

**NATIONAL BANK OF THE
REPUBLIC OF KAZAKHSTAN**

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

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NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the National Bank of the Republic of Kazakhstan ("the NBK") and its subsidiaries (the NBK and its subsidiaries together – "the National Bank") as at 31 December 2014, and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with the Principles of preparation of the consolidated financial statements disclosed in Note 2 ("the Principles of preparation of the financial statements") to the consolidated financial statements.

In preparing the consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- following requirements of the Principles of preparation of the financial statements; and
- preparing the consolidated financial statements on a going concern basis.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the National Bank;
- Maintaining adequate accounting records that disclose with reasonable accuracy at any time the financial position of the National Bank and which enable them to ensure that the consolidated financial statements of the Bank comply with the requirements of the Principles of preparation of the financial statements;
- Maintaining statutory accounting records in compliance with legislation of the Republic of Kazakhstan;
- Taking such steps as are reasonably available to them to safeguard the assets of the National Bank; and
- Preventing and detecting fraud, errors and other irregularities.

The consolidated financial statements for the year ended 31 December 2014 were authorized for issuance by the National Bank's Management Board on 17 March 2015.

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

Kelimbetov K.N.
Governor

17 March 2015
Almaty, Kazakhstan

Rakhmetova S.K.
Chief Accountant

17 March 2015
Almaty, Kazakhstan

INDEPENDENT AUDITOR'S REPORT

To the Management Board of the National Bank of the Republic of Kazakhstan:

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

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Principles of preparation of the consolidated financial statements as described in Note 2 to the consolidated financial statements ("the Principles of preparation of the financial statements") and for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the National Bank of the Republic of Kazakhstan as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with the Principles of preparation of the financial statements.

Deloitte, LLP
State license on auditing of the Republic of Kazakhstan
Number 0000015, type MFU-2, given by the Ministry of
Finance of the Republic of Kazakhstan
dated September 13, 2006

Nurlan Bekenov
Qualified auditor
of the Republic of Kazakhstan
Qualification certificate №0082
13 June 1994
General Director
Deloitte, LLP

17 March 2015
Almaty, Republic of Kazakhstan

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 KZT'000	2013 KZT'000
Interest income	4	97,799,073	67,360,690
Interest expense	4	(4,415,774)	(2,509,457)
Net interest income		93,383,299	64,851,233
Fee and commission income	5	16,892,467	8,476,111
Fee and commission expense	6	(1,573,169)	(1,738,889)
Net fee and commission income		15,319,298	6,737,222
Net gain on financial instruments at fair value through profit or loss	7	25,648,263	26,092,065
Net gain on available-for-sale financial assets	8	3,149,369	3,792,411
Share of loss of associates		(275)	(8,774)
Other operating expenses, net	9	(5,595,661)	(5,199,507)
Operating income		131,904,293	96,264,650
Charge for impairment losses	10	(135,454)	(214,414)
Banknotes and coins production expenses	11	(6,128,789)	(6,957,465)
Funding of third parties	12	(184,672)	(198,482)
Personnel expenses	13	(19,179,726)	(18,645,018)
Depreciation and amortisation		(3,405,325)	(2,677,794)
Other general administrative expenses	14	(6,540,977)	(6,471,146)
Profit before income tax		96,329,350	61,100,331
Income tax expense	15	(852,845)	(901,236)
Profit for the year		95,476,505	60,199,095
Profit attributable to:			
Equity holders of the National Bank		95,091,593	59,993,945
Non-controlling interest		384,912	205,150
Profit for the year		95,476,505	60,199,095

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

Kelimbetov K.N.
Governor

17 March 2015
Almaty, Kazakhstan

Rakhmetova S.K.
Chief Accountant

17 March 2015
Almaty, Kazakhstan

The notes on pages 11-69 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

	2014 KZT'000	2013 KZT'000
Profit for the year	95,476,505	60,199,095
Other comprehensive income, net of income tax		
Net gain on foreign currency revaluation	327,168,944	12,538,692
Net gain/(loss) on precious metals revaluation	136,601,524	(268,583,692)
Revaluation reserve for available-for-sale financial assets:		
- Net change in fair value	5,365,862	(3,336,811)
- Net change in fair value transferred to profit or loss	(3,149,369)	(3,792,411)
- Impairment transferred to profit or loss	-	98,270
Increase in the value of property and equipment due to revaluation	483,850	6,901,130
Other comprehensive income/(loss) for the year, net of income tax	466,470,811	(256,174,822)
Total comprehensive income/(loss) for the year	561,947,316	(195,975,727)
Total comprehensive income/(loss) attributable to:		
Equity holders of the National Bank	561,562,404	(196,180,877)
Non-controlling interest	384,912	205,150
Total comprehensive income/(loss) for the year	561,947,316	(195,975,727)

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

Kelimbetov K.N.
Governor

17 March 2015
Almaty, Kazakhstan

Rakhmetova S.K.
Chief Accountant

17 March 2015
Almaty, Kazakhstan

The notes on pages 11-69 form an integral part of these consolidated financial statements

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

	Note	2014 KZT'000	2013 KZT'000
ASSETS			
Cash on hand in foreign currency	16	27,872,157	20,771,701
Gold	17	1,348,550,016	855,239,300
Placements with banks and other financial institutions	18	3,211,551,064	778,600,511
Financial instruments at fair value through profit or loss	19	623,812,654	485,690,789
Reverse repurchase agreements	20	714,374,018	573,139,668
Available-for-sale financial assets	21	3,001,770,266	2,214,257,326
Held-to-maturity investments	22	58,791,034	57,980,208
Investments in associates		298,955	355,832
Property, equipment and intangible assets	23	54,385,842	53,453,209
Current tax asset		469,705	325,080
Deferred tax asset		73,196	4,510
Other assets	24	17,015,965	15,014,904
Total assets		9,058,964,872	5,054,833,038
LIABILITIES			
Currency in circulation	25	1,382,577,952	1,763,275,779
Due to banks and other financial institutions	26	3,920,346,154	1,088,063,218
Financial instruments at fair value through profit or loss	19	822,371	252,414
Current accounts of the National Fund of the Republic of Kazakhstan	27	1,227,141,853	749,020,680
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	28	522,688,328	299,374,819
Customer accounts	29	311,520,251	89,426,291
Debt securities issued	30	27,014,780	3,597,913
Reserves of guarantee fund	31	173,462,395	133,658,087
Current tax liability		10,980	10,273
Deferred tax liability		1,849,800	1,514,492
Other liabilities	32	38,327,456	7,329,005
Total liabilities		7,605,762,320	4,135,522,971
EQUITY			
Share capital	33	20,000,000	20,000,000
Capital reserve	33	260,191,879	231,957,033
Other reserves		3,073,004	2,346,594
Revaluation surplus for property and equipment		16,097,528	17,347,767
Revaluation reserve for available-for-sale financial assets		236,721	(1,979,772)
Revaluation reserve for foreign currency and precious metals		998,485,838	534,715,370
Retained earnings		151,829,992	111,626,159
Total equity attributable to equity holders of the National Bank		1,449,914,962	916,013,151
Non-controlling interest		3,287,590	3,296,916
Total equity		1,453,202,552	919,310,067
Total liabilities and equity		9,058,964,872	5,054,833,038

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

Kelimbetov K.N.
Governor

17 March 2015
Almaty, Kazakhstan

Rakhmetova S.K.
Chief Accountant

17 March 2015
Almaty, Kazakhstan

The notes on pages 11-69 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

	2014 KZT'000	2013 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	96,329,350	61,100,331
<i>Adjustments for:</i>		
Depreciation and amortization	4,861,502	4,316,269
Expenses from generation of a special deposits guarantee reserve	8,500,000	10,000,000
Charge for impairment losses on financial instruments	3,892	98,270
Charge for impairment losses on other assets and inventory	123,576	29,305
Loss on disposal and decrease in value of property and equipment due to revaluation	89,347	116,079
Amortisation of discount on debt securities issued	602,367	939,584
Amortisation of premium on available-for-sale assets	10,981,416	18,343,644
Unrealised loss/(gain) on financial instruments at fair value through profit or loss	566,080	(136,027)
Share of loss of associates	275	8,774
Cash flow from operating activities before changes in operating assets and liabilities	122,057,805	94,816,229
(Increase)/decrease in operating assets		
Gold	(356,709,192)	(197,007,467)
Placements with banks and other financial institutions	(2,061,293,203)	13,830,844
Financial instruments at fair value through profit or loss	(16,308,931)	(182,910,865)
Reverse repurchase agreements	(141,234,351)	6,364,178
Available-for-sale financial assets	(577,059,730)	390,355,333
Investments in associates	56,877	(177,836)
Other assets	(1,645,505)	(6,828,910)
Increase/(decrease) in operating liabilities		
Currency in circulation	(380,697,826)	26,275,549
Due to banks and other financial institutions	2,687,872,845	63,142,463
Financial instruments at fair value through profit or loss	(8,155)	(268,936)
Current accounts of the National Fund of the Republic of Kazakhstan	478,121,173	142,310,038
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	208,114,616	123,404,384
Customer accounts	221,567,385	(270,605,489)
Reserves of guarantee fund	31,304,307	23,662,735
Other liabilities	2,554,670	1,514,897
Net cash from operating activities before income tax paid	216,692,785	227,877,147
Income tax paid	(730,140)	(712,881)
Cash flows from operating activities	215,962,645	227,164,266
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of held-to-maturity investments	(814,717)	(1,824,436)
Purchases of property and equipment and intangible assets	(10,561,728)	(13,372,281)
Sales of property and equipment and intangible assets	4,678,245	1,502,158
Investment into share capital of subsidiaries	161,793	89,566
Disposal of subsidiary, net of transfer of net assets	-	6,919,125
Cash flows used in investing activities	(6,536,407)	(6,685,868)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

	2014 KZT'000	2013 KZT'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt securities issued	81,414,500	79,316,186
Repayment of debt securities issued	(58,600,000)	(245,012,297)
Cash flows from/(used in) financing activities	22,814,500	(165,696,111)
Net increase in cash and cash equivalents	232,240,738	54,782,287
Effect of changes in exchange rates on cash and cash equivalents	130,986,807	3,319,214
Cash and cash equivalents as at the beginning of the year	687,527,675	629,426,174
Cash and cash equivalents as at the end of the year (Note 16)	1,050,755,220	687,527,675

Amounts of interest, paid and received during the year ended 31 December 2014, are KZT 4,410,993 thousand and KZT 122,536,653 thousand, respectively.

Amounts of interest, paid and received during the year ended 31 December 2013, are KZT 2,429,216 thousand and KZT 58,790,719 thousand, respectively.

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

Kelimbetov K.N.
Governor

17 March 2015
Almaty, Kazakhstan

Rakhmetova S.K.
Chief Accountant

17 March 2015
Almaty, Kazakhstan

The notes on pages 11-69 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

	Attributable to equity holders of the National Bank									
	Share capital	Capital reserve	Other reserves	Revaluation surplus for property and equipment	Revaluation reserve for available-for-sale financial assets	Revaluation reserve for foreign currency and precious metals	Retained earnings	Total	Non-controlling interest	Total equity
KZT'000										
Balance as at 1 January 2014	20,000,000	231,957,033	2,346,594	17,347,767	(1,979,772)	534,715,370	111,626,159	916,013,151	3,296,916	919,310,067
Total comprehensive income										
Profit for the year	-	-	-	-	-	-	95,091,593	95,091,593	384,912	95,476,505
Other comprehensive income										
Net gain on foreign currency revaluation	-	-	-	-	-	327,168,944	-	327,168,944	-	327,168,944
Net gain on precious metals revaluation	-	-	-	-	-	136,601,524	-	136,601,524	-	136,601,524
Net change in fair value of available-for-sale financial assets	-	-	-	-	5,365,862	-	-	5,365,862	-	5,365,862
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	-	(3,149,369)	-	-	(3,149,369)	-	(3,149,369)
Revaluation of property and equipment	-	-	-	483,850	-	-	-	483,850	-	483,850
Total other comprehensive income	-	-	-	483,850	2,216,493	463,770,468	-	466,470,811	-	466,470,811
Total comprehensive income for the year	-	-	-	483,850	2,216,493	463,770,468	95,091,593	561,562,404	384,912	561,947,316
Transfer of revaluation surplus resulting from depreciation and disposals	-	-	-	(1,734,089)	-	-	1,734,089	-	-	-
Transactions with owners, recorded directly in equity:										
Addition to reserves	-	28,234,846	726,410	-	-	-	(28,961,256)	-	-	-
Dividends (Note 33)	-	-	-	-	-	-	(28,234,846)	(28,234,846)	-	(28,234,846)
Acquisition of Academy “RFCA”	-	-	-	-	-	-	200,156	200,156	-	200,156
Changes in non-controlling interest share of net assets	-	-	-	-	-	-	374,097	374,097	(394,238)	(20,141)
Total transactions with owners	-	28,234,846	726,410	-	-	-	(56,621,849)	(27,660,593)	(394,238)	(28,054,831)
Balance as at 31 December 2014	20,000,000	260,191,879	3,073,004	16,097,528	236,721	998,485,838	151,829,992	1,449,914,962	3,287,590	1,453,202,552

