“Al Hilal” Islamic Bank” JSC

Financial Statements
for the year ended 31 December 2014

Contents

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Independent Auditors' Report

To the Shareholder and Board of Directors of "Al Hilal" Islamic Bank" JSC

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

«КПМГ Аудит» ЖШС, Қазақстанда тіркелген; Швейцария заңнамасы бойынша тіркелген KPMG International Cooperative ("KPMG International") қауымдастығына кіретін KPMG тәуелсіз фирмалар желісінің мүшесі.

KPMG Audit LLC, a company incorporated under the Laws of the Republic of Kazakhstan, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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.

Other Matter

The financial statements of the Bank as at and for the year ended 31 December 2013 were audited by other auditors whose report dated 18 February 2014 expressed an unmodified opinion on those statements.

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

Ashley Clarke
Audit Partner

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

16 March 2015

	Note	2014 KZT'000	2013 KZT'000
ASSETS			
Cash and cash equivalents	6	1,689,533	7,180,574
Receivables under commodity murabaha agreements	7	7,522,559	5,953,307
Wakala investment deposits	8	2,590,278	2,346,380
Ijara	9	1,000,338	862,867
Islamic derivative financial instrument	10,25	231,163	-
Property and equipment	11	313,174	240,733
Intangible assets	12	7,123	6,750
Current tax asset		18,948	-
Deferred tax assets	13	-	8,116
Other assets	14	124,187	53,856
Total assets		**13,497,303**	**16,652,583**
LIABILITIES			
Amounts due to customers	15	1,800,630	5,584,286
Unamortised commission income	16	24,981	15,361
Deferred tax liabilities	13	14,106	-
Other liabilities	14	150,554	123,426
Total liabilities		**1,990,271**	**5,723,073**
EQUITY	17		
Share capital		10,732,338	10,732,338
Retained earnings		774,694	197,172
Total equity		**11,507,032**	**10,929,510**
Total liabilities and equity		**13,497,303**	**16,652,583**

The financial statements as set out on pages 5 to 45 were approved by the Management Board on 16 March 2015 and were signed on its behalf by:

Prasad Abraham
Chairman of the Management Board

Aidyn Tairov
Chief Accountant

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

	Note	2014 KZT’000	2013 KZT’000
Revenue from Islamic finance activities	19	**815,350**	**621,259**
Net fee and commission income	20	840,092	664,017
Change in fair value of the Islamic derivative financial instrument		24,444	15,622
Net gains from foreign currencies	21	50,825	9,503
Non-finance income		**915,361**	**689,142**
Impairment losses	22	(108,854)	-
Personnel expenses	23	(575,828)	(501,886)
Other operating expenses	23	(357,090)	(311,579)
Non-finance expenses		**(1,041,772)**	**(813,465)**
Profit before income tax		**688,939**	**496,936**
Income tax expense	13	(111,417)	(77,030)
Profit and total comprehensive income for the year		**577,522**	**419,906**

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.

	2014 KZT'000	2013 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenue received from Islamic finance activities	703,164	433,213
Fee and commission received	852,623	623,178
Fee and commission paid	(2,911)	(2,635)
Net realised losses from dealing in foreign currencies	(15,545)	(5,226)
Personnel expenses paid	(481,875)	(410,262)
Other operating expenses paid	(327,818)	(278,441)
Cash flows from operating activities before changes in operating assets and liabilities	**727,638**	**359,827**
Net (increase)/decrease in operating assets		
Receivables under commodity murabaha agreements	(1,546,705)	1,642,583
Ijara	(261,753)	507,185
Wakala investment deposits	(138,831)	(1,273,904)
Islamic derivative financial instrument	(179,080)	-
Other assets	(74,088)	4,382
Net increase/(decrease) in operating liabilities		
Amounts due to wakala depositors	-	(102,758)
Amounts due to customers	(3,903,055)	4,973,705
Other liabilities	(60,034)	(72,788)
Net cash flow (used in)/from operating activities before corporate income tax	**(5,435,908)**	**6,038,232**
Corporate income tax paid	(108,143)	-
Net cash flows (used in)/from operating activities	**(5,544,051)**	**6,038,232**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(113,991)	(23,241)
Proceeds from sale of property and equipment	12,925	50
Purchase of intangible assets	(4,054)	(3,354)
Net cash flows used in investing activities	**(105,120)**	**(26,545)**
Effect of exchange rates changes on cash and cash equivalents	158,130	968
Net (decrease)/increase in cash and cash equivalents	**(5,491,041)**	**6,012,655**
Cash and cash equivalents as at the beginning of the year	7,180,574	1,167,919
Cash and cash equivalents as at the end of the year (note 6)	**1,689,533**	**7,180,574**

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**	**Retained earnings**	**Total equity**
Balance as at 1 January 2013	10,732,338	(222,734)	10,509,604
Profit for the year	-	419,906	419,906
Total comprehensive income for the year	-	419,906	419,906
Balance as at 31 December 2013	**10,732,338**	**197,172**	**10,929,510**
Balance as at 1 January 2014	10,732,338	197,172	10,929,510
Profit for the year	-	577,522	577,522
Total comprehensive income for the year	-	577,522	577,522
Balance as at 31 December 2014	**10,732,338**	**774,694**	**11,507,032**

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

1 Principal activities

Organisation and operations

"Al Hilal" Islamic Bank" JSC (the "Bank") was formed on 22 January 2010 as a joint stock company under the laws of the Republic of Kazakhstan. The Bank operates under a general banking license №1.1.261 issued by the Agency for Regulation and Supervision of Financial Markets and Financial Organisations (the "FMSA") on 17 March 2010 (re-issued 23 February 2015).

In accordance with the Decree of the President № 61 dated 18 April 2011 FMSA was reorganised to the Committee for Regulation and Supervision of Financial Markets and Financial Organisations of the National Bank of Kazakhstan (hereinafter – "FMSC").

The Bank is involved in Islamic banking activities and carries out its operations through its head office in Almaty and branches in Astana and Shymkent. The Bank accepts deposits from the public and extends finance transactions based on Sharia principles and rules, transfers payments within Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial customers.

The sole shareholder of the Bank is Al Hilal Bank PJSC (Abu Dhabi, United Arab Emirates). The ultimate shareholder of the Bank is the Government of the Abu Dhabi, represented by Abu Dhabi Investment Council.

The registered and actual address of the Bank is Al-Farabi Ave 77/7, Almaty, 050040, Republic of Kazakhstan.

Kazakhstan business environment

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

2 Basis of preparation

General

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

The financial statements have been prepared under the historical cost convention except that islamic derivative financial instruments are stated at fair value. These financial statements are presented in thousands of Kazakhstani tenge ("tenge" ot "KZT") unless otherwise indicated.

3 Definition of significant terms

Sharia

Sharia is the Body of Islamic law and is derived from the Holy Quran and the Sunna’h of Holy Prophet (PBUH). The Bank being an Islamic Financial Institution incorporates the principles and rules of Sharia in its activities, as interpreted by its Islamic Financial Principles Board.

