Associated Bank "Kazakhstan – Ziraat International Bank" Joint Stock Company

Financial statements

Year ended 31 December 2015
together with independent auditor's report

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Әл-Фараби д-лы, 77/7
«Есентай Тауэр» ғимараты
Алматы қ., 050060
Қазақстан Республикасы
Тел.: +7 727 258 5960
Факс: +7 727 258 5961
www.ey.com

пр. Аль-Фараби, 77/7
здание «Есентай Тауэр»
г. Алматы, 050060
Республика Казахстан
Тел.: +7 727 258 5960
Факс: +7 727 258 5961

Al-Farabi ave., 77/7
Esentai Tower
Almaty, 050060
Republic of Kazakhstan
Tel.: +7 727 258 5960
Fax: +7 727 258 5961

Independent auditors' report

To the Shareholders and Board of Directors of "Associated Bank "Kazakhstan – Ziraat International Bank" Joint Stock Company"

We have audited the accompanying financial statements of "Associated Bank "Kazakhstan – Ziraat International Bank" Joint Stock Company" (the "Bank"), which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

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

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of "Associated Bank "Kazakhstan – Ziraat International Bank" Joint Stock Company" as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Evgeny Zhemaletdinov
Auditor / General Director
Ernst & Young LLP

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

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

9 March 2016

STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

(Thousands of tenge)

	Note	*2015*	*2014*
Assests			
Cash and cash equivalents	6	**18,394,506**	5,287,604
Amounts due from other banks	7	**1,025,436**	–
Receivables under reverse repurchase agreements	8	**2,003,830**	–
Available-for-sale investment securities	9	**1,687,205**	1,687,205
Loans to customers	10	**31,179,587**	23,029,516
Property and equipment	11	**1,232,020**	1,142,231
Intangible assets	12	**141,950**	159,298
Other assets	13	**2,041,642**	1,802,692
Total assets		**57,706,176**	33,108,546
Liabilities			
Amounts due to other banks	14	**8,632,469**	1,361,519
Amounts due to customers	15	**27,782,180**	12,228,919
Current corporate income tax liabilities	16	**–**	94,591
Deferred corporate income tax liabilities	16	**233,775**	229,925
Other liabilities	17	**75,759**	46,892
Total liabilities		**36,724,183**	13,961,846
Equity			
Share capital	18	**15,000,000**	15,000,000
Retained earnings		**3,634,496**	1,799,203
Reserve funds	18	**1,750,542**	1,750,542
Revaluation reserve for property and equipment		**596,955**	596,955
Total equity		**20,981,993**	19,146,700
Total liabilities and equity		**57,706,176**	33,108,546

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

Arifioglu A. Zeki — Chairman of the Management Board

Zhumakhanova T.N. — Chief accountant

11 March 2016

The accompanying notes on pages 5 to 43 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

(Thousands of tenge)

	Note	*2015*	*2014*
Interest income	19	**2,991,961**	2,351,071
Interest expense	19	**(467,954)**	(147,547)
Net interest income		**2,524,007**	2,203,524
Allowance for loan impairment	10	**(211,439)**	(40,397)
Net interest income after allowance for loan impairment		**2,312,568**	2,163,127
Net fee and commission income	20	**669,773**	656,829
Net gains from transactions in foreign currencies:			
- dealing		**689,022**	351,610
- translation differences		**33,975**	(11,855)
Other operating income		**13,011**	21,502
Administrative and other operating expenses	21	**(1,391,886)**	(1,142,530)
Profit before corporate income tax expense		**2,326,463**	2,038,683
Corporate income tax expense	16	**(491,170)**	(401,811)
Profit for the year		**1,835,293**	1,636,872
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in the subsequent periods:			
Revaluation of property and equipment		**–**	498,793
Corporate income tax relating to components of other comprehensive income	16	**–**	(99,759)
Other comprehensive income for the year, net of tax		**–**	399,034
Total comprehensive income for the year		**1,835,293**	2,035,906

The accompanying notes on pages 5 to 43 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

(Thousands of tenge)

	Share capital	*Revaluation reserve for property and equipment*	*Reserve funds*	*Retained earnings*	*Total equity*
At 31 December 2013	15,000,000	197,921	1,901,851	911,022	18,010,794
Profit for the year	–	–	–	1,636,872	1,636,872
Other comprehensive income for the year	–	399,034	–	–	399,034
Total comprehensive income for the year	–	399,034	–	1,636,872	2,035,906
Dividends declared *(Note 18)*	–	–	–	(900,000)	(900,000)
Decrease in dynamic reserves	–	–	(151,309)	151,309	–
At 31 December 2014	15,000,000	596,955	1,750,542	1,799,203	19,146,700
Profit for the year	**–**	**–**	**–**	**1,835,293**	**1,835,293**
Total comprehensive income for the year	**–**	**–**	**–**	**1,835,293**	**1,835,293**
At 31 December 2015	**15,000,000**	**596,955**	**1,750,542**	**3,634,496**	**20,981,993**

The accompanying notes on pages 5 to 43 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

(Thousands of tenge)

	Note	*2015*	*2014*
Cash flows from operating activities			
Interest received		**2,717,163**	2,339,729
Interest paid		**(239,248)**	(104,837)
Fees and commissions received		**664,898**	650,425
Fees and commissions paid		**(27,785)**	(24,769)
Net gains from dealing in foreign currencies		**689,022**	351,610
Other operating income received		**13,011**	15,282
Personnel expenses paid		**(762,210)**	(637,443)
Other administrative and operating expenses paid		**(526,390)**	(402,184)
Cash flows from operating activities before changes in operating assets and liabilities		**2,528,461**	2,187,813
Net (increase)/decrease in operating assets:			
Amounts due from other banks		**(991,506)**	–
Loans to customers		**(349,931)**	(6,275,970)
Receivables under reverse repurchase agreements		**(2,000,001)**	–
Other assets		**(178,874)**	(63,846)
Net increase/(decrease) in operating liabilities:			
Amounts due to other banks		**2,802,709**	1,022,632
Amounts due to customers		**6,206,992**	3,603,750
Other liabilities		**1,769**	(37,563)
Net cash from operating activities before corporate income tax		**8,019,619**	436,816
Corporate income tax paid		**(581,911)**	(344,773)
Net cash flow from operating activities		**7,437,708**	92,043
Cash flows from investing activities			
Purchase of property and equipment and intangible assets	11, 12	**(148,629)**	(72,789)
Proceeds from sale of available-for-sale investment securities		**–**	438,101
Net cash flows from investing activities		**(148,629)**	365,312
Cash flows from financing activities			
Dividends paid to shareholders of the Bank	18	**–**	(900,000)
Net cash used in financing activities		**–**	(900,000)
Effect of exchange rate changes on cash and cash equivalents		**5,817,823**	65,907
Net increase/(decrease) in cash and cash equivalents		**13,106,902**	(376,738)
Cash and cash equivalents as at 1 January		**5,287,604**	5,664,342
Cash and cash equivalents as at 31 December	6	**18,394,506**	5,287,604

The accompanying notes on pages 5 to 43 are an integral part of these financial statements.

(Thousands of tenge)

1. Principal activities

Associated Bank "Kazakhstan – Ziraat International Bank" Joint Stock Company" (the "Bank") was registered in 1993 in accordance with the laws of the Republic of Kazakhstan. The Bank conducts its activities under the general banking license No. 163 issued by the National Bank of the Republic of Kazakhstan (the "NBRK") on 29 December 2007. The Bank's activities are regulated by the NBRK.

The Bank accepts deposits from the public and extends credit, transfers payments in Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers.

The Bank is a member of the obligatory deposit insurance system. The system operates under the Law of the Republic of Kazakhstan on "Obligatory insurance of deposits in the second tier banks" dated 7 July 2006 and is governed by the NBRK. Insurance covers the Bank's liabilities of up to 10 million tenge on qualifying deposits in national currency and up to 5 million tenge on qualifying deposits in foreign currency for each individual in the event of business failure and revocation of the NBRK banking licence. Starting from 1993, the Bank is a member of the Kazakhstan Stock Exchange foreign exchange market (the "KASE").

As at 31 December 2015, the Bank's branch network comprises 4 branches located in the Republic of Kazakhstan (31 December 2014: 3).

Registered address of the Bank's head office: 132 Klochkov Str., Almaty, Republic of Kazakhstan.

As at 31 December 2015 and 2014, the Bank's controlling shareholder is T.C. Ziraat Bankasi A.S (Turkey) (the "Parent" or the "Controlling shareholder").