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

	Attributable to equity holders of the National Bank									
	Share capital	Capital reserve	Other reserves	Revaluation surplus for property and equipment	Revaluation reserve for available-for-sale financial assets	Revaluation reserve for foreign currency and precious metals	Retained earnings	Total	Non-controlling interest	Total equity
KZT'000										
Balance as at 1 January 2013	20,000,000	188,436,214	19,277,457	11,694,253	4,733,015	790,762,617	93,493,652	1,128,397,208	891,064	1,129,288,272
Total comprehensive income										
Profit for the year	-	-	-	-	-	-	59,993,945	59,993,945	205,150	60,199,095
Other comprehensive income/(loss)										
Net gain on foreign currency revaluation	-	-	-	-	-	12,538,692	-	12,538,692	-	12,538,692
Net loss on precious metals revaluation	-	-	-	-	-	(268,583,692)	-	(268,583,692)	-	(268,583,692)
Net change in fair value of available-for-sale financial assets	-	-	-	-	(3,336,811)	-	-	(3,336,811)	-	(3,336,811)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	-	(3,792,411)	-	-	(3,792,411)	-	(3,792,411)
Impairment of financial assets available for sale transferred to profit and loss	-	-	-	-	98,270	-	-	98,270	-	98,270
Revaluation of property and equipment	-	-	-	6,901,130	-	-	-	6,901,130	-	6,901,130
Total other comprehensive income/(loss)	-	-	-	6,901,130	(7,030,952)	(256,045,000)	-	(256,174,822)	-	(256,174,822)
Total comprehensive income/(loss) for the year	-	-	-	6,901,130	(7,030,952)	(256,045,000)	59,993,945	(196,180,877)	205,150	(195,975,727)
Transfer of revaluation surplus resulting from depreciation and disposals	-	-	-	(1,247,616)	-	-	1,247,616	-	-	-
Transactions with owners, recorded directly in equity:										
Addition to reserves	-	43,520,819	(12,874,346)	-	-	-	(30,646,473)	-	-	-
Acquisition of subsidiaries (Note 41)	-	-	-	-	-	-	-	-	2,239,245	2,239,245
Changes in non-controlling interest share of net assets	-	-	-	-	-	-	-	-	(38,543)	(38,543)
Disposal of a subsidiary	-	-	(4,056,517)	-	318,165	(2,247)	(12,462,581)	(16,203,180)	-	(16,203,180)
Total transactions with owners	-	43,520,819	(16,930,863)	-	318,615	(2,247)	(43,109,054)	(16,203,180)	2,200,702	(14,002,478)
Balance as at 31 December 2013	20,000,000	231,957,033	2,346,594	17,347,767	(1,979,772)	534,715,370	111,626,159	916,013,151	3,296,916	919,310,067

On behalf of the Management Board of the National Bank of the Republic of Kazakhstan:

Kelimbetov K.N.
Governor

17 March 2015
Almaty, Kazakhstan

Rakhmetova S.K.
Chief Accountant

17 March 2015
Almaty, Kazakhstan

The notes on pages 11-69 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

1. BACKGROUND

Principal activities

These consolidated financial statements include the consolidated financial statements of the National Bank of the Republic of Kazakhstan (“the NBK”) and its subsidiaries (together referred to as “the National Bank”).

The NBK was established in accordance with the Resolution of the Supreme Council of the Republic of Kazakhstan No. 2134-XII dated 13 April 1993. Pursuant to this Resolution the State Bank of Kazakh SSR was renamed as the National Bank of the Republic of Kazakhstan.

The primary role of the NBK is ensuring price stability in the Republic of Kazakhstan. The NBK has the following goals: development and implementation of the monetary policy of the state; ensuring functioning of payment systems; exchange regulation and exchange control; ensuring stability of the financial system, regulation; control and monitoring of the financial market and financial organizations and other parties within its competency; maintaining proper level of protection of the rights and legitimate interests of the consumers of financial services; accomplishment of statistical activities in the field of monetary statistics and external sector statistics; other tasks in accordance with the laws of the Republic of Kazakhstan and the acts of the President of the Republic of Kazakhstan.

According to its mission, the National Bank exercises the following main functions: developing and implementation of the monetary policy in the Republic of Kazakhstan; acts as the only issuer of banknotes and coins in the Republic of Kazakhstan and organizes currency circulation on the territory of the Republic of Kazakhstan; currency regulation and currency control in the Republic of Kazakhstan; performs management of the gold and currency reserves of the NBK; regulates the activity of the financial market and financial organizations and other entities within its competence; performs regulation, control and supervision of the financial market and financial organisations, as well as other entities in accordance with the Laws of the Republic of Kazakhstan; performs trust management of the National Fund based on the agreement between the Government of the Republic of Kazakhstan and the National Bank of the Republic of Kazakhstan; performs trust management of the pension assets of JSC “Unified National Pension Fund” (“UNPF”) based on the agreement between the National Bank and the unified pension fund; exercises other functions and authorities stated in the Law “On the National Bank of the Republic of Kazakhstan”, other laws of the Republic of Kazakhstan and Resolutions of the President of the Republic of Kazakhstan.

The address of the NBK’s registered office is 21, Micro District Koktem-3, Almaty 050040. As at 31 December 2014 the NBK has 17 branches and 13 subsidiaries located in the Republic of Kazakhstan and 1 representative office in Moscow, Russian Federation.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

All the subsidiaries are registered in the Republic of Kazakhstan. The subsidiaries are as follows:

Name	Year of establishment	Principal activities	Ownership %	
			2014	2013
RSE “Kazakhstan Mint of the National Bank of the Republic of Kazakhstan”	1994	Coins manufacturing	100.00	100.00
RSE “Kazakhstan Centre of Inter-banking Settlements of the National Bank of the Republic of Kazakhstan”	1996	Electronic cash transfers	100.00	100.00
RSE “Banking Service Bureau of the National Bank of the Republic of Kazakhstan”	1996	Software maintenance and development	100.00	100.00
JSC “Kazakhstan Fund of Deposits Guarantee”	1999	Individual deposit guarantee	100.00	100.00
RSE “Banknote Factory of National Bank of the Republic of Kazakhstan”	2004	Banknote manufacturing	100.00	100.00
JSC “Reserve Centre of the National Bank of the Republic of Kazakhstan “Q-BRO”	2007	Ensuring the smooth functions of IT of the NBK	100.00	100.00
JSC “Activity support center of the National Bank of the Republic of Kazakhstan”	2011	Transportation services, economical activity on property management	100.00	100.00
JSC “Fund of bad loans”	2011	Promotion of measures on quality improvement for credit portfolios of second-tier banks	100.00	100.00
JSC “National Investment Corporation of the National Bank of the Republic of Kazakhstan”	2012	Management of assets of the National Fund of the Republic of Kazakhstan and gold and foreign currency assets of the NBK, management of pension assets	100.00	100.00
JSC “State Credit Bureau”	2012	Forming of credit histories and credit reports	100.00	100.00
JSC “Integrated Securities Registrar”	2012	Maintaining a registry system for securities holders	98.53	97.80
JSC “Central Securities Depository”	1996	Depository activity	72.84	72.36
JSC “Kazakhstan Stock Exchange”	1993	Organization and maintenance of financial markets	51.49	50.10

In 2014 in accordance with the Law of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan”, the Law of the Republic of Kazakhstan “On State Property” and the Regulation of the Government № 884 dated 5 August 2014 the Management of the National Bank of the Republic of Kazakhstan under the regulation № 166 dated 27 August 2014 accepted the acquisition of 100% shares of the JSC “Academy “Regional Financial Center of Almaty” and 57% shares of the JSC “Rating Agency “Regional Financial Center of Almaty”, that belonged to the Government of the Republic of Kazakhstan. The book value of the net assets of JSC “Academy “Regional Financial Center of Almaty” comprised KZT 200,155 thousand. JSC “Rating Agency

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“Regional Financial Center of Almaty” had a negative book value of net assets in the amount KZT 10,551 thousand. Considering the insignificant book value of assets of the above mentioned organizations and the necessity of determining the fair value, the financial statements of JSC “Academy “Regional Financial Center of Almaty” and JSC “Rating Agency “Regional Financial Center of Almaty” were not included in these consolidated Financial statements.

In 2014 in accordance with the Order of the President of the Republic of Kazakhstan dated 3 June 2014 № 857 there occurred a transfer of special purpose funds for the total amount of KZT 250,000,000 thousand for capitalization of JSC “Fund of bad loans” (the “Entity”) with the purpose of banking sector recovery. The application of these funds will be performed stepwise during the period of 2015–2018 in the strict compliance with the financing project approved by the Ministry of Finance of the Republic of Kazakhstan in October 2014 and under control of the Treasury Department of Almaty city in accordance with approved regulations of the Republic of Kazakhstan (Rules on Budget implementation and its cash service № 220).

For the purpose of maintaining stability of the financial system and improvement of asses quality of the second-tier banks the Management Board of the National Bank decided to increase the charter capital of the Entity by issuing preferred shares of the Entity in the quantity of 50,000 shares for the total amount of KZT 250,000,000 thousand and one preferred share with the nominal amount of KZT 1,000.

In accordance with the Law of the Republic of Kazakhstan “On State Property” dated 1 March 2011 and the Law of the Republic of Kazakhstan “On pension provision in the Republic of Kazakhstan” dated 21 June 2013, Resolution of the Government №747 dated 31 July 2013 “On creation of unified accumulative pension fund” and Resolution of the Management Board of the NBK, state package of shares of JSC “Pension fund “GNPF” belonging to NBK, was granted to the Committee on State Property and Privatization of the Ministry of Finance of the Republic of Kazakhstan.

In 2013 in accordance with the Law of the Republic of Kazakhstan “On securities market” dated 2 July 2003 and the Law of the Republic of Kazakhstan “On making amendments and additions in certain legal acts of the Republic of Kazakhstan on activities of microfinance organisations” the Management Board of the NBK approved acquisition of shares of JSC “Kazakhstan Stock Exchange” by subscription on non organized securities market (Note 41).

Operating environment

Emerging markets such as the Republic of Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in the Republic of Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of the Republic of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because the Republic of Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market, which decreased significantly during 2014. Management is unable to reliably estimate the effects of any further price fluctuations on the National Bank’s financial position.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

2. BASIS OF PREPARATION

Statement of compliance

In accordance with the Law of the Republic of Kazakhstan № 2155 dated 30 March 1995 “On the National Bank of the Republic of Kazakhstan” the NBK determines its accounting policies for itself based on International Financial Reporting Standards (“IFRS”).

These consolidated financial statements have been designed to present fairly the financial position of the NBK and the results of its operations and have been prepared in accordance with the accounting policy of the NBK which was approved by the Board of Directors of the National Bank on 27 June 2013 and which the National Bank considers to be appropriate to the nature of central bank activity. The accounting policy of the National Bank is based on IFRS issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) with principal modifications as described below.

Gold and gold deposits are revalued based on market value of gold; gains resulting from the mark to market of gold and foreign currency assets and liabilities are recognised as other comprehensive income in equity. Losses resulting from revaluation are recognised in profit or loss except to the extent that they reverse a previous revaluation increase recognised as other comprehensive income directly in equity, in which case they are recognised in other comprehensive income.

Contributions received from the participating banks in accordance with the Law of the Republic of Kazakhstan “On the obligatory guarantee of deposits placed in the second tier banks of the Republic of Kazakhstan” with amendments as at 5 December 2013 are recognised as reserves of guarantee fund within liabilities.

Deals concluded for the purpose of the monetary policy execution, including forward, futures, option and swap deals, are recognized at either nominal or amortized cost, depending on their content and economic nature.

Basis of measurement

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

Functional and presentation currency for the purposes of consolidated financial statements

The functional currency of the National Bank is the Kazakhstan tenge (KZT) as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them. The KZT is also the presentation currency for the purposes of these consolidated financial statements.

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

Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Actual results could differ from those estimates. Management believes that significant areas of estimation uncertainty that require using of critical judgments and valuation models in preparation of these consolidated financial statements are absent.

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3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the NBK. Control exists when the NBK has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Funds management

The National Bank manages and administers assets held in investment vehicles on behalf of investors. The consolidated financial statements of these entities are not included in these consolidated financial statements except when the National Bank controls the entity.

Acquisitions and disposals of non-controlling interests

The National Bank accounts for the acquisitions and disposals of non-controlling interests as transactions with equity holders in their capacity as equity holders. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the National Bank.

Associates

Associates are those entities in which the National Bank has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the National Bank's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the National Bank's share of losses exceeds the National Bank's interest (including long-term loans) in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the National Bank has incurred obligations in respect of the associate.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the National Bank's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Non-controlling interests

Non-controlling interests are the equity in a subsidiary not attributable, directly or indirectly, to the NBK.

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Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the National Bank. Non-controlling interests in profit or loss and total comprehensive income are separately disclosed in the consolidated statements of income and comprehensive income.

Gold

Gold comprises gold deposits with foreign banks and gold bullion in depositories. Gold is measured at market price at the reporting date. Market price is determined by reference to the London Bullion Market Association AM fixings. Gains on revaluation of gold are recorded directly in other comprehensive income. Losses resulting from revaluation are recognised in profit or loss to the extent they exceed a previous revaluation increase recognised as other comprehensive income, in other case they are recognised in other comprehensive income directly in equity.