Commodity murabaha or tawarruq

A method where the Bank purchases commodities from a Broker and takes ownership and constructive possession of commodity and then sells it to a customer on a deferred payment basis. The customer then sells the same asset to a third party for immediate delivery and payment, the end result being that the customer receives a cash amount and has a deferred payment obligation for the marked-up price to the Bank. The asset is typically a freely tradable commodity such as platinum or palladium. Gold and silver are treated by Sharia as currency and cannot be used.

Ijara

Leasing of identified asset ending with ownership transfer (also known as Ijara Muntahia Bitamleek) is an agreement whereby the Bank buys an asset according to the customer’s intention, presented in intent notice and then leases it, in its capacity as a lessor, to the customer as lessee for the specified rental over a specific period. The duration of the lease term, as well as the basis for rental, are set and agreed in lease agreement. The Bank possesses ownership of the asset throughout the lease term. The arrangement could end by transferring the ownership of the asset to the lessee upon completion by the lessee of it obligation during or at the end of lease term.

Mudaraba

Mudaraba is a contractual arrangement whereby two or more parties undertake an economic activity. Mudaraba is a partnership in profit between capital and work. It may be conducted between investment account holders as providers of funds and the Bank as a Mudarib. The Bank announces its willingness to accept the funds of investment account holders, the sharing of the profits being as agreed between the two parties and the losses being borne by the provider of the funds except if they were due to misconduct, negligence or violation of the conditions agreed upon by the Bank, in which case, such losses would be borne by the Bank.

Wakala

An agreement whereby the Investor provides a certain sum of money to an agent, who invests it according to specific conditions in return for a certain fee (a lump sum of money or percentage of the amount invested). The agent may be granted any excess over and above a certain pre-agreed expected rate of return as a performance incentive. The agent is obliged to return the invested amount in case of the agent’s negligence or violation of the terms and conditions of the wakala.

Zakah

It is a right, which becomes due in certain types of wealth and disbursable to specific categories of recipients. It is an in rem duty when its conditions are satisfied.

Sukuk

Sukuk are certificates of equal value representing undivided common shares in ownership of tangible assets or in the ownership of a specific asset (leased or to be leased either existing or to be constructed in future), usufruct and services or in the ownership of cash receivables of selling an existing-owned asset, or in the ownership of goods receivables, or in the ownership of the assets of Mudaraba or Partnership companies. In all these cases, the Sukuk holders shall be the owners of their common shares in the leased assets, or in the cash receivables, or the goods receivable, or in the assets of the Partnership or the Mudaraba.

3 Definition of significant terms, continued

Wa’ad Swap (Islamic derivative financial instrument)

Currency and profit rate swaps are promises to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or profit rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross - currency profit rate swaps).

Qard Hassan

Qard Hassan short-term receivables are non-profit bearing financing receivables whereby the customer borrows funds for a period of time with an understanding that the same amount shall be repaid at the end of the agreed period.

4 Summary of accounting policies

Financial assets

Initial recognition

The Bank has voluntarily adopted IFRS 9 (2009) starting from 1 January 2013.

IFRS 9 (2009) specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortised cost or fair value.

The financing instruments are measured at amortised cost only if:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

If either of the two criteria is not met the financial instrument is classified as at fair value through profit or loss (“FVTPL”). The Bank has elected not to designate any financing instruments as FVTPL under the fair value option.

Only financial assets that are classified and measured at amortised cost are tested for impairment.

Investments in equity instruments not held for trading are designated by the Bank as at fair value through other comprehensive income (“FVTOCI”). If the equity investment is designated as at FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently reclassified to profit or loss.

Financial assets in the scope of IFRS 9 (2009) are classified as either financial assets at fair value through profit or loss or financial assets measured at amortised cost as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

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

4 Summary of accounting policies, continued

Financial assets, continued

Receivables from Islamic finance activities

Receivables from Islamic finance activities, which include receivables under commodity murabaha agreements, are non-derivative financial assets with fixed payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities at fair value through profit or loss. Such assets are carried at amortised cost using the effective profit rate method. Gains and losses are recognised in the profit or loss statement when the receivables are derecognised or impaired, as well as through the amortisation process. The Bank's receivable from Islamic finance activities consists of murabaha receivables. Murabaha receivables are stated at amortised cost less any provision for impairment.

Determination of fair value

The Bank did not measure any financial instruments except for Islamic Financial Derivatives at fair value at the balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in Note 25.

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

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

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

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

4 Summary of accounting policies, continued

Financial assets, continued

Determination of fair value, continued

For all financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Cash and cash equivalents

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

4 Summary of accounting policies, continued

Leases

Operating – Bank as lessee

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

Ijara Muntahia Bitamleek (Finance lease) – Bank as lessor

A form of leasing contract, which includes an undertaking by a lessor to transfer the ownership in the leased property to the lessee, either at the end of the term of the ijara or by stage during the term of the lease agreement. The Bank recognises ijara assets at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Rental income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the financing under ijara agreements.

Impairment of financial assets

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

Receivables from Islamic finance activities

For receivables from Islamic finance activities carried at amortised cost, including receivables under commodity murabaha agreements, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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

4 Summary of accounting policies, continued

Impairment of financial assets, continued

Receivables from Islamic finance activities, continued

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

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

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

Derecognition of financial assets and liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.
- Total loss of subject of lease not due customer fault; in which case the existing asset will generally be derecognised and the rental payments will be recalculated on the basis of the prevailing market rate of rental for similar property which will be determined by the Bank.

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

4 Summary of accounting policies, continued

Derecognition of financial assets and liabilities, continued

Financial liabilities

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

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

Taxation

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

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

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

Property and equipment

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

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

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

	Years
Buildings	20;
Leasehold improvements	3-7;
Motor vehicles	4;
Furniture and fixtures	4;
Computers and office equipment	4.

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end. Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalisation.

Assets under construction represent property and equipment under construction and equipment awaiting installation and is stated at cost. Construction-in-progress includes cost of construction and equipment and other direct costs. Once completed or when the equipment are ready for their intended use, construction-in-process is transferred into the appropriate category and depreciation commenced accordingly.

4 Summary of accounting policies, continued

Intangible assets

Intangible assets include computer software. Intangible assets are carried at cost less any accumulated amortisation. Intangible assets are amortised on a straight – line basis over the useful economic lives of 4 years and assessed for impairment whenever there is an indication that the intangible assets may be impaired.

Provisions

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

Retirement and other employee benefit obligations

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

Share capital

Ordinary shares with discretionary dividends are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity.

Fiduciary assets

Assets held in a fiduciary capacity under wakala and mudaraba agreements are not reported in the financial statements, as they are not the assets of the Bank.

