SB JSC “Bank Home Credit”

Financial Statements
for the year ended 31 December 2014

Contents

«КПМГ Аудит» жауапкершілігі
шектеулі серіктестік
050051 Алматы, Достық д-лы 180,
Тел./факс 8 (727) 298-08-98, 298-07-08

KPMG Audit LLC
050051 Almaty, 180 Dostyk Avenue,
E-mail: company@kpmg.kz

Independent Auditors' Report

To the Board of Directors and Management Board of SB JSC "Bank Home Credit"

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Yelena Kim
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No. MF-0000042 of 8 August 2011

KPMG Audit LLC

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

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

27 February 2015

	Note	2014 KZT'000	2013 KZT'000
Interest income	4	33,008,030	26,941,389
Interest expense	4	(7,934,454)	(5,698,770)
Net interest income		**25,073,576**	**21,242,619**
Fee and commission income	5	15,568,843	16,666,478
Fee and commission expense	6	(895,443)	(1,045,316)
Net fee and commission income		**14,673,400**	**15,621,162**
Net gain/(loss) on financial instruments at fair value through profit or loss	11	299,548	(48,960)
Foreign exchange loss		(128,649)	(67,827)
Other operating income		126,332	21,220
Operating income		**40,044,207**	**36,768,214**
Impairment losses	7	(13,602,288)	(10,214,534)
General administrative expenses	8	(16,201,736)	(11,244,984)
Profit before income tax		**10,240,183**	**15,308,696**
Income tax expense	9	(2,002,319)	(2,998,281)
Profit and total comprehensive income for the year		**8,237,864**	**12,310,415**
Earnings per share, in KZT (basic and diluted)	22	236,110	352,385

The financial statements as set out on pages 5 to 51 were approved by the Board of Directors on 27 February 2015 and were signed on its behalf by:

Ondrej Kubik
Chairman of the Board

Roza Nurmanova
Acting Chief Accountant

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

	Note	2014 KZT’000	2013 KZT’000
ASSETS			
Cash and cash equivalents	10	3,445,739	8,643,115
Loans and advances to banks		3,184	2,111
Financial instruments at fair value through profit or loss	11	292,148	-
Loans to customers	12	101,200,959	101,626,929
Current tax assets		136,909	32,011
Property, equipment and intangible assets	13	5,133,283	4,382,902
Deferred tax assets	9	-	75,156
Other assets	14	1,439,946	1,291,827
Total assets		**111,652,168**	**116,054,051**
LIABILITIES			
Deposits and balances from banks	15	3,434,275	8,053,708
Current accounts and deposits from customers	16	38,512,132	46,562,674
Debt securities issued	17	13,771,229	6,847,999
Subordinated borrowings	18	640,284	640,171
Other borrowed funds	18	21,761,876	22,901,048
Deferred tax liability	9	119,250	-
Other liabilities	19	4,030,340	3,103,533
Total liabilities		**82,269,386**	**88,109,133**
EQUITY			
Share capital	20	5,199,503	5,199,503
Retained earnings	20	24,183,279	22,745,415
Total equity		**29,382,782**	**27,944,918**
Total liabilities and equity		**111,652,168**	**116,054,051**
Book value per share, in KZT	21	777,186	759,024

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

	2014 KZT'000	2013 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	31,887,117	25,060,947
Interest payments	(7,929,857)	(5,478,442)
Fee and commission receipts	15,332,122	17,124,338
Fee and commission payments	(788,647)	(1,091,575)
Net (payments)/receipts from financial instruments at fair value through profit or loss	(32,767)	83,630
Net receipts from foreign exchange transactions	(34,335)	93,707
Other income receipts	126,332	59,092
General administrative expenses	(14,127,947)	(9,712,567)
(Increase)/decrease in operating assets		
Loans and advances to banks	(690)	(700)
Financial instruments at fair value through profit or loss	(131,541)	-
Loans to customers	(11,123,370)	(43,086,230)
Other assets	(5,431)	47,451
(Decrease)/increase in operating liabilities		
Deposits and balances from banks	(4,301,482)	135,727
Current accounts and deposits from customers	(8,685,819)	17,805,080
Other liabilities	(147,381)	(501,856)
Net cash flow from operating activities before income tax paid	**36,304**	**538,602**
Income tax paid	(1,912,811)	(3,209,116)
Cash flows used in operations	**(1,876,507)**	**(2,670,514)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, equipment and intangible assets	(2,574,041)	(4,002,117)
Proceeds from sale of property and equipment	1,858	70,545
Cash flows used in investing activities	**(2,572,183)**	**(3,931,572)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts of other borrowed funds	30,776,200	14,694,232
Repayment of other borrowed funds	(31,854,460)	(8,211,710)
Receipts from the issue of debt securities	6,570,811	6,752,594
Dividends paid	(6,800,000)	(6,666,667)
Cash flows (used in)/from financing activities	**(1,307,449)**	**6,568,449**
Net decrease in cash and cash equivalents	**(5,756,139)**	**(33,637)**
Effect of changes in exchange rates on cash and cash equivalents	558,763	77,208
Cash and cash equivalents as at the beginning of the year	8,643,115	8,599,544
Cash and cash equivalents as at the end of the year (note 10)	**3,445,739**	**8,643,115**

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

KZT'000	**Share capital**	**Statutory reserve capital**	**Retained earnings**	**Total equity**
Balance as at 1 Jan 2013	5,199,503	7,347,876	9,753,791	22,301,170
Profit and total comprehensive income for the year	-	-	12,310,415	12,310,415
Dividends paid	-	-	(6,666,667)	(6,666,667)
Transfer to statutory reserve capital (note 20)	-	9,668,333	(9,668,333)	-
Statutory reserve dissolution (note 20)	-	(17,016,209)	17,016,209	-
Balance as at 31 Dec 2013	**5,199,503**	**-**	**22,745,415**	**27,944,918**
Balance as at 1 Jan 2014	5,199,503	-	22,745,415	27,944,918
Profit and total comprehensive income for the year	-	-	8,237,864	8,237,864
Dividends paid	-	-	(6,800,000)	(6,800,000)
Balance as at 31 Dec 2014	**5,199,503**	**-**	**24,183,279**	**29,382,782**

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

1 Background

(a) Organisation and operations

Private Bank FTD was established in 1993 and subsequently renamed to Bank Alma-Ata in December 1994. In December 1995, the Bank was re-registered as Open Joint Stock Company International Bank Alma-Ata. Due to a change in legislation, the Bank was re-registered as a joint stock company in November 2004. On 4 November 2008, International Bank Alma-Ata JSC was renamed to Home Credit Bank JSC. In January 2013 the Bank was acquired by Home Credit and Finance Bank incorporated in the Russian Federation, in this connection the Bank was renamed to Subsidiary Bank Joint Stock Company Home Credit and Finance Bank (short name SB JSC “Bank Home Credit”) on 4 April 2013.