Foreign currency transactions

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

Cash and cash equivalents

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

Financial instruments

Classification of financial instruments

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

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

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

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

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

Management determines the appropriate classification of financial instruments in this category at the time of initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified to another category of financial instruments.

Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

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

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

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

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

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

Recognition of financial instruments in consolidated financial statements

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

Measurement of financial instruments

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

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

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

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

Amortised cost

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

Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

When available, the National Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

In case of absence of an active market for a financial instrument, the National Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the National Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

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Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the National Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the National Bank entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the National Bank believes a third-party market participant would take them into account in pricing a transaction.

Gains and losses on subsequent measurement

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

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

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

Derecognition

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

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

The National Bank writes off assets deemed to be uncollectible.

Reverse repurchase agreements

Securities purchased under agreements to resell (reverse repo) are recorded as reverse repurchase agreements in the separate line of the consolidated statement of financial position. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

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Derivative financial instruments

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

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

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

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

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

Offsetting

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

Income and expense is not offset in the consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the National Bank.

Currency in circulation

Currency in circulation is recorded in the consolidated statement of financial position at nominal value.

Currency in circulation is recorded as a liability when cash is issued by the NBK to commercial banks. Banknotes and coins in national currency held in the vaults and cash offices is not included in the currency in circulation.

Banknotes and coins production expense include expenses for security, transportation, insurance and other expenses. Banknotes and coins production expense are recognised upon delivery to the vaults and recorded as a separate item in the consolidated income statement.

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Reserves of guarantee fund

According to the Law of the Republic of Kazakhstan “On the obligatory guarantee of deposits placed in the second tier banks of the Republic of Kazakhstan” (with amendments dated 5 December 2013) the subsidiary of the NBK, JSC “Kazakhstan Fund of Deposits Guarantee”, is due to compensate participating banks’ depositors amounts up to a certain level in case of forced liquidation of a participating bank. The National Bank establishes a reserve of guarantee fund to accumulate contributions of the banks that participate in the deposit guarantee scheme. In accordance with the National Bank’s accounting policy reserves of guarantee fund represent accumulated contributions received from the participating banks.

Fiduciary assets

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

Property and equipment

Items of property and equipment are stated at revalued amounts as described below.

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

Revaluation

Buildings and equipment are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings and equipment being revalued. A revaluation increase on a building is recognised as other comprehensive income directly in equity except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss.

A revaluation decrease on a building and equipment is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation of the equipment of RSE “Banknote Factory of National Bank of the Republic of Kazakhstan” and RSE “Kazakhstan Mint of the National Bank of the Republic of Kazakhstan” used in production of the banknotes and coins is charged to profit and loss on a units of production method over the expected output of the individual assets.

Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings and constructions	7 to 40 years
Furniture and equipment	3 to 10 years
Computer equipment	3 to 5 years
Motor vehicles	5 to 25 years
Intangible assets	1 to 10 years

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Issued for operations property, equipment and intangible assets which cost less than 200 (two hundred) monthly calculating index per unit and (or) kit are attributable to expenses accounts of the National Bank with simultaneous reflection on non-systemic accounts, except for property and equipment acquired for upgrading of equipment that requires assembling and intangible assets that are included into the property and equipment. Monthly calculating index in 2014 and 2013 amounted to KZT 1,852 and KZT 1,731, respectively.

Intangible assets

Acquired intangible assets are stated at cost in the consolidated financial statements.

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 to 10 years.

Impairment of assets

Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of placements with banks and other financial institutions, reverse repurchase agreements, held-to-maturity investments and other financial assets (loans and receivables). The National Bank reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

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

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

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

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

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

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

Financial assets carried at cost

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

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

Available-for-sale financial assets

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

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

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

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Non-financial assets

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

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

Provisions

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

Taxation

In accordance with legislation of the Republic of Kazakhstan, the NBK is exempt from income tax and value-added tax.

Subsidiaries and associate organisations of the NBK are subject to all taxes.

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Recognition of income and expenses in consolidated financial statements

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

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Segment reporting

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

Adoption of new and revised standards

In the previous year, the National Bank has adopted all of the new and revised Standards and Interpretations issued by the IASB and the IFRIC that are relevant to its operations and effective for annual reporting periods ending on 31 December 2014. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the National Bank's accounting policies that have affected the amounts reported for the current or prior years.

New standards and interpretations not yet adopted

The National Bank has not applied new standards, amendments to standards and interpretations as at 31 December 2014 in preparing of these consolidated financial statements. The following standards, amendments and interpretations could potentially have an impact on the activities of the National Bank of the Republic of Kazakhstan. National Bank of Kazakhstan plans to adopt these standards, amendments and interpretations from the moment of their entry in force. National Bank of Kazakhstan has not assessed the possible impact of these new standards on its consolidated financial statements.

- IFRS 9 *Financial Instruments*³
- IFRS 15 *Revenue from Contracts with Customers*²
- Amendments to IAS 16 and IAS 38 - *Clarification of Acceptable Methods of Depreciation and Amortisation*¹
- Amendments to IAS 27 - *Equity Method in Separate Financial Statements*¹
- Amendments to IFRS 10 and IAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*¹
- Amendments to IFRS 11 - *Accounting for Acquisition of Interests in Joint Operations*¹
- IFRS 14 *Regulatory Deferral Accounts*¹;
- Annual Improvements to IFRSs 2012-2014 Cycle¹.

¹ Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

³ Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

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IFRS 9 *Financial Instruments*

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014 IASB issued a finalised version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements for financial assets. IFRS 9 is aiming at replacing IAS 39 Financial Instruments: Recognition and Measurement.

The key requirements of IFRS 9 are:

- Classification and measurement of financial assets. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Specifically, debt instruments that are held within the business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost after initial recognition. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for debt instruments held within the business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding which are measured at fair value through other comprehensive income after initial recognition. All other debt and equity investments are measured at their fair values. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- Classification and measurement of financial liabilities. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.
- Impairment. The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principal of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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- Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The standard is effective from 1 January 2018 with early application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

The standard is effective from 1 January 2017 with early application permitted.

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

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted when the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the National Bank uses straight-line method for depreciation and amortization of its property, plant and equipment and intangible assets, respectively.

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Amendments to IAS 27 – Equity Method in Separate Financial Statements

The amendments to IAS 27 allows entities to apply the equity method as one of the option for accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements. The amendments are effective from 1 January 2016 with earlier application permitted. The management of the National Bank does not expect any impact of these amendments on the financial statements as the National Bank does not prepare its separate financial statements.

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

The amendments clarify that on a sale or contribution of assets to a joint venture or associate or on a loss of control when joint control or significant influence is retained in a transaction involving an associate or a joint venture, the extent of any gain or loss recognized depends on whether the assets or subsidiary constitute a business, as defined in IFRS 3. When the assets or subsidiary constitutes a business, any gain or loss is recognized in full; when the assets or subsidiary do not constitute a business, the entity's share of the gain or loss is eliminated.

The amendments apply prospectively to transactions occurring in annual periods beginning on or after 1 January 2016 with early application permitted.

Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation. A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The amendments are effective from 1 January 2016 with early application permitted.

Annual Improvements to IFRSs 2012-2014 Cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include the following amendments to various IFRSs effective from 1 January 2016 with early application permitted.

The amendments to IFRS 5 clarify that reclassification of an asset or a disposal group from held for sale to held to distribution to owners or vice versa should not be considered changes to a plan of sale or a plan of distribution to owners and that the classification, presentation and measurement requirements applicable to the new method of disposal should be applied. In addition, amendments clarify that assets that no longer meet the criteria for held for distribution to owners and do not meet the criteria for held for sale should be treated in the same way as assets that cease to be classified as held for sale. The amendments should be applied prospectively.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purposes of the disclosures required in relation to transferred assets. In addition, amendments to IFRS 7 were made to clarify that the disclosure requirements on offsetting financial assets and financial liabilities are not explicitly required to be included in the condensed interim financial statements for all interim periods, however, the disclosures may need to be included in condensed interim financial statements to comply with IAS 34. The amendments should be applied retrospectively.

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4. NET INTEREST INCOME

	2014 KZT'000	2013 KZT'000
Interest income		
Available-for-sale financial assets	43,810,523	35,613,858
Reverse repurchase agreements	33,693,119	30,536,331
Placements with banks and other financial institutions	20,260,245	1,174,190
Other	35,186	36,311
	97,799,073	67,360,690
Interest expense		
Due to banks and other financial institutions	(2,839,955)	(676,590)
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	(915,998)	(732,740)
Debt securities issued	(602,367)	(939,584)
Repurchase agreements	(57,454)	(160,543)
	(4,415,774)	(2,509,457)
	93,383,299	64,851,233

5. FEE AND COMMISSION INCOME

	2014 KZT'000	2013 KZT'000
Asset management fee	9,360,630	4,367,619
Pension asset management fee	5,285,629	2,262,086
Depository operations and servicing of financial markets	2,031,390	1,643,997
Transfer operations	214,818	202,409
	16,892,467	8,476,111

Fee and commission income on asset management operations consists of income for asset management services provided to the National Fund of the Republic of Kazakhstan and JSC “State Social Insurance Fund”. The National Bank renders asset management services to these organisations investing funds received in various financial instruments in accordance with customers’ instructions.

Fee and commission income on pension asset management in 2014 consists of commission income from UNPF and of JSC Accumulation Pension Fund “State Accumulated Pension Fund” (“GNPF”) in 2013.

Depository operations and servicing of financial markets consists of income from main activities of JSC “Central Securities Depository” and JSC “Kazakhstan Stock Exchange”.

Income on transfer operations consists of commission income from inter-banking, money transfers and clearing operations of RSE “Kazakhstan Centre of Inter-banking Settlements of the National Bank of the Republic of Kazakhstan”.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

6. FEE AND COMMISSION EXPENSE

	2014 KZT'000	2013 KZT'000
Asset management	1,054,317	1,471,316
Brokerage	410,218	148,938
Custody	101,620	112,647
Other	7,014	5,988
	1,573,169	1,738,889

7. NET GAIN ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2014 KZT'000	2013 KZT'000
Net gain on assets under external management (Note 19)	27,835,789	27,679,929
Net loss on operations with other derivative financial instruments	(2,187,526)	(1,587,864)
	25,648,263	26,092,065

8. NET GAIN ON AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2014 KZT'000	2013 KZT'000
Debt instruments	3,227,247	3,792,411
Equity instruments	(77,878)	-
	3,149,369	3,792,411

9. OTHER OPERATING EXPENSES, NET

	2014 KZT'000	2013 KZT'000
Sale of coins for collection	1,821,779	2,666,564
Sale of printed products	1,294,879	2,109,035
Sale of medals, badges and jewelry	147,843	15,302
Rent of property and equipment	5,885	25,523
Other expenses, net	(366,047)	(15,931)
Replenishment of reserve on deposits guarantee	(8,500,000)	(10,000,000)
	(5,595,661)	(5,199,507)

During 2014 for conduction of activities on protection of bank-participants depositors in accordance with the Law on “Obligatory guarantee of deposits placed in second tier banks of the Republic of Kazakhstan”: JSC “Kazakhstan Fund of Deposits Guarantee” made addition to a special reserve in the amount of KZT 8,500,000 thousand (2013: KZT 10,000,000 thousand).

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10. CHARGE FOR IMPAIRMENT LOSSES

	2014 KZT'000	2013 KZT'000
Inventory	(11,291)	(23,557)
Negative revaluation of property and equipment	(7,986)	(86,839)
Investments held-to-maturity	(3,892)	-
Available-for-sale financial assets	-	(98,270)
Other assets	(112,285)	(5,748)
	(135,454)	(214,414)

11. BANKNOTES AND COINS PRODUCTION EXPENSES

	2014 KZT'000	2013 KZT'000
Banknotes	4,075,049	4,597,070
Coins	1,958,816	2,268,730
Other	94,924	91,665
	6,128,789	6,957,465

Banknotes and coins production expenses for 2014 include depreciation expenses of KZT 1,018,131 thousand (2013: KZT 985,728 thousand).

12. FUNDING OF THIRD PARTIES

	2014 KZT'000	2013 KZT'000
Funding of the Masters' Studies at Kazakh Economic University in the name of T. Ryskulov	184,672	198,482
	184,672	198,482

13. PERSONNEL EXPENSES

	2014 KZT'000	2013 KZT'000
Payroll	10,058,179	9,539,947
Bonuses	6,970,527	6,874,135
Social tax	1,414,391	1,426,295
Insurance	356,786	507,026
Training	201,380	179,533
Other	178,463	118,082
	19,179,726	18,645,018

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14. OTHER GENERAL ADMINISTRATIVE EXPENSES

	2014 KZT'000	2013 KZT'000
Information and other services	1,702,481	590,723
Taxes other than income tax	827,800	826,544
Communication	625,542	717,832
Repair and maintenance of property and equipment	613,745	1,338,812
Business trip expenses	543,731	289,169
Inventory	405,710	527,864
Rent	277,986	259,287
Security	266,741	258,931
Gratuitous assignment of property	216,318	150,497
Representative expenses	190,800	204,879
Utilities	171,696	157,665
Transportation	162,223	286,089
Advertising, announcements and presentations in mass media	119,682	382,663
Insurance of property and equipment	34,118	43,450
Other	382,404	436,741
	6,540,977	6,471,146

15. INCOME TAX EXPENSE

In accordance with legislation of the Republic of Kazakhstan, the NBK is exempt from income tax. Subsidiaries and associate organisations of the NBK are subject to income tax.