Since the Bank carries no risk and is not responsible for any losses incurred during normal investment activity for mudaraba and wakala products, unless this happened due to the Bank's gross negligence or willful misconduct, both wakala and mudaraba deposits are accounted as off balance sheet items in the Bank's financial statements.

Contingencies

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

Commission income

Commission income is the commission charged by the Bank to its customers for studying and documentation of Islamic Financing. Commission income which is directly related to contracts is deferred and amortised based on the effective profit rate over the period of the related contracts.

Recognition of income and expenses

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

4 Summary of accounting policies, continued

Recognition of income and expenses, continued

Income and expense on Islamic finance

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

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

Fee and commission income

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income, Mudarib share of profit, Wakil's incentive and agency fee under wakala agreements.

Foreign currency translation

The financial statements are presented in Kazakh tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into KZT at the market exchange rate quoted by the Kazakhstan Stock Exchange (the "KASE") and reported by the NBRK at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of profit or loss and comprehensive income as net gains from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

4 Summary of accounting policies, continued

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. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

- 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 finalised 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, except the first phase. The Bank has early adopted the first phase of IFRS 9 *Financial Instruments*. The finalised 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.

5 Significant accounting judgments and estimates

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

Impairment losses on ijara, receivables under commodity murabaha and wakala investment deposits

The Bank regularly reviews its ijara, receivables under commodity murabaha and wakala investment deposits to assess impairment. The Bank uses its experienced judgment to estimate the amount of any impairment loss in cases where an obligor is in financial difficulties and there are few available sources of historical data relating to similar obligors. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of obligors. Further information on assumptions are disclosed in Note 7.

Measurement and recognition of Islamic derivative financial instrument

The Bank enters into derivative transactions with counterparties. The transaction price in the market in which these transactions are undertaken may be different from fair value in the Bank's principal market for those instruments, which is the wholesale dealer market. At initial recognition, the Bank estimates the fair values of derivatives transacted with counterparties using valuation techniques. In many cases all significant inputs into the valuation techniques are wholly observable, for example by reference to information from similar transactions in the wholesale dealer market. In cases where all inputs are not observable, for example because there are no observable trades in a similar risk at the reporting date, the Bank uses valuation techniques that rely on unobservable inputs – for example, volatilities of certain underlyings.

6 Cash and cash equivalents

Cash and cash equivalents comprise:

	2014 KZT’000	2013 KZT’000
Cash on hand	90,215	17,634
Current account with the NBRK	711,035	6,116,143
Current accounts with other financial institutions		
- rated from AA- to AA+	885,223	892,960
- not rated	3,060	153,837
Cash and cash equivalents	**1,689,533**	**7,180,574**

Under Kazakh legislation, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held on the current account with the NBRK or physical cash computed based on average monthly balances of the aggregate of cash balances on current account with the NBRK or physical cash in national and hard currencies during the period of reserve creation. However, the Bank is not restricted from using these funds to finance its day-to-day operations.

As at 31 December 2014, obligatory reserves amounted to KZT 60,622 thousand (31 December 2013: KZT 209,149 thousand).

7 Receivables under commodity murabaha agreements

	2014 KZT’000	2013 KZT’000
Gross receivables under commodity murabaha agreements	7,897,562	6,350,857
Less: deferred profit	(301,319)	(397,550)
Less: impairment allowance (Note 22)	(73,684)	-
Net receivables under commodity murabaha agreements	**7,522,559**	**5,953,307**

As at 31 December 2014, receivables under commodity murabaha agreements bear profit rate of 3.6%-12% per annum and mature in 2015-2018 (2013: profit rate 3.6%-12% per annum and maturity in 2014-2018).

Collateral and other credit enhancements

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

As at 31 December 2014 and 2013, receivables arising from commodity murabaha agreements are secured by real estate, movable property, inventory, corporate guarantees and cash deposits. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment on receivables from commodity murabaha agreements.

For the year ended 31 December 2014 no amounts are overdue or show specific indicators of impairment. However, management has estimated the historical annual loss rate of 0.97% on receivables from Islamic finance activities (including ijara and wakala investment deposits, as disclosed in notes 8 and 9) based on the historical data that was available in the Kazakhstan banking industry for a group of assets with similar characteristics.

Management believes that this data reflects the current economic conditions and has therefore recorded an estimated collective impairment allowance of 0.97% on these assets related to Islamic finance activities.

7 Receivables under commodity murabaha agreements, continued

Collateral and other credit enhancements, continued

Changes in these estimates could affect the impairment provision. For example, to the extent, that the net present value of the estimated cash flows differs by 0.5 percent, the impairment allowance on receivables from Islamic finance activities as at 31 December 2014 would be KZT 55,566 thousand lower/higher. This amount includes KZT 37,613 thousand, KZT 12,951 thousand and KZT 5,002 thousand related to receivables under murabaha agreements, ijara and wakala investment deposits, respectively.

Concentration of receivables under commodity murabaha agreements

Receivables under commodity murabaha agreements are made principally within Kazakhstan in the following industry sectors:

	2014 KZT'000	**2013 KZT'000**
Food trading	2,661,385	2,793,255
Transportation and communication	2,482,941	61,129
Trade	1,777,758	416,708
Real estate construction	297,074	1,338,728
Agriculture, Forestry, Fishing and Hunting	265,019	77,150
Machinery and equipment trade	105,656	474,726
Individual (employees of the Bank)	3,236	4,182
Individual	3,174	4,079
Financial Institution	-	783,350
	7,596,243	**5,953,307**
Impairment allowance	(73,684)	-
	7,522,559	**5,953,307**

The following tables provide information on collateral and other credit enhancements securing receivables under commodity murabaha agreements, net of impairment, by types of collateral:

31 December 2014 KZT'000	**Carrying amount**	**Fair value of collateral: for collateral assessed as of reporting date**
Receivables under commodity murabaha agreements without individual signs of impairment		
Guarantees	3,959,161	3,959,161
Real estate	3,042,979	3,042,979
Equipment	520,419	520,419
Total receivables under commodity murabaha agreements without individual signs of impairment	**7,522,559**	**7,522,559**

31 December 2013 KZT'000	**Carrying amount**	**Fair value of collateral: for collateral assessed as of reporting date**
Receivables under commodity murabaha agreements without individual signs of impairment		
Guarantees	2,420,845	2,420,845
Real estate	1,949,327	1,949,327
Equipment	1,560,567	1,560,567
Cash and deposits	20,286	20,286
Motor vehicles	2,282	2,282
Total receivables under commodity murabaha agreements without individual signs of impairment	**5,953,307**	**5,953,307**

7 Receivables under commodity murabaha agreements, continued

Concentration of receivables under commodity murabaha agreements, continued

As at 31 December 2014, the Bank has two counterparties or groups of connected counterparties under murabaha agreements (2013: three), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2014 is KZT 4,327,274 thousand (2013: KZT 4,576,663 thousand).