As at 31 December 2015 and 2014, the shareholders of the Bank were as follows:

Shareholder	***2015, %***	***2014, %***
T.C. Ziraat Bankasi A.S.	**99.58**	99.58
Emlak Pazarlama Insaat Proje Yonetimi ve Ticaret A.S.	**0.25**	0.25
T. Emlak Bankasi A.S. Munzam Sosyal Guvenlik Ve Yardim Vakfi	**0.17**	0.17
Total	**100.00**	100.00

2. Basis of preparation

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

The financial statements are prepared under the historical cost convention except as mentioned in the Summary of significant accounting policies. For example, available-for-sale investment securities, land and buildings within property and equipment are recorded at fair value.

These financial statements are presented in thousands of Kazakh tenge ("tenge" or "KZT"), unless otherwise is stated.

3. Summary of significant accounting policies

Changes in accounting policies

The Bank applied the following revised IFRSs and interpretations effective for annual reporting periods beginning on after 1 January 2015:

Amendments to IAS 19 Defined Benefit Plans: Employee Benefits

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where such contributions are linked to the services, they must be attributed to periods of service by reducing the service cost. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise them as a reduction in the service cost in the period in which the service is rendered, instead of allocating these contributions to the periods of service. These amendments are not relevant to the Bank, since the Bank does not have defined benefit plans with contributions from employees or third parties.

(Thousands of tenge)

3. Summary of accounting policies (continued)

Changes in accounting policy (continued)

Annual improvements 2010-2012 cycle

These improvements are effective from 1 July 2014 and applied by the Bank in these financial statements for the first time. They include:

IFRS 2 Share-based Payment

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

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

These amendments had no impact on the accounting policy of the Bank.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). Such an approach is not consistent with the Bank's accounting policies and for this reason this amendment has no impact on its accounting policies.

IFRS 8 Operating Segments

The amendments are applied retrospectively basis and clarify that:

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

The Bank has not applied the aggregation criteria in IFRS 8.12. The Bank has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in Note 5 in these financial statements as the reconciliation is reported to the chief operating decision maker for the purpose of decision making.

IFRS 13 Fair Value Measurement

This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. Such an approach is consistent with the Bank's current accounting policies and for this reason this amendment has no impact on its accounting policies.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendments are applied retrospectively and clarify provisions of IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross carrying amount of the asset and its carrying amount. During the current period, the Bank did not record and revaluation adjustments.

(Thousands of tenge)

3. Summary of accounting policies (continued)

Changes in accounting policy (continued)

Annual improvements 2010-2012 cycle (continued)

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management entity services. This amendment has no impact on the Bank since it does not engage other entities to provide any management services.

Annual improvements 2011-2013 cycle

These improvements are effective from 1 July 2014 and applied by the Bank in these financial statements for the first time. They include:

IFRS 3 Business Combinations

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

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

The Bank is not a joint arrangement, and thus, this amendment is not relevant to the Bank.

IFRS 13 Fair Value Measurement

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

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination. In previous periods, the Bank has applied IFRS 3, not IAS 40, in determining whether the transaction constitutes an asset acquisition or a business combination. Thus, this amendment does not impact the accounting policy of the Bank.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Meaning of effective IFRSs

The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Bank, since the Bank is an existing IFRS preparer.

Fair value measurement

The Bank measures financial instruments such as investment securities available for sale and such non-financial assets as buildings and land within property and equipment at fair value at each reporting date. Information on fair value of financial instruments measured at amortized cost is disclosed in *Note 24*.

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

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

(Thousands of tenge)

3. Summary of accounting policies (continued)

Fair value measurement (continued)

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

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

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

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

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

Financial assets

Initial recognition

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

Date of recognition

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

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets represent non-derivative financial assets that are classified as available-for-sale. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired. At which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to income or loss. However, interest calculated using the effective interest method is recognised in profit or loss.

(Thousands of tenge)

3. Summary of accounting policies (continued)

Financial assets (continued)

Reclassification of financial assets

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

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

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBRK and amounts due from other banks that mature within ninety days of the date of origination and are free from contractual encumbrances.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as accounts receivable under reverse repurchase agreements in the statement of financial position. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless they are sold to third parties. In this case the purchase and sale are recorded within gains less losses from trading securities in the statement of income. The obligation to return them is recorded at fair value as a trading liability.

Borrowings

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

Leases

Operating – Bank as lessee

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

(Thousands of tenge)

3. Summary of accounting policies (continued)

Measurement of financial instruments at initial recognition

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

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

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

Offsetting of financial assets

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

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

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

Impairment of financial assets

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

Amounts due from other banks and loans to customers

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

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

(Thousands of tenge)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Amounts due from other banks and loans to customers (continued)

The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that considers asset type, industry, type of security, past-due status and other relevant factors.

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

Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss.

Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income is recognised in profit or loss. If, in a subsequent year, the fair value of a debt instrument 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 through profit or loss.

Renegotiated loans

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

The accounting treatment of such restructuring is as follows:

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

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

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

Financial guarantees

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

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

Taxation

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

Corporate income tax assets and liabilities are calculated in respect of all temporary differences using the liability method. Deferred corporate income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

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

The Republic of Kazakhstan also has various operating taxes that are assessed on the Bank's activities. These taxes are recorded within administrative and other operating expenses in the statement of comprehensive income.

(Thousands of tenge)

3. Summary of accounting policies (continued)

Property and equipment

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

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

Following initial recognition at cost, buildings and land are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation of buildings and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised within profit or loss. In which case the increase is recognised in the profit or loss. A revaluation deficit is recognised within profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

The Bank has also elected to transfer the revaluation surplus to retained earnings as the asset is being used.

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

	Years
Buildings	50
Office equipment and computer hardware	3-5
Vehicles	5
Other property and equipment	3-10

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

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

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 3 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Provisions

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

Retirement and other employee benefit obligations

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

(Thousands of tenge)

3. Summary of accounting policies (continued)

Share capital

Share capital

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

Dividends

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

Segment reporting

The Bank's segmental reporting is based on the following operating segments: Corporate banking and Retail banking.

Contingent assets and liabilities

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

Revenue and expense recognition

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

Interest and similar income and expense

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

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

Fee and commission income

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

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

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

- *Commission income from providing transaction services*

Fees arising from settlement transactions, transactions with cash and other services are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(Thousands of tenge)

3. Summary of accounting policies (continued)

Foreign currency translation

The financial statements are presented in Tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate established by the KASE and published by the NBRK ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income as net gains from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the official exchange rates at the date when the fair value was determined. Differences between the contractual exchange rate of a transaction in a foreign currency and the official KASE exchange rate on the date of the transaction are included in net gains from dealing in foreign currencies.

On 20 August 2015, the Government of the Republic of Kazakhstan implemented a new credit and monetary policy based on inflation targeting with the cancellation of the exchange rate band and the transition to a free floating exchange rate of tenge. As a result, significant depreciation of tenge in relation to US dollar and other leading world currencies took place. The KASE market exchange rates at 31 December 2015 and 2014, were 340.01 KZT and 182.35 KZT to 1 USD, respectively.

Standards and interpretations issued but not yet effective

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

IFRS 9 Financial Instruments

In July 2014, IFRS Board published a final version of IFRS 9 *Financial Instruments*, which includes all stages of financial instruments' project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* as well as all previous version of IFRS 9. The standard introduces new requirements to classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. Early application is permitted. Retrospective application is required however presentation of comparative information is not mandatory. Earlier application of previous versions of IFRS 9 is permitted if the date of initial application is 1 February 2015 or earlier. Application of IFRS 9 will have an impact on classification and measurement of the Bank's financial assets and will not have an impact on classification and measurement of its financial liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue from lease contracts, insurance contracts and originated with respect to financial instruments and other contractual rights and obligations relating to scope of application of IAS 17 *Lease*, IFRS 4 *Insurance Contracts* and IAS 39 *Financial Instruments: Recognition and Measurement* (or, in case of early application, IFRS 9 *Financial Instruments*) accordingly is not within the scope of application of IFRS 15 and regulated by the respective standards.

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

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

IFRS 14 Regulatory Deferral Accounts

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

(Thousands of tenge)

3. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

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

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

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

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

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

Amendments to IAS 27 Equity Method in Separate Financial Statements

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

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

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognised only to the extent of unrelated investors' interests in that former subsidiary. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Early application is permitted.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- the materiality requirements in IAS 1;
- that specific line items in the statement of profit or loss and OCI and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements;
- that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank.