The principal activities of the Bank are retail lending, deposit taking and customer accounts maintenance, issuing guarantees, cash and settlement operations and foreign exchange. The activities of the Bank are regulated by the National Bank of the Republic of Kazakhstan (“the NBRK”). The Bank holds banking licence #1.1.188 dated 14 May 2013.

The registered address of the Bank’s head office is 248, Furmanov Street, Almaty, Republic of Kazakhstan, 050059. As at 31 December 2014, the Bank had 17 branches and 72 bank offices (31 December 2013: 16 branches and 128 bank offices).

Debt securities issued by the Bank are listed on Kazakhstan Stock Exchange (KASE).

As at 31 December 2014 and 2013 the Bank was 100% owned by Home Credit and Finance Bank incorporated in the Russian Federation. The ultimate controlling owner of the Bank is Petr Kellner, who exercises control over Home Credit and Finance Bank through PPF Group N.V. registered in the Netherlands.

(b) Kazakhstan business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss are stated at fair value.

2 Basis of preparation, continued

(c) Functional and presentation currency

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

The KZT is also the presentation currency for the purposes of these financial statements. Financial information presented in KZT is rounded to the nearest thousand.

(d) Use of estimates and judgments

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

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

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

- fee and commission income – Note 3(j)
- financial instruments at fair value through profit or loss – Notes 11 and 30
- loan impairment estimates – Note 12.

(e) Changes in accounting policies and presentation

The Bank has adopted the following amendment to IAS 32, including any consequential amendments to other standards, with a date of initial application of 1 January 2014

Offsetting financial assets and financial liabilities

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

The Bank does not expect that these amendments will have an impact on its financial statements as the Bank does not present financial assets and financial liabilities on net basis in the statement of financial position.

3 Significant accounting policies

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

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting year. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

(b) Cash and cash equivalents

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

(c) Financial instruments

(i) Classification

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

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

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

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(i) Classification, continued

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

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

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

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

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

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

(ii) Recognition

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

(iii) Measurement

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(iii) Measurement, continued

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

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

(iv) Amortised cost

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

(v) Fair value measurement principles

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

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

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(v) Fair value measurement principles, continued

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

(vi) Gains and losses on subsequent measurement

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

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

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

(vii) Derecognition

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

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

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(vii) Derecognition, continued

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

The Bank also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectable.

(viii) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates, foreign exchanges, commodities and stock markets, and any combinations of these instruments. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

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

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

(ix) Offsetting

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

(d) Property and equipment

(i) Owned assets

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

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

(ii) Depreciation

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

Buildings	50 years;
Computers	3-5 years;
Vehicles	7 years;
Leasehold improvements	7-10 years;
Other assets	7 years.

3 Significant accounting policies, continued

(e) Intangible assets

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

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 7 years.

(f) Impairment

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

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

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

(i) Financial assets carried at amortised cost

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

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

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

3 Significant accounting policies, continued

(f) Impairment, continued

(i) Financial assets carried at amortised cost, continued

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

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

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

(ii) Non financial assets

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

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Credit related commitments

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

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

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

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

3 Significant accounting policies, continued

(g) Credit related commitments, continued

Loan commitments are not recognised, except for the followings:

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

(h) Share capital

(i) Ordinary shares

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

(ii) Dividends

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

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

(i) Taxation

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

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

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

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

3 Significant accounting policies, continued

(j) Income and expense recognition

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

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

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

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

(k) Segment reporting

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

(l) New standards and interpretations not yet adopted

The following new standards, amendments to standards, and interpretations are not yet effective as at 31 December 2014, and are not applied in preparing these financial statements. The Bank plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding the classification and measurement of financial liabilities was published in October 2010. The third phase of IFRS 9 was issued in November 2013 and relates to general hedge accounting. The standard was finalized and published in July 2014. The final phase relates to a new expected credit loss model for calculating impairment. The Bank recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the financial statements. The Bank has not analysed the impact of these changes yet. The Bank does not intend to adopt this standard early. The standard will be effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.

- *Various Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2015. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2014 KZT'000	2013 KZT'000
Interest income		
Loans to customers	32,991,629	26,941,167
Cash and cash equivalents	16,401	222
	33,008,030	**26,941,389**
Interest expense		
Current accounts and deposits from customers	(2,968,212)	(2,665,318)
Other borrowed funds	(2,886,565)	(2,079,464)
Debt securities issued	(1,254,044)	(45,204)
Deposits and balances from banks	(728,482)	(846,231)
Subordinated borrowings	(97,151)	(62,553)
	(7,934,454)	**(5,698,770)**
	25,073,576	**21,242,619**

Included within various line items under interest income in 2014 is a total of KZT 1,887,724 thousand (2013: KZT 1,470,880 thousand) accrued on impaired loans to customers.

5 Fee and commission income

	2014 KZT'000	2013 KZT'000
Commission income from insurance	11,441,905	13,555,010
Contractual penalties from customers	2,519,222	1,450,875
Fees from retailers	989,407	1,227,260
Cards' operations	150,291	53,184
Transfer operations	16,298	23,348
Cash withdrawal	3,522	5,824
Other	448,198	350,977
	15,568,843	**16,666,478**

6 Fee and commission expense

	2014 KZT'000	2013 KZT'000
Commissions paid to partners	745,929	958,187
Card processing	54,228	14,666
Deposit insurance fund contributions	35,001	19,363
Settlements	21,670	20,808
Other	38,615	32,292
	895,443	**1,045,316**

7 Impairment losses

	2014 KZT'000	2013 KZT'000
Loans to customers	13,537,381	10,199,004
Other assets	64,907	15,530
	13,602,288	**10,214,534**

8 General administrative expenses

	2014 KZT’000	2013 KZT’000
Employee compensation and payroll related taxes	7,972,626	5,372,337
Depreciation and amortisation	1,453,808	514,358
Occupancy	1,146,961	772,273
Professional services	1,064,793	619,247
Telecommunication and postage	898,328	736,066
Advertising and marketing	756,526	623,224
Taxes other than income tax	739,540	657,342
Information technology	631,236	769,920
Collectors’ services	620,670	401,214
Travel expenses	269,090	334,101
Other	648,158	444,902
	16,201,736	**11,244,984**

9 Income tax expense

	2014 KZT’000	2013 KZT’000
Current tax expense		
Current year tax expense	1,975,162	3,526,039
Current tax expense over provided in prior years	(167,249)	(369,624)
	1,807,913	**3,156,415**
Deffered tax expense		
Deferred taxation movement due to origination and reversal of temporary differences	194,406	(158,134)
Total income tax expense	**2,002,319**	**2,998,281**

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

Reconciliation of effective tax rate:

	2014 KZT’000	%	2013 KZT’000	%
Profit before income tax	**10,240,183**	**100.0**	**15,308,696**	**100.0**
Income tax at the applicable tax rate	2,048,037	20.0	3,061,739	20.0
Non-deductible costs	121,531	1.2	306,166	2.0
Over provided in prior years	(167,249)	(1.6)	(369,624)	(2.4)
	2,002,319	**19.6**	**2,998,281**	**19.6**

Deferred tax asset and liability

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

9 Income tax expense, continued

Deferred tax asset and liability, continued

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

Movements in temporary differences in 2014 and 2013 are presented below.