	2014 KZT'000	2013 KZT'000
Current tax expense		
Current year	524,670	554,225
	524,670	554,225
Deferred tax expense		
Appearance of temporary differences	328,175	347,011
Total income tax expense	852,845	901,236

The NBK's subsidiaries applicable tax rate in 2014 and 2013 is the income tax rate of 20% for Kazakhstan companies.

Reconciliation of effective tax rate:

	2014 KZT'000	%	2013 KZT'000	%
Profit before tax	96,329,350		61,100,331	
Income tax at the applicable tax rate	19,265,870	20.00	12,220,066	20.00
Effect of non-taxable operations of the National Bank	(18,472,193)	(19.18)	(11,263,634)	(18.43)
Non-deductible expenses/ (non-taxable expenses income)	59,168	(0.06)	(55,196)	(0.09)
	852,845	0.89	901,236	1.48

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16. CASH AND CASH EQUIVALENTS

	2014 KZT'000	2013 KZT'000
Amounts due from foreign banks with the original maturity of less than three months	853,379,765	606,272,318
Nostro accounts in foreign banks	166,668,527	58,216,998
Cash on hand in foreign currency	27,872,157	20,771,701
Nostro accounts in Kazakhstan banks	2,355,099	1,665,978
Accounts with the Bank for International Settlements	479,672	600,680
Cash and cash equivalents in the consolidated statement of cash flows	1,050,755,220	687,527,675

Cash and cash equivalents were not impaired or past due as at 31 December 2014 and 2013.

17. GOLD

	2014 KZT'000	2013 KZT'000
Gold deposits with foreign banks:		
- rated from A to A+	339,781,502	139,345,672
- rated from AA- to AA	172,069,919	160,748,695
	511,851,421	300,094,367
Gold bullion in NBK depository	639,520,275	388,244,549
Gold bullion in foreign bank depositories		
- rated AAA	197,178,320	166,900,384
	1,348,550,016	855,239,300

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18. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2014 KZT'000	2013 KZT'000
Placements with foreign banks and other financial institutions		
Nostro accounts		
- rated A- to AAA	156,662,276	57,361,680
- rated from BBB- to BBB+	-	543,704
- rated from BB- to BB+	5,428,868	-
- rated from B- to B+	43,195	53,497
- not rated	4,534,188	258,117
Total nostro accounts	166,668,527	58,216,998
Deposits - rated A+ to AA+	853,379,765	606,272,318
Placements in other financial institutions		
- rated A+ to AAA	30,227,500	-
- not rated	12,675,562	-
Total placements in other financial institutions	42,903,062	-
Other placements and deposits		
Receivables on operations in foreign currency	155,082,106	1,667,693
Accounts with the International Monetary Fund	96,588,684	86,762,325
Uninvested cash under external management – rated AA- (Note 19)	19,959,628	16,101,588
Accounts with the Bank for International Settlements	479,672	600,680
Total other placements and deposits	272,110,090	105,132,286
Total placements with foreign banks and other financial institutions	1,335,061,444	769,621,602
Receivables from Kazakhstan banks and other financial institutions		
Nostro accounts of subsidiaries in second-tier banks		
- rated BB- to BB+	1,898,905	1,251,648
- rated B- to B+	440,092	363,366
- rated CCC	2,371	-
- not rated	13,731	50,964
Total nostro accounts	2,355,099	1,665,978
Placements in banks		
- rated BB- to BB+	693,064,433	611,388
- rated B- to B+	1,140,590,568	1,378,552
- rated CCC	27,748,651	-
- not rated	6,576,213	4,036,181
Total placements in banks	1,867,979,865	6,026,121
Receivables from the Ministry of Finance of the Republic of Kazakhstan	2,962,628	1,077,655
Receivables from JSC “UNPF”	3,192,028	209,155
Total accounts, placements with and receivables from Kazakhstan banks and other financial institutions	1,876,489,620	8,978,909
	3,211,551,064	778,600,511

As at 31 December 2014 and 2013 the National Bank has placements and deposits in bank-counterparty in the amount exceeding 10% of equity. The total amount of that balance is KZT 853,379,765 thousand (2013: 606,272,318 thousand).

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As at 31 December 2014 and 2013 the “nostro” accounts opened in local banks in the amounts of KZT 2,355,099 thousand and KZT 1,665,978 thousand, respectively, belong to subsidiary companies of the National Bank.

19. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments at fair value through profit or loss consisted of the following at 31 December 2014 and 2013:

	2014 KZT'000	2013 KZT'000
Assets		
Assets under external management – designated as at fair value through profit or loss		
Corporate bonds	291,932,149	181,818,327
Government bonds	202,281,410	131,149,862
Corporate shares	129,084,671	172,260,497
Forwards	403,558	5,774
Option	90,357	151,559
Futures	20,509	135,086
Assets under own management		
Swap	-	77,049
Forwards	-	73,570
Option	-	19,065
Total financial instruments at fair value through profit or loss	623,812,654	485,690,789
Liabilities		
Liabilities under external management		
Forwards	(182,314)	(146,134)
Futures	(73,977)	(72,412)
Liabilities under own management		
Swaps	(566,080)	(3,387)
Option	-	(17,640)
Forwards	-	(12,841)
Total financial instruments at fair value through profit or loss	(822,371)	(252,414)

As at December 2014 and 2013 a portion of financial instruments at fair value through profit and loss was under the management of nine foreign asset management organisations. Depending on the mandate the managers invest into fixed income and equity instruments and are also allowed to use derivative instruments.

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The portfolios under external management pursue the following investment strategies:

External manager	2014 KZT'000	2013 KZT'000	Strategy	Index
Nomura Asset Management U.K. Limited	146,923,650	59,284,021	Global corporate bonds	ML Global Broad Market Corporate Index, 1-10 Yrs (G5BC)
Amundi	92,818,280	119,677,095	Global shares	MSCI World Index (MXWO)
Aviva Investors Global Services Limited	79,925,242	55,052,728	Global developing markets	ML Emerging Customised Index
Deutsche Asset Management International GmbH	76,445,197	51,734,094	Global developing markets	ML Emerging Customised Index
Bank Julius Baer & Co. AG.	66,739,773	57,389,494	Global corporate bonds	ML Global Broad Market Corporate Index, 1-10 Yrs (G5BC)
BBVA	63,663,898	39,581,585	Global developing markets	ML USD Latin America (BR,CL, PE,CO,MX)-Q610
Lombard Odier Asset Management (Europe) Limited	43,526,812	35,316,302	Global convertible bonds	Reuters Convertible Global Investment Grade USD Index (UICBGIGU)
JP Morgan	34,140,053	50,932,228	Global active shares	MSCI World Index (MXWO)
BNP	19,373,457	16,335,012	Global convertible bonds	Reuters Convertible Global Investment Grade USD Index (UICBGIGU)
Net assets under external management	623,556,362	485,302,559		

Uninvested balances in 2014 equivalent to KZT 19,959,628 thousand (2013: KZT 16,101,588 thousand) related to portfolios under external management are presented within "placements with banks and other financial institutions" (Note 18).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

The schedule below summarises credit quality of these portfolio's underlying fixed income assets:

	2014 KZT'000	2013 KZT'000
Corporate bonds		
Rated A- to AAA	125,117,444	80,097,415
Rated BBB- to BBB+	156,234,610	90,549,130
Rated BB- to BB+	8,546,085	1,534,215
Not rated	2,034,010	9,637,567
	291,932,149	181,818,327
Government bonds		
Rated A- to AAA	57,851,283	20,901,907
Rated BBB- to BBB+	101,403,903	73,254,498
Rated BB- to BB+	42,447,182	36,993,457
Rated B- to B+	579,042	-
	202,281,410	131,149,862
Total debt instruments under external management	494,213,559	312,968,189

The tables below summarises, by major currencies, the contractual amounts of the National Bank's outstanding balances from derivative transactions, excluding portfolios under external management, as at 31 December 2014 and 2013 with details of the contracted weighted average exchange rates and remaining periods to maturity.

	Contract/ notional amount KZT'000		Weighted-average contracted futures prices/exchange rates	
	2014	2013	2014	2013
SWAP - For the period less than 3 months				
Buy USD to KZT	2,005,850	-	164,5917	-
	2,005,850	-		
Forwards – for the period less than 3 months				
Buy USD sell EUR	-	10,674,586	-	1.38577
Buy EUR sell USD	-	10,601,000	-	1.37789
Buy EUR sell DKK	-	24,722	-	7.45990
	-	21,300,308		
Swap operations - for the period less than 1 year				
Buy KZT sell USD	-	10,730,300	-	0.22150
Option operations - for the period from 3 to 12 months				
Buy KZT sell USD	-	19,065	-	49.50
	2,005,850	32,049,673		

20. REVERSE REPURCHASE AGREEMENTS

	2014 KZT'000	2013 KZT'000
International financial institutions and Kazakhstan banks:		
- rated AAA	37,067,968	13,819,131
- rated B	95,470,150	-
- rated B-	581,122,119	-
- rated CCC	-	71,019,721
- not rated	713,781	488,300,816
	714,374,018	573,139,668

As at 31 December 2014 the fair value of the financial assets accepted as collateral under reverse repurchase agreements is KZT 713,222,802 thousand (2013: KZT 573,095,222 thousand).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2014 KZT'000	2013 KZT'000
Debt instruments		
Foreign investments		
Government bonds		
US Government Treasury bills	1,435,182,167	644,451,768
French Government bonds	78,958,385	117,309,353
Japanese Government Treasury bills	73,411,810	111,259,084
British Government Treasury bills	59,002,850	112,220,726
German Government Treasury bills	57,791,287	82,268,309
Australian Government Treasury bills	34,573,112	59,707,213
Korean Government Treasury bills	34,096,140	61,029,866
Canadian Government Treasury bills	29,132,040	59,810,615
Netherlands Government Treasury bills	24,162,452	32,038,162
Hong Kong Government Treasury bills	23,596,168	38,487,651
Denmark Government Treasury bills	17,893,330	27,098,369
Austrian Government Treasury bills	15,915,431	17,583,814
Singapore Government bonds	15,253,757	25,772,083
Swedish Government bonds	15,120,232	27,423,984
China Government bonds	9,017,167	7,616,074
Finnish Government Treasury bills	-	6,426,887
Total government bonds	1,923,106,328	1,430,503,958
Debt securities of international governmental and nongovernmental financial institutions		
- rated AAA	71,231,023	160,384,731
- rated AA+	66,024,413	6,164,600
- rated AA	2,367,280	-
- rated AA-	8,140,094	7,703,490
- rated A+	1,783,037	6,394,328
- not rated	8,979,300	22,505,264
Total investments in debt securities of international governmental and nongovernmental financial institutions	158,525,147	203,152,413
Corporate bonds of international companies		
- rated A- to AAA	103,726,572	84,192,537
- rated BBB+	944,999	-
- rated BB+	276,720	-
- rated BB	-	253,039
- rated B	8,539,332	9,768,734
- not rated	29,474,550	23,193,854
Total corporate bonds of international companies	142,962,173	117,408,164
Total foreign investments	2,224,593,648	1,751,064,535
Kazakhstan investments		
Treasury bills of the Ministry of Finance	775,099,170	461,694,819
Debt securities of state owned financial organisations	2,073,423	1,539,809
Total Kazakhstan investments	777,172,593	463,234,628
Impairment allowance	(75,829)	(75,829)
Total Kazakhstan investments net of impairment allowance	777,096,764	463,158,799
Total investments in debt instruments	3,001,690,412	2,214,223,334
Equity investments		
Corporate shares	79,854	456,623
Total equity investments	79,854	456,623
Impairment allowance	-	(422,631)
Total equity investments net of impairment	79,854	33,992
Total available-for-sale financial assets	3,001,770,266	2,214,257,326

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Analysis of movements in the impairment allowance

Movements in the impairment allowance on available-for-sale financial assets for the year ended 31 December 2014 are as follows:

	2014 KZT'000	2013 KZT'000
Balance at the beginning of the year	498,460	400,190
Net charge	-	98,270
Write-offs	(422,631)	-
Balance at the end of the year	75,829	498,460

22. HELD-TO-MATURITY INVESTMENTS

	2014 KZT'000	2013 KZT'000
Bonds of JSC Sovereign Wealth Fund "Samruk-Kazyna" - rated BBB+	56,990,764	56,069,124
Bonds of the Ministry of Finance of Republic of Kazakhstan - rated BBB+	1,755,913	1,798,996
Securities of second-tier banks and other organizations	44,357	112,088
Total held-to-maturity investments	58,791,034	57,980,208