(Thousands of tenge)

3. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 28 Applying the Consolidation Exception.

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its profit in subsidiaries. These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016. Early application is permitted. These amendments are not expected to have any impact on the Bank.

Annual IFRS improvements 2012-2014 cycle

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

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

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

IFRS 7 Financial Instruments: Disclosures – servicing contracts

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

IFRS 7 Financial Instruments: Disclosures – applicability of the offsetting disclosures to interim financial statements

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

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

3. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Annual IFRS improvements 2012-2014 cycle (continued)

IAS 19 Employee Benefits – regional market issue regarding discount rate

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

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

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

4. Significant accounting judgements and estimates

Estimation uncertainty

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

Allowance for impairment of loans

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

Taxation

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

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

(Thousands of tenge)

5. Segment information

Operating segments are components of a company that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. Management Board of the Bank is the operating decision maker of the Bank.

Description of products and services from which each reportable segment derives its revenue

The Bank is established based on one major business segment – corporate banking, representing direct debit instruments, current accounts, deposits, overdrafts, loans and other credit instruments and foreign exchange products. The Bank also conducts retail banking transactions that represent private banking services, private customer current accounts, savings, deposits, consumer loans.

Information on income and expenses, assets and liabilities for reportable segments

Segment information for the reportable segments for the year ended 31 December 2015 is set out below:

	Corporate banking	*Retail banking*	*Total*
Assests			
Cash and cash equivalents	18,394,506	–	18,394,506
Amounts due from other banks	1,025,436	–	1,025,436
Receivables under reverse repurchase agreements	2,003,830	–	2,003,830
Available-for-sale investment securities	1,687,205	–	1,687,205
Loans to customers	26,826,108	4,353,479	31,179,587
Total assets of reportable segments	49,937,085	4,353,479	54,290,564
Liabilities			
Amounts due to other banks	8,632,469	–	8,632,469
Amounts due to customers	21,699,560	6,082,620	27,782,180
Total liabilities of reportable segments	30,332,029	6,082,620	36,414,649

	Corporate banking	*Retail banking*	*Total*
Interest income	2,392,964	598,997	2,991,961
Interest expense	(436,859)	(31,095)	(467,954)
Net interest income	1,956,105	567,902	2,524,007
Allowance for loan impairment	21,843	(233,282)	(211,439)
Net interest income after allowance for loan impairment	1,977,948	334,620	2,312,568
Fee and commission income	455,818	241,740	697,558
Fee and commission expense	(27,785)	–	(27,785)
Net gains from transactions in foreign currencies:			
- dealing	689,022	–	689,022
- translation differe	33,975	–	33,975
Other operating revenue	13,011	–	13,011
Administrative and other operating expenses	(1,391,886)	–	(1,391,886)
Segment results	1,750,103	576,360	2,326,463

(Thousands of tenge)

5. Segment information (continued)

Information on income and expenses, assets and liabilities for reportable segments (continued)

Segment information for the reportable segments for the year ended 31 December 2014 is set out below:

	Corporate banking	*Retail banking*	*Total*
Assests			
Cash and cash equivalents	5,287,604	–	5,287,604
Loans to customers	18,354,679	4,674,837	23,029,516
Available-for-sale investment securities	1,687,205	–	1,687,205
Total assets of reportable segments	25,329,488	4,674,837	30,004,325
Amounts due to other banks	1,361,519	–	1,361,519
Amounts due to customers	9,273,834	2,955,085	12,228,919
Total liabilities of reportable segments	10,635,353	2,955,085	13,590,438

	Corporate banking	*Retail banking*	*Total*
Interest income	1,688,047	663,024	2,351,071
Interest expense	(139,284)	(8,263)	(147,547)
Net interest income	1,548,763	654,761	2,203,524
Allowance for loan impairment	(87,236)	46,839	(40,397)
Net interest income after allowance for loan impairment	1,461,527	701,600	2,163,127
Fee and commission income	655,433	26,165	681,598
Fee and commission expense	(24,769)	–	(24,769)
Net gains from transactions in foreign currencies:			
- dealing	351,610	–	351,610
- translation differences	(11,855)	–	(11,855)
Other operating revenue	21,502	–	21,502
Administrative and other operating expenses	(1,146,113)	3,583	(1,142,530)
Segment results	1,307,335	731,348	2,038,683

A reconciliation of income and expenses, assets and liabilities of reportable segments with the data reflected in the financial statements is presented below.

	2015	*2014*
Total assets of reportable segments	**54,290,564**	30,004,325
Property and equipment and intangible assets	**1,373,970**	1,301,529
Other assets	**2,041,642**	1,802,692
Total assets	**57,706,176**	33,108,546
Total liabilities of reportable segments	**36,414,649**	13,590,438
Current corporate income tax liabilities	–	94,591
Deferred corporate income tax liabilities	**233,775**	229,925
Other liabilities	**75,759**	46,892
Total liabilities	**36,724,183**	13,961,846

	2015	*2014*
Total segment results	**2,326,463**	2,038,683
Corporate income tax expense	**(491,170)**	(401,811)
Total revenue	**1,835,293**	1,636,872

Income of the Bank, other than interest income from deposits with other banks, is generated in Kazakhstan. Geographic areas of the Bank's activities are presented in *Note 23* to these financial statements on the basis of the actual location of the counterparty, i.e. on the basis of economic risk rather than legal risk of the counterparty. The Bank has no customers, which would bring the Bank more than ten percent of the total revenue earned in 2015 and 2014.

(Thousands of tenge)

6. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2015	*2014*
Cash on hand	**1,829,450**	1,324,625
Correspondent accounts with the NBRK	**8,959,188**	3,041,092
Correspondent accounts with other banks	**7,605,868**	921,887
Cash and cash equivalents	**18,394,506**	5,287,604

Under Kazakh legislation, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held on the current account with the NBRK or physical cash computed based on average monthly balances of the aggregate of cash balances on current account with the NBRK or physical cash in national and hard currencies during the period of reserve creation. As at 31 December 2015, obligatory reserves amounted to KZT 1,250,383 thousand (31 December 2014: KZT 450,119 thousand).

7. Amounts due from other banks

As at 31 December 2015, amounts due from other banks comprise a short-term deposit placed with Uzbek-Turkish Bank JSC (Republic of Uzbekistan). The deposit is placed with US dollars for a period of one year with the interest rate of 3.5% per annum.

As at 31 December 2014, there were no amounts due from other banks.

8. Receivables under reverse repurchase agreements

As at 31 December 2015, the Bank entered into reverse repurchase agreements on the KASE. The subject of these agreements are bonds of the Ministry of Finance of the Republic of Kazakhstan with fair value of KZT 2,107,720 thousand as at 31 December 2015 (as at 31 December 2014: nil).

9. Available-for-sale investment securities

As at 31 December 2015 and 2014, investment securities available for sale that are in ownership of the Bank are represented by bonds of the Ministry of Finance of the Republic of Kazakhstan with the interest rate of 3.00-3.80% per annum.

10. Loans to customers

Loans to customers comprise:

	2015	*2014*
Loans to major customers	**19,551,597**	15,167,400
Loans to small and medium-sized businesses	**7,871,262**	3,769,018
Consumer loans	**2,918,149**	3,163,181
Mortgage loans	**2,302,579**	2,005,085
Total gross loans to customers before allowance for loan impairment	**32,643,587**	24,104,684
Less: Allowance for loan impairment	**(1,464,000)**	(1,075,168)
Loans to customers	**31,179,587**	23,029,516

The Bank classifies loans to borrowers that have average total assets of more than 60,000 minimum calculation index as "loans to major customers". As at 31 December 2015, the minimum calculation index was KZT 1,982 (31 December 2014: KZT 1,852).