2014 **KZT'000**	**Balance 1 January 2014**	**Recognised in profit or loss**	**Balance 31 December 2014**
Property, equipment and intangible assets	(79,437)	(44,284)	(123,721)
Other assets	(220,872)	91,143	(129,729)
Deposits and balances from banks	172,630	(172,630)	-
Current accounts and deposits from	60,245	(60,245)	-
Debt securities issued	18,181	(18,181)	-
Subordinated borrowings	34	(34)	-
Other liabilities	124,375	9,825	134,200
	75,156	**(194,406)**	**(119,250)**

2013 **KZT'000**	**Balance 1 January 2013**	**Recognised in profit or loss**	**Balance 31 December 2013**
Property, equipment and intangible assets	(23,234)	(56,203)	(79,437)
Other assets	(102,296)	(118,576)	(220,872)
Deposits and balances from banks	-	172,630	172,630
Current accounts and deposits from customers	-	60,245	60,245
Debt securities issued	-	18,181	18,181
Subordinated borrowings	-	34	34
Other liabilities	42,552	81,823	124,375
	(82,978)	**158,134**	**75,156**

10 Cash and cash equivalents

	2014 KZT'000	**2013 KZT'000**
Cash on hand	1,702,184	1,693,251
Nostro accounts with the NBRK	1,243,997	2,368,683
Nostro accounts with other banks		
- rated A- to A+	443,478	4,538,478
- rated BBB	-	6,108
- rated BBB-	10,688	2,757
- rated from BB- to BB+	26,072	24,118
- rated below B+	19,320	9,720
	3,445,739	**8,643,115**

The credit ratings are presented by reference to the credit ratings of Standard and Poor's credit rating agency or analogues of similar international agencies.

No cash and cash equivalents were impaired or past due.

As at 31 December 2014 the Bank had no exposure towards banking counterparties exceeding 10% of the Bank's equity (as at 31 December 2013: one counterparty with gross value of KZT 4,464,251 thousand).

10 Cash and cash equivalents, continued

Minimum reserve requirements

In accordance with regulations issued by the NBRK, minimum reserve requirements are calculated as a total of specified proportions of different groups of banks liabilities. Banks are required to comply with these requirements by maintaining average reserve assets (local currency cash and NBRK balances) equal or in excess of the average minimum requirements. As at 31 December 2014, the minimum reserve is KZT 1,395,921 thousand (31 December 2013: KZT 1,768,127 thousand).

11 Financial instruments at fair value through profit or loss

	2014 KZT’000	2013 KZT’000
ASSETS		
Derivative financial instruments		
Cross currency swap	292,148	-
	292,148	**-**

Derivative financial asset represents the fair value of:

- a 1-year cross currency swap contracted with the NBRK to deliver KZT 5,427,300 thousand in exchange for USD 30,000 thousand. The Bank made a prepayment of KZT 162,819 thousand. The swap matures in November 2015. Both parties have a right to early terminate the contract; and
- a 7-day cross currency swap contracted with the NBRK to deliver KZT 21,334,950 thousand in exchange for USD 117,000 thousand. The Bank shall pay interest of 7% in arrears. The swap matures on 7 January 2015.

In 2014 the Bank recognised net gain on financial instruments at fair value through profit or loss in the amount of KZT 299,548 thousand in relation to derivative financial instruments (2013: net loss on financial instruments at fair value through profit or loss in the amount of KZT 48,960 thousand).

12 Loans to customers

	2014 KZT’000	2013 KZT’000
Loans to individuals		
Cash loans	77,823,504	78,096,152
POS loans	34,207,114	32,830,465
Credit cards	1,898,318	870,112
Total loans to individuals	**113,928,936**	**111,796,729**
Impairment allowance	(12,727,977)	(10,169,800)
Net loans to individuals	**101,200,959**	**101,626,929**

12 Loans to customers, continued

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

	Cash loans KZT'000	POS loans KZT'000	Credit cards KZT'000	Total KZT'000
Balance at the beginning of the year	7,748,626	2,380,116	41,058	10,169,800
Net charge	11,300,493	2,079,499	157,389	13,537,381
Net write-offs	(8,572,107)	(2,371,776)	(35,321)	(10,979,204)
Balance at the end of the year	**10,477,012**	**2,087,839**	**163,126**	**12,727,977**

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

	Cash loans KZT'000	POS loans KZT'000	Credit cards KZT'000	Total KZT'000
Balance at the beginning of the year	2,326,405	1,756,175	2,275	4,084,855
Net charge	7,762,989	2,395,777	40,238	10,199,004
Net write-offs	(2,340,768)	(1,771,836)	(1,455)	(4,114,059)
Balance at the end of the year	**7,748,626**	**2,380,116**	**41,058**	**10,169,800**

(a) Credit quality of loans to customers

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

	Gross loans KZT'000	Impairment allowance KZT'000	Net loans KZT'000	Impairment allowance to gross loans, %
Loans to individuals				
- not overdue	94,151,731	(1,125,186)	93,026,545	1.20
- overdue less than 90 days	7,708,121	(3,366,676)	4,341,445	43.68
- overdue 90-360 days	12,069,084	(8,236,115)	3,832,969	68.24
Total loans to individuals	**113,928,936**	**(12,727,977)**	**101,200,959**	**11.17**

12 Loans to customers, continued

(a) Credit quality of loans to customers, continued

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

	Gross loans KZT'000	Impairment allowance KZT'000	Net loans KZT'000	Impairment allowance to gross loans, %
Loans to individuals				
- not overdue	95,015,147	(939,850)	94,075,297	0.99
- overdue less than 90 days	7,475,484	(3,001,493)	4,473,991	40.15
- overdue 90-360 days	9,306,098	(6,228,457)	3,077,641	66.93
Total loans to individuals	**111,796,729**	**(10,169,800)**	**101,626,929**	**9.10**

The Bank considers loans which are contractually overdue for more than 90 days to be non-performing. As at 31 December 2014 total impairement allowance to non-performing loans is 105% (31 December 2013: 109%).

Loans overdue 360 days are written off.

