*
Cash and cash equivalents at 1 January	375,677	388,469	–	–
Receipts on current accounts during the year	102,651,833	37,392,874	–	–
Payments from current accounts during the year	(102,921,131)	(37,764,959)	–	–
Cash and cash equivalents at 31 December	106,379	16,384	–	–
Held-to-maturity investment securities at 1 January	–	–	697,389	–
Accrual of interest income on held-to-maturity investment securities	–	–	26,889	–
Payment of interest income on held-to-maturity investment securities	–	–	(37,800)	–
Held-to-maturity investment securities at 31 December	–	–	686,478	–
Amounts due to credit institutions at 1 January	7,128,792	13,195	–	–
Proceeds during the year	65,435,688	358,396	–	–
Payments during the year	(67,123,759)	(326,331)	–	–
Amounts due to credit institutions at 31 December	5,440,721	45,260	–	–
Amounts due to customers at 1 January	–	–	–	4,062
Receipts on current accounts during the year	–	–	–	351,444
Payments from current accounts during the year	–	–	–	(350,493)
Amounts due to customers at 31 December	–	–	–	5,013

	2014			2013		
	Parent	*Entities under common control*	*Government-related entities*	*Parent*	*Entities under common control*	*Government-related entities*
Cash and cash equivalents						
Interest income	**1,292**	**255**	–	901	755	–
Interest rates	**Up to 1.00%**	**Up to 2.15%**	–	0.50%-1.00%	0.10%-0.20%	–
Held-to-maturity investment securities						
Interest income	–	–	**27,096**	–	–	26,889
Interest rates	–	–	**4,50%**	–	–	4.50%
Amounts due to credit institutions						
Interest expense	**(184,434)**	–	–	(296,831)	–	–
Interest rates	**1.75%-5.13%**	–	–	4.53%-5.73%	–	–
Subordinated loan						
Interest expense	**(151,082)**	–	–	–	–	–
Interest rates	**10.76%**	–	–	–	–	–

(Thousands of tenge, unless otherwise indicated)

26. Related party transactions (continued)

Transactions with government-related entities (continued)

Compensation to key management personnel totalling 6 persons (2013: 6 persons) includes the following:

	2014	*2013*
Salary and other short-term benefits	**306,025**	248,639
Social security costs	**5,440**	3,358
Total compensation to key management personnel	**311,465**	251,997

27. Capital adequacy

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

As at 31 December 2014 and 2013 the Bank had complied with all external capital requirements imposed by legislation.

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

The NBRK requires banks to maintain a capital adequacy ratio (Tier 1) not less than 5% of assets and a total capital adequacy ratio (Tier 2) not less than 10% of risk weighted assets, computed based on the NBRK requirements. As at 31 December 2014, the Bank's capital adequacy ratio based on the NBRK methodology exceeded the statutory minimum.

The Bank's capital adequacy ratio, computed in accordance with the NBRK requirements as at 31 December, comprise:

	2014	*2013*
Tier 1 capital	**17,373,418**	16,329,585
Total assets	**153,098,863**	143,964,144
Tier 1 capital ratio	**11%**	11%

	2014	*2013*
Tier 2 capital	**21,225,838**	17,695,007
Risk weighted assets	**153,064,136**	133,592,085
Tier 2 capital ratio	**14%**	13%