(Thousands of tenge)

10. Loans to customers (continued)

Allowance for loan impairment

The movements in allowance for impairment of loans in 2015 is as follows:

	Loans to major customers	*Loans to small and medium-sized businesses*	*Consumer loans*	*Mortgage loans*	*Total*
At 31 December 2014	105,918	475,821	352,785	140,644	1,075,168
(Reversal)/charge for the year	**(13,846)**	**(7,997)**	**192,493**	**40,789**	**211,439**
Translation difference	**–**	**36,855**	**131,541**	**8,997**	**177,393**
At 31 December 2015	**92,072**	**504,679**	**676,819**	**190,430**	**1,464,000**
Individual impairment	**(89,112)**	**(222,263)**	**(201,388)**	**–**	**(512,763)**
Collective impairment	**(2,960)**	**(282,416)**	**(475,431)**	**(190,430)**	**(951,237)**
	(92,072)	**(504,679)**	**(676,819)**	**(190,430)**	**(1,464,000)**
Total amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**89,112**	**222,263**	**217,196**	**–**	**528,571**

The movements in allowance for impairment of loans in 2014 is as follows:

	Loans to major customers	*Loans to small and medium-sized businesses*	*Consumer loans*	*Mortgage loans*	*Total*
At 31 December 2013	89,112	400,522	449,506	51,799	990,939
Charge/(reversal) for the year	16,806	68,690	(130,504)	85,405	40,397
Translation difference	–	6,609	33,783	3,440	43,832
At 31 December 2014	105,918	475,821	352,785	140,644	1,075,168
Individual impairment	(89,112)	(187,530)	(116,839)	–	(393,481)
Collective impairment	(16,806)	(288,291)	(235,946)	(140,644)	(681,687)
	(105,918)	(475,821)	(352,785)	(140,644)	(1,075,168)
Total amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	89,112	187,530	132,751	–	409,393

(Thousands of tenge)

10. Loans to customers (continued)

Collateral and other credit enhancements

The following table shows an analysis of loans to customers by type of collateral as at 31 December 2015:

	Loans to major customers	*Loans to small and medium-sized businesses*	*Consumer loans*	*Mortgage loans*	*Total*
Loans secured by:					
- real estate	**17,119,348**	**7,507,360**	**2,554,658**	**2,263,399**	**29,444,765**
- other	**94,577**	**276,491**	**105,781**	**18,478**	**495,327**
Loans secured by guarantees of third parties	**2,337,672**	**87,411**	**240,807**	**20,702**	**2,686,592**
Unsecured loans	**–**	**–**	**16,903**	**–**	**16,903**
Total gross loans to customers before allowance for loan impairment	**19,551,597**	**7,871,262**	**2,918,149**	**2,302,579**	**32,643,587**

The following table shows an analysis of loans to customers by type of collateral as at 31 December 2014:

	Loans to major customers	*Loans to small and medium-sized businesses*	*Consumer loans*	*Mortgage loans*	*Total*
Loans secured by:					
- real estate	14,272,513	3,194,449	2,668,274	1,970,812	22,106,048
- other	123,331	162,593	191,539	15,945	493,408
Loans secured by guarantees of third parties	771,556	212,876	290,004	18,328	1,292,764
Unsecured loans	–	199,100	13,364	–	212,464
Total gross loans to customers before allowance for loan impairment	15,167,400	3,769,018	3,163,181	2,005,085	24,104,684

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

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

Concentration of loans to customers

As at 31 December 2015, the Bank had ten major borrowers, which accounted for 60% (31 December 2014: 50%) of the total amount of loan to customers before allowance for impairment. The total aggregate amount of these loans was KZT 19,551,597 thousand (at 31 December 2014: KZT 12,111,673 thousand).

The structure of the loan portfolio by industries is as follows:

	2015		*2014*	
	Amount	*%*	*Amount*	*%*
Trade	**15,539,072**	**47.6%**	7,679,619	31.9%
Hospitality	**8,099,594**	**24.8%**	6,881,930	28.6%
Individuals	**5,220,728**	**16.0%**	5,168,266	21.4%
Manufacturing	**1,582,091**	**4.8%**	1,992,631	8.3%
Construction	**898,725**	**2.8%**	1,474,890	6.1%
Mining industry/metallurgy	**80,377**	**0.2%**	88,688	0.4%
Leases	**61,080**	**0.2%**	33,281	0.1%
Transportation and communication	**31,356**	**0.1%**	18,915	0.1%
Other	**1,130,564**	**3.5%**	766,464	3.1%
Total gross loans to customers before allowance for loan impairment	**32,643,587**	**100.0%**	24,104,684	100.0%

(Thousands of tenge)

11. Property and equipment

The movements in property and equipment were as follows:

	Land	*Buildings*	*Construction in progress*	*Office and computer equipment*	*Vehicles*	*Other*	*Total*
Cost							
At 31 December 2013	257,629	289,293	4,005	63,848	19,430	126,686	760,891
Additions	–	–	–	20,489	27,684	13,170	61,343
Disposals	–	(200)	(4,005)	(59,806)	–	(25,039)	(89,050)
Effect of revaluation	383,950	98,933	–	–	–	–	482,883
At 31 December 2014	641,579	388,026	–	24,531	47,114	114,817	1,216,067
Additions	**–**	**46,319**	**–**	**3,329**	**4,040**	**84,556**	**138,244**
Disposals	**–**	**–**	**–**	**(2,803)**	**(12,355)**	**(17,577)**	**(32,735)**
At 31 December 2015	**641,579**	**434,345**	**–**	**25,057**	**38,799**	**181,796**	**1,321,576**
Accumulated depreciation							
At 31 December 2013	–	(11,004)	–	(42,499)	(9,747)	(55,047)	(118,297)
Charge for the year	–	(5,106)	–	(24,450)	(7,060)	(19,878)	(56,494)
Disposals	–	200	–	59,806	–	25,039	85,045
Effect of revaluation	–	15,910	–	–	–	–	15,910
At 31 December 2014	–	–	–	(7,143)	(16,807)	(49,886)	(73,836)
Charge for the year	**–**	**(7,070)**	**–**	**(9,229)**	**(10,180)**	**(21,931)**	**(48,410)**
Disposals	**–**	**–**	**–**	**2,758**	**12,355**	**17,577**	**32,690**
At 31 December 2015	**–**	**(7,070)**	**–**	**(13,614)**	**(14,632)**	**(54,240)**	**(89,556)**
Net book value							
At 31 December 2013	257,629	278,289	4,005	21,349	9,683	71,639	642,594
At 31 December 2014	641,579	388,026	–	17,388	30,307	64,931	1,142,231
At 31 December 2015	**641,579**	**427,275**	**–**	**11,443**	**24,167**	**127,556**	**1,232,020**

The Bank uses independent appraiser to determine fair value of land and buildings that are in ownership of the Bank.

If the land and buildings were accounted for at historical cost less impairment and accumulated depreciation for buildings, their carrying value would be KZT 45,080 thousand and KZT 189,354 thousand, respectively (as at 31 December 2014: KZT 45,080 thousand and KZT 192,425 thousand, respectively).

As at 31 December 2015, the cost of fully amortised property and equipment, including office and computer equipment, vehicles and other fixed assets that are in use by the Bank amounted to KZT 31,108 thousand (at 31 December 2014: KZT 61,144 thousand).

(Thousands of tenge)

12. Intangible assets

The movements of intangible assets were as follows:

	Licenses and software	*Total*
Cost		
At 31 December 2013	230,071	230,071
Additions	11,446	11,446
Disposals	(13,393)	(13,393)
Transfers	–	–
At 31 December 2014	228,124	228,124
Additions	**10,385**	**10,385**
Disposal	**(28,266)**	**(28,266)**
At 31 December 2015	**210,243**	**210,243**
Accumulated amortization		
At 31 December 2013	(38,447)	(38,447)
Charge for the year	(43,772)	(43,772)
Disposals	13,393	13,393
At 31 December 2014	(68,826)	(68,826)
Charge for the year	**(27,733)**	**(27,733)**
Disposals	**28,266**	**28,266**
At 31 December 2015	**(68,293)**	**(68,293)**
Net book value		
At 31 December 2013	191,624	191,624
At 31 December 2014	159,298	159,298
At 31 December 2015	**141,950**	**141,950**

13. Other assets

As at 31 December 2015 and 2014, other assets comprise:

	2015	*2014*
Commissions receivable	**70,712**	33,737
Shares	**7,001**	7,001
Other debtors on bank activities	**10,195**	5,059
Other financial assets	**87,908**	45,797
Inventories	**1,743,096**	1,617,440
Prepaid taxes other than corporate income tax	**120,616**	91,238
Prepayment for utilities	**80,726**	41,512
Prepayment for other services	**7,271**	6,705
Other	**2,025**	–
Other non-financial assets	**1,953,734**	1,756,895
Other assets	**2,041,642**	1,802,692

As at 31 December 2015 and 2014, inventories comprise properties received by the Bank in settlement of obligations of loan obligations by borrowers. The Bank expects to sell these assets in the foreseeable future.