(b) Key assumptions and judgments for estimating loan impairment

The Bank estimates the impairment on loans to customers in accordance with the accounting policy as described in Note 3(f)(i). The key assumptions used in estimating imparement losses for the current year are as follows:

- loss migration rates are constant and can be estimated based on the historical loss migration pattern for the past twelve months

- unsecured loans which borrowers are unable to repay in full can be partially recovered through further collection actions for 26%-28% of the loan's outstanding principal balances.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus or minus one percent, the loan impairment allowance on loans to customers as at 31 December 2014 would be KZT 1,012,010 thousand lower/higher (31 December 2013: KZT 1,016,269 thousand).

(c) Loan collateral

The recoverability of loans is primarily dependent on the creditworthiness of the borrowers. Loans to customers are not secured.

(d) Significant credit exposures

As at 31 December 2014, the Bank had no borrowers whose loan balances exceed 10% of the Bank's equity (31 December 2013: none).

(e) Loan maturities

The maturity of the loan portfolio is presented in note 24(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

13 Property, equipment and intangible assets

KZT'000	Land and buildings	Computers	Vehicles	Leasehold improvements	Other property and equipment	Intangible assets	Total
Cost							
Balance at 1 January 2014	487,485	1,638,775	141,303	687,298	888,521	1,688,349	5,531,731
Additions	1,415	417,926	24,554	251,795	150,304	1,875,710	2,721,704
Disposals	-	(213,687)	(16,800)	(227,893)	(194,880)	(612,891)	(1,266,151)
At 31 December 2014	**488,900**	**1,843,014**	**149,057**	**711,200**	**843,945**	**2,951,168**	**6,987,284**
Depreciation and amortisation							
Balance at 1 January 2014	(2,303)	(507,568)	(34,472)	(92,852)	(285,866)	(225,768)	(1,148,829)
Depreciation and amortisation for the year	(9,370)	(483,498)	(22,578)	(281,778)	(60,942)	(595,642)	(1,453,808)
Disposals	-	213,687	7,348	201,720	188,875	137,006	748,636
Balance at 31 December 2014	**(11,673)**	**(777,379)**	**(49,702)**	**(172,910)**	**(157,933)**	**(684,404)**	**(1,854,001)**
Carrying amounts at 31 December 2014	**477,227**	**1,065,635**	**99,355**	**538,290**	**686,012**	**2,266,764**	**5,133,283**
Cost							
Balance at 1 January 2013	-	610,700	107,890	120,381	423,049	495,478	1,757,498
Additions	487,485	1,073,645	40,682	567,863	509,034	1,192,871	3,871,580
Disposals	-	(45,570)	(7,269)	(946)	(43,562)	-	(97,347)
At 31 December 2013	**487,485**	**1,638,775**	**141,303**	**687,298**	**888,521**	**1,688,349**	**5,531,731**
Depreciation and amortisation							
Balance at 1 January 2013	-	(307,950)	(22,876)	(54,974)	(198,505)	(120,371)	(704,676)
Depreciation and amortisation for the year	(2,303)	(244,429)	(18,372)	(37,878)	(105,979)	(105,397)	(514,358)
Disposals	-	44,811	6,776	-	18,618	-	70,205
Balance at 31 December 2013	**(2,303)**	**(507,568)**	**(34,472)**	**(92,852)**	**(285,866)**	**(225,768)**	**(1,148,829)**
Carrying amounts at 31 December 2013	**485,182**	**1,131,207**	**106,831**	**594,446**	**602,655**	**1,462,581**	**4,382,902**

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

14 Other assets

	2014 KZT’000	2013 KZT’000
Receivables from retailer fees	776,106	687,048
Total other financial assets	**776,106**	**687,048**
Prepayments	387,912	287,646
Prepayment of taxes other than income tax	102,763	193,817
Receivables from employees	90,155	29,841
Inventory	83,130	103,028
Other	5,759	5,963
Impairment allowance	(5,879)	(15,516)
Total other non-financial assets	**663,840**	**604,779**
Total other assets	**1,439,946**	**1,291,827**

Analysis of movements in the impairment allowance

Movements in the impairment allowance for other assets for the year ended 31 December are as follows:

	2014 KZT’000	2013 KZT’000
Balance at the beginning of the year	15,516	149
Net charge	64,907	15,530
Write-off	(74,544)	(163)
Balance at the end of the year	**5,879**	**15,516**

As at 31 December 2014 the Bank had gross overdue receivables of KZT 8,331 thousand (31 December 2013: KZT 34,281 thousand) included in other assets.

15 Deposits and balances from banks

	2014 KZT’000	2013 KZT’000
Vostro accounts	30,973	19,810
Term deposits	3,403,302	8,033,898
	3,434,275	**8,053,708**

As at 31 December 2014 the Bank had no counterparties whose balances exceeded 10% of the Bank’s equity (31 December 2013: one counterparty whose balance amounted to KZT 8,045,168 thousand).

16 Current accounts and deposits from customers

	2014 KZT’000	2013 KZT’000
Current accounts and demand deposits		
- Retail	10,489,234	11,135,150
- Corporate	636,880	1,790,237
Term deposits		
- Retail	7,199,733	5,892,305
- Corporate	20,186,285	27,744,982
	38,512,132	**46,562,674**

16 Current accounts and deposits from customers, continued

As at 31 December 2014, the Bank had two customers (31 December 2013: two customers), whose balances exceeded 10% of the Bank's equity. As at 31 December 2014 these balances amounted to KZT 13,564,606 thousand (31 December 2013: KZT 16,605,359 thousand).

17 Debt securities issued

	Maturity	Coupon rate, %	2014 KZT'000	2013 KZT'000
Unsecured KZT denominated bonds of the 1st issue program 1*	November 2016	8.5	6,924,157	6,847,999
Unsecured KZT denominated bonds of the 1st issue program 2*	February 2019	9.5	6,847,072	-
			13,771,229	**6,847,999**

* Quoted on the Kazakhstan Stock Exchange

In February 2014 the Bank placed unsecured bonds under its first issue of the second program with the nominal value of KZT 6,768,502 thousand.

In November 2013, the Bank placed unsecured bonds under its first issue of the first program with the nominal value of KZT 7,000,000 thousand.

18 Subordinated borrowings and other borrowed funds

	Issue date	Maturity date	Currency	Weighted-average effective interest rate, %	2014 KZT'000	2013 KZT'000
Subordinated borrowings from related party	29/06/2009	30/12/2016	KZT	16.00	**640,284**	**640,171**
Other borrowed funds						
Unsecured loans	various tranches issued in the period of 29/09/2014-15/10/2014	various tranches maturing in the period of 30/09/2015-16/10/2015	KZT	14.77	4,872,383	22,901,048
Unsecured loans	31/10/2014-19/12/2014	10/03/2015-15/12/2015	USD	7.83	16,889,493	-
					21,761,876	**22,901,048**

Subordinated borrowings

In case of bankruptcy, the repayment of the subordinated borrowings will be made after repayment in full of all other liabilities of the Bank.