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

23. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Land, buildings and construction	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress/equip ment not yet installed	Intangible assets	Total
KZT'000							
<i>Historical/revalued cost</i>							
Balance at 1 January 2014	33,905,420	22,771,539	2,889,016	1,547,069	1,081,593	3,462,674	65,657,311
Additions	371,657	4,382,524	201,494	23,652	4,646,750	451,801	10,077,878
Revaluation	(7,479)	-	-	491,329	-	-	483,850
Revaluation (through expense accounts)	-	-	-	(7,986)	-	-	(7,986)
Disposals	(445,679)	(239,168)	(52,492)	(740,895)	(4,609,235)	(166,760)	(6,254,229)
Transfers	61,883	267,411	3,333	-	(399,527)	66,900	-
Balance at 31 December 2014	33,885,802	27,182,306	3,041,351	1,313,169	719,581	3,814,615	69,956,824
<i>Depreciation and amortization</i>							
Balance at 1 January 2014	883,182	6,078,923	2,544,288	730,345	-	1,967,364	12,204,102
Depreciation and amortization	2,236,692	1,681,621	352,942	143,141	-	447,106	4,861,502
Disposals	(365,426)	(204,789)	(49,010)	(725,988)	-	(149,409)	(1,494,622)
Transfers	43,131	(42,932)	(199)	-	-	-	-
Balance at 31 December 2014	2,797,579	7,512,823	2,848,021	147,498	-	2,265,061	15,570,982
<i>Carrying amount</i>							
At 31 December 2014	31,088,223	19,669,483	193,330	1,165,671	719,581	1,549,554	54,385,842

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

	Land, buildings and construction	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress/equip ment not yet installed	Intangible assets	Total
KZT'000							
<i>Historical/revalued cost</i>							
Balance at 1 January 2013	20,576,637	21,481,140	2,520,827	1,359,726	1,472,486	3,458,490	50,869,306
Additions	8,942,817	1,798,468	907,969	338,902	737,536	646,589	13,372,281
Revaluation	4,516,721	51,858	2,835	3,274	-	-	4,574,688
Revaluation (through expense accounts)	(65,355)	-	-	-	-	-	(65,355)
Disposals	(65,400)	(559,927)	(542,615)	(154,833)	(1,128,429)	(642,405)	(3,093,609)
Balance at 31 December 2013	33,905,420	22,771,539	2,889,016	1,547,069	1,081,593	3,462,674	65,657,311
<i>Depreciation and amortization</i>							
Balance at 1 January 2013	1,424,012	5,181,900	2,405,728	665,753	-	2,077,609	11,755,002
Depreciation and amortization	1,693,657	1,534,750	480,404	193,363	-	414,095	4,316,269
Impairment	(2,326,441)	-	-	-	-	-	(2,326,441)
Disposals	(34,775)	(510,998)	(341,844)	(128,771)	-	(524,340)	(1,540,728)
Transfers	126,729	(126,729)	-	-	-	-	-
Balance at 31 December 2013	883,182	6,078,923	2,544,288	730,345	-	1,967,364	12,204,102
<i>Carrying amount</i>							
At 31 December 2014	33,022,238	16,692,616	344,728	816,724	1,081,593	1,495,310	53,453,209

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Revalued assets

As at 31 December 2014 the carrying amount of the property and equipment, was not revalued, and was equal to KZT 33,022,238 thousand.

At 31 December 2013 property and equipment owned by the National Bank were recorded at revalued amount. The revaluation procedures were performed by independent appraisers: “Market-Consulting” LLP (19 objects) and “Expertno-Ocenochnyi auditorskii centr” LLP (7 objects).

The income approach with the method of realization as income capitalization and the comparative approach with application of market information were used to identify the fair value of buildings and construction in terms of an active market for items that were subject to revaluation. The cost approach was used when there was no active market for items that were subject to revaluation.

As at 31 December 2013 the carrying amount of building and equipment had it not been revalued amounted to KZT 33,528,618 thousand.

24. OTHER ASSETS

	2014 KZT'000	2013 KZT'000
Other receivables	6,109,000	4,883,161
Impairment allowance	(114,225)	(16,052)
Total other financial assets	5,994,775	4,867,109
Inventories	9,858,595	5,509,056
Prepayments for property and equipment	358,827	2,852,688
Refined and non-refined precious metals and stones	268,199	876,668
Other	535,569	909,383
Total other non-financial assets	11,021,190	10,147,795
Total other assets	17,015,965	15,014,904

Analysis of movements in the impairment allowance

Movements in the impairment allowance on other financial assets for the year ended 31 December 2014 and 2013 are as follows:

	2014 KZT'000	2013 KZT'000
Balance at the beginning of the year	16,052	12,362
Net charge	112,285	5,748
Write-offs	(14,112)	(2,058)
Balance at the end of the year	114,225	16,052

25. CURRENCY IN CIRCULATION

	2014 KZT'000	2013 KZT'000
Banknotes and coins in circulation	1,383,516,794	1,764,256,384
Less banknotes and coins on hand and in vaults	(938,842)	(980,605)
	1,382,577,952	1,763,275,779

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26. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2014 KZT'000	2013 KZT'000
Due to foreign banks and other financial institutions		
OECD based banks	158,289,149	6,902,014
Current accounts of international financial organisations	96,595,622	86,769,263
Other foreign banks	180,377	152,393
Total due to foreign banks and other financial institutions	255,065,148	93,823,670
Due to Kazakhstan banks and other financial institutions		
Loro accounts		
Largest 10 Kazakhstan banks	777,853,375	424,097,742
Other Kazakhstan banks	924,047,040	503,282,060
Deposits		
Largest 10 Kazakhstan banks	1,497,253,968	-
Other Kazakhstan banks	466,126,623	66,859,746
Total due to Kazakhstan banks and other financial institutions	3,665,281,006	994,239,548
	3,920,346,154	1,088,063,218

As at 31 December 2014 and 2013 due to banks and other financial institutions included accounts of six and four banks, respectively, with balances exceeding 10% of NBK's equity. The gross value of these balances as at 31 December 2014 is KZT 1,916,092,187 thousand (2013: KZT 474,612,443 thousand).

As at 31 December 2014 current accounts of international financial organisations include the membership quota of the Republic of Kazakhstan in the International Monetary Fund (the "IMF") in the amount of KZT 96,588,684 thousand (2013: KZT 86,762,325 thousand). A membership quota expressed in Special Drawing Rights ("SDRs") is assigned to each member of the IMF. The NBK issued promissory notes to the IMF in the amount of the quota (SDR 365,700 thousand).

27. CURRENT ACCOUNTS OF THE NATIONAL FUND OF THE REPUBLIC OF KAZAKHSTAN

Current accounts of the National Fund of the Republic of Kazakhstan ("the National Fund") amounted to KZT 1,227,141,853 thousand as at 31 December 2014 (2013: KZT 749,020,680 thousand).

During 2014 and 2013 the National Bank conducted trust management activities over the assets of the National Fund. Assets and liabilities of the National Fund are not included in these consolidated financial statements, except for deposits of the National Fund in NBK.

28. CURRENT ACCOUNTS OF THE MINISTRY OF FINANCE OF THE REPUBLIC OF KAZAKHSTAN

	2014 KZT'000	2013 KZT'000
In national currency	518,025,478	298,777,618
In foreign currency	4,662,850	597,201
	522,688,328	299,374,819

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

29. CUSTOMER ACCOUNTS

	2014 KZT'000	2013 KZT'000
In national currency	309,721,161	87,485,551
In foreign currency	1,799,090	1,940,740
	311,520,251	89,426,291

During 2014 and 2013 the National Bank maintained customer accounts in foreign and national currencies. NBK customers' industry is state management, and NBK's subsidiaries customers' industries are financial agency services, insurance and liquidation of banks.

As at 31 December 2014 and 2013, customer accounts included accounts of two and one customers with a balance exceeding 8% and 6% of NBK's equity, respectively. These balances as at 31 December 2014 are KZT 255,518,301 thousand (2013: KZT 58,039,558 thousand).

30. DEBT SECURITIES ISSUED

As at 31 December 2014 debt securities issued comprise the following issues:

Emissions	Carrying amount	Issue date	Maturity date	Effective interest rate
KZW1KD914748	4,996,483	10 October 2014	9 January 2015	3.27
KZW1KD914755	10,067,352	17 October 2014	16 January 2015	3.27
KZW1KD914797	5,977,319	14 November 2014	13 February 2015	3.27
KZW1KD914805	5,973,626	21 November 2014	20 February 2015	3.27
	27,014,780			

As at 31 December 2013 debt securities issued comprise the following issues:

Emissions	Carrying amount	Issue date	Maturity date	Effective interest rate
KZW1KM064122	1,598,504	26 July 2013	24 January 2014	1.51
KZW1KD944224	1,999,409	4 October 2013	6 January 2014	2.17
	3,597,913			

31. RESERVES OF GUARANTEE FUND

As at 31 December 2014 reserves of guarantee fund for deposits of individuals were KZT 173,462,395 thousand (2013: 133,658,087 thousand).

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

32. OTHER LIABILITIES

	2014 KZT'000	2013 KZT'000
Dividends payable (Note 33)	28,234,846	-
Other creditors on non-banking activity	3,504,442	980,100
Other creditors on banking activity	1,074,947	1,595,689
General and administrative expenses payable	115,783	124,306
Other	18	-
Total other financial liabilities	32,930,036	2,700,095
Salaries payable	3,614,483	2,909,880
Other prepayments received	1,254,095	1,160,535
Tax payable (except for corporate income tax)	513,414	555,933
Payables on purchase of property and equipment	15,428	2,562
Total other non-financial liabilities	5,397,420	4,628,910
Total other liabilities	38,327,456	7,329,005

33. SHARE CAPITAL AND TREASURY SHARES

Issued capital

The share capital of the National Bank is regulated by the Decree of the President of the Republic of Kazakhstan dated 30 March 1995 with subsequent amendments and alterations. In accordance with the amendments to the Decree dated 21 June 2013 the share capital shall comprise not less than KZT 20,000,000 thousand formed by appropriations of the net income.

As at 31 December 2014 and 2013, the share capital of the National Bank amounted to KZT 20,000,000 thousand.

Dividends and reserve capital

In accordance with the Law of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan” the Management of the NBK decided (Resolution №161 dated 27 August 2014) to transfer 50% of the retained earnings for 2013 year in the amount of KZT 28,234,846 thousand to replenish the capital reserve of NBK and transfer the other 50% in the amount of KZT 28,234,846 thousand to the State Budget with a deferral of one year.

In accordance with the Law of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan”, the NBK should establish a capital reserve in the amount of not less than its share capital. Reserve capital is increased by the retained earnings and assigned exclusively for compensation and reimbursement of losses on conducted operations in accordance with the requirements set by the Management Board of the National Bank of Kazakhstan. As at 31 December 2014 and 2013, the capital reserve amounted to KZT 260,191,879 thousand and KZT 231,957,033 thousand, respectively.

Capital management

Retained earnings are transferred to the share and/or reserve capital in the amount determined by the Management Board. After the approval of the annual report of the National Bank by the President of the Republic of Kazakhstan the remaining part of the retained earnings is transferred to the State budget with a deferral of one year.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

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In case if reserve capital amount is less than the share capital amount, the entire retained earnings remain at the National Bank's disposal and is transferred to the reserve capital until the later reaches the level of the share capital. If the reserve capital is not sufficient to cover losses of a financial year the deficiency is compensated by the State budget with a deferral of one year.

34. ANALYSIS BY SEGMENT

The National Bank's operations comprise a single operating segment for the purposes of these consolidated financial statements. The National Bank is not required to report revenue and expenses by reference to the functions carried out by the National Bank, these activities do not constitute separate operating segments for the purposes of these consolidated financial statements.

35. RISK MANAGEMENT

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

Risk management policies and procedures

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

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

The Management Board, Board of Directors, committees, commissions and related working groups review regularly matters related to the monetary, investment and currency policies of the National Bank and set up limits on the scope of management over its assets, as well as requirements for the assessment of the NBK's counterparties.

In accordance with Investment Strategy on gold and foreign currency assets management of the NBK approved by the decision of the Board on 27 October 2006, the main goals of risk management are maintenance of liquidity and safety of the NBK's assets, saving purchasing power of assets and profitability growth in the medium and long-term perspective.

In accordance with these goals, gold and foreign currency assets of the NBK are separated into the following portfolios: liquidity portfolio, investment portfolio, strategic portfolio, developing market portfolio, portfolio of alternative investments and gold portfolio.

The operations of the NBK's subsidiaries are also exposed to a number of risks, the most significant are those related to market risks. Risk management procedures of the subsidiaries are regulated by their internal instructions and their execution is monitored by various bodies, including the subsidiaries' boards of directors and internal control departments.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Market risk

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

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

The National Bank manages its market risk mainly by conducting regular assessment of all open positions. In addition, the National Bank continuously monitors open position limits in relation to financial instruments, interest rate, maturity and currency positions and stop-loss limits.

The National Bank utilises Tracking Error methodology. Tracking Error indicator reflects how actual performance of current portfolio differs from the performance of the benchmark portfolio. In accordance with Investment Strategy, Tracking Error limit is 2% for the reporting period.

Tracking Error can be used only in cases when the investor manages a portfolio against the benchmark portfolio on comparative basis.