(Thousands of tenge)

14. Amounts due to other banks

Amounts due to other banks comprise:

	2015	*2014*
Time deposits	**8,632,469**	1,361,519
Amounts due to other banks	**8,632,469**	1,361,519

As at 31 December 2015, amounts due to other banks comprise short-term deposits of the Parent in the total amount of KZT 8,631,969 thousand (as at 31 December 2014: KZT 1,360,448 thousand) and deposits of other banks in the total amount of KZT 500 thousand (as at 31 December 2014: KZT 1,071 thousand). Deposits of the Parent are placed in US dollars and EUR for a period of 6 months and have interest rates of 3.75-4.50% per annum (2014: 5.46% per annum).

15. Amounts due to customers

	2015	*2014*
Current accounts	**14,861,326**	7,749,397
Time deposits	**12,920,854**	4,479,522
Amounts due to customers	**27,782,180**	12,228,919
Held as security against letters of credit	**36,821**	122,808
Held as security against guarantees	**4,955,476**	2,802,190

As at 31 December 2015, the Bank had ten major clients, which accounted for 40% of the gross balance of current accounts and deposits of clients (as at 31 December 2014: 44%). The aggregate amount due to such customers as at 31 December 2015 was KZT 11,219,915 thousand (as at 31 December 2014: KZT 5,387,991 thousand).

Included in time deposits are deposits of individuals in the amount of KZT 2,483,246 thousand (as at 31 December 2014: KZT 803,865 thousand). In accordance with the Civil Code of the Republic of Kazakhstan, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is withdrawn by a depositor prior to maturity, interest is not paid or paid at a considerably lower interest rate depending on the terms specified in the agreement.

As at 31 December, amounts due to customers comprise:

	2015	*2014*
Current accounts		
Legal entities	**10,725,484**	5,360,032
Individuals	**3,599,374**	2,151,220
State and public organisations	**536,468**	238,145
Time deposits		
Legal entities	**10,437,608**	3,675,657
Individuals	**2,483,246**	803,865
Amounts due to customers	**27,782,180**	12,228,919

Below is the breakdown of due to customers by industry sectors:

	2015		*2014*	
	Amount	*%*	*Amount*	*%*
Trade and services	**9,180,864**	**33.0%**	2,978,702	24.4%
Construction	**9,019,016**	**32.5%**	1,803,157	14.7%
Individuals	**6,082,620**	**21.9%**	2,955,085	24.2%
Manufacturing	**972,126**	**3.5%**	1,014,432	8.3%
Mining of metal ores	**774,158**	**2.8%**	2,749,014	22.5%
Professional services	**586,547**	**2.1%**	55	0.0%
State and public organisations	**536,468**	**1.9%**	238,145	1.9%
Transport and communications	**79,655**	**0.3%**	57,423	0.5%
Sports and tourism	**73,934**	**0.3%**	8,639	0.1%
Other	**476,792**	**1.7%**	424,267	3.4%
Amounts due to customers	**27,782,180**	**100.0%**	12,228,919	100.0%

(Thousands of tenge)

16. Taxation

The corporate income tax expense comprise:

	2015	*2014*
Current corporate income tax change	**487,320**	439,364
Deferred corporate income tax benefit/(charge) – origination and reversal of temporary differences	**3,850**	(37,553)
Corporate income tax expense	**491,170**	401,811

The Republic of Kazakhstan was only one tax jurisdiction in which the Bank's income is taxable. In accordance with tax legislation the applied corporate income tax rate is 20.0% in 2015 and 2014.

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

	2015	*2014*
Profit before corporate income tax expense	**2,326,463**	2,038,683
Statutory tax rate	**20%**	20%
Theoretical corporate income tax expense at the statutory rate	**465,293**	407,737
Non-taxable income from state securities and securities included in the official listing of the KASE	**(11,746)**	(11,804)
Non-taxable income from reversal of provisions	**8,701**	–
Other permanent differences	**28,922**	5,878
Corporate income tax expense	**491,170**	401,811

As at 31 December 2015, current corporate income tax liabilities comprised KZT nil thousand (as at 31 December 2014: KZT 94,591 thousand).

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

		Origination and reversal of temporary differences			***Origination and reversal of temporary differences***		
	2013	***In profit or loss***	***In other comprehen-sive income***	*2014*	***In profit or loss***	***In other comprehen-sive income***	*2015*
Tax effect of deductible temporary differences							
Other liabilities	1,400	5,553	–	6,953	**7,208**	–	**14,161**
Deferred corporate income tax assets	1,400	5,553	–	6,953	**7,208**	–	**14,161**
Tax effect of taxable temporary differences							
Loans to customers	(145,909)	30,262	–	(115,647)	–	–	**(115,647)**
Property and equipment and intangible assets	(23,210)	1,738	(99,759)	(121,231)	**(11,058)**	–	**(132,289)**
Deferred corporate income tax liabilities	(169,119)	32,000	(99,759)	(236,878)	**(11,058)**	–	**(247,936)**
Net deferred corporate income tax liability	(167,719)	37,553	(99,759)	(229,925)	**(3,850)**	–	**(233,775)**

(Thousands of tenge)

17. Other liabilities

As at 31 December other liabilities comprise:

	2015	2014
Amounts payable on non-operating activities	**27,130**	33,990
Obligations on guarantees issued	**21,988**	9,897
Other financial liabilities	**49,118**	43,887
Taxes other than corporate income tax payable	**4,391**	2,996
Other liabilities	**22,250**	9
Other non-financial liabilities	**26,641**	3,005
Other liabilities	**75,759**	46,892

18. Equity

As at 31 December 2015 and 2014, the total amount of authorized, issued and fully paid common shares of the Bank comprised 15,000,000 pieces. The placement value was KZT 1,000 per share. Shareholders have the right to receive dividends and capital distribution in tenge.

In 2015, the Bank did not declare or pay any dividends based on its 2014 performance. In accordance with the decision made at the Bank shareholders' annual meeting dated 12 May 2014, in 2014 the Bank declared and paid dividends in the amount of KZT 900,000 thousand for the year ended 31 December 2013.

As at 31 December 2015, the Bank had a general bank reserve to cover unforeseen risks and future losses in the amount of KZT 1,177,175 thousand (as at 31 December 2014: KZT 1,177,175 thousand). The funds from the general banking reserve could be allocated only upon the Bank shareholders' official authorisation.

In accordance with the Resolution of the NBRK No. 137 dated 27 May 2013 (the "Resolution"), since 1 September 2013 the Bank calculates the dynamic reserves. As at 31 December 2015, dynamic reserves calculated in accordance with the Resolution amounts to KZT 573,367 thousand (as at 31 December 2014: KZT 573,367 thousand).

General bank reserve and dynamic reserves are included in "Reserve capital" in the statement of changes in equity.

19. Interest income and expense

Interest income and interest expense comprise:

	2015	2014
Loans to customers	**2,686,114**	2,246,648
Receivables under reverse repurchase agreements	**239,310**	–
Available-for-sale investment securities	**58,732**	59,022
Deposits placed with other banks	**6,867**	45,401
Other	**938**	–
Interest income	**2,991,961**	2,351,071
Amounts due to customers	**(467,954)**	(147,547)
Interest expense	**(467,954)**	(147,547)
Net interest income	**2,524,007**	2,203,524

(Thousands of tenge)

20. Net fee and commission income

Net fee and commission income comprises:

	2015	*2014*
Settlement operations	**351,324**	367,366
Cash transactions	**169,089**	196,009
Issuance of guarantees and letters of credit	**102,264**	52,955
Maintenance of bank accounts	**36,927**	33,987
Safe transactions	**4,883**	5,223
Other	**33,071**	26,058
Fee and commission income	**697,558**	681,598
Settlement operations	**(24,457)**	(21,371)
Other	**(3,328)**	(3,398)
Fee and commission expense	**(27,785)**	(24,769)
Net commission income	**669,773**	656,829

21. Administrative and other operating expenses

Administrative and other operating expenses comprise:

	2015	*2014*
Salaries and bonuses	**695,501**	579,840
Taxes, other than income tax	**93,595**	30,542
Social security contributions	**66,709**	57,603
Security	**61,113**	58,029
Deposit insurance	**48,574**	9,644
Depreciation of property and equipment	**48,410**	56,494
Fines and penalties	**47,619**	8,815
Communication and information services	**46,498**	32,981
Technical support of software	**38,473**	39,746
Lease	**34,737**	26,999
Amortisation of intangible assets	**27,733**	43,772
Travel expenses	**20,192**	13,423
Insurance	**17,803**	10,619
Advertising and marketing	**16,888**	13,308
Professional services	**15,444**	33,772
Maintenance of buildings	**13,846**	12,872
Membership fees	**13,072**	18,654
Encashment	**6,761**	5,533
Repair and maintenance	**6,541**	9,311
Office supplies	**6,346**	4,935
Transportation	**4,836**	5,488
Customer related expenses	**4,185**	5,869
Sponsorships	**649**	1,904
Other	**56,361**	62,377
Administrative and other operating expenses	**1,391,886**	1,142,530

(Thousands of tenge)

22. Commitments and contingencies

Political and economic environment

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

In 2015, significant decline in crude oil prices and a significant KZT devaluation had a negative impact on the Kazakhstan economy. These factors resulted in a reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding further economic growth, which could negatively affect the Bank's future financial position, results of operations and business prospects. The management of the Bank believes that it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

Legal actions and claims

In the ordinary course of business, the Bank is subject to legal actions and complaints. The Bank believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or results of operations of the Bank.