19 Other liabilities

	2014 KZT'000	2013 KZT'000
Payables to partners	2,290,822	1,429,613
Payables for services	713,607	694,355
Total other financial liabilities	**3,004,429**	**2,123,968**
Payables to employees	475,654	374,327
Taxes payable other than income tax	281,550	417,699
Vacation reserve	258,853	186,754
Other non-financial liabilities	9,854	785
Total other non-financial liabilities	**1,025,911**	**979,565**
Total other liabilities	**4,030,340**	**3,103,533**

Payables to partners represent the Bank's liabilities to organisations which either sell the goods on bank credit or deliver financial means to the Bank's customers.

20 Equity

(a) Issued capital

As at 31 December 2014 the authorised share capital comprised 160,240 ordinary shares (31 December 2013: 160,240 ordinary shares) and issued and outstanding share capital comprised 34,890 ordinary shares (31 December 2013: 34,890 ordinary shares). The shares do not have nominal value.

(b) Dividends

In accordance with Kazakhstan legislation the distributable dividend amount is limited to the balance of retained earnings including net profit for the year as recorded in the Bank's statutory financial statements prepared in accordance with IFRS or profit for the year if there is an accumulated loss brought forward. A distribution cannot be made if this would result in negative equity or the Bank's insolvency. Under Kazakhstan legislation, as at the reporting date, reserves available for distribution amounted to KZT 24,183,279 thousand (31 December 2013: KZT 22,745,415 thousand).

At the reporting date, the following dividends were declared and paid as follows:

	2014 KZT'000	2013 KZT'000
KZT 194,898.3 per ordinary share (2013: KZT 191,076.72)	6,800,000	6,666,667

(c) Statutory reserve capital

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

20 Equity, continued

(c) Statutory reserve capital, continued

A transfer from retained earnings to the reserve for general banking risks in the amount of KZT 9,668,333 thousand was made in 2013. The entire reserve was eventually dissolved in accordance with the decision of the sole shareholder on 17 September 2013 as maintaining such a reserve capital was no longer required by regulations. The outstanding balance was transferred to retained earnings.

In accordance with Resolution of the NBRK #137 dated 27 May 2013 On Approval of Rules on Forming Dynamic Reserves by Second-Tier Banks and Establishment of Minimum Size of Dynamic Reserves and Expected Loss, the Bank should establish a dynamic reserve calculated using a formula determined in the Resolution, and the value should not be less than zero.

During 2014, the dynamic reserve was temporarily frozen by the NBRK at the level as of 31 December 2013. The dynamic reserve requirement of the Bank as at 31 December 2014 and 2013 was nil.

21 Book value per share

The calculation of book value per share as at 31 December 2014 is based on number of outstanding ordinary shares of 34,890 (31 December 2013: 34,890) and net assets calculated in accordance with the Listing rules of Kazakhstan Stock Exchange as follows:

	2014 KZT’000	**2013 KZT’000**
Total assets	111,652,168	116,054,051
Intangible assets	(2,266,764)	(1,462,581)
Total liabilities	(82,269,386)	(88,109,133)
Net assets	**27,116,018**	**26,482,337**

The following table shows the book value per share calculations as at 31 December 2014 and 31 December 2013:

	2014	**2013**
Net assets, KZT’000	27,116,018	26,482,337
Outstanding number of ordinary shares at the end of the period, share	34,890	34,890
Book value per share, in KZT	**777,186**	**759,024**

22 Earnings per share

The calculation of basic earnings per share as at 31 December 2014 is based on the net profit for the year attributable to ordinary shareholders and weighted average number of ordinary shares outstanding calculated as follows:

	2014	**2013**
Net profit attributable to ordinary shareholders, KZT'000	8,237,864	12,310,415
Weighted average number of ordinary shares, share	34,890	34,890
Earnings per share, in KZT	**236,110**	**352,835**

There are no potentially dilutive shares for the year ended 31 December 2014 or 31 December 2013.

23 Analysis by segment

The Bank's operations are highly integrated and constitute a single business segment for the purposes of IFRS 8 Segment Reporting. The Bank's assets are concentrated in the Republic of Kazakhstan, and the Bank's revenues are derived from operations in, and connected with, the Republic of Kazakhstan. The Chief Operating Decision Maker, in the case of the Bank, the Chairman, only receives and reviews the information on the Bank as a whole.

24 Risk management

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

(a) Risk management policies and procedures

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

The Bank's Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Bank's Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of the Credit and Collection Department is responsible for the overall risk management, ensuring together with the Head of Legal and Head of Compliance, the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. The Head of the Credit and Collection Department reports directly to the Chairman of the Board and indirectly to the Board of Directors.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO).

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

24 Risk management, continued

(b) Market risk

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

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

Overall authority for market risk is vested in the Management Board, which is chaired by the Chairman of the Management Board. Market risk limits are approved by the Board of Directors based on recommendations of the Credit and Collection Department .

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

(i) Interest rate risk

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

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The Management Board is the monitoring body for compliance with these limits and is assisted by the Financial markets unit in its day-to-day monitoring activities. A summary of the interest gap position for major interest-bearing financial instruments is as follows:

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	Carrying amount
31 December 2014					
Interest-earning financial assets					
Loans to customers	29,941,470	19,330,607	25,980,675	25,948,207	101,200,959
	29,941,470	**19,330,607**	**25,980,675**	**25,948,207**	**101,200,959**
Interest-bearing financial liabilities					
Deposits and balances from banks	458,002	-	2,945,300	-	3,403,302
Term deposits from customers	3,464,495	9,696,368	9,535,540	4,689,615	27,386,018
Debt securities issued	248,272	90,903	-	13,432,054	13,771,229
Subordinated borrowings	640,284	-	-	-	640,284
Other borrowed funds	4,032,176	4,586,475	13,143,225	-	21,761,876
	8,843,229	**14,373,746**	**25,624,065**	**18,121,669**	**66,962,709**
Net position as at 31 December 2014	**21,098,241**	**4,956,861**	**356,610**	**7,826,538**	**34,238,250**

24 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

KZT’000	Less than 3 months	3-6 months	6-12 months	1-5 years	Carrying amount
31 December 2013					
Interest-earning financial assets					
Loans to customers	29,595,135	19,026,229	25,913,491	27,092,074	101,626,929
	29,595,135	**19,026,229**	**25,913,491**	**27,092,074**	**101,626,929**
Interest-bearing financial liabilities					
Deposits and balances from banks	2,438,707	-	5,595,191	-	8,033,898
Term deposits from customers	8,958,876	8,067,050	9,987,107	6,624,254	33,637,287
Debt securities issued	-	90,903	-	6,757,096	6,847,999
Subordinated borrowings	640,171	-	-	-	640,171
Other borrowed funds	3,404,077	10,222,383	3,925,331	5,349,257	22,901,048
	15,441,831	**18,380,336**	**19,507,629**	**18,730,607**	**72,060,403**
Net position as at 31 December 2013	**14,153,304**	**645,893**	**6,405,862**	**8,361,467**	**29,566,526**