As at 31 December 2014 and 2013 the benchmark portfolio for the investment portfolio of gold and foreign currency assets was a composite index of:

- 30% - Merrill Lynch United States Treasuries, 0-3 years (G1QA),
- 26% - Merrill Lynch All Euro Government Index, DE, FR, NL, AT, LU, FI (EBDF), 0-3 years
- 10% - Merrill Lynch United Kingdom Gilts, 0-3 years (GBL0),
- 10% - Merrill Lynch Japanese Governments, 0-3 years (G1YA),
- 5% - Merrill Lynch Australian Government Index, 0-3 years (GJBT),
- 5% - Merrill Lynch Canadian Government Index, 0-3 years (GBCJ),
- 5% - Merrill Lynch South Korean Government Index, 0-3 years (GBSK),
- 3% - Merrill Lynch Hong Kong Government Index, 0-3 years (GBHK),
- 2% - Merrill Lynch Singapore Government Index , 0-3 years (GBSP),
- 2% - Merrill Lynch Danish Governments, 1-3 years (G1M0),
- 2% - Merrill Lynch Swedish Governments, 1-3 years (G1W0).

Interest rate risk

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

Interest rate gap analysis

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

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2014							
ASSETS							
Cash on hand in foreign currency	-	-	-	-	-	27,872,157	27,872,157
Gold	511,851,421	-	-	-	-	836,698,595	1,348,550,016
Placements with banks and other financial institutions	517,758,829	3,662,560	334,806,029	1,036,402,537	3,708,401	1,315,212,708	3,211,551,064
Financial instruments at fair value through profit or loss	490,476	2,254,314	7,984,310	212,341,833	271,142,627	129,599,094	623,812,654
Reverse repurchase agreements	714,374,018	-	-	-	-	-	714,374,018
Available-for-sale financial assets	798,563,213	145,001,033	371,165,071	1,367,108,856	319,852,240	79,853	3,001,770,266
Held-to-maturity investments	26,195	101,174	153,633	847,576	57,662,456	-	58,791,034
Investments in associates	-	-	-	-	-	298,955	298,955
Other financial assets	-	-	-	-	-	5,994,775	5,994,775
	2,543,064,152	151,019,081	714,109,043	2,616,700,802	652,365,724	2,315,756,137	8,993,014,939
LIABILITIES							
Currency in circulation	-	-	-	-	-	1,382,577,952	1,382,577,952
Due to banks and other financial institutions	556,327,127	-	331,111,130	1,028,897,137	3,707,784	2,000,302,976	3,920,346,154
Financial instruments at fair value through profit or loss	-	-	-	-	-	822,371	822,371
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	-	1,227,141,853	1,227,141,853
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	-	522,688,328	522,688,328
Customer accounts	-	-	-	-	-	311,520,251	311,520,251
Debt securities issued	27,014,780	-	-	-	-	-	27,014,780
Reserves of guarantee fund	-	-	-	-	-	173,462,395	173,462,395
Other financial liabilities	-	-	-	-	-	32,930,036	32,930,036
	583,341,907	-	331,111,130	1,028,897,137	3,707,784	5,651,446,162	7,598,504,120
	1,959,722,245	151,019,081	382,997,913	1,587,803,665	648,657,940	(3,335,690,025)	1,394,510,819

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2013							
ASSETS							
Cash on hand in foreign currency	-	-	-	-	-	20,771,701	20,771,701
Gold	300,094,367	-	-	-	-	555,144,933	855,239,300
Placements with banks and other financial institutions	626,238,205	-	3,615,077	1,524,654	-	147,222,575	778,600,511
Financial instruments at fair value through profit or loss	2,182,693	2,901,334	3,220,694	126,408,414	179,935,293	171,042,361	485,690,789
Reverse repurchase agreements	573,139,668	-	-	-	-	-	573,139,668
Available-for-sale financial assets	97,797,433	297,597,088	275,251,746	1,371,095,770	172,481,297	33,992	2,214,257,326
Held-to-maturity investments	59,417	1,295	70,846	875,560	56,973,090	-	57,980,208
Investments in associates	-	-	-	-	-	355,832	355,832
Other financial assets	-	-	-	-	-	4,867,109	4,867,109
	1,599,511,783	300,499,717	282,158,363	1,499,904,398	409,389,680	899,438,503	4,990,902,444
LIABILITIES							
Currency in circulation	-	-	-	-	-	1,763,275,779	1,763,275,779
Due to banks and other financial institutions	70,255,000	-	-	-	-	1,017,808,218	1,088,063,218
Financial instruments at fair value through profit or loss	-	-	-	-	-	252,414	252,414
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	-	749,020,680	749,020,680
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	-	299,374,819	299,374,819
Customer accounts	-	-	-	-	-	89,426,291	89,426,291
Debt securities issued	3,597,913	-	-	-	-	-	3,597,913
Reserves of guarantee fund	-	-	-	-	-	133,658,087	133,658,087
Other financial liabilities	-	-	-	-	-	2,700,095	2,700,095
	73,852,913	-	-	-	-	4,055,516,383	4,129,369,296
	1,525,658,870	300,499,717	282,158,363	1,499,904,398	409,389,680	(3,156,077,880)	861,533,148

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

Average interest rates

The table below summarises the National Bank's average interest rates on interest bearing assets and liabilities as at 31 December 2014 and 2013. These interest rates are an approximation of the yields to maturity of appropriate assets and liabilities.

	2014 KZT'000 Book value	Weighted average effective interest rate, %	2013 KZT'000 Book value	Weighted average effective interest rate, %
Interest bearing assets				
Gold				
<i>Gold deposits with foreign banks</i>	511,851,421	0.27	300,094,367	0.13
Placements with banks and other financial institutions				
<i>Nostro accounts</i>				
- GBP	4,323,436	0.50	321,354	0.08
- JPY	4,295,835	0.07	144,501	0.02
- USD	674,650	0.03	16,903,888	0.08
- KRW	105,059	1.41	160,124	0.81
- CAD	-	-	1,578,556	0.53
- AUD	-	-	56,085	2.24
- EUR	1	-	1,678	0.13
- Other currency	5,145,369	0.17	98,222	0.41
<i>Placements in banks</i>				
- KZT	1,868,010,981	6.22	5,841,211	5.45
- USD	853,379,765	0.09	606,272,318	0.01
Financial instruments at fair value through profit or loss				
- USD	373,424,510	4.81	240,404,150	5.01
- EUR	89,794,307	2.77	58,801,783	3.41
- GBP	14,588,353	5.61	6,101,371	5.36
- CAD	9,599,777	3.74	5,232,954	3.36
- AUD	2,925,049	5.32	1,961,156	5.27
- SEK	867,784	-	-	-
- CHF	809,115	-	610,364	-
- JPY	773,987	0.91	1,231,501	1.03
- HKD	728,050	0.26	-	-
- SGD	702,626	1.98	305,150	1.60
Reverse repurchase agreements				
-KZT	714,374,018	5.51	573,139,668	5.53

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

	2014 KZT'000 Book value	Weighted average effective interest rate, %	2013 KZT'000 Book value	Weighted average effective interest rate, %
Available-for-sale financial assets				
- USD	1,675,029,508	0.31	844,926,532	0.57
- KZT	776,896,608	5.88	462,954,983	5.58
- EUR	202,451,189	2.32	337,718,461	2.19
- GBP	77,546,292	1.77	132,624,868	2.82
- JPY	73,411,810	0.69	111,259,084	0.98
- KRW	39,248,795	3.39	66,950,546	3.43
- CAD	38,818,310	1.51	64,149,869	1.51
- AUD	37,677,945	5.36	63,402,256	5.18
- HKD	23,596,168	0.76	38,487,650	1.11
- DKK	17,622,631	3.02	30,936,945	3.40
- SGD	15,253,757	2.21	25,772,083	2.39
- SEK	15,120,232	3.54	27,423,984	3.91
- CNY	9,017,167	2.22	7,616,074	2.77
Held-to-maturity investments				
- KZT	58,791,034	4.03	57,980,208	4.02
Due to banks and other financial institutions				
<i>Term deposits</i>				
- KZT	57,408,000	1.81	66,859,746	0.47
Current accounts of the Ministry of Finance of the Republic of Kazakhstan				
- KZT	518,025,478	-	298,777,618	-
Debt securities issued				
- KZT	27,014,780	3.27	3,597,913	1.87

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity to changes in interest rate repricing risk based on a simplified scenario of a 300 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2014 and 2013 is as follows:

	2014		2013	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
300 bp parallel rise	23,382,459	23,382,459	16,587,700	16,587,700
300 bp parallel fall	(23,382,459)	(23,382,459)	(16,587,700)	(16,587,700)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value through profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2014 and 2013 and a simplified scenario of a 50 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2014		2013	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
50 bp parallel fall	12,303,465	38,233,418	9,134,155	26,799,459
50 bp parallel rise	(13,191,200)	(41,376,635)	(10,240,439)	(30,873,750)

The above tables demonstrate the effect of a change in the value of financial instruments with fixed profitability in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the National Bank's assets and liabilities are actively managed. Additionally, the financial position of the National Bank may vary at the time that any actual market movement occurs. For example, the National Bank's financial risk management strategy aims to manage the exposure to market fluctuations. In case of sharp negative fluctuations, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the consolidated statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

Currency risk

The National Bank has assets and liabilities denominated in different foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The National Bank has developed policies and procedures for the management of currency risk exposures, including guidelines to limit currency distribution of the investment portfolio.

The National Bank's Department of monetary operations and assets management conducts daily monitoring of compliance with limits imposed on each currency basket.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

The National Bank's exposure to foreign currency exchange rate risk by currencies as at 31 December 2014 is presented in the table below:

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
ASSETS									
Cash on hand in foreign currency	-	-	26,834,559	1,015,163	4,427	-	1,817	16,191	27,872,157
Gold	-	1,348,550,016	-	-	-	-	-	-	1,348,550,016
Placements with banks and other financial institutions	1,918,969,998	-	1,049,332,658	78,884,296	26,493,460	96,826,759	5,583,375	35,460,518	3,211,551,064
Financial instruments at fair value through profit or loss	-	-	448,085,150	106,081,811	11,610,017	-	26,903,312	31,132,364	623,812,654
Reverse repurchase agreements	714,374,018	-	-	-	-	-	-	-	714,374,018
Available-for-sale financial assets	776,974,208	-	1,675,029,508	202,451,189	73,411,810	-	77,546,292	196,357,259	3,001,770,266
Held-to-maturity investments	58,791,034	-	-	-	-	-	-	-	58,791,034
Investments in associates	298,955	-	-	-	-	-	-	-	298,955
Other assets	5,994,775	-	-	-	-	-	-	-	5,994,775
Total assets	3,475,402,988	1,348,550,016	3,199,281,875	388,432,459	111,519,714	96,826,759	110,034,796	262,966,332	8,993,014,939
KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
LIABILITIES									
Currency in circulation	1,382,577,952	-	-	-	-	-	-	-	1,382,577,952
Due to banks and other financial institutions	553,708,896	-	3,208,498,368	49,599,541	3,858,543	96,588,684	-	8,092,122	3,920,346,154
Financial instruments at fair value through profit or loss	-	-	595,590	91,845	33,781	-	23,358	77,797	822,371
Current accounts of the National Fund of the Republic of Kazakhstan	1,227,141,853	-	-	-	-	-	-	-	1,227,141,853
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	518,025,478	-	4,181,369	-	-	-	-	481,481	522,688,328
Customer accounts	309,721,161	-	1,799,090	-	-	-	-	-	311,520,251
Debt securities issued	27,014,780	-	-	-	-	-	-	-	27,014,780
Reserves of guarantee fund	173,462,395	-	-	-	-	-	-	-	173,462,395
Other liabilities	31,855,071	-	1,074,965	-	-	-	-	-	32,930,036
Total liabilities	4,223,507,586	-	3,216,149,382	49,691,386	3,892,324	96,588,684	23,358	8,651,400	7,598,504,120
Effect of derivatives	(1,989,570)	-	2,005,850	-	-	-	-	-	16,280
Net balance sheet and off balance sheet positions	(750,094,168)	1,348,550,016	(14,861,657)	338,741,073	107,627,390	238,075	110,011,438	254,314,932	1,394,527,099

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

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

KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
ASSETS									
Cash on hand in foreign currency	-	-	19,291,447	1,458,744	4,880	-	5	16,625	20,771,701
Gold	-	855,239,300	-	-	-	-	-	-	855,239,300
Placements with banks and other financial institutions	8,909,922	-	622,254,331	39,130,172	14,584,753	86,975,691	3,841,010	2,904,632	778,600,511
Financial instruments at fair value through profit or loss	77,049	-	333,718,989	81,712,727	16,185,098	-	23,825,781	30,171,145	485,690,789
Reverse repurchase agreements	573,139,668	-	-	-	-	-	-	-	573,139,668
Available-for-sale financial assets	462,955,134	-	844,960,372	337,718,461	111,259,084	-	132,624,868	324,739,407	2,214,257,326
Held-to-maturity investments	57,980,208	-	-	-	-	-	-	-	57,980,208
Investments in associates	355,832	-	-	-	-	-	-	-	355,832
Other assets	4,865,850	-	1,259	-	-	-	-	-	4,867,109
Total assets	1,108,283,663	855,239,300	1,820,226,398	460,020,104	142,033,815	86,975,691	160,291,664	357,831,809	4,990,902,444
KZT'000	KZT	Gold	USD	EUR	JPY	SDR	GBP	Other	Total
LIABILITIES									
Currency in circulation	1,763,275,779	-	-	-	-	-	-	-	1,763,275,779
Due to banks and other financial institutions	488,507,386	-	486,049,067	22,356,407	1,657	86,762,325	533	4,385,843	1,088,063,218
Financial instruments at fair value through profit or loss	12,841	-	83,717	94,088	57,011	-	3,850	907	252,414
Current accounts of the National Fund of the Republic of Kazakhstan	749,020,680	-	-	-	-	-	-	-	749,020,680
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	298,777,618	-	-	-	-	-	-	597,201	299,374,819
Customer accounts	87,485,550	-	1,940,678	2	-	-	-	61	89,426,291
Debt securities issued	3,597,913	-	-	-	-	-	-	-	3,597,913
Reserves of guarantee fund	133,658,087	-	-	-	-	-	-	-	133,658,087
Other liabilities	1,850,880	-	849,215	-	-	-	-	-	2,700,095
Total liabilities	3,526,186,734	-	488,922,677	22,450,497	58,668	86,762,325	4,383	4,984,012	4,129,369,296
Effect of derivatives	10,730,300	-	(21,298,631)	6,669,077	2,850,597	-	307,029	716,906	(24,722)
Net balance sheet and off balance sheet positions	(2,407,172,771)	855,239,300	1,310,005,090	444,238,684	144,825,744	213,366	160,594,310	353,564,703	861,508,426

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

Management of the National Bank believes that as at 31 December 2014 given the current economic conditions in Kazakhstan that target level of the currency policy of the National Bank of KZT 185 for 1 US Dollar and increase of exchange rate by + KZT 3 and decrease by – KZT 15 is a realistic movement in KZT exchange rates against US Dollar. This is the sensitivity rate used in the National Bank when reporting foreign currency risk internally to key management personnel of the National Bank and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only amounts in foreign currency as at 31 December 2014 and adjusts their translation for appreciation and depreciation in currency rates as at 31 December 2014.