The Bank assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated. No provision has been made in these financial statements for any of the above described contingent liabilities.

Tax contingencies

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

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

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and fines, if any, may be in excess of the amount expensed to date and accrued at 31 December 2015. Although such amounts are possible and may be material, it is the opinion of the Bank's management that these amounts are either not probable, not reasonably determinable, or both.

Financial commitments and contingencies

At 31 December the Bank's financial commitments and contingencies comprise the following:

	2015	*2014*
Credit related commitments		
Undrawn loan facilities	**18,502,126**	7,446,515
Guarantees	**4,955,476**	2,802,190
Letters of credit	**36,821**	122,808
	23,494,423	10,371,513
Operating lease commitments		
Not later than 1 year	**83,732**	43,854
	83,732	43,854
Financial commitments and contingencies (before collateral)	**23,578,155**	10,415,367
Less amounts due to customers held as security against guarantees and letters of credit *(Note 15)*	**(4,992,297)**	(2,924,998)
Financial commitments and contingencies	**18,585,858**	7,490,369

(Thousands of tenge)

22. Commitments and contingencies (continued)

Financial commitments and contingencies (continued)

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

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

Credit related commitments are denominated in the following currencies:

	2015	*2014*
US dollars	**18,984,289**	7,478,773
Tenge	**3,970,717**	2,886,054
EUR	**539,417**	6,686
	23,494,423	10,371,513

Operating lease liabilities are denominated in tenge.

23. Risk management

Introduction

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

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

Risk management process comprises identification, measuring, control and limitation of risks that are carried out by the Bank on a regular basis.

Risk management structure

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

Board of Directors

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

Management Board

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

Risk Management

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

The main purpose of the Department is generating and functioning of the Bank's effective risk management system providing application of methods of risk detection and control, ensuring effective determination, evaluation and limitation of the Bank's risks considering the type and scope of transactions conducted by the Bank. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Bank Treasury

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

(Thousands of tenge)

23. Risk management (continued)

Introduction (continued)

Internal audit

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

Risk measurement and reporting systems

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

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries.

In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, Management Board, Asset and Liability Management Committee, Credit Committee, and the head of each business division. The report includes aggregate credit exposure, forecast credit indicators, hold limit exceptions, liquidity ratios, interest rate risk ratios and risk profile changes.

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

A regular briefing is given to the Management Board and all other relevant employees of the Bank on the utilisation of market limits, proprietary investments and liquidity, plus any other risk profile changes.

Excessive risk concentration

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

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

Credit risk

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

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions.

The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and undertake corrective action.

Credit-related commitments risks

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

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

(Thousands of tenge)

23. Risk management (continued)

Credit risk (continued)

Credit-related commitments risks (continued)

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is presented in *Note 10* "Loans to customers" and *Note 22* "Commitments and contingencies".

Credit quality per class of financial assets

The table below shows the credit quality by class of asset for statement of financial position lines, based on the Bank's credit rating system. Amounts are presented before deducting any allowance for impairment.

	2015			
	Neither past due nor impaired	*Past due, but not impaired*	*Impaired loans*	*Total*
Cash and cash equivalents (excluding cash on hand)	**16,565,056**	**–**	**–**	**16,565,056**
Amounts due from other banks	**1,025,436**	**–**	**–**	**1,025,436**
Available-for-sale investment securities	**1,687,205**	**–**	**–**	**1,687,205**
Receivables under reverse repurchase agreements	**2,003,830**			**2,003,830**
Loans to customers	**28,971,900**	**1,251,923**	**2,419,764**	**32,643,587**
Other financial assets	**87,908**		**–**	**87,908**
Total	**50,341,335**	**1,251,923**	**2,419,764**	**54,013,022**

	2014			
	Neither past due nor impaired	*Past due, but not impaired*	*Impaired loans*	*Total*
Cash and cash equivalents (excluding cash on hand)	3,962,979	–	–	3,962,979
Available-for-sale investment securities	1,687,205	–	–	1,687,205
Loans to customers	20,812,421	2,246,205	1,046,058	24,104,684
Other financial assets	45,797	–	–	45,797
Total	26,508,402	2,246,205	1,046,058	29,800,665

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

	2015			
	Less than 30 days	*31-90 days*	*90-180 days*	*Total*
Loans to customers				
Loans to major customers	**527,992**	**95,120**	**–**	**623,112**
Loans to small and medium-sized businesses	**42,525**	**53,739**	**–**	**96,264**
Consumer loans	**84,799**	**50,478**	**24,094**	**159,371**
Mortgage loans	**198,417**	**145,510**	**29,249**	**373,176**
Total	**853,733**	**344,847**	**53,343**	**1,251,923**
Allowance for impairment of past due, but not impaired loans	**–**	**–**	**–**	**–**

(Thousands of tenge)

23. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

	2014			
	Less than 30 days	*31-90 days*	*90-180 days*	*Total*
Loans to customers				
Loans to major customers	1,004,424	–	–	1,004,424
Loans to small and medium-sized businesses	201,377	34,848	21,613	257,838
Consumer loans	602,623	53,293	42,747	698,663
Mortgage loans	211,814	23,402	50,064	285,280
Total	2,020,238	111,543	114,424	2,246,205
Allowance for impairment of past due, but not impaired loans	(12,645)	(1,266)	(12,283)	(26,194)

See *Note 10* "Loans to Customers" for more detailed information with respect to allowance for impairment of loans to customers.

Impairment assessment

The main considerations for the loan impairment assessment comprise: whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

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

Collectively assessed allowances

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

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, and expected receipts and recoveries once impaired.

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

(Thousands of tenge)

23. Risk management (continued)

Credit risk (continued)

Collectively assessed allowances (continued)

Below is the geographical concentration of the Bank's monetary assets and liabilities as at 31 December 2015:

	Kazakhstan	*OECD countries*	*Non-OECD countries*	*Total*
Assests				
Cash and cash equivalents	**10,796,908**	**7,542,428**	**55,170**	**18,394,506**
Amounts due from other banks	**150**	**–**	**1,025,286**	**1,025,436**
Receivables under repurchase agreements	**2,003,830**	**–**	**–**	**2,003,830**
Available-for-sale investment securities	**1,687,205**	**–**	**–**	**1,687,205**
Loans to customers	**31,123,009**	**56,578**	**–**	**31,179,587**
Other monetary assets	**69,677**	**18,231**	**–**	**87,908**
Total monetary assets	**45,680,779**	**7,617,237**	**1,080,456**	**54,378,472**
Liabilities				
Amounts due to other banks	**500**	**8,631,969**	**–**	**8,632,469**
Amounts due to customers	**21,135,883**	**6,489,647**	**156,650**	**27,782,180**
Other monetary liabilities	**35,758**	**6,269**	**7,091**	**49,118**
Total monetary liabilities	**21,172,141**	**15,127,885**	**163,741**	**36,463,767**
Net position	**24,508,638**	**(7,510,648)**	**916,715**	**17,914,705**

Below is the geographical concentration of the Bank's monetary assets and liabilities as at 31 December 2014:

	Kazakhstan	*OECD countries*	*Non-OECD countries*	*Total*
Assests				
Cash and cash equivalents	4,368,839	853,240	65,525	5,287,604
Available-for-sale investment securities	1,687,205	–	–	1,687,205
Loans to customers	23,029,516	–	–	23,029,516
Other monetary assets	45,797	–	–	45,797
Total monetary assets	29,131,357	853,240	65,525	30,050,122
Liabilities				
Amounts due to other banks	–	1,361,519	–	1,361,519
Amounts due to customers	10,501,718	1,630,451	96,750	12,228,919
Other monetary liabilities	43,887	–	–	43,887
Total monetary liabilities	10,545,605	2,991,970	96,750	13,634,325
Net position	18,585,752	(2,138,730)	(31,225)	16,415,797

Credit related assets and liabilities have been based on the country in which the counterparty is located. Cash on hand has been allocated based on the country in which they are physically held.