Interest rate sensitivity analysis

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

	2014 KZT’000	2013 KZT’000
100 bp parallel fall	(173,185)	(115,114)
100 bp parallel rise	173,185	115,114

24 Risk management, continued

(b) Market risk, continued

(ii) Currency risk

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

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

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

	KZT	USD	Other currencies	Total
	KZT'000	KZT'000	KZT'000	KZT'000
ASSETS				
Cash and cash equivalents	2,208,132	1,053,212	184,395	3,445,739
Loans and advances to banks	3,184	-	-	3,184
Loans to customers	101,200,959	-	-	101,200,959
Other financial assets	622,455	109,831	43,820	776,106
Total assets	**104,034,730**	**1,163,043**	**228,215**	**105,425,988**
LIABILITIES				
Deposits and balances from banks	2,428,493	1,005,782	-	3,434,275
Current accounts and deposits from customers	28,264,375	10,039,297	208,460	38,512,132
Debt securities issued	13,771,229	-	-	13,771,229
Subordinated borrowings	640,284	-	-	640,284
Other borrowed funds	4,872,383	16,889,493	-	21,761,876
Other financial liabilities	2,845,032	86,181	73,216	3,004,429
Total liabilities	**52,821,796**	**28,020,753**	**281,676**	**81,124,225**
Net position	**51,212,934**	**(26,857,710)**	**(53,461)**	**24,301,763**
Effect of derivatives held for risk management	**(26,762,250)**	**26,805,450**	**-**	**43,200**
Net position after derivatives held for risk management purposes	**24,450,684**	**(52,260)**	**(53,461)**	**24,344,963**

24 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

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

	KZT	USD	Other currencies	Total
	KZT'000	KZT'000	KZT'000	KZT'000
ASSETS				
Cash and cash equivalents	3,534,924	4,924,203	183,988	8,643,115
Loans and advances to banks	2,111	-	-	2,111
Loans to customers	101,626,929	-	-	101,626,929
Other financial assets	685,111	-	1,937	687,048
Total assets	**105,849,075**	**4,924,203**	**185,925**	**110,959,203**
LIABILITIES				
Deposits and balances from banks	8,053,708	-	-	8,053,708
Current accounts and deposits from customers	41,481,628	4,952,878	128,168	46,562,674
Debt securities issued	6,847,999	-	-	6,847,999
Subordinated borrowings	640,171	-	-	640,171
Other borrowed funds	22,901,048	-	-	22,901,048
Other financial liabilities	1,975,095	25,681	123,192	2,123,968
Total liabilities	**81,899,649**	**4,978,559**	**251,360**	**87,129,568**
Net position	**23,949,426**	**(54,356)**	**(65,435)**	**23,829,635**

Other currencies are mainly represented by EUR.

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

	2014 KZT'000	2013 KZT'000
20% appreciation of USD against KZT	(8,362)	(8,697)
20% appreciation of other currencies against KZT	(8,554)	(10,470)

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

24 Risk management, continued

(c) Credit risk

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

The credit policy establishes:

- procedures for review and approval of loan applications
- methodology for the credit assessment of borrowers (corporate and retail)
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Retail loan applications are reviewed through the use of scoring models and application data verification procedures developed by the Credit and Collection Department. Apart from individual customer analysis, the credit portfolio is assessed by the Credit and Collection Department with regard to credit concentration and market risks.

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

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

	2014 KZT'000	2013 KZT'000
ASSETS		
Cash equivalents	1,743,555	6,949,864
Loans and advances to banks	3,184	2,111
Financial instruments at fair value through profit or loss	292,148	-
Loans to customers	101,200,959	101,626,929
Other financial assets	776,106	687,048
Total maximum exposure	**104,015,952**	**109,265,952**

For the analysis of the concentration of credit risk in respect of loans to customers refer to note 12.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 26.

24 Risk management, continued

(c) Credit risk, continued

Offsetting financial assets and liabilities

As at 31 December 2014 and 2013 the Bank did not have financial instruments subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments.

(d) Liquidity risk

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

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

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

The liquidity management policy requires:

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

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

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Financial markets unit. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management.

24 Risk management, continued

(d) Liquidity risk, continued

The following tables show undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their remaining contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

As at 31 December 2014 KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Liabilities							
Deposits and balances from banks	490,604	-	-	3,203,103	-	3,693,707	3,434,275
Current accounts and deposits from customers	11,520,043	3,103,012	9,863,178	9,885,934	5,511,820	39,883,987	38,512,132
Debt securities issued	-	323,290	297,500	627,401	16,323,220	17,571,411	13,771,229
Subordinated borrowings	8,817	17,067	25,600	51,200	742,400	845,084	640,284
Other borrowed funds	-	4,098,534	4,778,452	14,183,909	-	23,060,895	21,761,876
Deferred tax liabilities	-	-	-	-	119,250	119,250	119,250
Other financial liabilities	713,607	2,290,822	-	-	-	3,004,429	3,004,429
Total liabilities	**12,733,071**	**9,832,725**	**14,964,730**	**27,951,547**	**22,696,690**	**88,178,763**	**81,243,475**
Credit related commitments	1,194,999	-	-	-	-	1,194,999	1,194,999

24 Risk management, continued

(d) Liquidity risk, continued

As at 31 December 2013 KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow (inflow)	Carrying amount
Liabilities							
Deposits and balances from banks	19,810	2,485,217	-	6,108,895	-	8,613,922	8,053,708
Current accounts and deposits from customers	17,064,073	4,883,319	8,563,763	10,306,648	7,736,654	48,554,457	46,562,674
Debt securities issued	-	-	297,500	304,111	7,965,277	8,566,888	6,847,999
Subordinated borrowings	5,312	10,283	15,424	30,848	763,392	825,259	640,171
Other borrowed funds	3,441,506	-	10,819,547	4,440,715	6,602,600	25,304,368	22,901,048
Other financial liabilities	694,355	1,429,613	-	-	-	2,123,968	2,123,968
Total liabilities	**21,225,056**	**8,808,432**	**19,696,234**	**21,191,217**	**23,067,923**	**93,988,862**	**87,129,568**
Credit related commitments	301,063	-	-	-	-	301,063	301,063
Financial guarantees	5,728	-	-	-	-	5,728	5,728

In accordance with the Kazakhstani legislation, depositors can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. The breakdown of the carrying amount of such deposits, by each time band, is as follows:

	2014 KZT'000	2013 KZT'000
Demand and less than 1 month	393,403	4,135,485
From 1 to 3 months	3,071,092	4,823,392
From 3 to 6 months	9,696,368	8,357,774
From 6 to 12 months	9,535,540	9,696,382
More than 1 year	4,689,615	6,624,254
	27,386,018	**33,637,287**