Appreciation of KZT, as indicated in the table below, against following currencies as at 31 December 2014 (31 December 2013: 20% for appreciation and 20% for depreciation) would have given a rise to the below increase (decrease) of equity and other comprehensive income. The given analysis is based on the change of exchange rates, which, according to the National Bank's opinion, are reasonably possible as at the end of reporting period. The given level of sensitivity is used within the National Bank for preparation of report on currency risk for the key management of the National Bank. The analysis implies that all other variables, especially interest rates, are constant.

	Equity, KZT'000	Equity, KZT'000
	2014 (+3.10% -6.77%)	2013 (+20% -20%)
Appreciation of USD against KZT	(522,893)	266,260,745
Depreciation of USD against KZT	1,141,930	(266,260,745)
Appreciation of EUR against KZT	10,500,973	87,513,921
Depreciation of EUR against KZT	(22,932,771)	(87,513,921)
Appreciation of Troy ounce of gold against KZT	41,805,050	171,047,860
Depreciation of Troy ounce of gold against KZT	(91,296,836)	(171,047,860)
Appreciation of Japanese yen against KZT	3,336,449	28,395,030
Depreciation of Japanese yen against KZT	(7,286,374)	(28,395,030)
Appreciation of GBP against KZT	3,410,355	32,057,456
Depreciation of GBP against KZT	(7,447,774)	(32,057,456)
Appreciation of SDR against KZT	7,380	42,673
Depreciation of SDR against KZT	(16,118)	(42,673)
Appreciation of other currencies against KZT	7,883,763	70,569,559
Depreciation of other currencies against KZT	(17,217,121)	(70,569,559)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the National Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in share prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Equity price risk arises when the National Bank takes a long or short position in a financial instrument.

	2014		2013	
	Profit or loss KZT'000	Equity KZT'000	Profit or loss KZT'000	Equity KZT'000
10% increase in securities prices	12,908,467	12,916,452	17,226,050	17,229,434
10% decrease in securities prices	(12,908,467)	(12,916,452)	(17,226,050)	(17,229,434)

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the National Bank. The National Bank has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and establishment of an Investment Committee, which is responsible for monitoring of credit risks. The National Bank's credit policy is reviewed and approved by the Board.

The National Bank's credit policy establishes:

- Methodology for credit assessment calculation and determination of maximum limit on the National Bank's counterparties;
- Procedures for ongoing monitoring and review of the limit of the National Bank's counterparties.

Requests for inclusion in the list of counterparties are received by the National Bank's analysts. The analysts' report on a potential counterparty is based on a financial performance and financial position ratios analysis with use of international rating agencies' data. On the basis of this report the Investment Committee approves counterparty.

The National Bank's Department of monetary operations and assets anagement conducts daily monitoring of compliance with limits imposed on each individual counterparty. Apart to individual counterparty analysis, the National Bank performs valuation of portfolios in relation to concentration of credit risks.

The National Bank's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

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

	2014 KZT'000	2013 KZT'000
ASSETS		
Gold	511,851,421	300,094,367
Placements with banks and other financial institutions	3,211,551,064	778,600,511
Financial instruments at fair value through profit or loss	623,732,801	313,430,292
Reverse repurchase agreements	714,374,018	573,139,668
Available-for-sale financial assets	3,001,690,412	2,214,223,334
Held-to-maturity investments	58,791,034	57,980,208
Other financial assets	5,994,775	4,867,109
Total maximum exposure	8,127,985,525	4,242,335,489

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 36.

Liquidity risk

Liquidity risk is the risk that the National Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities of assets and liabilities is fundamental to the management of financial institutions, including the National Bank. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

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

The National Bank seeks to actively support a diversified and stable funding base in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

Since the National Bank carries out the issue of national currency, the default risk on fulfillment its obligations in national currency is minimal, and the liquidity risk is more applicable for obligations denominated in foreign currency.

The liquidity management policy consists of:

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

The Department of Monetary Operations and Assets Management based on the information about liquidity of assets and liabilities performs analysis of the liquidity position. After this the Department of Monetary Operations and Assets Management maintains the liquidity level by purchasing highly liquid assets. To meet liquidity management goals the liquidity portfolio is invested to assets that can be sold as soon as it possible if required.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

According to the Investment Strategy of the National Bank the liquidity portfolio has to comply with the following parameters:

- duration of the portfolio should not exceed 1 year;
- base currency of the liquidity portfolio is USD;
- volume of liquidity portfolio should not fall below USD 1 billion without considering current liabilities;
- volume of liquidity portfolio should not be less than the volume of payments on state external debt service for the next 6 months. This limitation is checked once in a calendar quarter (on the 10 working day of each quarter).

If the market value of the liquidity portfolio does not comply with the given parameters, within 15 working days after the observance of non-compliance, the liquidity portfolio is replenished through the transfer of assets from the investment portfolio.

The assets of the liquidity portfolio can be invested cash currency, state (sovereign) debt securities of countries with credit rating not lower than A- (Standard & Poor's) and/or A3 Moody's, agency debt securities, debt securities of international financial institutions with credit rating not less than AAA (Standard & Poor's) and/or Aaa (Moody's), certificates of deposit (CD), commercial paper (CP) with short-term credit rating not lower than A1 - Standard & Poor's or P1 – Moody's. The maximum term for the deposit should not exceed 1 month.

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

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

The maturity analysis for financial liabilities as at 31 December 2014 and 2013 is as follows:

	Demand and less than 1 month	From 3 to 6 months	From 6 to 12 months	More than 1 year	No maturity	Total gross amount outflow/(inflow)	Carrying amount
KZT'000							
Non-derivative liabilities							
Due to banks and other financial institutions	2,459,861,043	-	331,111,130	1,032,604,920	96,769,061	3,920,346,154	3,920,346,154
Current accounts of the National Fund of the Republic of Kazakhstan	1,227,141,853	-	-	-	-	1,227,141,853	1,227,141,853
Current accounts of the Ministry of Finance	522,688,328	-	-	-	-	522,688,328	522,688,328
Customer accounts	311,520,251	-	-	-	-	311,520,251	311,520,251
Debt securities issued	27,014,780	-	-	-	-	27,014,780	27,014,780
Reserves of guarantee fund	173,462,395	-	-	-	-	173,462,395	173,462,395
Other financial liabilities	32,930,036	-	-	-	-	32,930,036	32,930,036
Derivative liabilities							
- Inflow	(1,989,570)	-	-	-	-	(1,989,570)	-
- Outflow	2,571,930	-	-	-	-	2,571,930	822,371
Total liabilities	4,755,201,046	-	331,111,130	1,032,604,920	96,769,061	6,215,686,157	6,215,926,168
	Demand and less than 1 month	From 3 to 6 months	From 6 to 12 months	More than 1 year	No maturity	Total gross amount outflow/(inflow)	Carrying amount
KZT'000							
Non-derivative liabilities							
Due to banks and other financial institutions	1,001,139,128	-	-	-	86,914,718	1,088,053,846	1,088,063,218
Current accounts of the National Fund of the Republic of Kazakhstan	749,020,680	-	-	-	-	749,020,680	749,020,680
Current accounts of the Ministry of Finance	299,374,819	-	-	-	-	299,374,819	299,374,819
Customer accounts	89,426,291	-	-	-	-	89,426,291	89,426,291
Debt securities issued	3,595,581	-	-	-	-	3,595,581	3,597,913
Reserves of guarantee fund	133,658,087	-	-	-	-	133,658,087	133,658,087
Other financial liabilities	2,700,095	-	-	-	-	2,700,095	2,700,095
Derivative liabilities							
- Inflow	(21,300,308)	-	-	(10,730,300)	-	(32,030,608)	-
- Outflow	21,255,837	-	-	10,784,200	-	32,040,037	252,414
Total liabilities	2,278,870,210	-	-	53,900	86,914,718	2,365,838,828	2,366,093,517

The tables above show the undiscounted cash flows of non-derivative financial liabilities, including issued financial guarantee contracts, and unrecognised loan commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
KZT'000							
ASSETS							
Cash on hand in foreign currency	27,872,157	-	-	-	-	-	27,872,157
Gold	198,100,712	313,750,709	-	-	-	836,698,595	1,348,550,016
Placements with banks and other financial institutions	1,701,847,704	32,171,617	338,468,589	1,036,402,537	3,708,401	98,952,216	3,211,551,064
Financial instruments at fair value through profit or loss	347,778	566,765	10,328,981	212,341,833	271,142,626	129,084,671	623,812,654
Reverse repurchase agreements	688,883,841	25,490,177	-	-	-	-	714,374,018
Available-for-sale financial assets	340,727,956	457,835,257	516,166,104	1,367,108,856	319,852,240	79,853	3,001,770,266
Held-to-maturity investments	-	26,195	254,807	847,576	57,662,456	-	58,791,034
Investments in associates	-	-	-	-	-	298,955	298,955
Other financial assets	5,994,775	-	-	-	-	-	5,994,775
Total assets	2,963,774,923	829,840,720	865,218,481	2,616,700,802	652,365,723	1,065,114,290	8,993,014,939
LIABILITIES							
Currency in circulation	-	-	-	-	-	1,382,577,952	1,382,577,952
Due to banks and other financial institutions	2,459,861,043	-	331,111,130	1,032,604,920	-	96,769,061	3,920,346,154
Financial instruments at fair value through profit or loss	113,855	142,437	-	566,079	-	-	822,371
Current accounts of the National Fund of the Republic of Kazakhstan	1,227,141,853	-	-	-	-	-	1,227,141,853
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	522,688,328	-	-	-	-	-	522,688,328
Customer accounts	311,520,251	-	-	-	-	-	311,520,251
Debt securities issued	27,014,780	-	-	-	-	-	27,014,780
Reserves of guarantee fund	173,462,395	-	-	-	-	-	173,462,395
Other financial liabilities	32,930,036	-	-	-	-	-	32,930,036
Total liabilities	4,754,732,541	142,437	331,111,130	1,033,170,999	-	1,479,347,013	7,598,504,120
Net position	(1,790,957,618)	829,698,283	534,107,351	1,583,529,803	652,365,723	(414,232,723)	1,394,510,819

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
KZT'000							
ASSETS							
Cash on hand in foreign currency	20,771,701	-	-	-	-	-	20,771,701
Gold	267,684,536	32,409,831	-	-	-	555,144,933	855,239,300
Placements with banks and other financial institutions	625,669,228	568,977	3,615,077	1,524,654	-	147,222,575	778,600,511
Financial instruments at fair value through profit or loss	3,939	2,395,034	6,141,092	126,773,235	174,297,104	176,080,385	485,690,789
Reverse repurchase agreements	573,139,668	-	-	-	-	-	573,139,668
Available-for-sale financial assets	46,736,707	51,060,726	572,848,835	1,371,095,769	172,481,297	33,992	2,214,257,326
Held-to-maturity investments	35,967	23,450	72,141	875,560	56,973,090	-	57,980,208
Investments in associates	-	-	-	-	-	355,832	355,832
Other financial assets	4,867,109	-	-	-	-	-	4,867,109
Total assets	1,538,908,855	86,458,018	582,677,145	1,500,269,218	403,751,491	878,837,717	4,990,902,444
LIABILITIES							
Currency in circulation	-	-	-	-	-	1,763,275,779	1,763,275,779
Due to banks and other financial institutions	1,088,063,218	-	-	-	-	-	1,088,063,218
Financial instruments at fair value through profit or loss	129,717	101,670	17,640	3,387	-	-	252,414
Current accounts of the National Fund of the Republic of Kazakhstan	749,020,680	-	-	-	-	-	749,020,680
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	299,374,819	-	-	-	-	-	299,374,819
Customer accounts	89,426,291	-	-	-	-	-	89,426,291
Debt securities issued	3,597,913	-	-	-	-	-	3,597,913
Reserves of guarantee fund	133,658,087	-	-	-	-	-	133,658,087
Other financial liabilities	2,700,095	-	-	-	-	-	2,700,095
Total liabilities	2,365,970,820	101,670	17,640	3,387	-	1,763,275,779	4,129,369,296
Net position	(827,061,965)	86,356,348	582,659,505	1,500,265,831	403,751,491	(884,438,062)	861,533,148

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

36. COMMITMENTS

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

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

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

	2014 KZT'000	2013 KZT'000
Contracted amount		
Guarantees and letters of credit	482,675	645,754
Loan and credit line commitments	96,607	96,607
	579,282	742,361

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

37. CONTINGENCIES

Insurance

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

Litigation

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

Taxation contingencies

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

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

38. FUNDS MANAGEMENT, TRUST AND CUSTODY ACTIVITIES

Funds management and trust activities

The National Bank provides trust and asset management services to trust companies, a retirement contribution plan and other organizations, whereby it manages assets or invests funds received in various financial instruments at the direction of the customer. The National Bank receives fee income for providing these services. Trust assets are not assets of the National Bank and are not recognised in the consolidated statement of financial position. The National Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

As at 31 December 2014 and 2013, the total amount of assets that National Bank holds and manages for outside organisations is KZT 741,903,887 thousand and KZT 596,887,820 thousand, respectively.