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. Also, it manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

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

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

(Thousands of tenge)

23. Risk management (continued)

Liquidity risk and funding management (continued)

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow.

Analysis of financial liabilities by remaining contractual maturities

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

	2015					
Financial liabilities	*On demand*	*Less than 3 months*	*From 3 months to 1 year*	*From 1 to 5 years*	*Over 5 years*	*Total*
Amounts due to other banks	**500**	**4,357,345**	**4,325,117**	**–**	**–**	**8,682,962**
Amounts due to customers	**14,907,346**	**799,046**	**12,255,442**	**–**	**–**	**27,961,834**
Other financial liabilities	**11,189**	**12,539**	**2,879**	**21,562**	**949**	**49,118**
Total undiscounted financial liabilities	**14,919,035**	**5,168,930**	**16,583,438**	**21,562**	**949**	**36,693,914**

	2014					
Financial liabilities	*On demand*	*Less than 3 months*	*From 3 months to 1 year*	*From 1 to 5 years*	*Over 5 years*	*Total*
Amounts due to other banks	1,071	1,366,525	–	–	–	1,367,596
Amounts due to customers	7,749,397	3,293,342	1,205,238	–	–	12,247,977
Other financial liabilities	33,995	4,028	4,184	1,680	–	43,887
Total undiscounted financial liabilities	7,784,463	4,663,895	1,209,422	1,680	–	13,659,460

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

Included in due to customers are term deposits of individuals. In accordance with the Civil Code of the Republic of Kazakhstan, the Bank is obliged to repay such deposits upon demand of a depositor (*Note 15* "Due to customers").

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies: Each undrawn commitment on lending is included in the time band containing the earliest date it can be drawn down. In the case of financial guarantee contracts the maximum amount of guarantee applies to the earliest period in which this guarantee may be called.

	On demand and less than 3 months	*From 3 months to 1 year*	*From 1 to 5 years*	*Over 5 years*	*Total*
2015	**195,860**	**5,016,589**	**13,118,570**	**5,163,404**	**23,494,423**
2014	2,366,023	930,533	7,069,414	5,543	10,371,513

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

(Thousands of tenge)

23. Risk management (continued)

Market risk

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

The Bank is exposed to market risk related to open currency positions, interest rate risk and securities portfolio subject to general and specific changes on the market. The management of the Bank establishes limits with respect to minimum level of accepted risk and monitors the compliance with those limits on a daily basis.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Bank has no non-trading financial assets and liabilities with a floating interest rate at 31 December 2015 and 2014.

Currency risk

Currency risk is the risk of losses due to changes in foreign exchange rates when the Bank performs its ordinary activities. Risk of losses arises due to revaluation of Bank's position in foreign currencies in monetary terms. The Management of the Bank establishes limits with respect to accepted risk by currencies and monitors compliance with these limits on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December on its some monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against tenge, with all other variables held constant on the income statement (due to the fair value of currency sensitive certain monetary assets and liabilities). All other parameters are held constant. A negative amount in the table reflects a potential net reduction in the statement of comprehensive income, while a positive amount reflects a net potential increase.

	2015		*2014*	
Currency	***Change in currency rate, in %***	***Effect on profit before tax***	***Change in currency rate, in %***	***Effect on profit before tax***
US dollar	**60%**	**123,164**	25%	(510,000)
EUR	**60%**	**35,409**	15%	(9,745)
RUR	**40%**	**8,704**	20%	(9,016)

	2015		*2014*	
Currency	***Change in currency rate, in %***	***Effect on profit before tax***	***Change in currency rate, in %***	***Effect on profit before tax***
US dollar	**-20%**	**(41,055)**	-25%	510,000
EUR	**-20%**	**(11,803)**	-15%	9,745
RUR	**-29%**	**(6,310)**	-20%	(9,016)

During the year currency position had approximately equal values due to the fact that the Bank set limits on open foreign exchange positions and the position was within the set limit.

(Thousands of tenge)

23. Risk management (continued)

Market risk (continued)

Currency risk (continued)

The currency position of the Bank as at 31 December 2015 is presented below:

	KZT	*USD*	*RUR*	*EUR*	*Other currencies*	*Total*
Assests						
Cash and cash equivalents	**2,551,179**	**15,204,330**	**55,449**	**506,576**	**76,972**	**18,394,506**
Amounts due from other banks	**150**	**1,025,286**	**–**	**–**	**–**	**1,025,436**
Receivables under repurchase agreements	**2,003,830**	**–**	**–**	**–**	**–**	**2,003,830**
Available-for-sale investment securities	**1,687,205**	**–**	**–**	**–**	**–**	**1,687,205**
Loans to customers	**14,258,654**	**16,230,650**	**–**	**690,283**	**–**	**31,179,587**
Other monetary assets	**82,352**	**162**	**–**	**5,394**	**–**	**87,908**
	20,583,370	**32,460,428**	**55,449**	**1,202,253**	**76,972**	**54,378,472**
Liabilities						
Amounts due to other banks	**500**	**7,752,133**	**–**	**879,836**	**–**	**8,632,469**
Amounts due to customers	**3,019,827**	**24,467,471**	**33,638**	**258,322**	**2,922**	**27,782,180**
Other monetary liabilities	**8,777**	**35,212**	**51**	**5,078**	**–**	**49,118**
	3,029,104	**32,254,816**	**33,689**	**1,143,236**	**2,922**	**36,463,767**
Net position	**17,554,266**	**205,612**	**21,760**	**59,017**	**74,050**	**17,914,705**

The currency position of the Bank as at 31 December 2014 is presented below:

	KZT	*USD*	*RUR*	*EUR*	*Other currencies*	*Total*
Assests						
Cash and cash equivalents	2,285,808	2,646,215	66,221	214,591	74,769	5,287,604
Held-to-maturity investment securities	1,687,205	–	–	–	–	1,687,205
Loans to customers	18,210,997	4,818,519	–	–	–	23,029,516
Other monetary assets	43,737	2,060	–	–	–	45,797
	22,227,747	7,466,794	66,221	214,591	74,769	30,050,122
Liabilities						
Amounts due to other banks	1,071	1,360,448	–	–	–	1,361,519
Amounts due to customers	3,784,829	8,142,566	21,139	279,458	927	12,228,919
Other monetary liabilities	41,999	1,789	–	99	–	43,887
	3,827,899	9,504,803	21,139	279,557	927	13,634,325
Net position	18,399,848	(2,038,009)	45,082	(64,966)	73,842	16,415,797

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or can lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access rights, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

(Thousands of tenge)

24. Fair value measurements

The Investment Committee of the Bank determines the policies and procedures for periodic measurement of fair value of securities and immovable property available for sale owned by the Bank.

External appraisers are engaged to evaluate buildings and a land lots of the Bank. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

At each reporting date, management of the Bank analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, management of the Bank verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. Management of the Bank, in conjunction with the Bank's external appraisers also compares each change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of disclosing the fair values, the Bank determined classes of assets and liabilities based on the assets and liabilities nature, characteristics and risks as well as the hierarchy of fair value sources.