8 Wakala investment deposits

As at 31 December 2014 the Bank had investment transactions under wakala agreements, which bear expected profit rate of 7-8% per annum and mature in 2017-2019 (2013: profit rate 7-8% per annum and maturity 2017-2018). The amount of the wakala investment deposit as at 31 December 2014 equals to KZT 2,590,278 thousand (31 December 2013: KZT 2,346,380 thousand) and the amount of the impairment allowance on wakala investment deposits is KZT 25,371 thousand (31 December 2013: nil) (Note 22). Information on assumptions used to assess impairment losses are disclosed in Note 7. Wakala investment deposits are made principally within Kazakhstan in the postal services.

As at 31 December 2014, the Bank has one financial institution (2013: one), whose investment deposit balances exceed 10% of equity. The gross value of these balances as at 31 December 2014 is KZT 2,590,278 thousand (2013: KZT 2,346,380 thousand).

9 Ijara

This represents net investment in assets leased for periods, which either approximate or cover major parts of the estimated useful lives of such assets. The documentation for ijara includes a separate undertaking from the Bank to sell the leased assets to the lessee upon the maturity of the lease:

2014 **KZT'000**	**Not later than 1 year**	**Later than 1 year and not later than 5 years**	**Total**
Ijara to be received upon the maturity of the ijara	503,878	590,400	1,094,278
Less: future variable rental (deferred income)	(48,252)	(35,889)	(84,141)
Less: impairment allowance (Note 22)	(4,420)	(5,379)	(9,799)
Net present value of minimum ijara	**451,206**	**549,132**	**1,000,338**

2013 **KZT'000**	**Not later than 1 year**	**Later than 1 year and not later than 5 years**	**Total**
Ijara to be received upon the maturity of the ijara	502,160	448,091	950,251
Less: future variable rental (deferred income)	(54,190)	(33,194)	(87,384)
Net present value of minimum ijara	**447,970**	**414,897**	**862,867**

Information on assumptions used to assess impairment losses is disclosed in Note 7.

The Bank started ijara transactions in 2011. As at 31 December 2014, ijara bear profit rate of 7.5-8.5% per annum and mature in 2015-2017 (2013: profit rate of 8-8.5% per annum and mature in 2015-2016).

The entire amount of ijara is collateralised by equipment, fair value of which is determined at the reporting date.

As at 31 December 2014, the Bank has no counterparties under ijara (2013:none), whose ijara balances exceed 10% of equity.

10 Islamic derivative financial instrument

Derivative financial asset represents the fair value of the cross currency wa'ad swap contracted with the National Bank of the Republic of Kazakhstan to deliver KZT 1,989,570 thousand in exchange for USD 11,000 thousand. The Bank made a prepayment of the premium of KZT 179,080 thousand. This wa'ad swap matures in 2017. Both parties have a right to early terminate the contract.

To determine the fair value of the wa'ad swap, management assumed a profit rate in KZT of 5.58% and profit rate in USD of 1.24%. Management assumes that the early termination right will not be exercised when estimating fair value.

11 Property and equipment

The movements in property and equipment were as follows:

KZT'000	Buildings	Leasehold improve-ments	Motor vehicles	Furniture and fixtures	Computer sand other office equipment	Total
Cost						
1 January 2013	220,662	12,925	22,557	27,897	10,396	294,437
Additions	1,307	9,511	-	1,742	10,681	23,241
Disposals	-	-	-	(50)	-	(50)
31 December 2013	**221,969**	**22,436**	**22,557**	**29,589**	**21,077**	**317,628**
Additions	-	98,406	-	4,437	8,113	110,956
Disposals	-	(12,925)	-	-	-	(12,925)
31 December 2014	**221,969**	**107,917**	**22,557**	**34,026**	**29,190**	**415,659**
Accumulated depreciation						
1 January 2013	(17,426)	(4,143)	(8,459)	(12,618)	(4,236)	(46,882)
Depreciation charge	(10,911)	(2,991)	(5,639)	(7,026)	(3,446)	(30,013)
31 December 2013	**(28,337)**	**(7,134)**	**(14,098)**	**(19,644)**	**(7,682)**	**(76,895)**
Depreciation charge	(11,024)	(9,212)	(5,639)	(6,416)	(6,224)	(38,515)
Disposals	-	12,925	-	-	-	12,925
31 December 2014	**(39,361)**	**(3,421)**	**(19,737)**	**(26,060)**	**(13,906)**	**(102,485)**
Net book value						
31 December 2012	203,236	8,782	14,098	15,279	6,160	247,555
31 December 2013	**193,632**	**15,302**	**8,459**	**9,945**	**13,395**	**240,733**
31 December 2014	**182,608**	**104,496**	**2,820**	**7,966**	**15,284**	**313,174**

12 Intangible assets

KZT'000	Computer software
Cost	
1 January 2013	12,120
Additions	3,354
31 December 2013	**15,474**
Additions	4,054
31 December 2014	**19,528**
Accumulated amortisation	
1 January 2013	(5,600)
Amortisation charge	(3,124)
31 December 2013	**(8,724)**
Amortisation charge	(3,681)
31 December 2014	**(12,405)**
Net book value	
31 December 2012	6,520
31 December 2013	**6,750**
31 December 2014	**7,123**

13 Taxation

The income tax expense comprises:

	2014 KZT'000	2013 KZT'000
Current tax charge	89,195	-
Deferred tax expense – origination and reversal of temporary differences	22,222	77,030
Income tax expense	**111,417**	**77,030**

The Republic of Kazakhstan is the only tax jurisdiction in which the Bank's income is taxable. In accordance with Kazakhstan tax legislation, the income tax rate is set at 20%.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax benefit based on statutory corporate income rates with actual is as follows:

	2014 KZT'000	2013 KZT'000
Profit before income tax	**688,939**	**496,936**
Dynamic provision expense (tax deductible)	-	(29,965)
Income before income tax expense	**688,939**	**466,971**
Statutory corporate income tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**137,788**	**93,394**
Non-taxable income from ijara	(28,048)	(18,378)
Non-deductible expenditures	1,677	2,014
Income tax expense	**111,417**	**77,030**

13 Taxation, continued

Deferred tax assets and liabilities and their movements in temporary differences in 2014 and 2013 are presented below.