24 Risk management, continued

(d) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	No maturity	Overdue	Total
Assets							
Cash and cash equivalents	3,445,739	-	-	-	-	-	3,445,739
Loans and advances to banks	-	-	3,184	-	-	-	3,184
Loans to customers	9,978,048	15,493,668	45,311,282	25,948,207	-	4,469,754	101,200,959
Financial instruments at fair value through profit or loss	-	-	292,148	-	-	-	292,148
Current tax assets	-	-	136,909	-	-	-	136,909
Property, equipment and intangible assets	-	-	-	-	5,133,283	-	5,133,283
Other assets	660,344	501,333	159,726	116,090	-	2,453	1,439,946
Total assets	**14,084,131**	**15,995,001**	**45,903,249**	**26,064,297**	**5,133,283**	**4,472,207**	**111,652,168**
Liabilities							
Deposits and balances from banks	488,975	-	2,945,300	-	-	-	3,434,275
Current accounts and deposits from customers	11,519,517	3,071,092	19,231,908	4,689,615	-	-	38,512,132
Debt securities issued	-	248,272	90,903	13,432,054	-	-	13,771,229
Subordinated borrowings	284	-	-	640,000	-	-	640,284
Other borrowed funds	-	4,032,176	17,729,700	-	-	-	21,761,876
Deferred tax liability	-	-	-	119,250	-	-	119,250
Other liabilities	1,189,261	2,572,372	268,707	-	-	-	4,030,340
Total liabilities	**13,198,037**	**9,923,912**	**40,266,518**	**18,880,919**	**-**	**-**	**82,269,386**
Net position	**886,094**	**6,071,089**	**5,636,731**	**7,183,378**	**5,133,283**	**4,472,207**	**29,382,782**

24 Risk management, continued

(d) Liquidity risk, continued

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

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	No maturity	Overdue	Total
Assets							
Cash and cash equivalents	8,643,115	-	-	-	-	-	8,643,115
Loans and advances to banks	-	-	-	2,111	-	-	2,111
Loans to customers	10,465,830	15,427,254	44,939,720	27,092,074	-	3,702,051	101,626,929
Current tax assets	-	-	32,011	-	-	-	32,011
Property, equipment and intangible assets	-	-	-	-	4,382,902	-	4,382,902
Deferred tax assets	-	-	-	75,156	-	-	75,156
Other assets	512,273	427,353	211,750	121,685	-	18,766	1,291,827
Total assets	**19,621,218**	**15,854,607**	**45,183,481**	**27,291,026**	**4,382,902**	**3,720,817**	**116,054,051**
Liabilities							
Deposits and balances from banks	19,810	2,438,707	5,595,191	-	-	-	8,053,708
Current accounts and deposits from customers	17,060,872	4,823,392	18,054,156	6,624,254	-	-	46,562,674
Debt securities issued	-	-	90,903	6,757,096	-	-	6,847,999
Subordinated borrowings	171	-	-	640,000	-	-	640,171
Other borrowed funds	3,404,077	-	14,147,714	5,349,257	-	-	22,901,048
Other liabilities	1,068,682	1,847,312	187,539	-	-	-	3,103,533
Total liabilities	**21,553,612**	**9,109,411**	**38,075,503**	**19,370,607**	**-**	**-**	**88,109,133**
Net position	**(1,932,394)**	**6,745,196**	**7,107,978**	**7,920,419**	**4,382,902**	**3,720,817**	**27,944,918**

25 Capital management

The NBRK sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the NBRK the Bank has to maintain: a ratio of tier 1 capital to risk weighted assets, contingent liabilities, operational and market risk and a ratio of total capital to risk weighted assets, contingent liabilities, operational and market risk above the prescribed minimum levels. As at 31 December 2014 and 31 December 2013, this minimum level of tier 1 capital to risk weighted assets, contingent liabilities, operational and market risk was 5% and the minimum level of total capital to risk weighted assets, contingent liabilities, operational and market risk was 10%. The Bank was in compliance with the statutory capital requirements as at 31 December 2014 and 31 December 2013.

The following table shows the composition of the capital position calculated in accordance with the requirements of the NBRK:

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

	2014 KZT'000	2013 KZT'000
Tier 1 capital		
Share capital	5,199,503	5,199,503
Retained earnings of prior years	15,945,415	10,435,000
Intangible assets	(312,613)	(256,072)
Total tier 1 capital	**20,832,305**	**15,378,431**
Tier 2 capital		
Profit for the year	8,237,864	12,310,415
Subordinated borrowings	256,000	384,000
Total tier 2 capital	**8,493,864**	**12,694,415**
Total capital	**29,326,169**	**28,072,846**
Total credit risk-weighted assets	**107,836,821**	**85,067,668**
Total credit risk-weighted assets and liabilities, including market and operational risk	**126,429,792**	**94,908,228**
Total capital expressed as a percentage of credit risk-weighted assets and liabilities, including market and operational risk (total capital ratio)	**23.2%**	**29.6%**
Total tier 1 capital expressed as a percentage of credit risk-weighted assets and liabilities, including market and operational risk (tier 1 capital ratio)	**16.5%**	**16.2%**

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

26 Commitments

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

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to one year. The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if the counterparties failed completely to perform as contracted.

	2014 KZT'000	2013 KZT'000
Contracted amount		
Loan and credit line commitments	1,194,999	301,063
Guarantees and letters of credit	-	5,728
	1,194,999	**306,791**

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

As at 31 December 2014 the Bank had no counterparties whose commitment balances exceeded 10% of the Bank's equity (31 December 2013: none).

27 Operating leases

The Bank leases a number of premises under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. Usually lease agreements are concluded on the terms that allow the Bank to cancel the lease at any time during the lease term. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During 2014 KZT 1,060,668 thousand was recognized as an expense in the statement of profit or loss and other comprehensive income in respect of operating leases (2013: KZT 654,165 thousand).

As at 31 December 2014 the Bank reported KZT 14,153 thousand of prepayments included in the balance of other assets serving as security deposits in case of an early termination of lease agreements (31 December 2013: KZT 18,027 thousand).

28 Contingencies

(a) Insurance

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

28 Contingencies, continued

(b) Litigation

Management is unaware of any significant actual, pending or threatened claims against the Bank.

(c) Taxation contingencies

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

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

29 Related party transactions

(a) Control relationships

The Bank's parent company is Home Credit and Finance Bank (Russia). The Bank's ultimate controlling owner is Petr Kellner. Publicly available financial statements are produced by the Bank's parent company.