		Fair value measurement with the use of			
2015	*Date of valuation*	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant non-observable inputs (Level 3)*	*Total*
Assets measured at fair value					
Available for sale investment securities	31 December 2015	**1,687,205**	–	–	**1,687,205**
Property and equipment – land and buildings	24 December 2015	–	**1,068,854**	–	**1,068,854**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2015	**18,394,506**	–	–	**18,394,506**
Amounts due from other banks	31 December 2015	–	**1,025,436**	–	**1,025,436**
Receivables under reverse repurchase agreements	31 December 2015	**2,107,720**	–	–	**2,107,720**
Loans to customers	31 December 2015	–	–	**30,792,691**	**30,792,691**
Other financial assets	31 December 2015	–	–	**87,908**	**87,908**
Liabilities for which fair values are disclosed					
Amounts due to other banks	31 December 2015	–	**8,632,469**	–	**8,632,469**
Amounts due to customers	31 December 2015	–	**27,701,698**	–	**27,701,698**
Other financial liabilities	31 December 2015	–	–	**49,118**	**49,118**

		Fair value measurement with the use of			
2014	*Date of valuation*	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant non-observable inputs (Level 3)*	*Total*
Assets measured at fair value					
Available for sale investment securities	31 December 2014	1,687,205	–	–	1,687,205
Property and equipment – land and buildings	24 December 2014	–	1,029,605		1,029,605
Assets for which fair values are disclosed:					
Cash and cash equivalents	31 December 2014	5,287,604	–	–	5,287,604
Loans to customers	31 December 2014	–	–	22,473,385	22,473,385
Other financial assets	31 December 2014	–	–	45,797	45,797
Liabilities for which fair values are disclosed:					
Amounts due to other banks	31 December 2014	–	1,361,519	–	1,361,519
Amounts due to customers	31 December 2014	–	11,874,005	–	11,874,005
Other financial liabilities	31 December 2014	–	–	43,887	43,887

There were no transfers between the levels of the fair value hierarchy during 2015 and 2014.

(Thousands of tenge)

24. Fair value measurements (continued)

Property and equipment – land and buildings

The fair value of property items owned by the Bank is based on valuations performed by an accredited independent valuer. The fair value of the Bank's land and buildings was determined by using market comparable method. This means that appraisal performed by individual appraiser was based on market transactions prices adjusted with respect to differences in the nature, location or condition of certain real estate item.

Financial instruments not carried at fair value in the statement of financial position

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position.

The table does not include the fair values of non-financial assets and non-financial liabilities.

	2015			*2014*		
	Carrying amount	*Fair value*	*Unrecognised gain / (loss)*	*Carrying amount*	*Fair value*	*Unrecognised gain / (loss)*
Financial assets						
Cash and cash equivalents	**18,394,506**	**18,394,506**	**–**	5,287,604	5,287,604	–
Amounts due from other banks	**1,025,436**	**1,025,436**	**–**	–	–	–
Receivables under reverse repurchase agreements	**2,003,830**	**2,107,720**	**103,890**	–	–	–
Loans to customers	**31,179,587**	**30,792,691**	**(386,896)**	23,029,516	22,473,385	(556,131)
Other financial assets	**87,908**	**87,908**	**–**	45,797	45,797	–
Financial liabilities						
Amounts due to other banks	**8,632,469**	**8,632,469**	**–**	1,361,519	1,361,519	–
Amounts due to customers	**27,782,180**	**27,701,698**	**80,482**	12,228,919	11,874,005	354,914
Other financial liabilities	**49,118**	**49,118**	**–**	43,887	43,887	–
Total unrecognised change in fair value			**(202,524)**			(201,217)

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

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

Fair value of the quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans to customers, due to customers, amounts due to other banks, other financial assets and obligations is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(Thousands of tenge)

25. Maturity analysis of assets and liabilities

The table below shows the expected maturity profile of assets and liabilities as at 31 December 2015 and 2014. See *Note 23* "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2015			*2014*		
	Less than 12 months	***Over 12 months***	***Total***	***Less than 12 months***	***Over 12 months***	***Total***
Assests						
Cash and cash equivalents	**18,394,506**	**–**	**18,394,506**	5,287,604	–	5,287,604
Amounts due from other banks	**1,025,436**	**–**	**1,025,436**	–	–	–
Receivables under reverse repurchase agreements	**2,003,830**	**–**	**2,003,830**	–	–	–
Available-for-sale investment securities	**1,687,205**	**–**	**1,687,205**	25,983	1,661,222	1,687,205
Loans to customers	**6,044,240**	**25,135,347**	**31,179,587**	3,955,071	19,074,445	23,029,516
Property and equipment	**–**	**1,232,020**	**1,232,020**	–	1,142,231	1,142,231
Intangible assets	**–**	**141,950**	**141,950**	–	159,298	159,298
Other assets	**2,034,641**	**7,001**	**2,041,642**	1,795,691	7,001	1,802,692
Total assets	**31,189,858**	**26,516,318**	**57,706,176**	11,064,349	22,044,197	33,108,546
Liabilities						
Amounts due to other banks	**8,632,469**	**–**	**8,632,469**	1,361,519	–	1,361,519
Amounts due to customers	**27,782,180**	**–**	**27,782,180**	12,228,919	–	12,228,919
Current corporate income tax liabilities	**–**	**–**	**–**	94,591	–	94,591
Deferred corporate income tax liabilities	**–**	**233,775**	**233,775**	–	229,925	229,925
Other liabilities	**75,759**	**–**	**75,759**	46,892	–	46,892
Total liabilities	**36,490,408**	**233,775**	**36,724,183**	13,731,921	229,925	13,961,846
Net position	**(5,300,550)**	**26,282,543**	**20,981,993**	(2,667,572)	21,814,272	19,146,700

26. Related party transactions

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

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

The amount of related party transactions and balances as of 31 December 2015 and 2014, as well as the respective amounts of income and expenses for the years than ended are as follows:

	2015			
	Controlling shareholder	***Key management***	***Entities under common control***	***Total***
Assests				
Cash and cash equivalents	**8,248**	**–**	**–**	**8,248**
Amounts due from other banks	**–**	**–**	**1,025,436**	**1,025,436**
Loans to customers	**–**	**44,099**	**–**	**44,099**
Liabilities				
Amounts due to other banks	**8,631,969**	**–**	**–**	**8,631,969**
Amounts due to customers	**–**	**9,577**	**–**	**9,577**

(Thousands of tenge)

26. Related party transactions (continued)

	2014			
	Controlling shareholder	*Key management*	*Entities under common control*	*Total*
Assests				
Cash and cash equivalents	–	–	78,447	78,447
Amounts due from other banks	–	112,994	–	112,994
Liabilities				
Amounts due to other banks	–	–	1,360,448	1,360,448
Amounts due to customers	–	5,327	–	5,327

The income and expense items on transactions with related parties for the years ended 31 December 2015 and 2014 were as follows:

	2015			
	Controlling shareholder	*Key management*	*Entities under common control*	*Total*
Interest income	**–**	**10,154**	**5,041**	**15,195**
Interest expense	**265,691**	**–**	**–**	**265,691**

	2014			
	Controlling shareholder	*Key management*	*Entities under common control*	*Total*
Interest income	–	68,583	–	68,583
Interest expense	–	–	29,356	29,356

Below is the information about remuneration to 11 members (2014: 11 members) of key management personnel:

	2015	*2014*
Salaries and other short-term benefits	**95,401**	84,112
Social security contribution	**9,084**	8,009
Total	**104,485**	92,121

27. Capital adequacy

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

During 2015 and 2014, the Bank had complied in full with all its externally imposed capital requirements.

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the objectives, policies and processes from the previous years.

Under the current capital requirements set by the NBRK banks have to maintain:

- a ratio of core capital to the sum of credit risk weighted assets and contingent liabilities, market risk and a quantitative measure of operating risk weighted assets and contingent liabilities (k1);
- a ratio of tier 1 capital less investments to the sum of credit risk-weighted assets and contingent liabilities, market risk and a quantitative measure of operational risk weighted assets, contingent assets and liabilities (k1-2);
- a ratio of own capital to the sum of credit risk weighted assets and contingent liabilities, market risk and a quantitative measure of operating risk weighted assets and contingent liabilities (k2).

(Thousands of tenge)

27. Capital adequacy (continued)

Investments for the purposes of calculation of the above ratios represent investments into share capital (interest in the charter capital) of a legal entity and subordinated debt of a legal entity if their total exceeds 10% of the total of tier 1 and tier 2 capital of the Bank.

The following table shows the composition of the Bank's capital position calculated in accordance with the NBRK requirements as at 31 December 2015 and 2014:

	2015	*2014*
Tier 1 capital	**20,866,392**	16,749,414
Tier 2 capital	**–**	2,451,735
Total statutory capital	**20,866,392**	19,201,149
Risk weighted assets and liabilities, possible claims and liabilities	**48,698,274**	32,853,677
Capital adequacy ratio k1 (minimum 5%)	**0.43**	0.51
Capital adequacy ratio k1-2 (minimum 6%)	**0.43**	0.51
Capital adequacy ratio k2 (minimum 7.5%)	**0.43**	0.58