KZT'000	Balance 1 January 2014	Recognised in profit or loss	Balance 31 December 2014
Tax effect of deductible temporary differences:			
Tax loss carried forward	(9,322)	9,322	-
Accrual for bonuses	15,888	708	16,596
Unused vacation accrual	1,020	561	1,581
Islamic derivative financial instrument	8,630	(8,630)	-
Deferred tax assets	**16,216**	**1,961**	**18,177**
Tax effect of taxable temporary differences:			
Property and equipment	(8,100)	(17,296)	(25,396)
Islamic derivative financial instrument	-	(6,887)	(6,887)
Deferred tax liabilities	**(8,100)**	**(24,183)**	**(32,283)**
Deferred tax liabilities, net	**8,116**	**(22,222)**	**(14,106)**

KZT'000	Balance 1 January 2013	Recognised in profit or loss	Balance 31 December 2013
Tax effect of deductible temporary differences:			
Tax loss carried forward	70,179	(79,501)	(9,322)
Accrual for bonuses	14,245	1,643	15,888
Unused vacation accrual	1,289	(269)	1,020
Islamic derivative financial instrument	5,877	2,753	8,630
Deferred tax assets	**91,590**	**(75,374)**	**16,216**
Tax effect of taxable temporary differences:			
Property and equipment	(6,444)	(1,656)	(8,100)
Deferred tax liabilities	**(6,444)**	**(1,656)**	**(8,100)**
Deferred tax assets, net	**85,146**	**(77,030)**	**8,116**

14 Other assets and liabilities

Other assets comprise:

	31 December 2014 KZT'000	31 December 2013 KZT'000
Guarantee deposit	42,374	18,266
Rent prepayment	32,920	3,356
Prepaid insurance premium	13,098	11,666
VAT recoverable and other prepaid taxes	9,951	5,607
Due from employees under Qard Hassan agreements	7,938	3,357
Information services and consulting prepayments	7,299	4,173
Furniture prepayments	3,035	-
Agency commission and performance incentive receivable under wakala agreements	-	117
Other prepayments	7,572	7,314
Other assets	**124,187**	**53,856**

Other liabilities comprise:

	31 December 2014 KZT'000	31 December 2013 KZT'000
Accrual of bonuses	79,259	74,868
Accounts payable	35,416	38,002
Deferred income on swap operations	27,639	-
Unused vacation accrual	7,903	5,100
Taxes payable, other than income tax	60	5,456
Other	277	-
Other liabilities	**150,554**	**123,426**

15 Amounts due to customers

The amounts due to customers include the following:

	31 December 2014 KZT'000	31 December 2013 KZT'000
Current accounts	1,800,630	5,584,286
Amounts due to customers	**1,800,630**	**5,584,286**

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

	31 December 2014 KZT'000	31 December 2013 KZT'000
Private enterprises	1,395,516	5,445,031
Employees	202,705	2,183
Individuals	92,015	10,146
Government entities	52,958	82,509
International organisations	57,436	44,417
Amounts due to customers	**1,800,630**	**5,584,286**

15 Amounts due to customers, continued

An analysis of customer accounts by economic sector follows:

	31 December 2014 KZT'000	31 December 2013 KZT'000
Industrial constructions	289,173	194,076
Leasing	286,580	1,334,862
Post	261,569	175,189
Employees	202,705	2,183
Trade	133,674	95,354
Transport and communication	128,617	60,158
Individuals	92,015	10,146
Agriculture, Forestry, Fishing and Hunting	62,145	84,555
Food trading	60,709	109,728
Charity	57,436	44,417
Government	52,958	82,509
Construction	30,631	1,859,411
Financial services	30,188	-
Real estate constructions	27,610	1,287,650
Machinery and equipment trade	9,759	1,260
Other	74,861	242,788
Amounts due to customers	**1,800,630**	**5,584,286**

16 Unamortised commission income

Unamortised commissions are the commission charged by the Bank to its customers for studying and documentation of Islamic Financing. As unamortised commissions are transaction costs directly attributable to issue of Islamic Financing they are amortised over the expected life of the agreements. As at 31 December 2014 and 2013 the amount of unamortised commission is KZT 24,981 thousand and KZT 15,361 thousand, respectively.

17 Equity

10,732,338 common shares (2013: 10,732,338 common shares) have been issued and fully paid for the total amount of KZT 10,732,338 thousand (2013: KZT 10,732,338 thousand) by the Shareholder. No dividends were declared or distributed during 2014 and 2013.

18 Commitments and contingencies

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank. As at 31 December 2014, no provision has been made in these financial statements for any of the contingent liabilities (2013: nil).

Taxation

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

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

18 Commitments and contingencies, continued

Taxation, continued

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.

Credit related commitments and contingencies

As of 31 December the Bank's credit related commitments and contingencies comprised the following:

	2014 KZT'000	2013 KZT'000
Undrawn commitments on receivables from Islamic finance activities	10,294,555	5,368,840
Guarantees issued	2,713,274	94,905
Swap contract	1,989,570	-
Credit related commitments	**14,997,399**	**5,463,745**

Trust activities

The Bank acts in agent capacity for investing amounts received under wakala and act as a mudarib in mudaraba agreements for the year then ended to 31 December 2014 and 2013 are as follows:

Wakala	2014 KZT'000	2013 KZT'000
Wakala deposits at the beginning of the year	-	102,758
Wakala deposits received	74,634,083	30,801,548
Amount utilised for murabaha	(74,397,028)	(26,975,776)
Amount utilised for investments in wakala deposits	(237,055)	-
Amount utilised for investments in sukuk	-	(3,928,530)
Amounts due to wakala depositors	-	-
Mudaraba		
Mudaraba deposits at the beginning of the year	-	61
Mudaraba deposits received	31,454	31,577
Amount utilised for issuance of murabaha receivables	(31,454)	(31,638)
Unutilised portion of mudaraba deposits	-	-
Profit accrued on receivable under murabaha agreements and ijara	1,038,087	653,688
Profit accrued on investments in wakala deposits	10,500	4,973
Profit accrued on investments in tawarruq	1,283	
Profit accrued on investments in sukuk	-	48,048
Agency commission attributable to the Bank (Note 20)	(757,940)	(555,709)
Profit attributable to customers on the wakala and mudaraba deposits	**291,930**	**151,000**

The Bank carries no risk for utilised portion of wakala and mudaraba deposits except when the deposits are lost due to misconduct, negligence or violation of the conditions agreed upon by the Bank, in which case, such losses would be borne by the Bank. Profit attributable to customers also includes depositors profit reserve and the zakah due on these reserves. The Bank is discharging this zakah on behalf of the depositors. The wakala depositors' share of profits for the year ended 31 December 2014 has been supported by the Shareholder.