As at 31 December 2014 and 2013, the total amount of assets that National Bank holds and manages for the National Fund is KZT 14,936,007,836 thousand and KZT 11,755,676,721 thousand, respectively. A portion of these funds is managed by external managers in accordance with the investment policies set by the NBK.

Custody activities

During 2014 and 2013 the National Bank provided custody services to JSC UNPF. As at 31 December 2014 the amount of assets of JSC “Unified National Pension Fund” (UNPF) under the custodial service of the National Bank equals KZT 4,515,682,249 thousand.

Assets of depositors

On 26 November 2012 the NBK acquired shares of JSC “Central Securities Depository” (the “Central Depository”), which performs the accounting of financial instruments and money of their clients. Accounting for financial instruments and money of Central Depository’s clients is performed separately from its own financial instruments and money on off balance sheet accounts.

As at 31 December 2014 and 2013, the total amount of financial instruments and money in nominal holding and bank accounts of depositors in the Central Depository is KZT 16,223,876,759 thousand and KZT 35,223,713,271 thousand, respectively.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

39. RELATED PARTY TRANSACTIONS

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

The remuneration to the members of the National Bank's Management Board and the Board of Directors for the years ended 31 December 2014 and 2013, comprised KZT 637,461 thousand and KZT 717,063 thousand, respectively. The remuneration consists of salary and other payments.

Transactions with other related parties

The outstanding balances and the related average interest rates as at 31 December 2014 and 2013 and related profit or loss amounts of transactions for the year ended 31 December 2014 and 2013 with other related parties are as follows.

	State companies and organisations			
	31 December 2014		31 December 2013	
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %
Consolidated statement of financial position				
ASSETS				
Placements with banks and other financial institutions	6,154,656	-	1,286,810	-
Reverse repurchase agreements	-	-	546,502,195	5.50
Available-for-sale financial assets	777,100,725	5.71	463,175,960	5.17
Held-to-maturity investments	58,749,419	4.02	57,894,065	4.02
Current tax asset	469,705	-	325,080	-
Deferred tax asset	73,196	-	4,510	-
Other assets	3,128,790	-	7,646,141	-
LIABILITIES				
Due to banks and other financial institutions	163,226,328	1.56	160,278,275	0.45
Current accounts of the National Fund of the Republic of Kazakhstan	1,227,141,853	-	749,020,680	-
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	522,688,328	-	299,374,819	-
Customer accounts	351,091,465	-	89,224,811	-
Current tax liability	10,980	-	10,273	-
Deferred tax liability	1,849,800	-	1,514,492	-
Other liabilities	28,737,562	-	446,558	-
Consolidated income statement				
Interest income	16,102,751	-	45,862,752	-
Interest expense	(4,423,903)	-	(995,787)	-
Fee and commission income	13,775,821	-	4,354,539	-
Fee and commission expense	267,647	-	(357,671)	-
Net gain on available-for-sale financial assets	17,002,384	-	5,071	-
Loss on held-to-maturity investments	-	-	-	-
Other operating income, net	1,953,554	-	2,218,787	-
Banknotes and coins production expenses	(39,662)	-	(41,235)	-
Funding of third parties	(184,672)	-	(198,482)	-
Personnel expenses	(295,224)	-	(213,309)	-
Other general administrative expenses	(1,190,055)	-	(951,325)	-
Income tax expense	(852,845)	-	(901,236)	-

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

40. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS

Accounting classifications and fair values

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

KZT'000	Designated at fair value	Held-to- maturity	Loans and receivables	Available- for-sale	Other at amortised cost	Total carrying amount	Fair value
Cash on hand in foreign currency	-	-	27,872,157	-	-	27,872,157	27,872,157
Gold	1,348,550,016	-	-	-	-	1,348,550,016	1,348,550,016
Placements with banks and other financial institutions	-	-	3,211,551,064	-	-	3,211,551,064	3,211,551,064
Financial instruments at fair value through profit or loss	623,812,654	-	-	-	-	623,812,654	623,812,654
Reverse repurchase agreements	-	-	714,374,018	-	-	714,374,018	713,222,802
Available-for-sale financial assets	-	-	-	3,001,770,266	-	3,001,770,266	3,001,770,266
Held-to-maturity investments	-	58,791,034	-	-	-	58,791,034	58,791,034
Other financial assets	-	-	5,994,775	-	-	5,994,775	5,994,775
	1,972,362,670	58,791,034	3,959,792,014	3,001,770,266	-	8,992,715,984	8,991,564,768
Currency in circulation	-	-	-	-	1,382,577,952	1,382,577,952	1,382,577,952
Due to banks and other financial institutions	-	-	-	-	3,920,346,154	3,920,346,154	3,920,346,154
Financial instruments at fair value through profit or loss	822,371	-	-	-	-	822,371	822,371
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	1,227,141,853	1,227,141,853	1,227,141,853
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	522,688,328	522,688,328	522,688,328
Customer accounts	-	-	-	-	311,520,251	311,520,251	311,520,251
Debt securities issued	-	-	-	-	27,014,780	27,014,780	27,014,780
Reserves of guarantee fund	-	-	-	-	173,462,395	173,462,395	173,462,395
Other financial liabilities	-	-	-	-	32,930,036	32,930,036	32,930,036
	822,371	-	-	-	7,597,681,749	7,598,504,120	7,598,504,120

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

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

KZT'000	Designated at fair value	Held-to- maturity	Loans and receivables	Available- for-sale	Other at amortised cost	Total carrying amount	Fair value
Cash on hand in foreign currency	-	-	20,771,701	-	-	20,771,701	20,771,701
Gold	855,239,300	-	-	-	-	855,239,300	855,239,300
Placements with banks and other financial institutions	-	-	778,600,511	-	-	778,600,511	778,600,511
Financial instruments at fair value through profit or loss	485,690,789	-	-	-	-	485,690,789	485,690,789
Reverse repurchase agreements	-	-	573,139,668	-	-	573,139,668	573,095,222
Available-for-sale financial assets	-	-	-	2,214,257,326	-	2,214,257,326	2,214,257,326
Held-to-maturity investments	-	57,980,208	-	-	-	57,980,208	57,980,208
Other financial assets	-	-	4,867,109	-	-	4,867,109	4,867,109
	1,340,930,089	57,980,208	1,377,378,989	2,214,257,326	-	4,990,546,612	4,990,502,166
Currency in circulation	-	-	-	-	1,763,275,779	1,763,275,779	1,763,275,779
Due to banks and other financial institutions	-	-	-	-	1,088,063,218	1,088,063,218	1,088,063,218
Financial instruments at fair value through profit or loss	252,414	-	-	-	-	252,414	252,414
Current accounts of the National Fund of the Republic of Kazakhstan	-	-	-	-	749,020,680	749,020,680	749,020,680
Current accounts of the Ministry of Finance of the Republic of Kazakhstan	-	-	-	-	299,374,819	299,374,819	299,374,819
Customer accounts	-	-	-	-	89,426,291	89,426,291	89,426,291
Debt securities issued	-	-	-	-	3,597,913	3,597,913	3,597,913
Reserves of guarantee fund	-	-	-	-	133,658,087	133,658,087	133,658,087
Other financial liabilities	-	-	-	-	2,700,095	2,700,095	2,700,095
	252,414	-	-	-	4,129,116,882	4,129,369,296	4,129,369,296

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

Fair value hierarchy

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

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

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

KZT'000	Level 1	Level 2	Total
Financial instruments at fair value through profit or loss			
- Financial instruments held-for-trading	623,298,230	-	623,298,230
- Derivative assets	514,424	-	514,424
- Derivative liabilities	(256,291)	(566,080)	(822,371)
Available-for-sale financial assets	-	-	-
- Debt and other fixed income instruments	2,175,468,093	826,222,319	3,001,690,412
- Equity investments	-	79,854	79,854
	2,799,024,456	825,736,093	3,624,760,549

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

KZT'000	Level 1	Level 2	Total
Financial instruments at fair value through profit or loss			
- Financial instruments held-for-trading	-	485,228,686	485,228,686
- Derivative assets	-	462,103	462,103
- Derivative liabilities	-	(252,414)	(252,414)
Available-for-sale financial assets			
- Debt and other fixed income instruments	1,732,480,734	481,742,600	2,214,223,334
- Equity investments	-	33,992	33,992
	1,732,480,734	967,214,967	2,699,695,701

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

41. ACQUISITION OF SUBSIDIARIES AND NON-CONTROLLING INTEREST

In 2013 in accordance with the Laws of the Republic of Kazakhstan “On securities market” dated 2 July 2003 and “On making amendments and additions in certain legal acts of the Republic of Kazakhstan on activities of microfinance organisations” dated 26 November 2012, the Management Board of the NBK approved acquisition of shares of JSC “Kazakhstan Stock Exchange” in the amount of 397,014 shares at carrying value of KZT 4,657.18 per share by subscription on non organized securities market.

The amount of assets and liabilities of the acquired subsidiary recognised in the National Bank’s consolidated financial statements were as follows at the date of acquisition:

KZT’000	Recognised amounts on acquisition
Assets	
Cash and cash equivalents	1,938,532
Placements with banks	1,259,795
Held-to-maturity investments	111,634
Investments in associates	177,835
Property, equipment and intangible assets	1,434,552
Other assets	71,842
Liabilities	
Other liabilities	(506,715)
Net identifiable assets and liabilities	4,487,475
Non-controlling interest recognised	(2,239,245)
Consideration paid	(1,848,966)
Shares of JSC “KASE” received free of charge	(348,986)
Net gain on acquisition of subsidiary	50,278
Cash and cash equivalents acquired	1,938,532
Consideration paid	(1,848,966)
Net cash inflow	89,566

42. DISPOSAL OF SUBSIDIARY AND NON-CONTROLLING SHAREHOLDER

In accordance with the Law of the Republic of Kazakhstan dated 30 March 1995 “On the National Bank of Kazakhstan”, the Law of the Republic of Kazakhstan “On State Property” dated 1 March 2011 in the framework of reformation of pension system of the Republic of Kazakhstan state package of shares of JSC “Accumulative Pension Fund” “GNPF” belonging to National Bank of Kazakhstan, in the amount of 9,444,873 shares of common stock was granted to the Committee on State Property and privatization of the Ministry of Finance of the Republic of Kazakhstan in 2013.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

Assets and liabilities disposed of the subsidiary at the date of disposal can be represented as follows:

KZT'000	Amounts as of the date of disposal
Assets	
Cash and cash equivalents	1,174,576
Placements with banks	6,653,761
Investments available for sale	7,722,525
Property, equipment and intangible assets	357,070
Other assets	1,583,940
Total assets	17,491,872
Liabilities	
Other commitments	(1,288,692)
Total liabilities	(1,288,692)
Net assets disposed	16,203,180

Loss on disposal of subsidiary

	2013
Investments in authorized capital of the NBK APF "GNPF"	7,795,247
Reserve capital	4,056,517
Additional paid-in capital	3,666
Accumulated expense of financial assets available for sale reclassified from equity on loss of control over APF "GNPF"	(318,165)
Cumulative exchange differences reclassified from equity on loss of control over APF "GNPF"	2,247
Retained earnings of prior years	4,636,285
Retained earnings of current year	809,861
Loss on acquisition of non controlling interest	(782,478)
Loss on disposal	16,203,180

43. SUBSEQUENT EVENTS

As of the date of issue of these consolidated financial statements Management have not identified any significant subsequent events which require disclosure.