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

Total remuneration included in personnel expenses for the year ended 31 December 2014 and 31 December 2013 was as follows:

	2014 KZT'000	**2013 KZT'000**
Members of the Board of Directors	271,414	128,415
Members of the Management Board	251,507	291,294
	522,921	**419,709**

29 Related party transactions, continued

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

The outstanding balances and average interest rates as at 31 December 2014 and 31 December 2013 for transactions with members of the Board of Directors and the Management Board were as follows:

	2014 KZT'000	Average interest rate, %	2013 KZT'000	Average interest rate, %
Statement of financial position				
LIABILITIES				
Current accounts and deposits from customers	9,959	1,76	3,539	2

Total amounts included in profit or loss in relation to transactions with members of the Board of Directors and the Management Board for 2014 and 2013 were as follows:

Statement of comprehensive income	2014 KZT'000	2013 KZT'000
Interest expense	1,032	20
	1,032	**20**

(c) Transactions with the parent

As at 31 December 2014 and 31 December 2013 transactions with the parent included in the statement of financial position were as follows:

Statement of financial position	2014 KZT'000	Average interest rate, %	2013 KZT'000	Average interest rate, %
ASSETS				
Cash and cash equivalents				
-In USD	66	-	55	-
-In EUR	70	-	83	-
-In RUB	25	-	37	-
LIABILITIES				
Deposits and balances from banks				
-In KZT	209	-	8,540	-
Other borrowed funds				
-In KZT	-	-	11,150,645	13.93
-In USD	8,618,651	9.27	-	-

29 Related party transactions, continued

(c) Transactions with the parent, continued

During 2014 and 2013 transactions with the parent included in the statement of profit or loss and other comprehensive income were as follows:

Statement of profit or loss and other comprehensive income	2014 KZT'000	2013 KZT'000
Interest expense		
Other borrowed funds		
-In KZT	923,368	600,160
-In USD	89,074	204,899
	1,012,442	**805,059**
Net loss on financial instruments at fair value through profit or loss		
Foreign currency contracts	-	9,230
	-	**9,230**
Fee and commisiion expense		
Other fee and commission expense		
-In KZT	6,372	-
	6,372	**-**

(d) Transactions with entities controlled by the ultimate controlling owner

As at 31 December 2014 and 31 December 2013 transactions with entities controlled by the ultimate controlling owner included in the statement of financial position were as follows:

Statement of financial position	2014 KZT'000	Average interest rate, %	2013 KZT'000	Average interest rate, %
ASSETS				
Property, equipment and intangible assets				
-In KZT	1,687,797	-	970,652	-
LIABILITIES				
Deposits and balances from banks				
-In KZT	2,428,283	14.40	8,045,168	12.88
Current accounts and deposits from customers				
-In KZT	615,901	8.00	578,190	8.00
Subordinated borrowings				
-In KZT	640,284	16.00	640,171	9.64
Other borrowed funds				
-In KZT	4,872,383	15.50	11,750,403	16.51
-In USD	8,270,842	6.50	-	-
Other financial liabilities				
-In KZT	70,098	-	92,678	-

29 Related party transactions, continued

(d) Transactions with entities controlled by the ultimate controlling owner, continued

During 2014 and 2013 transactions with entities controlled by the ultimate controlling owner included in the statement of profit or loss and other comprehensive income were as follows:

Statement of profit or loss and other comprehensive income	2014 KZT'000	2013 KZT'000
Interest expense		
Deposits and balances from banks		
-In KZT	662,820	845,305
Current accounts and deposits from customers		
-In KZT	47,528	41,764
Subordinated borrowings		
-In KZT	97,151	62,553
Other borrowed funds		
-In KZT	1,809,222	1,186,984
-In USD	64,901	-
	2,681,622	**2,136,606**
Net loss on financial instruments at fair value through profit or loss		
Foreign currency contracts	-	5,270
	-	**5,270**
General administrative expenses		
General administrative expenses	1,212,638	876,357
	1,212,638	**876,357**

30 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

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

KZT'000	Designated at fair value	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash equivalents	-	1,743,555	-	1,743,555	1,743,555
Loans and advances to banks	-	3,184	-	3,184	3,184
Financial instruments at fair value through profit and loss	292,148	-	-	292,148	292,148
Loans to customers	-	101,200,959	-	101,200,959	101,200,959
Other financial assets	-	776,106	-	776,106	776,106
	292,148	**103,723,804**	-	**104,015,952**	**104,015,952**
Deposits and balances from banks	-	-	3,434,275	3,434,275	3,359,897
Current accounts and deposits from customers	-	-	38,512,132	38,512,132	38,512,132
Debt securities issued	-	-	13,771,229	13,771,229	12,886,911
Subordinated borrowings	-	-	640,284	640,284	640,284
Other borrowed funds	-	-	21,761,876	21,761,876	22,540,196
Other financial liabilities	-	-	3,004,429	3,004,429	3,004,429
	-	**-**	**81,124,225**	**81,124,225**	**80,943,849**

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

KZT'000	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash equivalents	6,949,864	-	6,949,864	6,949,864
Loans and advances to banks	2,111	-	2,111	2,111
Loans to customers	101,626,929	-	101,626,929	101,626,929
Other financial assets	1,291,827	-	1,291,827	1,291,827
	109,870,731	-	**109,870,731**	**109,870,731**
Deposits and balances from banks	-	8,053,708	8,053,708	8,053,708
Current accounts and deposits from customers	-	46,562,674	46,562,674	46,562,674
Debt securities issued	-	6,847,999	6,847,999	6,847,999
Subordinated borrowings	-	640,171	640,171	640,171
Other borrowed funds	-	22,901,048	22,901,048	22,901,048
Other financial liabilities	-	2,123,968	2,123,968	2,123,968
	-	**87,129,568**	**87,129,568**	**87,129,568**

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

(a) Accounting classifications and fair values, continued

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

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

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

(b) Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

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

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

(c) Fair value hierarchy, continued

Specific controls include:

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

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

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

Significant valuation issues are reported to the Management Board.

The table below shows financial instruments measured at fair value at 31 December 2014, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

KZT'000	**Level 3**	**Total**
Financial instruments at fair value through profit or loss		
- Derivative assets	292,148	292,148
	292,148	**292,148**

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

(b) Fair value hierarchy, continued

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

	Level 3	
	Financial instruments at fair value through profit or loss	Total
KZT’000	Derivative assets	
Balance at beginning of the year	-	-
Issue	294,337	294,337
Total gains or losses in profit or loss	(2,189)	(2,189)
Balance at end of the year	**292,148**	**292,148**

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing the estimated discount rates by 1% fall or rise, would have the following effects as at 31 December 2014:

	Effect on profit or loss	
KZT’000	Favourable	Unfavourable
Financial instruments at fair value through profit or loss		
- Derivative assets	60,335	(23,845)

The fair value of financial instruments that are not measured at fair value as at 31 December 2014 and 2013 are categorised into the level 2 in the fair value hierarchy.