19 Revenue from Islamic finance activities

Revenue from Islamic finance activities comprises:

	2014 KZT'000	2013 KZT'000
Revenue from commodity murabaha	535,130	412,573
Revenue from investments in wakala deposits	191,842	122,627
Revenue from ijara	83,512	81,242
Revenue from tawarruq	4,866	-
Revenue from sukuk	-	4,817
	815,350	**621,259**

20 Net fee and commission income

Net fee and commission income comprises:

	2014 KZT'000	2013 KZT'000
Agency commission and performance incentive under wakala and mudarib share of profit under mudaraba agreements (Note 18)	757,940	555,709
Non-capitalisable portion of study and documentation fee in relation to financing	33,938	29,243
Letters of credit and guarantees	32,421	67,271
Transfer operations	13,140	9,503
Settlement and cash operations	4,957	4,139
Other	607	787
Fee and commission income	**843,003**	**666,652**
Transfer operations	(1,516)	(1,841)
Other	(1,395)	(794)
Fee and commission expense	**(2,911)**	**(2,635)**
Net fee and commission income	**840,092**	**664,017**

21 Net gains from foreign currencies

	2014 KZT'000	2013 KZT'000
Net gains from foreign currencies:		
- dealing	34,875	19,491
- translation differences	15,950	(9,988)
	50,825	**9,503**

22 Impairment losses

Analysis of movements in the impairment allowance:

2014 KZT'000	**Receivables under commodity murabaha agreements**	**Ijara**	**Wakala investment deposits**	**Total**
Balance at the beginning of the year	-	-	-	-
Net charge	73,684	9,799	25,371	108,854
Balance at the end of the year	**73,684**	**9,799**	**25,371**	**108,854**

23 Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2014 KZT’000	2013 KZT’000
Salaries and bonuses	530,689	458,754
Social security costs	45,139	43,132
Personnel expenses	**575,828**	**501,886**
Rent	161,804	144,425
Depreciation and amortisation	42,196	33,137
Information technology services	24,012	20,121
Taxes other than income tax	23,618	20,926
Communication	16,382	14,113
Security	16,035	15,985
Professional services	14,135	10,878
Business trips	13,466	11,312
Utilities	9,588	5,961
Transportation	8,879	6,440
Cleaning services	4,701	4,997
Trainings	3,462	2,764
Representation expense	2,548	764
Stationery	1,315	962
Food	1,274	2,960
Advertising	-	5,028
Other	13,675	10,806
Other operating expenses	**357,090**	**311,579**

24 Risk management

Introduction

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

This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market to control the level of credit risk taken; the Bank assesses counterparties using the same techniques as for its financing activities.

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

Risk management structure

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

Board of Directors

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

Management Board

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

24 Risk management, continued

Introduction, continued

Risk Management Department

The Risk Management Department is responsible for control over compliance with principles, policies on risk-management and risk limits of Bank, for independent risk control, including positions subject to risk in comparison with established limits, estimation of risk for new products and structured transactions and also performs collection of full information in risk estimation systems and risk-management reports. It monitors and controls quality of credit portfolio, coverage of credit risk by liquid collateral. The Department together with business units is responsible for realisation of the Credit Policy of the Bank and requirements of other internal documents and of state regulators. The Department takes part in making decisions on accepting different risks. The Department develops methods of quantitative estimation of risks attributable to the Bank, and provides recommendation to different departments of the Bank on minimisation and effective control over risks. Risk Management Department develops and implements methodology and analytical instruments, which allow the evaluation of risks, to control the level of risk and organise procedures to mitigate risks.

Islamic Finance Principles Board

This body is responsible to review the operational, financing and investing activities of the Bank ensuring their alignment and compliance with the principles and rules of Sharia. Being a supervisory Board it is also required to audit the business activities undertaken and present an independent Sharia report to the shareholders with regard to the implementation of the principles and rules of Sharia in the Bank's overall activities.

The Sharia Coordinator represents the Islamic Finance Principles Board and is also responsible to ensure compliance with instructions issued by the *Islamic Finance Principles Board* including reviewing all standard and non standard contracts, product parameters, financial statements and conducting the Sharia Audit.

Bank Treasury

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

Internal Audit

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

Risk measurement and reporting systems

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

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

24 Risk management, continued

Introduction, continued

Risk measurement and reporting systems, continued

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

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

The Bank actively uses collateral to reduce its credit risk.

Excessive risk concentration

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

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

Credit risk

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

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

24 Risk management, continued

Credit risk

Credit quality per class of financial assets

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

2014		**Neither past due nor impaired**	
KZT’000	**Note**	**Standard grade**	**Total**
Cash and cash equivalents (excluding cash on hand)	6	1,599,318	1,599,318
Receivables under commodity murabaha agreements	7	7,522,559	7,522,559
Wakala investment deposits	8	2,590,278	2,590,278
Ijara	9	1,000,338	1,000,338
Islamic derivative financial instrument	10	231,163	231,163
Total		**12,943,656**	**12,943,656**

2013		**Neither past due nor impaired**	
KZT’000	**Note**	**Standard grade**	**Total**
Cash and cash equivalents (excluding cash on hand)	6	7,162,940	7,162,940
Receivables under commodity murabaha agreements	7	5,953,307	5,953,307
Wakala investment deposits	8	2,346,380	2,346,380
Ijara	9	862,867	862,867
Total		**16,325,494**	**16,325,494**

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

Impairment assessment

The main considerations for the impairment assessment of receivables from Islamic finance activities include whether any payments on those receivables are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

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

24 Risk management, continued

Credit risk, continued

Collectively assessed allowances

Allowances are assessed collectively for losses on receivables from Islamic finance activities that are not individually significant and for individually significant receivables where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

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

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

	2014		
	Kazakhstan	**UAE**	**Total**
Assets:			
Cash and cash equivalents	804,310	885,223	1,689,533
Receivables under commodity murabaha agreements	7,522,559	-	7,522,559
Wakala investment deposits	2,590,278	-	2,590,278
Ijara	1,000,338	-	1,000,338
Islamic derivative financial instrument	231,163	-	231,163
Other financial assets	50,312	-	50,312
	12,198,960	**885,223**	**13,084,183**
Liabilities:			
Amounts due to customers	1,800,630	-	1,800,630
Other financial liabilities	43,379	-	43,379
	1,844,009	**-**	**1,844,009**
Net assets	**10,354,951**	**885,223**	**11,240,174**

	2013			
	Kazakhstan	**UAE**	**Azerbaijan**	**Total**
Assets:				
Cash and cash equivalents	6,287,614	892,960	-	7,180,574
Receivables under commodity murabaha agreements	5,168,785	-	784,522	5,953,307
Wakala investment deposits	2,346,380	-	-	2,346,380
Ijara	862,867	-	-	862,867
Other financial assets	21,740	-	-	21,740
	14,687,386	**892,960**	**784,522**	**16,364,868**
Liabilities:				
Amounts due to customers	5,584,286	-	-	5,584,286
Other financial liabilities	48,712	-	-	48,712
	5,632,998	**-**	**-**	**5,632,998**
Net assets	**9,054,388**	**892,960**	**784,522**	**10,731,870**

24 Risk management, continued

Liquidity risk and funding management

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

The Bank maintains a portfolio of diverse assets whose term to maturity provide sufficient liquidity to manage unforeseen interruptions of cash flow. The Bank also has committed lines of credit that it can assess to meet liquidity needs. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBRK, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the NBRK.

Analysis of financial liabilities by remaining contractual maturities

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

Financial liabilities As at 31 December 2014	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Amounts due to customers	1,800,630	-	-	-	1,800,630
Other financial liabilities	15,841	27,438	100	-	43,379
Total undiscounted financial liabilities	**1,816,471**	**27,438**	**100**	**-**	**1,844,009**

Financial liabilities As at 31 December 2013	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Amounts due to customers	5,584,286	-	-	-	5,584,286
Other financial liabilities	27,253	7,969	13,490	-	48,712
Total undiscounted financial liabilities	**5,611,539**	**7,969**	**13,490**	**-**	**5,632,998**

The table below shows the contractual maturity of the Bank's financial commitments and contingencies. Each undrawn commitment on receivable is included in the time band containing the earliest date it can be drawn down.

2014	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Undrawn commitments on receivables from Islamic finance activities	2,418,708	155,911	7,719,936	-	10,294,555

2013	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Undrawn commitments on receivables from Islamic finance activities	3,560,667	1,808,173	-	-	5,368,840

24 Risk management, continued

Liquidity risk and funding management, continued

Analysis of financial liabilities by remaining contractual maturities, continued

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

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Included in due to customers are term deposits of individuals. In accordance with the Kazakhstan legislation, the Bank is obliged to repay such deposits upon demand of a depositor. However, the Bank is not obliged to return utilised portion of wakala and mudaraba deposits, except when the deposit is lost due to misconduct, negligence or violation of the conditions agreed upon by the Bank, in which case, such losses would be borne by the Bank. For further information on liquidity risk, see Note 26.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as foreign exchange rates and profit rates.

Profit rate risk

Profit rate risk is applicable to the Bank's exposure to receivables from Islamic financing activities.

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

A summary of the Bank's profit rate re-pricing as at 31 December 2014 is as follows:

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	Carrying amount
31 December 2014					
ASSETS					
Receivables under commodity murabaha agreements	2,013,472	866,686	4,642,401	-	7,522,559
Wakala investment deposits	-	-	-	2,590,278	2,590,278
Ijara	72,917	-	-	927,421	1,000,338
Islamic derivative financial instrument	-	-	-	231,163	231,163
	2,086,389	**866,686**	**4,642,401**	**3,748,862**	**11,344,338**

A summary of the Bank's profit rate re-pricing as at 31 December 2013 is as follows:

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	Carrying amount
31 December 2013					
ASSETS					
Receivables under commodity murabaha agreements	87,542	1,970,882	3,894,883	-	5,953,307
Wakala investment deposits	-	-	-	2,346,380	2,346,380
Ijara	-	-	-	862,867	862,867
	87,542	**1,970,882**	**3,894,883**	**3,209,247**	**9,162,554**

24 Risk management, continued

Market risk, continued

Profit rate sensitivity analysis

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

	2014 KZT’000	2013 KZT’000
100 bp parallel fall	(28,223)	(18,257)
100 bp parallel rise	28,223	18,257

Currency risk

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

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

At 31 December 2014 KZT’000	**USD**	**RUB**	**EUR**	**AED**	**Total**
Cash and cash equivalents	817,487	27	87,462	25,058	930,034
Other assets	365	-	-	-	365
Total assets	**817,852**	**27**	**87,462**	**25,058**	**930,399**
Liabilities					
Amounts due to customers	721,323	-	83,564	25,024	829,911
Other liabilities	100	-	110	-	210
Unamortised commission income	9,749	-	-	-	9,749
Total liabilities	**731,172**	-	**83,674**	**25,024**	**839,870**
Net position	**86,680**	**27**	**3,788**	**34**	**90,529**

24 Risk management, continued

Market risk, continued

Currency risk, continued

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

At 31 December 2013 **KZT’000**	**USD**	**EUR**	**AED**	**Total**
Cash and cash equivalents	917,270	336	51,302	968,908
Receivables under commodity murabaha agreements	1,244,893	-	-	1,244,893
Other assets	3,954	35	-	3,989
Total assets	**2,166,117**	**371**	**51,302**	**2,217,790**
Liabilities				
Amounts due to customers	2,134,355	152	50,340	2,184,847
Other liabilities	3,679	199	-	3,878
Unamortised commission income	12,879	-	-	12,879
Total liabilities	**2,150,913**	**351**	**50,340**	**2,201,604**
Net position	**15,204**	**20**	**962**	**16,186**

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2014 and 2013 would have increased 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 period. The analysis assumes that all other variables, in particular profit rates, remain constant.

	2014 KZT’000	
	Profit or loss KZT’000	**Equity KZT’000**
10% appreciation of USD against KZT	6,934	6,934
10% appreciation of other currencies against KZT	308	308

	2013 KZT’000	
	Profit or loss KZT’000	**Equity KZT’000**
20% appreciation of USD against KZT	2,433	2,433
10% appreciation of other currencies against KZT	79	79

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

24 Risk management, continued

Operational risk

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

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk assigned to senior management within cash business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with Sharia, regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards;
- Risk mitigation.

Compliance with the Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit and Shaira Audit. The results of Internal Audit and Sharia Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Board of Directors, Islamic Finance Principle Board and senior management of the Bank.

25 Fair values of financial instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Financial instruments at fair value through profit or loss

The following table shows an analysis of financial instruments measured at fair value by level of the fair value hierarchy:

At 31 December 2014 KZT'000	Level 3	Total
Islamic derivative financial instrument	231,163	231,163
	231,163	**231,163**

25 Fair values of financial instruments, 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	
KZT’000	**Derivative assets**	**Total**
Balance at beginning of the year	-	-
Total gains or losses:	24,444	24,444
in profit or loss	24,444	24,444
Issues	206,719	206,719
Balance at end of the year	**231,163**	**231,163**

To determine the fair value of the swap, management used profit rate in KZT of 5.58% and profit rate in USD of 1.24%. The rate in KZT was estimated based on Kazakhstani government treasury bonds yield curve and the rate in USD was estimated based on US swap rates. Management assumes that the early termination right will not be exercised until maturity.

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 one or more of the assumptions used to reasonably, possible alternative assumptions would have the following effects as at 31 December 2014.

The favourable and unfavourable effects of using reasonably possible alternative assumptions are calculated by recalibrating the model values using unobservable inputs, based on the averages of the upper and lower quartiles, respectively, of the Bank’s ranges of possible estimates. Changes in key inputs and assumptions used in the above sensitivity analysis as at 31 December 2014 are as follows:

- if the right of early termination to be exercised in one year, the effect on profit or loss will be a decrease in the fair value of KZT 147,355 thousand
- changing the estimated profit rate for KZT by 1%

	Effect on profit or loss	
KZT’000	**Favourable**	**Unfavourable**
Financial instruments at fair value through profit or loss		
- Derivative assets	44,960	(46,622)
Total	**44,960**	**(46,622)**

- changing the estimated profit rate for USD by 0.5%

	Effect on profit or loss	
KZT ’000	**Favourable**	**Unfavourable**
Financial instruments at fair value through profit or loss		
- Derivative assets	27,364	(26,850)
Total	**27,364**	**(26,850)**

25 Fair values of financial instruments, continued

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

Financial instruments with fixed and floating rates

If assets and liabilities are not measured at fair values but the fair value is disclosed in the financial statements, future cash flows are discounted at the average market rate of financial instruments with similar maturities. The source of the rates is NBRK statistics.

The future cash flows are calculated by applying the weighted average profit rate of the financing portfolio to the principal amount as at the end of the reporting period. The following assumptions are applied by the Company while determining the fair value:

1. The principal amount of the financing is repaid at the weighted average maturity date of portfolio;
2. Profit payments are made evenly each year till weighted average maturity date of portfolio.

The above calculation is applied in determining the fair value of financing to customers, and fair value of amounts due to credit institutions and amounts due from credit institutions.

Assets for which fair value approximates carrying value

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

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

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

At 31 December 2014 KZT'000	**Level 1**	**Level 2**	**Total fair values**	**Total carrying amount**
Assets for which fair values are disclosed				
Cash and cash equivalents	1,689,533	-	1,689,533	1,689,533
Receivables under commodity murabaha agreements	-	7,495,560	7,495,560	7,522,559
Wakala investment deposits	-	2,425,914	2,425,914	2,590,278
Ijara	-	963,330	963,330	1,000,338
Other financial assets	-	50,312	50,312	50,312
Liabilities for which fair values are disclosed				
Amounts due to customers	-	(1,800,630)	(1,800,630)	(1,800,630)
Other financial liabilities	-	(43,379)	(43,379)	(43,379)

25 Fair values of financial instruments, continued

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

At 31 December 2013 KZT'000	Level 1	Level 2	Total fair values	Total carrying amount
Assets for which fair values are disclosed				
Cash and cash equivalents	7,180,574	-	7,180,574	7,180,574
Receivables under commodity murabaha agreements	-	5,780,541	5,780,541	5,953,307
Wakala investment deposits	-	2,373,730	2,373,730	2,346,380
Ijara	-	834,998	834,998	862,867
Other financial assets	-	21,740	21,740	21,740
Liabilities for which fair values are disclosed				
Amounts due to customers	-	(5,584,286)	(5,584,286)	(5,584,286)
Other financial liabilities	-	(48,712)	(48,712)	(48,712)

26 Maturity analysis of assets and liabilities

The tables below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 24 "Risk management" for the Bank's contractual undiscounted repayment obligations.

2014 KZT'000	Within one year	More than one year	No maturity	Total
Cash and cash equivalents	1,689,533	-	-	1,689,533
Receivables under commodity murabaha agreements	6,769,965	752,594	-	7,522,559
Wakala investment deposits	-	2,590,278	-	2,590,278
Ijara	72,917	927,421	-	1,000,338
Intangible assets	-	-	7,123	7,123
Property and equipment	-	-	313,174	313,174
Islamic derivative financial instrument	-	231,163	-	231,163
Current tax asset	18,948	-	-	18,948
Other assets	76,945	47,242	-	124,187
Total	**8,628,308**	**4,548,698**	**320,297**	**13,497,303**
Amounts due to customers	1,800,630	-	-	1,800,630
Unamortised commission income	6,602	18,379	-	24,981
Deferred tax liabilities	-	-	14,106	14,106
Other liabilities	110,172	40,382	-	150,554
Total	**1,917,404**	**58,761**	**14,106**	**1,990,271**
Net	**6,710,904**	**4,489,937**	**306,191**	**11,507,032**

26 Maturity analysis of assets and liabilities, continued

2013 KZT'000	Within one year	More than one year	No maturity	Total
Cash and cash equivalents	7,180,574	-	-	7,180,574
Receivables under commodity murabaha agreements	3,090,213	2,863,094	-	5,953,307
Wakala investment deposits	-	2,346,380	-	2,346,380
Ijara	-	862,867	-	862,867
Intangible assets	-	-	240,733	240,733
Property and equipment	-	-	6,750	6,750
Deferred tax assets	-	-	8,116	8,116
Other assets	49,415	4,441	-	53,856
Total	**10,320,202**	**6,076,782**	**255,599**	**16,652,583**
Amounts due to customers	5,584,286	-	-	5,584,286
Unamortised commission income	9,015	6,346	-	15,361
Other liabilities	110,194	13,232	-	123,426
Total	**5,703,495**	**19,578**	-	**5,723,073**
Net	**4,616,707**	**6,057,204**	**255,599**	**10,929,510**

27 Related party transactions

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Transactions with members of the Board of Directors and the Management Board

Compensation of 9 (2013: 11) members of key management personnel comprised the following:

	2014 KZT'000	2013 KZT'000
Salaries and other short-term benefits	130,707	120,447
Social security costs	12,946	12,484
Total key management personnel compensation	**143,653**	**132,931**

The outstanding balances as at 31 December 2014 and 2013 for transactions with members of the Board of Directors and the Management Board are as follow:

	31 December 2014 KZT'000	31 December 2013 KZT'000
Amounts due to customers	202,326	456

Transactions with other related parties

The outstanding balances of other related party transactions are as follows:

	31 December 2014 KZT'000		31 December 2013 KZT'000	
	Shareholder	Entities under common control	Shareholder	Entities under common control
Cash and cash equivalents	885,223	-	892,960	-

27 Related party transactions, continued

Transactions with other related parties, continued

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

	2014 KZT’000		2013 KZT’000	
	Shareholder	**Entities under common control**	**Shareholder**	**Entities under common control**
Fee and commission income	757,940	-	555,709	-
Rent expense	-	(44,400)	-	(44,400)

28 Capital adequacy

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

As at 31 December 2014, the Bank had complied in full with all its externally imposed capital requirements.

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

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

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

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

	2014 KZT’000	2013 KZT’000
Tier 1 capital		
Share capital	10,732,338	10,732,338
Retained earnings	197,172	(222,734)
Total Tier 1	**10,929,510**	**10,509,604**
Tier 2 capital		
Net income of the current year	559,198	398,992
	559,198	**398,992**
Total capital base	**11,488,710**	**10,908,596**
Risk weighted assets		
Credit risk	14,951,650	10,158,481
Market risk	8,923	1,622
Total risk weighted assets	**14,960,573**	**10,160,103**
Capital ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets	**77%**	**107%**
Tier 1 capital expressed as a percentage of total risk weighted assets	**73%**	**63%**

28 Capital adequacy, continued

In accordance with Resolution of the National Bank of the Republic of Kazakhstan #137 dated 27 May 2013 On Approval of Rules on Forming Dynamic Reserves by Second-Tier Banks and Establishment of Minimum Size of Dynamic Reserves and Expected Loss, the Bank has established a dynamic reserve calculated using a formula determined in the Rules. The Resolution has been effective from 1 January 2013. As at 31 December 2014, unaudited amount of this provision calculated according to Resolution is equal to KZT 29,965 thousand (31 December 2013: KZT 29,965 thousand). During 2014, the dynamic reserve is temporarily frozen by the NBRK at the level of 31 December 2013.

29 Zakah

The Articles of Association of the Bank do not require management of the Bank to pay zakah on behalf of the Shareholder. Consequently, the zakah obligation is to be discharged by the Shareholder.